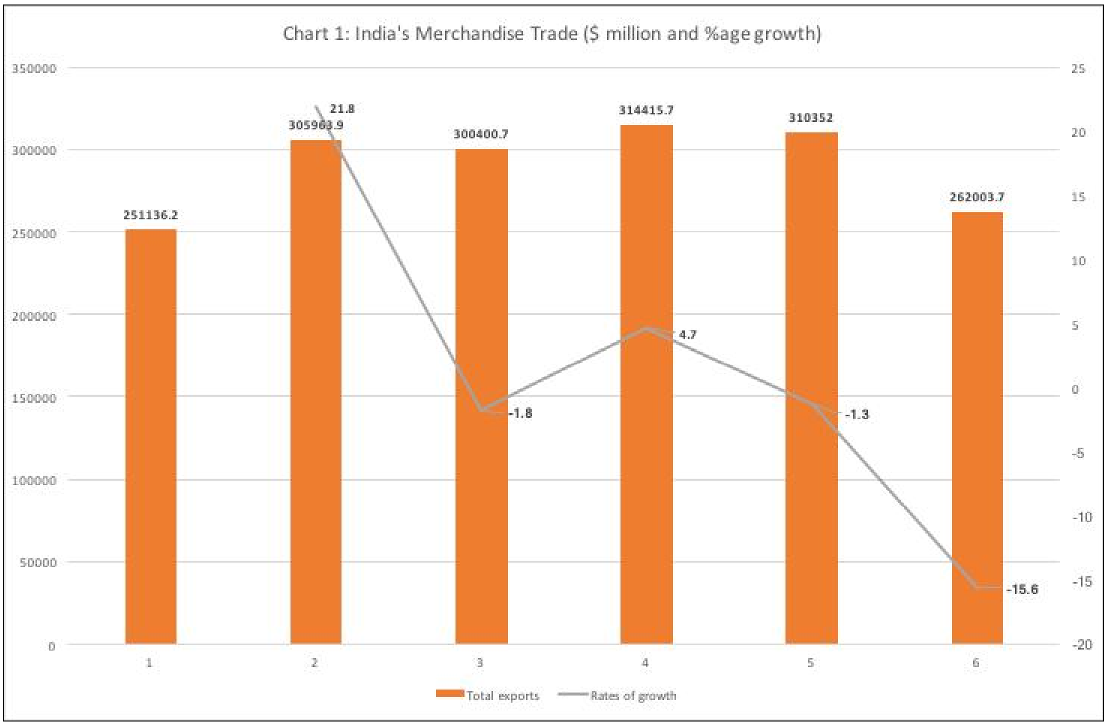
India's Export Collapse*

C.P. Chandrasekhar and Jayati Ghosh

Recent weeks have seen the display of an element of forced optimism regarding India's export performance, with the Commerce Minister arguing that the evidence indicating that the declining trend in the dollar value of the country's merchandise exports had bottomed out. June 2016 was the first month after 19 consecutive months when India recorded an increase of 1.3 per cent (rather than a fall) in the dollar value of exports relative to the corresponding month of the previous year. The claim that this was a first sign of green shoots of revival was soon negated with year-on-year growth rates turning negative again in July and August. So, few are convinced that the return to relatively high positive month-on-month rates in September and October is a definitive indicator of an upturn. If we take the period April to October 2016, the growth in the dollar value of exports stagnated (0.02 per cent growth) relative to the corresponding period of the previous year. Even if we exclude petroleum, given the distorting effects of large price changes there, merchandise exports have grown by a marginal 1.8 per cent during April-October 2016.



As Chart 1 shows the problem is by no means recent. Over a relatively long period starting 2011-12 the dollar value of India's merchandise exports has been stagnant or declining. Clearly, the persistence of the Great Recession in the world economy has affected India quite adversely. But even granting that, the period since March 2015 seems to have been worse than before. Thus, the growth in the dollar value of merchandise exports over 2015-16 was a negative 15.6 per cent, as compared with minus 1.3 per cent in 2014-15 and a positive 4.7 per cent in 2013-14. But what stands out in Chart 1 is the extreme volatility of export growth in recent years, with growth rates varying from a positive 21.8 per cent to a negative 15.6 per cent.

Three factors seem to underlie this combination of a stagnant or declining trend and extreme volatility. The first is the limited diversification of India’s export basket, with the top 10 principal exports in terms of commodity groups accounting for as much as 78 per cent of total merchandise exports. What happens in the market for these commodities has a major impact on overall export performance. The second is that in recent times the export performance of some of these goods has either deteriorated or been characterised by a lack of dynamism. Thus, for example, four of India’s lead exports (Engineering goods, Gems and jewellery, Chemicals and Readymade garments) registered negative or near zero growth rates during 2015-16. Their growth performance, as well as that of a commodity group like Drugs and Pharmaceuticals that was earlier showing export dynamism, has been indifferent or poor during recent months as well (Chart 2). While this was undoubtedly largely the result of the global recession, the importance of these commodity groups in the export basket affected aggregate export growth adversely.

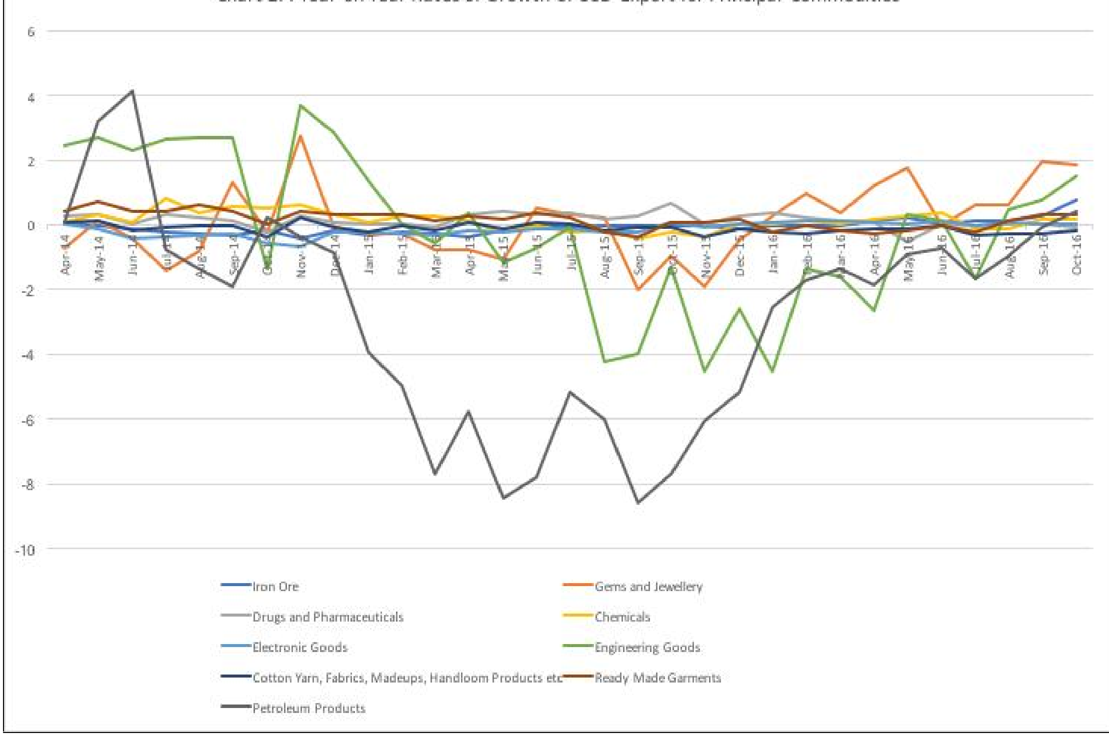


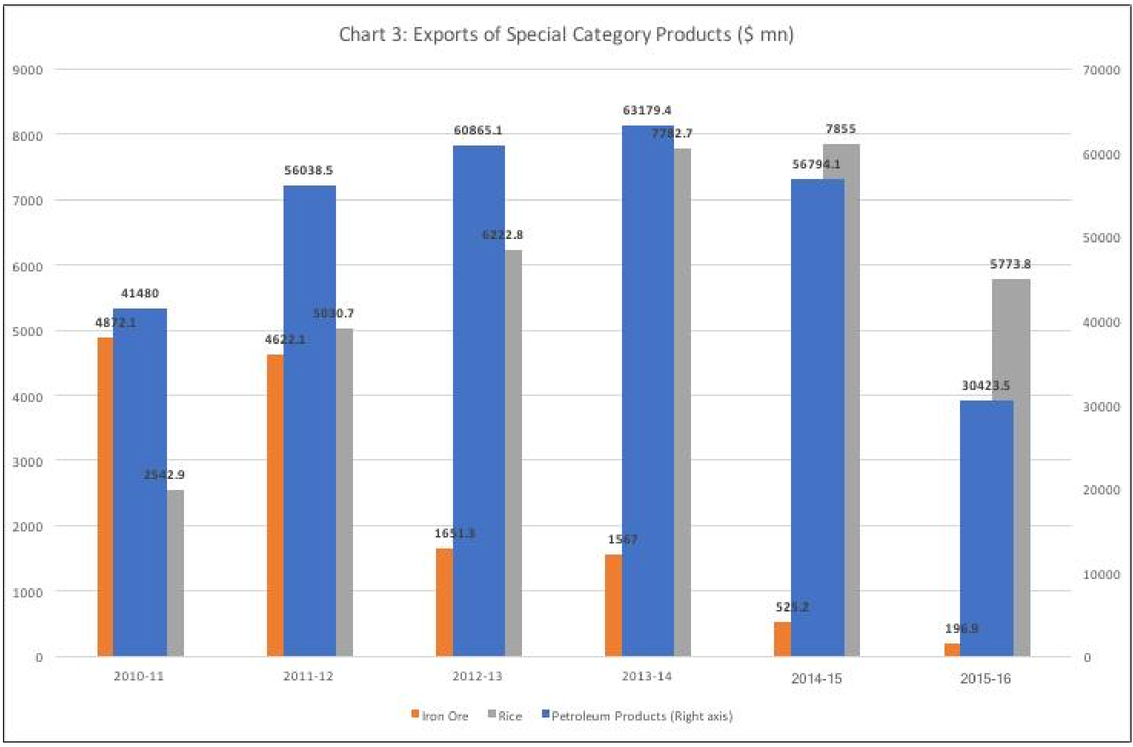
Chart 2: : Year-on-Year Rates of Growth of USD Export for Principal Commodities

The experience in the pharmaceuticals area is different. The absence of product patents till the revision of the patent law in 2005 had helped India build the capability to manufacture of generic drugs that are substitutes for more expensive branded products. As a result, the industry had found a foothold in the patent-expired, generic drug market that accounts for around a third of the $1 trillion plus global market for pharmaceutical products. This was reflected in high export growth figures, but those growth rates have collapsed more recently.

One explanation for this decline is that, while on the supply side the global generic drug industry is highly competitive with a large number of producers of varying sizes, there is growing consolidation of the distribution business in the world’s largest markets, especially the US. This is driving down prices, affecting export revenues adversely. Further, drug multinationals, which are striving to retain market share, are pressuring their governments, especially in the US, to tighten regulatory standards that can result in a ban on particular exporters from abroad either on the grounds that they do not meet the purity and strength standards of the branded ‘original’, or that production and testing conditions of the drugs concerned do not meet required developed-country quality standards. In addition, the US government has recently made it mandatory for producers of formulations in that country to procure Active Pharmaceutical Ingredients (APIs) domestically. India was an important supplier of such bulk drugs.

Finally, in recent years, special circumstances have not only affected exports of some commodities, but because of the low value on average of India’s export trade, allowed these ‘special category’ goods to find a slot among India’s principal exports for a brief period. Typical examples are iron ore, rice and petroleum products Chart 3). Changed circumstances result in the loss of dynamism in those categories that can worsen the overall trend. Iron ore exports that were large because of demand from China and policy measures permitting such low value-added exports from India, have fallen because of the slowdown in China. Rice exports boomed, because the policy adopted by the previous Yingluck Shinawatra government to offer subsidies to farmers raised prices in Thailand and helped India to displace it as the world’s leading rice exporter. But that advantage is now waning with the Thai government choosing to aggressively dispose of accumulated stocks in an environment of improved production.

The most curious case is of course crude and petroleum products. For long India has been importing crude and petroleum products because its requirements have far exceeded domestic production. Crude is imported and refined domestically and to the extent that some petroleum products thus obtained are more than the domestic demand for such products after accounting for imports, the balance is exported.



However, with India's demand for petroleum products increasing, the volume of export has fallen. This was, however, occurring at a time when the international prices of crude and petroleum products were falling steeply. This has resulted in a collapse in the value of petroleum product exports from $60.7 billion in 2013-14 to $47.3 billion in 2014-15 and $27.1 billion in 2015-16. That too has contributed to the fall in the dollar value of merchandise exports.

Thus, an unusual combination of factors has intensified the adverse impact that the global recession has had on India's export performance. All of them point to weaknesses reflected most starkly in India's poorly diversified export basket.

* **This article was originally published in the Business Line on November 21, 2016.**