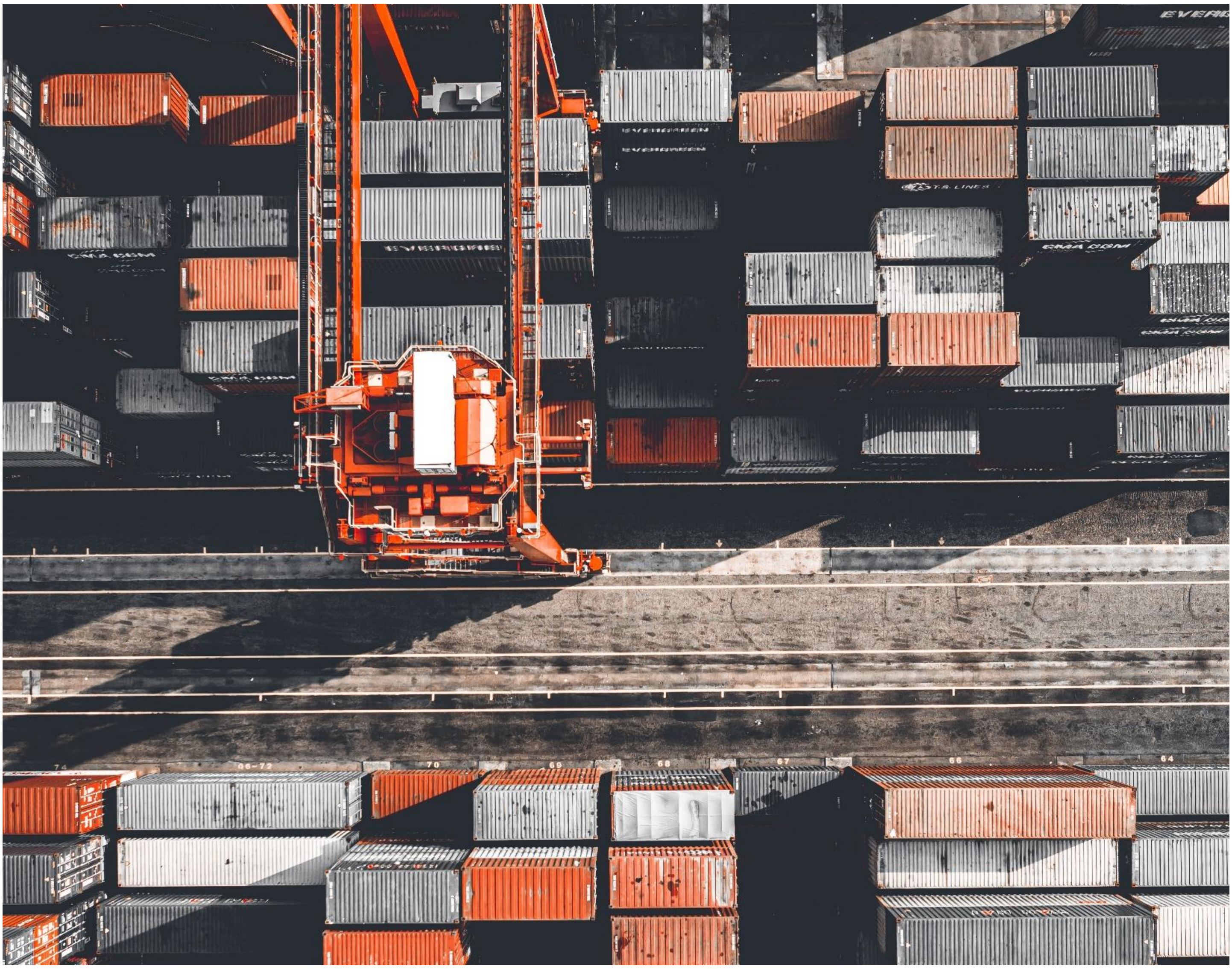
Merchandise trade
Turnaround awaited

CRISIL Insight December 2024



Snapshot

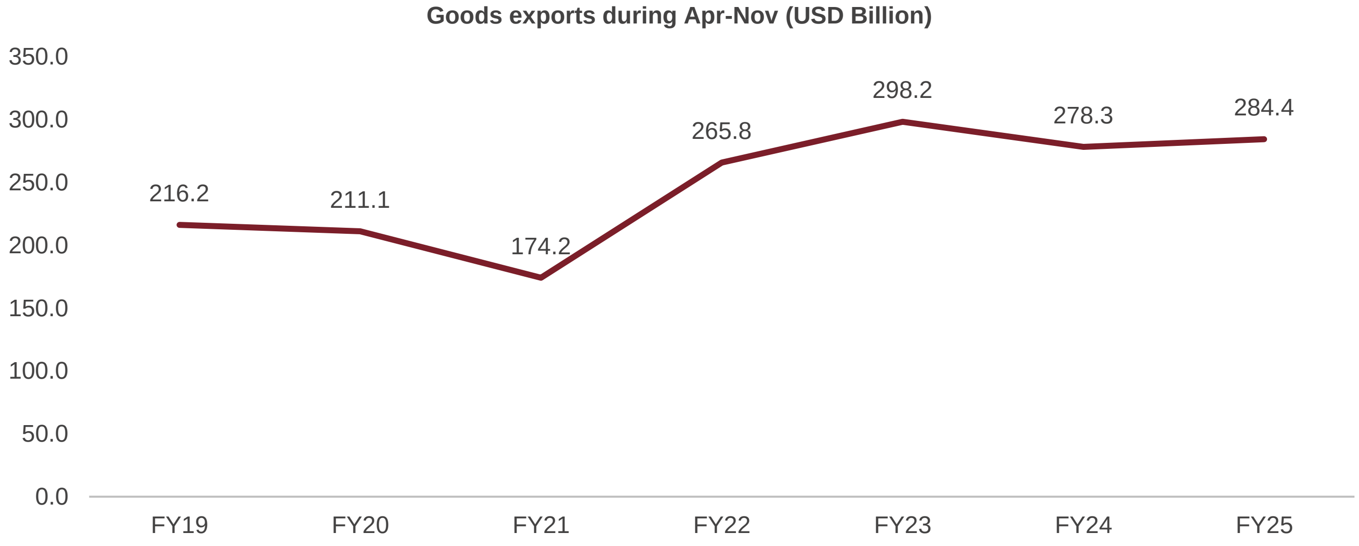
- India’s goods exports have been in the slow lane over the last two years, amid a challenging global environment and India’s exports to emerging markets declining
- Core exports faring well this fiscal, even as overall exports remain weak on account of a contraction in petroleum and gems and jewellery exports
  - Smartphone exports top core export item, followed by pharmaceuticals; textile exports surge
- Price impact led to a higher bill for India’s top two imports – crude oil and gold – this fiscal
  - Benefits from discounted Russian crude oil imports may be declining

Export performance

India’s goods exports contracted 4.9% on year in November, after a healthy performance previous month.

While goods exports seem to be doing better from the last fiscal on a cumulative basis, they remain somewhat subdued, based on their recent historical performance (Chart 1). After rising sharply for two years post pandemic (fiscal 2021), in response to the pent-up demand, goods exports have remained range bound. Cumulative exports during Apr-Nov of fiscal 2025, for instance, remain below that in the same period in fiscal 2023.

Chart 1: Goods exports remain in slow lane



Source: Commerce Ministry, India, CRISIL

Commodity-wise export performance

What has not done well

Two of India's top export categories i.e. petroleum and gems and jewellery contracted 10.2% and 10.9% on-year, respectively, during Apr-Sep of fiscal 2025, in dollar value terms, according to detailed country- and commodity-wise data available till September 2024.

Petroleum exports: India's petroleum export (HSC 27) earnings fell 10.2% to $38.8 billion in the first half of this fiscal, from $43.2 billion the previous year. This was despite crude oil prices averaging $82.5/bbl in Apr-Sep this fiscal, same as a year ago, and the country exporting 40.4% higher volumes on-year during this period. *This indicates India got lower price for its petroleum exports in the international market, which also suggests margins of refining companies came under pressure*. That said, Europe was the largest importer with the Netherlands picking up nearly a quarter of India's petroleum exports.

Gems and jewellery exports: Polished diamonds (HSC 71023910) form the bulk of India's gems and jewellery exports. The 20.3% on-year decline (to $6.9 billion in Apr-Sep 2024, from $8.6 billion) in polished diamonds largely resulted in the 10.9% decline in overall gems and jewellery export earnings in the first half of this fiscal. The 20.3% dollar value decline in polished diamond exports entails a 15.4% decline in volume terms. This is worrisome given the labour-intensive nature of this industry.

Export of gold jewellery, the distant second item in this category, also contracted 5.8% (to $1.78 billion from $1.89 billion), even as gold prices were up 23.3% on-year. Clearly, dollar export earnings fell due to a massive 22.9% decline in gold jewellery export volumes.

What has done well

Some major goods that provided support and helped total exports grow during this period were smartphones (exports up 29.5% on-year in dollar value terms), medicines (up 14.1%), basmati rice (up 10.8%), mid-size passenger cars (up 23.5%), turbo jets (up 32.7%), frozen meat (up 6.25%), motorcycles (up 18.7%) etc.

Textile exports pick up

The first half of this fiscal also saw a healthy pick up in textile (readymade garments and others) exports, rising 8.4% on-year (led by a 10.7% rise in cotton T-shirt exports, India's top RMG export item). India likely benefitted to some extent from the unrest in Bangladesh, which is a leader in textile exports, especially RMG (to be sure, there are many RMG export items in which Bangladesh beats even China). However, Bangladesh's loss may not totally be India's gain as the latter has to compete with China and Vietnam, which are bigger players than India in almost all textile export categories.

Other low value-added exports rise

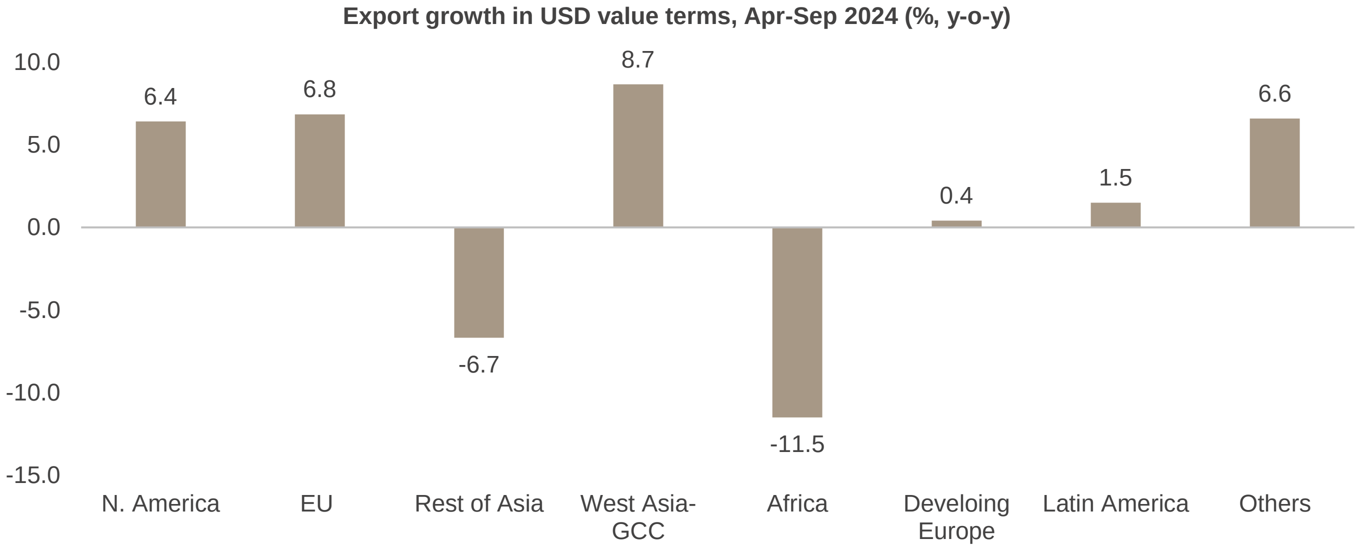
Some of the other low value-added categories, whose exports were healthy, were plastics and articles (up 13.5%), coffee, tea, mate and spices (up 19.7%) and rubber and articles (up 9.1%).

Destination-wise exports

India is losing out on emerging market exports

During Apr-Sep 2024, India recorded merchandise exports worth $213 billion, up a mere 0.9% from $211 billion a year-ago period. This was despite the country's exports to its top three regional destinations – North America, the European Union (EU)[1] and West Asia, which together accounting for ~50% of total goods exports, grew at a healthy pace of 6.4%, 6.9% and 8.7%, respectively (Chart 2). However, India's weak/contracting exports to many emerging markets in Asia, Europe and Africa offset this healthy performance.

Chart 2: India's exports to Asia and Africa faltered



Source: Commerce Ministry, India, CRISIL

The above trend also suggests that the impact of the Red Sea shipping crisis on India's exports was low, given the reasonably healthy export growth to EU countries and West Asia (GCC) regions, but more by its inability to tap the key emerging markets of Asia, Africa or Europe.

In fact, long-term trends indicate that over past few years, India has focused more on advanced economies than emerging and developing markets to promote its exports. The share of emerging markets in India's goods exports, which was on an upward trend since liberalisation, has reversed in the last decade (Chart 3), falling to 49.7% in 2023 from 55.7% in 2014. The share of advanced economies went up to 49.3% from 43.3% during the same time.

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[1] *Includes European Free Trade Association (EFTA) countries*

Chart 3: Share of emerging markets in India's goods exports on a decline

Source: Direction of Trade Statistics (DOTS) IMF, CRISIL

Prima facie, this is understandable as advanced economies present a bigger market size in dollar value terms than emerging markets. For instance, in 2023, advanced economies' GDP stood at $62.1 trillion as against emerging and developing economies' $43.6 trillion. The former accounted for 58.8% of global GDP.

But, at the same time, the share of advanced economies in world GDP was 60.5% in 2014, i.e. their share has come down in the last decade. Going by the IMF's projections, this share is expected to fall further to 56.3% by 2029. Basically, emerging and developing economies are growing at a faster pace than the advanced ones.

Hence, India's greater reliance on advanced economies suggests it seems to be missing out on some of its export potential to the faster growing emerging markets. It can also be posited that demand for goods is generally higher in emerging markets than advanced economies, where services would command a greater share of consumption demand.

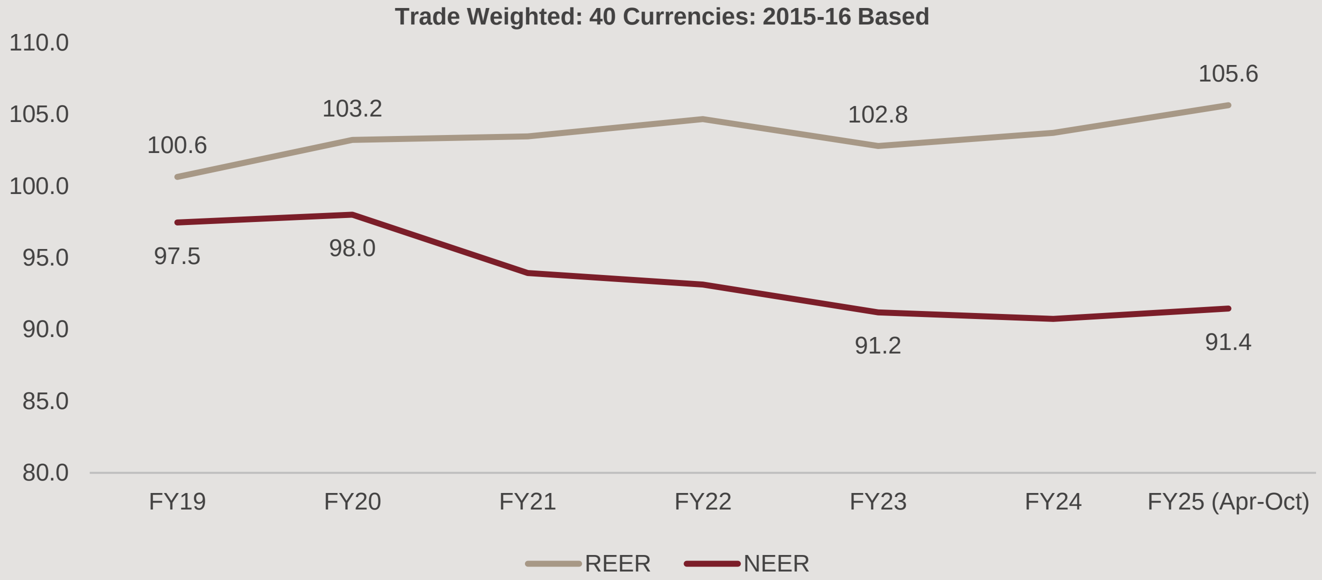
Divergent effective exchange rate movements and implications for exports

Even as income elasticity of India's exports is higher than price elasticity, the latter still has an important role to play, especially when global growth (a proxy of income) is subdued.

In this context, it is appropriate to look at the real effective exchange rates (REER) – a measure of the value of a currency against the weighted average of several foreign currencies and adjusting for inflation differentials among them - rather than just looking at the bilateral nominal rupee-dollar exchange rate.

A look at the trend in REER along with nominal effective exchange rate (NEER), suggests that nominal depreciation in Indian rupee hasn't helped. This is because even as India's NEER is depreciating, its REER, which determines competitiveness of goods in the international market, is appreciating (Chart 4). REER has consistently risen to 105.6 this fiscal (so far), from 102.8 in fiscal 2023, even as NEER has remained stable during this period. Decline in NEER/REER is akin to depreciation of the currency and the rise suggests appreciation. Rise in REER despite a fall in NEER is due to higher inflation in India vis-à-vis its trading partners.

Chart 4: Rupee is appreciating in real terms, suggesting loss in competitiveness

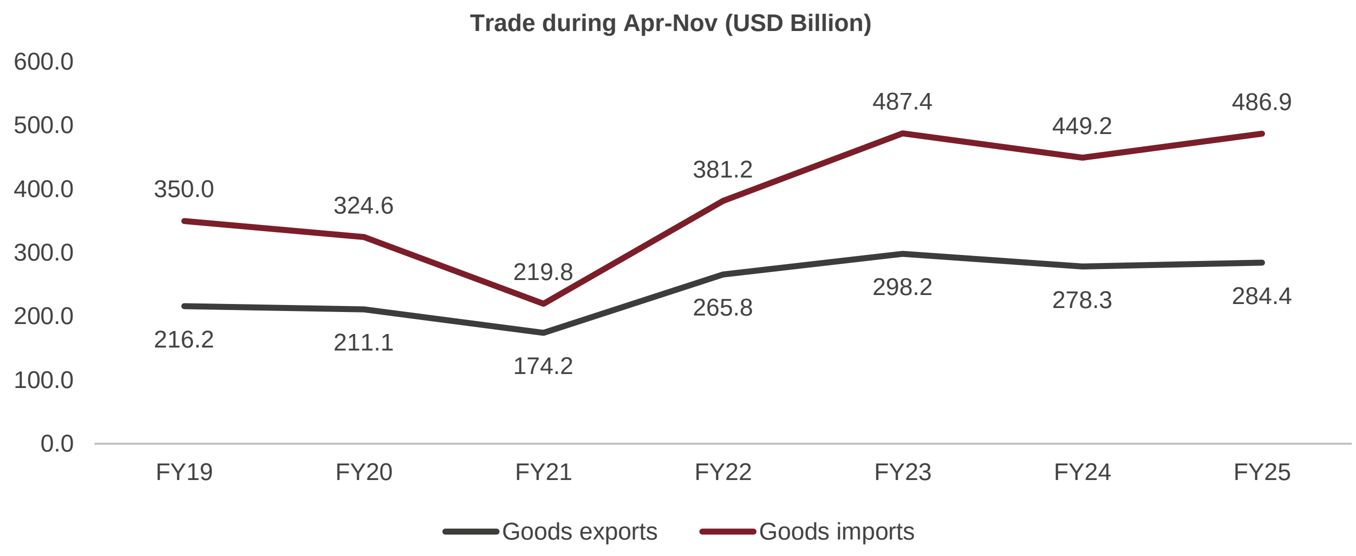


Source: RBI

India's imports rebound this fiscal

India's goods imports, which fell at a sharper pace than exports last fiscal (during Apr-Nov), have rebounded this fiscal, even as exports have risen only marginally (Chart 5), resulting in a rise in the trade deficit.

Chart 5: Imports outpace exports



Source: Commerce Ministry, India, CRISIL

The country and commodity-wise imports for Apr-Sep provides some interesting insights. Total goods imports during this period rose 6.1% on-year, with crude oil remaining top import item at $67.9 billion (up 3.8% on-year), followed by non-monetary gold[2] at $26.9 billion (up 21.5% on-year). The other top 10 import items which displayed high growth were liquified natural gas at $7.6 billion (up 17.6% on-year), digital monolithic integrated circuits at $7.4 billion (up 20.1% on-year) and crude palm oil at $3.7 billion (up 12.7% on-year).

On balance, India saved dollars as the import bill on steam coal was $7.8 billion (down 8.7% on-year), coking coal at $7.1 billion (down 6.5% on-year) and raw diamonds at $5.5 billion (down 23.9% on-year).

In terms of sources of imports, China continued to dominate, with India importing goods worth $56.3 billion during Apr-Sep of fiscal 2025 (up 11.5% on-year), followed by Russia at $32.2 billion (up 5.9%), and a sharp jump in imports from the United Arab Emirates (UAE) at $31.5 billion (up 52.0% on-year). We explore this further in the next section.

[2] Non-monetary gold covers exports and imports of all gold not held as reserve assets (monetary gold) by the monetary authorities, for instance in our case by the Reserve Bank of India.

Higher prices impact India's top two imports

The dollar value of India's top two import items, petroleum crude and non-monetary gold, rose despite lower volumes of both.

What is interesting is that while gold prices were higher on-year during Apr-Sep of this fiscal (explaining higher dollar import bill), crude oil prices were stable, which raises a question that why did the dollar bill for oil imports go up?

A look at the top five sources of India's crude petroleum imports provides the answer (Charts 6 and 7). India paid more to Russia this fiscal despite the imported volume remaining static, which suggests that the benefits of discounted crude oil imports from Russia could be waning.

As an aside, with respect to crude oil imports, during the first half of this fiscal, India also increased crude oil imports from the UAE, a likely lagged impact of the Comprehensive Economic partnership agreement (CEPA) between the two countries, which came into force in May 2022.

Chart 6: Crude oil import – by value

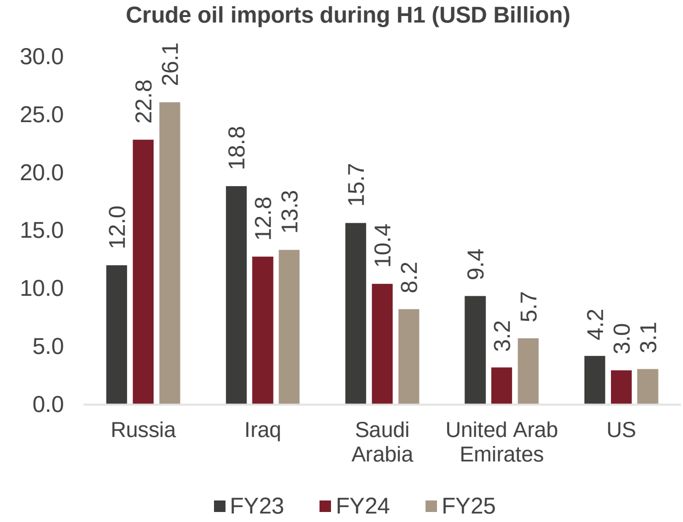
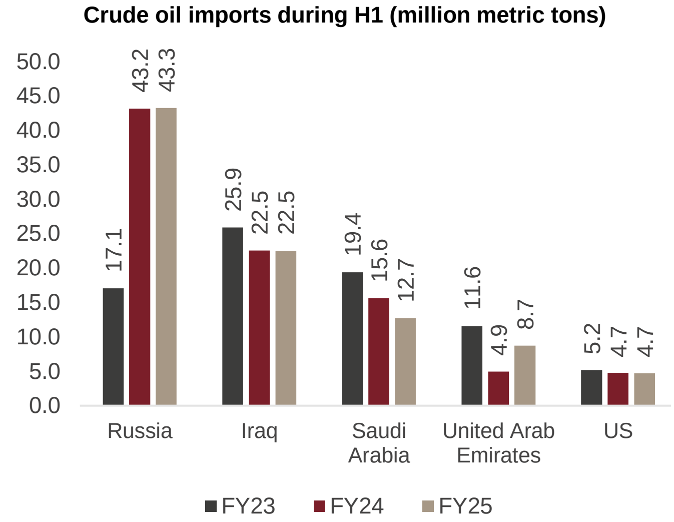


Chart 7: Crude oil imports – by volume



Source: Commerce Ministry, India, CRISIL

Conclusion

Headwinds facing India's goods exports, while its imports remaining buoyant, is leading to higher goods trade deficit this fiscal. With prospective US tariff hikes against China, India's imports from China could rise as Beijing tries to push away its deflationary pressures by exporting cheap goods to other economies. This is something India, along with other Asian nations, is already facing in many goods categories. Hence, India's goods trade deficit will need to be monitored over the next few months and will require deft policy responses from the authorities.

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