

# India become a net exporter across 12 product categories in the last decade

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*Need to replicate this success in other manufactured goods as well*

In recent months, India's rising merchandise trade deficit and the challenge it poses to its balance of payment (BoP) positions have been widely debated in the media and among the analyst community. Even though in financial year (FY) 2021-22 India recorded its highest ever annual trade deficit of more than USD 191 billion, net surplus from services and remittance helped in keeping the current account deficit (CAD) to 1.5% of GDP way below the comfort level of 2.5%. The net surplus in the capital account ensured USD 39 billion surplus in BoP.

The situation looks a little more worrisome for the current FY 2022-23. Thanks to the elevated crude oil price, the trade deficit has already breached USD 100 billion in just the first four months of the current FY (April- to July), and depending upon the crude oil price, it is expected to be anywhere between USD 250 to USD 300 billion annually (FY). Combine this with the estimate of net deficit in the capital account due to tapering of monetary policy globally India would be facing a BoP deficit of USD 36 to 58 billion for the current Financial Year.

A look at the RBI reserve of USD 573 billion is enough to conclude that India is nowhere near an external account crisis but still, it remains crucial for India to understand its source of deficit especially merchandise trade deficit in order to effectively manage and if possible minimize its import dependency.

## Chapter-wise merchandise trade deficit

India currently has a negative trade balance in 45 product categories out of the 98 chapters classified under the 2-digit HS code categorization. The number has improved consistently over the last decade. In FY 2011-12, India had a net negative position in 50 product chapters. The number improved for the FY 2014-15 with 48 product chapters having a net negative trade balance. In the preceding FY of 2021-22, only 44 product chapters had a negative trade balance. The trade deficit in these products grew by more than 19% in the last decade from around USD 274 billion to more than USD 326 billion. Unsurprisingly, chapter (CH) 27 (energy and fuel products) has the highest share of the total deficit of these products followed by CH 71 (precious stone) and CH 85 (electronic and electrical machinery), and CH 84 (electrical and mechanical appliances).

## Products where trade balance has worsened over the decade

The trade deficit in electrical and electronic (CH 85) machinery has doubled over the last decade from USD 21 billion to USD 42 billion. Their share in the total deficit of these identified chapters has gone up to 13% in FY 2021-22 from 8% in FY 2011-12. Articles of plastics (CH 39) is another category where India's deficit has widened over the last decade from USD 3 billion in FY 2011-12 to around

USD 11 billion in FY 2021-22. The trade deficit for inorganic chemicals (CH 29) and fertilizers (CH 31) has increased to USD 7 and 12 billion in FY 2021-22 from USD 4 and 9 billion in FY 2011-12 respectively. In agro and related products, edible oil (CH 15) has the highest deficit with around USD 18 billion in FY 2021-22, which was around USD 8 billion in FY 2011-12. The deficit from fruits and vegetables (CH 08) has also quadrupled over the last decade from around USD 500 million in FY 2011-12 to more than USD 2 billion in FY 2021-22.

Among all these product categories, it is noteworthy that copper (CH 74) had a surplus of around USD 161 million in FY 2011-12 turned into a deficit of around USD 4.7 billion in FY 2021-22.

### Products with improved trade balance

There are about 57 products out of the total 98 product categories based on the HS code 2 digits where India's trade balance has improved as compared to the beginning of the decade. Out of these 57 product categories, there are 12 products across various industries where India managed to have a trade surplus in FY 2021-22 from a deficit in FY 2011-12. Iron & steel (CH 72) and aluminium (CH 76) have seen a dramatic turnaround in the last decade from USD 5 billion and 1.5 billion deficits in the beginning of the decade to massive USD 10 billion and 4.6 billion trade surpluses in FY 2021-22. The trade balance of labor-intensive industries such as paper & paper products (CH 48) and Rubber (CH 40) improved substantially over the last decade from a deficit of USD 1.5 billion and USD 1.2 billion in FY 2011-12 to a trade surplus of USD 900 million and USD 500 million in FY 2021-22. Ceramic products (CH 69) and products related to furniture and beds (CH 94) which had a trade deficit of USD 400 million and USD 200 million respectively in FY 2011-12 had a trade surplus of about USD 1.5 billion each in FY 2021-22. Toy industries (CH 95) which has a negative trade balance of close USD 200 million in FY 2011-12 reported a trade surplus of about USD 150 million in FY 2021-22.

### Conclusion

It is welcome that India managed to become a net exporter of metals, furniture, ceramic products, paper, and rubber articles in the last decade. The coming decade will test India's ability to reduce the trade deficit in the electrical and non-electrical product categories (chapter 85 and chapter 84).

The government's production-linked incentive scheme may some extent reduce India's import dependence on electronic goods, solar power equipment, air conditioners, and other white goods in the long run, although these schemes may temporarily increase the import of components and sub-assemblies for these goods.

Our next big challenge will be to control the deficit in our energy sector by promoting the use of bio fuels, and electric vehicles, gradual enforcement of energy efficiency standards in industry, etc.

### Notifications

### PIB links

India and UK conclude fifth round of talks for India-UK Free Trade Agreement

<https://pib.gov.in/PressReleasePage.aspx?PRID=1850835>

MHI takes the lead in enabling transparency, ease of doing business, faceless & self-certification based assessment;

<https://pib.gov.in/PressReleasePage.aspx?PRID=1850892>

INDIA'S FOREIGN TRADE: July 2022

<https://pib.gov.in/PressReleasePage.aspx?PRID=1851309>

CPI for July reported at 5 month low

<https://pib.gov.in/PressReleasePage.aspx?PRID=1851273>

Tariff notifications

<https://pib.gov.in/PressReleasePage.aspx?PRID=1851326>

#### DGFT

Amendment in minimum registration time period of Non-Ferrous Metal Import Monitoring System (NFMIMS).

<https://content.dgft.gov.in/Website/dgftprod/d394ed00-efb4-4038-a229-c9efc8a9f4e8/Notification%2026%20dt%2010-08-2022%20Eng.pdf>

#### CBIC

Exchange rate notification

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2022/cs-nt2022/csnt68-2022.pdf;jsessionid=9E4AD6F61D3B8AA3D5B5399686BB7A06>

#### RBI

Recommendations of the Working group on Digital Lending – Implementation

[https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=54187](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54187)