

India's merchandise exports to GDP declines since 2014 to 11%

India's growth in merchandise exports has declined considerably to a compounded average annual growth (CAGR) of 3% in the last five years between 2014-2020. This is a sharp deceleration from 16% export growth seen in the preceding seven years i.e. from 2007 to 2015. As a result of decline in exports growth, the share of merchandise exports to GDP also fell from a peak of 15% in 2015 to 11% by 2020. The following table illustrates the share of merchandise exports to GDP and growth in merchandise exports since 1994.

Four Distinct Phases

For the sake of simplification, the period from 1994 has been classified under four distinct phases. The first phase marks the decade of economic reforms, from 1994-2001, when India's merchandise export grew 16%, higher than the nominal GDP growth of 13%. This period also marked sharp depreciation of Indian currency from Rs 31/US Dollar to Rs. 45/US Dollar, which again aided global competitiveness of exports. Even the real effective exchange rate, which denotes the competitiveness of Indian exporters vis-à-vis our trade partners, also corrected from overvaluation (see the table below).

Year Range	Compounded Annual Growth (%)			Change in exports share to GDP	Exchange Rate		
	Nominal GDP	Goods Exports	Goods Imports		USD	(REER) 6-Currency	(REER) 36-Currency
1994-2001	13%	16%	17%	8% to 9%	31.39/45.68	105.71/102.65	104.59/100.04
2000-2008	13%	18%	24%	9% to 13%	45.68/40.26	102.65/113.44	100.04/109.2
2007-2015	16%	16%	15%	13% to 15%	40.26/61.14	113.44/119.92	109.2/108.96
2014-2020	10%	3%	4%	15% to 11%	61.14/70.89	119.92/125.76	108.96/116.75

Source: Economic Survey 2020-21; Compiled by MVIRDC World Trade Center Mumbai

In the next phase, from 2000-08, India benefitted from conducive global economic environment, which led to 18% growth in merchandise exports, still higher than the 13% nominal GDP growth during this period. The global economic environment was so strong that it supported Indian exports, even though the Indian currency appreciated during this period from Rs. 45/US Dollar in 2000 to Rs. 40/US Dollar by 2008. Even the real effective exchange rate indicated over-valuation or loss of global competitiveness. On account of strong growth in merchandise exports, its share in GDP also grew from 9% to 13% in this period.

The subsequent phase marks the period of Global Financial Crisis and recovery in the post-crisis years. India's annual average nominal GDP growth accelerated from 13% to 16% during 2007-2015. But growth in exports did not exceed GDP growth, as was the case in the preceding two phases. India's merchandise exports grew at the same rate as nominal GDP growth, which was 16%. India's exchange rate depreciated sharply from Rs. 40/US Dollar to Rs. 61/US Dollar, which was a supportive factor for our exports. This is the period when share of merchandise exports to GDP grew to an all time high of 15% from 13% in the earlier phase.

In the last phase, i.e. from 2014-20, average annual nominal GDP growth declined from 16% to 10%, while growth in merchandise exports nosedived from 16% to 3%. As a result, the share of merchandise exports to GDP also fell to 11% from the peak of 15%. During this period, growth in merchandise imports also crashed to 4% from the double digit growth seen in the previous three phases. Even though the

Indian rupee depreciated from Rs. 61/US Dollar to Rs. 70/US Dollar, our real effective exchange rate continued to remain over-valued, which reflects loss of competitiveness of local exporters with regard to our key trade partners.

Services Exports

The growth trajectory of services exports also follows the same pattern of merchandise exports. In the first three phases, merchandise exports grew at double digit rate, far higher than the growth of nominal GDP. In the decade of economic reforms, average annual growth in services exports was 26%, while this pace of growth was maintained in the next phase as well (see the table below). In the post-Global Financial Crisis period, growth in services exports moderated to 15% from 25% in the previous phase. Since 2014, services exports grew at a moderate pace of 9%. The double digit growth seen in services exports in the first two phases may be attributed to low base effect. India's service exports stood at Rs. 19,000 crore in 1994-95, which subsequently grew to Rs. 77,000 crore by 2000 and further to Rs. 3.63 lakh crore by 2007. As with merchandise exports, growth in services exports also moderated from 15% to 9% in the final phase (2014-20). India's annual services exports stood at Rs. 9.67 lakh crore in 2014, which expanded to Rs. 15 lakh crore by 2020. Share of services exports to GDP grew from 2% in 1994 to a peak of 8% in 2015. Since then, it declined marginally to 7% by 2020.

Year Range	Compounded Annual Growth (%)		Change in exports share to GDP
	Services Export	Services Imports	
1994-2001	26%	29%	2% to 4%
2000-2008	25%	17%	4% to 7%
2007-2015	15%	13%	7% to 8%
2014-2020	9%	13%	8% to 7%

Source; Economic Survey 2020-21; Compiled by MVIIRC

Notifications

PIB

'Act East' vision imparts new approach in our relations with neighbouring countries

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1693552>

Inclusion of 14 minor forest product items under MSP

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1693540>

CBIC

Amendment in notification towards change in name of producer and exporter

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-add2021/csadd02-2021.pdf>

Amendment in name of producer

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-add2021/csadd03-2021.pdf>

Tariff Notification

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-nt2021/csnt08-2021.pdf>

Confirmation of Bilateral Safeguard measure on imports of Polybutadiene Rubber

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-tarr2021/cs01-2021.pdf>

RBI

Strengthening grievance redress mechanism

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12017&Mode=0>