

# Exporters see bright spots amid global headwinds

## Say India is better placed, even as exports decline

SHREYA NANDI

New Delhi, 6 September

India's merchandise exports witnessed a 1.15 per cent year-on-year (YoY) decline in August, following a slowdown in external demand for engineering goods, textiles, gems and jewellery, as well as plastic products, preliminary trade data from the commerce department showed.

Industry officials and experts said geopolitical risks triggered by the Russia-Ukraine conflict are weighing on India's exports, which recovered from the Covid-19 pandemic shock and consistently remained robust for over a year.

Weak demand from India's some of the biggest export markets, such as China, the European Union, and the United States, due to a slowdown in these regions and high inflation, as well as export restrictions on some commodities, resulted in the deceleration of goods exports. Barring the gems and jewellery segment, the decline in the value of exports was driven by a fall in prices of steel, cotton yarns, and plastic, they said.

"The trend that we are witnessing is that we are receiving orders for low-value products because of high inflation. Going ahead, we may see a little impact on the value of these products but volumes exported will remain intact. Stable volumes will have a positive impact on employment and job creation," said Ajay Sahay, director-general (DG) and chief executive officer (CEO), Federation of Indian Export Organisations (FIEO).

Vipul Shah, chairman, Gem and Jewellery Export Promotion Council (GJEPC), said the slight decline in gem and jewellery exports in the past two months is due to Covid restrictions in Hong Kong. Gems and jewellery exports fell 4 per cent in August to \$3.29 billion.

"Overall exports to the UAE have been on the upswing after the India-UAE Comprehensive Economic Partnership Agreement and exports of plain gold jewellery to the Middle Eastern markets increased by 29 per cent in July. We keenly look forward to the free-trade agreement with the UK; industry will also get to reap the benefits of the India-Australia Economic Cooperation and Trade Agreement. We expect growth in the coming months, especially from the Western markets, due to festive demands and the upcoming holiday season," Shah said. Engineering exports, which comprise a fourth of the value of total goods exported from India, witnessed the sharpest deceleration in August, falling 14.59 per cent YoY to \$8.25 billion.

Outbound shipments declined to a 13-month low of \$33 billion in August, against \$33.38 billion last year. On a sequential basis, exports fell 9 per cent from \$36.27 billion in July but grew 17.1 per cent YoY during April-August to \$192 billion on a cumulative basis.

Commerce Secretary B V R Subrahmanyam on Saturday said that given the current global scenario, India is not in an uncomfortable position. However, there are headwinds related to what can happen to developed nations and the Christmas orders. "Exporters' order books are full but the orders are get-



## EXPORTS OF TOP 10 KEY COMMODITIES IN AUGUST\*

Commodity	Value (\$ million)	Share (%)	Growth (%)
Engineering goods	8,253.47	25.01	-14.59
Petroleum products	4,901.81	14.87	5.42
Gems & jewellery	3,292.64	9.98	-4.08
Organic and inorganic chemicals	2,528.68	7.66	13.35
Drugs and pharma	2,141.64	6.49	6.61
Electronic goods	1,727.46	5.24	50.68
RMG of textiles	1,232.7	3.74	-0.42
Rice	1,032.48	3.13	42.32
Cotton yarn/fabs/handloom products, etc	881.86	2.67	-32.32
Plastic and linoleum	744.43	2.26	-1.47
<b>Total</b>	<b>6,253.54</b>	<b>81.05</b>	<b>-1.53</b>
<b>Total exports</b>	<b>32,996.71</b>	<b>100</b>	<b>-1.15</b>

\*These 10 commodity groups cover 81% of total exports in August 2022  
Source: Department of Commerce

ting delayed in terms of execution. They have not been asked to ship. That uncertainty is there," he said.

While there is a moderation in demand for textile products because of recessionary trends in major developed nations, an industry official said India may be able to make up for this amid the challenging situation in Sri Lanka and Bangladesh -- India's biggest competitors in this space. Disruption in these competitor nations has also affected external demand for raw materials, such as cotton yarns, the official said.

"There's an economic crisis going on in Sri Lanka; Bangladesh has a fuel crisis, while Pakistan is facing massive floods. India has its own raw material, which is still intact. We will make up for the loss by the end of the year," said Apparel Export Promotion Council (AEPC) Chairman Narendra Goenka.

India exported apparel worth \$1.32 billion in August, down 0.42 per cent YoY. On a cumulative basis (April-August), outbound shipments witnessed a growth of nearly 18 per cent.

# FTA may boost India's exports to Bangladesh by \$10 bn in 5 yrs

ASIT RANJAN MISHRA

New Delhi, 8 September

India's exports to Bangladesh may increase by additional \$10 billion in a time span of five years if both countries sign a free trade agreement (FTA), the joint study conducted by both countries for the proposed Comprehensive Economic Partnership Agreement (CEPA) said.

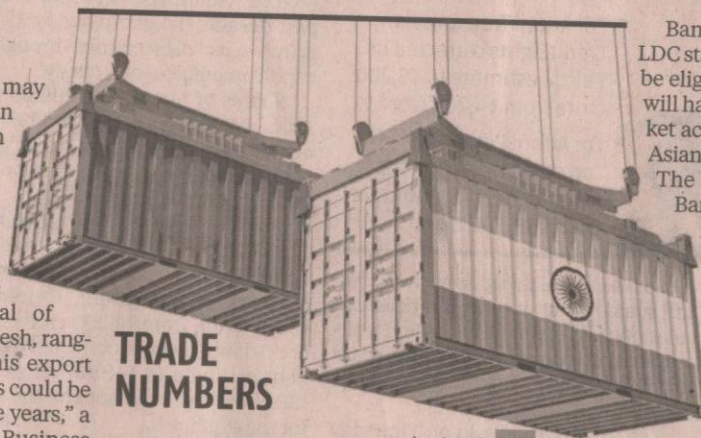
"Due to the possible bilateral trade agreement, there exists a potential of additional export from India to Bangladesh, ranging from \$4 billion to \$10 billion. This export potential in addition to existing exports could be achieved by India in a time span of five years," a copy of the joint study reviewed by Business Standard showed.

Similarly, for Bangladesh, the potential of additional exports to India could range from \$3 billion to \$5 billion in a time span of 10 years." The total additional potential bilateral gains in trade in goods due to a possible CEPA ranges between \$7 billion to \$15 billion," the report said.

India's largest increase in exports to Bangladesh will be observed for motor vehicles, cotton, man-made filaments, albuminoidal substances, electrical machineries and equipment, iron and steel, knitted or crocheted fabrics, plastic goods, machineries and mechanical appliances, paper, and paper products.

For Bangladesh, export gains could occur in board categories such as textile and apparel goods, containers of iron/steel, wooden furniture, parts of machineries, plain woven fabrics of cotton, plastic products, chocolates, inorganic chemicals, finished leather, leather bags, footwear, processed foods such as biscuits among others.

In a joint statement after the meeting between visiting Bangladesh Prime Minister Sheikh Hasina and Prime Minister Narendra Modi, both sides said the two leaders welcomed the recent



## TRADE NUMBERS



finalisation of a Joint Feasibility Study that recommended that CEPA will be beneficial for both the countries.

"They directed trade officials on both sides to start negotiations within the calendar year 2022 and to complete these at the earliest, in time for Bangladesh's final graduation from LDC (least developed country) status," it added.

Bangladesh is on track to graduating from LDC status in 2026 after which it will no longer be eligible to continue to put high tariffs and will have to provide duty-free quota-free market access to India under the existing (South Asian Free Trade Area) SAFTA commitments. The joint study said though gains for Bangladesh's exports to the Indian market from a CEPA will not be large as it is already enjoying duty free quota free market access, the FTA will be crucial for it from the perspective that it is soon going to lose the LDC status.

The bilateral trade between India and Bangladesh has been growing significantly over the past few years with India enjoying the second-largest trade surplus with its eastern neighbor after the US. Bangladesh became India's fourth-largest export destination in FY22, jumping five places in two years.

Nisha Taneja, professor at ICRIER, said the India-Bangladesh CEPA would not only lead to enhanced trade but was also likely to have wider economic benefits for the BBIN (Bangladesh, Bhutan, India, and Nepal) sub-region and the BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) region.

"The CEPA will become the cornerstone for India's Act East Policy as it would integrate India's northeast region to the hinterland and to the neighbouring countries as well," she said.

"CEPA will also encourage the development of global and regional value chains through greater investment flows. Removing regulatory barriers will lead to enhanced trade in services in health, education, IT and tourism. A sector which holds immense potential is e-commerce — the two countries could work together to address regulatory issues which would smoothen and enhance cross-border e-commerce trade," she said.

# CEPA: INDIA FAR BEHIND CHINA IN TRADE WITH DHAKA

On September 6, Prime Minister Narendra Modi announced that India and Bangladesh would soon start negotiations on a bilateral comprehensive economic partnership agreement (CEPA). Even though informal talks have been going on between the countries since 2018, Bangladesh's Prime Minister Sheikh Hasina gave a green signal to the CEPA on August 18, ahead of her four-day visit to India. Trade between India and Bangladesh has increased over the past few years, but a *Business Standard* analysis shows that China has made significant inroads in Bangladesh, both in terms of investments and trade. CEPA is expected to bridge that gap. In 2021-22, Bangladesh was the fourth largest destination of Indian exports, accounting for nearly 4 per cent of the country's \$422 billion merchandise exports. On the other hand, India was Bangladesh's seventh largest export market and the second largest market for its imports after China.

While China and India accounted for a

12 per cent share each in Bangladesh's imports in 2001, the data from the Observatory of Economic Complexity, a data visualisation tool, shows India's share in Bangladesh's imports has since lagged vis-à-vis China's. In 2020, China accounted for 31 per cent of the country's imports, whereas India's share had increased to 16 per cent. In terms of investment, China has left India far behind. Analysis of gross FDI shows that until 2013, of the \$8,593.5 million FDI attracted by Bangladesh, \$256.4 million or 3 per cent came from India. China's share was half of India's at just 1.4 per cent.

However, of the \$26,068.1 million invested in Bangladesh between 2014 and 2020, China accounted for 10.2 per cent of FDI, whereas India's share slightly increased to 3.9 per cent. Indian investment grew 293.6 per cent between 2014 and 2020, but China's jumped 2,170.8 per cent. Bangladesh's FDI in India has remained below \$1 million per year.

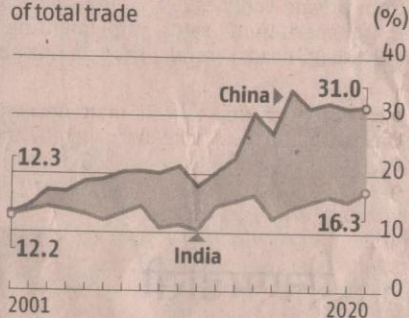
ISHAAN GERA

ILLUSTRATION: BINAY SINHA



## INDIA'S SHARE IN BANGLADESH'S IMPORTS IS HALF OF CHINA'S

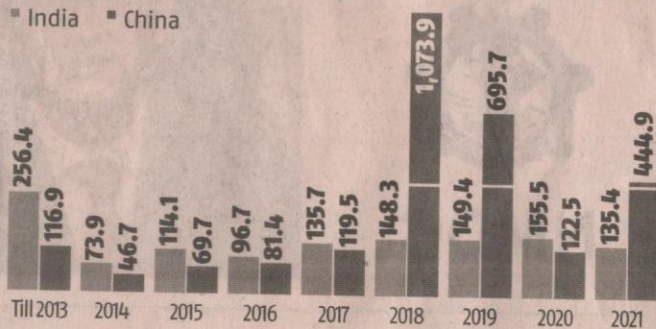
Bangladesh imports, share of total trade



Source: OEC World

## INDIA'S INVESTMENTS IN BANGLADESH HAVE LAGGED BEHIND CHINA'S

(gross foreign direct investments in Bangladesh, \$ million)



Source: Bangladesh Bank

# 20% duty slapped on rice exports of various grades

The tax would discourage buyers from making purchases

RAJENDRA JADHAV  
Mumbai, 8 September

India on Thursday imposed a 20 per cent duty on exports of various grades of rice, according to a statement seen by Reuters, as the world's biggest exporter of the grain tries to calm local prices.

The tax would discourage buyers from making purchases from India and prompt them to shift towards rivals Thailand and Vietnam, which have been struggling to increase shipments and raise prices. The government has excluded parboiled and basmati rice from the export duty, but white and brown rice will draw the duty, which accounts for more than 60 per cent of India's exports, said BV Krishna Rao, president of the All India Rice Exporters Association.

"With this duty, Indian rice shipments will become uncompetitive in the world market. Buyers will shift to Thailand and Vietnam," Rao said. India accounts for more than 40 per cent of global rice shipments and competes with Thailand, Vietnam, Pakistan,



The government has excluded parboiled and basmati rice from the duty, but not white and brown rice

and Myanmar in the world market.

Below-average rainfall in key rice-producing states such as West Bengal, Bihar and Uttar Pradesh has raised concerns over rice production in India that has already banned wheat exports and restricted sugar shipments this year. Indian exports would fall by at least 25 per cent in coming months because of the duty, said Himanshu Agarwal, executive director at Satyam Balajee, India's biggest rice exporter.

India's rice exports touched a record 21.5 million tonnes in 2021, more than the combined shipments of the world's next four biggest exporters of the grain: Thailand, Vietnam, Pakistan and the United States.

India exports rice to more than 150 countries, and any reduction in its shipments would fuel food inflation.

The grain is a staple for more than 3 billion people, and when India banned exports in 2007, global prices shot to new peaks. **REUTERS**

# India's changing crude import sources

Russia became country's biggest crude oil supplier after its military action; Iraq, Saudi follow

SACHIN P MAMPATTA

Mumbai, 8 September

India's crude oil imports are coming in from a changing mix of countries, with the top three accounting for around 60 per cent of total imports.

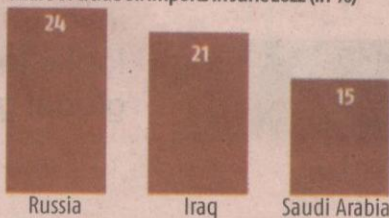
Russia emerged as the largest source of crude oil imports for India in June, as per the latest available data from the Organization of the Petroleum Exporting Countries (OPEC). The data, which is released with a lag, showed that Russian imports accounted for 24 per cent of the total crude imports into the country. The others including Iraq and Saudi Arabia account for another 36 per cent (see chart 1).

The OPEC and its allies including Russia on Tuesday agreed to a small production cut to buoy oil prices. Fears of a global slowdown had caused prices to slump to fall below \$100 a barrel. It fell to below \$94 a barrel on Tuesday, after a three per cent rally on Monday following the OPEC announcement.

The three top countries were different before the Russian military offensive in Ukraine. Data for October 2021 shows that Iraq was the top importer account-

## 1. RUSSIA ACCOUNTS FOR NEARLY A QUARTER OF CRUDE OIL IMPORTS

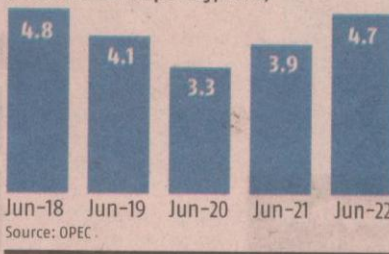
Share of crude oil imports in June 2022 (in %)



Source: OPEC (Kpler)

## 2. JUNE IMPORTS WERE BELOW PRE-PANDEMIC LEVELS

India's crude oil imports (in million barrels per day, mb/d)



Source: OPEC

ing for 21 per cent of the crude coming into India. This was followed by Saudi Arabia (16 per cent), and the United Arab Emirates (UAE), which was just under 10 per cent. Russia's military buildup on Ukraine's borders began to

escalate tensions in the region around November 2021. The military offensive began in February 2022. Western countries have cracked down on Russia with sanctions and have sought to restrict its ability to make money from sale of crude oil and other energy products after the military action.

Since then various countries have emerged as the top source for India's crude imports. The UAE accounted for 54 per cent of imports in April 2022. Iraq (30 per cent) and Colombia (16 per cent) were the other top sources.

"Official data shows no imports of Russian crude in April, while Kpler data shows flows of almost 1 mb/d (million barrels per day) for that month, as domestic refiners took advantage of deeply discounted Urals crude," noted the OPEC monthly bulletin for April on India's imports for the month.

India crude oil requirements have fluctuated with time. A comparison for the month of June over recent years shows that the latest imports are just shy of the levels seen in the years leading up to the pandemic. Imports in June 2022 were 4.7 million barrels per day. It was 4.1 million barrels per day in June 2019 and 4.8 million barrels per day in June 2018 (see chart 2).

The latest OPEC bulletin suggests that Russia might continue to account for a significant portion of Indian imports.

"Looking ahead, crude imports are likely to remain close to current levels in July, with Russian inflows remaining above 1.0 mb/d and with expectations for slightly lower flows from elsewhere. Product imports are seen moving higher in July, amid increased flows from the Middle East and Asia. Product exports are seen declining on lower flows to Asia and Africa," it said.

# Export momentum dissipating but new opportunities opening up

Last week, Bangladesh Prime Minister Sheikh Hasina visited India to strengthen bilateral economic co-operation and India suggested greater economic cooperation with Russia at the Eastern Economic Forum in Vladivostok. Finance Minister Nirmala Sitharaman said importing Russian oil at discounted prices was part of inflation management.

On the other hand, Commerce Minister Piyush Goyal spoke of greater export potential through trade deals, crude oil prices went below \$90 per barrel despite production cuts by major oil-producing countries and our government imposed a 20 per cent duty on rice exports.

Also, Japan and India agreed to increase cooperation in defence and emerging technologies, the European Central Bank raised interest rates by 75-basis points (bps), the chairman of US Federal Reserve flagged fighting inflation as the main concern, raising expectations of an interest rate hike by 75 bps, and the dollar strengthened further.

Speculation on what the new Foreign Trade Policy, to be unveiled this month-end, may contain has

engaged the attention of exporters and importers.

However, all these matters receded into the background as widespread concern on how the European Union will cope with the disruption of gas supplies from Russia came to the fore.

Russia had suspended gas supplies to Europe towards the end of August under the pretext of maintenance issues. But last week, Russia clearly said that it will “not supply anything at all if it is contrary to its interests — no gas, no oil, no coal, no fuel oil, nothing.”

Europe has been preparing for this eventuality, that is, phasing out reliance on Russian oil and gas. However, this sudden suspension is bound to further increase the cost of living for its people and seriously disrupt its economic activities. However, the resolve to take the pain and make necessary adjustments is quite strong, at least for now. So, many measures such as capping the price of Russian oil and gas, income support to deserving sections of society, rationing gas supplies, finding alternative sources of energy, levy of tax on windfall profits of power producers, and so on, are under consideration.



## EXIM MATTERS

T N C RAJAGOPALAN

In any case, a recession in Europe cannot be avoided in the short run at a time when Chinese and American economies are also slowing down.

Russia hopes to break Europe's will to stay the course by pushing natural gas prices and overall inflation so high that Europe will stop supporting Ukraine or even relax sanctions on Russia. Europe just wants to get through the tough period and diversify its energy sources sufficiently and completely stop reliance on Russia. On its part, the United States is trying to negotiate deals with Iran and Venezuela to get oil flowing from these countries in return for relaxation in certain restrictions. It appears to be a case of when, not if, these deals will get done. Whenever that happens, oil prices may fall further.

India has increased oil purchases from Russia at discounted prices and appears open to persuasion for price caps on Russian oil so long as the capped prices are lower than the discounted prices. The export momentum has started dissipating due to the global economic slowdown but opportunities can be opening up in areas where Europe and America get less competitive due to inflation and strong dollar. Luckily, the domestic festive season demand appears strong enough to somewhat offset the effects of falling exports.