

Export Boom

The unexpected growth in exports, a vital source of growth, needs to be sustained

India's external trade is booming, indicating deeper integration with the global economy. Exports constitute a vital source of overall growth and need to be sustained. The way ahead is to have a stable trade policy environment, slash transaction costs, and shore up trade-related infrastructure on a priority basis. On top of 37.6% growth last fiscal, mercantile exports during the first quarter of the current one have grown by 45.7%. Non-oil imports rose by a strong 71% y-o-y in May this year and by 43.2% in April-May, indicating strong economic activity and exports in the pipeline. But the balance of trade (BoT, value of exports less imports) for the quarter has marginally fallen to \$31.6 billion from the \$32.3 billion registered in the first quarter last fiscal. Also, the current export trend may well lose steam, given rising domestic inflation, trade policy rigidities and a panoply of infrastructural bottlenecks, apart from weak external demand. Now, there is no hard and fast rule to determine the size of a sustainable BoT, and given our offsetting large invisible inflows (inward remittances, positive net services earnings, etc) India can afford to have a large trade deficit, provided the current account deficit stays well below 3% of GDP. However, we do need to diversify and boost exports of value-added products across regions and geographies. The commerce ministry target, in fact, is to double exports to \$500 billion in three years, which calls for a compound annual growth rate of about 27%.

We need to boost our key industries like engineering goods and chemical products, diversify exports in textiles and leather products and go up-market in gems and jewellery. Engineering exports already make up about 20% of our total export basket. But the upside is huge. Note that India's share in world exports of machinery and transport equipment was a mere 0.3% during 2003-07. There's also huge potential in the export of drugs, pharma products and chemicals. Further, since trade demand in Asia, South America and Africa are the fastest-growing, we need to be proactive across regions.

Miscellaneous