

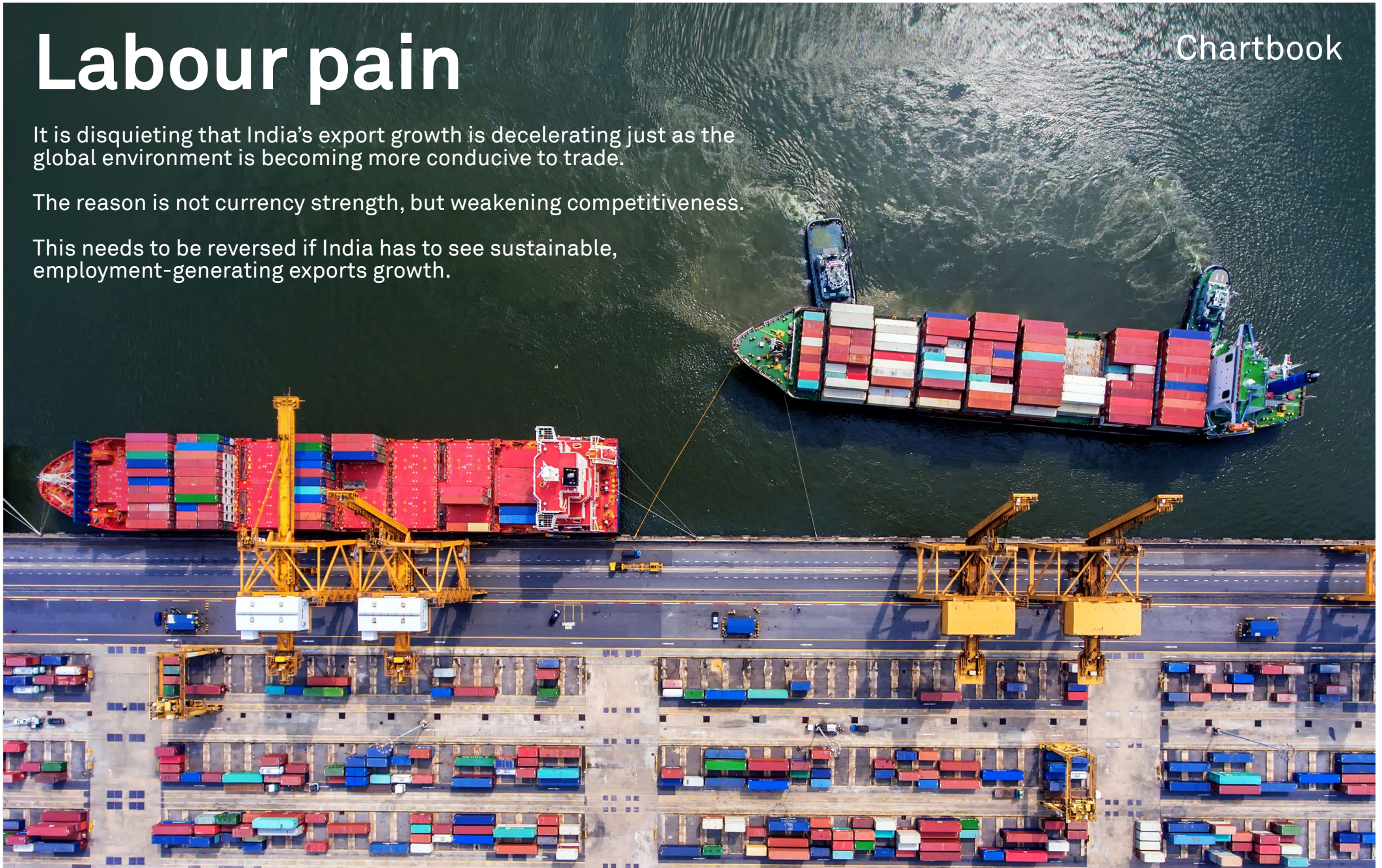
# Labour pain

Chartbook

It is disquieting that India's export growth is decelerating just as the global environment is becoming more conducive to trade.

The reason is not currency strength, but weakening competitiveness.

This needs to be reversed if India has to see sustainable, employment-generating exports growth.





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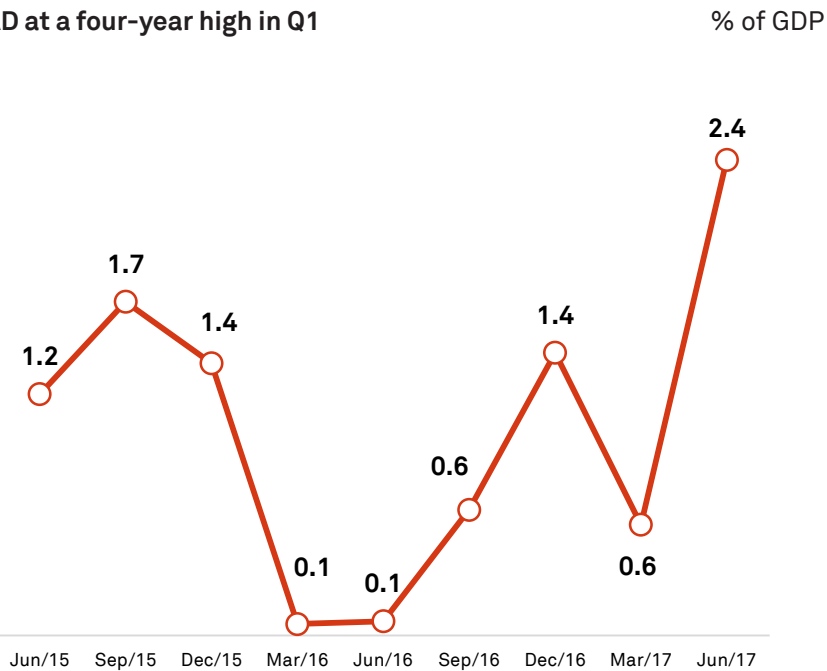
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India's current account deficit (CAD) climbed to a four-year high of \$14.3 billion in the first quarter of this fiscal, or 2.4% of gross domestic product (GDP). That compares with \$0.4 billion, or 0.1% of GDP, in the same period last fiscal.

### CAD at a four-year high in Q1



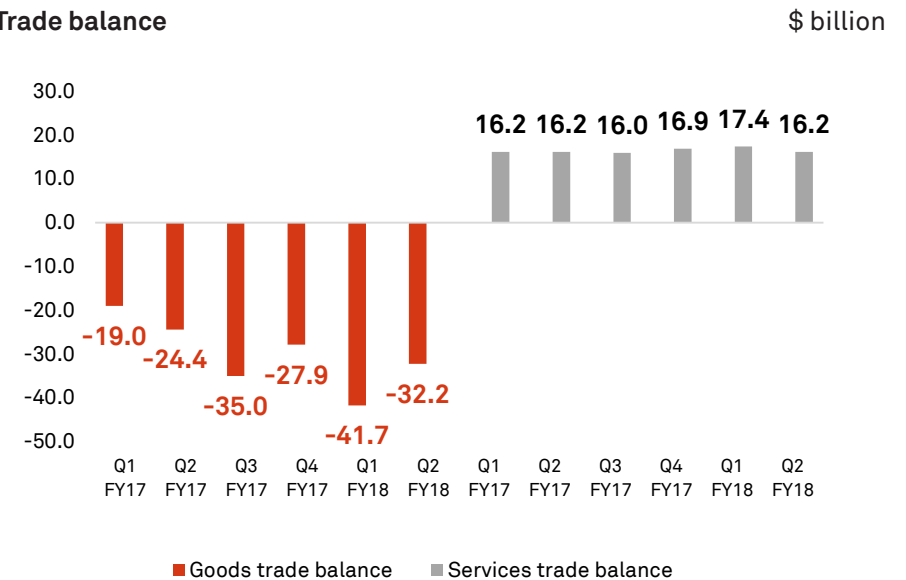
Source: Reserve Bank of India

The main reason for this is merchandise trade deficit ballooning to a four-year high of \$41.7 billion compared with \$19 billion in the corresponding quarter of fiscal 2017. While export growth was 9.1%, import growth was way faster at 34.6%.

On the other side, services trade surplus has remained stable.

Goods trade deficit moderated to \$32.2 billion<sup>1</sup>, but remained higher than the \$24.4 billion in the same quarter last fiscal.

### Trade balance



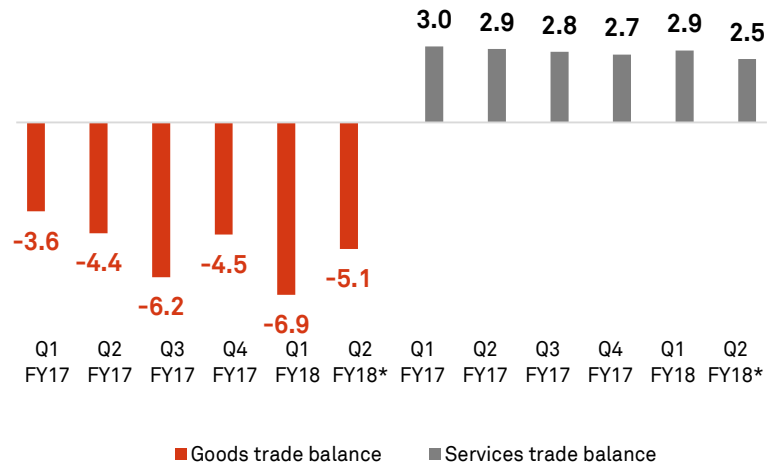
Source: Ministry of Commerce, Reserve Bank of India

<sup>1</sup>Based on Commerce Ministry's estimates

Merchandise trade deficit has been widening because exports growth has fallen way short of imports growth.

In this fiscal so far<sup>2</sup>, imports have grown 23.8% on average, compared with 9.5% growth in exports.

Goods trade deficit narrowed sequentially, but not on-year % of GDP

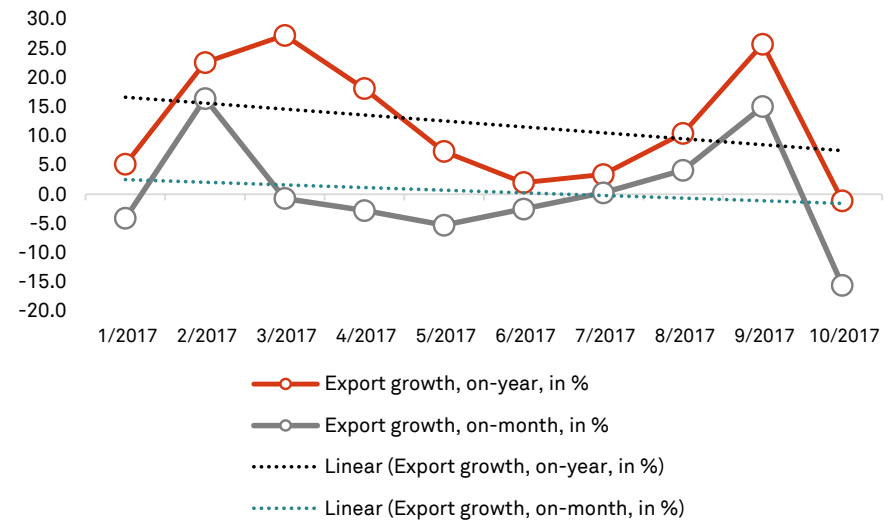


<sup>2</sup>Q2 FY18 estimates are based on CRISIL GDP forecasts  
Source: Ministry of Commerce, RBI

Though higher than the previous fiscal, exports growth has been on a decelerating trend, and declined 1.1% in October.

Import growth has also moderated in recent months, though it remains stronger than export growth.

Exports growth on a slippery slope



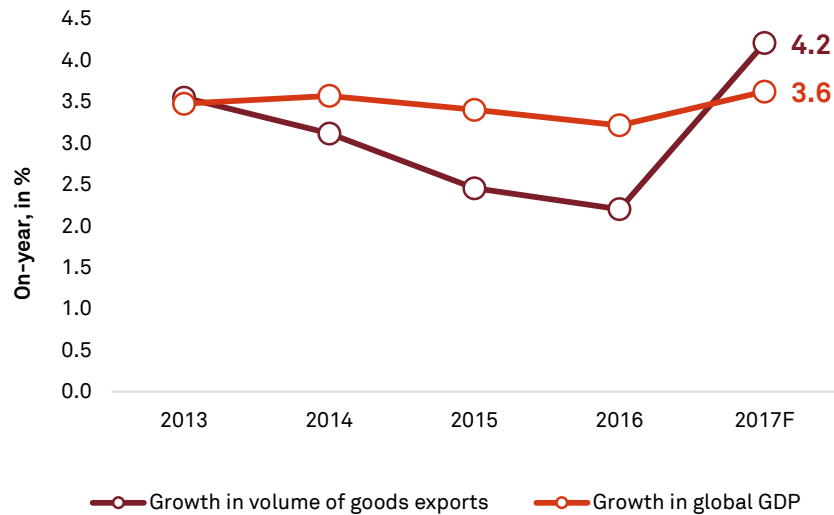
Note: On-month export growth is deseasonalised series  
Source: Ministry of Commerce

It is disquieting that India's export growth is decelerating at a time when the global environment is becoming more conducive for trade.

The International Monetary Fund (IMF) expects global growth to rise to 3.6% in 2017 from 3.2% in 2016.

Global merchandise trade<sup>3</sup> is seen growing stronger at 4.2%, boosting trade intensity of growth<sup>4</sup> for the first time in six years.

**Global exports recovering...**



Note: 2017F is IMF's forecast for 2017  
Source: IMF

<sup>3</sup>As measured by global volume of goods exports  
<sup>4</sup>Ratio of world trade to GDP growth

India has not been able to take as much advantage of stronger trade growth as many of its Asian peers.

While India's export growth is 9.5% in this fiscal so far, for Vietnam, South Korea, and Indonesia it was way higher at 23.8%, 18.4% and 17.8%, respectively.

**...but India's exports are trailing**



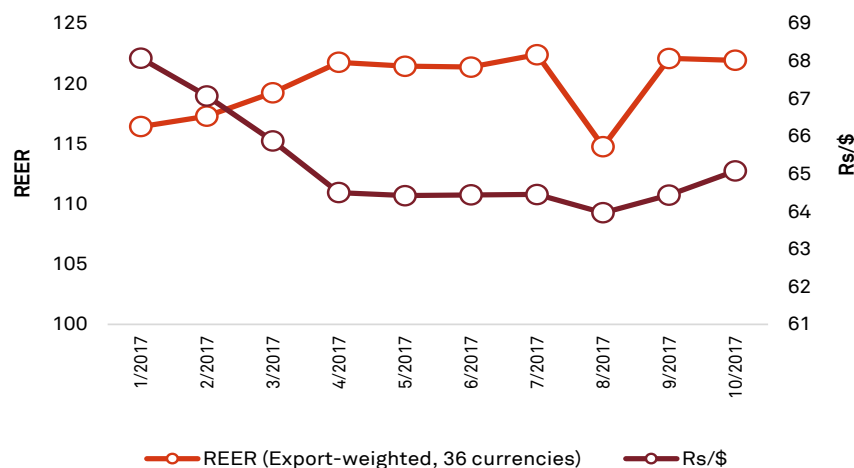
\*Average export growth for April-September 2017  
Source: World Trade Organisation

The subdued export performance in recent months cannot be attributed to unfavourable currency competitiveness.

After appreciating significantly up to March 2017, the rupee has been stable against the dollar.

A better indicator of India's export competitiveness is the real effective exchange rate<sup>5</sup> (REER), which has also remained stable since the beginning of this fiscal. In fact, it fell a touch in August 2017.

**Rupee has been stable in recent months**



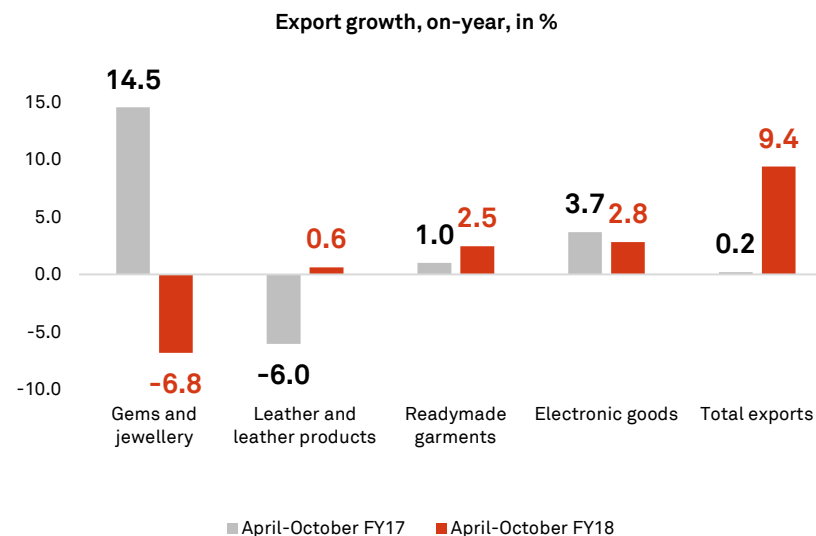
Source: RBI

Improving global growth and stable rupee suggest that domestic developments might have had a greater role to play in the current export growth slowdown.

The implementation of the Goods and Services Tax (GST) and associated glitches have had an impact, particularly on small and medium enterprises -- evident in low export growth in gems and jewellery, textiles, and leather sectors.

Incidentally these sectors are the most labour-intensive among the major export sectors. Significantly, export growth in labour-intensive sectors has been much lower than the overall export growth in this fiscal.

**Exports from labour-intensive sectors have suffered the most**



Source: Ministry of Commerce

<sup>5</sup>REER measures rupee's real value (inflation-adjusted) against currencies of its 36 major export destinations

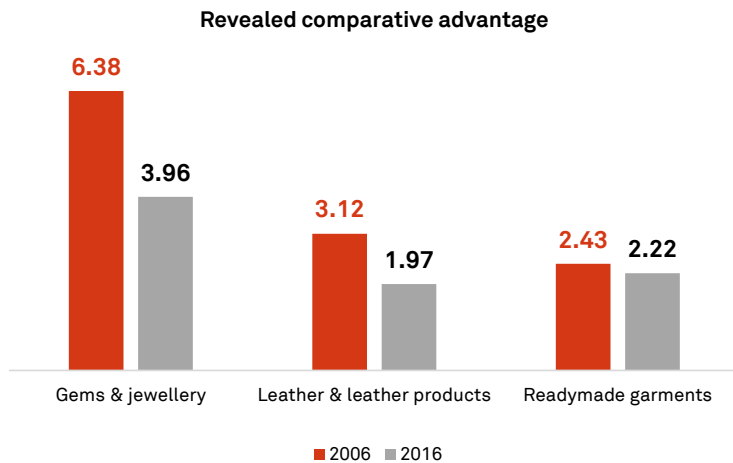
Disruptions due to GST are transitory but there are other structural issues that need to be addressed. The revealed comparative advantage (RCA), or generally speaking, competitiveness of these labour intensive sectors, was already on the decline.

The 2006-2016 decade saw RCA markedly diminish for three of these sectors, with demonetisation and GST impacting further.

So while policy disruptions have been transitory, there are structural issues dogging India's export competitiveness.

High exports growth, particularly in the labour-intensive sectors, is vital to sustaining employment-generating growth.

### Labour-intensive sectors have been losing their competitive edge



Source: ITC database

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