EXASPERATED ECONOMY & EXPORTS

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Analysing the Impact of COVID-19 on Indian Exports and Global Trade

The world is witnessing the carnage of the novel coronavirus (COVID-19) pandemic. There has been a significant loss of human lives and the global economy has also felt the impact severely. Global markets are in free fall with supply-chain disruption and manufacturing falling to the lowest levels in decades. Reduced international trade, falling PMIs across the globe and deep cuts in GDP forecasts for the year indicate we have entered the anticipated recessionary period. With indices fluctuating wildly and crude oil futures hitting negative prices on the dollar, this is uncharted territory for traders and policymakers alike.

This working series is a three-part analysis of Indian exports, particularly in terms of the current tumultuous scenario and the likely expected impact on global trade in the coming months. This is the second part of the series, which tries to analyse the disruption in supply chains for global trade in the near term, delving deep into the Indian export basket and its performance over the last decade.

Emerging Fault Lines

The provisional data for March exports, released by the Ministry of Commerce at the end of April, reveals a grim situation. As per the data, India's exports during March 2020 accounted for a little over $21.4 billion, despite a promising performance in just the previous month. This fall of approximately 35% year-on-year, as compared to March 2019 ($32.72 billion), is touching a multi-year low, and the figures are bound to fall further.

Fig. 1: Month-on-Month exports from India (Source: DGFT)

**Provisional Data for February and March 2020*

A key thing to note is that exports have fallen across almost all of the commodity groups. Some commodities have registered a decline by over 30-40%, particularly engineering goods, textiles, meat, cereals, plastics and chemicals, which have been the major growth drivers of exports in recent years. As an immediate aftermath of the spread of the COVID-19 pandemic to multiple countries, global demand has fallen significantly and many orders have been cancelled. Further, the disruption of supply chains due to the ongoing lockdown has aggravated the poor performance of Indian exports -- and the situation is likely to worsen in the coming months, before recovery starts.

Decoding Indian Exports

India is an important trading partner with many countries across the world. Although running a trade deficit, the gap between the country's imports and exports has been steadily declining in recent months. Due to a crash in global oil prices, this trend is likely to continue further too. India's supremacy in specific sectors such as mineral fuels, gems & jewellery, pharmaceuticals, chemicals, textiles, engineering goods and food commodities has contributed to it becoming a key part of the global value chain.

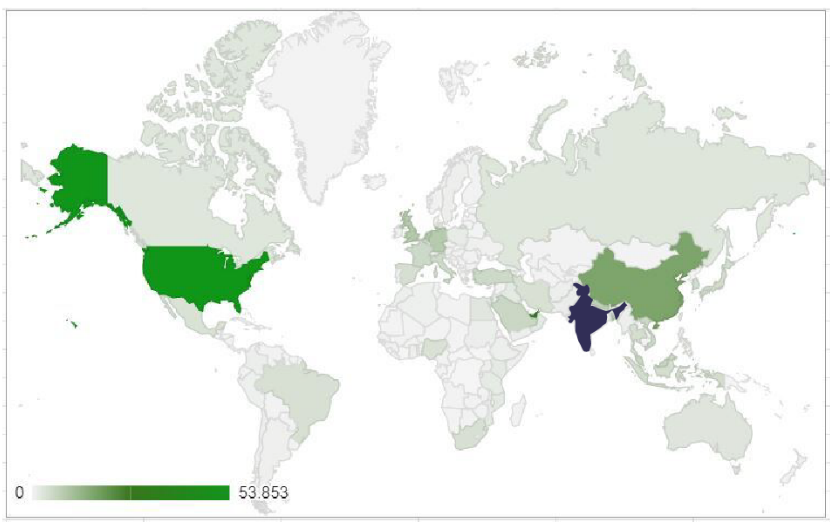

Fig. 2: India's exports [2019, US $ billions] to the world (Source: DGFT)

A closer analysis reveals that while India exported to over 200+ geographies in 2019, trade was largely concentrated in a handful of them. In fact, India's top 10 trading partners constitute nearly 50% of all exports originating from the country. Such geographical concentration may pose a risk for Indian exporters in the current situation, given that exports recovery will largely be led by an increase in demand from these countries particularly. There may be a silver lining here as well -- with many of these countries now looking at reopening their economies, there could be a rise in demand in the coming weeks. Indian exporters should watch developments in these geographies closely, and be prepared to capitalise on any opportunity that presents itself.

To further understand Indian exports, we have tried to categorise the Indian exports basket into three buckets, namely Essential, Non-Essential and Luxury Goods. This categorisation remains very broad, at the HS-2 level, and has been done to the best of our understanding and may or may not reflect the true micro picture on the ground. For simplicity, the buckets have been defined as per the following pointers, applicable especially to the current state of affairs in the wake of the current COVID-19 pandemic.

Buckets	Description
Essential Goods	Food related commodities; Medical equipments & Pharmaceutical Products
Non-Essential Goods	Other goods incl. Chemicals, Textiles, Engg. Goods etc along with Mineral Fuels*
Luxury Goods	Gems & Jewellery, Automobiles, Watches, other misc. items

*An important exception to the categorisation is the addition of mineral fuels and its derivatives to the non-essential goods bucket as reports of over supply and lack of storage of crude oil have been dominating the news since last week. This categorisation may change to essential goods as the situation improves over time.

A rough breakdown of India's US$324 billion exports in 2019 as per the buckets defined above reveals a worrying picture in the short term, primarily due to concentration of non-essential and luxury goods in the export basket (fig. 3 below). An interesting point to remember is that India's non-essential goods exports anyway cover a much wider range of HS codes (61) compared to essential goods (23) and luxury goods (14). Therefore, the stark difference in these buckets' contributions to the country's exports basket should be taken with a pinch of salt. Nevertheless, owing to current turmoil across the globe, the demand for essential goods is very likely to be the determining factor for future sustainability of exports.

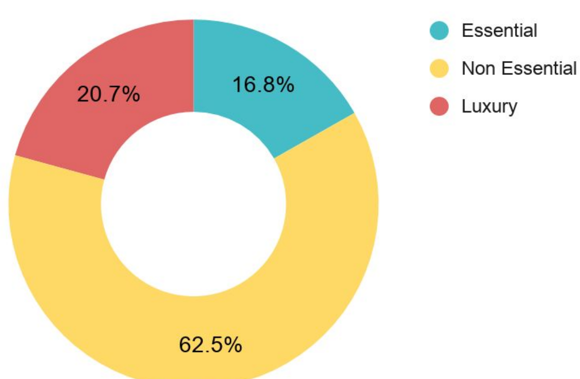

Fig. 3: India's export basket [2019, US $324 billion] breakdown (Source: DGFT)

The effects of change in demand are already visible in the USA which remains India's largest export market accounting for more than $50 billion worth of exports annually. Analysing recent import data of the USA between January and April 2020, the composition of shipments has drastically changed from the pre-COVID months (see fig. 4 below).

Fig. 4: Breakdown of US Imports between January to April, 2020

It is apparent that while the inflow of essential goods has remained consistent (with a slight uptick of around 1%), particularly before the start of the pandemic in January 2020, to March 2020 when it hit its peak in the USA, the inflow of non-essential and luxury goods has fallen by around 18% and 35% respectively. April provided some mixed signals as Chinese industries and ports started exports again, making up for delayed orders that had been stuck in the country since January, while other countries, including India, put their economies on temporary hold. Extrapolating this data for other geographies at various stages of the pandemic curve, we can expect to see a similar demand composition across the globe. Interestingly, out of the overall exports from India to the USA, worth over $50 billion, around 21% of goods fall in the essential goods bucket which is above the national average. This may turn out to be another much-needed silver lining amidst this gloom for our battered exports.

The Race to Beat the Curve

There is little doubt that the lockdowns triggered by the COVID-19 pandemic around the world have caused economic pain. Forced to choose between lives and livelihoods in some situations, certain governments, including India, have elected to take on economic turmoil in the short-term in order to curb the spread of COVID-19. With India's lockdown in its second month, many businesses are already looking forward to and hoping for "a return to normalcy" as soon as possible, so that they can start recovering their losses. However, reality may not be that simple.

While India has started to relax its lockdown measures in small steps, the positive economic impact of exiting the lockdown might take longer than anticipated. Even as manufacturing, services and other economic activities slowly lurch into motion, the country's major economic hubs such as Mumbai, Delhi-NCR, Ahmedabad, Chennai, Pune, Surat, Indore etc. continue to remain under an extended lockdown for two more weeks. The mass exodus of migrant workers to their home states is going to be another major jolt to the restarting of economic activities. These workers, who are employed as both formal as well as contractual/informal laborers in many exporting units and MSMEs, are key to the bottom lines of many businesses. There are already concerns in certain sectors of Indian industry that the exodus of these workers to their hometowns may increase in the coming months, casting doubts over the timelines of restarting manufacturing in the country.

On the other hand, China, where the pandemic originated, has seen a surge in economic activity in the past month. Sh. Subhash Chandra Garg, ex-Finance Secretary with the Government of India, highlighted in a blog in mid-March 2020 that China has "also contained economic damage". He added that in fact, soon China will not only be able to meet its usual export obligations but also fill in for reduced production in other countries. A spike in PMI, the clearance of containers stuck at Chinese ports during February-early March, and the rise of shipments to the USA is evidence that the world's largest exporter is ready to dominate world trade again (see table below).

Countries	Growth Projections (Real GDP, % Change YoY)			Manufacturing PMI			% Change in Exports to US b/w March and April-20	
	2020	2021		Mar-20	Apr-20			
India	1.9%	7.4%	⬆	51.8	27.4	⬇	(-16%)	⬇
China	1.2%	9.2%	⬆	50.1	49.4	⬇	99%	⬆
ASEAN	(-0.6)%	7.8%	⬆	43.4	30.7	⬇	(-8%)	⬇

(Source: IMF World Economic Outlook; IHS Markit; Drip Capital)

As per the latest world economic outlook published by the International Monetary Fund (IMF) in mid-April, both China and India remain the only two large economies which won't see a contraction due to the onset of a global recession by the COVID-19 pandemic. These two countries, along with their peers from the Association of Southeast Asian Nations (ASEAN), will be the drivers of post-COVID-19 recovery in the coming decade. These Asian countries need to adopt 'cautious optimism' to build the new world again, although the fact of the matter remains that these countries, particularly China, will likely try to muscle each other out of large importing markets, particularly the USA and the EU. Many ASEAN governments have already announced fiscal packages for their respective economies, which are also geared at boosting their MSMEs and exporters. One can only hope that Indian Government follows suit soon, with demands for a fiscal stimulus package and easier access to credit for MSMEs gaining steam.

Fishing for the Bottom

During a recent online session, Roberto Azevedo, the Director-General of the World Trade Organization (WTO), declared the contraction in global trade this year will be "ugly". Early estimates by the WTO forecast that global trade volume could shrink between 13-32%, as compared to last year.

The shipping industry remains one of the most crucial components of international trade. The growth or decline of international trade directly determines the fortunes of the shipping industry. With the onset of the COVID-19 pandemic, the sector has suffered enormously and is dealing with a multitude of problems. Apart from the depressed supply and demand globally, shipping lines have also been forced to alter their ports of call because of coronavirus-related restrictions imposed by multiple countries. The industry has further suffered from stockpiling of containers at certain ports, including India, as local supply chains have broken down around the world.

Drewry, a UK-based maritime research firm, publishes certain indices on the world's shipping industry. Two of the most important indices -- the World Container Index (fig. 5) and the Drewry Global Container Port Throughput Index (fig. 6), reflecting demand and supply respectively -- have been replicated here.

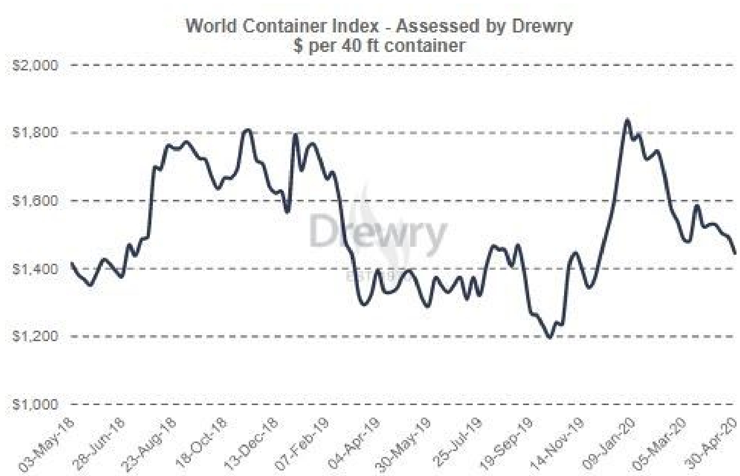

Fig. 5: Drewry's World Container Index (Source: Drewry Shipping Consultants Limited)

Both of the indices can be extrapolated to understand the current state of affairs for international trade in terms of supply and demand. With a one-off peak in late February, the prices for containers are coming down rapidly, as international trade comes to a virtual standstill. The sudden spike can be explained by a severe shortage just after the lockdown in China, when the world ran out of containers. On the other hand, the port throughput is hitting new lows and is likely to find a bottom before it starts climbing up again as international trade resumes.

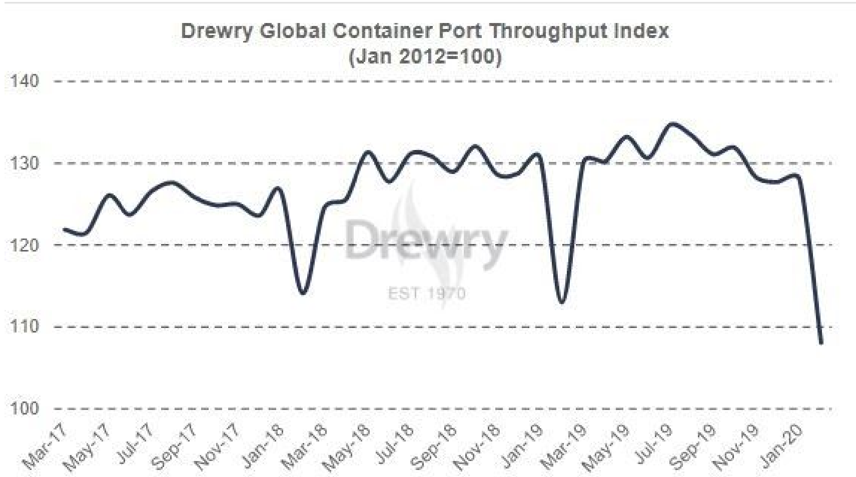

Fig. 6: Drewry Global Container Port Throughput Index (Source: Drewry Shipping Consultants Limited)

These trends represent a growing problem of flattening demand and plummeting supply of containers in the world's shipping lines. With staggering gaps in international logistics and supply chains, it is unlikely that global trade will be able to rebound to its pre-COVID-levels anytime soon. This poses new challenges for India's exports, and may require the country's stakeholders to reevaluate their vision for the sector.

The $300 Billion Rut

"There are decades where nothing happens, and there are weeks where decades happen." — Vladimir Lenin

It is amply clear that the COVID-19 pandemic has wreaked havoc on Indian exports, and this turmoil will last till the next quarter before any signs of recovery emerge. Indian exports have fallen to a multi-year low this March and may fall even lower once the numbers for April are out, owing to the extended lockdown. Low demand and cancellation of existing orders from trading partners has further proved to be a dampening factor for the country's outbound shipments.

Indian exports were on a promising trajectory during 2018 and 2019, amounting to a little over $320 billion. High hopes were tied up with the closing year of this decade, but 2020 has been a disappointment for the trade community, ravaged by disruptions due to trade wars, a growing lack of capital, and most recently with the current pandemic. These factors mean that Indian exports this year could very well close below the $300 billion mark.

However, a closer look reveals that Indian exports in fact seem to have been hovering around the $300 billion mark for all of the last decade. Despite a strong trajectory of growth, 2019 export numbers flatlined as compared to 2018 exports, and this year's numbers are bound to come in even weaker. Surprisingly, while India's exports grew at a CAGR of nearly 17.5% in the first decade of the new millennium (2001-2010), the growth slowed down to an abysmally low rate of 0.76% in the subsequent decade (2011-2020) (see fig. 7 below).

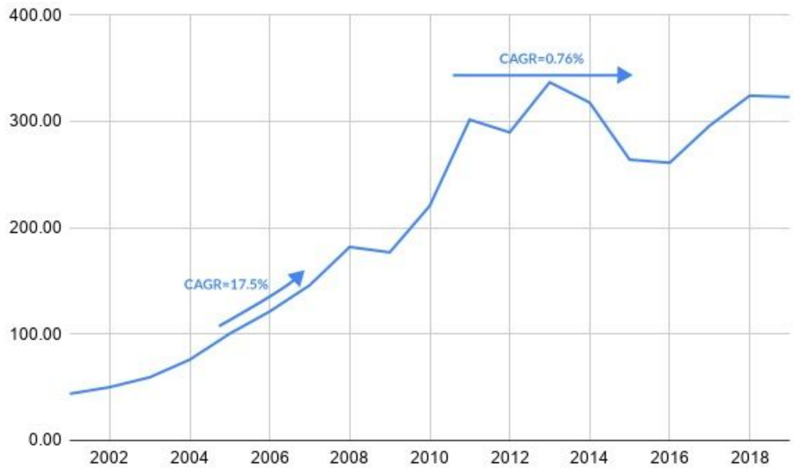

Fig. 7: India's Annual Exports between 2001-2019 (US $ billion)

This plateauing of growth reflects broader structural issues in Indian trade, which need to be tackled urgently. The COVID-19 pandemic offers a good opportunity for policymakers to rethink strategies for increasing India's share of exports in the global context. While India is among the top five economies globally, it occupies the 17th position in terms of global merchandise trade originating out of the country. In the next edition of this series, we look at sector-specific measures and expectations from the next FTP required to bring Indian exports back on track.

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