

Quickonomics

July 31, 2023

Beware the Pacific headwinds

The bigger exports challenge is closer home in APAC than on either side of the Atlantic

- India's goods exports face stronger headwinds from softer demand in the Asia-Pacific (APAC) region than from an imminent slowdown in the West
- India's trade deficit with the APAC region, which accounts for the lion's share of the country's exports, is widening

India's merchandise exports plummeted 22.0% on-year to \$32.9 billion in June, driven by decelerating global growth. They have contracted for five straight months now — more so in the last few months.

A decline in commodity prices has substantially contributed to the fall in the dollar value of India's exports.

Further, according to data from the Ministry of Commerce and Industry, export volume of 40 out of 75 commodities declined on-year during April-May 2023.

Interestingly, region-wise export data (available till May) indicates that India's exports face greater threat from the APAC¹ region (see chart 1) than from the western economies, which have been in the spotlight.

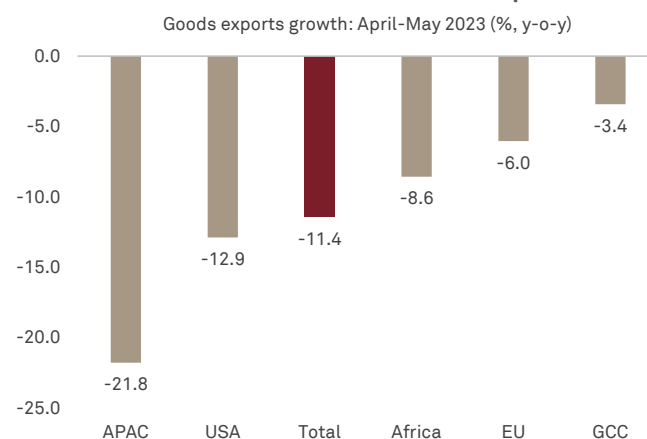
China's role in India's declining exports to APAC minimal

The role of China — a large APAC player currently experiencing uneven demand conditions — in the decline of India's exports to the APAC region is insignificant (see chart 2) due to its small share² (see chart 3).

The decline is more pronounced in the APAC (ex-China) region.

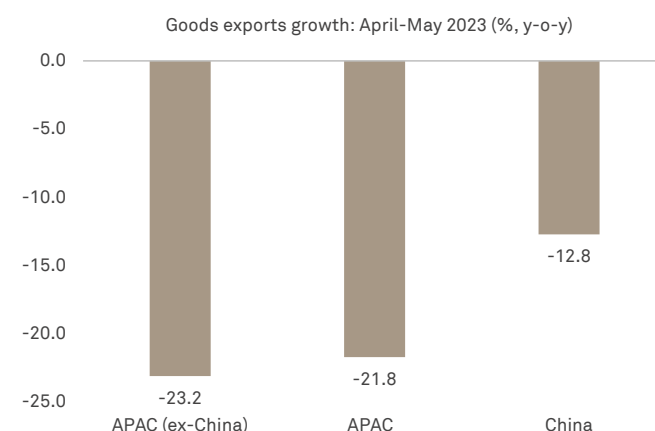
That said, a slowdown in China's exports and domestic demand could indirectly hit India's exports to the broader APAC region, as China is deeply embedded in global value chains, particularly within the region.

Chart1: APAC leads the decline in India's exports



Source: Ministry of Commerce and Industry, CRISIL

Chart 2: China's role is minimal

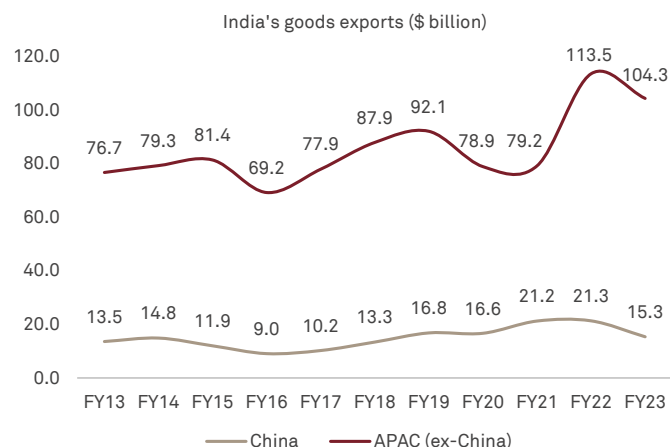


Source: Ministry of Commerce and Industry, CRISIL

¹APAC region comprises Northeast Asia, ASEAN, East Asia (Oceania) and South Asia

²In fiscals 2022 and 2023, China accounted for only 5.0% and 3.4% of India's goods exports, respectively

Chart 3: India's exports to China low compared with the rest of APAC



Source: Ministry of Commerce and Industry, CRISIL

The decline in India's exports to APAC is not new.

The country's exports to the region contracted 11.3% on-year to \$119.6 billion in the past fiscal. In contrast, exports to the United States (US) and the European Union (EU) rose 3.1% and 15.2%, respectively³.

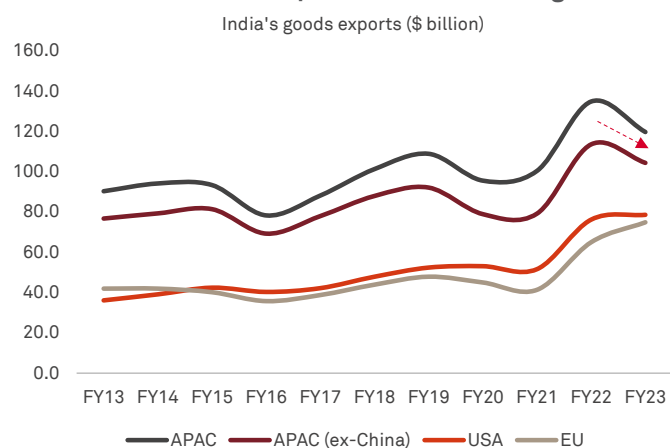
India's non-oil exports to APAC also fell 12.3% on-year in the past fiscal (exports to both the EU and the US rose). This implies that the decline in India's goods exports to APAC was not a result of lower oil (India's top export commodity) exports, but was broad-based.

The share of APAC in India's goods exports has been on the decline since the pandemic onset in fiscal 2021 — this could perhaps suggest a structural shift.

In fiscal 2019, APAC accounted for 33.0% of India's goods exports, more than the combined share of the US and EU at 30.4% (a trend since fiscal 2008).

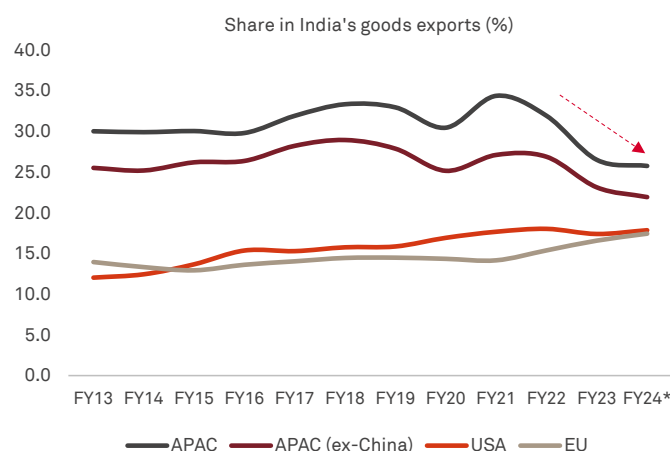
The trend reversed when the pandemic hit. In fiscal 2023, APAC's share declined to 26.5% and the US and EU's combined share rose to 34.0% — this trend continued as of April-May this fiscal (see chart below).

Charts 4 and 5: India's exports to APAC faltering



*For April-May 2023

Source: Ministry of Commerce and Industry, CRISIL



Trade deficit with APAC widening

India has historically had a large trade deficit, and APAC has been a major contributor to this.

On the other hand, India generally has a negligible trade deficit with the EU (turned into a mild surplus in the past two years) and a trade surplus with the US (see chart 6).

³India's total goods exports rose 6.7% to \$451 billion in the past fiscal from \$422 billion in fiscal 2022

What is worrisome is that while India's exports to APAC are faltering, imports from the region continue to rise. This has considerably widened the country's trade deficit with the region and overall in the past two years.

While China remains the primary contributor to India's trade deficit from APAC region, the trade deficit with the APAC (ex-China) region is also rising (see chart 7).

Chart 6: APAC largely behind India's trade deficit...



Source: Ministry of Commerce and Industry, CRISIL

Chart 7: ...with major contribution from China



Conclusion

While the slowdown in the West has been highlighted as the major hurdle for India's exports, the greater problem lies closer to home in the APAC region.

The broad-based slowdown in India's exports to APAC necessitates greater policy intervention from the government.

S&P Global expects growth in the US to decelerate to 1.7% this year from 2.1% in 2022, and in the Eurozone to 0.6% from 3.6%. In the APAC (ex-China) region, it projects growth to slow to 3.8% from 4.7%.

All these present challenges for India's exports this year.

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