

India's Exports: The New Normal?

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Asia”

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Qualifier

Views are personal.

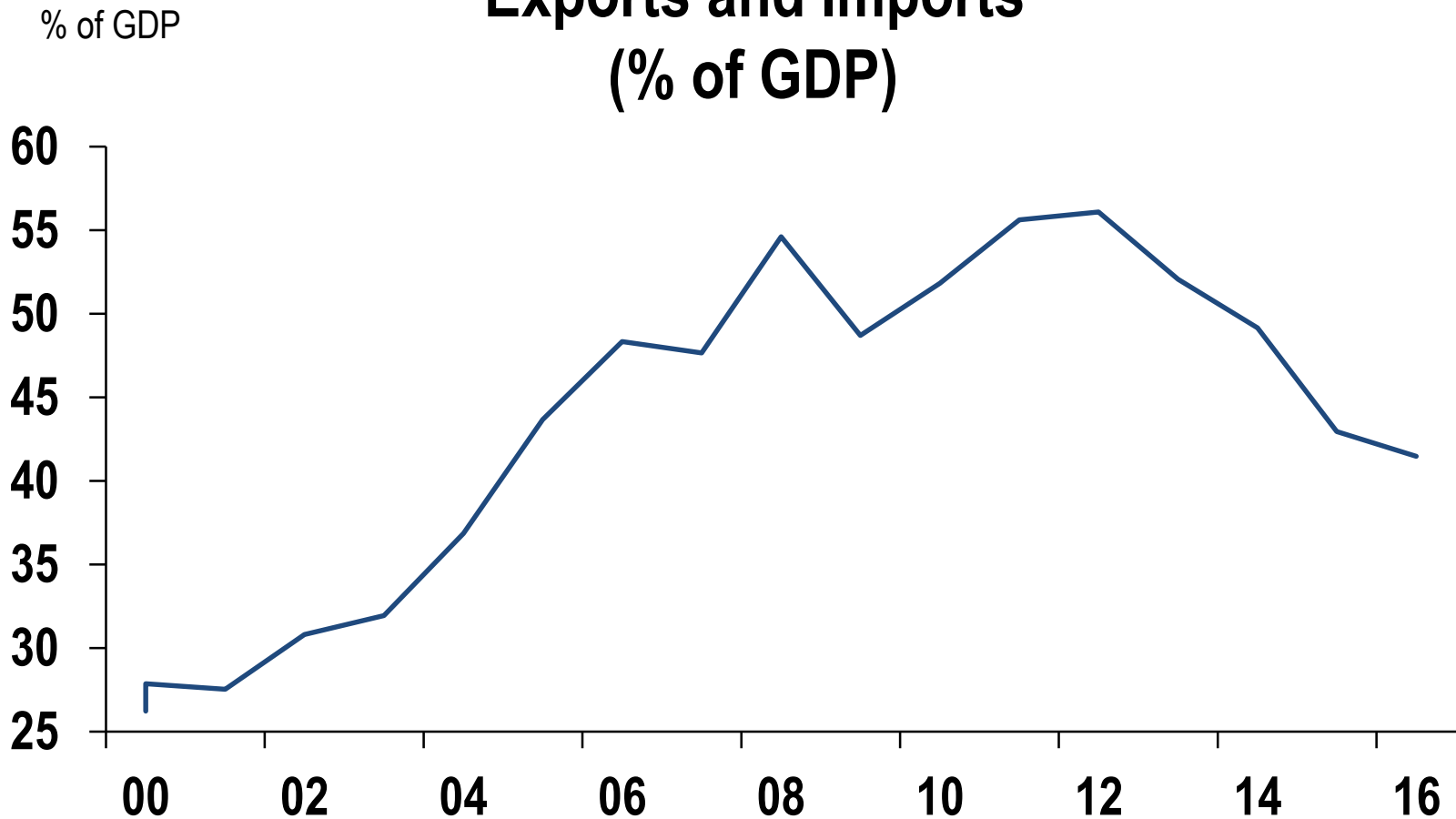
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Background

- Two pieces of conventional wisdom on India
 - ❑ Relatively closed economy on the real front
 - ❑ Exports of marginal significance
 - ❑ Insulated from global shocks

In fact ...

Exports and Imports (% of GDP)

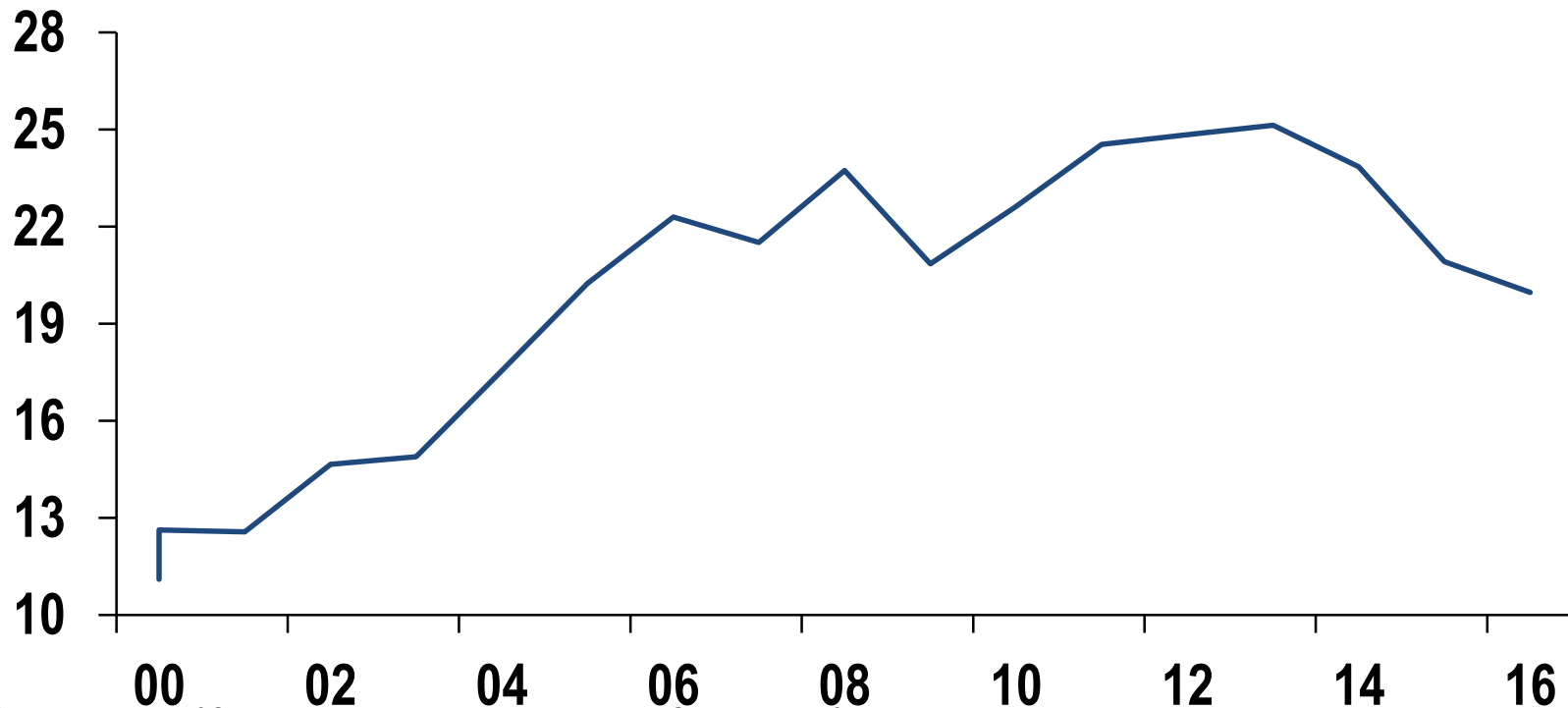


Source: MOSPI

Exports exhibit a similar trend

Exports share in GDP

% of GDP



Source: Ministry of Statistics and Program Implementation, Government of India.

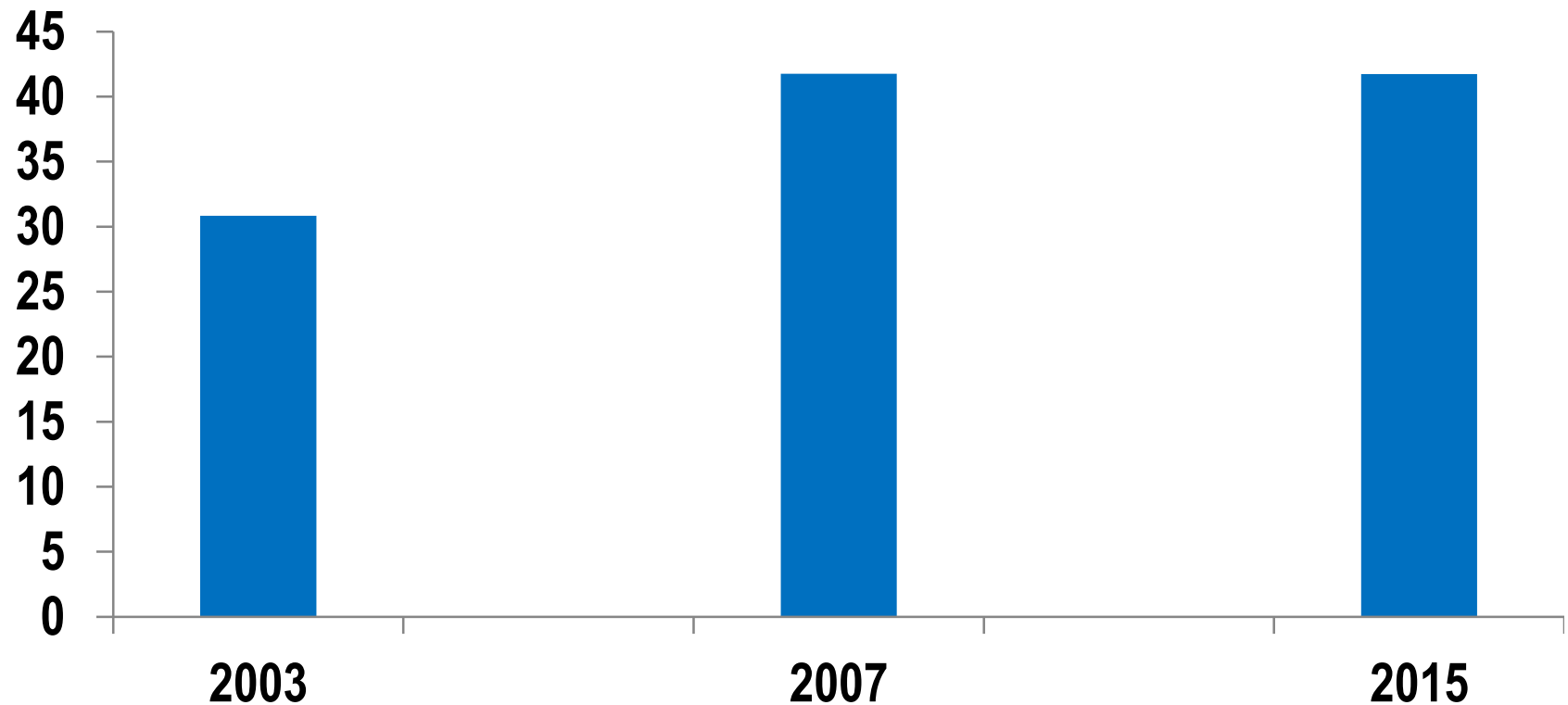
Changing composition of exports

- Visible revolution
 - Services
- Quiet revolution
 - Manufacturing

Increasing role of services

Share of services in export basket (ex oil)

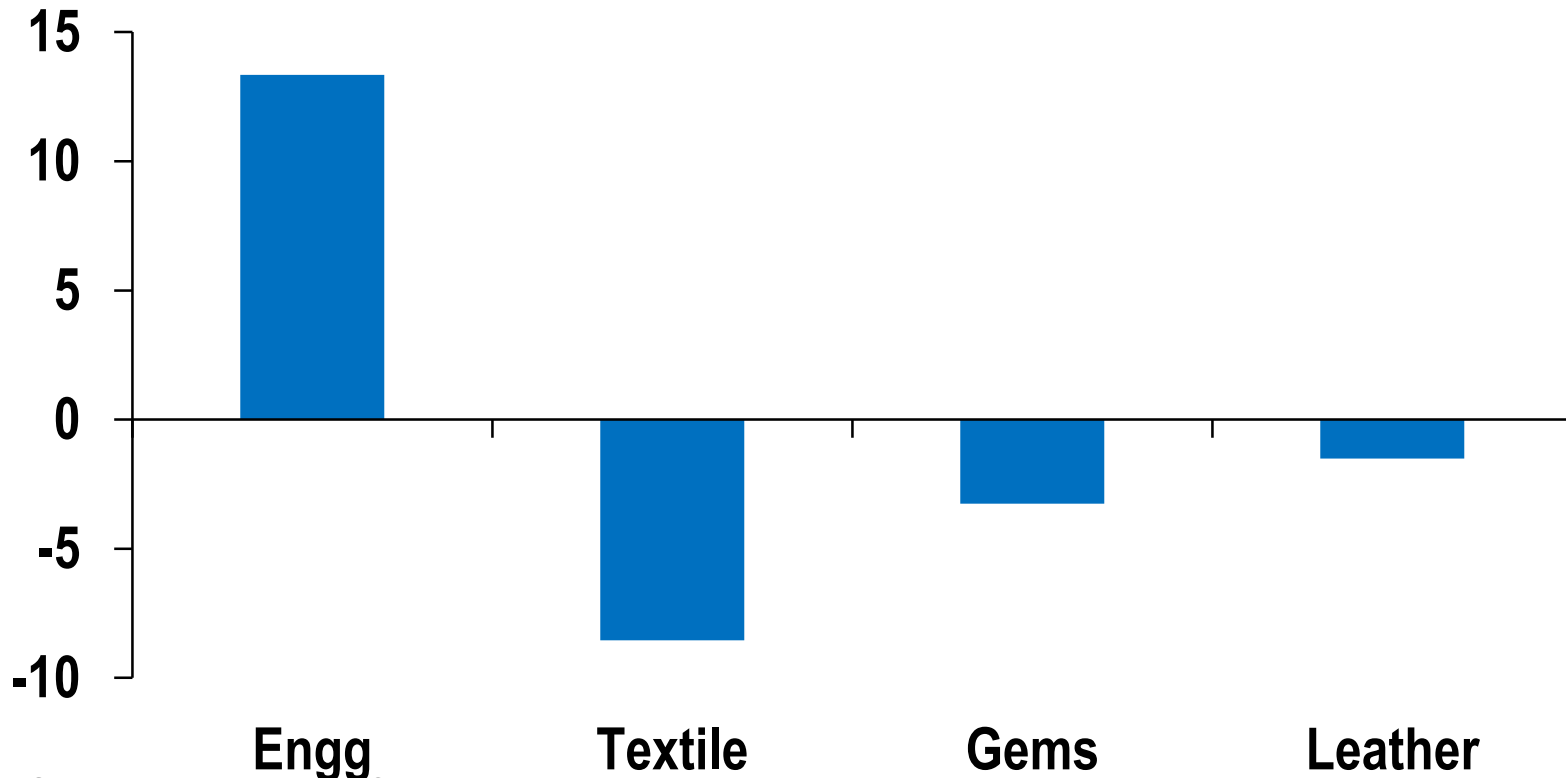
percent of total



From traditional towards new age manufacturing

Sectoral change in manufacturing exports

ppt change of manufacturing export basket, 2003 to 2015



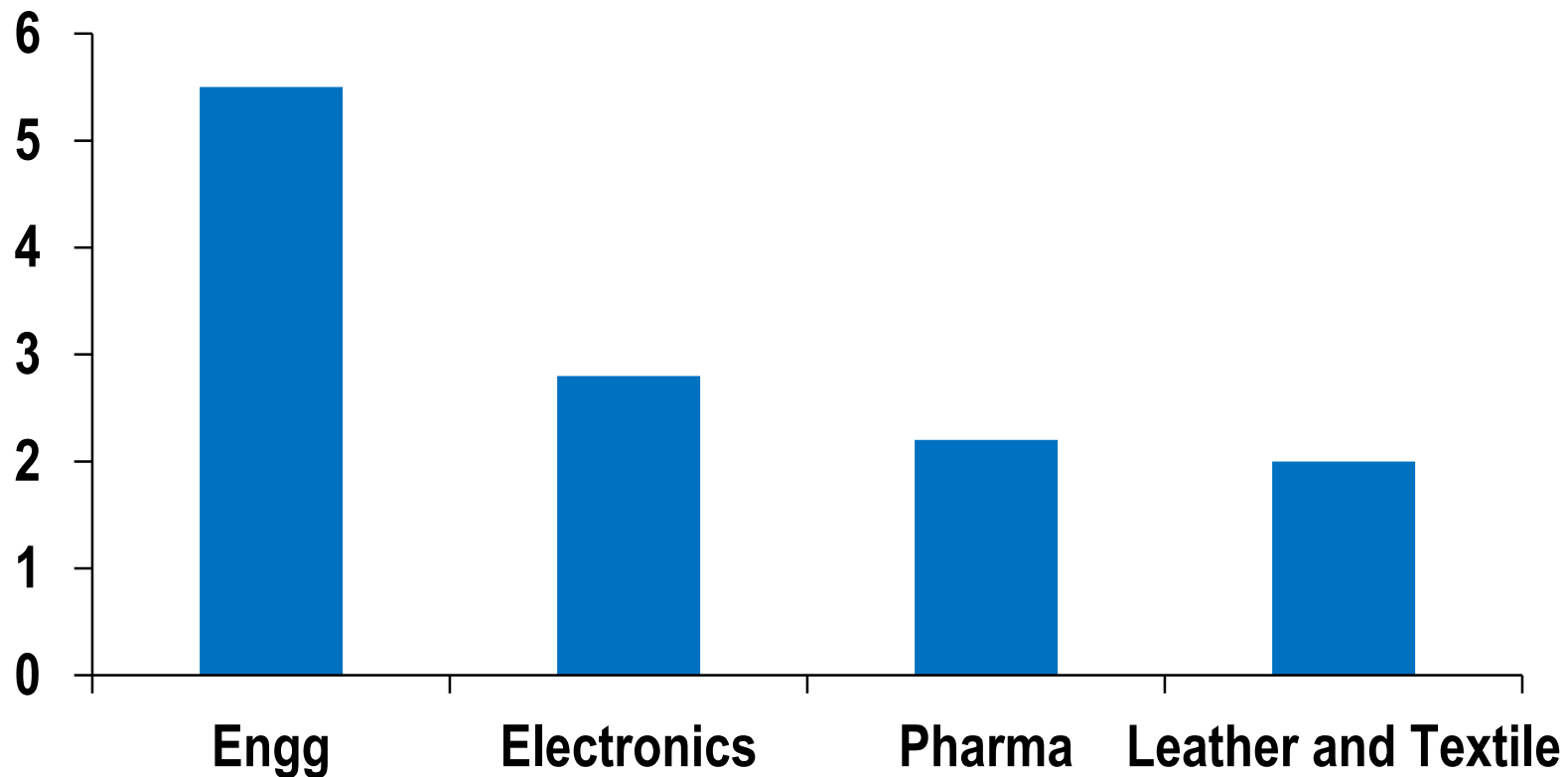
Source: Ministry of Commerce, JPM research

Export volumes largely driven by

- Changes in partner country growth
- With sectoral variation in elasticities

New age exports exhibit higher partner income elasticities

Sectoral elasticities to partner country growth



Sensitivity to global demand has reduced

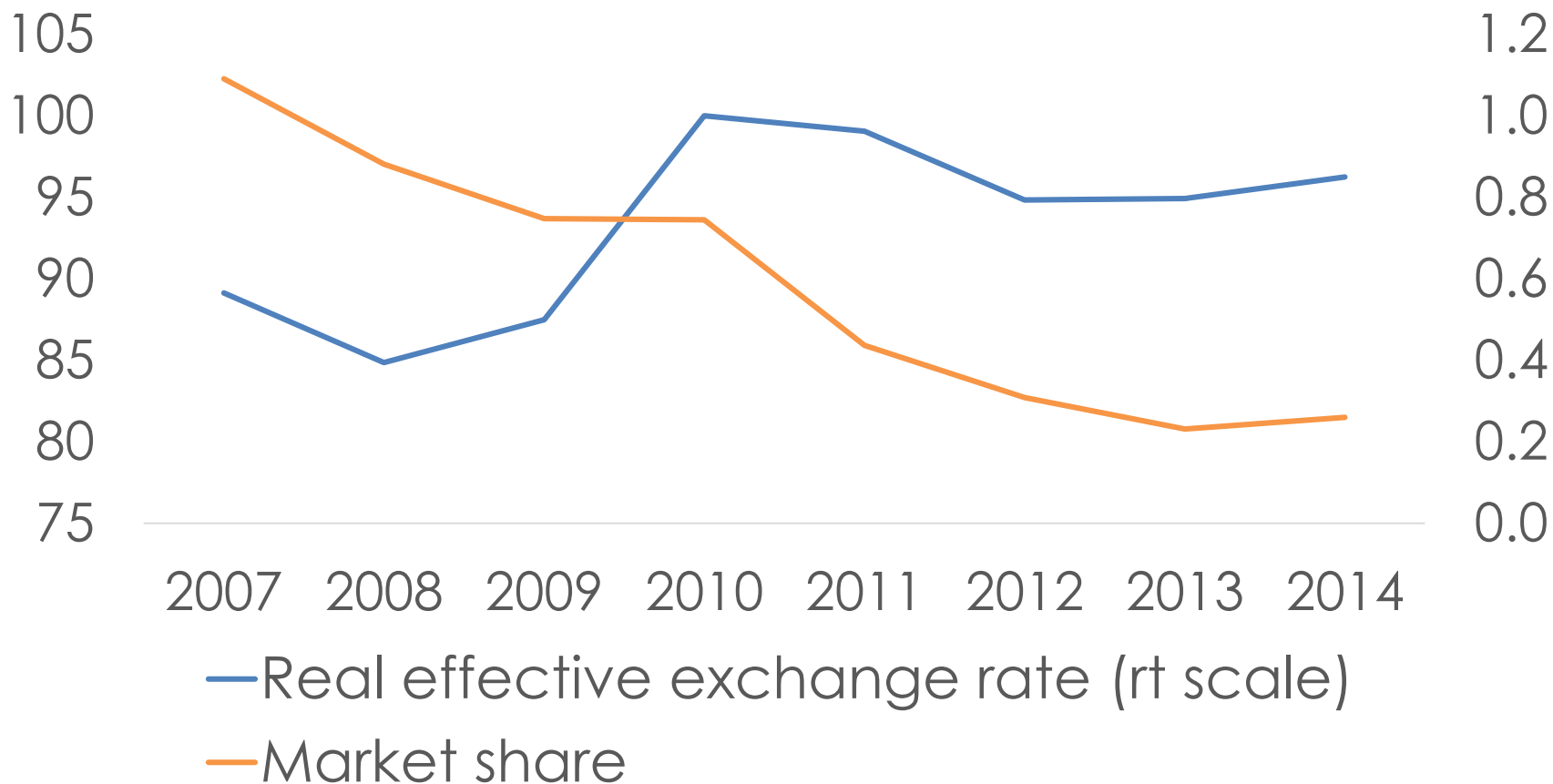
- But still remain high and significant
- Highest for new-age exports such as engineering, pharmaceutical, and chemicals
- Structural break pre-global financial crisis

Puzzle: exchange rates matter little for exports?

- Small/ statistically indistinguishable from zero elasticity of exports w.r.t exchange rates
- Methodological issues?
 - Hard to identify in macro studies
- Facts on the ground
 - Evidence from firm-level data
 - Elasticities vary across firms in different sectors
 - High for high domestic value added
 - Low for high foreign value added

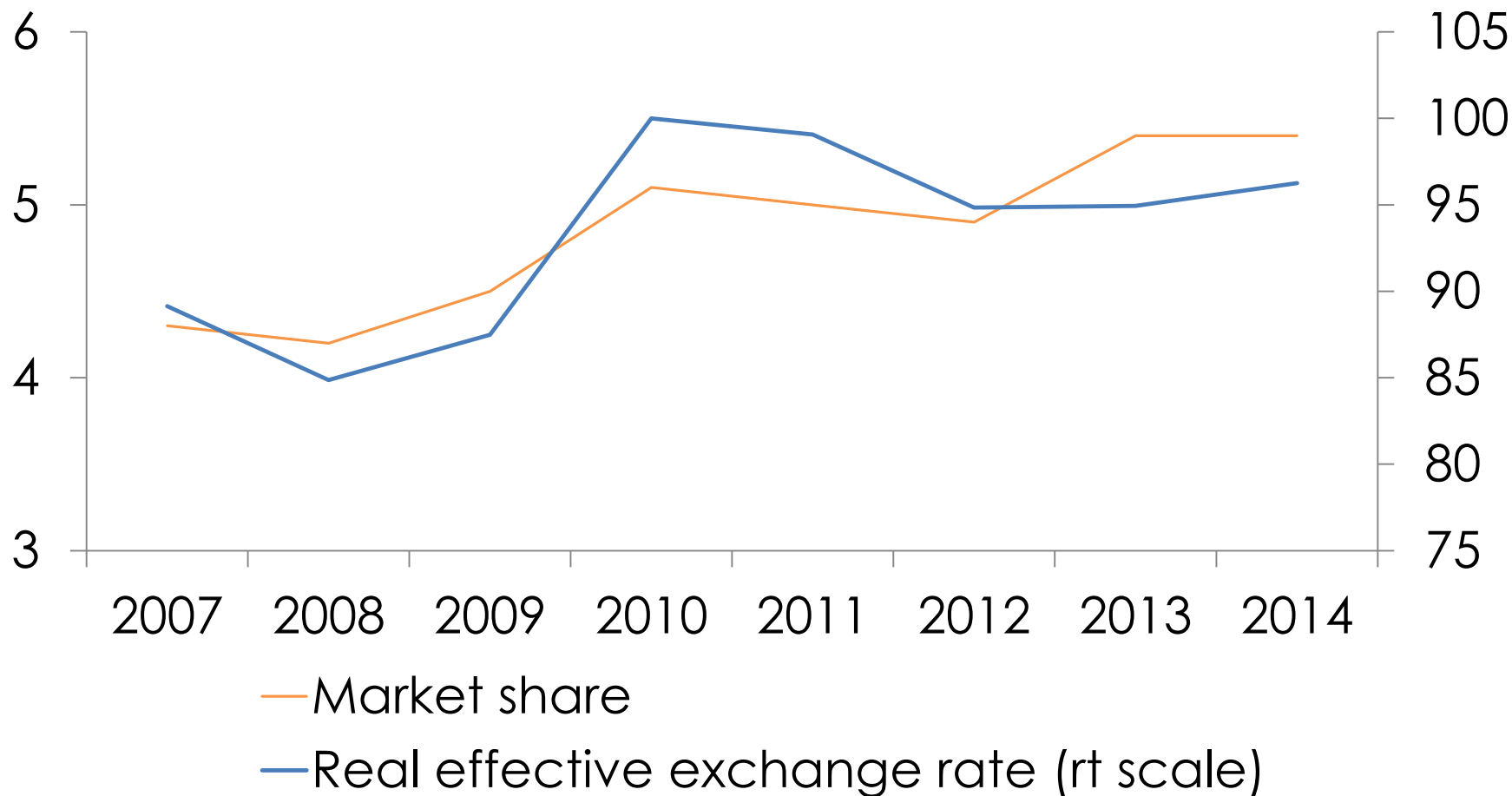
REER appreciation associated with declining market share in high domestic value added sectors e.g. textiles

Readymade garments



REER appreciation *not* associated with declining market share in high foreign value added sectors e.g. pharma

Drugs and Pharmaceuticals

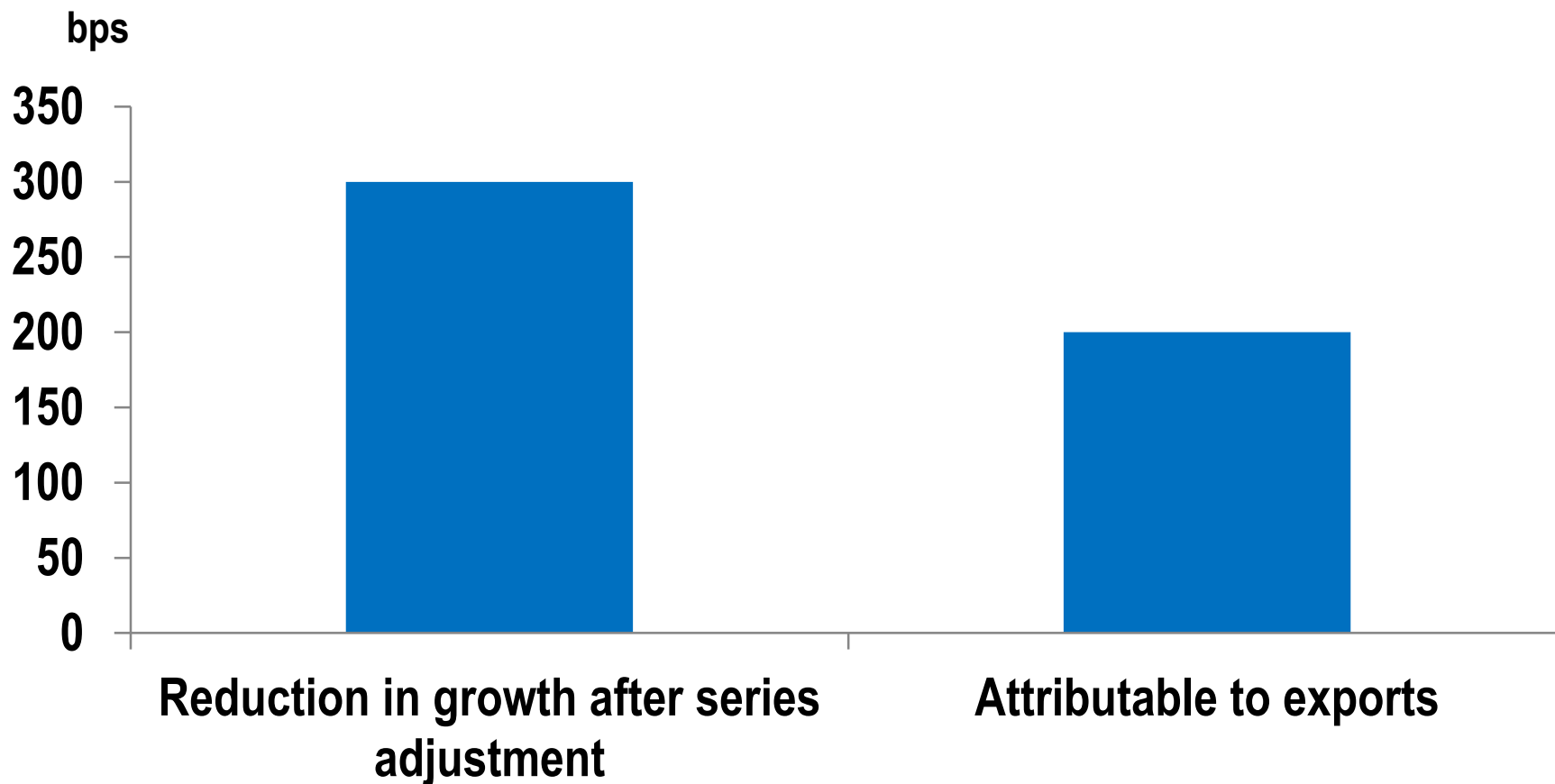


Key role of exports to explain slowing growth



Export account for 2/3rd of growth slowdown

The role of exports in slowing growth



Bottomline

- India has not escaped the de-globalization
- If global growth sluggish - new normal - then tepid prospects for India's
 - Export growth
 - GDP growth

Options going forward

- Re-evaluate India's growth potential
- Look for new sources of growth
- Increase share in global exports ..

Little evidence for increasing market share so far

Share in World Apparel Exports (in %)

Year	Bangladesh	China	Indonesia	India	Cambodia	Sri Lanka	Pakistan	Vietnam
2000	2.4	26.1	2.2	3.1	0.6	1.3	1.4	0.8
2005	2.7	35.1	1.9	4.1	0.9	1.1	1.6	1.7
2009	4.3	41.9	2.1	4.4	1.0	1.1	1.8	2.9
2014	6.5	38.2	2.2	4.5	1.9	1.1	2.0	4.9
Difference in shares: 2009-2014	2.2	-3.8	0.1	0.0	0.9	-0.1	0.2	2.0

Source. UN Comtrade

Two pertinent questions

- How can India raise exports amidst the new normal?
- If exports are less likely to power growth and investment, where will growth come from?

Four key pillars going forward amidst new normal

- Infrastructure
- Human capital
- Simplifying regulation
- Improving access to finance

- Growth can come from
 - Public investment
 - Fiscal space?
 - Private investment
 - Twin balance sheet problem

Thank you!

Questions?