

## The Curious Turn in India's Exports\*

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At first look, the evidence is worrying. Goods exports from India in June dropped to an 8-month low of \$33 billion having fallen sharply by 22 per cent year-on-year. Moreover, that decline was not a one-off event. The June fall was the seventh monthly, year-on-year export decline in nine months. That belies the government's claim that the June 2023 growth figure was an outlier, resulting from a high base value, since in June of the previous year India recorded high monthly shipments of \$42.3 billion.

Rather, the downturn in exports appears to be a medium-term trend, marking the reversal of what appeared to be a remarkable post-COVID recovery in exports. Over the three months April to June 2021, exports rose by 86 per cent when compared to the COVID trough. This growth seemed to be sustained in the next year as well, with the year-on-year export bump over April-June 2022 amounting to an additional 27 per cent. Over the three months ending June 2023, however, not only did Indian exports lose momentum, but shrank by 15 per cent relative to. The corresponding period of the previous year.

The government that made much of the post-COVID export recovery, had partially tied India's creditable growth performance to that success. India, some held, was emerging the beneficiary of the China-plus-one strategy adopted by the developed countries for sourcing for global markets. With that optimism challenged, government spokespersons are now hiding behind the argument that export growth has decelerated because of lower demand for Indian goods in major destinations, where economies had turned sluggish following hikes in interest rates to address inflation. The loser may be India, but the blame lies outside the country.

A closer look at export trends, however, tells a different story. Explaining the post-COVID spike and sudden downturn in exports requires turning our attention to a particular segment of exports, consisting of petroleum products. In principle, oil exports cannot be India's forte given its obvious and heavy dependence on imports of crude for domestic consumption. But recent trends appeared to contradict that view. The value of India's oil exports rose from \$25.8 billion in financial year 2020-21, which was also the COVID year, to \$67.4 billion in 2021-22. The recovery had taken oil exports well above the figure of \$41.3 billion recorded in pre-COVID 2019-20. In fact, the 162 per cent rise in petroleum product exports in 2021-22, was significantly higher than the 45 per cent rise in goods exports. In the year that followed, it appeared there was no stopping exports of oil products from India. In 2021-22, oil exports rose again by 44 per cent to touch \$97.4 billion, even while aggregate goods export growth slowed to 6.9 per cent. Overall, increases in oil exports accounted for 32 per cent of the increase in aggregate exports in 2021-22 and 41 per cent of that increase in 2022-23.

The obvious corollary of this is that India has been performing poorly as an exporter of goods other than petroleum products. India recorded a sharp slowdown in the growth in non-oil exports. Having declined by 2.2 per cent during COVID-year 2020-21, non-oil exports rebounded and rose by 33.3 per cent in 2021-22, only to shrink by

0.3 per cent in 2022-23. This reflects the real weakness of India's external trade—its failure to emerge as significant exporter of goods let alone a global export hub, despite the provision of large subsidies through initiatives like the performance-linked incentive scheme.

Meanwhile, there is evidence that the boom in petroleum product exports cannot be sustained. The main contributor to the increases in export receipts in this area is a rise in global prices driven by increases in the price of crude. The international spot price of Brent crude had fallen from \$71.23 a barrel in April 2019 to a COVID-year low of \$18.38 in April 2020, affecting the value of India's exports adversely. But prices soon rose and touched \$64.81 a barrel in April 2021 as COVID-driven constraints on economic activity were overcome and demand recovered. A year later, exporters received another bonanza when the price per barrel spiked as the Ukraine invasion of February 2022 triggered speculation based on expectations that the war would drastically curtail supplies. The Brent spot price rose above \$100 to the barrel and peaked at \$122.71 in June 2022. However, it soon became clear that predictions of a supply shortage had been misplaced. In the even the Brent crude price fell to \$84.64 a barrel by April 2023.

What is noteworthy is that the quantity of India's exports of petroleum products have not risen. According to data from the Ministry of Petroleum, having fallen from 65.7 million tonnes in 2019-20 to 56.8 million metric tonnes in 2020-21, the volume of petroleum product exports rose to 62.8 million tonnes in post-COVID year 2021-22 and stood at 61 million tonnes in 2022-23. Thus, India's petroleum export success was based almost wholly on the volatility in oil prices in recent years. But prices can only come off the speculative highs and peaks they touched with the post-COVID recovery and after the Ukraine invasion. As they fall, oil export growth has not just slowed but turned negative. The rate of growth of oil exports during April to June 2020 had touched 162 per cent when compared to the corresponding months of the previous year. The rate stood at a creditable 109 per cent during April to June 2021. But oil exports declined by 33 per cent during the three months ending June 2023. With oil accounting for a substantial share of the increase in aggregate goods exports, this has resulted in a sharp slowdown in overall export growth as well.

The real story on the oil front is not an increase in the total volume of petroleum product exports, but a sharp rise in profit margins of oil refiners, who could access Russian crude at deeply discounted prices. While European importers have cut out Russia as a source of imports as part of the sanctions on the latter, they are willing to ignore the fact that exports from India are based on refining crude imported from Russia. And given the strategic importance of India vis-à-vis China for the US, not much noise is being made about India's complicity in facilitating Russian exports of crude. The result has been a sharp shift in the source of India's crude imports, with private refiners in particular cashing in on discounted crude imports to earn the super profits from product exports delivered by the changing geopolitical situation.

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