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Press Release

Shifting global dynamics can structurally improve India's trade deficit

Slowdown to pull down FY21 trade deficit by 70%, early signs of an export revival

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Acuité believes that India has a significant opportunity to improve its trade balances with the ongoing shift in the global trade dynamics and the deterioration of trade relationships between China and its major partners such as United States, Australia and Japan. We also expect that most of the world's developed nations including those in Europe will make an effort to reduce their dependence on China, wherever applicable and diversify their supply base for strategic reasons. This will benefit Indian exporters in various sectors such as pharma, chemicals, automotive, textiles, leather and even agricultural products over the medium term. Such a trend has started to become visible in June with India's exports to Australia having grown by 78% and that to Japan and South Korea growing by 4.5% and 15.5% respectively despite the intermittent lockdowns. While the exports to USA have been consistently improving over the past few months post the Covid disruption, even exports to trading nations such as Singapore have increased by over 36% in June 2020, reflecting the opportunities presented by the changing trade dynamics.

Says Sankar Chakraborti, Group CEO, Acuité Ratings & Research Ltd "India can take advantage of the shifting global trade dynamics by entering into bilateral or multilateral trade pacts with a wide spectrum of nations that intend to reduce their large dependence on China. However, initiatives on new trade arrangements also have to be backed up by investments in indigenous manufacturing capabilities in close collaboration with the private sector and in line with the 'Atma Nirbhar Bharat' campaign."

India's overall merchandise exports have witnessed a steady revival in the aftermath of the lockdown climbing from a low of USD 10.3 billion in April to USD 23.6 billion in July 2020. While the exports volumes are still 10.2% lower as compared to July 2019 on an overall basis, it needs to be noted that the exports of petroleum products have seen a massive contraction of 51.5% and adjusted for that factor, the yoy contraction has been only to the extent of 3.5%. While the recovery has been fairly broad based across product segments, there has been a significant yoy growth in product segments such as agricultural goods, pharmaceuticals and engineering goods.

India's merchandise trade deficit for the April-July period at USD 13.95 billion has witnessed a sharp drop of 64.1% from USD 59.42 billion in the corresponding period. **Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research Ltd** "In our opinion, the significant improvement in the trade deficit is primarily on account of continuing weakness in domestic demand along with a considerable decline in global crude oil prices but also partly due to exports recovering faster than imports. We expect the merchandise trade deficit to drop sharply by around 70% to around USD 50-55 billion in FY21 as compared to USD 160 billion in last year. While it may be difficult to sustain such improved levels of trade deficit as the economy revives and global commodity prices pick up, Acuité believes that the shifting global trade dynamics provide a good opportunity for India to improve on the inherent imbalances in its trade flows." **he adds.**

An analysis of country wise trade performance shows a ground level impact of the border and trade conflict with China. India historically, has a huge trade deficit with China which constitutes almost 50% of its overall trade deficit. But interestingly, imports from China in June 2020 have contracted by 44% while exports to the northern neighbour expanded by 78% on a yoy basis. Consequently, the monthly trade deficit with China has sharply reduced to USD 1.2 billion in June 2020 as compared to USD 4.7 billion a year earlier. While the sustainability of the lower trade deficit with China remains to be seen as the domestic economy continues to revive, it is apparent that the government is making efforts to discourage low value added and non-critical imports from China and other countries as part of the ongoing initiatives on self-reliance and indigenous production.

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in BKC, Mumbai.

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