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INDIA'S TRADE BASKET IS CHANGING

Iron ore and petroleum products, machinery, computers, and electrical and electronic products have emerged as strong performers on the export front

MOVING UP. There has been a rise of high-value and technology-driven exports, reflecting industrial sophistication

Trade Growth Overview (FY2004 to FY2024)

- **Export Growth:**
 - India's merchandise exports experienced significant growth, rising six-fold from FY2004 to FY2024, reaching **\$437.1 billion**. This growth reflects India's increasing role in global trade across diverse sectors.
- **Import Surge:**
 - Imports surged nearly nine-fold during the same period, reaching **\$678.2 billion**. The sharp rise highlights India's growing demand for energy, industrial inputs, and technological goods.
- **Global and Domestic Influences:**
 - Global disruptions, such as the **2008 financial crisis**, **Covid-19 pandemic**, and **US-China trade tensions**, created challenges but also opportunities.
 - Domestic initiatives like **'Make in India'** contributed to shifting trade dynamics by encouraging local manufacturing and export competitiveness.

Diversification of Exports

Agriculture, Meat, and Processed Food

- The share of agricultural and processed food exports remained stable at around **11%**, but volumes increased substantially.
- **Growth Details:** Exports rose from **\$7.6 billion** in FY2004 to **\$48.5 billion** in FY2024, reflecting the rising global demand for Indian products.



- **Key Products:** Rice, sugar, groundnuts, marine products, coffee, pepper, meat, oil cake, and raw tobacco continue to drive growth in this sector.

Energy-Related Exports

- Energy-related sectors, including **petroleum products and iron ore**, witnessed impressive growth.
- The sector's share increased from **8.9%** in FY2004 to over **21%** in FY2024, with volumes reaching **\$94 billion**.
- **Petroleum Products:** Exports of petroleum products alone contributed **\$89.3 billion**, positioning India as a significant global supplier.

Chemicals and Pharmaceuticals

- Exports from the chemicals and pharmaceutical industries rose from **\$6.6 billion** in FY2004 to **\$60.8 billion** in FY2024.
- Their share in India's export basket increased from **10.4% to 13.9%**, driven by:
 - **Pharmaceutical Leadership:** India's competitive pharmaceutical industry dominates global markets, particularly for generic medicines.
 - **Chemical Advancements:** Increasing domestic capabilities in chemical production supported higher export volumes.

Machinery, Electronics, and Technology-Driven Goods

- Exports of industrial machinery, electricals, and electronics saw considerable growth, reflecting India's technological progress.
- **Machinery Exports:** Reached **\$30.1 billion** (6.9% share).
- **Electronics Exports:** Increased to **\$34.5 billion** (7.9% share).
- **Smartphones** emerged as the biggest success story, with exports rising from virtually zero to **\$15.6 billion** in FY2024.

Automobiles and Components

- India established itself as a major hub for vehicle and component manufacturing.
- Export volumes surged from **\$1.7 billion** in FY2004 to **\$21 billion** in FY2024, capturing a **4.8% share**.

Traditional Sectors Facing Challenges

- **Textiles and Clothing:**
 - Share dropped significantly from **21.1%** in FY2004 to **8%** in FY2024.
 - Despite a rise in volumes from **\$13.5 billion to \$35 billion**, the sector struggled due to intense competition from **Bangladesh and Vietnam**.



- **Diamonds, Gold, and Related Products:**

- While export volumes saw modest growth, their share declined, reflecting shifting global consumer preferences away from luxury goods.

Key Takeaway:

- India's export basket has diversified, with **high-value and technology-driven sectors** gaining prominence. However, challenges in traditional sectors like textiles and gems require targeted innovation, branding, and strategic reforms to sustain balanced growth.

Import Trends and Shifts

Energy and Minerals

- Energy imports remain the largest contributor to India's import basket.
- The sector's share peaked at **42.3% in FY2014** but declined to **33.8% in FY2024**.
- Import volumes, however, increased sharply from **\$23.6 billion to \$229.2 billion**, driven by:
 - **Crude Oil:** The largest single import, valued at **\$139.2 billion** in FY2024.
 - **Coal and Minerals:** Essential for India's industrial and energy requirements.

Electrical and Electronics

- Electronics imports saw the fastest growth, driven by rising demand for smartphones, telecom equipment, and other technological components.
- **Share Growth:** Increased from **8.4% in FY2004 to 11.7% in FY2024**.
- **Volume Growth:** Imports reached **\$79.4 billion**.

Machinery and Computers

- Machinery and computer imports reflected India's expanding industrial sector.
- The segment accounted for **8.5% of total imports**, with volumes growing to **\$57.6 billion** in FY2024.

Diamonds, Gold, and Luxury Goods

- Imports of diamonds and gold remained significant, reaching **\$78.6 billion**.
- However, their share in the overall import basket fell from **18.1% to 11.6%**, reflecting changes in consumer priorities and import diversification.

Base Metals and Steel

- Imports of metals like steel and copper grew to **\$46.8 billion**, driven by increased demand from industrial and construction sectors.



Agricultural Imports

- Agricultural imports expanded to **\$32 billion** (4.7% share).
- Key imported products include **vegetable oil (\$15 billion)**, pulses, sugar, cashew nuts, and apples, reflecting rising domestic consumption needs.

Challenges in India's Trade Dynamics

External Challenges

1. **US-China Trade War:**
 - Renewed uncertainty with the potential return of Trump, creating trade and tariff volatility.
2. **European Union Green Regulations:**
 - Policies like the **Carbon Border Adjustment Mechanism (CBAM)** will impose a **20-35% carbon tax** on imports starting January 2026, increasing compliance costs for Indian exporters.
3. **Dependence on China:**
 - China supplies **30% of India's industrial imports**, making sectors like electronics, chemicals, and renewable energy vulnerable to supply chain disruptions.

Domestic Challenges

- **High Input Costs:** Energy and financing costs remain significantly higher than in China, making Indian products less competitive.
- **Labour and Logistics Inefficiencies:**
 - Outdated labour laws limit productivity.
 - Shallow ports and reliance on **foreign hubs like Colombo** increase trade costs and timelines.
- **Superficial Manufacturing:**
 - Sectors like **electronics** focus on assembly rather than deep manufacturing.
 - Labour-intensive industries like **textiles and gems** face stiff competition from lower-cost countries.

Recommendations for Overcoming Trade Challenges

1. **Cost Reduction Measures:** Focus on reducing **energy, logistics, and financing costs** to enhance global competitiveness.
2. **Labour Reforms:** Introduce flexible and modern labour policies to improve productivity.
3. **Strengthening Domestic Manufacturing:**



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- Incentivize production of **solar cells, machinery**, and critical inputs to reduce dependency on imports.
4. **Infrastructure Development:** Upgrade port facilities and improve supply chain logistics to reduce reliance on foreign shipping hubs.
 5. **Shift to Deep Manufacturing:** Promote value-added manufacturing across sectors to capture higher margins and global market share.

Path Towards \$1 Trillion Export Goal

- India must tackle structural inefficiencies and align with global trade trends to achieve its ambitious target of **\$1 trillion in merchandise exports by 2030**.
- Prioritizing cost efficiency, domestic innovation, infrastructure modernization, and global competitiveness will be crucial in realizing this vision.

