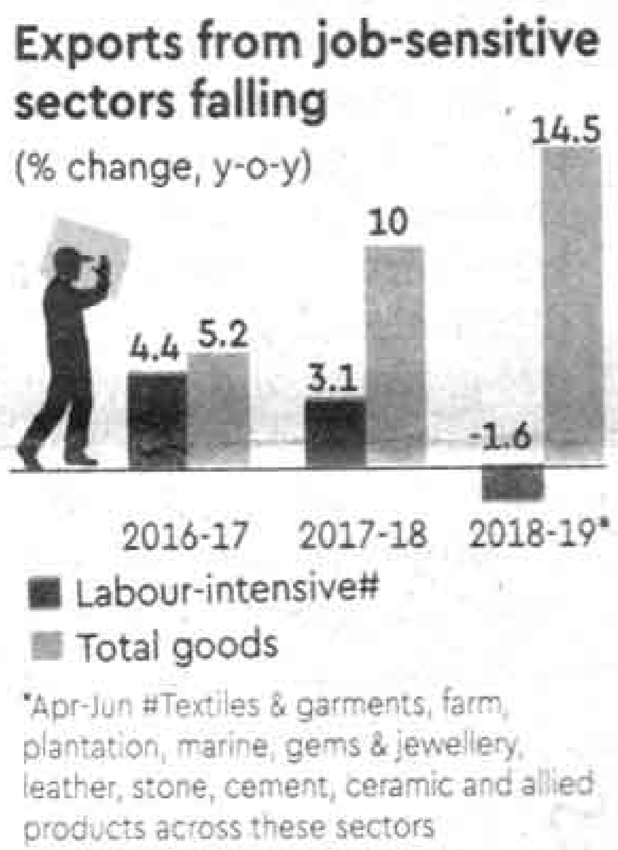
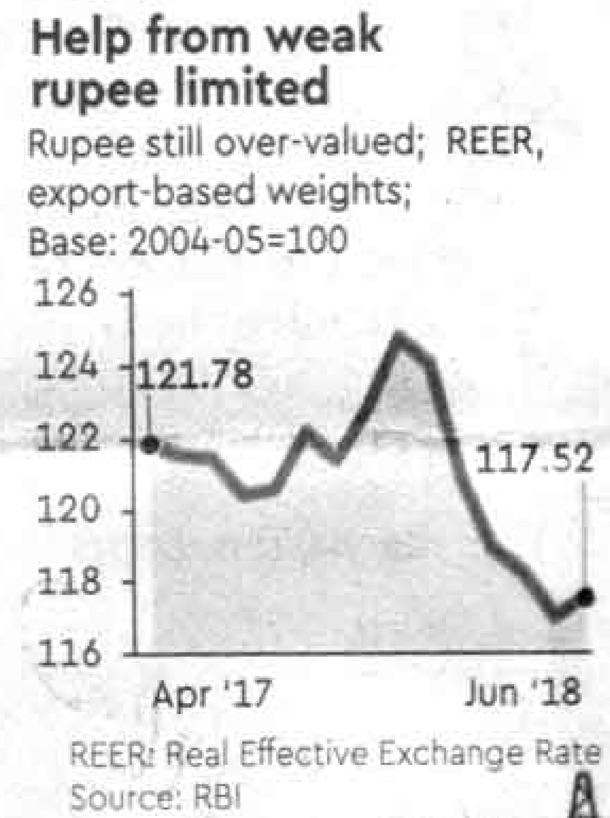
FINANCIAL EXPRESS N.D 20/8/18

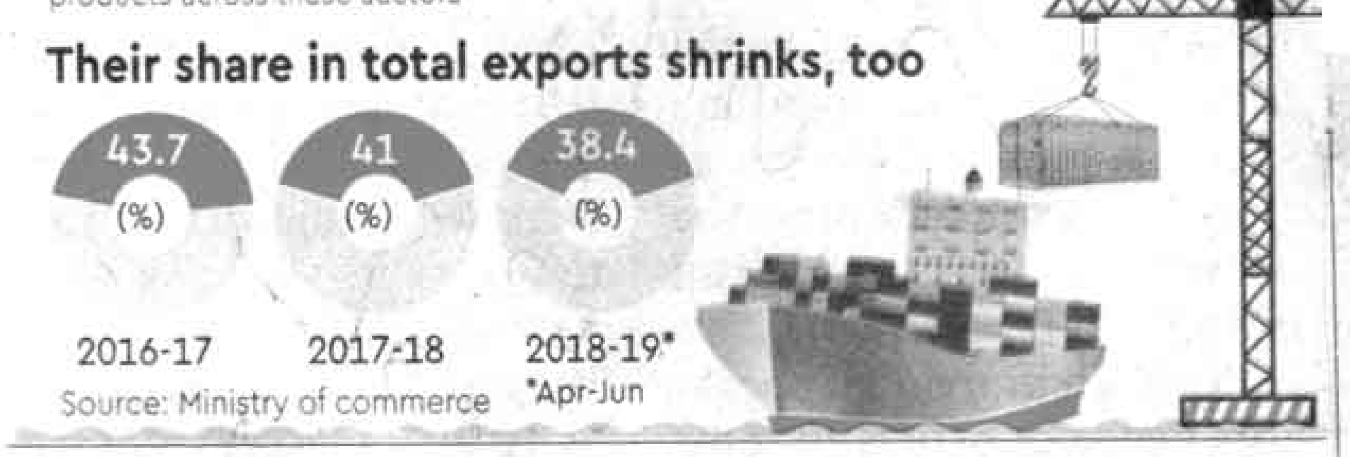
NEW WORRY

Merchandise exports from job-intensive sectors contract

Drop 1.6% in Q1FY19 versus 14.5% rise in total goods exports; sans farm items, fall sharper at 3.5%, high MSPs to hit shipments







BANIKINKAR PATTANAYAK
New Delhi, August 19

MERCHANDISE EXPORTS MAY have risen 14.5% in the first quarter of this fiscal, against 8.5% a year earlier, but the headline numbers mask a disturbing fact: Supplies from labour-intensive sectors dropped 1.6% between April and June to $31.4 billion.

In fact, in the two years through FY18, growth in exports from employment-sensitive sectors — such as textiles & garments, gems & jewellery, leather, stone, cement, ceramic, farm, plantation, marine and other allied segments — continued to slow (See chart). Consequently, the share of such sectors in merchandise exports came down to just over 38% in Q1FY19 from close to 44% in FY17, official data showed.

Discounting the farm and allied sector, where elevated local prices have rendered exports in certain segments unviable, supplies from other jobs-intensive segments witnessed even a sharper contraction—3.5% in the three months through June.

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WITH HEFTY hikes in the minimum support prices of a range of commodities this year to ensure farmers get a 50% premium over costs, our exports from agriculture and allied sectors could get hit further, so also sectors like textiles and garments that heavily rely on farm produce like cotton. Of course, a rise in oil prices has aided the rally in overall goods exports, but even non-oil and non-bullion exports have witnessed double-digit growth in Q1FY18. This makes the contraction in job-intensive sector look even worse.

The fall presents a new worry for policy-makers already grappling with options to contain the fallout of an escalating global trade war, and also partly explains why not enough jobs are being seen to have been created. Although a weak rupee is expected to offer some cushion, analysts say the domestic currency is still over-valued by over 17% vis-à-vis a basket of 36 export-sensitive currencies; so the benefit tends to be limited. A further depreciation of the rupee will help only if the currencies of competing exporting countries hold up against the dollar.

As such, thanks to its handicap in several segments—elevated expenses on logistics (as much as 15-16% of consignment value) and growing costs of raw materials and labour—India has been beaten by countries like Bangladesh and Vietnam in capturing markets in segments like textiles and garments where China intends to trim its dominant exposure.

Pronab Sen, former chairman of the National Statistical Commission, said the note ban continues to haunt employment-sensitive sectors. "Most of these sectors have a fairly large component of non-corporate sector in production. I suspect, a lot of it (drop in exports) could be due to the supply problem—that such units are simply not able to produce much," he said. "All these sectors are very sensitive to the informal financial sector that was badly bruised by demonetisation. And the banking sector — which could have possibly replaced it (in terms of lending) — is struggling with a balance-sheet problem. So these sectors are squeezed from both sides," he added.

While overall non-food credit grew 11.1% as of June 22 from a year earlier, loans to micro and small units, and medium units rose just 0.7% and 2.7%, respectively, even on favourable bases.

Aurodeep Nandi, India economist at Nomura, said: "Typically smaller-scale exporters face amplified risks from external and internal policy shocks. The past two years have been tumultuous, with the rough-and-tumble of demonetisation, GST, trade finance pangs, and stronger effective exchange rate. Looking forward, faltering global growth prospects make for a hostile environment as exporters recuperate from domestic challenges."

FIEO president Ganesh Kumar Gupta said although some of the labour-intensive sectors such as carpets, handicrafts, cotton yarn/fabrics/made-ups, etc, have done relatively well, most of these MSME exporters are reeling under a liquidity crunch. As such, banks have tightened lending, while refunds under the GST have been delayed. The ban on credit guarantee instruments like letters of undertakings/comfort in March has choked trade financing further.

Amid demand from exporters to let the rupee fall further, an earlier Nomura report suggested that every 1% depreciation in the real effective exchange rate raises export growth by just 0.9 percentage point in the same quarter, whereas every 1% of global GDP growth drives up export growth by 2.7 percentage points with a lag of one quarter.

Although global economic growth is expected to rise a tad to 3.9% in 2018 and the year after, against 3.7% in 2017, the International Monetary Fund also warned of rising protectionism and pegged world trade growth at 4.8% for 2018 and 4.5% next year, lower than 5.1% in 2017.

Gautam Nair, managing director at Matrix Clothing, one of the largest garment exporters, said a spurt in yarn prices has inflated costs of garment makers. On top of that, growing imports from Bangladesh — which is buying cheap fabrics from China and converting into aparrel—have dented our ability to stay competitive.

India Ratings chief economist DK Pant said: "Weak rupee alone can't help exports simply because we are not competitive in many segments. Wage cost is higher than in countries like Bangladesh that have beaten us in garments. Global demand isn't picking up as fast as anticipated. Growing protectionism is going to hurt trade prospects further."