

January 23, 2024

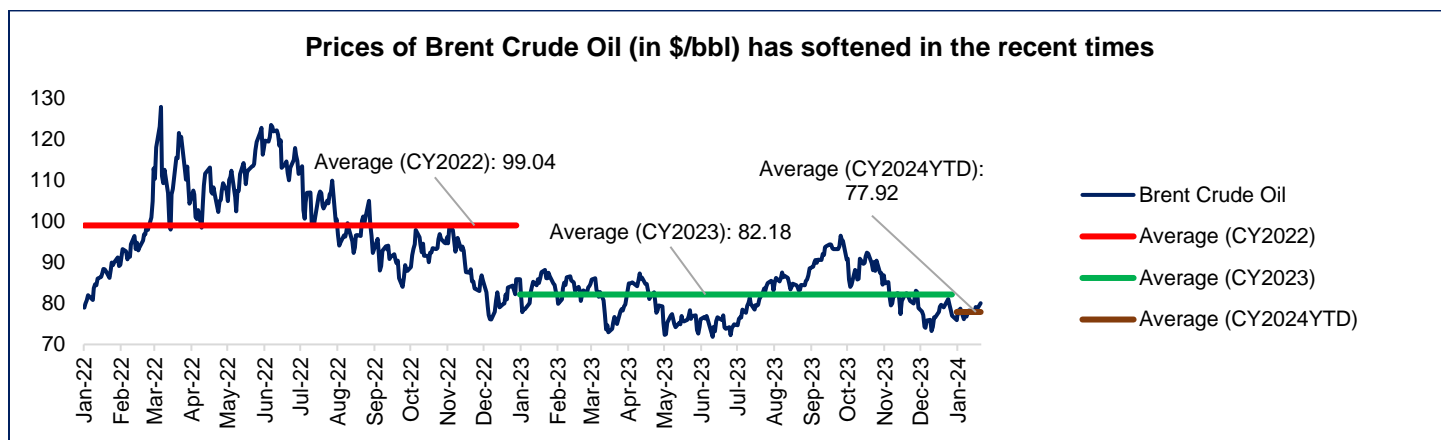
Boosting India's Exports Potential – Key to a Narrower Trade Deficit!

What's the Point? (A Brief Summary)

India's overall trade deficit during April-December 2023 improved from \$108 billion in 2022 to \$69 billion in 2023. Furthermore, merchandise trade deficit improved from \$212 billion in April-December 2022 to \$188 billion in April-December 2023. This narrowing of the deficit has happened due to the reduction in import of crude oil and petroleum products. While the growth in exports during the same period has been modest, the Government is focusing on increasing India's manufacturing prowess to cater to the rising domestic and international demand.

What has led to the reduction in import of Crude Oil?

As per Petroleum Planning and Analysis Cell (PPAC), India's crude oil imports actually increased in volume to 172.9 million tonnes in the period of April-December 2023, from the 172.3 million tonnes in the same period in FY2023. The net oil and gas import bill fell a significant 21% year-on-year during April-December of FY2024, with the total decreasing to a \$89.9 billion, primarily due to lower oil prices. 2022 and 2023 observed an escalation in geopolitical conflicts with the onset of the Russia-Ukraine Conflict and the Israel-Hamas Conflict respectively, leading to the rise in prices of crude oil. While the conflict continues, a weak global economic outlook is raising concerns over demand of crude oil. Thus, the average price of Brent Crude Oil has reduced from \$99.04/barrel (bbl) in CY2022 to \$77.92/bbl in CY2024YTD.



Source: Bloomberg, Data as on January 22, 2024

Rise in Domestic Manufacturing to provide impetus to rise in Exports

Development of infrastructure has a multiplier effect on demand and efficiency of logistics which increases manufacturing competitiveness, and increases commercial and entrepreneurship opportunities. For supporting its mission of *Aatmanirbhar Bharat*, the Government has been stepping up its capex and announcing a slew of supportive policies like conducive tax environment, Production-Linked Incentives (PLI) for different sectors to provide impetus to diversification of supply chain operations by multinational companies to India. This rise in domestic manufacturing is helping to reduce our import dependency on other countries.

Since the pandemic, Government capex has risen sharply, with centre and state capex, estimated to rise to ~6% of GDP in FY2024 from 3.6% in FY2020. Investment in assets by listed companies stood at ₹8.1 lakh crore on a trailing 12-month basis as of Sep-23 – 17% higher than Sep-22 levels. These levels are expected to rise over the medium term on the back of PLI, policies around Make in India, low corporate tax, deleveraged balance sheets and others.

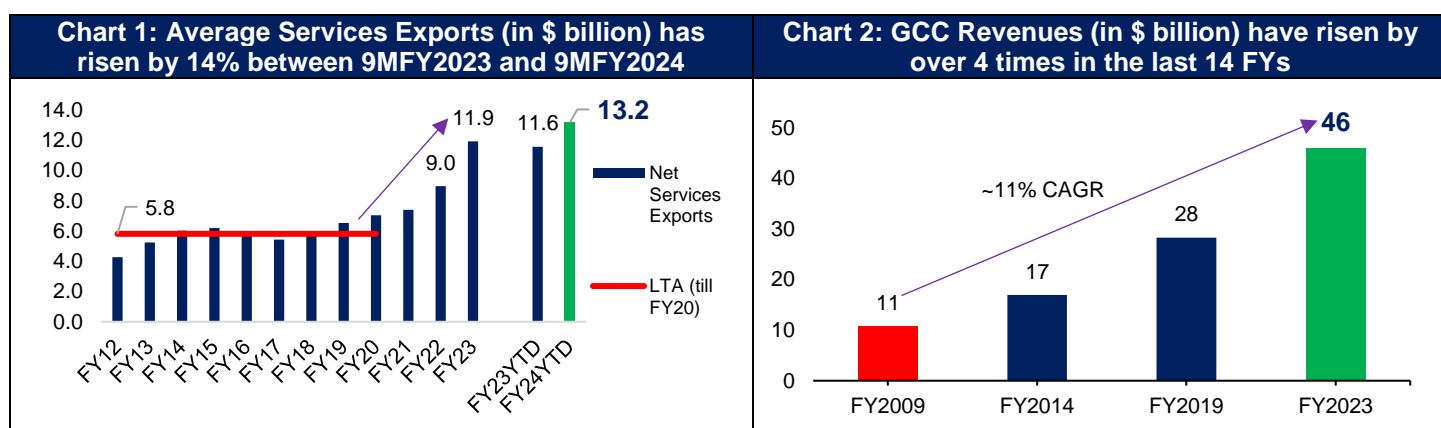
As per a 2022 report by Bain & Company named “The Trillion-Dollar Manufacturing Exports Opportunity for India” all these megatrends in manufacturing, along with Mergers and Acquisitions and PE/VC-led investments, are expected

to help India to scale up its manufacturing exports to \$1 trillion by FY2028. Much of this growth is expected to come from select sectors like chemicals, pharmaceuticals, electronics, automotive, industrial machinery, and textiles.

Rise in Services Exports supporting the Growth in Overall Exports

The recent rise in Services Exports has been driven by continued rise in spends on Information Technology (IT). In the last 3 years, the setup of Global Captive Centres, also known as Global Capability Centres (GCC) have seen significant increase, and has resulted in other business services exports rising to 0.8% of GDP (on TTM basis).

As per EY's latest "Future of GCCs in India - a vision 2030" report, it is estimated that the domestic GCC market size will reach \$110 billion by the year 2030, with 2,400 GCCs. While there are fears of a global economic slowdown, India continues to have, amongst other factors, the availability of large talent pool, cost advantage, and acceptability of remote working. All these factors bode well for the growth of the sector overall, and could help India emerge as the world's technology and services hub, and potentially giving a boost to India's overall exports.



Source: Centre for Monitoring Economy (CMIE), FY23YTD: Apr-22 to Dec-22, FY24YTD: Apr-23 to Dec-23

Conclusion

While the trajectory of trade deficit remains uncertain due to various factors, the Government continues to focus on boosting India's exports. For example, initiatives like PLI, PM Gati Shakti Mission and others, are helping electronic products companies to set up their manufacturing units, and raising exports potential while also reducing import of such goods. With the increase in domestic manufacturing, India's mobile exports has been increasing, touching \$8 billion in 7MFY2024 (ICEA) – 72% of FY2023's exports of \$11.1 billion. Such concerted efforts in other sectors are likely to support the growth of economy.

Sources: PIB, PPAC, CMIE, ICICI Securities Research, ICEA and other publicly available information.

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