

Trade Gap Hits 10-month High in Aug; Exports Shrink by 9.3%

Imports grow 3.3% to all-time high; Comm secy says trade deficit not a worry for emerging economies

Our Bureau

New Delhi: India's trade gap ballooned to a 10-month high of \$29.65 billion in August as muted global demand and geopolitical challenges led to a 9.3% contraction in exports while imports, fuelled by record gold demand at \$10 billion, surged to an all-time high.

Exports stood at \$34.7 billion, while imports grew 3.3% to \$64.4 billion in August, official data published Tuesday showed.

Commerce secretary Sunil Barthwal said a huge slowdown in China, falling petroleum prices, a recession in Europe and transportation and logistics-related challenges have affected merchandise exports.

However, he said that the high trade deficit is not a cause of concern. "Trade deficit is not a matter of concern for emerging economies. China maintained larger trade deficit...There is a huge consumption demand coming from the economy, which is growing at double the rate of other countries," Barthwal said, adding that as long as it doesn't lead to a forex issue, it's "normal".

Transportation costs due to the Suez Canal diversion have also escalated but non-gems and jewellery and non-petroleum exports are growing, providing some comfort, he said. Exports during April-August this fiscal increased 1.14% to \$178.68 billion, and imports rose 7% to \$295.32 billion.

Despite global challenges, India's exports of rice and gems and jewellery have increased which is "tremendous" and shows the importance of non-petroleum sectors, according



Trade Winds

Service exports in July were \$30.58 billion as against the estimated \$28.43 billion

amid lower orders from European markets.

Non-petroleum, non-gems & jewellery imports, an indicator of the strength of domestic demand, rose 4.55% on-year in August.

"We must prepare for challenging times ahead, particularly for high-volume, low-value goods like low end engineering products, textiles, garment and other labour intensive products, as rising freight costs linked to longer shipping routes are likely to exacerbate the situation," Srivastava said.

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"Some of the exporters have diverted to the domestic market as profitability in exports have taken a hit with sharp rise in international freight (both ship and air)," said Federation of Indian Export Organisations president Ashwani Kumar.

DRAG SECTORS

Export growth in August (yoy, %)

Gems & jewellery -23.13

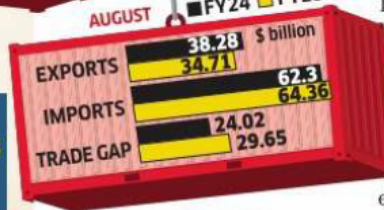
Petroleum products -37.56

Rice -16.14

KEY IMPORTS

GOLD 103.71

SILVER 727.06



APRIL-AUGUST FY25

Top export destinations: US, UAE, Netherlands, UK, China

Top import sources: China, Russia, UAE, US, Iraq

to Barthwal.

Sequentially, goods exports were up 2.1% from July. A rise in electronic goods and drugs and pharma exports also boosted non-gems and jewellery and non-petroleum trade.

Gems and Jewellery and petroleum product exports saw sharp declines in August.

Officials attributed the high gold imports -103% rise to a drastic reduction in import duty to 6% from 15%, high global prices of the yellow metal and jewellers stocking up ahead of the festival season.

"Gold prices have risen globally and with global uncertainties, one doesn't know which route will get closed. To me, this is quite normal," Barthwal said, adding that the tariff rates on gold have been reduced drastically so that

smuggling and other activities can come down.

India's petroleum exports plummeted 37.56%, which has significantly impacted the overall merchandise trade, said think tank GTRI.

"Interestingly, crude oil prices remained relatively stable between these two periods, suggesting that the drop in petroleum product exports is linked to ongoing disruptions in the Red Sea. The year long ongoing disruptions have forced shipping routes to take longer paths around the Horn of Africa and Cape of Good Hope, rendering exports to Europe less viable," said Ajay Srivastava, founder GTRI.

Crude oil and petroleum imports fell 32.38% in August, primarily due to decreased demand from Indian refineries

FTAS

He said that except Canada, where the trade talks are on a pause, India is progressing on all its free trade agreements (FTA).

The next round of India-EU trade pact talks is from September 23-27 when the two sides would discuss goods and services, government procurement and trade remedies, among others. "We are waiting to hear from the UK but hope the negotiations resume in October," said an official, adding that these are comprehensive pacts and hence, time taking. Barthwal said the officials of the UK are briefing their new ministers about the proposed FTA.

The two sides have already taken stock of the progress of talks at secretary and minister levels.