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Economy • Exports

India’s Export Surge Faces Its Hardest Test

Can 23% Merchandise Growth Survive the West Asia Shipping Crisis and Put the $2 Trillion Target in Reach?

India's export performance has delivered one of the strongest positive economic signals of the current financial year. Merchandise exports increased by 23.1% year-on-year to $44.40 billion in September 2026, while cumulative goods exports during the first half of FY2026-27 rose by 18.5% to $259.89 billion.



The expansion was not limited to petroleum or gems and jewellery. Electronics, engineering goods, chemicals, textiles, processed food and several agricultural categories recorded double-digit growth. Excluding petroleum and gems and jewellery, September exports still increased by approximately 22%, suggesting that the recovery has a reasonably broad industrial base.

However, exporters are operating in an unusually difficult environment. Disruptions around the Gulf and West Asia have increased freight charges, insurance premiums, shipping times and working-capital requirements. Approximately 15% of India's exports move through the affected corridor, while the trade exposed to this route is estimated at $178.56 billion. Recognising that these pressures have not disappeared, the Department of Commerce this week extended Component II of the Resilience and Logistics Intervention for Export Facilitation, or RELIEF, until March 31, 2027. The programme provides government-supported risk protection for exports to vulnerable markets.

What's Happening?

India's total merchandise and services exports were estimated at $80.75 billion in September 2026, an increase of 10.99% over the previous year. Merchandise exports contributed $44.40 billion, while estimated services exports contributed $36.35 billion.

The merchandise performance was particularly strong:

- Merchandise exports increased from $36.08 billion to $44.40 billion.
- Merchandise imports increased from $69.08 billion to $74.61 billion.
- The monthly merchandise deficit narrowed from $33 billion to approximately $30.21 billion.
- Non-petroleum and non-gems and jewellery exports rose from $28.53 billion to $34.81 billion.
- India's combined goods-and-services trade deficit narrowed from $14.17 billion to $13.30 billion.

For April–September FY2026-27, India's total exports reached $476.20 billion, up from $418.31 billion a year earlier. Merchandise exports grew 18.51%, while estimated services exports increased 8.69%, reflecting strong export momentum.

India's performance outpaced global trade expectations. The WTO projects global merchandise trade volume growth of 3.9% in 2026 and Asian export growth of 9.9%. However, India's 18.5% merchandise export growth reflects dollar value rather than shipment volume.

Globally, merchandise trade value rose 15% in H1 2026, while volumes grew only 3.5%, indicating the impact of higher prices. Sustained Indian export growth will depend on rising shipment volumes, domestic value addition and global market share rather than nominal export gains alone.

Where Is the Export Growth Coming From?

Five categories accounted for most of the increase in September merchandise exports. Engineering-goods exports rose by 20.91% to $12.17 billion, compared with $10.06 billion in September 2025. Electronics exports increased by 70.44% from $3.11 billion to $5.31 billion. Petroleum-product exports expanded by 31.9% to $6.22 billion, while chemicals increased by 24.21% to $2.94 billion. Cotton yarn, fabrics, made-ups and handloom products rose by 20.76% to $1.12 billion.

Together, these five categories generated approximately $6.58 billion of additional exports. India's total merchandise exports increased by $8.32 billion during the month, meaning that these five sectors contributed nearly 79% of the incremental growth.

This concentration has both positive and negative implications. On the positive side, engineering goods and electronics are higher-value manufacturing categories capable of supporting productivity, formal employment and integration into global supply chains. On the other hand, petroleum exports depend partly on imported crude oil and global refining margins. Electronics exports may also contain a substantial proportion of imported semiconductors, displays, batteries and other components.

Consequently, a dollar of exports does not necessarily represent a dollar of domestic value creation. The more meaningful measure is the difference between the value of the finished product and the imported inputs used to produce it.

Electronics: The Fastest-Growing Engine

Electronics was the standout category, recording 70.44% growth in September. At $5.31 billion, electronics accounted for almost 12% of the month's merchandise exports. This reflects the expansion of India's mobile-phone and electronics-assembly ecosystem, supported by production incentives, contract manufacturing, supplier relocation and efforts by multinational companies to diversify their production beyond a single country.

The next phase will be more difficult. India must increase the domestic production of printed circuit boards, semiconductor components, camera modules, displays, batteries and precision parts. If finished-device exports rise but most critical components continue to be imported, the industry can generate scale and employment without producing an equally large improvement in the trade balance.

Investors should therefore track domestic value addition, component localisation and export revenue rather than treating total electronics production as the only measure of success.

Engineering Goods: The Largest Industrial Contributor

Engineering goods remained the largest of the major growth categories, contributing $12.17 billion of exports in September. This segment covers industrial machinery, electrical equipment, auto components, iron and steel products, castings, forgings and several other manufactured products.

Unlike commodity exports, engineering shipments usually require longer customer relationships, product certification, technical approvals and consistent quality. A sustained increase can therefore signal that Indian manufacturers are becoming more deeply embedded in global supply chains.

However, the category is also sensitive to capital-expenditure cycles in the US, Europe and emerging markets. Exporters with diversified customers, specialised products and aftermarket revenue are likely to be more resilient than companies competing mainly on price.

Petroleum: Strong Growth, but High Import Dependence

Petroleum-product exports increased by almost 32%, contributing approximately $1.5 billion of the September export increase. India's large and efficient refining industry allows it to import crude oil, process it and export refined fuels. This generates foreign exchange and improves refinery utilisation, but it does not have the same domestic-value profile as pharmaceuticals, software or locally sourced engineering products.

Petroleum exports can also rise because of higher international prices rather than higher physical volumes. Investors should therefore examine refining margins, crude sourcing, product spreads and utilisation rates before interpreting export growth as an improvement in underlying profitability.

The Export Recovery Is Broader Than the Headline Categories

Several smaller and labour-intensive segments also recorded healthy growth in September:

- Handicrafts excluding carpets increased by 43.19%.
- Meat, dairy and poultry exports rose by 35.18%.
- Plastic and linoleum exports increased by 24.81%.
- Carpets rose by 19.81%.
- Gems and jewellery increased by 18.95%.
- Ready-made garment exports grew by 13.68%.
- Marine products increased by 8.79%.
- Drugs and pharmaceuticals rose by 4.68%.

This breadth matters because export growth in textiles, food processing, marine products, leather and handicrafts can create more employment per unit of capital than highly automated refining or electronics-assembly facilities.

However, these sectors are also more exposed to logistics costs. A 20% increase in freight may be manageable for a high-margin specialised engineering product, but it can eliminate most of the profit on low-margin garments, agricultural products or basic manufactured goods.



The Trade Deficit Has Not Disappeared

Despite stronger exports, India's total trade imbalance widened during the first half of the year.

Between April and September 2026:

- Total exports reached $476.20 billion, an increase of $57.89 billion.
- Total imports reached $551.13 billion, an increase of $74.71 billion.
- The overall goods-and-services deficit widened from $58.10 billion to $74.93 billion.
- The merchandise deficit increased from $156.88 billion to $177.64 billion.
- The services surplus increased only moderately, from $98.77 billion to $102.71 billion.

Export growth has not reduced India's cumulative external deficit, as imports are rising faster in absolute terms. However, this is not entirely negative, as strong domestic demand and investment require imports of energy, electronics, machinery, components and raw materials that support productive capacity.

Even excluding petroleum and gems and jewellery, core imports reached $292.88 billion against exports of $203.41 billion, widening the core deficit to $89.47 billion from $69.61 billion a year earlier. This reflects dependence on imported electronics, chemicals, machinery and intermediate goods beyond crude oil and gold. The priority should be increasing domestic value addition and strengthening export industries to finance growing import requirements.

What Does This Mean for Investors?

The export surge creates opportunities, but the benefits will not be distributed equally.

Electronics and Contract Manufacturing

Electronics manufacturers could benefit from global supply-chain diversification and higher demand for India-based production. Investors should examine export revenue, customer concentration, localisation, incentive income and imported-component dependence.

Rapid revenue growth accompanied by low value addition, high receivables or excessive dependence on one global customer may be less attractive than the headline export number suggests.

Engineering and Auto Components

Engineering companies with specialised products, regulatory approvals and long customer relationships can benefit from India's deeper integration into global manufacturing.

Important indicators include export order books, capacity utilisation, new-customer approvals, aftermarket revenue and the effect of commodity and freight costs on margins.

Textiles, Food, Marine Products and Other MSME Sectors

Labour-intensive exporters could benefit from freight assistance, credit guarantees and easier access to overseas warehousing. However, these sectors frequently operate with thin margins and high working-capital requirements.

The most resilient companies will be those that can pass higher logistics costs to customers, move toward branded or specialised products, and diversify across markets.

Chemicals and Pharmaceuticals

Chemicals and pharmaceuticals can benefit from supply-chain diversification, but regulatory compliance remains critical. Certification support under the Export Promotion Mission could reduce entry costs for smaller companies.

Investors should track product approvals, plant inspections, customer concentration, environmental compliance and raw-material dependence rather than relying only on aggregate export growth.

Ports, Logistics and Shipping

Higher export volumes are positive for ports, container terminals, freight operators and warehousing companies. However, shipping disruptions have a more complex effect.

Freight rates may rise, but so do fuel expenses, insurance costs, route lengths and operational uncertainty. Companies with long-term contracts, strong balance sheets and diversified routes should be better positioned than highly leveraged operators dependent on spot-market conditions.

Banks and Trade-Finance Providers

Greater export activity creates demand for working-capital loans, factoring, foreign-exchange services and trade insurance. Government guarantees may reduce part of the credit risk associated with MSME exporters.

However, banks must still evaluate customer concentration, destination-country risk and the exporter's ability to absorb delayed payments. A government guarantee can protect against specified losses, but it does not automatically convert a weak business into a strong borrower.

Key Risks Investors Should Monitor

The principal risks to the export outlook include:

- Further escalation in West Asia, resulting in additional route closures or insurance costs.
- Higher crude-oil prices, which would increase India's import bill and freight costs.
- A slowdown in demand from the US, Europe or other major destinations.
- Greater protectionism, product standards or tariff barriers.
- Excessive dependence on electronics assembly without sufficient component localisation.
- Rising imports of intermediate goods that reduce the trade-balance benefit of exports.
- Weak utilisation or slow claim processing under export-support programmes.
- Currency volatility that raises imported-input costs even while supporting export revenue.
- Longer customer-payment cycles and increasing working-capital debt.

The WTO's latest outlook shows how concentrated global trade growth has become: AI-enabling products accounted for approximately 47% of global merchandise-trade growth by value in the first half of 2026. If global spending on data centres, semiconductors and AI infrastructure slows, countries and companies dependent on that cycle could experience a sharp change in demand.

What's Next?

The next few months will show whether September's export growth represents a lasting trend. Investors and policymakers should monitor:

- Whether merchandise exports maintain growth above 15%.
- Whether electronics exports continue rising without a similar increase in component imports.
- Whether engineering exports convert into sustained multiyear orders.
- Whether services-export growth returns to double digits.
- The difference between export-value and export-volume growth.
- Freight rates and transit times across Gulf and Red Sea routes.
- Registrations, claims and payouts under RELIEF.
- Utilisation of export credit, factoring, certification and warehousing support.
- Export diversification beyond the US and a small number of Asian markets.
- The absolute merchandise deficit, not only monthly export growth.

The September destination data are encouraging but also show concentration. Exports to the US increased by 47.99%, while Singapore, Malaysia, Egypt and China also recorded strong growth. During the first half, the US remained a major contributor, alongside rapidly expanding shipments to Singapore, China, Tanzania and Malaysia. Diversification will be essential. A sustainable export strategy cannot depend excessively on one economy, one trade agreement or one product cycle.

Conclusion

India's September export performance is genuinely encouraging. Merchandise exports increased by more than 23%, core exports excluding petroleum and gems and jewellery rose by approximately 22%, and higher shipments were visible across electronics, engineering, chemicals, textiles and agricultural products.

But the figures also reveal important vulnerabilities. Imports are rising rapidly, the first-half trade deficit has widened, services growth is below the pace required for the $1 trillion target, and a significant portion of India's trade remains exposed to West Asian shipping disruptions.

The extension of RELIEF until March 2027 gives exporters additional protection against extraordinary geopolitical risks. The larger Export Promotion Mission can address structural constraints involving credit, certification, logistics and overseas distribution. Their effectiveness, however, will depend on actual utilisation and execution rather than headline allocations.

For investors, the central opportunity is not simply "buy export companies." The more useful question is which businesses can convert India's export growth into sustainable cash flows. Companies with higher domestic value addition, diversified customers, strong compliance systems, manageable working-capital cycles and the ability to absorb logistics shocks are likely to benefit most.

India is moving closer to becoming a trillion-dollar annual exporter. Reaching $2 trillion will require more than one exceptional month. It will require several years of growth approaching 20%, deeper manufacturing capabilities and a transformation of India's services-export model. September has provided momentum; the next test is whether that momentum can survive a disrupted and increasingly competitive global trading environment.



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