ETPrime

In slow lane: India's exports are stuck in the $300 billion range for about a decade

Synopsis

Export growth has been anemic and the country now seems to be stuck at the $300 billion range in global trade.

For a country that aspires to be an export powerhouse, there is a striking paradox in India's trade numbers. Despite efforts by the government, India's exports have been hovering around the $300-350 billion mark for the last many years. Interestingly, since 2011-12, exports from the sixth largest world economy have been hovering at around $300 billion. Even if one looks at recent numbers, a similar trend is visible. In 2018-19, India's exports grew by 9% to $331 billion from $303.5 billion in 2017-18. So, what's stopping India to cross the $300-$350 billion ceiling in exports for nearly a decade now?

BY
Shariq Khan
ET Online
11 MINS READ, Last Updated:
Apr 14, 2021, 10:16 AM IST

Prime Minister Narendra Modi in 2019 envisioned making India a $5 trillion economy and a global economic force by 2024-25. At the center of such ambition is to have robust export numbers. Experts cite several reasons behind India's not-so-promising export performance. These include factors ranging from structural issues to logistics bottlenecks to a historically unaltered exports basket.

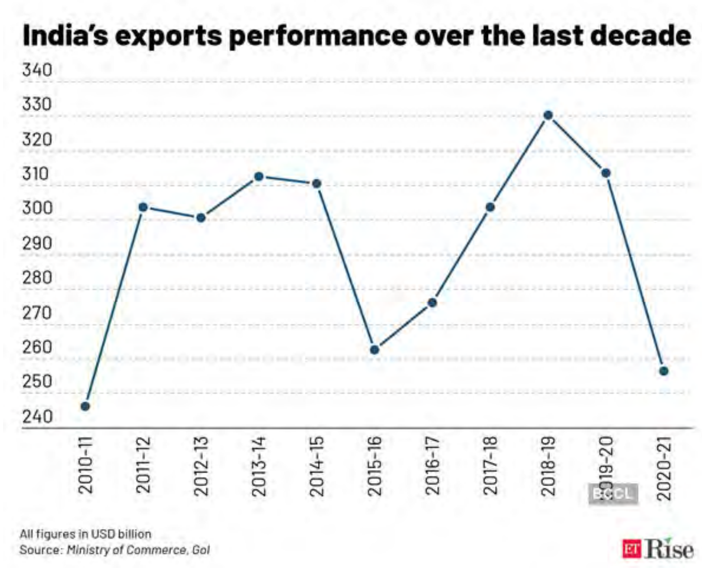
Apex exporters' body, the Federation of Indian Export Organisations (FIEO), maintains that India's export performance has largely reflected the health of the global trade. "Last 5-6 years have been challenging for global trade, which has not shown any significant increase. It touched a high of $19 trillion in 2014 and moderated to $18.3 trillion, on a provisional basis, in 2020. Historically, Indian exports have always followed the trend in global trade. Whenever global trade contracted, we have seen a decline in India's exports and the converse is equally true," says **FIEO** Director General **Ajay Sahai**.

He, however, flags that several domestic factors are today contributing to the lacklustre performance of India's exports. For example, Indian exporters' overindulgence in low cost, low-value exports has traditionally been a major impediment hurting the nation's overall exports share. Indian exporters, defined broadly, don't wish to shun their comfort zone yet. Experts also highlight that not being innovative enough or agile enough to capture changing imports-patterns worldwide has so far been detrimental to India's trade push.

BACK TO TOP

From 2009 to 2019

Unsurprisingly, industry body **CII** states that India's top 15 export items account for close to 55% of its total exports. However, this includes petroleum at 13%, jewellery at 6.6% and gold at 4.4%. The remaining 12 products contribute about 31% of the aggregate. Also, in top globally traded items of electronics and machinery, India's share is very low, much below its share in global exports, says CII.



Today, a cursory glance at the **Ministry of Commerce** website shows the country's top principle commodities being exported, include- pearls, precious, semi-precious stones, drug formulations, biologicals, gold/other precious metal jewellery, iron and steel, electric machinery and equipment, RMG cotton including accessories, motor vehicle/cars, products of iron and steel. A majority of these product categories either stem from or are part of India's traditional sectors, domains with a negligible thrust on value additions. Experts thus contend there certainly is a need to broaden the product categories India is currently shipping to the world.

"It's true our export basket has diversified little. Top items in 2009 and 2019 remained, by and large, the same. For instance, readymade garments, a labour-intensive sector continues to feature in our important export items," highlights Nisha Taneja, Professor at the Indian Council for Research on International Economic Relations (**ICRIER**). Hence, instead of getting fixated on the exports of primary and low technology

▲ BACK TO TOP

goods and services, India needs to move up the value chain, just as other leading economies are doing.

According to Sahai, there is another downside of India's less focus on value-added exports, which is that the resulting exports decline is making us susceptible to fluctuations in commodity and metal prices. He, therefore, adds India needs to align its exports to global demand trends. "Roughly 35% of the global imports happen in electronics, electrical equipment & machinery and automobile and auto-components. In this segment, which provides a market of about $6.7 trillion, our exports are just 0.7% as against our overall share in global exports, which stands at 1.7%," says Sahai.

Spotlight

Industry body CII states India must aim to achieve 5% share in world merchandise exports and 7% in services exports by 2025. But this ambitious goal looks easier said than done. If concentration of export items is a problem, then consider this- the top ten export destinations account for 51% of India's total exports, a slight diversification from 54% a decade previously, says CII. As per a CII report, India's share in 8 of the world's top 10 importing nations is less than its global share in exports, with the share in Japan at 0.67%, in China at 0.68% and Germany at 0.71% in 2017. There is hence a great scope to expand exports in these markets. Another CII report has identified 18 emerging economies where only about 15% of India's total exports travelled. India's exports to large emerging economies such as Brazil, Mexico, Indonesia, Turkey, Thailand, and South Africa, amongst others which have experienced high growth between 2010 and 2018, were relatively low compared to their global imports.

▲ BACK TO TOP

Industry observers also believe that historically it wasn't that India never had a good run with foreign trade. It certainly has had, but it's just that it failed to keep up the momentum over the years. In a study published by the Peterson Institute for International Economics (PIIE), T N Srinivasan and Suresh D Tendulkar assert that India's participation in the world markets declined steadily during the 2nd half of the century.

"India's share of world merchandise exports was 2.2% in 1948, higher than China's 0.9%, or Japan's 0.4%," the duo stated. Henceforth, how Japan and China managed to turnaround their economies to emerge as the leading export-driven economies is well evident. Unlike them, India's manufacturing never turned efficient over time. The country is still perceived as a low-cost manufacturing destination. This needs to change, but this would entail comprehensive measures at multiple levels.

According to FIEO, our exports strategy should be two-pronged- focusing on the sunrise sector of exports and pushing our traditional sectors to move up the value chain. Calling diversification in exports to be extremely important, FIEO's representative says it is very encouraging that the government has brought the Production Linked Incentive (PLI) Scheme to focus on sectors that not only will diversify our exports but also significantly reduce our imports. "If we are able to develop scalability in electronics, electrical equipment

▲ BACK TO TOP

and machinery, we can easily save over $100 billion in imports. PLI will attract cutting edge technology and scalability in many other sectors, also pushing the country's exports. "

The underperforming growth engine

MSMEs, the backbone of the Indian economy, are a segment whose export potential remains below par in India. The highly unorganised sector, operating on the margins of the formal economy, represents over 40% of India's exports. Issues around ease of doing business, land, labour and capital, remain the segment's pain points, throttling its exports potential. According to Pushkar Mukewar, Co-Founder and CEO, Drip Capital, insufficient credit availability remains the crux of the issue for the segment. Flagging RBI data, he says only 16% of all credit goes to MSMEs, rest is used to finance large corporates. With little or no access to finance, MSMEs fail to grow and realize their full potential. Unable to upgrade their technology and upskill labour, they fail to cope with the global changing trends and gradually tend to become non competitive. "Moving its exports up the value chain and being recognized for its product quality is going to help the country go a long way to gain an edge over its Asian counterparts like Vietnam and move out of the $300 billion rut," adds Mukewar.

iStock

Chennai port is one of the largest in the country and a key export facilitator.

Arvind Sharma, Partner at Shardul Amarchand Mangaldas & Co, says poor infrastructure, high transaction costs, stringent compliances, inadequate power supply and access to credit stifles India's competitiveness on the global front.

Sharma adds we should also make efforts to enhance the export ecosystem of each state to eliminate regional disparities. It's notable that the Economic Survey 2017-18 shows that five states in the country dominate 70% of India's export. Here, one strategy that India should try is to have a granular approach by working at the district level, suggests FIEO's Sahai.

Hailing the government's move to identify districts as export hubs, he adds if India can double the exports from the identified districts, it can easily add $150-175 billion in the next 4-5 years. "We have seen how vertical integration of the industry at the district level has led to successful exports in Japan and gradually to other South-East Asian countries. This strategy helps in identifying the root cause hampering exports of a product and how to address the same." Another piece of advice that Sahai proposes pushing exports with due branding, which, he says, increases unit price realization substantially.

Further, there certainly are takeaways from the growth story of various export-led economies, say, China or Germany, nations with sizeable small businesses. Taking a leaf out of their playbooks can give a big fillip to the nation's exports. According to Germany's Federal Ministry for Economic Affairs and Energy, the success of the German economy is driven by its SMEs, known collectively as the German Mittelstand. It's a group accounting for more than half of Germany's economic output and almost 60% of all jobs.

Illustrations by Mohammad Arshad.

▲ BACK TO TOP