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Overview of India' Export Performance : Trends And Drivers

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ABSTRACT
Exports have played an increasingly important role in India's economic growth in the last two decades. This paper analyses the performance of India's exports and the various economic factors which have contributed to its growth. Since manufactured exports comprise a significant share of India's aggregate (merchandise) exports, the paper also provides an overview of the export performance of three important commodities; namely, gems and jewelry, cotton and electronic goods and concludes with key policy changes which could have a bearing on the current trends seen in these sectors.
Keywords: export performance, manufacturing sector, export competitiveness, trade policy reforms

INTRODUCTION

The Indian economy has gained considerable momentum over the last one decade, by achieving and sustaining an annual GDP growth rate of over 7 percent. This high growth rate can be in part attributed to the growing contribution of the export sector to the economy. The Second World War severely impacted the economic stability of many countries, however, India's economic performance remained less affected as its GDP continued to grow at 3.5 percent per annum while the per capita income averaged at 1.3 percent per annum, a phenomenon better known as the "Hindu rate of Economic growth" and this growth rate persisted till 1979-80 (Virmani 2004). India's international trade policy following her independence in 1947 focused on being self-sufficient, which also implied minimal reliance on international trade as a source of income. An alarming large number of people were living in abject poverty and the central government sought to improve the well-being of people by adopting the strategy of 'import-substituting' industrialization. To implement this, the government developed a complex, extensive and often costly system of price controls and quantitative restrictions. It was during the eighties that the government undertook expansionary fiscal and monetary policies. The growth surged at an average annual rate of 5.8 percent; well above the Hindu rate of growth. But this rapid expansion was supported by a large current account deficit. A mounting deficit, coupled with high inflation (at 13.5 percent) and the Gulf war led India to a balance of payment crisis in 1991. Following the crisis, the Indian economy was opened up to foreign participation for the first time, in an attempt to improve the efficiency and competitiveness of Indian industries. Post 1991, the gradual liberalization of the Indian economy characterized by such policy reforms created a conducive environment for India's exports to flourish and evolve into an engine of social and economic growth.

Hence, the last two decades have witnessed India transform from a closed economy to a considerable player in the global marketIndia's susceptibility to international crises became evident when the financial crisis of 2008 had an impact on India's economic performance. The financial turmoil had a dampening effect on global demand and slowed down capital inflows which affected India's export sector. The impact of the crisis was felt most acutely in job oriented sectors which experienced up to a 70 percent fall in their growth rates and affected other segments as well. This had a cascading effect on overall economic growth, as India's GDP growth rate fell from 9 percent in 2007-08 to 7.1 percent in 2008-09. The impact of this crisis on the export sector was evident as India's exports which had previously grown at nearly 20 percent between 2002 and 2008 plummeted to a negative 20.3 percent in 2009-10. Though India had previously experienced a negative growth in its exports, such a prolonged period of decline had not been witnessed in over two decades. It is evident from the preceding discussion that India's export performance and economic growth are closely inter-linked. Over time, the export sector has grown to be a significant earner of foreign exchange and a major contributor to India's national income. Further, the performance of this sector is highly dependent on domestic as well as global factors. As a consequence of this, domestic as well as international economic policies have a bearing on the overall export performance of India

This paper analyses India's export performance and changes in its composition over time. The paper also identifies India's main export commodities and investigates the relevance and competitiveness of these commodities in major export markets. It finally highlights key policy changes which could impact local production as well as international demand for these exports.

INDIA'S EXPORT PERFORMANCE

India's aversion to international trade and reliance on domestic factors to fuel growth during the fifties meant that exports played a smaller role and this is evident from the following table, where India's exports lost its world market share between 1951-1960 and 1961-70.6 Till the mid-seventies, India's policy was restrictive and focused on developing the domestic industry, while tightening control on foreign trade (using quantitative restrictions as a tool). High levels of protection coupled with an overvalued domestic currency resulted in a growing demand for imports and discouraged exports. Moreover, India's exports also suffered because export incentives were only available to a limited number of manufacturing industries and selected agricultural exports (which were subjected to export duties at varying rates) India's export performance since 1991 has fluctuated. The East Asian Crisis of 1997 had a serious impact on India's exports, which registered a negative growth of 2.33 percent in the same year. Since the ASEAN countries and Japan were most acutely affected by the crisis, their respective currencies lost value, which also meant that the Indian rupee appreciated against these currencies (due to interest rate differentials). In 1997, for the first time after liberalization, India's exports registered a negative growth of 2.33 percent. The situation for India worsened when its competitor countries (in ASEAN) devalued their currencies amidst the crisis, which reduced the competitiveness of India's exports in the international market for textile and electronics commodities, where India directly competed with ASEAN exports in overseas markets. India's imports also suffered and reduced by 2.44 percent due to weak domestic demand, lower industrial activity and a lower unit value of imports. In 2001-02, India faced another setback in its exports, at large, due to the semi-recession faced by the US; one of India's biggest trading partners. The terrorist attack on the World Trade Centre caused a net loss of 0.25 percent of US GDP and also had an impact on India's exports, which grew only at 5 percent that year. The slowdown of the US economy permeated to other economies including the ASEAN countries, which were recovering from the 1997 crisis. The next major setback for India's exports was the global crisis of 2008. The collapse of large investment banks around the world coupled with high oil prices and rising inflation led to a global recession. India's trade deficit dampened in 2009-10 with a negative import growth (-0.78 percent) for the first time in more than two decades while exports were also impacted, registering a negative growth rate of 2.9 percent in 2008-09.

COMPETITIVENESS OF INDIAN EXPORTS

International competitiveness is the ability of an economy to compete in the global market by either producing goods at a lower cost and/or selling them at a cheaper price than competitor countries. The Revealed Comparative Advantage (RCA) method developed by Balassa (1965) is a commonly used measure of export competiveness. An RCA (for a commodity) greater than unity implies that a country's export of the commodity has a larger share in world exports (of that commodity), relative to the country's (aggregate) export share in world exports and in this case, the country is said to have a revealed comparative advantage in exports of the commodity.However, India's RCA for merchandise exports has always stayed below unity, which suggests that merchandise exports have remained low and not gained a larger share in world exports (relative to total exports). The merchandise exports of emerging economies like Brazil, China and South Africa perform better as they have higher RCAs and are thus more competitive than India's merchandise exports.

GOVERNMENT INITIATIVES

Even though India's manufacturing exports have resurged since 2001 and grown at a steady rate of over 25 percent between 2002 and 2008, the manufacturing sector has not performed as well, where the share of manufacturing (value added) in GDP has remained stagnant. In contrast, the services sector has performed well and contributed significantly towards India's economic growth. Moreover, India's performance in services exports has beenstronger than most other emerging economies for which their manufacturing sector has been the main driverBetween 1975 and 2004, the share of agriculture sector in GDP declined while that of the industrial and services sectors rose. However, the contribution of the manufacturing sector remained the same and increased marginally from 14 percent to 16 percent. This is in stark contrast with China, which has a manufacturing sector contributing to 35 percent of its GDP and the figures are similar for many other countries. It is therefore important to examine the role of government policy in shaping India's manufacturing sector performance.A historical review of government initiatives reveals that the policies designed by the Indian government have been instrumental in shaping the development of international trade. As India has progressively moved towards becoming a more open economy, policies have evolved to support trade and increase the volume of exports. As manufactured exports form a sizeable share of India's total exports, the sector is of key importance to the economy. However, the average performance of the manufacturing sector (reflected by the considerably low share of its contribution to the GDP) has for long, been a cause of concern.In recent years, the Indian government has acknowledged the severity of this issue and taken an important policy initiative in 2011 by approving the New Manufacturing Policy. This policy is aimed at building the capacity of the sector, strengthening its contribution to the GDP (from 16 percent to 25 percent) as well as improving the international competitiveness of the manufacturing sector. The initial industry reactions to the NMP has been positive and it is expected that a proper execution of the NMP will be beneficial for the Indian economy as it can generate large-scale employment for nearly a hundred million workers in the next ten years. The implementation of the policy will involve the establishment of a number of National Manufacturing Investment Zones (NMIZ) which will have features such as a progressive exit policy, strong physical infrastructure, investment incentives and business-friendly approval mechanisms to support the production in these units. Though the implementation of the NMP may take time, this policy is expected to provide a strong impetus to India's manufactured exports in the near future. However, the policy environment in India was not as conducive to international trade in the past. India's foreign trade policy had been largely restrictive till the early eighties, in order to protect the domestic market from international competition. However, several attempts were made in the mid-eighties to break away from the restricted external sector regime. Export promotion policies in the sixties and seventies were introduced in the form of compensatory support (CCS), duty drawbacks (DDS) and market development assistance (MDA), among others. Additionally, a few export promotion councils were established along with commodity boards and specialized service institutions. This was also the time when the government allowed a 25 percent increase in the capacity of manufacturers without any license. Further, the asset limit under the MRTP Act was raised from Rs. 20 crores to Rs. 100 crores while the MRTP clearances were entirely waived off for a few industries. During this period, the government also introduced several export incentives which included a reduction of foreign exchange controls to import raw material fromforeign countries and also a provision of Replenishment (REP) licenses to exporters, which permitted the import of goods from the restricted list.

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Medium and large firms were allowed in the eighties to invest in industries reserved for the small-scale sectors (on the condition that 75 percent of their output would be exported) and this provided an impetus to Indian exports. The EXIM (export-import) policy adopted by the Indian government for the period 1985-88 focused on the abolition of automatic licensing and the inclusion of 201 items of industrial machinery in the list of (permitted) imports under open general license (OGL). The policy also increased the minimum limit for the import of capital goods against import replenishment licenses (from the initial Rs. 1 lakh to Rs. 2 lakh) for registered exporters. The Indian economy, however, continued to be resistant towards imports and this was reflected in the existing (import-weighted) tariff rates, which were at an average of 87 percent in 1990- 91(with rates on certain imports exceeding 300 percent). Domestic consumer goods, in particular, were protected as tariff rates on imports of consumer goods were at a high of 164 percent. Additionally, the Indian government resorted to the use of non-tariff barriers (NTB), which were applicable on 65 percent of all imports (90 percent of which were imported by the manufacturing sector) in 1990. The government was also skeptical about the impact of foreign investment and therefore limited FDI to specific areas of the economy and placed an upper limit of 40 percent on (foreign) equity participation. India reacted to the balance of payments crisis in 1991 with a series of reforms intended to open up the economy to foreign participation. The current account was to be less influenced by the balance of external payments and more by exchange rates. The list of (imported) commodities which were subjected to quotas was shortened, though a number of consumer goods were still bound by quantity restrictions. Further, the rupee was depreciated by 22.8 percent relative to a basket of other currencies, a step which devalued the real effective exchange rate (REER) by 16.3 percent.

INDUSTRY AND TRADE OVERVIEW

Gems and jewelry has been an important industry for the Indian economy. It is one of the fastest growing industries and a leading earner of foreign exchange for India. The gems and jewelry sector covers a wide range of items which include diamonds, precious and semi-precious stones, in addition to gold, silver, studded and costume jewelry. 38 The gems and jewelry industry in India is mostly concentrated in the unorganized sector and employs around 2 million workers. An important feature of this industry is that it contributes a large share to India's total exports as well as to the country's imports (averaging over 9 percent of total imports since 1997). 39 The main component of India's gems and jewelry export is cut and polished diamonds. Rough and uncut diamonds are imported and processed in India and finally exported in the form of diamond jewelry for final consumption. It is this feature that makes the industry highly import-intensive in nature. The importance of this industry for Indian exports is evident from Figure 11. Its contribution to Indian exports has steadily grown since 1975 and is responsible for nearly 15 percent of India's

Total exports since 1986. As a commodity, it has the (single) highest share in Indian merchandise exports and is therefore, one of the most significant industries for India. The diamond segment contributes a major share of nearly 70 percent of the total (gems and jewelry) export and thus the remainder of the analysis focuses on the performance of Indian diamond exports. However, the latter's share has declined since 2008, in part, due to the economic meltdown which reduced the import demand from USA and other trading partners of India.Major producers of diamonds in the world are Southern Africa, Canada, Australia and Russia. Around 10 percent of the world's total diamonds belong to the gemstones category, which are processed and set in diamond jewelry. A unique feature of diamonds is that, unlike gold, silver or platinum, they do not have an internationally set standard price. The price is determined based of physical attributes (such as cut, color, clarity and carat (weight)). Like other forms of (valuable) jewelry, diamonds are a luxury item and consequently have a highly elastic demand in the market. In this industry, India has a comparative advantage in labour-intensive activities like gem cutting and polishing. Therefore, Indian companies operate at a beneficial level in the value chain where they import rough diamonds, which are processed and exported for final consumption as diamond jewelry. The Indian Gems and Jewelry industry plays an important rolein the value chain as it contributes 60 percent to the value share and 85 percent to the volume share.

INDIA'S POSITION IN THE WORLD EXPORT MARKET

India's position in the world market for gems and jewelry exports is seen in Figure 12. The figure reveals that India has always been an important source market for gems and jewelry and its significance has grown considerably over time. Indian exports performed particularly well in 2009 and India became a leading exporter of gems and jewelry, with a market share exceeding 23 percent. India's diamond exports, which form the major share of aggregate (sector) exports, too have an important share in the world market (diamond exports), which has grown from 13.4 percent in 2000, to 20.1 percent in 2009,India's main competitors in the diamond industry are Israel and Belgium, and both these countries have a technological advantage in the processing of raw diamonds. India has traditionally specialized in the processing of small diamonds, whereas Belgium and Israel have had the advanced technology to work with larger diamonds. Since the market for small-sized diamonds is relatively small, India's share in the world market has usually been lower than that of Israel and Belgium in 2000. It is seen that India's market share remained unchanged and well below Israel and Belgium's share between 2000 and 2005. In 2009, however, India's share rose considerably above that of Belgium and Israel, which could partly be due to the stronger impact of the sub-prime crisis of 2008 on the demand for large sized diamonds, which resulted in a decline in market share for Israel and Belgium.

CONCLUSION

It is evident from the preceding discussion that India has followed a development model unlike that of the East Asian Economies. While the services sector has registered remarkable growth and contributed significantly to India's GDP, the manufacturing sector has grown at a comparatively slower pace. The overall performance of the Indian manufacturing sector has widespread implications for various aspects of the economy; employment, being one of the chief areas of impact. Since this sector generates large scale employment for low and medium skilled workers, it is imperative to develop features which will create a conducive environment for industries to grow further. The paper identifies the various inadequacies which prevail within the sector. In particular, the presence of the unorganized component within industries reduces the benefits that can be derived from economies of scale. Such constraints cumulatively prevent the manufacturing sector from achieving its potential.

SUMMARY

The paper summarizes the export performance of three unique industries which comprise India's manufacturing sector and thereby reveals the heterogeneity that exists among industries within the sector. Indian gems and jewelry exports constitute a significant share of the country's aggregate exports and have also performed well internationally, thereby making India an indispensable player in this market. On the other hand, cotton exports which are a traditional export item for India have declined in importance with a falling contribution to Indian exports as well as to the global cotton market. Finally, the electronic goods industry is an upcoming sector which has grown at an impressive rate domestically and has strong potential to contribute to India's exports in the near future. In general, these sectors have performed better since trade liberalization was undertaken in 1991. The reduction and subsequent removal of export and import barriers have further supported exports and contributed towards a stronger performance

The paper also provides a summary of changes in government policies which could explain the emerging patterns in India's exports of select manufactured products. It clearly highlights the fact that the export performance of an industry is shaped by a number of factors, including global and partner country economic conditions, costs, market structure, domestic regulations and policy incentives. While the paper addresses the industry related features stated above, India's export performance is equally likely to be affected by macroeconomic variables such as inflation, world demand (or GDP), tariff and non-tariff barriers and also exchange rates. Industry reports often discuss export competitiveness in the light of exchange rate movements, amongst other variables, and therefore suggest that this variable may be relevant in the Indian context. In particular, an RBI report suggested that fluctuation in the value of the rupee affected Indian industries asymmetrically. While labour-intensive sectors such as cotton and leather experienced a fall in export growth (due to an appreciated rupee between 2006 and 2007), high import intensive sectors like engineering and gems and jewelry were expected to perform better during the same period, due to lower import costs

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