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Strategising India's Exports

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Strategising India's Exports

Dammu Ravi[*]

Abstract: The paper brings out trends in India's trade policy with a comparative analysis of other economies. The 1991 Economic Reforms and the subsequent establishment of WTO in 1995 provided opening for India's trade to gradually integrate into the global economy. The paper emphasises the importance of exports for a growing economy like India which is soon poised to be a $5 trillion GDP. Keeping this in the backdrop, the paper offers suggestions for strategising exports: it calls for navigating the multilateral trade rules; taking effective measures; and reorienting trade policy with a long term approach.

Key words: WTO, FTA, FDIs, TFA, GSP, Atmnirbhar Bharat, Zero-defect-zero-effect, EXIM, DFTP, LDCs.

Introduction

Soon after Independence, India took the path of development with an aim to provide basic necessities to its people through active State intervention with indulgent subsidies. India's slow integration into the world economy and its subdued participation in the framing of multilateral trade rules can be attributed to India's preoccupation with its own development challenges, an approach that inadvertently encouraged insularity and protectionism, favoring import substitution in the long run.

Analyzing India's trade data since Independence offers some interesting trends. According official statistics, in 1950, the value of India's trade was $2.4 bn (exports $1.2 bn and imports $1.2 bn) and, during the next 25 years till 1975, India's trade improved only marginally to $10.6 bn (exports $4.6 bn and imports $6 bn) and in the next 15 years at the start of India's 1991 economic reforms, India's trade grew incrementally to $ 36 bn (exports $17 bn and imports $19

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bn). However, the real growth in India's trade picked up after the 1991 economic reforms which, in about 3 decades time, by 2019-20 grew to a total $801 bn (exports $322 bn and imports $479 bn) (see table 1 for details). Including India's services trade of $341 bn (exports $213 bn and imports $ 128 bn), India's volume of trade, including merchandise and services, presents a record $ 1142 billion, constituting about 45per cent of the GDP. This remarkable growth compares favorably with most emerging economies as well as few developed countries; in 2019 trade to GDP ratio of USA was 12.22per cent; China 35 per cent; Japan 36 per cent; Korea 77 per cent; Indonesia 37 per cent; Malaysia 123 per cent and Vietnam 210 per cent.

In this paper we reexamine the status and strategy for India's exports in the context of emerging challenges arising out of the COVID-19 shock and the attendant need for diversification and self-reliance. The paper is divided into four sections including introductory remarks on the significance of quantum growth in India's international trade in recent decades. . As stated earlier, the objective of the paper is to examine the current status and strategy for India's exports, which is discussed in section II. With the growing need of strong trading partners in the post pandemic world, section III analyses the new destinations and new products in competitive market as the product basket of the India's trade has remained stagnant for long. In the final section the roadmap was drawn in pursuit of self-reliance India.

Current State of Exports and Post Pandemic Scenario

No economy can be strong without trade being a significant part of a country's GDP. Exports directly impact GDP of a country as local production uses domestic labour and money will be spent on consumed goods and services. The biggest spin off of an exports led growth strategy is job creation, income generation and favourable balance of payments. Western economies post-World War II deliberately incentivised their domestic industry to become export competitive on the basis of this understanding. Countries in the Far East and South East Asia have consciously supported export orientation while an economically

integrated European Union accorded high priority to intra-EU trade. Their policy interventions were aimed at sustaining exports through creation of excellent infrastructure, seamless logistics, skills development, transparent customs procedures etc., all of which contribute to reduction of barriers to trade.

Table 1: Comparative Analysis of Trade trends (in $ billion)

Countries	GDP in 1991	GDP in 2019	1991		2019	
			Exports	Imports	Exports	Imports
India	274	2875	17	19	322	479
China	415	14342	55.54	44	2499	2069
Japan	358	5081	314	236	705	721
Korea	336	1642	71	81	542	503
Indonesia	154	1120	29	25	183	170
Malaysia	53	364	34	36	239	204
Singapore	45	372	58	66	390	360
Vietnam	7	261	3	3.46	304	271
USA	6159	21374	421	508	1645	2569
Brazil	400	1840	31	22	223	178
Germany	1875	3845	402	388	1486	1237

Source: World Bank and webportalsviz. Countryeconomy.com, Worldstopexports.com.

Rising living standards, commensurate with economic growth in these countries can be attributed to a large extent to trade playing a key role in these economies. These developments did not happen overnight; export strategies were built over time with careful planning for zealously pursuing export markets for their products while guarding their domestic industry against import competition. In course of time, as and when their domestic industry achieved export competitiveness, they gradually liberalised their economies, making room for imports by way of reducing tariffs and softening regulatory measures. However, protection for select products continues to be provided through non-tariff barriers.

Around the world markets are converging and rapidly integrating through a network of FTAs, which cover almost 2/3 of 164 WTO Members. There are about 400 FTAs/PTAs in operation and 180 more are under either review or negotiation. These Agreements create a web of supply chains that fuel global trade. The majority of WTO members believe that these trade arrangements strengthen multilateral trade rules as they work towards higher liberalisation, while few developing countries criticise that they create exclusive clubs to the disadvantage of large number of developing countries and LDCs. It needs to be analysed whether or not being part of the evolving global trade architecture would prove to be more disadvantageous than being part of it, especially since even a small wall of tariff differential runs the risk of market diversion for our exports.

The alternative of keeping oneself outside the trade arrangements may prove to be costly. For example, India's gradual erosion of its market share in the textile sector to our competitors such as Vietnam and Bangladesh in the EU is a case in point. Bangladesh enjoying Generalised System of Preferences (GSP) benefits from EU and, Vietnam through an ambitious FTA with EU, enjoy nearly zero percent tariff concessions on its exports, while Indian textiles exports suffer 5 per cent duty disadvantage in the EU market in the absence of an FTA with EU. If staying in the game is no choice then our approach to these trade agreements should be creative and nuanced. Seeking immediate cuts on tariffs and entering into mutual recognition agreements on regulatory issues with a developed country in return for conceding a longer staging period for liberalisation could form part of the negotiating strategy. Comprehensive understanding of relative competitiveness and complementarities of sectors and forecasting benefits across trade, investments, technology and services is imperative for taking advantage of these trade agreements for driving exports.

Sharpening of Focus: New Destinations and New Products

The positive impact of 1991 economic reforms on India's economy has been widely acknowledged. India's GDP touched an unprecedented $ 2.5 trillion in a short time. India's current share in global merchandise exports is 1.7 per cent and in services exports is about 3.5 per cent as compared to its share in 1995 at about 0.5 percent for both sectors. The consequential relaxation of licenses, tariffs and regulatory impediments helped trade to multiply rapidly since then. However, these positive numbers mask the reality of our exports that have been somewhat less than spectacular, stagnating at about $ 300 bn since a decade. Discounting non-value added products from exports such as refined petroleum and gems & jewellery, India's merchandise exports would further fall to below $200 billion. Stagnation in our exports is a reflection of the relative non-competitiveness of our products in the global market place, reinforcing the widely held belief that India's economic reform process is yet to reach to its logical extension.

The composition of India's trade has remained constant for long. While a significant portion of India's exports are finished and semi-finished products such as engineering items, machinery, automobiles, textiles, leather goods, generics, chemicals, marine products, etc. more than 40 per cent of India's exports constitute raw materials and intermediate goods. India's imports are also of the same nature, the only difference being that they constitute nearly 66 percent, including electronic components, capital equipment, machine tools, active pharmaceutical ingredients, coal, palm oil, chemicals, etc. High value added goods such as electronic items, semi-conductors, technical textiles, etc. are missing in our export basket. The services exports too are concentrated in a narrow bandwidth of IT & IT enabled services whereas potential in other professional services such as medical, wellness, hospitality, engineering, accountancy, legal, construction, architecture, consultancy, etc. where

higher value addition is embedded in them remains unrealised. An export strategy should consciously aim at narrowing these gaps.

An exports strategy logically seeks access to global markets through active engagement at bilateral, regional and multilateral trade negotiations. Being import-defensive, India never felt the need for such an approach for fear of opening up its domestic market to global competition. Low tariffs of developed countries previously committed to WTO in 1995 was considered good enough for accessing developed country markets and took comfort in the belief that tariff disadvantage, as a consequence of free trade agreements amongst partner countries, could be offset through various export incentive schemes enjoyed under WTO as part of Annex VII group of countries under the Agreement on Subsidies and Countervailing Measures (ASCM). But this comfort may not be available any more for India since its graduation in 2015 from this select group of countries upon achieving per capita income threshold of US $1500 for three consecutive years. Our export subsidies in the form of MIES, MDA and duty drawback scrips, etc would need to be scrapped at some stage, failing which India runs the risks of facing disputes in WTO.

However, exports subsidies based on production are WTO compatible and tailoring them to suit either sector specific or region specific production would require detailed planning of manufacturing zones. China's successful circumvention of the WTO rule on export subsidies by encouraging manufacturing near ports/ airports with export incentives based on production, ostensibly for export purposes, holds some lessons. Providing rebate on state levies on exportable products is also WTO compatible, but this requires detailed accounting documentation. Moving forward, our policy initiatives should take into consideration these aspects while developing industrial corridors, industrial parks zones.

Global FDIs flows in 2019 were $1.54 trillion. A robust economy is expected to have interest in both inward and outward FDI flows in order to maximise gains. While cumulative FDI inflows into India since 2000 [1] were approximately $ 609 billion, FDI outflows from India for the same

period was about $ 200 billion, a clear indication of the growing interest of Indian entrepreneurs in the global markets. Investing in projects abroad has a direct bearing on exports. In recent times Indian industry has been taking calculated risks in acquiring brown field projects and, some even making investments in greenfield projects. These have been mostly individual decisions, while the government has been taking keen interest in projects under Lines of Credit mostly in South Asia and Africa. Executing projects abroad will enhance India's reputation as a key player in infrastructure creation and modernisation. Financial backing with easy terms and conditions would go a long way in supporting our industry to bid for more projects abroad. Investment in projects has huge spins for our exports as Indian companies bidding for them would naturally source from India raw material, intermediates, technology as well as manpower including engineers, consultants and workers etc.

Much has changed in recent times with manufacturing moving closer to markets. This is different from the conventional way of moving goods physically from one country to another, with varying degrees of time lags ranging from few weeks to months, depending on the destination. Making a finished product in a host country by assembling various components through supply chain networks has assumed greater relevance. Being in the market also gives a strategic edge to a product in terms of being able to deliver a product locally 'just in time'.

India's huge market size and immense purchasing power, young population with English speaking skills and low-cost labour attract FDIs. Reasonable return on investment, predictability, transparency and non-discriminatory policies are also important considerations for making strategic investment decisions in a country. An expectation of reasonable return on investments encourages FDIs flows into a country, and accompaniment of technology and skills strengths products' quality and durability. Most countries view FDIs with a dual purpose; firstly, products are made for the domestic market; and secondly, overtime they are exported to third country markets using the host country as a launching pad. Non-discrimination between domestic and foreign entities

is an important consideration for FDI flows; once an investment is made by a foreign entity it should be given the same honor of commitment as would be entitled to a domestic player in terms of return on investments, tax concessions and obligations.

The WTO Hong Kong Ministerial Conference (MC6) decision in 2005 accorded Duty Free Quota Free (DFQF) tariff concessions to Least Developed Countries (LDCs) by developed and developing countries on a voluntary basis. The scheme was meant to provide impetus to attract FDIs for encouraging manufacturing in LDCs and, thereafter, export those items to global markets, taking advantage of the preferential tariff concessions enjoyed by them. Few countries have strategised their exports through this route by using LDCs as launching pads for investment led exports. India too extended tariff concessions to LDCs way back in 2005 and upgraded them up to 98.2 per cent in 2015 under the Duty Free Tariff Preferential (DFTP) scheme. Several LDCs have benefitted from this scheme with imports into India to the tune of $ 21 billion in 2018. Creating India specific manufacturing zones in select LDCs, taking into consideration their geographical location advantage, could be explored for encouraging investments by both Indians and Diaspora. Besides, manufacturing, we could also look at investment in agriculture for growing cash crops for world markets with possible value addition through processing and packing.

India's services trade has been a major driver of its exports for the last two decades contributing 54 per cent to GDP. India's services trade at $341 billion (Export $ 213 bn+ imports $128 bn) constitutes 3.5 per cent of global service trade at $ 5.8 trillion. India's services exports need to move beyond IT and ITeS to value added services such as medical, wellness where India has clear advantage and, further, to sectors such as legal, construction, transportation, financial, insurance, etc. where there is immense potential. Opening up of these sectors is leading to greater servicification of manufacturing which is resulting in higher value addition. Further, we need to reckon that digitalisation with widespread use of the internet at affordable cost is enabling delivery services remotely

over long distances. As barriers to services trade are mostly regulatory in nature, liberalisation of all modes of services, not merely mode IV, would expectedly lead to enhanced opportunities for movement of people and professionals across borders.

Technology is already impacting trade in a significant way. Digital technologies, popularly termed as the Industrial Revolution 4.0, with increasing use of Internet of Things (IoT), remote manufacturing through 3D printing, Artificial intelligence, Algorithms and Robotic Engineering, E-Commerce will impact the future of trade as increasingly high value items will be produced domestically by simply triggering commands from faraway places, without having to cross borders. While these changes will make tariffs redundant for some products, Intellectual property rights (IPRs) will assume greater relevance, needing framing of new laws to manage external trade in the domestic arena. Incentivising domestic industry to invest in technology should be a priority; our inherent strengths in IT and computational skills could be synergised to produce high technology products of the future.

Way Forward

The clarion call for 'Atmanirbhar Bharat' in pursuit of self-reliance is often misconstrued to mean that the road to self-reliance is through import substitution. Although the campaign of 'vocal for local' lays emphasis on giving preference to local products, it would be a folly to go about zealously replacing every imported item by attempting to produce them locally. It is highly inconceivable that every product can be made in any one country in a most efficient way. Such an approach will clog global supply chains only to deny entrepreneurs the benefit of sourcing lower cost raw materials and intermediate goods as inputs for making finished products for achieving export competitiveness. Recognising the intimate linkage between exports and imports is critical for driving exports as lower cost raw material and intermediate goods, if not domestically available, should be allowed to be sourced from outside, even if at lower duties.

Balancing these factors in the domestic production processes strengthens ‘Atmanirbhar Bharat’ initiative in a manner that enables ‘Make in India’ products access export markets. Thus the campaign of ‘Vocal for Local’ extending to ‘Global’ makes immense sense because locally produced goods ultimately at some stage need to find external markets. The thrust for exports was reinforced by the PM when he envisioned to making every district an ‘export-hub’ in its core area of competence with appropriate policy interventions. This underscores the basic objective of ‘Atmanirbhar Bharat’ which is to realise the full potential of ‘Make in India’ to reach out to global markets. Low quality products fetch low returns, while high quality products fetch higher returns and a combination of these items allows flexibility to cater to different market requirements and price sensitivity.

Quality of a product determines its staying power in the global market place. PM’s emphasis on ‘zero defect, zero effect’ is centered on the idea of making quality Indian products. It calls for patience and endurance to stay in the market place contrary to the trading mindset that seeks quick returns. Greater engagement with the outside world in a spirit of cooperation as well as competition helps to develop quality products. Such an approach requires of Indian industry to step out of its still domestic back-waters and navigate the choppy international sea-waters, taking calculated risks, as they move forward. Here, assistance of the State through appropriate policy interventions and incentives would help the industry steer through the frontal competition in the initial stages.

Some of the Indian products are world class and scaling them up to meet anticipated global demand is not too difficult. Our pharma industry has demonstrated this sagacity during the Covid pandemic crisis when India supplied medicines and medical equipment to over 150 countries in a record time. Similarly, India’s auto components, textiles and leather are known for their high quality and are sourced by major brands worldwide. While Indian exporters are capable of meeting high international standards to access developed country markets, the same commitment is lacking for products sold in the domestic market. This

wide difference in quality diminishes credibility of exportable items and, therefore, policy intervention should aim to narrow the gaps.

Lower logistics costs are directly linked to export competitiveness. India's logistic costs are in the range of 10-12 per cent while those of developed countries are in the range of 6-8 per cent, which makes it amply clear of the deep disadvantage our products suffer on the external front. As often policy implementation falters on account of poor appreciation of the importance of logistics at the field formations level, greater sensitivity at all levels of the government is needed through regular training, workshops seminars, conferences etc. In a large country like India where scale of logistics operations is stupendous, an all Government of India approach, involving State authorities and industry representatives, is imperative. ASEAN is a classic example of a well developed and modern logistics infrastructure; uniform procedures and compliances have, like in the case of the EU, helped ASEAN to achieve efficiencies in customs operations, especially in cutting down delays at ports and airports, etc.

Although India was late in the game, its ratification of the WTO agreement on Trade Facilitation in April 2017 brought into focus the urgency in addressing gaps in the domestic logistics networks. The setting up of the National Committee on Trade Facilitation headed by Cabinet Secretary to directly monitor implementation issues of TFA, and further, creation of the Logistics Division in the Department of Commerce in 2018 have all greatly helped in addressing logistic challenges and narrowing the last mile connectivity gaps. These combined efforts enhanced India's performance in the World Bank ranking on 'Ease of Doing Business' index from 130 in 2015 to about 55 in 2019. Cooperation amongst countries on TFA through bilateral/regional agreements is necessary for enabling seamless movement of goods across borders. Further, India can take a lead in the area of paperless trade with like minded countries and reap the first mover benefit with spin offs in the IT sector where India has proven strengths. As bringing down trade costs even incrementally would render our exports competitive in global markets, our collective efforts should remain focused on this objective.

Reasons for dwindling of our exports in spite of well conceived schemes calls for deeper analysis. Besides the need for tackling import barriers such as tariffs, standards, regulation, cartelisation etc., tackling credit shortage at the importers' end could be a game changer. Importers usually depend on local banking and financial institutions for adequate funding of their imports. If a short term credit limit of upto 2/3 months can be provided to an importer on easy terms and conditions for sourcing material and equipment from India, he would be motivated to buy more 'make in India' products. Such a facility could be sector or product specific depending on where one wishes to lay emphasis on. For example, labour intensive sectors such as textiles, leather, engineering, pharma could be given greater support. If an importer is able to repay within the time line, the same credit line could be further extended on a rotation basis. Operationalisation of such a facility though formal banking channels of a receiving country should hopefully minimise chances of abuse of non-payment or delayed payments. EXIM Bank has done a study on this proposal to be implemented on a pilot basis initially. This can be further analysed with a clear long term action plan.

An economy becomes strong when its industry goes global. Thus, active engagement with the outside world is imperative for nations on the rise. The assumption that a weak domestic industry needs perennial protection from competition is misplaced. Developing a culture of export orientation is the foremost step requiring conscious nurturing at all levels. The current culture of working in silos, championing status quo, obstructionism and looking for short term gains should give way to an export-oriented team that is able to see the big picture on the horizon. Comprehensive understanding of these issues requires deep knowledge of how trade works in a changing world. A committed body of trade experts who are able to think through these global trade dynamics and take a long-term view of our objectives is critical. An all of government approach, taking states and industry along should form part of the export strategy. Most importantly, we should be willing to make sacrifices, take calculated risks for long-term gains as India advances to be a $5 trillion GDP in the near future in which exports will form a significant part.

Endnote

[1] DIPP. (2020), “Fact sheet on Foreign Direct Investment”, April, 2000 to March 2020.

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