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Performance of Indian Exports in the Post Reforms Period

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ABSTRACT

India has come a long way from being an exporter of primary goods to a richer composition of its export basket. Although in terms of share in world trade, India has much to desire, 25 years of reforms offers a sufficient length of time to take stock of its export performance. In these 25 years, global dynamics have changed a lot. Global business and trade have taken unexpected twists and turns. In recent years, there has been a growing spirit of nationalism which has created new forms of barriers for trade, such as the high tariffs imposed on finished goods. This has led to increased activity on the direct investment front. Given these changes, India may not be able to scale heights in world trade on the back of old paradigms. New insights and strategies would be required to position the country on the global map. In this context, it would be worthwhile to examine how Indian exports have performed in the era of reforms. This would insight into what sort of policies need to be adopted to improve the performance of India in global business.

1. Introduction

India is the land densely populated with 1.2 billion people, ranking second amongst the most populated country in the world. It offers a huge domestic market for businesses and has kept the country reasonably insulated from global economic downturns. Early approach of India to foreign trade had been quite unenthusiastic with the focus being majorly on establishing home grown development. After independence India adopted inward looking policy with a very little focus on foreign trade. Later on there was shift to export promotion and increase in foreign trade. Trade came to be regarded as a means of economic growth and development.

Economic reforms led to liberalization, privatization and globalization in economy. The liberalization policy opens up lot of opportunities for foreign trade in India by abolishing various restrictions by the government thereby helping in expansion of foreign trade. Various sectors like Pharmaceutical and gems and jewelry have gained advantage out of this. Growth rates of Indian Economy have progressed considerably over the last one decade, by achieving and sustaining an annual GDP growth rate of over 7 percent for the third year of succession in 2016-17. However the Indian economy is headed with a little slower growth rate of 6.5 percent 2017-18 as per the estimation of CSO, which may be attributed to the destabilizing effects of demonetization and the initial hiccups of the new indirect tax regime.

2. Review of Literature

There are various studies which show that exports lead to the growth in the country. Banik Nilanjan (2001) has identified the factors responsible for decline in Indian exports in the post reform period. He has identified demand-side factors to be mainly responsible for the fall in exports in the mid 1990s. At the same time the author as stressed on removing supply side constraints to revive export growth. Dhanju, Poonia and Sihag (2014) have also studied the export growth and composition for the Indian economy and conclude that increasing the rate of exports was significant for developing countries to address their issues for foreign exchange reserve. Behera (2016) reports that though the share of merchandize exports is high in India's total export but its performance in the total world's export has much to be desired.

Srinivasan and Mikalaivani (2012) have studied the effect of fluctuations in the exchange rate on the exports in India measured in real terms. Their result suggest that fluctuations in foreign exchange rates negatively affect real exports in short run. However, they report a significant positive long run impact of exchange rates on real exports, indicating that depreciation of currency has effective role in increasing real exports growth of India in long run.

Chowdhury and Neogi (2014) carried out a study to examine India's export and the impact of change in exchange rate on both small and large economies. They report that lower exchange rates led to increase in exports to small countries but not to large countries. This was mainly due to the fact that geographical distance with the larger trading partners namely, US, UK, France, Germany and China negated the impact of lower exchange rates. Whereas trade with small and geographically close economies such as Bhutan, Nepal, Bangladesh, Sri Lanka and Thailand could benefit from lower exchange rates.

There are several studies have focused on the role of manufacturing sector in Indian exports. Kaliranjan (2004) has emphasized on research and development on the inputs of the manufacturing sector so as to reap benefits from exports as has been possible for China. Mukherjee and Mukherjee (2012) has advocated greater role of government policies to increase the contribution of manufacturing sector in the exports of India. Francis (2015) has studied about the poor performance of manufacturing export despite of trade liberalization. It was seen that the overall manufacturing performance is poor as compared to highly competitive global economy. It also says that the government export promotion policies are insufficient to improve the technological and manufacturing capabilities in exporting sector so that firms could become more dynamic and competitive to the global market.

A study by Islam (2014) reports that though India and China are both labour abundant countries, China has fared better than India in their exports to US. China has a greater competitive edge in terms of labour intensive as well as technology based products and its exports are found to be more diversified.

Sahni and Atri (2012) carried out study on the role of exports in economic growth and examined export led growth hypothesis (ELGH) using ordinary least square method to study relationship between gross national product and exports. They concluded that exports can be one of the components of economic growth but not as an engine of economic growth. Similar results are reported by Agrawal (2015) using error variance and causality analysis to study the role of exports in India's economic growth and examined export led growth hypothesis. Both studies report week support to the ELGH hypothesis.

3. Objectives and Methodology

In view of survey of literature, the present study analyzes the export performance of India in the post reforms period. Particularly, it examines the trends in Indian exports, its sectoral composition, major contributing sectors and the competitiveness of selected sectors in world exports.

The study is based on secondary data and covers a period of 25 years from 1990-2015. The data is sourced from publications of the Reserve Bank of India, Economic Survey and United Nations Comtrade Database. Growth rates, ratios and graphical methods have been employed. The degree of competitiveness of Indian exports has been measured alternatively as the ratio of the share of 'i'th commodity in India exports to total exports of India as well as to world exports of that commodity for respective years.

4. Analysis of Indian Exports

The analysis of the trend of Indian Exports reveals that its disinclination to the international trade and its focus on domestic industries led to the smaller share of exports during fifties and seventies. Due to the restrictive trade policies and protection to the domestic industries, government had tightened the control on foreign trade. Protection led to overvaluation of domestic currency and discouraged exports. Moreover government gave incentive to limited number of manufacturing industries and agricultural export had shrink down exports.

Wars with China and Pakistan, the drought of 1965-66 and devaluation of Indian rupee by 57% from Rs.4.76 to Rs.7.50 for one dollar were some of the factors that led to increase in deficit spending and further rise in the already existing inflation. In 1973 there was first oil crises, due to which India's import cost of oil increase which again led to reduction in foreign exchange reserves. To increase the reserve government adopted export promotion policies in the form of export subsidies. The balance of payment crises along with failure of restrictive trade policy led to economic reforms in 1991, which favored promotion of exports and imports. This can be seen in Fig.1 which clearly brings out the change in the growth trends in foreign trade pre and post liberalization.

Fig.1

Source: World Bank Database

Table 1 shows the decadal compounded annual growth rate of imports and exports. It can be seen that the CAGR of imports has been higher than that of exports for the 1980s and 1990s which led to the foreign exchange reserve deficit.

Table-1 Trends of Foreign Trade in India

YEAR	CAGR of Exports	CAGR of Imports
1980-81 to1989-90	6.95%	2.95%
1990-91 to 1999-00	7.33%	7.51%

2000-01 to 2009-10	14.90%	19.02%
2010-11 to 2015-16	0.73%	0.50%

Source: Computations based on data from Handbook of statistics on Indian Economy, RBI.

India's share of export of goods and services to India's total GDP increased from 8.58% in 1991 to 24.27% in 2008, while import increased from 8.57% in 1991 to 29.49% in 2008. It was seen that there was fall in imports and exports in 2015.

There are changes in export performance of India from post reform period. In 1997, the East Asian Crises impacted India's export. In September 2001, India's export was affected due to semi-recession faced by US, which was India's major trading partner. This was due to the terrorist attack on World Trade Center which led to fall in US GDP and had effect on India's export also.

The 2008 Global Financial Crises also led to fall in Indian exports. It was the crises in the subprime mortgage market in US, which led to banking crises with the collapse of investment bank. India experienced negative export growth rate of 3.65 in 2009 and 3.33 of imports in 2009.

In the year 2014-15 Indian exports registered a decline, the prime reason being the slowdown of demand in global market and moderation in commodity prices. India's main export market are mainly in U.S., China, the Euro area, Singapore and Japan which are still going through slow revival and hence there is slowdown in GDP growth rate. There has been decline in the value of exports of some products. Apart from the external factors there are domestic factors like infrastructure bottleneck, taxation system, and increase in barriers against finished goods imports by various countries.

5. Composition of India's Export

It is found that the economic reforms implemented in India did not have the kind of impact on world export market that was experienced by other countries like China. This is because after reforms other developing countries shifted from agricultural sector to manufacturing sector because of availability of labor, whereas Indian economy experienced shift from agricultural sector to service sector. Due to the lack of significant implementation of reforms, India's share in world export market is less as compared to China, though both are labor intensive countries.

The comparison of India's export and its competitor China's export of total goods (merchandise) export to world for 1986-2016 is shown in Fig. 2.

Fig. 2 Share of India and China in World Merchandise Exports

Source: UNCTAD (United Nation Conference on Trade and Development) database.

India's share in the year 1986 was 0.44% to the world merchandise export and that of China was 1.44%. By the year 2016, China's share increased to 13.12% whereas India's share was just 1.66%. China registered eight times growth in its share in world export whereas India's export to the world improved less than three times over the same period, which reflects the slower growth of merchandise export to the world export. It may, however be noted the merchandise exports continue to grow in India's total export.

Fig. 2 shows that India's major merchandise export constitutes of manufacturing exports and its contribution of manufacturing goods export has increased over a period of time. It is seen that although India exported agricultural products before reforms, but there is shift from agricultural to manufactured industries over a period of time. Manufacturing goods export increased from 8195.1 billion US dollars in 1987-88 to 183718.8 billion dollars in 2012-13, claiming a share of 75% while share of agriculture fell to 20%.

Fig.3

Source: Handbook of statistics on Indian Economy

However it is to be noted that although manufacturing export is greater in India's total export but its share in global market is low as compared to other countries. Several policy measures have been taken by the government to improve the export performance of India. One of such initiative is New Manufacturing Policy 2011. The major objectives of this policy are to increase the sectoral share of manufacturing to at least 25%; to increase job creation by 100 million additional jobs till 2022; to enhance global competitiveness, to attain global value addition, technological depth and environmental sustainability of growth. Central government is providing incentive for infrastructure development on Pubic Private Partnership basis (PPP). For implementation of this policy National Manufacturing Investment Zone (NIMZ) is granted approval outside Delhi-Mumbai Industrial Corridor (DMIC) region. Although the implementation will take time, it is believed that it will strongly support manufacturing export in future.

In addition to the above policy there are many other export promotion measures carried out by Ministry of Commerce and Industry. They are Assistance to State for Developing Export Infrastructure and Allied Activities (ASIDE) Scheme on 13.3.2002 the purpose of which was creating export infrastructure by optimally utilizing resources to achieve objective of export growth through efforts of Central and State government.

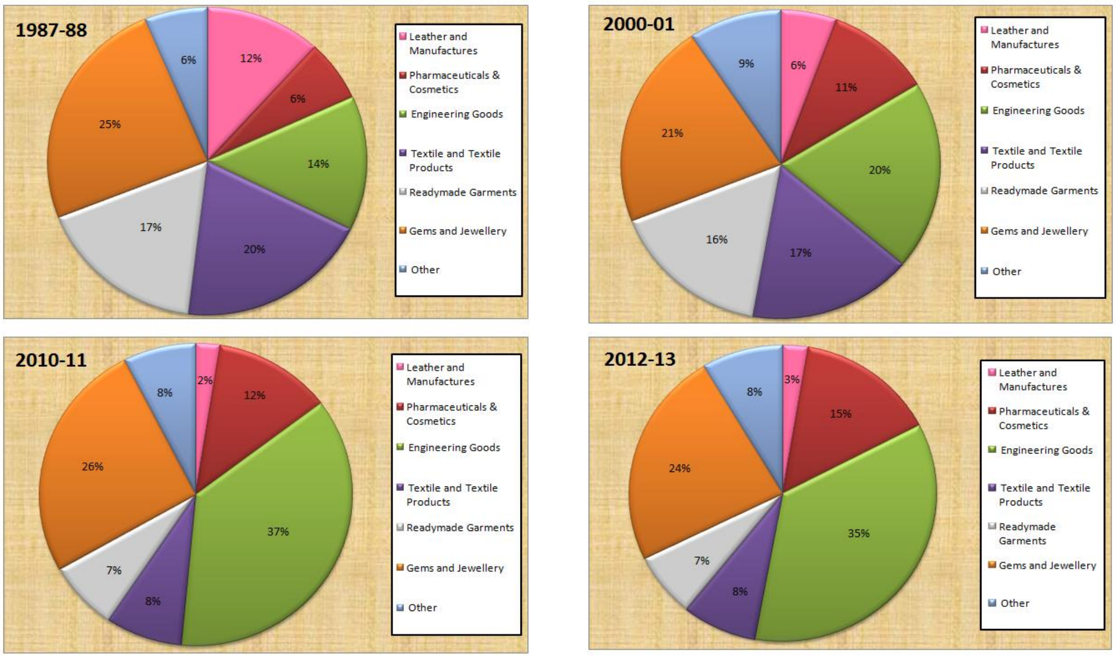
Market Access Initiative (MAI) scheme was formulated to act as catalyst to promote India's export on sustained basis based on focused product and focused market concept in January 2007.

India Brand Equity Foundation (IBEF) is a trust established by Department of Commerce, Ministry of Commerce and Industry, Government of India. Its objective is to promote and create international awareness of Made in India products in other markets and the dispersal of knowledge of Indian products and services. In 2013-14, IBEF successfully strengthened the position of Indian Pharmacy globally.

6. India's Exports of Manufactured goods

Having identified manufacturing goods as the major contributing sector to India's total goods export, it has been further analyzed in this section. Fig. 4 shows the composition of India's manufactured exports over a period of time.

Fig. 4 - Composition of India's manufactured exports for selected years.



Source: Handbook of Statistics on Indian Economy.

It is seen that over a period of time composition within manufacturing sector is changing. It is observed that gems & jewelry is an important export commodity in total exports. Its share remains more or less same during this period. Its share was 25% of total manufacturing exports in 1987-88 and 24% in the year 2012-13. The share leather & manufacture exports has declined from 12% in 1987-88 to only 3% in 2012-13. However pharmaceutical exports more than doubled from 6% in 1987-88 to 15% in 2012-13. Likewise, the share of readymade garments & textile has reduced over a period of time by more than half from the year 1987-88 to 2012-13 and the share of engineering goods has increased from 14% to 35% from 1987-88 to 2012-13 respectively. These changes in the composition of Indian exports show that there is a shift in favour of technology based items.

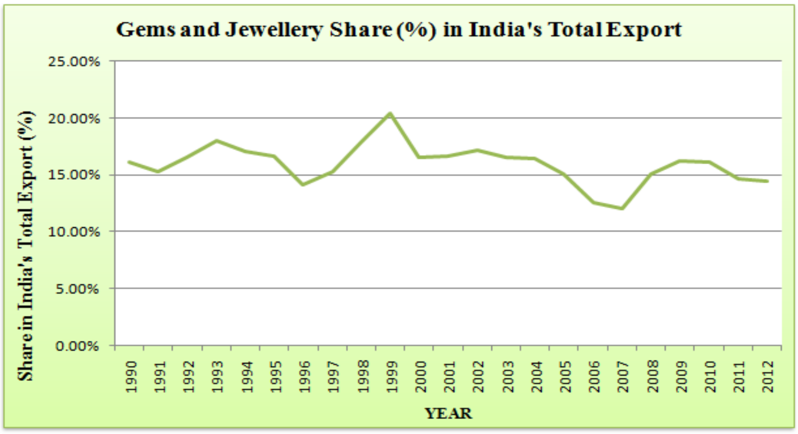
7. Gems and Jewelry

One of the sectors with major contribution to India's exports and increasing significance in world share is Gems and Jewelry industry. It consists of diamond studded jewellery, gold jewellery, silver jewellery and precious & semi precious gemstone and its jewellery. This sector consists of large unorganized labors. The main constituent of this industry is cut and polish diamond. In this industry rough and uncut diamonds are imported and then processed in India and then finally exported out in the form of diamond jewellery for final consumption. Due to this reason Gems and Jewellery industry becomes highly import intensive.

Fig. 5 shows the share of Gems and Jewelry in India's total exports. It is visible from the figure that Gems and Jewellery export has remained more or less stable from 1990 to 2011 to approximately 15% of total export. The fall in 2008 is due to the global economic crises in USA which is our major market of exports of cut and polished diamond.

One of the distinctive features of diamond is that its price is not determined on that basis of international set standard price. It is determined on the basis of the cut and polish quality done on rough diamond. It is to be noted that India has comparative advantage in labor intensive activities like polishing of diamonds, due to which it can earn more profit out of its export of final polished diamond. Thus we can conclude that Gems and Jewelry industry plays an important role in India's manufacturing as well as total exports.

Fig. 5



Source: Handbook of Statistics on Indian Economy.

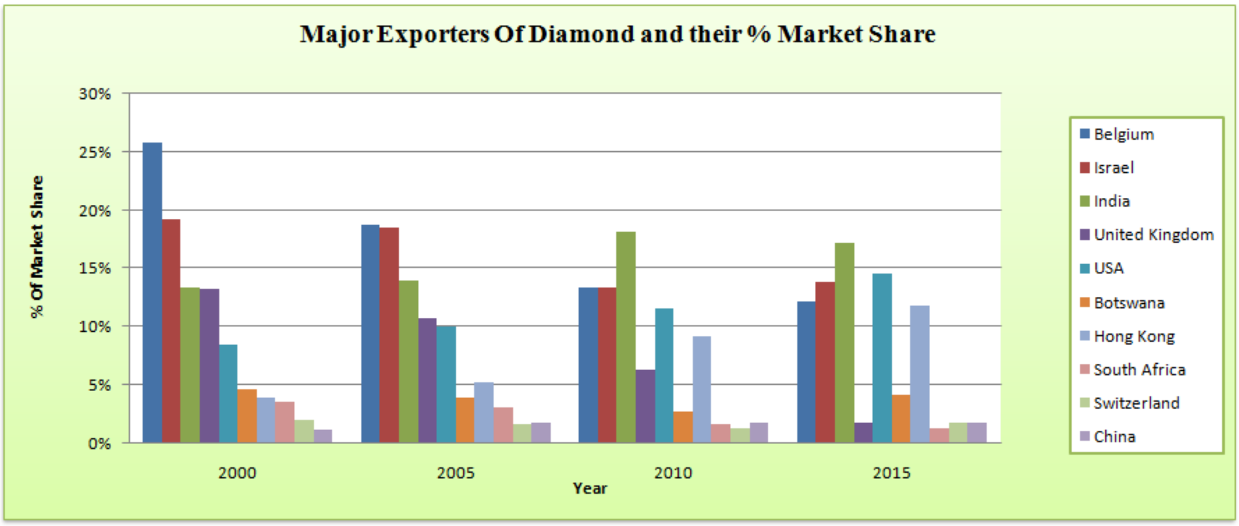
Fig. 6 shows India's export share of Gems & Jewelry to the World Gems & Jewelry export. Over a period of time India's exports performance is increasing in the world market. It has increased from 5% in 1990 to around 17% in 2012. Thus it shows major place of Indian export of Gems & Jewelry in the world market.

Fig. 6

Source: Calculations are based on United Nations (UN) Comtrade database.

India's major export partners are Belgium, Hong Kong, Israel, Japan, Singapore, Switzerland, Thailand, UAE, UK, USA and others. Its main competitors in diamond industry are Israel and Belgium which are technologically advanced countries in processing raw diamonds. On the other hand India uses traditional methods for processing small diamonds. Fig. 7 shows the major exporters of diamond and their percentage market share. The share of India in 2000 & 2005 was below Israel and Belgium, however in 2010 & 2015 the situation reversed and India's share was 18.14% and 17.11% respectively which is greater than Belgium and Israel. It was also evident that in 2010 & 2015 India was highest in export of diamonds to the world.

Fig. 7

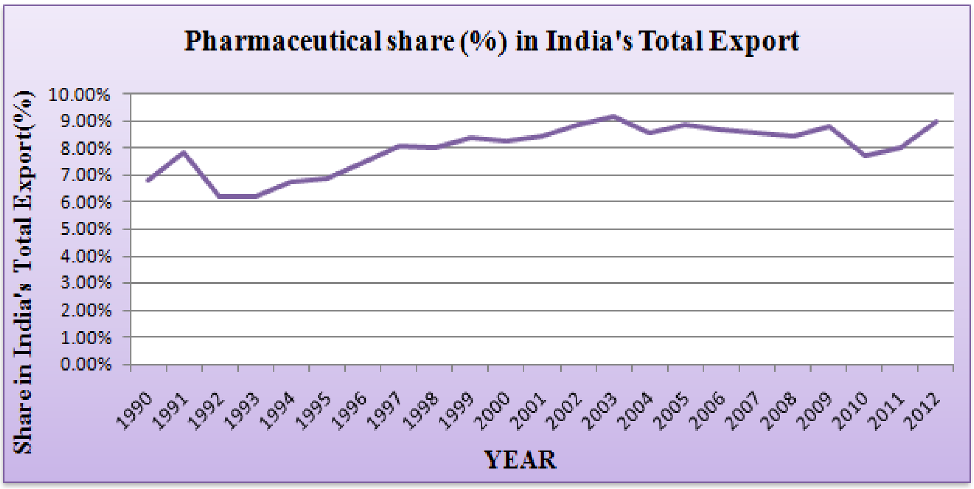


Source: United Nations (UN) Comtrade database.

8. Pharmaceutical Products Industry

Indian pharmaceutical product industry is an important industry domestically and globally. It industry consists of large number of technically skilled workers and uses capital intensive techniques for its production. It contributed 9% of India's total export in 2012. It is evident that India's pharmaceutical industry has increased over a period of time. Fig. 8 shows the ratio of India's export of Pharmaceutical products to India's total export. From the year 1995 onwards there is slow but consistent growth in pharmaceutical sector.

Fig. 8

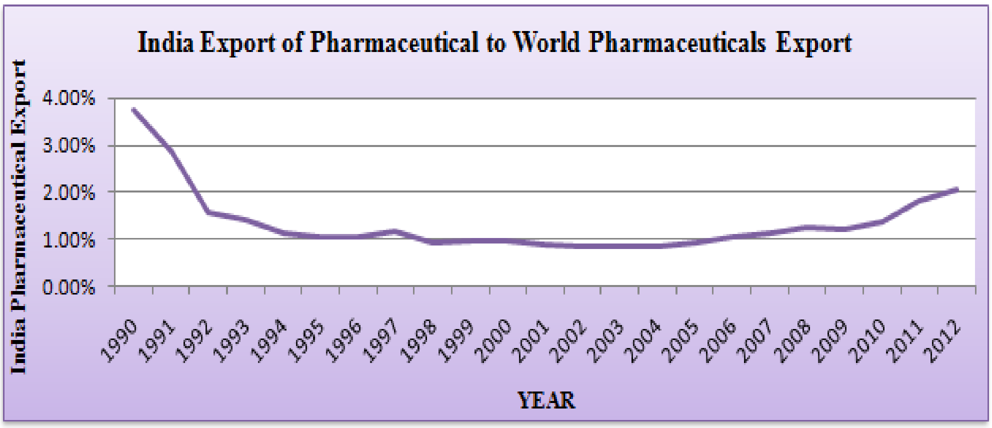


Source: Handbook of Statistics on Indian Economy.

Government has played an important role in increasing the share of pharmaceutical sector. There has been shift in regulatory framework under which the sector was operating. Government of India under the New Drug Policy 1994 and 2002 abolished licensing requirements for entry and expansion of firms. FDI was also allowed. Changes were not only made in domestic policy but also were made in the Patent Act 1970. We can say that there was gradual shift in public policy from phase of control and patent to decontrol and product patent industry. To increase exports Brand Pharma Mission was launched in March 2012. In recent years India- Asia Pacific Pharma meet of business was arranged where 82 delegates from 68 pharmaceutical companies from 14 Asian Pacific countries meet and over 270 Indian delegated participated and had fruitful business discussion which was organized by Ministry of Commerce and Industry. Moreover government initiative on research and development in pharmaceutical industry helped in its growth and development over a period of time.

Fig. 9 shows India's export of pharmaceutical products to world pharmaceutical exports. Though the share of Indian pharmaceutical industry has declined from its earlier levels, since 2004 there is a steady growth from 0.85% to around 2.05% 2012. Through government initiatives there is much larger scope of this industry to grow.

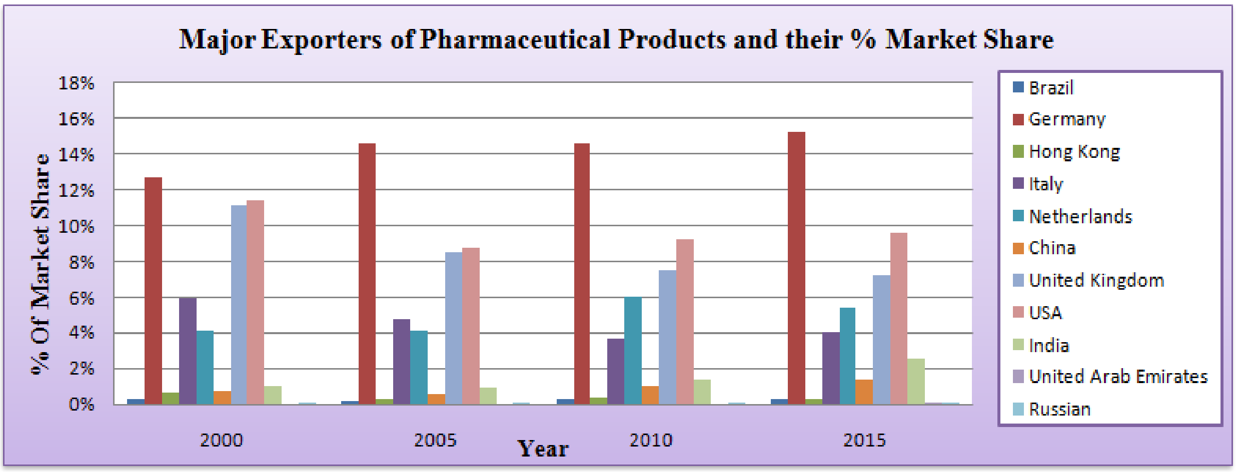
Fig. 9



Source: United Nations (UN) Comtrade database.

India exports pharmaceutical products in Brazil, Germany, Hong Kong, Italy, Netherland, China, Russia, UAE, UK & USA. Fig. 10 shows major porting countries of products to which India exports and their market share in world. India's share in world market is less as compared to its exporting countries like USA, UK & Germany. However, there is a visible progress made by India.

Fig. 10



Source: United Nations (UN) Comtrade database.

9. Conclusions and Policy Implications

Several changes can be identified in the exports of India. India's overall export growth performance has increased after reforms. It is also seen that after liberalization there is a shift from agricultural exports to manufacturing exports. It is observed that over a period of time there is structural shift in India's manufacturing exports from labor intensive industries like leather to technology based items like pharmaceutical products. While some sectors are making their mark in the world trade, particularly, Gems & Jewelry industry and pharmaceutical sector, there are other sectors such leather and leather based manufactured products which have declined over a period of time despite government initiatives, due to challenges faced by the industry. Thus on a whole we conclude that despite of changes in composition of exports India's exports have performed well after liberalization. However, cognizance should also be taken of the fact that several Indian companies have adopted the route of direct investment rather than exports to enter the international market. A comparison of outward FDI and exports of the sectors can give a better idea of the competitiveness of these sectors worldwide.

Indian government needs to adopt a long term strategy to create a synergy between the exports and outward FDI of the given sectors so as to have a two-pronged approach to increasing the ranking of India in international business. Those sectors responding well to export incentives need to be strengthened further by continuous up-gradation through research and development in its backward and forward linkages so as to retain its competitive position. Technical barriers to exports such as quality requirements, packaging standards, hygiene standards etc need to be addressed by creating the necessary awareness and facilitation. The government also needs to look for infusing technological advancement in the export sectors so as to strengthen India's position in world trade. Areas of diversification of exports need to be identified and strengthened so as to have a broad based export sector.

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