

Indian Exports

Loss of Global Competitiveness

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A time series of exports indicates that average export growth has remained almost stagnant since January 2012 after a sharp bounce back in the first and second quarters of 2009. This article looks at the composition of India's export basket, export destinations and share in global exports to understand the reasons for the fall in export growth. It concludes that the evident inability to increase India's share in global markets points to the need for a thorough review of the working and performance of export promotion councils and related export agencies.

India's exports have declined for six consecutive months since December 2014 with an average decline of 13.85% year-on-year (YoY). The decline is broad-based. Even exports of manufactured goods have trended lower during this time and have failed to compensate for the fall in the nominal value of commodity exports, which have declined due to a huge erosion of global commodity and oil prices. India's exports seem to have become more reliant on global commodity prices in recent years.

In line with global crude oil prices, India's monthly petroleum exports that peaked in July 2014 at \$7 billion shrunk to a mere \$2.4 billion in May 2015, declining at an average of 52% since the start of the year. Iron ore exports having peaked at \$509.5 million in December 2011 moved from \$129.5 million in April 2014 to \$10 million in May 2015.

It is instructive to take a longer term perspective of export performance (Chart 1, p 22). Average export growth has remained almost stagnant since January 2012 after a sharp bounce back from the collapse in the first and second quarters of 2009, induced by the global financial crisis. Export growth since October 2011 (50 months) is much lower than the robust 20% average clocked during the seven-year period of April 2002–March 2009 (marginally lower than the 23% rate of growth assumed for the five-year period of 2015–16 to 2020–21 in the Foreign Trade Policy announced in early 2015).

Is the fall in global commodity prices the primary reason for the fall in exports? Does the persistent weakness in exports indicate other structural issues?

Table 1 indicates that exports from other Asian economies have also suffered due to global demand factors. However, exports from India experienced a sharper fall compared to other Asian economies. This perhaps reflects some inherent structural weaknesses that now require to be addressed if export performance is to improve.

India's Export Basket

India's export basket is now highly diversified. Manufactured products constitute the largest share (around 67%), followed by petroleum products at 18%, agriculture products at 12.5% with ores and minerals contributing 1% to total exports.

India is one of the few emerging economies whose share of manufactured goods in total exports has declined continuously over the years—from the high of 81% in 1999–2000 to 67% in 2014–15. Over the same period, the share of petroleum exports has increased as India's refining capacity has expanded. The share of ore and mineral exports that increased from 1999 to 2000 until 2009 started to decline thereafter principally due to domestic judicial constraints and unresolved policy issues. The decline in the share of manufacturing products is a regressive trend that needs to be urgently corrected if India does not want to emulate the Russian example of a backward slide to become primarily a commodities exporter. This is especially inimical to employment growth as commodity exports are highly capital-intensive (Table 2, p 21).

It is easy to see that around 32% of India's total exports (ores and minerals, crude oil and agricultural products) is

Table 1: Export Growth of Some Asian Economies

%YoY	2014	4Q 2014	1Q 2015	January 2015	February 2015	March 2015	April 2015	May 2015
China	6.1	10.0	10.0	-3.3	48.3	-15.0	-6.5	-2.4
India	0.1	-3.8	-15.4	-9.5	-13.8	-21.3	-14.0	-20.2
Indonesia	-3.7	-8.2	-8.2	-7.7	-16.8	-10.3	-8.5	
Japan	0.4	-6.0	-4.9	2.6	-11.9	-7.8	-7.4	
Korea	0.5	-3.6	-11.3	-1.0	-3.3	-4.5	-8.0	-10.9
Malaysia	6.9	-4.6	-4.6	-8.4	-17.0	-8.8	-18.3	
Philippines	11.2	5.0	5.0	0.0	-3.0	2.1	-4.1	
Singapore	-0.3	-8.0	-8.0	-6.4	-21.6	-7.4	-15.6	
Thailand	-0.3	-0.7	-0.7	-2.6	-6.0	-4.3	-1.7	
Vietnam	13.7	3.8	3.8	17.0	-0.3	8.7	5.6	8.8

2014 is the calendar year, 4Q is the period from October to December and 1Q is the period from January to March. Source: HSBC research, CMIE Database and CPR.

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directly exposed to global price volatility and the recent decline in nominal value of these exports is directly linked to a fall in commodity prices. However, non-commodity exports where prices have been relatively stable are also declining.

Table 2: Product Composition of Export Goods (% Share)

	1999–2000	2004–05	2008–09	2011–12	2013–14	2014–15
Total exports	100	100	100	100	100	100
Petroleum	0	8	15	18	20	18
Agricultural and allied	15	10	10	12	14	13
Ores and minerals	2	6	4	3	1	1
Manufactured goods	81	73	67	61	63	67
Other commodities	1	3	4	6	2	1

Source: CMIE Data and CPR.

Manufactured Goods Exports

Manufactured exports have been clocking a low single digit growth rate since 2012 after the robust 23% YoY growth during the boom period of 2003–08. They have worryingly suffered a decline for four successive months from February to May 2015 (Chart 2, p 22).

Within manufactured products, the composition has undergone a significant change from traditional, labour-intensive products like textiles and ready-made garments, leather, and gems and jewellery to more modernised, mechanised engineering goods like automobiles, auto parts, capital goods and cotton and polyester yarn.

The share of traditional exports like textiles (including ready-made garments (RMG)) and leather products has come down from 33% and 5% in 1999–2000 to 17% and 3% in 2014–15, respectively. The fall in the share of textiles was taken up by engineering goods as its share more than doubled from 15% to 33% during that period.

Textiles

The share of textile exports (including RMG) in India's total exports has declined considerably since the 1990s. Despite being the third largest textiles exporter, India's share is a mere 6% of total world exports (in 2013) while the top exporter China accounts for a huge 35% of the total global market share.

In RMG or clothing exports, Bangladesh has surpassed India to become the third largest clothing exporter of the world with a share of 5%, perhaps because of its duty-free access to Canadian and European (including UK) markets. India

ranks third among the world exporters when the textile and clothing segments are taken together in 2013, as reported in a recent WTO report. The highest growth was clocked by India at 23%.

Within textiles exports from India (excluding RMGs), the share of yarns and fabrics, which are increasingly becoming automated and absorb a smaller number of workers, has increased to about 86% of total textile exports. These are effectively commodity exports as both yarn and fabric do not have the benefit of branding that permits higher unit value realisation. India has apparently lost market share in labour- and skill-intensive RMG, thereby causing employment losses in this sector. Labour-intensive exports like carpets have seen their share decline to a mere 8% in line with RMG.

In the textile sector, therefore, there is a clear need for policy intervention to reverse this trend towards more labour-intensive exports. A possible way forward would be to replace the capital subsidy paid under the Technology Upgradation Fund with a labour-related subsidy for the export units. This would have to be done in a WTO-compatible manner.

Gems and Jewellery

India exported gems and jewellery worth \$41 billion in 2014–15 as against \$24.8 billion of transport equipment, \$16.8 billion of machinery, \$8.7 billion of iron and steel, and \$2.4 billion of ores and minerals.

India is the world's largest diamond cutting and polishing centre and exports 95% of the world's diamonds, according to statistics released by the Gems and Jewellery Export Promotion Council (GJEPC).

India exports gems and Jewellery mostly to Asia (67% of total) with the UAE accounting for 29.9% (vs 4% in 1990–91) and Hong Kong 29.5% (vs 14% in 1990–91). Interestingly, exports to UAE have tripled and that to HK doubled since 2007–08. On the other hand, the share of exports to the US and Europe has declined.

India has a competitive advantage in this sector and it is a success story of labour-intensive exports. Much more

focused policy initiatives should be given to this sector, including setting up of new clusters with R&D and design facilities to further boost market share. Recently, China has been increasing its imports of gems and jewellery with the rise in its household disposable income. India should try and penetrate this market.

Engineering Goods

Engineering goods are the largest export segment of India by share. The export of engineering goods has almost doubled since 2007–08 to \$69 billion in 2014–15 (Table 3).

Table 3: Composition of 'Engineering Goods' Exports (%)

	1999–2000	2007–08	2014–15
Iron and steel	20	19	12
Ferrous and non-ferrous metals	32	31	23
Machinery and instruments	27	27	24
Transport equipment	18	21	36
Others	3	2	5

Source: CMIE Database and CPR.

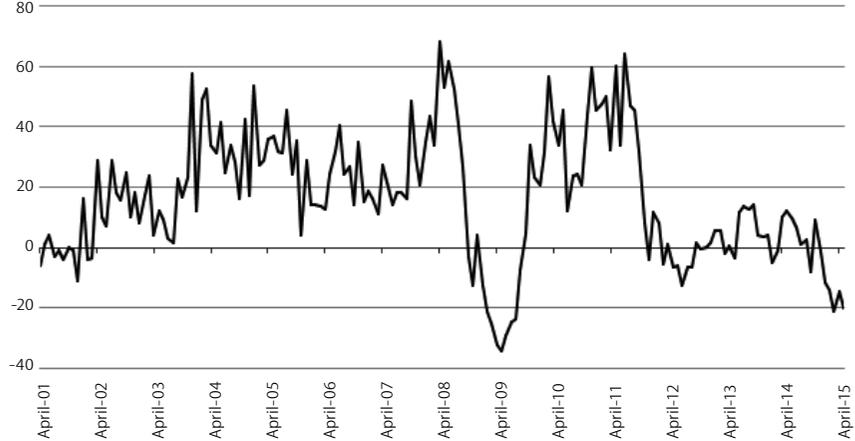
Transport equipment (including cars and auto components) exports from India have been growing at an average of 23% in the last seven years and have increased their share in India's total exports from 21% in 2007–08 to 36% in 2014–15 (from \$7 bn to \$24.8 bn during that time). Transport equipment are exported primarily to Asian countries with Sri Lanka and UAE accounting for about 24% of total transport equipment exports. India has increased its share in world export of automotive products, according to the WTO and was ranked 11th among top exporters in that segment in 2013 (Table 4).

Table 4: Top Exporters of Automobile Products in the World (2013)

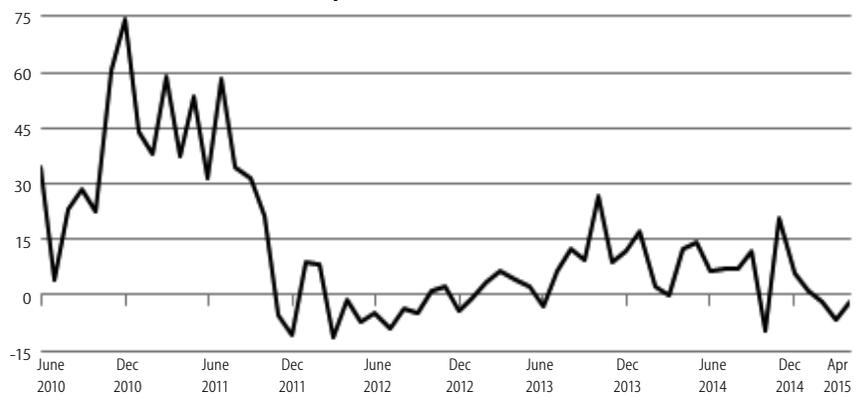
	Rank	Value (\$ Bn)	Share in World Exports			
			1980	1990	2000	2013
EU	1	656	-	-	49.8	48.7
Japan	2	152	19.8	20.8	15.3	11.3
USA	3	135	11.9	10.2	11.7	10.0
India	11	11	-	0.1	0.1	0.8

Source: WTO Statistics and CPR.

The success of the automobile sector has some directly relevant lessons for other sectors. The Government of India liberalised the automobile industry in 1991 and formulated an auto policy in 2002 to attract foreign direct investment (FDI) to the sector. The policy allowed automatic approval of foreign equity investment of up to 100% for the manufacture of automobiles and auto components. According

Chart 1: Trend of India's Monthly Export Growth

Source: CMIE Data and CRR.

Chart 2: India's Manufactured Goods Export Growth

Source: CMIE Data and CPR.

to the Department of Industrial Policy and Promotion (DIPP), the industry has attracted FDI worth \$12.4 billion between April 2000 and February 2015. Several carmakers including foreign manufacturers like Honda, Renault, Nissan, Ford, Fiat, Volkswagen, etc. are building new capacity in India dedicated partially or exclusively for exports. Carmakers are making India an export hub for markets such as Africa, Latin America and West Asia. The lesson for other sectors is to make them attractive for FDI and take active steps to attract export-oriented FDI where India can be integrated with global production networks or where the domestic market offers sufficient demand for exploiting economies of scale.

India has managed to diversify its export basket but has failed to claim a large market share in any product category. Its share in total global exports in various segments remains low even in segments where it is one of the top 10 exporters. A detailed study of

manufactured exports indicates that capital and skill-intensive groups like engineering goods (machinery, transport equipment) and chemicals have performed better in terms of export penetration and volume growth. But unskilled labour-intensive segments like garments (RMG) and leather have performed poorly. This is in contrast to the general perception that India has a competitive advantage in unskilled labour-intensive industries due to the availability of cheap labour as well as huge demand for such products from developed markets. Urgent policy measures are required to correct this trend.

India has diversified its export destination from developed economies to others in the last decade. In 2000, more than 50% of India's merchandise exports were going to key developed markets like the us, the euro area, UK, Canada, Australia and Japan. But a decade and a half later, the situation has dramatically changed. Now only a third of India's exports go to these developed markets and

71% go to various emerging economies with 49% going to Asian economies.

Structural Impediments

The recent fall in commodity prices explains some weakness in export growth, but that is only part of the story. In terms of exports by destination, exports to the us have become the key support to overall exports in the last couple of years, in line with the gradual recovery of the us economy.

However, exports to Europe contracted sharply in 2014–15. It is convenient to think that the sharp fall in the currency euro is responsible for this as exports to the euro area in nominal terms are reported in us dollars. There might be some truth in it as the euro is down, nearly 20% YOY against the us dollar. But a recent report by HSBC stated that exports in volume terms from emerging Asia to the euro area have remained flat since 2014 with a slight downward movement in recent months. So, exports to the eurozone have remained slow due to structural reasons other than the falling currency. Interestingly, export growth to China has been moderating since 2002–03 and finally contracted last fiscal. The fall in commodity prices as well as slowing demand from China are both responsible for this.

India's share in total imports by the us and UK improved from a mere 0.7% in 1995 to only around 1.5% in 2012 while that of China to the two countries separately increased to 17% and 8%, respectively (from 5% to 1% in 1995, respectively). The share of India's in total imports by Japan remained stagnant at around 0.7% while that of China improved from 9.8% in 1995 to 19.8% in 2012. Similar trends are observed in exports to the major EU economies.

India failed to improve its market share in its existing markets in developed economies while it diversified into other emerging markets. This is a purely defensive response and does not augur well for its future export performance because advanced economies will continue to have by far the largest share in global imports for the foreseeable future. Excessive diversification of India's exports, both in terms of products and destinations, has made exports sensitive to global growth and so growth closely

tracks global growth.¹ India's export growth had been highly correlated with the GDP growth of advanced economies. They almost move in sync—exports declined sharply along with global demand during the financial crisis.

However, since 2011, the correlation has somewhat disappeared. India's exports remained weak when global growth stabilised. This is due to the huge diversification of its export destinations and a decline in market shares in advanced economies.

Reasons for Weakness

In Table 5, we try to compare some key supply-side variables during the boom period of 2004–08 and the post-crisis period of 2010–14.

Table 5: Comparing 2004–08 and 2010–14

Loss of Competitiveness	2004–08	2010–14
REER (export weighted 36 currencies)	103	111
Real rural wage growth (% YoY)	-0.6	10.7
Road length in km/day	8.4	6.9
Telecom subscriber base growth (% YoY)	41.1	11.7
Core sector growth (% YoY)	5.8	5.6
Gross electricity generation	6.0	5.9
Peak power deficit	13.6	8.4

Source: CEA, CMIE and CPR.

It is seen that there was some productivity loss during the post-crisis period. Real rural wage rate was growing at as much as 10.7% YOY compared to an almost flat growth during the boom period. The rupee appreciated in real terms during the second period. Infrastructure growth slowed down in the latter period when measured by proxies such roads constructed in km per day, growth in telecom subscribers, core sector growth, etc, as proxies for the infrastructure sector. We find that infrastructure constraints were there even during the boom period. However, the evidence is not very conclusive because the core sector growth and increase in electricity generation remained almost the same during both periods.

Slower global demand growth combined with a loss of global competitiveness due to higher wage growth, a stronger rupee and an infrastructure deficit have all had an adverse impact on Indian exports since 2012. India has managed to reverse few of the key supply-side weaknesses. Rural wage growth that peaked at 21.5% yoy in August 2011

has decelerated sharply and averaged at around 5% in recent months. There is a greater push to ease infrastructure bottlenecks with higher public expenditure particularly in roads, railways and ports.

Conclusions

India has managed to diversify its exports but with mixed results. It has failed to claim a large market share in any export product category in the world. It does not have depth in any export product or any market. A detailed study of manufactured product exports reveals that unskilled labour-intensive segments like textiles and leather have performed poorly despite the fact that India has a competitive advantage in the sectors and there is a huge demand for such products from developed markets. India needs to identify the sectors where it has a natural competitive advantage and focus sharply on providing necessary infrastructure and skills for these sectors. These sectors can also lead India's efforts to integrate with global production networks which depend critically on the availability of adequate infrastructure and the ability to attract export-oriented FDI as in the automobile industry. Some macroeconomic

factors like an appreciated rupee and rise in real wages have hurt export performance. This can be compensated by replacing capital-related subsidies with labour- and employment-related promotion activity to reverse the trend of rising capital-intensive exports. The evident inability to increase India's share in global markets, in general, and in advanced economy markets, in particular, points sharply to the need for a thorough review of the working and performance of export promotion councils and other agencies like the Federation of Indian Export Organisation, State Trading Corporation and Minerals and Metal Trading Corporation.

NOTE

- 1 It is found that GDP growth of US (or advance economies) had much higher influence on India's exports during the earlier period of 2000 to 2006 with a correlation coefficient of 77% which reduced to 33% from 2006 to 2015. So, the recent pick-up in US growth has failed to lift exports. On the other hand, the correlation with growth rate of emerging and developing Asia has increased in recent times. The correlation coefficient in recent period has increased to 0.78 from 0.60 in earlier period (2000–06) making growth rate of China and other major Asian economies much more influential on exports. With the change in export destination in the last decade with a higher share to Asian economies, it is obvious that demand from China will have an impact on export growth.

Journal Rank of EPW

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Scopus has indexed research papers that have been published in EPW from 2008 onwards.

The Scopus database journal ranks country-wise and journal-wise. It provides three broad sets of rankings: (i) Number of Citations, (ii) H-Index and (iii) SCImago Journal and Country Rank.

Presented below are EPW's ranks in 2014 in India, Asia and globally, according to the total cites (3 years) indicator.

- Highest among 36 Indian social science journals and highest among 159 social science journals ranked in Asia.
- Highest among 36 journals in the category, "Economics, Econometrics and Finance" in the Asia region, and 36th among 835 journals globally.
- Highest among 23 journals in the category, "Sociology and Political Science" in the Asia region, and 15th among 928 journals globally.
- Between 2008 and 2014, EPW's citations in three categories ("Economics, Econometrics, and Finance"; "Political Science and International Relations"; and "Sociology and Political Science") were always in the second quartile of all citations recorded globally in the Scopus database.

For a summary of statistics on EPW on Scopus, including of the other journal rank indicators, please see <http://tinyurl.com/qe949dj>

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