Raising India's share in global exports is key for growth and employment generation

XPORT MARKS THE SPOT

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Exports have been India's Achilles' heel. In 1947, India's share in world trade was 2.53%. Due to extreme export pessimism in the decades preceding economic liberalisation in 1991, this share declined to 0.53% in 1990. The trend was reversed subsequently. But the problem persists.

In 2022-23, India's share in world trade was 1.8%, lower than in 1947, and at the same level as in 1950, when it was 1.78%. In the meantime, China has increased its share in global trade from negligible in 1960 to 15.7% in 2022.

India's weak export performance is further highlighted when we compare it with other Asian emerging economies. Its merchandise exports in 2022 were $453 billion, China's eight times more at $3.59 trillion. Vietnam has caught up with India, with exports of $371 billion in 2022. Surprisingly, Bangladesh, which started much later than us, exported $43 billion of readymade garments in FY23 compared to India's $16.2 billion. In per-capita terms, Vietnam's exports were $3,782, China's $2,545, and India's $320 per person. This must change if we wish to accelerate employment generation.

Our export performance in 2023-24 is a cause of serious concern. Merchandise exports during April-August have been $173 billion compared to $196.3 billion over the same period in 2022-23, posting a decline of 11.9% year-on-year. Total exports (merchandise plus services) have fared slightly better, declining by 5.2%. The disappointing export performance reflects the strong correlation between growth in global trade and India's export performance. The time has come to sever this link and work towards sharply raising India's share in global exports, making it the main driver of economic activity.

Policy has remained clouded by the confusion that a large population automatically implies that India is a large economy. Like all emerging economies, Indian businesses must depend on external demand to achieve global competitiveness and reach global scales. Our software industry is the best example of this phenomenon. This must now be replicated in the manufacturing, including agro-processing, sectors.

Here are some suggestions to perk up India's export sector:

▶ Our export effort has been hampered by an overvalued exchange rate. Several studies have used RBI's data on the 'real effective exchange rate' to show that this has remained consistently elevated. RBI has pandered to vested interests in keeping the rupee overvalued. This reduces the cost of foreign higher education and tourism and brings down the price of branded imports. All this represents consumption by the rich at the expense of generating jobs for the poor. That would happen if the competitiveness of our exports were enhanced with an appropriately managed exchange rate.

Yes, an undervalued exchange rate will raise the price of imported petroleum. But this will have the strong positive impact of encouraging a shift from fossil fuel to RE and reducing wasteful energy consumption. Both will help the economy while at the same time promoting exports and generating much-needed jobs. It is time that RBI ensures that the rupee is no longer overvalued.

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Out-of-the-box thinking time

▶ The commerce ministry must consider an overhaul of the institutional structure for export promotion. Export promotion councils have become dysfunctional. Do we need as many as we have? Do organisations like Federation of Indian Export Organisations (FIEO) and the export promotion councils have any performance targets? The duty drawback scheme, which aims to reimburse duties or taxes paid on inputs required for exports, is known for its procedural delays. This entire structure needs to be overhauled and made more accountable.

▶ India established its first export-processing zone at Kandla, Gujarat, in 1965. Since then, these have mushroomed under different formats across the country. The programme must be reviewed to make these zones achieve economies of scope and scale, and attract large-scale export-oriented investments that are integrated within global and regional production networks.

▶ Design state and sector-specific export-promotion policies. The same export promotion policy cannot be relevant for Punjab and Gujarat. The former is a double landlocked state, while the latter is a coastal state. State-specific export promotion policies, designed with significant participation of states, will enhance a state's competitive advantage, and ensure greater ownership in their export effort.

▶ Put in place sector-specific export-promotion measures. These should not be fiscal incentives that are WTO-incompatible. Instead, these measures should be aimed at improving productivity levels, upgrading technology and facilitating export-oriented enterprises to achieve global competitiveness and global scales. The PLI scheme, which is sector-specific, can be a good starting point for this effort.

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▶ India needs to set an ambitious target for increasing its share in global trade. This target should be set for non-petroleum exports as then alone will the effort result in expanding the share of manufacturing in the economy and generating jobs. An export-led growth will certainly not be jobless growth.

▶ Establish a high-powered working group comprising experts, exporters and representatives from the central and state governments to recommend changes in the export-promotion policy. Subsequently, rather than issue its annual exim policy, GoI will do well to monitor state- and sector-specific export performance, and refine the policy regime based on the feedback from such monitoring.

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