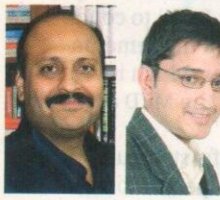
Export Competitiveness

How to attain the objective of doubling exports by 2014



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Trade is one of the most essential functions in any modern economy. An economic and political system, which is closed to outside influence, is in economic parlance termed as an autarkic closed system. The most obvious example of such a system is the one existing in North Korea. Contrary to this, most nations today follow a policy of exporting goods and services in which they have a comparative advantage and importing goods and services in which they have a comparative disadvantage. Trade leads to a win-win situation for both countries involved. In the present article we focus on export competitiveness of India, its major trading partners and government policies in the export sector, the economic geography of the export sector in India, critical bottlenecks which need to be removed and the policies which need to be put into place for ensuring that India attains its stated objective (by the Ministry of Commerce) of doubling its exports by 2014.

The amount of trade that an economy does is an important determinant of the openness, which is essential for bringing in not just capital but new ideas, technology and experience into the economy. Essentially, trade has two components. The exports component comprises of commodities, goods and services that an abundant country gives away to other countries that are lacking in them. The import component comprises commodities, goods and services that the scare country takes from countries that are abundant in them. An economic strategy that can be followed for becoming a strong trade based economy is to export more and import less. However, it is easier said than done. Figure 1 shows the exports per capita from major economies of the world.

It can be seen that Pakistan and India are bad performers when it comes to exports/capita. They have few exports and a large population that contributes very less to exports. Singapore, which is a small country, has largely seen its growth in the past by being export competitive. This is because of the presence of ports and efficient management by the Singapore government.

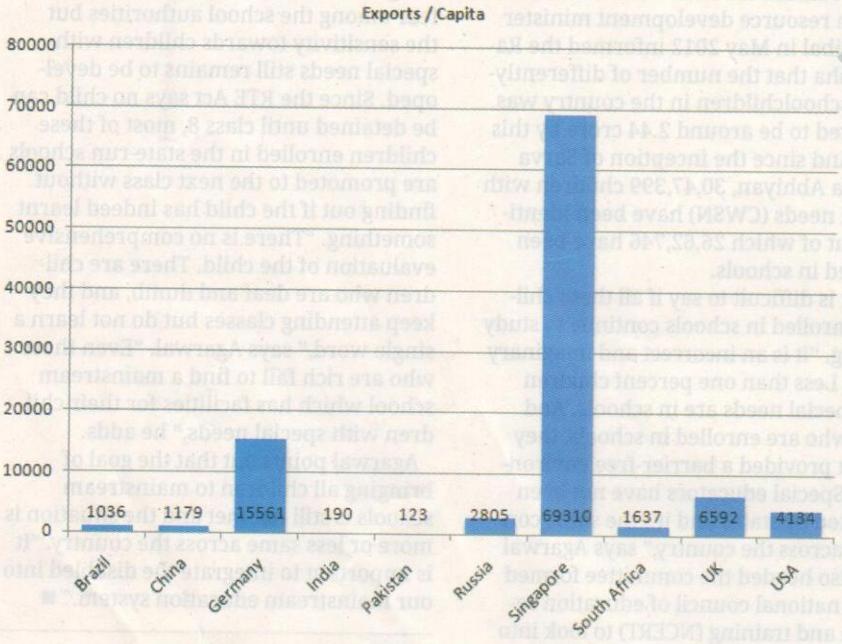
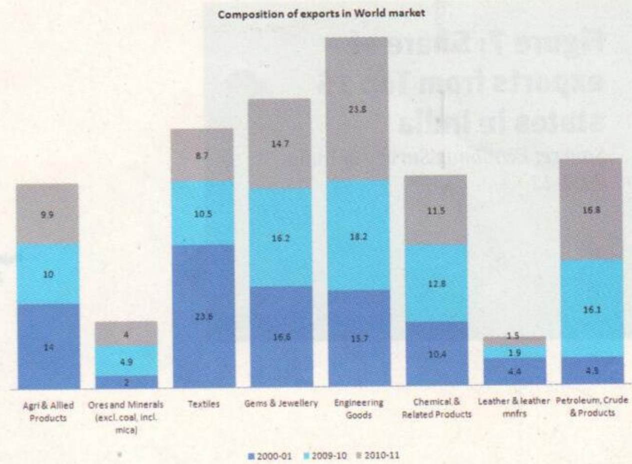


Figure 1:
Exports per capita in 2010

Figure 2: Total share of world exports

Figure 2 shows the share of exports in the world market in 2010. The biggest exporter in the world is China, which has a share of 10.48 percent of the world trade. This makes one ask a seemingly simple question. Who are India's trade partners and how much trade does India do with these partners? This leads us to the export/import ratio which simply speaking tells about the relative trade between India and its partners. A higher than 1 ratio implies that the country imports more from India than it exports to India. While a ratio less than one implies that India imports more than it exports to this economy. The economic strategy thus should be to make this ratio near unity or to get it beyond the 1 mark.

Source: Economic Survey of India, 2011-12



Source: Economic Survey of India, 2011-12

Figure 3: Export/import ratio in India

It can be easily noticed that India has an export ratio of more than one with Hong Kong, Singapore and the US while it imports heavily from Switzerland, China and Saudi Arabia. To increase the export competitiveness India will have to increase these ratios.

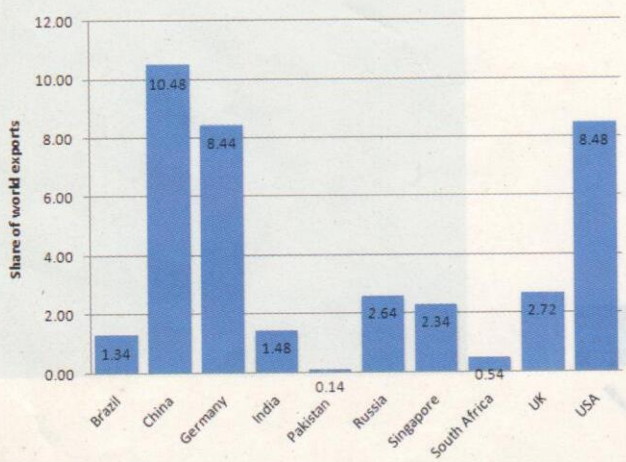
In order to look deeper into the export competitiveness of India we need to focus on the kinds of good and services India is exporting at present. A brief snapshot of this is shown in figure 4. In 2010-11 the largest exports were of engineering goods that constituted 23.8% of the total exports while gems and jewellery constituted 14.7% of the total exports. The manufactured goods would need to go up in the economy. At present, manufacturing contributes just 15% to the overall economy.

Figure 4: Composition of exports in world market

The major commodities and their shares in the world market are shown below. The largest share in the world market was of Cotton in 2010. Silk showed a declining trend.

Figure 5: Exports by major commodities

Let us look at the states that lead to this type of export performance. Broadly speaking, the states having adequate coastline and port infrastructure end up being highly export competitive at a sub national level. In 2010 Gujarat overtook Maharashtra to become the largest exporting state in value terms from India. Figure 8 shows the per capita export of goods and services that happens from the top 15 states in terms of exports from India.

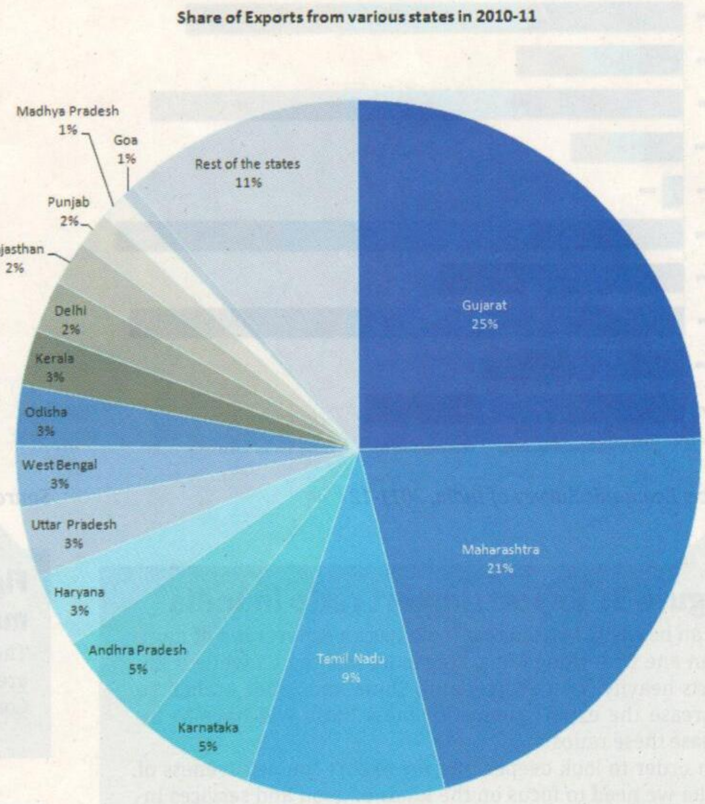


Source: World Bank 2011 dataset, Economic Survey of India 2011

Source: Economic Survey of India, 2011-12

Figure 7: Share of exports from Top 15 states in India

Source: Economic Survey of India, 2011-12



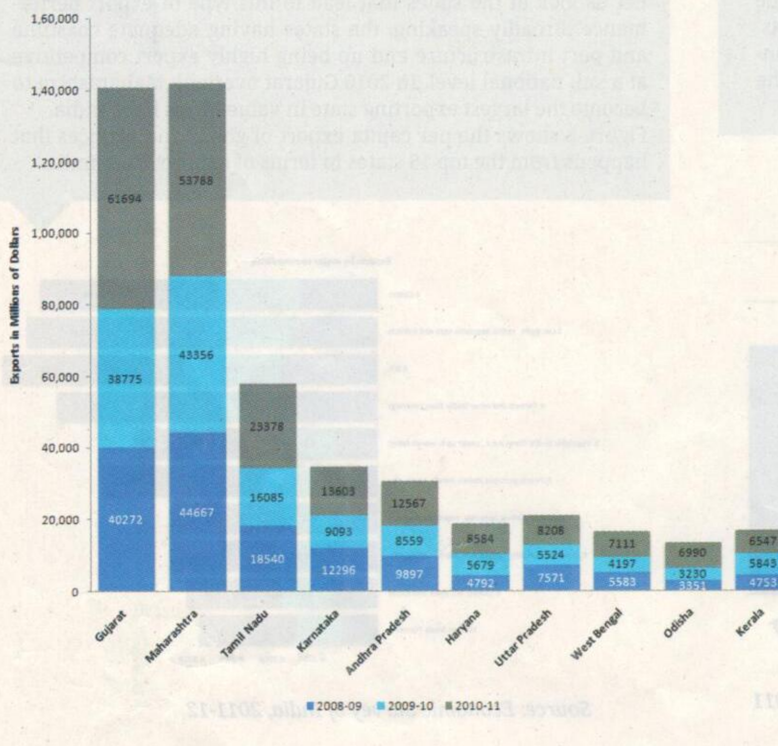


Figure 8: Per capita exports from top 15 states

Source: Institute for Competitiveness Analysis

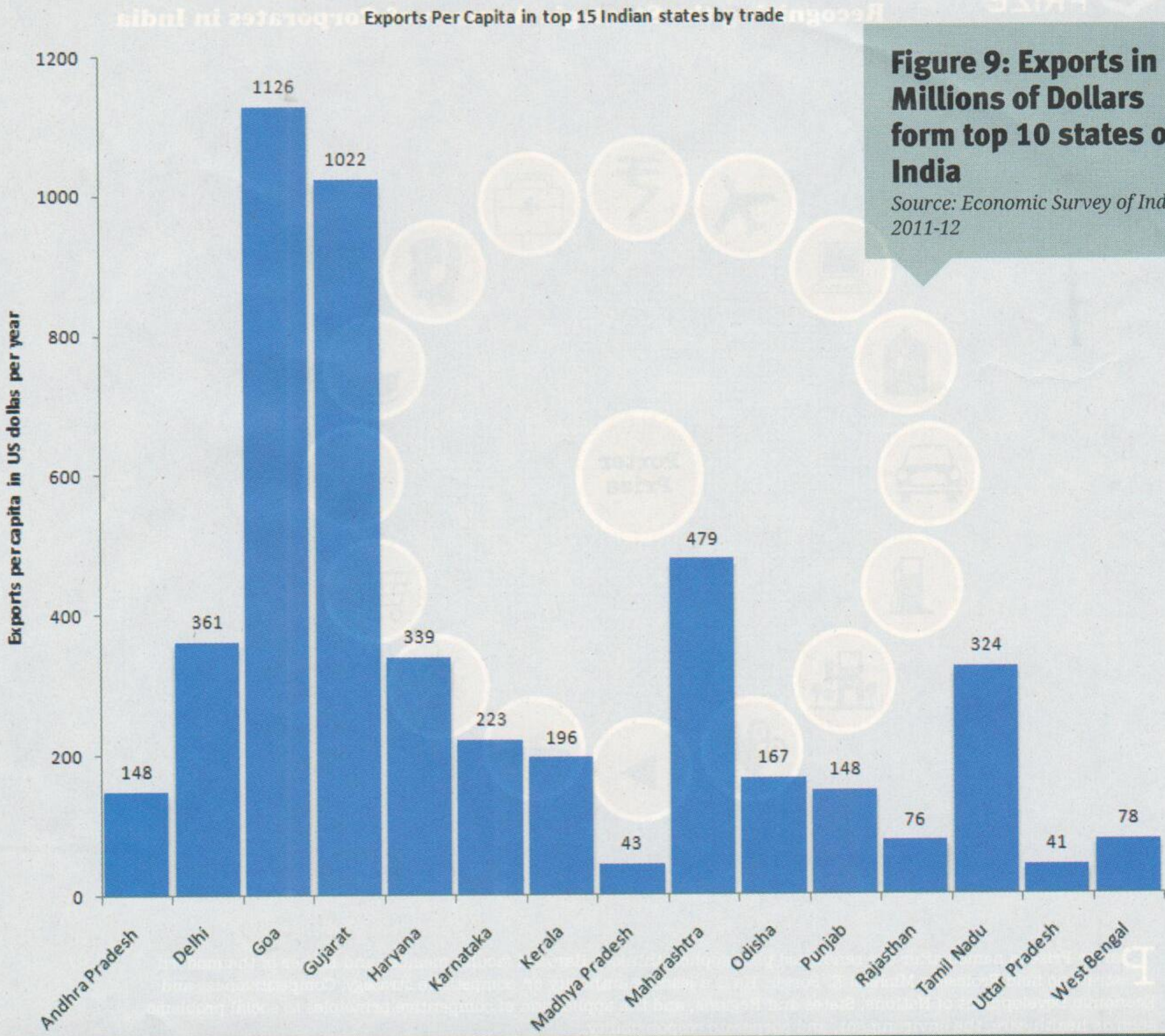


Figure 9: Exports in Millions of Dollars form top 10 states of India

Source: Economic Survey of India, 2011-12

The strategies that need to be adopted to make India's export sector more competitive are:

Attracting FDI: Various sectorial FDI investments across states would enable requisite skills, technology and international capital to be brought to India and create the much-needed prosperity.

Making manufacturing more competitive: A stronger manufacturing will help India boost its exports. It can be done by strongly focusing on the MSME sector and improvement in its product standards.

Stable currency: Maintaining a stable currency ensures that exporters and importers do not face the problem of varying payments as well as doing away with hedging as a strategy.

Infrastructure development of ports: The ports in eastern parts of India can be upgraded to make these regions more export competitive.

Allowing trade to happen: A recent case in point is India allowing FDI from Pakistan. This will help restore trust and make both countries better off.

If these measures are judiciously followed India will end up being export competitive in the long run.

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