



PROGRESS HARMONY DEVELOPMENT

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India's Exports Diversification: Crisscross Outcomes

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Executive Summary

India's diversification of export markets has been increased as concentration of exports towards the top 10 export destinations declined from 56% in FY2004 to 53% in FY2009 and to 49% in FY2014. India's exports are no more majorly dependent on its traditional export destinations as volumes of exports towards African & Asian markets are increasing.

India's export performance has exhibited remarkable performance during the last decade. At the time of commencement of reforms India's exports were only of around US\$20billion which increased to US\$45 billion in 2001-02 and to US\$312.6 billion in 2013-14. Thus, during the early phase of reforms it took as many as 10 years (FY1992-FY2002), to double the exports, however, within next 12 years (FY2003-FY2014) the exports increased nearly by six times.

India's integration with the world economy, reflected by the trade openness indicator (merchandise trade to GDP) is also enhanced from 14.3 % of GDP in 1991-92, to 28.2% in 2004-05 and further to 41.8 % of GDP in 2013-14. And, the share of India's merchandise exports in the world exports has been increased from 0.5% in 1991 to 0.8% in 2004 and to 1.7% in 2013. However, despite of exhibiting encouraging exports growth, India's exports performance at the international stage is still not that much significant and suggests lot of scope to excel further with increased share in world exports.

This is apparent in the recent World Trade Report, 2014 of WTO wherein, India with total exports of around US\$313bn and 1.7% share in world exports is ranked at the 19th position amongst the World's top 20 leading exporters. While, China with total exports of US\$2209bn & 11.7% is the leading merchandise exporter followed by US (8.4%), Germany (7.7%), Japan (3.8%), and Netherlands (3.6%).

To become internationally competitive, this is suggested that commodity composition of the country to be focused for diversification with the inclusion of more and more commodities in export baskets. Contrary to increasing market diversification of India's exports, product diversification of India's exports has reported a fall from 57% in FY2004 to around 64% in FY2014.



For this, the country needs to provide facilitation to exporters to diversify the composition of export basket with enhanced knowledge of foreign markets regarding demand for goods across borders. More and more information about the world demand dynamics would help exporters to enhance their export baskets and manufacturers to enhance their production possibility frontiers.

Further, India needs to enhance its productivity in the manufacturing sector with a major focus on research and development and new product innovations.

Manufacturing processes in the country should be facilitated with the simplification of procedures and ease of doing business. Industrial infrastructure especially, the export infrastructure needs to be enhanced in terms of capacity expansion of ports, state of the art facilities in the railways and improved quality of roads.

The improvement in industrial infrastructure will not only improve the manufacturing competitiveness in India but also enhance its export competitiveness in the international markets.

India's Exports Diversification

An Analysis

India's export performance has exhibited remarkable performance during the last decade. This is evident with the fact that, in 1991-92 at the time of commencement of reforms India's exports were only of around US\$20billion which increased to US\$45 billion in 2001-02 and to US\$312.6 billion in 2013-14. During the early phase of reforms it took as many as 10 years (FY1992- FY2002), to double the exports, however, within next 12 years (FY2003-FY2014) the exports increased nearly by six times. India's integration with the world economy, reflected by the trade openness indicator (merchandise trade to GDP) is also enhanced from 14.3 % of GDP in 1991-92, to 28.2% in 2004-05 and further to 41.8 % of GDP in 2013-14¹. And, the share of India's merchandise exports in the world exports has been increased from 0.5% in 1991 to 0.8% in 2004 and to 1.7% in 2013.

However, despite of exhibiting encouraging exports growth during the last two decades, India's exports performance at the international level is still not that much lucrative and suggests lot of scope to excel further with increased share in world exports.

This is apparent in the recent World Trade Report, 2014 of WTO wherein, India with total exports of around US\$313bn and 1.7% share in world exports is ranked at the 19th position amongst the World's top 20 leading exporters (**Table: 1**). While, China with total exports of US\$2209bn & 11.7% is the leading merchandise exporter followed by US (8.4%), Germany (7.7%), Japan (3.8%), and Netherlands (3.6%).

¹ *India's Merchandise Exports: Some Important Issues and Policy Suggestions, 2014, Department of Economic Affairs, Ministry of Finance, Government of India*

In order to further enhance the exports and to become internationally competitive, Indian Government has undertaken various measures in terms of export incentives, tariffs reduction, procedural simplification, enhanced finance facilities etc. In recent years, especially after the global crisis, the government has put greater emphasis upon export diversification² strategy so as to restore falling exports in the short run and to achieve and sustain high exports growth rate in the long term.

Table: 1 Leading merchandise exporters at global level

Rank	Exporters	Value (in US\$ bn)	Share (in %)
1	China	2209	11.7
2	United States	1580	8.4
3	Germany	1453	7.7
4	Japan	715	3.8
5	Netherlands	672	3.6
6	France	580	3.1
7	Republic of Korea	560	3
8	United Kingdom	542	2.9
9	Hong Kong, China	536	2.8
10	Russia	523	2.8
11	Italy	518	2.8
12	Belgium	469	2.5
13	Canada	458	2.4
14	Singapore	410	2.2
15	Mexico	380	2
16	United Arab Emirates	379	2
17	Saudi Arabia	376	2
18	Spain	317	1.7
19	India	313	1.7
20	Chinese Taipei	305	1.6

Source - PHD Research Bureau, compiled from World Trade Report, 2014

Note : Data pertains to the year 2013

² Export diversification is defined as the change in the composition of a country's existing export product mix or export destination

Therefore, under the ambit of export diversification strategy, two major schemes – Focus Product Scheme and Focus Market Scheme were launched wherein exporters are incentivized for exporting notified products and/or to notified countries.

The Focus Market Scheme was introduced w.e.f 1.4.2006, with an objective to offset the high freight cost and other disabilities to select international markets with a view to enhance export competitiveness to these countries. According to the scheme, exports of all products to notified countries are entitled for Duty Credit Scrip equivalent to 3% of FOB value of exports made from 27.8 2009 onwards.

The Focus Product Scheme was also introduced w.e.f 1.4.2006, with an objective to incentivise export of such products which have high employment intensity in rural and semi urban areas so as to offset the inherent infrastructure inefficiencies and other associated costs involved in marketing of these products. According to the scheme, exports of notified products are entitled for Duty Credit scrip equivalent to 2% of FOB value of exports made from 27.8.2009 onwards. However, Special Focus Product(s) /sector(s) are granted Duty Credit Scrip equivalent to 5% of FOB value of exports made from 27.8.2009 onwards.

India's direction of exports, especially after undertaking these measures suggests that the share of top 10 countries in India's total exports has been reduced from 56% in FY2004 to 53% in FY2009 and to 49% in FY2014 which is an indication of diversification of India's exports towards new markets (**Table :2**). In FY2004, 56% of India's exports were concentrated towards only top 10 countries, while in later years especially after undertaking export market diversification measures, India's exports have been diversified towards other markets also. Presently, only 49% of India's exports are directed towards top 10 export countries.

Furthermore, it is also apparent that Asian and Middle East nations viz. China, HongKong, Singapore, UAE, and Saudi Arab have replaced India's traditional export partners viz. UK, Germany, Italy, Belgium etc.

Table: 2 Share of India's top 10 Export Countries (in %)

Years	FY2004		FY2009		FY2014	
S.No.	Country	% Share	Country	% Share	Country	% Share
1	U S A	18.0	UAE	13.2	U S A	12.4
2	UAE	8.0	U S A	11.4	UAE	9.7
3	Hong Kong	5.1	China	5.0	China	4.7
4	U K	4.7	Singapore	4.6	Hong Kong	4.0
5	China	4.6	Hong Kong	3.6	Singapore	4.0
6	Germany	4.0	U K	3.6	Saudi Arab	3.9
7	Singapore	3.3	Germany	3.4	U K	3.1
8	Belgium	2.8	Netherland	3.4	Netherland	2.5
9	Bangladesh	2.7	Saudi Arab	2.8	Germany	2.4
10	Italy	2.7	Belgium	2.4	Japan	2.2
Total Share		56.1	Total Share	53.5	Total Share	49.0

Source - PHD Research Bureau, compiled from Ministry of Commerce and Industry

Contrary to decline in India's exports market concentration, India's export product concentration reported an increase from 57% in FY2004 to around 64% in recent years **(Table: 3)**. Presently, India's top 10 export products comprises of 64% share in India's exports as compared with earlier 57% which reflects that India's exports are getting highly concentrated towards few products. This is in contrast to the government measures which are greatly aimed at diversification of India's exports basket.

While, another significant change pertains to composition of India's top 10 export products is the replacement of conventional labor intensive principle commodities viz. cotton, readymade garments, semi finished iron & steel with non conventional capital intensive products viz. petroleum, transport equipments, machinery and instruments etc. This is considered as a remarkable change in India's export composition.

This is an indication of India's rising export capabilities in capital intensive products in international market. But, it is also needed to be diversified with the enhanced exports of labour intensive products to generate more and more employment opportunities in the economy with enhanced commodities export basket.

Table :3 Share of India's top 10 Export Commodities (in %)

Years	FY2004		FY2009		FY2014	
S.No.	Commodities	% Share	Commodities	% Share	Commodities	% Share
1	Gems & jewellery	16.56	Gems & jewellery	15.29	Petroleum	20.12
2	Rmg cotton incl accessories	7.5	Petroleum	14.68	Gems & jewellery	13.24
3	Petroleum	5.59	Transport equipments	6.1	Transport equipments	6.82
4	Cotton, yarn, fabrics, etc.	5.32	Machinery and instruments	5.99	Machinery and instruments	5.15
5	Drugs, pharmaceuticals etc.	5.19	Drugs, pharmaceuticals etc.	4.81	Drugs, pharmaceuticals etc.	4.84
6	Machinery and instruments	4.35	Rmg cotton incl accessories	4.58	Manufactures of metals	3.08
7	Manufactures of metals	3.8	Manufactures of metals	4.13	Rmg cotton incl accessories	2.88
8	Primary & semi-fnshd iron & steel	3.37	Electronic goods	3.72	Cotton, yarn, fabrics, etc.	2.84
9	Transport equipments	3.06	Primary & semi-fnshd iron & steel	2.59	Electronic goods	2.43
10	Manmade ,yarn, fabrics etc.	2.76	Iron ore	2.58	Plastic & linoleum products	2.15
Total Share		57.5	Total Share	64.47	Total Share	63.55

Source - PHD Research Bureau, compiled from Ministry of Commerce and Industry

Conclusions: The significance of India's exports in the world market is increasing, though slowly. The recent policy measures have significantly contributed in the diversification of export market as exports are no more majorly concentrated at around the top 10 export destinations. The concentration of exports towards top 10 export destination has been decelerated from 56% in FY2004 to 49% in FY2014 which indicates that half of our exports are diversified towards the other markets. However, the concentration of top 10 export products is still high and has been increased from 57% in FY2004 to 64% in FY2014. It indicates that our major exports and even exporters are concentrated only at around top 10 items of exports. Going ahead, commodity composition of the country still needs to be focused for diversification with the inclusion of more and more commodities in our export baskets.



India needs to enhance its productivity in the manufacturing sector with a major focus on research and development and new product innovations. Manufacturing processes in the country should be facilitated with the simplification of procedures and ease of doing business. Industrial infrastructure especially, the export infrastructure needs to be enhanced in terms of capacity expansion of ports, state of the art facilities in the railways and improved quality of roads. The improvement in industrial infrastructure will not only improve the manufacturing competitiveness in India but also enhance its export competitiveness in the international markets.

Considering India's ambitious export targets, the country needs to provide facilitation to exporters to diversify the composition of export basket with up to the mark knowledge of foreign markets and demand for goods across borders. We believe, more and more information about the world demand dynamics would help exporters to enhance their export basket and manufacturers to enhance their production possibility frontiers.



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