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DOABLE AND DAUNTING

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign capital, Foreign Trade & BoP

According to statistics released by the WTO in July, the share of India in total world merchandise exports was 1.68 per cent in 2017, a level it has more or less maintained since 2011. The preceding decade was better when India more than doubled its share from only 0.7 per cent in 2001 to 1.67 per cent in 2011. This was also a time when international trade grew rapidly all around. This was reflected, for example, in our imports more than trebling its share in world merchandise — imports from 0.77 per cent in 2001 to 2.51 per cent in 2011. The foreign content in our exports also doubled from a little over 10 per cent to 24 per cent during this period, aided by items like refined petroleum products joining our export basket. That all this led to a widened trade deficit for India is also noteworthy. India's import share contracted somewhat in recent years, in part due to commodity prices, reaching a low of 2.21 per cent in 2016 but the upward climb has already begun with the share recording 2.48 per cent in 2017.

Notwithstanding the importance of pushing exports to boost economic growth, its exhortation has rarely received high-level political attention in India beyond the commerce ministry. It was, therefore, welcome to see Prime Minister Narendra Modi set a clear target of doubling India's share of world exports to 3.4 per cent in June. More importantly, he recognised that this was important if India was to move towards double-digit growth. He emphasised the need for moderating the dependence on imports by at least 10 per cent by reducing imports in sectors such as energy, electronic goods, defence equipment and medical devices.

While no target dates have been set by the PM, there can be little doubt that even if the target has to be reached by 2025, it will need a coordinated effort from the entire government, not just the commerce ministry. That this will not be automatically forthcoming was evident when we saw the commerce minister publicly lamenting recently the paradox that while export was a strategic priority for India, it was not a priority sector for lending.

The doubling challenge is also daunting in the context of the Economic Survey 2017-18 pointing out that while the share of manufacturing in GDP has improved slightly, "the international competitiveness of manufacturing has not made great strides, reflected in the declining manufacturing export-GDP ratio and manufacturing trade balance". Existing exports are barely able to hold on to their market shares and new products or markets have not burst forth.

Most importantly, segments of exports continue to go substantially in primary form and not in a value-added mode. Cotton and cotton yarn than high-end garments and made-ups, leather than its products, ferro alloys and primary steel than alloy steel, dimensional stones than polished granite, primary polymers than plastic products and cut and polished diamonds than studded jewellery are just a few glaring examples.

To be exportable in sizeable volumes, value-added products demand capacity, quality, consistency and competitiveness. All this is a tall order but it can certainly be achieved if there is political will and thrust to ensure not only the success of Make in India in 2025 but that it gets embedded with doubling export share.

This will need a greater focus for it in our draft industrial policy under consideration and for speeding up the establishment of product-specific industrial clusters and enacting labour reform, at least in export zones. It will also require a sound export infrastructure by energising the Bharatmala Pariyojana to improve the efficiency of movement of goods and to cut logistics costs. The Sagarmala programme with its emphasis on port modernisation, capacity augmentation and port-led industrialisation will need an export orientation. Trade facilitation and export finance will also have to acquire high priority. Establishment of sector-level standards, compliance and certification mechanisms will be essential.

And all this will need a time-bound missionary zeal from the government, the states and industry. But judging from the performance so far, it is tempting to say the goal may be unrealistic. Particularly at a time when we face the prospect in the WTO of having to give up some of our export subsidies.

India's imports are fast increasing as can be expected from the demands of a large population with rising expectations. Exports are direly needed to pay for them. Much of the imports — fuel, capital goods and machinery, bulk drugs, edible oil, defence equipment or even high-end steel — volumes will only continue to rise. We are also perhaps unique in our sizeable imports of gold, which alone has accounted for 7 to 10 per cent of our imports.

What may appear to give some hope is perhaps the progress we are making in a few areas with respect to import reduction. Neem coating of fertilisers coupled with their increased production has led to a decline in imports and may even lead to zero imports by 2022. Smartphone manufacture is another item that is seeing a higher level of domestic processing and assembly. Imports of raw silk from China have come down with a rise in production of bivoltine silk in India. There is also a determined effort to produce more defence items.

Raising some select import duties to spur domestic production could work temporarily. But if this leads to complacency and results in pressures for higher tariffs to be permanent, it will be retrograde and have economy-wide implications.

In any case, all of this will do little to neutralise the rising import needs. The trade deficit continues to show a widening trend. Working to sharply increase merchandise exports, particularly when the earlier double-digit buoyancy in services exports has diminished, seems the only viable option. Will we see it happen?

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