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India's Export Performance Analysis – An Analysis

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Abstract

Merchandise exports from India have exhibited a perceptible change over a period of time. This is evident with the fact that exports were almost insignificant until the initiation of trade reforms in 1991. But, after the commencement of reforms exports started rising gradually. In 1991-92 India's exports stood at $20 billion which increased to $45 billion in 2001-02 and increased to $ 302 billion in 2011-12. Besides changes in volume, India's exports have also experienced transformation in its composition and direction over the period of two decades. The study aims to analysis these changing trends in India's exports volume, composition and direction during last two decades .To conduct the study secondary data is collected from several government reports – Handbook of Statistics on Indian Economy, RBI, Economic Survey, EXIM reports etc. The study will enable to determine the significant changes occurred in the last decade of reforms as compared to the first decade of reforms and also analyze the impact of global crisis in recent years.

Key Words – Merchandise exports, trade reforms.

1. Global Trade Scenario

Global macroeconomic situation was robust before the onset of financial crisis in US in 2007. This is manifest in continuous increase in world economic growth rate which has achieved the level of 5 percent in 2004, the highest in nearly three decades (Economic Survey, 2004-05). This continued expansion in world output growth for a record fourth year in a row in 2007 witnessed the emergence of a new phase of external economic scenario. This new phase has been marked by robust and broad based growth in emerging market economies, particularly with China and India together accounting for about 40 percent of global growth measured in terms of purchasing Power Parity(Economic Survey, 2006-07). This robust global macroeconomic position before provided a favorable framework for the expansion of international trade. This global trade continued to grow at an average annual trade growth of 6 percent during 1990-2008 (World Economic Outlook, October, 2013). But, embarkment of US financial crisis in 2007 reversed this trend for the entire global economy. This is because its negative repercussions were gradually transferred from the financial sector to real sector in developed economies and then to developing through the financial and trade channel. As a result in 2007 , global trade growth reduced to 7.3% from 9.2 percent in 2006 and decelerated further in the year 2008 and 2009 to 3 percent and (-) 10.7 percent (World Economic Outlook, October ,2009). This was registered as the largest decline in World Trade in more than 70 Years (WTO Report, 2009-10). Global trade flows rebounded strongly in 2010 following their collapse in 2009. The rise in the volume of goods exports in 2010 was the largest on record, enabling world trade to return to its pre-crisis level. But, it cannot be a long term trend owing to natural disaster in Japan and Thailand , civil conflict in Libya and acute economic slowdown in Europe produced again fall in global trade growth in 2011 and in 2012 to 6 percent and 2.5 percent from 12.8 percent in 2010. There is projection that in 2013 and 2014 (Table -1) the global trade growth will revive again but will not be able to attain pre crisis level.

Table 1 - Global Trade Trends (2007-2012)
(Annual percentage change at constant price)

							Projection	
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
World Trade Volume (Goods and Services)	7.3	3	-10.7	12.8	6	2.5	3.1	5.4
Imports								
Advanced Economies	4.7	0.5	-12.4	11.7	4.7	1.1	1.4	4.3
Emerging Markets	13.8	9.4	-8	14.9	8.7	5	6	7.3
Exports								
Advanced Economies	6.3	1.9	-11.9	12.3	5.6	2	2.4	4.7
Emerging Markets	9.8	4.6	-7.7	13.6	6.4	3.6	2.3	6.3

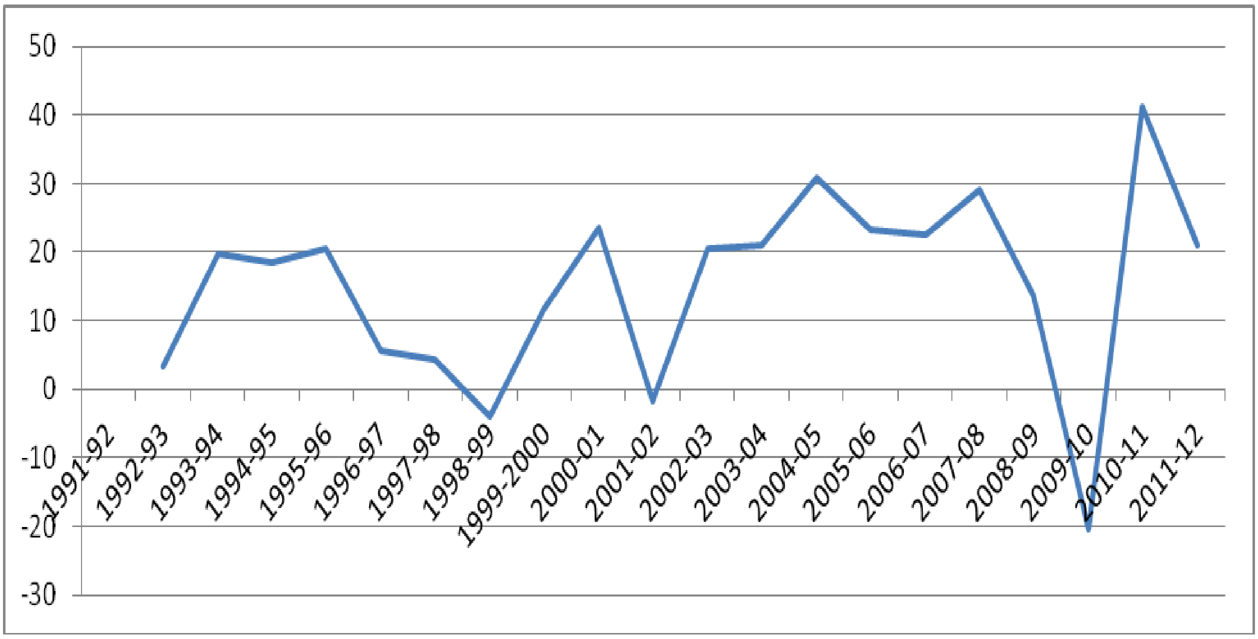
Source - World Economic Outlook, IMF , Various Issues

In this way, this financial and economic crisis shook the entire world economy and gradually deteriorated the world economic growth and trade. But, a positive aspect of the slowdown in global trade that was being noticed is the growing share of developing countries' trade in global trade and increasing geographical diversification of their trade flows. It means the growth of developing countries' trade reported less declining rate of trade growth when global trade was falling and high increasing rate when global trade was reviving as compared to developed countries. It is assumed that, this has become possible because of following the market diversification strategy by the developing countries in order to counterbalance the effect of reduced export earnings from the developed countries. Thus, this decoupling effect would have made developing countries less vulnerable to economic turmoil in developed countries.

2. India's Export Trends

2.1 Export Volume – Trends

India's exports in terms of value increased from $ 18.26 billion in 1991-92 to approximately $ 46 billion in 2001-02. As an annual percentage change most of the time India's export growth rate upward trend except during 1996-99 and 2001-02. This is because of the Asian Crisis and attack on World Trade Centre in US which reduced the export growth from 20.5% in 1995-96 to -3.9% in 1998-99 and -1.7% in 2001-02. This negative export growth rate is regained in 2002-03 and infact India was able to mark double digit growth rate (20.4%) in the year 2002-03. Since then, annual percentage growth of India's exports remained increasing and touched the peak growth rate of 30 % in 2004-05.



Source – Compiled from Economic Survey, various issues

Figure 1 - Export growth rate of India : 1991-92 – 2011-12(in percentage change)

But, the global recession coupled with the deepening of the global financial crisis jolted this continued upward growth, in 2008. India's annual export growth rate which was 29 % in 2007-08 started declining and touched all time low annual average growth rate(13%) in 2008-09 and tuned negative (-20.3) in 2009-10. This type of situation was not witnessed in the last 24 years. Even in 2001-02 and 1998-99 when export growth rate was negative, such a long period of continuous negative monthly growth was not recorded. In order to arrest the pre crisis growth of exports several measures were under taken by the government . As a result of these steps and because of the low base effect,India's export growth in 2010-11 reached an all time high since Independence of 40.5 per cent (Figure -1) . Though it decelerated in 2011-12 to 21.3 per cent, it was still above 20 per cent and higher than the compound annual growth rate (CAGR) of 20.3 per cent for the period 2004-5 to 2011-12. Overall, CAGR of India's exports remained 9.5 percent during the first decade of reforms, while the second decade of reforms reported approximately 19 percent compound annual growth rate of exports (Table – 2)

Table 2: India's Export - 1991-92: 2011-12 (US $ billion)

Years	Exports (US $ billion)	Annual % Change
1991-92	18.26	
1992-93	18.86	3.3
1993-94	22.6	19.8
1994-95	26.8	18.6
1995-96	32.3	20.5
1996-97	34.1	5.6
1997-98	35.6	4.4
1998-99	34.2	-3.9
1999-2000	38.2	11.7
2000-01	45.45	23.5
2001-02	44.7	-1.7
2002-03	53.8	20.4
2003-04	66.2	21.1
2004-05	85.2	30.8
2005-06	105.1	23.4
2006-07	129	22.6
2007-08	166.1	29
2008-09	182.6	13.6
2009-10	178	-20.3
2010-11	251.1	41.1
2011-12	303	21

Source: Compiled from Economic Survey, various issues

This analysis shows that India's export performance reported better performance in the second decade as compared to the first decade of reforms. Its growth also remained almost positive except in few years when certain external incidents occurred at the international level.

2.2 Export Composition - Trends

The share of different product groups in India's total exports has also exhibited a significant change over a period of time. During the first decade of reforms, the conventional sectors viz. agriculture, textile, gems and leather products used to account the large share in total exports whereas non-conventional sectors viz. engineering goods, petroleum products had relatively less share in the total exports. However, during the second decade of reforms reverse trend is exhibited.

Table – 3 India's Export Composition – 1996-97 : 2011-12

	1996-97		2001-02		2006-07		2011-12	
Item	Share in Exports in %	Rank	Share in Exports in %	Rank	Share in Exports in %	Rank	Share in Exports in %	Rank
Engineering Goods	14.8	3	15.9	3	23.4	1	22	1
Petroleum Products	1.4	8	4.8	6	14.7	2	18.2	2
Gems and Jewellery	14.2	4	16.7	2	12.6	4	15.3	3
Agricultural Goods	20.5	2	13.5	5	10	5	12.3	4
Chemicals and Related	11.7	5	13.8	4	13.7	3	12.2	5
Textile Products	25.8	1	23.3	1	13.7	3	9.1	6
Ores and Minerals	3.5	7	2.9	8	5.5	6	2.7	7
Leather and Manufactures	4.8	6	4.4	7	2.4	7	1.5	8

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India Bulletin, Various issues

The Table 3 shows that Engineering Goods exports that comprised of 14.8 % share in India's total exports in 1996-97 have performed quite well; its export share eventually increased and reported 22% share by the end of 2012. With this the sector has moved to the 1st rank from the 4th rank in the respective period. The export growth of this sector is mainly due to increased exports of two major items - machinery and instrument and transport equipment.

Another star performer in recent years is the group of refined petroleum products whose share increased from 1.4% in 1996-97 to 18.2% in 2011-12. On the basis of its increased share in India's total exports its rank also moved 6 ranks up from 8th in 1996-97 to 2nd in 2011-12. The export surge of this commodity has been driven mainly by entry of private enterprises like Reliance Industries, Essar Oil in Indian refining industry.

Gems and Jewellery, though the industry today is greatly affected as a result of recession and the sudden decline in demand, yet it is able to maintain its share (15 %) and ranking in India's exports which is not much varied from its position in 1996-97.

Agriculture sector has exhibited a significant fall in its share in India's exports. The sector used to account 20% plus share in total exports of India and at the 2nd rank in 1996-97. But, by the end of 2011-12 its share is reduced to 12.3% with 5th rank. Fluctuating commodity prices, sudden production drops, rising domestic consumption have affected the performance of agricultural sector of India.

Chemicals and related products constitute another important area where its share in total exports (12%) and Rank (5th) almost remained same over the period of time. Its stable performance shows its significance in India's export basket as a principal commodity. The product covers a wide range of items from fine chemicals and pharmaceuticals to dyes and from plastics to rubber products. Most of these items have done well however, pharmaceutical products - bulk drugs, intermediates, generics and formulations have been the major export items of chemical sector. Strong manufacturing base, availability of scientists in chemical synthesis and process engineering and constant research and development process has been the growth drivers of this sector.

Textile sector, including apparel, which was the largest export sector has reported steady fall from 25 % share in total exports in 1996-97 to 9.1 % in 2011-12. Thus, the sector which used to account one fourth shares is left with single digit share in India's total exports and accompanied by decelerated its ranking from 1st in 1996-97 to 6th in 2011-12. This is mainly due to declined orders from US and Europe market amid global crisis and increased competitiveness of China, Bangladesh, and Vietnam in textile sector. The share of ores and minerals did not exhibit any significant fall in its share and ranking in overall composition of exports.

Exports of leather and leather products, another traditional and labour-intensive export sector, has also shown declining trend. Its share in total exports almost halved from 4.8 % in 1996-97 to 1.5% in 2011-12. Moreover the sector reduced to rank 8th in the top 10 principal commodities of exports. The major reason of such fall down in the industry is lack of diversification in different category of footwear viz. informal footwear or children's' shoes moreover India's production capacity and its cost is not even at par with its competitors like China.

This is obvious from the above analysis that there is a structural shift of India's export composition from the traditional commodities to the nontraditional commodities. Majorly, engineering and petroleum sector has exhibited the significant rise and agriculture and textile sector has reported steady fall its share and ranking in India's export.

2.3 Export Direction – Trends

India's major trading partners are also changing. The share of developed countries (EU and North America) which was approximately 58% in India's total exports till the end of first decade of reforms fell to 35 % and 29 % in 2007-08 and 2011-12. Whereas the share of developing countries (Asia, Africa and Latin American) which used to account 29% share in total exports by 1999-2000 reported 40% share in 2011-12. OPEC countries also exhibited a significant increase from 10% share in India's total exports to about 20% in 2011-12. Thus , the countries comprising more than half of total exports has marked one third share in total exports of the country and the reverse trend is exhibited by the Asian and Middle East countries.

Table -4 Direction of India's Exports – 1991-92 : 2011-12

Group / Country	1991-92	1995-96	1999-2000	2003-04	2007-08	2011-12
I. OECD countries	57.86	55.69	57.62	46.41	39.45	33.81
A. EU	27.02	27.39	25.89	21.76	21.17	17.25
B. North America	17.41	18.32	24.28	19.19	13.49	11.94
Total (EU + North America)	**44.43**	**46.01**	**50.17**	**40.95**	**34.66**	**29.19**
C. Asia and Oceania	10.51	8.34	5.77	3.73	3.17	2.99
D. Other OECD countries	2.92	1.63	1.68	1.73	1.62	1.64
II. OPEC	**8.74**	**9.69**	**10.64**	**14.95**	**16.57**	**19.03**
III. Eastern Europe	**10.93**	**4.21**	**3.47**	**2.44**	**1.13**	**1.06**
IV. Developing countries	**20.08**	**28.92**	**28.08**	**35.69**	**42.46**	**40.72**
A. Asia	16.88	22.98	21.88	28.86	31.60	29.59
B. Africa	2.47	4.76	4.30	4.85	7.51	6.73
C. Latin American countries	0.72	1.18	1.90	1.98	3.35	4.40
V. Others / unspecified	**0.07**	**0.06**	**0.10**	**0.52**	**0.39**	**5.38**
Total Trade	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India Bulletin, Various issues

This structural shift in India's direction of exports is mainly considered to be the result of market diversification strategy which was initiated with the launch of Focus LAC and Focus Africa in the late 1990s and further extended through Focus Market and Market Linked Focus Product Scheme in 2006. This market diversification strategy has provided a wider scope to Indian exporters to venture into Africa, Latin America and other less explored regions. Besides this, the strategy has helped to a great extent in weathering the global crisis of 2008 and in achieving the export target of $300 billion by 2011-12 amid the recent global slowdown.

3. Conclusion

The above discussion depicts that India's exports, despite of adverse external environment has grown manifold and changed significantly in terms of its composition and direction. Annual export growth of 21%, shifting export basket from conventional to non conventional products and the most important diversifying from developed trading partners to developing trading partners can be considered noteworthy. Still there is a need to adopt strong policy measures and strategies because of the following reasons:

i. Huge current account deficit which has recently touched 5.2% of GDP , requires urgent steps to avoid its negative consequences on the economy.

ii. The share of India's exports at in world exports is still insignificant. It is only 1.3% share which is far below than the share of its major competitors - China, Singapore, Vietnam.

iii. In the top 100 imports of the world at the four-digit HS level in 2011, India has only 6 items in the top 50; it has only 5 items with a share of 5 per cent and above and 18 items with a share of 2 per cent and above.

iv. In terms of number of markets also, 70 percent of our exports are made to majorly 14-15 countries which is a sign of highly concentrated exports from India.

v. Unexpected economic shocks at the domestic or international level affects the stability of India's exports growth easy

vi.The current policy requires marking $500 billion dollar of exports by the end of 2014.

Thus, certain achievements pertaining to India's export are not end in itself. It is to be progressed in the light of the current challenges like huge CAD, global slowdown; weak position at the international level, highly concentrated export products and markets. Last but not the least is to achieve the laid down target of exports in the foreign trade policy.

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