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Why our export mix is changing

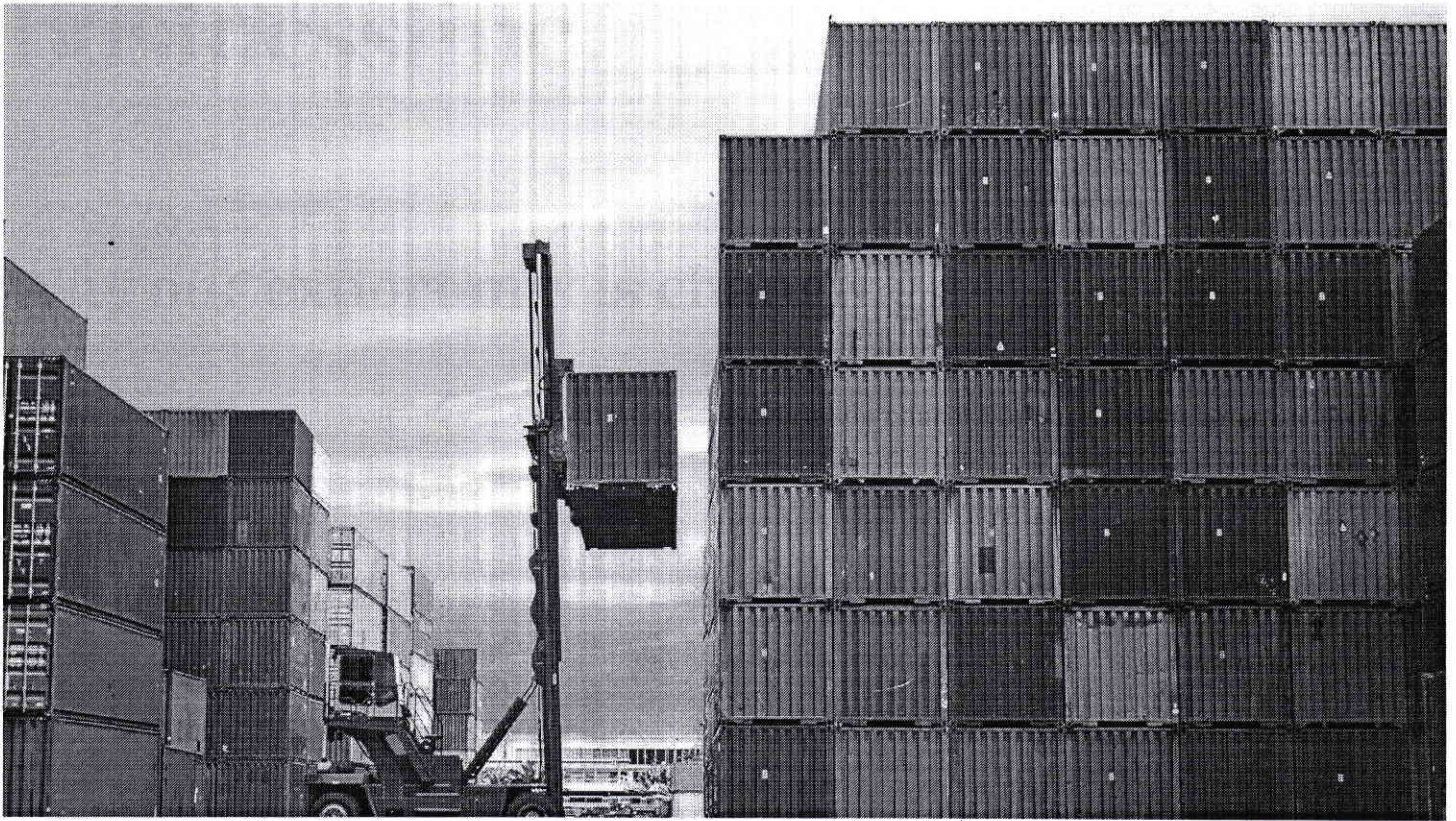
Updated - June 05, 2023 at 09:51 PM.

Positive shift. Exports of electronics and machinery have overtaken pharma, apparel, leather, marine products

BY AJAY SRIVASTAVA

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Indian exports: Changing composition | Photo Credit: bugphai

The fiscal year 2023 trade data unveils two trends in India's merchandise exports. The first is the decline in the share of pharmaceuticals and labour-intensive sectors such as

apparel, leather, and marine products, and the second is a modest increase in the share of electronics and machinery exports. Both trends will have profound importance in years to come as they become more pronounced.

India's global market share in sectors like apparel, leather, shoes, and marine products has been decreasing, primarily due to concerns over quality rather than pricing issues. Chart 1 highlights the data depicting the decline in India's share in world trade between CY 2015 and 2022.

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India's exports: Falling share in world trade

Table 1

Product sector category	India's global exports (\$ billion)		India's share in world trade(%)		Change in share (%)
	2015	2022	2015	2022	
Gems and Jewellery	38.5	39.3	7.47	4.74	-36.5
Pharmaceutical products	12.5	19.8	2.79	2.25	-19.4
Apparels, not knitted	9.3	8.5	4.60	3.70	-19.6
Apparel, knitted	7.8	8.2	3.85	3.10	-19.5
Cotton	7.5	6.9	14.54	12.51	-14.0
Fish and crustaceans	4.6	6.6	4.77	4.52	-5.3
Made-up textile articles	4.6	6.0	7.76	7.69	-0.9
Coffee, tea, maté and spices	2.9	4.0	6.37	6.07	-4.8
Meat	4.3	3.3	3.91	2.00	-48.7
Footwear	2.8	3.0	2.28	1.72	-24.3

India's exports: Rising share in world trade

Table 2

Product sector category	India's global exports (\$ billion)		India's share in world trade(%)		Change in share (%)
	2015	2022	2015	2022	
Petroleum etc.	31.4	98.5	1.87	2.48	32.9
Machinery, mechanical appliances	13.2	27.5	0.75	1.05	40.3
Electronics, Telecom, Mobile Phones Electrical equipment	7.9	26.6	0.41	0.71	72.9
Automobiles, parts etc	14.1	21.3	1.11	1.32	19.8
Iron and steel	6.3	15.2	1.98	2.66	34.6
Cereals	6.8	14.1	6.63	7.8	17.6
Articles of iron or steel	6.5	9.9	2.4	2.63	9.5
Aluminium and articles	2.7	9.6	1.69	3.55	109.6
Sugars, confectionery	1.4	6.3	3.62	11.21	209.3

The apparel sector has been particularly affected, as exports in FY2023 fell below the levels achieved in FY2018. Several factors contribute to this decline, including challenges in importing quality fabric, insufficient focus on non-cotton fashion apparel (which constitutes 70 per cent of world trade), an inverted duty structure, and labour issues. Resolving these issues is crucial as the apparel industry is a significant job creator. Additionally, the sector must address sustainability concerns that are becoming increasingly critical.

The quality factor

The pharmaceutical industry also faces quality challenges. The reputation and orders of the industry can be severely impacted by a single instance of poor-quality cough syrup. To maintain its position as the "Pharmacy of the world", India must prioritise addressing quality issues.

Furthermore, reducing critical dependence on imports of Active Pharmaceutical Ingredients (APIs) and Key Starting Materials (KSMs) from China is essential. Re-establishing domestic manufacturing capabilities, which were present in the 1980s, will strengthen the industry's resilience.

Quality issues are not limited to pharmaceuticals but also affect Indian aquaculture products, such as shrimp and prawns. Many countries reject these products due to the presence of Salmonella, highlighting the need for a robust internal system. Ensuring thorough quality checks within India will prevent rejections in foreign countries, which tarnish the reputation of Indian products and lead to loss of orders.

The tea sector requires deregulation to foster growth. Allowing more players to cultivate and sell tea will create a more competitive environment. Quality issues have also impacted Indian tea exports, with reports of countries holding consignments of Indian teas citing phytosanitary issues and the presence of pesticides exceeding permissible limits. Addressing these concerns is vital to enhance the reputation of Indian tea in global markets.

The industry must tackle quality challenges across various sectors to regain market share and maintain a positive perception globally.

India has improved market share in sectors with a low global share. Chart 2 lists data for products where India's share in world trade has increased during CY 2015 and 2022.

Two key sectors that witnessed higher share in global trade are: (i) Electronics, Telecom, Mobile Phones, Electrical equipment, and (ii) Machinery. This is great news as electronics and machinery are the most significant product groups in world trade with global trade exceeding \$6 trillion, India's share was always low.

India has made significant strides in improving its market share in sectors with a low global presence. The two key sectors that witnessed a higher share in global trade are Electronics, Telecom, Mobile Phones, and Electrical Equipment, as well as Machinery. This development is particularly noteworthy as these product groups hold substantial importance in world trade, which exceeds \$6 trillion. India's historically low share in these sectors is gradually but decisively improving.

Changing shares

In 2015, India's share in global merchandise trade stood at 1.8 per cent. However, its share in machinery and electronics was a mere 0.75 per cent and 0.4 per cent,

respectively. Over the course of seven years, there has been a marginal yet significant improvement in these shares. To build on this positive momentum, India must focus on deep manufacturing rather than relying on simple assembly-led operations.

The emphasis should be on mastering the manufacturing of components, rather than mere assembly. For instance, the Production Linked Incentive (PLI) scheme should support the production of Electric Vehicle (EV) cells instead of batteries, Photovoltaic (PV) cells rather than Solar modules, and Printed Circuit Board Assembly (PCBA) rather than laptops.

Additionally, the government may consider announcing a new PLI scheme to facilitate the establishment of industrial labs for reverse engineering industrial machinery used in sectors such as textiles, mining, metalwork, and agriculture. This will help reduce dependence on imported machinery.

India has also witnessed an increased share in the export of petroleum products, bolstered by high petroleum prices. Additionally, the country's share in rice and sugar exports has shown improvement. However, India must navigate carefully through World Trade Organisation (WTO) cases related to subsidised rice and sugar exports.

While the share of iron and steel, as well as aluminium, has seen an upward trajectory, challenges lie ahead for both metals due to the imposition of carbon taxes by the European Union (EU) and other countries.

Another major trend is the rising importance of petroleum products, which played a pivotal role in driving India's overall merchandise exports to grow by 6.7 per cent in FY2023 compared to FY2022. However, excluding petroleum products, India's exports experienced a decline of 0.4 per cent during the same period.

Focus on resolving quality issues and deep manufacturing must be the top priorities for the government and industry to stay ahead in the export game amid the difficult global economic conditions.

The writer is founder, Global Trade Research Initiative

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Published on June 5, 2023

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