India must recalibrate its product exports

Taking cues from Vietnam and Malaysia, India must diversify from commodities to tech-related product exports

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India's merchandise exports have grown from $303.5 billion in FY2018 to $451 billion in FY2023, an average annual growth rate of 9.7 per cent. Though the rate seems satisfactory, when compared with that in developing East Asian economies like Malaysia and Vietnam, the country needs to be more dynamic.

India's share in global exports has been below 2 per cent for a significantly long period. There is little doubt that the export market for Asian economies is going to remain extremely competitive with changes in supply chains. This makes the task of pushing up Indian exports globally more daunting.

For long, the market for Indian export products has remained concentrated. The share of the top two exported items — both commodities, namely, petroleum products and gold — stood at 23 per cent in 2022; and it refuses to budge below 20 per cent. Ideally, India should reduce this to around 15 per cent by the end of this decade, while shifting to tech manufacturing.

Crude oil products are highly capital-intensive, and do not hold much potential for export-led employment generation. More so when both crude and gold are imported.

This anomaly in India's key exported items becomes more apparent when compared with Vietnam and Malaysia which have diversified away from commodities to medium- to hi-tech products. India, too, needs to focus on these products.

In 2021, India's share of high-technology exports as a percentage of manufactured exports stood at 10.2 per cent as compared with 41.7 per cent in Vietnam and 51.7 per cent in Malaysia. This shows significant headroom for growth for India in this space *vis-a-vis* its peers.

Building production capabilities to become export ready in areas like aerospace, computers, electronics and telecommunications, pharmaceuticals, scientific instruments and electrical machinery are a must for India to compete with the East Asian economies.

The largest market for India's exports continues to be the US, with a share of more than 18 per cent. The US absorbs around 7.3 per cent of India's refined petroleum products, and 37 per cent of the pearls and jewellery.

Exports to the world

in $ billion

	India	Malaysia	Vietnam
2018	324.0	247.5	243.7
2019	323.3	238.2	264.6
2020	275.5	233.6	281.4
2021	394.8	299.3	335.8
2022	453.2	353.1	458.1
CAGR (%)	8.8	9.3	17.1
AAGR (%)	10.8	10.1	10.1

Source: ITC; DGCI&S for India

The East Asian economies have a huge market in the US as well, but their key exports are not commodity-centric. India has the opportunity to diversify towards products which have a ready acceptance globally.

It is important for Indian companies to be adequately informed about the opportunities arising out of the new FTAs (free trade agreements) with developed markets. By integrating into the global value chains, Indian MSMEs can enhance their competitiveness, and capture higher value-added opportunities in the global marketplace.

FDI investments have the potential to play a key role in boosting exports. Greater FDI, especially from developed countries, will enable Indian companies align their products with international standards, and address sanitary and phytosanitary issues which have often been a deterrent in getting greater market access.

However, FY2023 saw FDI decline 22.7 per cent. The Production Linked Incentive scheme will hopefully bring in FDI into industries that have export potential. It is well known that FDI has been one of the key aspects in boosting the export capabilities of East Asian economies.

The Government has set a $2 trillion export target by 2030, which means a 2.6-fold jump in exports between 2023 and 2030. To achieve this, India's global export share should be consistently about 2 per cent to begin with.

The writer is an economist with India Exim Bank. Views are personal