A blueprint for boosting exports

Nine suggestions to revitalise trade and spur economic growth

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India's foreign trade, valued at $1.63 trillion in financial year 2023-24, constituted 41 per cent of its gross domestic product (GDP), underscoring its vital role in the nation's economy and job creation. The sector faces significant internal and external challenges. Here are nine suggestions for the new government to boost trade and economic growth.

Revive labour-intensive exports: Exports in most labour-intensive sectors were lower in 2023 compared to 2015. Key product categories include garments, textiles, fabric, yarn, fibre, carpets, leather products, footwear, diamonds, and gold jewellery. These sectors generate more jobs per unit of investment compared to others.

Bangladesh and Vietnam, relying on imported fabric to make garments, have outpaced India through focused measures over the last two decades. The production-linked incentive (PLI) scheme for textiles is a non-starter and might be better scrapped. Technology is not the issue. An honest appraisal of the sector, rather than consultant reports promising distant rosy futures, is needed. If the export slide does not stop, we will see imports in these sectors rise.

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Diversify service exports: Three-fourths of India's service export earnings come from software & IT and business services. In these two sectors, India has a high 9.0 per cent global share. This category accounts for 36 per cent of global services exports. Services other than these two represent a large 64 per cent of world services exports, where our share is a low 1.9 per cent.

A few such services, along with India's global share in the category, are transport and travel (2.4 per cent), maintenance and repair (0.24 per cent), insurance and pension services (1.38 per cent), financial services (1.30 per cent), and charges for the use of intellectual property (0.23 per cent). India needs to work to enhance its share in these sectors to achieve a stable service export performance.

Cut critical dependence on China: It accounts for an average of 30 per cent of India's global imports in industrial products. Here are a few products with China's share of India's imports. Telecom and smartphone parts (44 per cent), laptops and PCs (77.7 per cent), digital monolithic integrated circuits (26.2 per cent), assembled photovoltaic cells (65.5 per cent), lithium-ion batteries (75 per cent), diammonium phosphate (40.9 per cent), radio transmission and television apparatus parts (68.5 per cent), antibiotics (88.4 per cent).

From 2019 to 2024, India's exports to China have stagnated at around $16 billion annually. Meanwhile, imports from China have surged from $70.3 billion in FY19 to over $101 billion in FY24, resulting in a cumulative trade deficit exceeding $387 billion over six years.

The US and EU are cutting imports from China by imposing higher tariffs. Australia is asking China-linked investors to divest shares in Australian rare earth mines as the sector becomes strategic for green energy and defence. In India, imports from China are set to increase with the entry of Chinese firms into India through joint ventures or standalone operations. India needs to do a strategic reassessment, work to diversify import sources, and enhance domestic production capabilities.

Ensure FTAs do not aggravate the inverted duty structure: An inverted duty structure occurs when import duties on finished goods are lower than on raw materials. For example, if copper scrap (raw material) and copper pipes (finished goods) have a 5 per cent tariff, and a free trade agreement (FTA) reduces the tariff on pipes to zero, local production of pipes becomes less competitive. This discourages local manufacturing as firms prefer cheaper imports.

Earlier, budgets were used to correct such anomalies. However, the increasing number of FTAs has complicated the issue by allowing zero-duty imports on most industrial products. Higher import duties on raw materials from non-FTA countries and duty-free finished goods from FTA partners incentivise imports over local purchases.

Publish data on FTA performance: India has 14 comprehensive FTAs and six smaller scope preferential trade agreements. The government should publish the data to see whether the FTAs have met expectations or if course correction is needed. The learnings will also aid ongoing trade negotiations.

Counter effects of European climate regulation: The EU's deforestation regulation, carbon border adjustment measures (CBAM) regulation, foreign subsidies regulation, and German Supply Chain Due Diligence Act will hurt and add uncertainty to India's exports. Unconfirmed reports from the EU say less than half of Indian exporters have filed data with the EU for CBAM compliance.

When fully implemented, CBAM will result in a 20-35 per cent import tax on Indian firms. A firm has to share all plant and production details with the EU. Also, firms may need to run two production lines to compete effectively: One, an expensive yet greener products for exports to EU countries, and another for standard products for the rest of the world. It is time to prepare a plan to counter EU regulations and hit imports from the EU in equal measures.

Improve quality systems: Recent concerns raised by Hong Kong, Singapore, and the United States about the quality of spices from top Indian brands highlight the need for urgent action. Indian food and agricultural exports often face rejection from the EU and the US due to exceeding maximum residue limits (MRLs) of pesticides and other quality issues.

India should align its quality standards with international norms to reduce rejections, expand farm-to-fork blockchain tracing for major exports such as vegetables, spices, and dairy products, issue quality control orders after consulting with industry, and sign mutual recognition agreements with key export partners to boost global acceptance of Indian products.

Enhance ease of doing business: We need to transform the government-business interface to be business-centric and not government-department centric. Currently, exporters have to deal with various government organisations separately. Creating a user-friendly online National Trade Network for all compliance processes would allow businesses to file all compliance in one place. This change could enable at least 100,000 small firms to start exporting within a year.

Other export promotion measures: Automate customs processes to reduce delays and costs, invest in modern ports, efficient logistics, and digital systems. Export high-value goods to existing markets, help small businesses boost their global presence, improve small firms' access to finance, promote e-commerce exports, and work to reduce non-tariff barriers in key markets.

Economists suggest that to boost export growth, a country should lower import tariffs, sign FTAs, and integrate into global value chains. However, these strategies will only be effective if the country first reduces costs and improves its business environment. Lowering tariffs without improving the ease of doing business could result in increased imports replacing local manufacturing and jobs.

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