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Made in India, Made for the World: Reviving India's Exports

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Prime Minister Shri Narendra Modi in his speech on 2nd June at CII's 125th annual session emphasized on "Made in India, Made for the World". In order to fulfil this dream, India needs a paradigm shift to cure its severely ailing export sector.

India's export, since 2011, has been hovering around US $ 300 bn. India's share in world merchandize exports has also been between 1.5 – 1.7 per cent of the total world export during this period. If one sees the performance of India's export as per centage of its GDP, the picture is not very encouraging either, it has in fact decreased from 17 per cent in 2011 to 12.4 per cent in 2018. If one analyses the growth in export sector since the economic reforms were initiated, one will find that India's exports have grown 18 times between 1990 and 2018 (from US $ 18 bn to US $ 325 bn). During the same period however, exports of some of the competitor countries like China, Vietnam and Bangladesh have grown 40, 102 and 23 times respectively.

During the current COVID times, the situation of India's export sector has worsened further. Merchandize exports in the months of March and April have declined by 35 per cent and 60 per cent respectively. WTO has also predicted that in FY-2021, world export will show negative growth of 13-32 per cent.

Our Commerce Minister, in a recently held Export Summit of CII, mentioned that in order to revive exports, industry should focus on three things — reviving manufacturing, diversifying export basket and focus on new markets. I feel that there are several ailments from which our export sector is suffering, while some of them require immediate attention while for some others, medium and long term efforts are required from exporters as well as the government.

Short Term Problems

In the last two months, based on my interactions with several trade bodies and exporters, I have come across many pain points which require immediate government attention. Apart from many overseas orders getting cancelled due to limited interaction of customs brokers (responsible for custom clearance of goods) with the customs department because of COVID guidelines, shortage of labour for bringing goods for examination,

segregation and other terminal activities is resulting in delays in shipment. Despite a notification issued by the Home Ministry many private ports and container freight stations are not waving port charges which is hurting the exporters in a big way. Due to delays in clearing imported raw material and components from the ports, exporters are facing high demurrage charges.

Apart from the 'Atmanirbhar Bharat' package, the GOI has announced few other measures specially for exporters like extending the foreign trade policy for a period of one year by which the exporters can continue to avail benefits under different schemes, including the popular Merchandise Export for India Scheme (MEIS) and Export Promotion Capital Goods Scheme (EPCG). Interest subsidy to exporters between 3-5 per cent on pre- and post-shipment rupee credit has also been extended but these are not sufficient to end the woes of exporters.

Some of the immediate steps that are required to be taken are — fast clearances of export consignment by customs department by appointing officials in double shifts so that there are no back logs, private ports

should be asked to roll back any charge on exporters that may have been incurred in lockdown period. Other steps that should be taken immediately is to announce 5 per cent duty credit scrip of FOB value to all exporters under the existing MEIS scheme or any other new scheme for a period of one year. This scrip can be used to pay import duty if exporter needs raw material or components to be imported, or it can be sold in the market. Also, the government needs to increase the subsidy on interest to 5-6 % for all exporters. This is also necessary to give level playing field to our export sector as other competing nations are giving export benefits to the tune of 10-13 %.

Long Term Problems

Often policy makers say that in last five years there has been stagnation in India's export because of decrease in demand from developed economies but on a closer examination one can find that in same period competing countries like China, Vietnam and Bangladesh have been able to improve their export performance substantially. During this time period, China's export has grown at 1.5 per cent annually, Vietnam's exports have increased by around a cumulative 89 per cent in last five years. Bangladesh, which until recently, used to export only 60 per cent of what India did, now exports double of India's export in textile sector. In order to 'make for the world', India needs to address several perennial problems.

First one is the cost of logistics, for India it is around 14

per cent of GDP, whereas in many developed nations it is just about 8-10 per cent. In India, the main mode of inland transportation is road (about 60 per cent) and this is costlier in comparison to rail (31 per cent) and water (9 per cent) transport. Second is cost of credit, at present rupee loans are extended at around 10 per cent rate of interest, whereas in countries like China, Vietnam and South Korea, it is available at around 4 per cent. Third is the high tariff on imported raw material. Government of India has hiked the tariff on many products since 2018 which is making Indian products uncompetitive in foreign markets. Indian Engineering sector, which imports steel for its production, is severely impacted by high tariff rates.

The price of locally available steel is very high in comparison to international prices. Fourth, under GST, where all taxes are refunded to exporters under Input Tax Credit (ITC) has not worked efficiently and there are delays in refund which results in blocking of capital thereby impacting the competitiveness of exporters. Finally, inefficient usage of several Free Trade Agreements (FTAs) which India has signed with many

countries/regions of the world. India runs into trade deficit with Japan, South Korea and ASEAN. There is need to look for agreements with EU and US for specific product categories.

Government & Exporters Need to Work Hand-in-Hand

In order to revive India's export herculean efforts are required from government as well as from the exporters. The Government has to provide a conducive policy and infrastructural environment. Solid steps are required to be taken to reduce logistics cost, cost of credit, making inputs available at competitive cost and exploring deeper and meaningful tie-ups with other important countries of the world.

Exporters, as mentioned by the Commerce Minister, are required to diversify export basket and search for newer markets. It is worth noting that 80 per cent of India's

exports are happening only in 20 product categories out of 99 product categories. The Ministry of Commerce, along with exporters, have identified several product categories, concerted efforts are required to develop capabilities for industries in these product categories. India has been primarily relied on low risk markets like US, Europe, South-East Asia and West Asia while markets like Latin America and CIS countries remain neglected.

In the past the Government has announced various schemes but these have not been effective. Government support in terms of providing substantial financial resources for exploring markets is also required. Finally, exporters need to develop not only good quality, reliable and differentiated products for the world but they also need to develop brand image for their company. The Ministry of Commerce also needs to allocate resources for developing appropriate brand image of the country something on the lines of 'Incredible India' image created by the Ministry of Tourism. The PM in his speech also mentioned that world is looking for a reliable partner. Reliability, trust and quality can become brand attributes for India for its 'made for the world products'.

#India'sExport #Covid19 #CoronaVirus

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