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Strategies to Develop Value Added Export in India

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Abstract : *Trade always play a catalyst role in one countries growth ,but in order to create strong spread effects through trade either one nations import should be less or its export value should be high. In developing countries like India, going with former one is not possible but the later one can be adopted . This paper first define India's trade basket in terms of value added products and then discusses the trend of value added export in India and suggest certain strategies to boost it up.*

Keywords : export, trade, reforms, strategies

1. Introduction

In the 1990s, India has slowly evolved into an outward-oriented trade policy, consisting of domestic market or demand base industrial production protected by high tariff plans. In this context, the 1991 reforms play an important role, as they allow India's economy to become more integrated into the world economy. But even after so many years of adoption of this foreign policy, which was accompanied by reforms, the contribution of trade in India's growth is not as significant as it should be. However, India's share of world trade increased from 0.51. [From 1980 to 1.6% in 2014]. Since 2008, while large exporting economies are facing the problem of a slowdown in the share of world exports, the world looks to the emerging Asian countries in respect of both- demand and supply for exports. However, India can mop up the benefits of this situation by establishing its remarkable position in global market. This is possible by two way – first by establishing itshelf as major market or second by increment in value added export. Following first way is quite difficult as there exist a large technological gap. Going with second way is preferable as it provides reinforcement to long term growth.

1. Review of literature.

The following literature were quite helpful in this paper :-

Uma Kapila (2012), traces the path of Indian trade policy since independence taking into account all political, economical, domestic and external factors behind its development and wrap up the journey of Indian trade policy issues concerned with it.

Anonymous paper 'External Economic Situation in India' examines trends of export and import, there composition and direction since 1984-85. Moreover it focuses on –Implications of WTO agreement on it, Est Asian Crisis (1997) and nuclear test impact on its trade (1998).

Nages Kumar (2000), has done a mapping of relevant factors which change and affect the India`s trade pattern of magnitude in 2020.

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Priyanka Sahni (2014), made a comparative study of pre and post reform period of trends in India`s exports on the basis of time series data for the period 1980-81 to 2010-11 only focusing on quantitative interpretation and internal factors. Sahni come to the conclusion – though the volume and value of exports has increased manifold, India`s share in the world exports is still not upto the expectation.

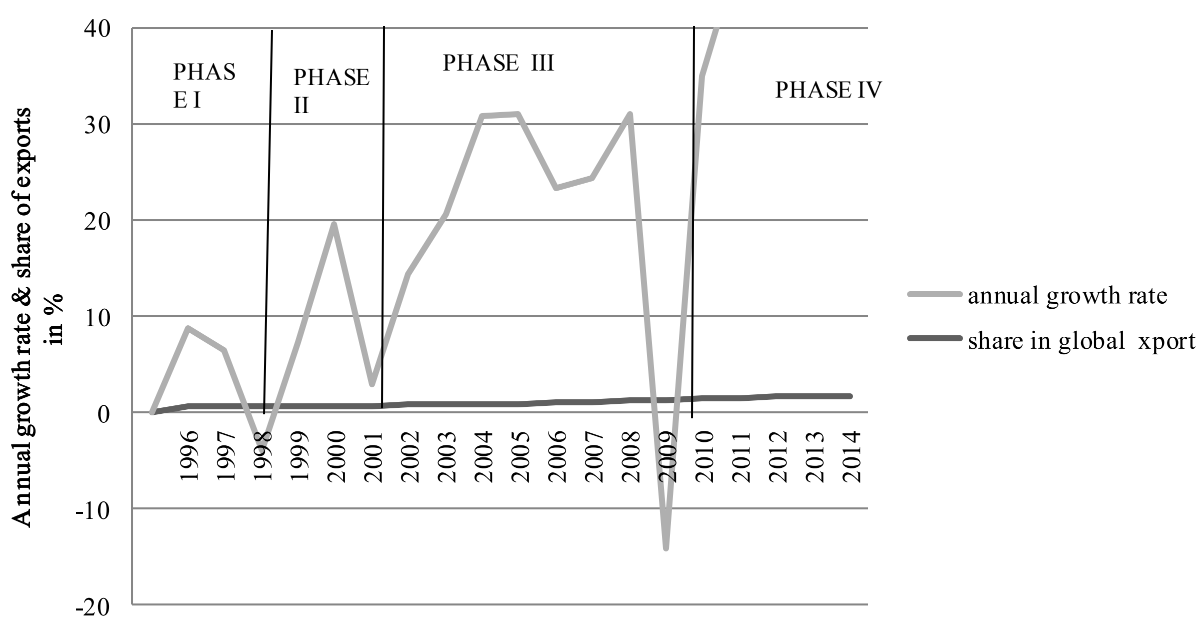
2. RESEARCH METHODOLOGY AND OBJECTIVE:

The study was based on the secondary data which has been collected through websites, newspapers, magazines, government reports, books, research papers etc. In order to analyze the collected data use of averages and percentage method is made. There are two major objectives of the study: i) to analyze the status and trend of India's value added export ; ii) to discuss the strategies through which value added export can be increased.

3. Indias export position (Since 1996)

The share of India's exports in the world market is evolving at a stagnant pace, with only marginal improvement after the reforms. However, its annual growth rate continues to cope with flows and flows. Following the adoption of the reforms, India's share of world exports, which went from 0.52 per cent to 0.47 per cent between 1984 and 1987, increased to 0.53 in 1992. However, it would be preferable to study India's share in the world exports and annual growth with the help of following fig 1

Figure.1 India 's export position



Source : Data book by planning commision

p-ISSN: 2348-6848
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Volume 04 Issue 03
March 2017

Above fig.1 is divided into four phases post-perform onwards on the basis of minimum annual growth rate in a particular period considering them as dividend. India`s export position can be trace under following heading :-

3.1 Phase-I (1996-98)

In 1996, the world experienced major changes due to the transition phase of development, including a sharp decline in the period of international manufactured goods and the emergence of the economic crisis in some regions of the world. Moreover, the protectionist policies and practices adopted by several industrialized countries in recent years, in the form of technical standards requirements, anti-dumping and countervailing measures, seriously affected the export efforts of developing countries. India also remains untouched by the impact of these unfavorable factors. Despite these factors, India has been able to keep pace with increasing share in world export, which reached 0.61%, with a growth rate of 8.08%. However, there has been a slowdown in the growth rate since 1997, which was negative in 1998 from 5.75 to -4.49. The reasons for this decline are the reduction in international prices of various products, the crisis in Southeast Asia, the depreciation of the Indian rupee, as well as some internal factors are constrained infrastructure, high transaction costs, some restrictive policies for the small-scale sector.

3.2 Phase-II (1998-2001)

Between 1999 and 2000, the Indian economy seems to have fully recovered from 1998-99 slowdown due to increased demand for exports. The growth rate of exports is quite remarkable during this period, particularly in 2000, which is 18.82%, as it is the highest growth rate reached by India in 1991. But this achievement short-lived as crude oil prices struck the roof in the third quarter of 2000, followed by the slowdown in the US economy which negatively affected demand for products from partner countries which leads to decline growth from 18.82 to 2.32% in 2001.

3.3 Phase-III (2002-2009)

Period between 2002 to 2008 is the largest phase with possible and more than 20% of growth rate in each year. In addition to this India's export share reached to one-digit level which is 1.21% in 2008. But due to the global financial crisis, the positive growth rate of 29.75% 2008) it became negative (-15.36%) in 2009.

3.4 Phase-IV (2004 Onwards)

In 2010-11 India not only reached the pre-crisis level in exports ,but exceeded pre-crisis trends in the export rate unlike many other developing countries and developed countries growth. Since then, India's growth rate in 2014 increased to 46.4% with a fixed participation in world exports.

Although, India become more integrated with the world economy, but not relatively to China. Comparable study of India and China w.r.t. their growth rate and export share can be made with the help of following fig 2.

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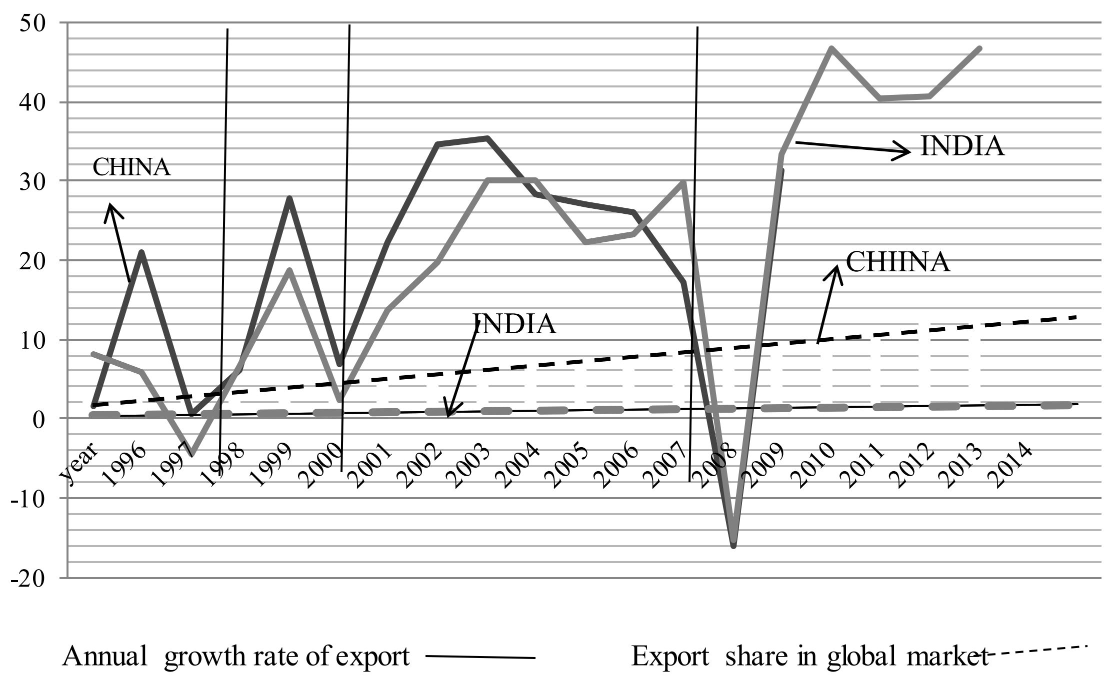
Figure.2 Comparision of India & China export



Source : Data book by planning commission

It is clear that since 1996 India's rate of growth is higher than China's, which is 1.52%, as there is a decline in world demand for manufactured goods and the manufacturing sector which is the backbone of China's exports. In 1997, when the growth rate of other East Asian countries began to decline its growth rate reached the highest notch on the 21.02% ,compared to other East Asian developing nations . However, in 1998 there is a decrease in China's growth rate, but it not turn out to be negative. The difference in the average growth rates between the two countries during this period is 4.57%.

With regard to export share, the gap between these two countries continues to increase, as shown by the trend lines in the figure. Even after facing a slowdown in its economy, China, with 12.4%, the share of exports in world trade held the position of first exporter in 2014, on the other hand India share even after having more annual growth than China`s, is still 1.7%.

In order to get spread effect of global trade on Indian economy, it is needed to redefine i.e. diversify Indian export basket.

4. Indian Export Basket from Sectoral to Value Products

Normally export basket is defined on the bases of sector wise products i.e. whether they are from primary or secondary secondary sector. Here, diversification of export basket in terms of value products means products were classified on the following bases :-

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a) Whether products exported are in their original form without any modification.

b) Whether products exported are modified but further modification is possible.

c) Whether exported products are ready to use i.e. no more modification is possible.

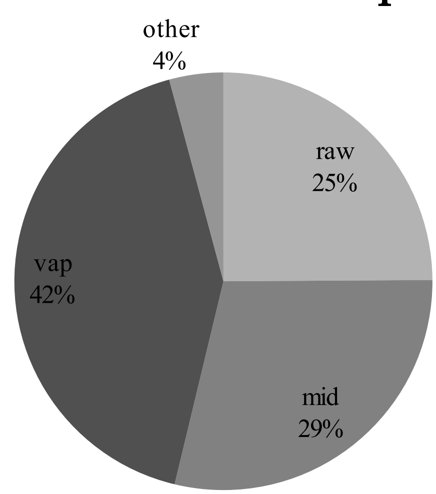
Thus, from above it means that diversified export basket consists

of raw products, mi-value product and value added product.

Here, mid value and value added product need to be clearify. Mid-value product can be treated as inter-intermediare as well as final product. For instance – Raw silk converted by producers into yarn, for them it is final products which can be further modify/processed to add something in its value is treated as mid-value product. Other classification of export is value added product (VAP). VAP can be referred as final product, which are ready to consume or utilize, in the above example value added product will be ready made farments.

India`s new export basket can be prepared, where products/goods are classified on the basis of their value not taking into account whether they belonged to primary sector or secondary sector, which is depicted below :-

Figure.3 India modified export basket



Source : Data book by planning commission

In 2015 India`s total merchandise export value is 70.6 billion in Rs, in which the share of VAP is the largest 37%, total no of commodities included in this category are

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72. Under these 72 commodities there are only 11 commodities whose contribution is between 0-2%. As shown in fig.3. After VAP the major contribution in export basket is of mid-value products which is 2.5% , total no of commodities included in this category are 44. Under these commodities there are 9 commodities major contribution lie between 4-19% and rest of them having their contribution between 0-3% lastly, the share of raw products is 22%, total number of commodities included in this category are 40. Under these commodities only 8 commodities share is notable which lies between **39-4** and rest of them having their contribution between 0-2%. Some major commodities under these categories are shown by the tale below :-

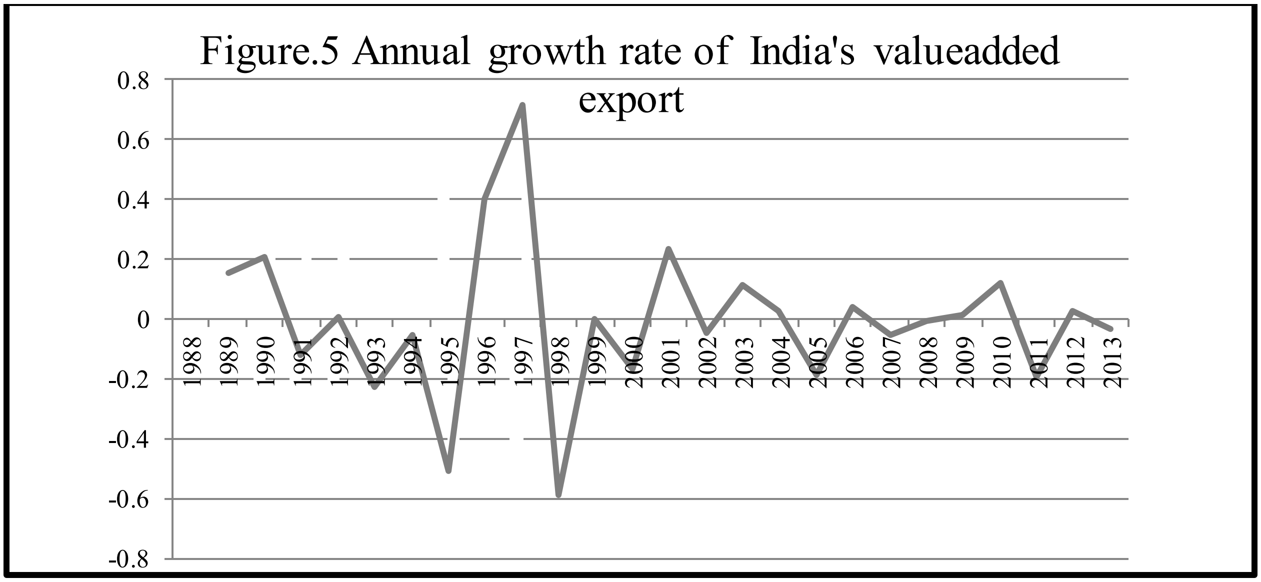
RAW BASKET		MID-VALUE BASKET		VALUE ADDED BASKET	
Major commodity	Share (In %)	Major commodity	Share (In %)	Major commodity	Share (In %)
Pearl Stones	39	Oil Meals	19	Jewellary	10
Raw Plastic Materila	11	Agro Chemical	7	RHG Cotton	9
Gold	9	Paper, finished leather	6	Iron-steel product/car	7
Basmati Rice	5	Plastic set sheet etc	5	Air Crafts/machinery	5
Source –DGCIS 2015, India`s export of principal commodities					

Above interpretation of India`s current value export basket shows that performance, in terms of contribution, of mid-value products is better than other two products even though number of commodities included in it is less. On the other hand raw category performance totally depend on pearl and stones (39%) and there exist large gap between product to product contribution as shown by the abobe table.

Now, in order to set strategies for value added exports it will be appropriate to study trend of value added exports under pre-reform and post reform period.

5. Trend of VAE

Trend of VAE can be trace out with the help of following fig :-



Source : RBI

Pre-Reform Period.

Before reforms Indian planners have a pessimistic view regarding exports more or less they consider exports as a necessary evil mainly to generate the foreign exchange earnings to meet that part of the bill import not covered by external assistance. And the impact of this po licy can be seen upto 1970 more on the policies regarding export. This pessimistic approach resulted in the lack of coordination between domestic and external policies. For instance – To fulfill domestic demand and keeping up with the infant industry approach export restrictions which are implemented during second world war continued for long period, which are accompanied by high export duties. After that in 1966, 36.5%devaluation of Indian rupee has been done. As a result neither falling of traditional export share get stopped nor non-traditional exports get inducement.

However, due to the absence of the expected result at the end of the 1968 more exportable commodities, which includes large share of value added products, were being included in the domain of subsidies.

Although, upto 1990 lots of efforts have been made to promote, which are accompanied by many external factors like increase in demand for some exportable goods. At domestic level in order to promote export production more subsidies were provided, relieve in import condition has been made. Albeit during this period, VAE growth rate is bad performance agriculture section.

However, despite of all these factors the VAE during 1988-89 remains positive with average growth rate of 0.18%. After 1989 there is decline in final product growth rate which turnout to be negative in 1990-91 which is -0.11%. The main reason behind this negligible growth rate is that India`s export remains technically and commodity wise undiversify. For e.g. availability of synthetic substitutes, technically less demand for raw products. On the other hand, due to protective policies manufacturing sector was not able to face competition at international level, but it was notable here that in 1991 growth rate of value added export is positive 0.009% due to somehow positive contribution of this sector (0.25%) when agricultural valve added commodities share keep on depreciating.

5.1 <u>Post Reform Period</u>

Period 1990-91 play a very crucial role in Indian economy, not only from the point of view of economic crisis but also as the new phase of Indian economy begins from here. Reforming foreign trade policy was the first step in the process of India`s external sector reforms and an integral part of the programme of ' macro-economic stabilization and structural adjustment' initiated in the economy in 1991. Here our interest is to investigate the impact of economic reforms on India`s value added export, hence more focus is given to the trade reforms related to them. Major objective of the trade reforms has been to reduce eventually eliminate the gap between domestic and export profitability. Thus, the focus of the export policy, by and large, shifted from product-specific incentives to more generalized incentives based primarily on the exchange rate. A major element of this policy shift was the downward adjustment in the exchange rate of the rupee against the major currencies in July 1991 leading to 20% depreciation in its value as it was assumed that a more realistic exchange rate would make exporting inherently more realistic.

However, inspite of these effort value added export growth rate not only declined in 1992, but turn out to be negative i.e. 0.23%. As a result moving one step ahead government adopted full convertibility of the rupee on the current account, in 1993. The exchange rate was henceforth to be determined by demand for and supply of foreign exchange in the foreign exchange market. Beside this, in order to promote export large exports credit at internationally competitive rates, special import licenses to import items and relaxing restrictions related to agricultural exports and tarrifs (particularly on industrial inputs and capital goods) lowered. Now foreign equipment and technologies are more accessible and there is asignificant rise in inward foreign direct investment. Along with this, 1992-93 EOU-EPZ system was expanded to agricultural allied products. Although the growth rate increased from 0.23% to 0.005 in 1993, but this increment stay for no longer as they fall down to the level of -

0.511% in 1994, as the average growth rate of man sector is -0.5% but the growth rate of agriculture produced final products is 0.5 they are not sufficient to shift growth rate of value added product, as there demand and value both are low at international level.

Besides trade policy reforms establishment of WTO in 1995 has also led to steep reduction in tariffs and non-tariffs barriers to trade in all the member countries. The concept of free trade zone was accepted in 1999-2000 and FEMA was introduced in 2000. Special Economic Zone (SEZ) policy was announced in 2000 to overcome the shortcomings of EPZs such s multiplicity of controls and clearances, absence of world class infrastructure and instable fiscal regime.

Apart from the SEZs, a number of export promotion schemes such as special import license scheme (SILS), Export promotion of capital goods schemes (EPCGS) etc. Inspite of all these efforts during 1995-2013, the only period is 1995 in which growth rate of value added exports is highest since 1989 onwards, which is 0.71. After 1995, there remains continuous ebb and flow in growth rate, as shown in fig., there are only two period whose growth rate lie between 0.1-0.2% (1999-2001) basically due to increased in demand in demand for manufacturing products. It is notable here that manufacturing valve added product performance 2010 onwards keep on declining and even when agriculture added products were performing well.

After tracing the performance of the India`s value added export, it is quite easy to do a mapping different factors that used to shape the patterns and magnitudes of India`s exports. These factors are classified into two, namely. Factors affecting the demand for India`s exports of goods.

6. Strategies To Develop Value Added Export

Strategies can be define as a long term policy in order to achieve certain objectives. In order to develop value added exports following strategies can be adopted :-

- Various studies revealed that FDI inflows, which are export oriented, can play vital role in boosting value added export as these export oriented FDI help in exploit the full potential of MNEs.
- Being alabor intensive country, India required a lot of investment in capital which will be costly, thus it will be beneficial for India to take the advantage of vertical specialization of various countries and can developed its value added export by setting last industry first.
- In order to give incentives to value added export ,more focus should be given to R&D because in order to establish its position at global market

India can't rely only on import technology.

- Industries need to build their own indigenous brands, because it alone allows realization of value addition more fully.
- Indian companies required to recognize their overseas presence by making use of mergers and acquisitions (M&A) as done by Sun Pharma in pharmaceutical by taking over Ranbaxy pharmaceuticals in 2014.

Conclusion

For India to become a leading exporter in the world trade it will have to achieve at least 2% share of world exports by the 2020, and this target can be achieved by focusing on value added export and solving the domestic obstacles which come in their way of improvement.

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