Export & Import Trade of Chemical Industries

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1. Introduction:-The Indian economy has gained considerable momentum over the last one decade, by achieving and sustaining an annual GDP growth rate of over 7 percent. This high growth rate can be in part attributed to the growing contribution of the export sector to the economy. The Second World War severely impacted the economic stability of many countries, however, India's economic performance remained less affected as its GDP continued to grow at 3.5 percent per annum while the per capita income averaged at 1.3 percent per annum, a phenomenon better known as the "Hindu rate of Economic growth" and this growth rate persisted till 1979-80 (Virmani 2004). 3 India's international trade policy following her independence in 1947 focused on being self-sufficient, which also implied minimal reliance on international trade as a source of income. An alarming large number of people were living in abject poverty and the central government sought to improve the well-being of people by adopting the strategy of 'import-substituting' industrialization. To implement this, the government developed a complex, extensive and often costly system of price controls and quantitative restrictions. It was during the eighties that the government undertook expansionary fiscal and monetary policies. The growth surged at an average annual rate of 5.8 percent; well above the Hindu rate of growth. But this rapid expansion was supported by a large current account deficit. A mounting deficit, coupled with high inflation (at 13.5 percent) and the Gulf war led India to a balance of payment crisis in 1991. Following the crisis, the Indian economy was opened up to foreign participation for the first time, in an attempt to improve the efficiency and competitiveness of Indian industries. Post 1991, the gradual liberalization of the Indian economy characterized by such policy reforms created a conducive environment for India's exports to flourish

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and evolve into an engine of social and economic growth. Hence, the last two decades have witnessed India transform from a closed economy to a considerable player in the global market.

This paper analyses India's export performance and changes in its composition over time. The paper also identifies India's main export commodities and investigates the relevance and competitiveness of these commodities in major export markets. It finally highlights key policy changes which could impact local production as well as international demand for these exports. The paper is organized as follows: Section 2 presents a discussion of India's export performance, including a discussion of the evolution in the structure of India's exports over time, followed by the sectoral composition and relative competitiveness of India's exports. Section 3 analyses India's manufacturing sector performance with special focus on three commodities and related trade policies. Section 4 summarizes the main findings of the paper and concludes.

2. India's export performance 2.1 India's overall export trends India's aversion to international trade and reliance on domestic factors to fuel growth during the fifties meant that exports played a smaller role and this is evident from the following table, where India's exports lost its world market share between 1951-1960 and 1961-70.6 Till the mid seventies, India's policy was restrictive and focused on developing the domestic industry, while tightening control on foreign trade (using quantitative restrictions as a tool). High levels of protection coupled with an overvalued domestic currency resulted in a growing demand for imports and discouraged exports. Moreover, India's exports also suffered because export incentives were only available to a limited number of manufacturing industries and selected agricultural exports (which were subjected to export duties at varying rates).7 The table below reveals that the period between 1961 and 1970 had higher imports (as a share of GDP), compared to exports which may have contributed to a growing foreign exchange shortage. Additionally, high levels of inflation and budget deficits coupled with the India-Pakistan war severely affected foreign aid and led to a foreign exchange crisis, which resulted in the devaluation of the rupee in 1966.

This may be in part due to the unusual development model followed by India. The transition phase for East-Asian economies was characterized by a reduced dependence of the economy on the agriculture sector and increased emphasis on the labour-intensive manufacturing sector. Economies have traditionally developed a strong manufacturing base and over time moved towards a capital and skills-oriented services sector. However, Thirlwell (2006) states that India has followed a different trajectory. Following the economic reforms in 1991, the Indian economy made a transition from being agriculture-driven to being considerably service oriented. The manufacturing sector, which had been the prime engine of growth for countries such as China or South Korea, was not as strengthened in India and its development was constrained by a 20 Athukorala, Prema-Chandra (2008). 0.00% 0.20% 0.40% 0.60% 0.80% 1.00% 1.20% 1.40% 1.60% 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 percentage share (%) 10 combination of factors. As a consequence of this, the Indian economy was not able to fully exploit its potential comparative advantage in the sector.

Government Initiatives-Even though India's manufacturing exports have resurged since 2001 and grown at a steady rate of over 25 percent between 2002 and 2008, the manufacturing sector has not performed as well, as seen in Figure 9 where the share of manufacturing (value added) in GDP has remained stagnant. In contrast, the services sector has performed well and contributed significantly towards India's economic growth. Moreover, India's performance in services exports has been 28 Refer to Figure 3 in the Appendix section. 29 Refer to Figure 4 in Appendix. 0 0.2 0.4 0.6 0.8 1 1.2 1.4 1.6 1.8 2 Services Merchandise 18 stronger than most other emerging economies for which their manufacturing sector has been the main driver. Between 1975 and 2004, the share of agriculture sector in GDP declined while that of the industrial and services sectors rose. However, the contribution of the manufacturing sector remained the same and increased marginally from 14 percent to 16 percent. This is in stark contrast with China, which has a manufacturing sector contributing to 35 percent of its GDP and the figures are similar for many other countries.30 It is therefore important to examine the role of government policy in shaping India's manufacturing sector performance

Industry and trade- overview Gems and jewelry has been an important industry for the Indian economy. It is one of the fastest growing industries and a leading earner of foreign exchange for India. The gems and jewelry sector covers a wide range of items which include diamonds, precious

and semi-precious stones, in addition to gold, silver, studded and costume jewelry. 38 The gems and jewelry industry in India is mostly concentrated in the unorganized sector and employs around 2 million workers. An important feature of this industry is that it contributes a large share to India's total exports as well as to the country's imports (averaging over 9 percent of total imports since 1997). 39 The main component of India's gems and jewelry export is cut and polished diamonds. Rough and uncut diamonds are imported and processed in India and finally exported in the form of diamond jewelry for final consumption. It is this feature that makes the industry highly import-intensive in nature. The importance of this industry for Indian exports is evident from Figure 11. Its contribution to Indian exports has steadily grown since 1975 and is responsible for nearly 15 percent of India's 38 The ICRA industry report on the Indian Gems and Jewelry Industry (last accessed on 15.8.2011). 39 Refer to Figure 6 in the Appendix. 25 total exports since 1986. As a commodity, it has the (single) highest share in Indian merchandise exports and is therefore, one of the most significant industries for India. The diamond segment contributes a major share of nearly 70 percent of the total (gems and jewelry) export and thus the remainder of the analysis focuses on the performance of Indian diamond exports. However, the latter's share has declined since 2008, in part, due to the economic meltdown which reduced the import demand from USA and other trading partners of India.

Summary of discussion-The paper summarizes the export performance of three unique industries which comprise India's manufacturing sector and thereby reveals the heterogeneity that exists among industries within the sector. Indian gems and jewelry exports constitute a significant share of the country's aggregate exports and have also performed well internationally, thereby making India an indispensable player in this market. On the other hand, cotton exports which are a traditional export item for India have declined in importance with a falling contribution to Indian exports as well as to the global cotton market. Finally, the electronic goods industry is an upcoming sector which has grown at an impressive rate domestically and has strong potential to contribute to India's exports in the near future. In general, these sectors have performed better since trade liberalization was undertaken in 1991. The reduction and subsequent removal of export and import barriers have further supported exports and contributed towards a stronger performance. The paper also provides a summary of changes in government policies which could explain the emerging patterns in India's exports of select manufactured products. It clearly highlights the fact that the export performance of an industry is shaped by a number of factors, including global and partner country economic conditions, costs, market structure, domestic regulations and policy incentives. While the paper addresses the industry related features stated above, India's export performance is equally likely to be affected by macroeconomic variables such as inflation, world demand (or GDP), tariff and non-tariff barriers and also exchange rates. Industry reports often discuss export competitiveness in the light of exchange rate movements, amongst other variables, and therefore suggest that this variable may be relevant in the Indian context. In particular, an RBI report suggested that fluctuation in the value of the rupee affected Indian industries asymmetrically. While labour-intensive sectors such as cotton and leather experienced a fall in export growth (due to an appreciated rupee between 2006 and 2007), high importintensive sectors like engineering and gems and jewelry were expected to perform better during the same period, due to lower import costs.

Directions for future-work Clearly, the determinants of export performance are numerous and the complexity of this issue requires an empirical investigation. This relationship needs to be explored in greater detail in future work which takes into account the various industry-specific factors discussed above alongside important macroeconomic factors such as the state of the world economy, the exchange rate, and the policy environment. In particular, it would be interesting to examine the role of exchange rate movements in influencing India's export competitiveness given the periodic bouts of appreciation of the Indian Rupee typically on account of rapid inflows of foreign capital and the concerns such movement typically raises in exporting sectors of the economy. For instance, during 2007, driven by a surge in FII inflows, the Indian Rupee appreciated significantly against the US dollar, reaching the Rs 40/dollar threshold. This led to demands from Indian industry to prevent further appreciation and calls for intervention by the RBI to prevent an adverse impact on their exports. Again, more recently, in the aftermath of the 2008 global financial crisis, similar concerns about the adverse effects on exports were voiced when the rupee temporarily appreciated against the dollar. Hence, in a future study which delves

deeper into the micro as well as macro level factors that shape export competitiveness for Indian manufactures, it would be worth testing through rigorous empirical analysis whether and to what extent exchange rate movements really affect India's export competitiveness. To date, empirical evidence in this regard is limited and there seems to be a presupposed conclusion that a depreciated rupee is good for India's exports. However, given the diverse nature of India's exports, the various structural, regulatory, industryspecific and other factors that influence competitiveness, as highlighted in this paper, can one expect such a clear cut relationship between exchange rates and export competitiveness to hold for India? How important are these other factors compared to the exchange rate? Are the implications similar across manufacturing and services, across different manufacturing.

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