



EVALUATING THE INFLUENCE OF EXPORTS ON INDIAN INDUSTRIAL PRODUCTION

Dr. S. Sundararajan¹

Dr. N. Ramar²

ABSTRACT

Post-advancement time has seen critical development in India's Export. The fare has become quicker than the Gross Domestic Product (GDP).³ Industrial Production holds a key position in the Indian economy, accounting for nearly 15.4 per cent of real GDP in 2019 and employing about 12.0 per cent of India's labour force.⁴ Development in the area has been solid, dominating in general GDP development in the course of recent years. Manufacturing accounts for a large chunk of India's industrial production, a fact borne out by the sector's 75.40 % share in the Index of Industrial Production (IIP).⁵ Within manufacturing exports, engineering goods was one of the fastest growing – the segment recorded a CAGR of 26.0% during the period 2010-2020.⁶ Other sub-sectors with high growth rates include gems and jewellery and chemicals, which grew at a rate of 18.60 % and 17.30 % respectively. The economic recovery strengthened by the factory output heaving to a 16-month high of 7.80 % growth in June 2021, beating forecasts by a wide margin and reversing the bleak trends that had set in since the deep gloom of world economic decelerate had impacted Indian economy. The fiscal stimuli announced by the Government of India with so much elaboration had had little blaming effect on Small and Medium Enterprises (SMEs) as 94.0% of them, mostly catering to the export markets, are languishing in the vestiges of the slowdown (Sehgal, et.al (2003). India's external trade continued to shrink both in June and July, as the overseas and domestic demand remained weak. July exports dipped 26.60% year-on-year basis to \$12.53 billion, which was marginally better than the 27.70% negative growth posted in June. Preliminary estimates by the Directorate General of Commercial Intelligence and Statistics demonstrated that the value of imports for the month tapered 37%, steeper

¹ Teaching Assistant, Alagappa Institute of Skill Development, Alagappa University, Karaikudi (TK). Email: sundararajanibm@gmail.com. Contact - 7010336760

² Teaching Assistant, Alagappa Institute of Management, Alagappa University, Karaikudi (TK). Email: ramargobimba@gmail.com Contact - 8248602187

³ <https://rbi.org.in/Scripts/Publications>

⁴ ibef.org/download/Boosting-Indias-Manufacturing-Exports.

⁵ ibef.org/download/Boosting-Indias-Manufacturing-Exports.

⁶ <https://www.ibef.org/download/Indian-Manufacturing>

than 29.3% plunge in July; in fact because of reduced demand.⁷ Hence this paper examines and evaluates the influence of exports on Indian Industrial Production.

Keywords: *IIP, SMEs, GDP, CAGR.*

INTRODUCTION

In the recent years, there has been a mounting realization among Indian economists and policymakers that in order to considerably accelerate the rate of economic growth in India in the years ahead, a speedy growth in exports is essential, and this requires, besides incentives for exports, a general up gradating of cost effectiveness and product quality in Indian industry. Engineering exports are selected for the analysis because their expansion over the last two decades has been moderately impressive and in any future plan to boost India's exports, this category of exports should occupy a very important place. (Biswanth, et.al (1989). Manufacturing holds a key function within side the Indian economic system, accounting for almost 15.4 % according to cent of actual GDP in 2020 and using approximately 12.0% according to cent of India's labour force. Growth within side the region has been strong, outpacing universal GDP boom over the last few years. For example, even as actual GDP elevated at a CAGR of 8.4% according to cent over 2005 to 2021, boom within side the production region become better at round 8.5 according to cent over the identical period. Consequently, its percentage within side the economic system has accelerated for the duration of this time – to 15.4% according to cent from 15.3% according to cent. Growth but has remained beneath that of services, an trouble that has now no longer escaped the eye of coverage makers within side the country.⁸ The US and Western Europe are the main export market for the India's industrial production. The Middle East also finds mention with UAE in particular a key market for Indian Industrial goods. The exhibits below show shares of key markets in Indian manufacturing exports for 2021. India is ahead of major urbanized and emerging economies like the US, South Korea, Brazil and Japan. Looking ahead, India's competitiveness will increase further with its index score set to improve to 16.01 (out of 10) in the next five years from the 2020 figure of 14.15. About 27% of the foreign exchange earnings are on account of export of textiles and clothing alone. The textiles and clothing sector contributes about 14% to the industrial production and 3% to the gross domestic product of the country. Around 8% of the total excise revenue compilation is contributed by the textile industry. (C. Vethirajan, et.al, 2015).

The Industrial exports and the engineering goods were one of the fastest growing – the segment traced a CAGR of 26.0 % during the period 2010 - 2021. Some of the other sub-sectors traced with high growth rates comprises of gems and jewellery and chemicals, which grew at a rate of 18.6% and 17.3% respectively. Within engineering goods, transport equipment led the field with a CAGR of 34% (2010-2021), followed by electronic goods (24%) and machinery and instruments (22 %). In the chemicals sub-sector, growth in exports was primarily

⁷ Financial Express

⁸ L. G. Burange, Sheetal Chaddha (2015), Export Performance Of India's Manufacturing Industries, 5 ISFIRE Working Paper Series, Working paper - 12, Issue- July 2015, Pp. 1-5

led by pharmaceuticals – exports rose 18.0% during the stated period. Indian manufacturing has performed strongly over the last decade. Despite growing at a higher growth rate in recent years, the share of manufacturing in India's GDP has increased only marginally. In comparison, for some of the key East Asian economies, the share of manufacturing in economic activity falls within the range of 25-35%. Transportation should be the other key focus area for the government. An example is ports. With India's ports almost at saturation point (container capacities of 43 million tonnes are fully utilized), container capacity requirements for exports alone will have to be hiked to anything between 120-150 million tonnes by 2025. A bulk of India's exports is destined to countries in Western Europe and North America. However, growth centres in the coming decades are expected to be economies of Africa and Latin America. It is important for Indian manufacturing companies to grab the first mover's advantage and look at tapping these markets, more aggressively.

NEED AND IMPORTANCE OF THE STUDY

It is important to measure and evaluate the India's manufacturing exports which is predominantly influencing the India's economy. The performance of manufacturing exports can be evaluated with respect to the diversification of the various manufacturing exports and the involvement of quantity and 'unit value' to increase in the value of exports. This study focuses in analyzing the transformation in the long term trend in manufacturing exports from India, the study covers the period between 2010 and 2021. In order to evaluate the involvement of quantity and unit value to the growth in India's manufacturing exports.

RESEARCH METODOLOGY

This study is predominantly based on the secondary data which is gathered from various secondary sources such as published reports from Ministry of Commerce and Industry, Director General of Foreign Trade (DGFT) and various important websites to fulfill the objectives of current study. To analyze the change in the long term trend in exports of the Indian manufacturing industries, the study covers the period between 2010 and 2021. In order to assess the contribution of quantity and unit value to the growth in India's manufacturing exports, analytical tools like Commodity concentration Index has been computed.

OBJECTIVES

The objectives of this research article are as follows,

1. To evaluate the concentration Index of the Indian manufacturing exports.

REVIEW OF LITERATURE

Sheetal, Burange (2015), in their paper entitled "Export Performance of India's Manufacturing Industries" highlighted that change in the long term trend, pattern and composition of exports of manufacturing industries, the study covers the period between 1990-91 and 2013-14. It is examined that the contribution of volume and unit value to the growth in manufacturing exports. Growth in volumes has mainly influenced the rise in exports of manufacturing industries. **Bhunia, (2014)** stated that India's manufacturing stake in the

global economy is roughly 2%, while China's is a stunning 22%. It is necessary to redesign trade, industrial, and infrastructure policies in order to remove domestic barriers to export. According to **Veeramani (2012)**, India's exports have seen a minor structural adjustment. In comparison to labor-intensive commodities, capital-intensive goods contribute more to the export basket. **Kalirajan and Singh (2007)** explain that when it comes to comparing the export performance of India and China, India loses out completely. India is still not in a position to cater to the demands of the rich world, as efficiently as China. While China managed to reduce its domestic constraints and has realized almost 85 per cent of its export potential, India still lingers on at less than 70 per cent. According to **Aggarwal (2002)**, Indian enterprises that have taken equity from foreign firms have not been able to grow high-tech exports. Only in low-tech industry exports have they performed well in comparison to enterprises with no foreign equity infusions.

Economic Activity Export Performance

India's agricultural exports have decreased from 19% in 2010 to 2021 to around 5.4 percent in 2013-14. This is a reflection of the country's terrible agricultural situation. The fall in India's share of industrial exports is significant. In 2014-2015, the sector dominated the export basket, accounting for 91 percent of India's export revenues. However, this pattern only lasted until 2012-2013. Manufacturing has progressively given way to mining since then, and by 2013-14, its share had fallen to 71%. (Table 1). In fact, manufacturing's proportion of GDP in India is stuck between 13 and 16 percent, and there looks to be a lot of untapped potential for competitiveness.

Table 1
Percentage Shares of Exports (2010 to 2021)

YEAR	AGRICULTURE	FISHING	MINING	MANUFACTURING	OTHERS
2010-11	9.01	0.57	6.81	83.49	0.12
2011-12	8.68	0.42	5.94	84.86	0.09
2012-13	6.71	0.49	4.03	88.67	0.08
2013-14	7.38	0.42	3.76	88.38	0.06
2014-15	5.54	0.34	2.91	91.11	0.05
2015-16	5.66	0.25	2.72	91.32	0.05
2016-17	8.08	0.37	2.73	88.77	0.07
2017-18	7.52	0.33	3.33	88.73	0.10
2018-19	6.72	0.30	2.42	90.46	0.10
2019-20	6.73	0.32	2.03	90.82	0.10
2020-21	5.20	0.24	6.28	88.20	0.08
CAGR	-4.87	-7.56	-0.73	0.50	-3.62
S.D	1.20	0.09	1.59	2.38	0.021

Source: Ministry of Commerce, DGCIS.

Table 1 clearly demonstrates that the performance of manufacturing exports can be evaluated with deference to the diversification of the export basket and the involvement of magnitude and unit charge to growth in the importance of exports.

Manufacturing Export Commodity Concentration:

It is believed that as time passes and the economy grows, the commodity concentration of trade would decrease. There is an attempt to create a commodity concentration index for India's industrial exports. Michaely's formula is used in the research (1958)

As per the measure,

$$C = \sqrt{\frac{\sum (100/x)^2}{n}} \quad \text{----- (1)}$$

here,

C = Commodity Concentration,

x = Export or import value of the i th commodity, X = Total value of exports.

Thus, values closer to 100 depict a higher level of commodity concentration and vice- versa. The findings indicate that the commodity concentration of India's manufacturing exports has decreased over time (Table 2). The textile and apparel monopoly in India's export basket has given way to new entrants, indicating that the country is diversifying into additional areas. Nonetheless, textiles have long been India's main export item, and India has a comparative edge in this sector. It is past time for India to address this issue, as it is a source of employment for the Indian populace.

Trend in Manufacturing Exports

In the 11 years from 2010 to 2021, India's manufacturing exports grew at a CAGR of around 26%, with 2010-2011 as the base year. As shown in Figure 1, the increase in volumes has largely led to the increase in the value of exports of manufactured goods. The contribution of unit value in fueling exports has been modest, implying international market competitiveness.

Table 2
Commodity Concentration Index

YEARS	COMMODITY CONCENTRATION INDEX
2010-11	27.43
2011-12	24.88
2012-13	26.33
2013-14	25.79
2014-15	28.33
2015-16	28.17
2016-17	26.57
2017-18	27.15
2018-19	29.18
2019-20	30.47
2020-21	27.96

Source: Computed, Author Defined

It is inferred from Table 2 that, the commodity concentration index has penetrated during 2016-2017 with 26.57 per cent and during 2019-2020 with 30.47%. There is a fluctuating trend recorded during the period of 2010 to 2015, with the average trend value of 24.68 per cent. From 2016 to 2021 the commodity index has reported a inclining trend.

Figure 1

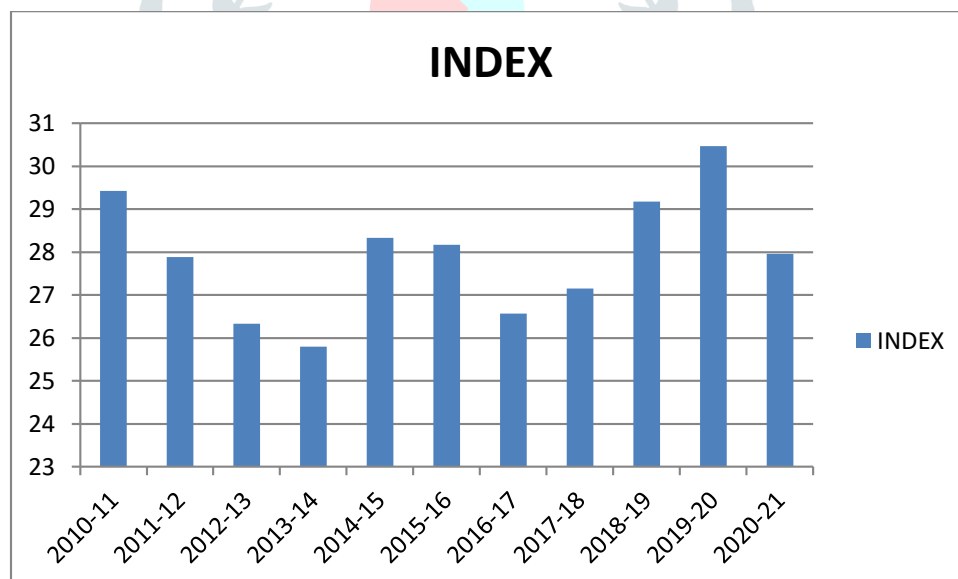


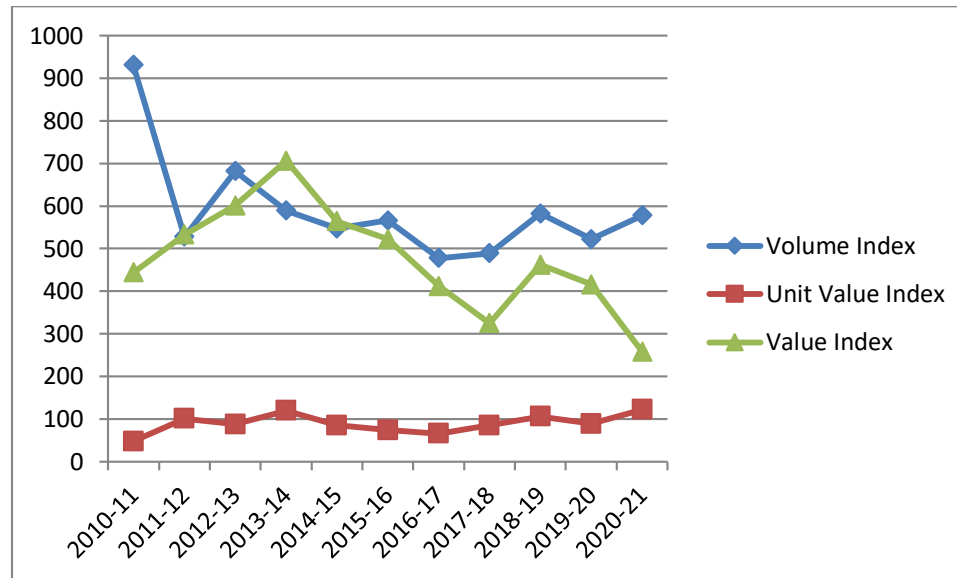
Table 3

India's manufacturing exports in terms of quantity, unit value, and value indices

Year	Volume Index	Unit Value Index	Value Index
2010-11	931	48	444
2011-12	528	101	533
2012-13	682	88	601
2013-14	589	120	706
2014-15	547	85	564
2015-16	566	74	522
2016-17	478	66	412
2017-18	489	85	325
2018-19	582	106	462
2019-20	522	89	416
2020-21	578	122	258
CAGR (%)	-4.24	8.85	-4.82
S.D	125.93	22.24	126.83

Source: Computed.

Table 3 depicts that India's manufacturing exports have grown at a CAGR of -4.24 percent in terms of volume, but just 8.85 percent in terms of value. Although volume indices have generally outperformed unit values over the last 11 years, the quantity index has risen dramatically, particularly after 2015-16. The S.D stood at 125.93 for the volume and 22.24 for unit. The value Index reported S.D having 126.83. There is a fluctuating trend seen during 2010 to 2016 and again the increasing trend in Volume is reported during 2017 to 2021. In the case of ready-made clothing, in addition to other issues, a lack of competent labour is affecting exports in this category. India's contribution to global vehicle exports is still insignificant. If the country intends to make it into the world's auto map, this industry will need to be carefully cultivated. Chemicals and pesticides are one of India's fastest-growing manufacturing export items, with a 20 percent CAGR. Even within the United States, the sector has outperformed manufacturing as a whole. It is one of the oldest industries, with a production ranking of 12th in the world. Chemicals make up about a quarter of India's manufacturing output, with capacity utilization exceeding 80%.

Figure 2**India's manufacturing exports by quantity, unit value, and value indices****CONCLUSION**

In India the rising global seaborne trade shifting shipbuilding bases to low cost emerging nations, government support have all promoted various manufacturing industries and allied sector in India. The addition of new facilities and the development of existing ones has boosted growth. India's competitive edge is its low-cost labour, even in developed markets. While comparing China and Korea due to the competitive steel manufacturing, light engineering, and Information Technology Enabled Service industries, components can be purchased locally. In this sector, India has a possibility to accelerate its development. India still has a chance to realise its full potential. Automobiles, chemicals, electronics, and electrical items are thought to be critical areas for off shoring, and India, thankfully, has the capabilities to benefit from this trend. In the manufacturing sector, India will continue to lag behind other countries. 360-degree monitoring and prompt plugging-in of 'systemic leakages' will have to be built into an efficient control mechanism. While difficulties and roadblocks will remain the same, innovative approaches to overcoming them will need to be investigated.

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