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Awareness Capsule

Indian Exports

Revival But No Room For Complacency

India's export performance over the last six months (up to April 2010) has significantly improved. Year on year exports figures indicates a growth of over 27 percent during the six month period. This gives a clear indication that the adverse impacts of financial crisis is over. If the present trend continues, India's exports could achieve an unprecedented high and cross US$200bn mark in 2010-11.

Exports represent goods and services produced by residents of a country for consumption by non-residents. Therefore, a nation's ability to export and thereby generate income is not constrained by its purchasing power. Thus, exports are considered to be a vital channel for speeding up the rate of growth of national income, enhancing employment and breaking out of poverty traps.

India too has benefited from this channel after 1991 with the government adopting a conscious policy of liberalising the economy through removal of controls on imports and domestic production, and embarking on a conscious policy of export promotion. Over the last two decades, the value of Indian exports has increased around 23 times even after accounting for increase in the level of prices.

This general positive trend hit a major bump because of the global economic recession that followed the US financial crisis in 2007. Indian exports suffered from contraction in demand from traditional markets (US, EU etc.) in the developed world -- exports declined by 4.7 percent to US$176.57bn in the financial year 2009-10 from US$185.29bn in the previous year. This contributed in a major way to keeping the annual Indian growth rate significantly below the 9 percent that had been enjoyed by the country between 2005-06 and 2007-08.

With the world economy showing distinct signs of recovery from the recession, as illustrated by the US and EU, returning to positive rates of economic growth after a period of economic contraction, Indian exports too have revived. Revival started in November 2009, after a gap of 13 consecutive months, with a jump exceeding 18 percent over export levels in November 2008. This recovery was sustained with exports in each month thereafter exhibiting a growth of over 9 percent over the corresponding month of the preceding year. In February, March and April 2010, the last three months for which export figures are available, such growth rates are extremely encouraging - 36, 54 and 36 percent respectively.

Latest data emerging from the World Bank and other international institutions indicates that 2011 holds better prospects for the world economy growth in global gross domestic product (GDP) would increase from (-)2.2 percent in 2009 to 2.7 and 3.2 percent in 2010 and 2011 respectively. Such growth obviously implies that residents the world over would have more money to spend on Indian goods. Such optimism is confirmed by projections of the trend over the last six months (November 2009-April 2010), which suggest that Indian exports could reach an unprecedented high of US$200bn in 2011.

Yet the basis of that prosperity might be built on castles of sand. Many experts fear a return to recessionary tendencies in the US, given that the impact of the massive economic stimulus package (amounting to four percent of national income) applied to the economy in 2009 has now begun to fade. Moreover, there are no plans for further stimulus packages. The recent bankruptcy of Greece with its ripple effects on other European nations has also led to doubts in regard to sustainable economic growth in the EU. If these fears indeed come true, India's export revival might also be short lived.

Examination of the period between 2005-06 and 2008-09 indicates that the importance of traditional partners such as the US and EU has declined. The share of non-traditional partners (all countries excluding EU, US and emerging China), on the other hand, has increased from 53-61 percent during this period. However, such diversification into non-traditional markets in Latin America and Association of Southeast Asian Nations (ASEAN) has to assume significantly greater magnitudes in the future. Only then can it blunt the adverse impact of possible contraction of traditional markets on Indian exports.

This article is part of a series of one pagers recently launched by CUTS with the objective of generating economic literacy and enhancing awareness about key socio-economic issues relating to the Indian as well as global economy.

This one pager Awareness Capsule has been prepared by Suresh P Singh, Policy Analyst, CUTS International.