2020 Vision: FIEO urges concerted strategy to boost exports

The first meeting of a Joint Task Force to discuss India's share of 5% of world trade by 2020 was held in New Delhi on 10th May, 2010. Shri A. Sakthivel, President, FIEO represented the organization in the meeting. The Federation of Indian Export Organisations offered the following suggestions to the Joint Task Force:

The share of India's international trade in GDP is constantly improving touching 55% in 2009. Looking at the trend of globalization and regionalization, the share is likely to grow further by 2020.

India's merchandise trade in 2009-10 was $425 billion while services are likely to be about $210 billion (assuming services exports of $115 billion and imports of $95 billion). The world trade in 2020 is estimated to be of $94 trillion. The target of doubling our share of the world trade would result in enhancing our international trade from $635 billion to $3106 billion in the next 10 years requiring CARG (compound annual rate of growth) of 14.3%.

We are likely to have a trade deficit of $82 Billion in 2009-10 (merchandise deficit of $102 billion and service surplus of $20 billion) but should attempt to generate a surplus of $500 billion by 2020.Exports should touch $1800 billion and imports $1300 billion to result in this favourable trade balance. This will befit our status as a developed nation and a super economic power. However, to reach the exports of $1800 billion by 2020 from the present level of $291 billion, we require a CARG of about 20%. This will be a challenging but achievable target, if past performance is any indication.

The world will undergo a sea change by 2020 looking at technological innovations and demographic profile.

Devising any broad strategy for 2020 should be based on two factors:

1. Issues likely to affect the demand of Indian goods and services
2. Issues likely to affect the supply of Indian goods and services.

Factors affecting the demand

The most important factor affecting the demand of goods and services is likely to be demographic change. Population aging in industrial countries will reduce aggregate growth in advanced economies and China in the next decade, but should boost growth in developing countries over the next 10-20 years, as the relative size of their working-age populations increases. Demographic change will also affect savings, investment, and capital flows, implying changes in global trade balances and asset prices. The elderly dependency ratio is projected to rise dramatically in Japan and Europe, with lower increases anticipated in the US.

Pharma and Healthcare sectors

The demographic change will lead to increase in exports of pharmaceuticals, medical and diagnostic equipments and health services. By 2020 the pharmaceutical market is anticipated to more than double to S$1.3 trillion, with the E7 – Brazil, China, India, Indonesia, Mexico, Russia and Turkey – accounting for around one fifth of global pharmaceutical sales. Further, incidence of chronic conditions in the developing world will increasingly resemble those of the developed world. Over 20% of world's generics are produced in India. Drugs worth nearly $70 billion are likely to go off patent in the US, offering India a chance to manufacture a considerable share of the products to exploit the ensuing generics opportunity. Foreign players are also expected to increasingly discover investment opportunities in the country in establishing research centres, outsourcing production services, and authorizing products and technologies. In manufacturing, pharmaceutical firms are strengthening bonds with Indian players to serve the world markets via marketing alliances.

A concerted strategy needs to be devised for export of these products and services so as to reach an export of $100 billion by 2020

Textiles and Clothing

We need to target steady growth of 15% per annum in our domestic textile industry and 20% per annum growth in our textile exports till 2020 in order to enable us to increase India's share in world textiles and clothing exports. If we are able to achieve 20% growth in our textiles exports per annum and 15% growth per annum in domestic production then our domestic textile market size would be $213 billion by 2020 and exports would be around $164 billion. Given the long-term growth of 7% in world trade in textiles, India's share would be around 14 % in 2020 at a growth of 20% per annum, which would be almost four times of its current share of 3.4%.

India does not have a significant share in value added garments in global trade (only 3%). The policy should focus on making India a manufacturing hub of value added garments and ensure we achieve 25-30% share of these branded items in our exports.

There is the need to deepen our fibre consumption which remains very low. Today, the average world per capita fibre consumption is around 10.8 kg and that of India is around 5.5 kg only. Another main task of this policy would be to align the ratio of man-made fibre to natural fibre in consumption of India, which is currently around 40:60, to the world norm (60:40).

High Technology Exports

(automobiles, auto components, machinery and equipments, electronics hardware, integrated circuits etc)

These exports account for a major share in world trade and the same is likely to increase further by 2020. India's share in high technology exports is less than 0.5% of world trade.

India is virtually the R&D capital of the world with an R&D base of over 250 fortune 500 companies. India is likely to get major investment in the high technology sector in the next decade as opportunities in the US, Japan and Europe are on the decline. Foreign companies will be transferring technologies to countries such as India and China. We can look forward for exports of $400 billion from this segment.

Processed Foods

With increasing purchasing power, there will be demand for more food products particularly high quality processed products. We need to push processed food exports in a big way in the next 10 years so as to reap the dividend when the market expands for these products. However, looking at the huge domestic demands, surplus needs to be generated for these exports. Therefore, a coordinated effort would be required for increasing our agricultural production and productivity so that the processed foods sector gets adequate input for such exports.

Leather, Carpets and Handicrafts

The leather, carpets and handicrafts sectors are not only important for exports but also for providing employment to more than 12 million artisans and crafts persons, mainly belonging to the large and economically backward section of our society. We need to draw a scheme to improve products and production facilities besides taking up capacity and skill development programmes. They can contribute about $50 billion in exports by 2020.

IT & ITES

India has the potential to increase its IT and IT Enabled Exports to $250 billion by 2020. The growth will come from new verticals like healthcare, media, utilities etc. New markets for Indian IT and ITES would be China, Japan, West Asia and Latin America.

Energy

Emphasis on reducing carbon emissions will pave the way for natural gas exports. India will develop new technologies to extract natural gas from gas hydrates – a solidified form of gas lying on the ocean floor. India has the largest gas hydrate deposits in the world, and so will become the biggest global producer. We are also poised to discover enormous deposits of shale gas in the vast shale formations running through the Gangetic plains, Assam, Rajasthan and Gujarat. New technology has made the extraction of shale gas economical, so India will become a major gas producer and exporter.

Market Diversification

Considerable diversification in markets will also be witnessed by 2020. Asia and Oceania whose share in world GDP is likely to grow from 35.7% (2005) to 43.2% (2020) will be the major markets for our exports. We need to devise our policies looking at the opportunities which will emerge in this area. Other potential markets would be Latin America, Africa and Russia.

Factors affecting the supply

We need to address the domestic constraints which are likely to hamper our export growth by 2020. These include:

a) **Growth of domestic demand:** Rapid growth in domestic demands is likely to affect our exports of products like tea, coffee, rice, cotton etc, the in next decade.

b) **Infrastructure bottlenecks:** The biggest challenge on the supply side would be infrastructure bottlenecks such as ports, airports, roads, power which will impact supply schedules denting our image as a reliable supplier. The power tariff has to be competitive for industry which is about 2.5 times the international power tariff.

c) **Emphasis on low wages:** Most of India's exports enjoy competitive advantage due to cheap labour. This segment is highly price competitive as can be seen from exports from Bangladesh, Cambodia, Thailand and East European countries.

d) **Neglect of R&D:** The R&D intensities in most of the export industries are relatively low. Most of them improve their products by technological upgradation without seeking process innovation and product development. The Government should provide direct assistance to R&D activities to further our international competitiveness.

e) **Technology Upgradation:** We will need to adopt efficient, productive and clean technologies. Industry should be provided access to technology at competitive prices by eliminating tariffs and providing interest subsidy on the pattern of TUFs.

f) **Exchange rate:** The appreciation of the Indian Rupee will be a major challenge for exporters as the Rupee is likely to depreciate to Rs 25-30 to a dollar by 2020 as per a Goldman Sachs report. ■