Unlocking India’s Export Potential

This editorial is based on “[How To Attract World’s Top Manufacturers]” which was published in Times of India on 15/05/2025. The article brings into picture the ambition of making India a developed nation by 2047, achieving sustained 8% growth is non-negotiable. Export-led manufacturing, inspired by the success of nations like China and Vietnam, holds the key to creating millions of quality jobs and significantly improving living standards.

For Prelims: Exports, Underemployment, Production Linked Incentive (PLI) scheme, Foreign Exchange Reserves, India's merchandise exports, Generic drugs, Australia (ECTA), **UAE (CEPA), PM Gati Shakti Plan, World Bank's Logistics Performance Index, Least Developed Country, Carbon Border Adjustment Mechanism, Bharatmala**, **Sagarmala, RAMP (Raising and Accelerating MSME Productivity), TIES (Trade Infrastructure for Export Scheme), PLI (Production Linked Incentive), Open Network for Digital Commerce.**

For Mains: Export-Led Growth Contribution to India's Economic Transformation, Key Challenges Affecting India's Export Growth and Capabilities.

India’s ambition to become a **developed nation by 2047** hinges on sustaining and accelerating economic growth beyond **8% annually,** which is essential to achieve a **$20 trillion economy** and lift millions out of poverty. A **laser-sharp focus on exports is critical,** as global examples like China, South Korea, and Vietnam demonstrate how export-led growth drives prosperity. India must leverage its **labor force and industrial potential to attract global manufacturers,** shifting beyond its current reliance on services and capital-intensive sectors. By becoming a hub for world-class manufacturing, India can create over 200 million quality jobs and raise living standards.

How Export-Led Growth Drives India's Economic Transformation?

- **Driving Employment Generation:** Export-led growth can create millions of jobs by expanding **labor-intensive sectors like textiles and pharmaceuticals.**
  - Sectors focusing on global markets provide employment opportunities to India’s young workforce, reducing **unemployment and underemployment.**
  - For instance, the rapid rise in smartphone manufacturing under the **Production Linked Incentive (PLI) scheme** has led to significant job creation.
    - **India’s smartphone exports surged to ₹90,000 crore in FY23**, a doubled year-on-year, creating n**early 300,000 direct jobs and 600,000 indirect jobs**
- **Reducing Trade Deficit and Enhancing Foreign Exchange Reserves:** Focusing on export growth **reduces reliance on imports, particularly in sectors like electronics and renewable energy components**.
  - Boosting exports not only narrows the trade deficit but also strengthens India’s **foreign exchange reserves,** making the economy more resilient to external shocks.

        - **India's merchandise exports rose 6% to a record $447 billion** during the financial year 2022-23, aided by healthy growth in outbound shipments of sectors such as petroleum, pharma and chemicals and marine and narrowing the trade deficit to **$21.94 billion in December 2024.**
- **Integrating into Global Value Chains (GVCs):** Export-driven manufacturing **integrates India into global value chains,** facilitating access to advanced technologies and international best practices.
    - This can improve productivity and innovation, making domestic industries globally competitive.
    - For instance, **Apple and its suppliers aim to reach 32% of global iPhone manufacturing** and **26% of their production value in India by 2026-27.**
- **Promoting Regional Development:** Export-oriented growth can drive industrialization in **Tier-2 and Tier-3 cities,** decentralizing economic activity and reducing regional disparities.
    - The expansion of manufacturing hubs, especially in states like **Tamil Nadu, Karnataka, and Uttar Pradesh**, has brought inclusive development to underdeveloped regions.
    - In **FY23, Tamil Nadu emerged as India's foremost exporter of electronic goods,** contributing 30% to the country's total electronic goods exports, highlighting the rise of regional export hubs.
- **Boosting Technological Upgradation:** Export-driven sectors incentivize firms to adopt **advanced technologies and improve quality standards** to compete in global markets. This leads to technological upgradation and efficiency gains across industries.
    - For instance**, Generic drugs** account for 20% of the global export in terms of volume, making the country the largest provider of generic medicines globally, driven by **adherence to global standards and innovation in generics and biosimilars.**
        - The Serum Institute of India is **recognized as the world's largest vaccine manufacturer,** with its multifunctional production facility in **Manjri, Pune,** having an annual capacity to produce 4 billion doses.
- **Strengthening India's Strategic Geopolitical Position:** Export growth enhances **India's soft power and strengthens economic diplomacy** by creating interdependencies with key trading partners.
    - This has been instrumental in strengthening trade ties with **ASEAN and the US** through bilateral and multilateral agreements.
    - For instance**, India signed trade agreements with Australia (ECTA) and UAE (CEPA) in 2022,** boosting trade volumes and is negotiating with the **EU and United Kingdom.**
- **Accelerating Green Growth and Sustainability:** Export-oriented **renewable energy** and green technology sectors can p**osition India as a leader in the global energy transition.**
    - Focused policies in **green hydrogen** and **solar energy exports** align with both economic and environmental objectives.
    - For instance, **domestic manufacturers exported 4.8 GW of solar modules** in 2023, up **204%** compared to 1.6 GW in 2022.
        - Also, **India's export of wind turbine components in 2023 nearly doubled** in revenue terms compared to 2019
- **Attracting Foreign Investments through Export-Oriented Growth:** Countries with strong export sectors attract **higher foreign direct investment (FDI)**, as global firms prefer economies integrated into international trade networks.
    - This further boosts capital inflows and technology transfer.
    - India has recorded the **highest ever annual FDI inflow of USD 83.57 billion in the financial year 2021-22** with major contributions from export-focused sectors like electronics.

What are the Key Challenges Affecting India's Export Growth and Capabilities?

- **High Logistics Costs and Poor Trade Infrastructure:** India's logistics inefficiencies and outdated infrastructure **increase export costs, making Indian goods less competitive globally.**
    - **Limited container capacity, port congestion, and last-mile connectivity** challenges further exacerbate the problem.
    - Despite improvements through initiatives like the **PM Gati Shakti Plan, India's logistics cost-to-GDP ratio** remains high compared to global benchmarks.

        - The **Economic Survey 2022-23** pointed out that logistics costs in India have been in the range of **14-18% of GDP against the global benchmark of 8%**
    - Though India's rank in the **World Bank's Logistics Performance Index (LPI)** improved to 38th in 2023, **bottlenecks in port handling continue to impact export efficiency.**
- **Lack of Diversification in Export Basket:** India's export basket is concentrated in a few sectors, such as **IT services, petroleum products, and gems and jewelry,** making it vulnerable to sectoral downturns.
    - Emerging sectors like **green energy exports are still underdeveloped.** A lack of **value-added exports,** particularly in agriculture and textiles, further limits growth potential.
    - In FY23, **petroleum products alone accounted for 21.1% of total merchandise expor**ts, while **India's merchandise exports fell 4.83% in November 2024.**
- **Weak Integration into Global Value Chains:** India's participation in GVCs remains limited due to inadequate **supply chain networks, low R&D investments, and lack of trade facilitation agreements.**
    - Unlike **China and Vietnam,** India has struggled to position itself as a reliable supplier for global manufacturing hubs.
    - Despite being the **second-largest textile producer globally**, India lags behind Bangladesh in textile exports due to limited automation and innovation.
        - Though this can be **partly attributed to Bangladesh's duty and quota-free access as a Least Developed Country,** structural differences still persist between India's and Bangladesh's textile industries.
    - Also, a challenge to India's aspirations of becoming a manufacturing hub is the **10% import duty on information and communication technologies**, which is higher than Vietnam's average import duties of approximately **5%.**
- **Trade Protectionism and Geopolitical Uncertainties:** The rise of **trade protectionism, tariffs, and shifting geopolitical alignments** pose significant challenges to India's export growth.
    - For instance, developed countries like the **US and EU have imposed carbon tariffs and stricter environmental standards,** which could impact India's carbon-intensive exports.
        - Additionally, global supply chain disruptions caused by the **Russia-Ukraine war have affected critical raw materials.**
    - **Example:** Once the **Carbon Border Adjustment Mechanism (CBAM)** is fully implemented, **India will incur a duty of €173.8 per tonne (₹15,394)** on its **steel exports** to the European Union (EU).
- **Limited Export Financing and Credit Accessibility:** Exporters, particularly small and medium enterprises (SMEs), **face challenges in accessing affordable export financing.**
    - High interest rates, complex lending procedures, and limited awareness of export credit schemes restrict their capacity to scale up operations and expand to new markets.
    - Recently, Indian exporters are experiencing a significant credit crunch, despite overall growth in economic lending.
        - **Export credit has declined by 5% over the past two years,** with priority sector lending for exports dropping by **41%.**
        - The **Federation of Indian Export Organisation (FIEO)** has raised alarms, urging the Reserve Bank of India and the finance ministry to take immediate action on this issue.
- **Non-Tariff Barriers (NTBs) in Key Markets:** Non-tariff barriers, including stringent **quality standards, technical regulations, and certification requirements**, act as significant obstacles for Indian exporters.
    - Key markets such as the EU and US impose stricter standards on pharmaceuticals, agro-products, and engineering goods, increasing compliance costs.
    - In the past four years, **3,925 human food export shipments from India have been rejected at US customs**, due to non-compliance with sanitary and phytosanitary measures.
        - Also, in 2023, the **European Union issued a rise in alerts over pesticide residues found in rice shipments,** especially basmati from India and Pakistan, which **did not meet the EU's maximum residue limits (MRLs) for pesticides.**
- **Volatile Global Demand and Recessionary Pressures:** Global economic slowdowns and

inflationary pressures in developed markets reduce demand for Indian exports.
    - Key sectors like **IT services and textiles** are particularly sensitive to these fluctuations.
        - The **ongoing monetary tightening in the US and EU** has constrained consumer spending and import demand.
    - For instance, **textile and apparel exports for FY24 saw a 3.24% decline**, totaling **US$ 34.4 billion (though recently improved).**

What Steps Can India Take to Boost Export Growth and Capabilities?

- **Modernizing Trade Infrastructure to Reduce Costs:** India must continue upgrading its **logistics and trade infrastructure** to reduce export costs and improve efficiency.
    - Expanding multi-modal transport networks through the **PM Gati Shakti National Master Plan** can c**omplement the ongoing Bharatmala and Sagarmala projects,** ensuring seamless connectivity from production hubs to ports.
    - Streamlining **customs processes using digital tools,** such as **AI-based risk management systems**, will also cut export delays.
    - Special focus should be given to creating **export hubs near ports to minimize transportation bottlenecks.**
- **Diversifying Export Basket and Markets:** India needs to move beyond its reliance on traditional export items like petroleum products, IT services, and gems and jewelry by **promoting high-value manufacturing and processed goods.**
    - Encouraging exports in sectors like **renewable energy, semiconductors, and electric vehicles** can tap into global demand for green technologies.
    - At the same time, trade agreements like **India-Australia ECTA** and **India-UAE CEPA** should be leveraged to access **non-traditional markets in Latin America, Africa, and Oceania,** reducing dependency on the US and EU.
- **Promoting MSMEs as Export Powerhouses:** Micro, Small, and Medium Enterprises (MSMEs), which contribute nearly **45% to India's exports**, need enhanced financial and technological support to scale globally.
    - Linking the **RAMP (Raising and Accelerating MSME Productivity)** program with **TIES (Trade Infrastructure for Export Scheme)** can provide targeted assistance to MSMEs for upgrading manufacturing capabilities and improving logistics.
    - Additionally, f**acilitating access to export credit at lower interest rates** and expanding marketing platforms like **GeM f**or global trade can empower MSMEs to compete in international markets.
- **Enhancing Technological Upgradation in Manufacturing:** Indian industries need to adopt advanced manufacturing technologies, including **automation, robotics, and artificial intelligence,** to improve product quality and competitiveness.
    - Expanding the scope of **PLI (Production Linked Incentive)** schemes to cover more emerging sectors such as **precision machinery** can incentivize industries to modernize.
    - Integrating the **Digital India** initiative with **industrial clusters can further drive adoption of smart manufacturing technologies,** enabling participation in global value chains.
- **Strengthening Global Value Chain (GVC) Integration:** India must position itself as a reliable supplier in global value chains by focusing on sectors like **electronics, automotive components, and textiles.**
    - Encouraging joint ventures with global firms and creating manufacturing clusters similar to **Vietnam's electronics hubs can attract global investments.**
    - Linking **PLI schemes** with **Skill India** programs will ensure the availability of a trained workforce to **meet GVC requirements,** enabling Indian firms to serve as suppliers for global companies like **Apple and Samsung.**
- **Addressing Non-Tariff Barriers:** To counter NTBs in global markets, India must develop d**omestic testing, certification, and quality assurance mechanisms** that align with international standards.
    - Establishing **mutual recognition agreements (MRAs)** with key trading partners can reduce compliance costs for exporters.
    - Linking **Quality Council of India (QCI)** initiatives with export promotion councils will help exporters navigate global regulatory frameworks effectively.
- **Expanding Digital Trade and E-Commerce Exports:** India must capitalize on the booming

global e-commerce market by promoting digital trade.
    - Empowering india manufactures to sell on international **e-commerce platforms** and facilitating cross-border digital payments will enhance their global reach.
    - The **Open Network for Digital Commerce** **(ONDC)** can be **integrated with export promotion initiatives** to enable Indian small businesses to participate in the global digital economy.
    - India should actively market its products and services under the **"Brand India" initiative to enhance visibility and demand in international markets.**
- **Strengthening R&D for High-Tech and Innovation Exports:** India needs a focused push on research and development to boost innovation-driven exports, particularly in sectors like **pharmaceuticals, semiconductors, and artificial intelligence.**
    - Allocating a higher share of GDP to R&D and creating export-focused innovation parks will enable Indian firms to compete in high-value global markets.
    - **Collaborating with global universities and organizations** can enhance technology transfer and foster innovation ecosystems.
- **Establishing India as a Global Skill Export Hub:** India can actively promote itself as a hub for skilled manpower exports by entering into agreements with developed countries **facing aging populations and labor shortages.**
    - The **Global Talent Partnership Model** can allow Indian workers to receive training tailored to the needs of host countries, particularly in **high-demand sectors like healthcare, construction, and IT.**
    - This strategy will not **only boost remittances** but also create a global workforce branding for India.
- **Creating Export-Linked Special Purpose Vehicles (SPVs):** India can set up export-specific SPVs that aggregate resources from **industries, states, and trade councils** to collectively focus on scaling exports in a single sector.
    - For example, **an SPV for green hydrogen or semiconductors could bring together R&D funding, infrastructure investments,** and export financing under one umbrella.
    - This approach will help industries move faster in developing high-potential export sectors without overlapping or fragmented efforts.
- **Promoting Export of Space Technologies:** India's space sector, led by ISRO, has gained global recognition for low-cost and reliable space missions.
    - By leveraging this reputation, India can position itself as a **major exporter of space technologies**, including satellites, launch services, and space-related components.
    - Collaborations with private players under the **Indian Space Policy, 2023**, and branding Indian space technologies for commercial use globally, can create a unique export niche.

What are the Key Export Hubs in India?

- **Gujarat**: Textiles, petrochemicals, and gems. Major hubs: Mundra, Kandla ports.
- **Tamil Nadu**: Automobiles, electronics, textiles. Key port: Chennai.
- **Maharashtra**: Pharmaceuticals, IT services, engineering. Key port: JNPT.
- **Karnataka**: IT services, aerospace, electronics. Bengaluru as an IT hub.
- **Andhra Pradesh**: Marine products, agro exports, textiles. Key hub: Visakhapatnam.
- **Rajasthan**: Gems, jewelry, handicrafts. Notable hubs: Jaipur, Jodhpur, Udaipur.
- **West Bengal**: Jute, tea, leather. Key hub: Kolkata.
- **Odisha**: Minerals, steel, aluminum. Key port: Paradip.
- **Assam & North-East**: Tea, organic products, handicrafts. **Key focus: ASEAN connectivity.**

Conclusion:

India stands at a pivotal moment where export-driven growth can transform its economic future. By **leveraging digital capabilities, strengthening manufacturing prowess, and positioning itself as a reliable alternative in global value chains**, India can become a major export powerhouse. Strategic focus on emerging sectors like **green technology, space tech, and high-value manufacturing,** combined with infrastructure modernization and MSME empowerment, will be key to reaching the $20 trillion economy goal by 2047.

Drishti Mains Question:

Discuss the significance of the export-led growth model in India's economic transformation. What are the key challenges and opportunities for India in adopting this model to achieve sustainable economic growth?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q1. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if (2018)

(a) Industrial output fails to keep pace with agricultural output.

(b) Agricultural output fails to keep pace with industrial output.

(c) Poverty and unemployment increase.

(d) Imports grow faster than exports.

Ans: (c)

Q2. The SEZ Act, 2005 which came into effect in February 2006 has certain objectives. In this context, consider the following: (2010)

1. Development of infrastructure facilities.
2. Promotion of investment from foreign sources.
3. Promotion of exports of services only.

Which of the above are the objectives of this Act?

(a) 1 and 2 only

(b) 3 only

(c) 2 and 3 only

(d) 1, 2 and 3

Ans: (a)

Q3. A “closed economy” is an economy in which (2011)

(a) the money supply is fully controlled

(b) deficit financing takes place

(c) only exports take place

(d) neither exports or imports take place

Ans: (d)