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India's Export Pessimism: Make in India

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ABSTRACT:

Make in India is a Government of India to encourage companies to develop and assemble products made in India. While it may appear very inspiring, the Make in India slogan, is actually a reflection of inferiority complex of 1960s and 1970s where import substitution was the motto, even as the East Asian tigers were capturing the global market with their cheap price quality product exports. Why India should be still stuck in 'Make in India' in 2020s, after marvellous success of IT and IT enabled services exports? Is it not time for the slogan to change to 'Export from India'. With right leadership and vision, India can replicate the success of services sector in manufacturing as well.

Introduction

India's services exports grew from 250 billion dollars in 2021-22 to 322 billion dollars in 2022-23 and are likely to reach 400 billion dollars in 2023-24. This is commendable. India's IT sector and IT services sector has been growing at great speed since 1990s and serves as testimony to showcase India's capability.

However what is surprising and indeed shocking is that India's manufacturing sector has not been able to match India's success in exports in services sector. Indeed while other nation such as Japan, China, South Korea, Indonesia, Thailand, Vietnam are excelling in manufacturing exports, India is lagging way behind.

This is shocking not only because Indian services sector is doing marvellously well, but also because India trains 1 million engineers every year and has 3rd biggest scientific manpower in the world. Hence India is geared to success in manufacturing.

However there seems to be some sort of export pessimism in India since 1960s. However this should have changed after the success of Indian IT and IT enabled services exports since 1990s. But somehow the confidence of Services sector is not inspiring the other sectors of Indian economy.

This paper questions the export pessimism and challenges India to export more in manufacturing inspired by exports in services.

Former Indian Prime Minister Manmohan Singh's Doctorate Thesis

Former Prime Minister Manmohan Singh, an economist by training, is credited with India's economic reforms in 1990s. He has a DPhil degree from Cambridge and was Governor of India's Central Bank, the Reserve Bank of India.

In 1962, he questioned India's export pessimism and his doctoral thesis was subject matter of his book – "India's export trends and prospects for self sustained growth." During the 1960s, export pessimism was widely prevalent and this work questioned export pessimism. Indeed in July 1980 he wrote a paper titled "Export Strategy for the Take Off". In this was done in 1960s, India could have been another South Korea or China.

In a famous speech in Parliament on 24 July 1991, Singh said that, "The policies for industrial development are intimately related to policies for trade…the past four decades have witnessed import substitution which has not always been efficient and has some times been indiscriminate. The time has come to expose Indian industry to competition from abroad in a phased manner.

Most economist in India however are pessimistic and see import substitution as the only way. Former Prime Minister Manmohan Singh is the sole exception, who has always argued for export promotion as a way of growth in a climate characterised by export pessimism.

India's abysmal export perfomance

Let us compare Indian exports with exports in other countries. As the table below suggests India's exports are way below potential.

Exports of goods and services as Percentage of GDP

Country Name	Exports of Goods and Services as Percentage of GDP(%)
Hong Kong	203
Ireland	134
Vietnam	93
Belgium	87
Netherlands	83
Malayasia	69
Thailand	58
Nicargua	47
Trinidad	48
Republic of Congo	58
Germany	47
Greece	40
Sweden	46
Ukraine	40
South Korea	42
Finland	38
Saudi Arabia	35
France	30
India	21

Source: Wikipedia

As you can see, India fares poorly in exports compared to other countries of world. In fact India ranks 153 out of 200 nations of world for “exports + imports as percentage of gdp”

There is very strong export pessimism in India and that is reflected here. India can and should increase its exports by at least 10 percent of GDP.

India’s Industrial Weakness

In primitive economy agriculture is predominant. As a nation progresses industry occupies greater section of economy and agriculture shrinks. And only when a nation develops industry sector takes a back seat as services predominate. Now India seems to have totally bypassed the growth of industry as services predominate in India even at middle income stage. This is not to say that India is developed but its industry is rather weak. Let us compare some middle income countries and how must of gdp comes from industry. You will find below that in most middle income nations, industry is a big section of economy. India is an anomaly where industry is very small and services are large.

Country	Agriculture as % of GDP	Industry as % of GDP	Services as % of GDP
China	6.9	40.1	52.9
India	17.4	25.8	56.9
Russia	3.9	36	60.1
Thailand	8.2	36.2	55.6
Egypt	11.7	34.3	54.0
Iraq	3.1	51.8	45.8
Vietnam	15.3	33.3	51.3
Indonesia	13.7	41.0	45.4
Philippines	9.6	30.6	59.8
Bangladesh	14.2	29.4	56.5

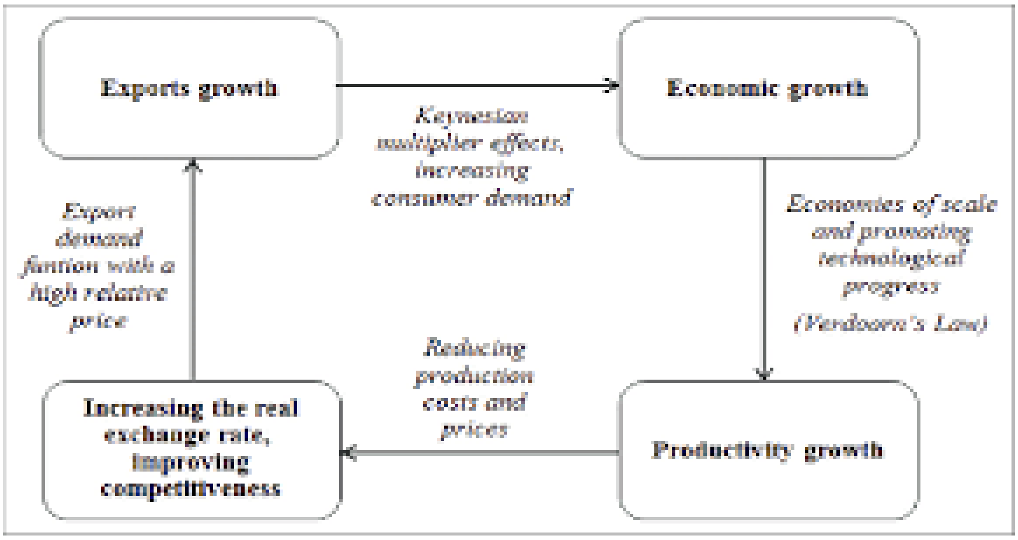
Source: Wikipedia

Clearly as can be seen from table above, India is very weak in Industry compared to middle income nations of the world. The reason is not capability, but the insular focus. Most nations of the world manufacture for entire world. However export pessimism has meant that Indian manufacturing is stuck in import substitution and manufacturing for domestic market, which limits the scale of operations.

The global GDP is 100 trillion dollars and Indian GDP is around 3.5 trillion. Clearly if you are only manufacturing for 3.5 trillion dollar economy there is limit to upscaling. However if you manufacture for 100 trillion dollar economy, you can grow much faster.

Exports and economy

Exports expand the markets for a country’s goods and services. This means a country can generate more goods and services. This will enable to increase the output of the nation, create more employment and lift people out of poverty.For instance the Middle Eastern nations of the world, have become rich in past 50-70 years solely based on oil exports. These nations do not have as educated work force. But just on basis of oil they have become rich. Similarly far eastern nations such as Japan, South Korea, Taiwan, Hong Kong and increasingly China have experienced faster growth rates solely because of exports. Even India has benefitted strongly from IT and IT enabled services exports since 1990s as its economy has been growing faster compared to 1960s, 1970s and 1980s.



The above picture captures how export growth leads to economic growth and that fuels productivity growth, which in turn improves competitiveness and that once again leads to export growth. It is a simple matter really. Are you producing for a small fraction of global economy or are you producing for the entire global economy?

India and China

India and China had almost similar gdp in 1990.However by 2020, China had a gdp that was almost 5 times that of India. Now one factor is of course greater savings rate in China. But the other factor is that China has become world's manufacturing hub for everything, whereas India has lagged behind in global market due to export pessimism. Let us compare economy size of India and China from 1990 to 2020.

Year	India GDP in billion dollars	China GDP in billion dollars
1990	320	360
1995	360	734
2000	468	1211
2005	820	2285
2010	1675	6087
2015	2103	11233
2020	2622	14722

Wikipedia

The above figure clearly shows how China with an economy of the same size as India has grown to be an economy that is now 5 times as big as India. Now India could have grown that fast if it had exported low more.

Services exports have a limit. After all you cannot export services of Doctors, Teachers, Salesmen, Lawyers, Cooks etc beyond a point. Of course you can export services of software engineers, but not of other engineers. Hence a manufacturing focused nation can export lot more than services focused nation. Hence China has outpaced India in past 3 decades due to exports of goods. India can only catch up it it starts to export more. Hence India has to shed export pessimism.

Conclusion

India has a strong export pessimism and that has meant that Indian industry is weak, Indian exports are low and Indian gdp is growing slowly. If India wants to grow fast, it has to take inspiration form IT services exports and thus increase its manufacturing exports, which will permit India to grow fast and thus eradicate poverty earlier. Former Prime Minister had cautioned about India's export pessimism in 1960s and again in 1990s. It is time to reiterate his lessons, that the only way India can grow fast like China and South Korea is by increasing its exports and thus its economy.