

Diversification of export products: Case of India

ESCAP/ UNCTAD/ WTO/ ARTNeT
Research workshop on
Trade Diversification in the Context of Global Challenges
27 - 28 October 2010
Vientiane, Lao PDR

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Presentation Structure

- **Importance**
- **Objectives of the Study**
- **Methodology**
- **Results and Findings**
- **Conclusions and recommendations**

Introduction

- **Post Uruguay Round - global trade rose significantly due to liberalisation commitments undertaken by members to reduce tariff sand NTBs.**
- **Global Economic Crisis – World trade declined by 12.2% in 2009 (WTR 2010). WTO system of trade regulation played a significant role in helping to prevent another descent into protectionism like in the 1930s**
- **While countries are recovering from the crisis, it is important for them to enhance their export shares by diversifying into new markets and new products of export (extensive margins) as well as by intensifying their present export baskets (intensive margins).**
- **Presently in Doha round, scheduling of market access commitments of members is going on. In order to gain, countries should identify their export interest items and diversity their export baskets to enhance exports.**
- **Although extensive literature exists on trade diversification and its benefits, no work has so far been done on an attempt to assess how and in which products a country can diversify its export basket, and in what ways removal of trade barriers would help achieve this.**

Objectives

- **This paper attempts to examine India's export potential of products (at HS 6 digit level), in terms of:**
 - Identification of new export products
 - Enhancing market access on products already being exported
 - Identification of new export markets
- **To classify products into different categories so that different options can be used as policy intervention.**
- **Identify trade facilitation measures that can help its exports by examining which are the products where India should seek concessions / removal of trade barriers in order to achieve greater exports.**

Methodology

- **The study focuses on the top export markets of India.**
- **The 15 countries analysed in our study are :**
 - European Union , USA, UAE, China, Hong Kong (China) , Japan, Saudi Arabia, Bangladesh, Republic of Korea, South Africa, Brazil, Pakistan, Turkey, Taiwan Province of China and Canada.
 - Exports to these countries together comprise approximately 70% of total global exports of India during the period.
- **Some of the countries were dropped from the list:**
 - either on account of India's FTAs where the tariffs are either already eliminated (zero tariffs) or are likely to become eliminated in 3-5 years; or
 - due to unavailability of their trade data.

Methodology

- For each of the select countries, the following data at 6 digit HS Level was taken:
 - Top 500 products of India's global exports
 - Top 500 products globally imported by these identified countries
 - Top 500 products imported by partner countries from India
- For the identified list of products, the following were analysed:
 - India's global exports,
 - Partner country's global imports,
 - Partner country's imports from India, and
 - India's share in total imports of partner country market.
- Next, we looked into their applied tariffs on each of these items imposed by the country being studied. All products where applied tariffs were below 3% were eliminated from the analysis.
- SPS and TBT measures notified by the destination countries on the export interest products were identified as major representative of the NTMs.

Data source and limitations

- **Data Sources:**

- Identification of India's major trading partner - DGCIS, Govt. of India
- Trade data at HS 6 digit level - WITS COMTRADE
- Tariff data - TRAINS database available in WITS.
- NTMs - SPS-TBT web portal of the Centre for WTO Studies. (<http://wtocentre.iift.ac.in/>).

- **Limitations:**

- The data availability for this study is pre-global recession period i.e. for the year 2007 - 2008 and hence may not reflect the current trade patterns.
- Since the products are specified at 6 digit HS level, a proper identification of NTMs should have been done at 6 digit level. However, since the notification to WTO do not give exact HS code and in most of the cases the descriptions are too generic we had to create the database at 2/4/6 digit HS Level depending on a nature of notification.
- In the database ,the possibility of overlapping measures would exist in some places; leading to a doubling effect in terms of notification, though the product will remain same.

Findings & Observations – Table 1: India's top export destinations

S. No.	Country	India's exports (US \$ Million) (2007-08)	% share in India's global exports	Rank (as per 's exporting partner)	Share of in Partner country's global imports (%)
1	European Union (EU)	34,507	21.17	1	0.7
2	United States of America (USA)	20,722	12.71	2	1.24
3	United Arab Emirates(UAE)	15,635	9.59	3	9.64
4	China	10,834	6.65	4	1.52
5	Hong Kong, China	6,308	3.87	6	1.65
6	Japan	3,856	2.37	7	0.67
7	Saudi Arabia	3,708	2.28	8	3.41
8	Bangladesh	2,918	1.79	9	13.24
19	Republic of Korea	2,853	1.75	10	1.29
10	South Africa	2,659	1.63	12	2.22
11	Brazil	2,518	1.54	14	1.79
12	Pakistan	1,945	1.19	17	3.88
13	Turkey	1,750	1.07	19	1.35
14	Taiwan province of China	1,736	1.07	20	1.15
15	Canada	1,266	0.78	26	0.48

Classification of items

- **Product Diversification**: Items on which high volumes of imports are being made by India's trading partners, but India has insignificant global exports, such items are potential items for exports. These are also the items where India can look at bringing in FDI inflows for manufacturing and can build economies of scales. These are the new product items where potential to enhance exports in future for which appropriate policy mechanisms by the government would need to be evolved.
- **Export Potential**: Where India is exporting to the world but does not have a significant share in a particular market. One possible reason could be existence of NTMs which Indian industry finds difficult to comply with. Second reason could relate to the fact that Indian product has price disadvantage in the partner country market (due to FTA's or PTA's of the destination country with its other trading partners). Another reason could be lack of awareness in the Indian exporter that such a large market exists.

Product Categories

Category	Threshold	Significance
1	10:10:>2	High export potential.
2	10:10<2	Global comparative advantage, but markets not exploited.
3	10:<10	High global demand – product diversification.
4	<10:>10	NTMs? High duties?
5	<10:<10	Not significant interest. NTMs?

Number of lines in each category for India's major export interest countries and share of trade in these lines

S. No.	Country	Total number of lines identified	No of lines in category 1 (*,**)	Category 2	Category 3	Category 4	Category 5
1	European Communities (EC)	1230	242 (5.36, 0.38)	401 (6.4, 0.17)	564 (60.27, 0.03)	11 (0.16,)	13 (71.8, .000178)
2	United States of America (USA)	1008	288 (11.36, 9.08)	346 (51.08, .15)	329 (23.1, 0.09)	27 (0.03,)	19 (.004, .001)
3	United Arab Emirates (UAE)	981	343 (33.15, 6.67)	107 (22.57, 0.13)	259 (29.02, 3.96)	39 (.07, .0004)	235 (0.90, 0.30)
4	China PRP	1080	130 (9.5, 1.5)	378 (35.22, 0.04)	384 (32.09, 0.08)	96 (0.03, 0.003)	94 (0.036, 0.008)
5	Hong Kong	1058	50 (4.91, 1.46)	381 (41.32, 0.08)	352 (44.58, 0.09)	168 (0.09, 0)	109 (0.11, 0.01)
6	Japan	1064	133 (6.28, 0.54)	411 (33.11, 0.06)	321 (31.24, 0.04)	92 (0.04, 0.0001)	87 (0.06, 0.01)
7	Saudi Arabia	1036	180 (16.31, 2.21)	213 (43.71, 0.19)	290 (23.55, 0.55)	93 (0.24, 0)	62 (1.09, 0.24)
8	Bangladesh	1035	97 (35.53, 9.55)	37 (12.91, 0.06)	94 (26.85, 0.98)	183 (0.98, 0.01)	623 (11.52, 2.37)
19	Republic of Korea	1058	128 (6.95, 1.07)	388 (49.24, .06)	323 (31.82, .11)	83(0.07,0)	136 (0.14, .02)
10	South Africa	1039	151 (14.65, 1.64)	219 (44.62, 0.18)	260 (23.36, 0.09)	108 (0.42, 0)	302 (1.47, 0.31)
11	Brazil	1080	106 (10.66, 1.55)	301 (46.5, 0.10)	287 (27.82, 0.12)	148 (0.29, 0)	240 (0.77, 0.12)
12	Pakistan	1138	50 (11.28, 3.34)	162 (50.7, 0.03)	186 (24.59, 0.06)	330 (2.03, 0)	410 (3.78, .47)
13	Turkey	1040	179 (9.33, 0.98)	285 (45.67, 0.18)	300 (29.42, 0.13)	102 (0.16, 0)	174 (.42, .11)
14	Taiwan	1113	78 (7.87, 1.04)	330 (41.99, 0.04)	314 (40.28, 0.02)	157 (0.22, 0)	236 (0.37, 0.05)
15	Canada	1061	172 (3.79, 0.31)	390 (49.68, 0.07)	330 (27.67, 0.08)	59 (0.04, 0.003)	110 (0.13, 0.03)

* signifies % share of partner country's global imports in these lines

** signifies % share of partner country's imports from India in these lines.

Findings and results

- For Category 1 products, in case of many trading partners (EC, UAE, Saudi Arabia, South Africa, Brazil, Turkey and Taiwan) there is huge gap between partner country's global imports and imports from India. This reflects scope for increasing India's exports of Category 1 products in these markets further, although India's exports are already high in Category 1 products to the countries. India may be able to intensify exports of such products to these countries by enhancing productivity and supply through Government support and improved infrastructure. Thus, there is scope for exploiting intensive margins and enhancing trade.
- Category 2 and 3 items are high in case of India's exports to developed countries (EC, USA, Canada, Japan) and some of the developing countries (Korea, Hong Kong, Taiwan, China, Brazil and Turkey). There is high potential for increasing exports to these countries in such items wherein India is competitive globally and they have large markets, however, India is not capturing the markets significantly. India can diversify its exports by bringing Category 2 products into its export basket or else by exporting Category 2 products to new markets (EC, USA, Canada, Japan, Korea, Hong Kong, Taiwan, China, Brazil and Turkey). Extensive margins can be exploited in Category 2 products for the countries mentioned.

Findings and results (2)

- In case of Category 4 products, there is gap between their global imports and imports from India, signifying potential to expand hence India could seek MRAs, Conformity Assessment, accreditation etc. In these products . Also, since India has high global exports in these products, targeting new markets will also be beneficial. The number of lines in Category 4 are high in case of exports to Hong Kong, Bangladesh, South Africa, Brazil, Pakistan and Taiwan, thus, India's exports can be enhanced by either increasing exports of Category 4 products to these markets by seeking MRAs or else by shifting away from these markets and targeting exports to new markets.
- EC, Japan, USA, Brazil, Canada, Republic of Korea, China maintain a high NTM coverage (at least 80 percent) on such identified items. Thus, in case it is identified that NTMs are restricting India's exports, India has scope for diversifying its exports to Category 2 and Category 4 products by seeking MRAs or Government providing in-house capacity for compliance with the standards in such markets.
- In Category 5 products there is a need to examine if they are indeed export potential items. Import value of partner country may be less due to self sufficiency, small market for the product or NTMs. If market exists, then India should look for enhancing its production through various promotional measures.

Identification of NTMs on export products

- We explored NTM's that each country has notified on the products of export interest identified, in order to assess whether NTM's imposed by a country might have been a restricting factor on India's exports in these products.
- EC has notified the maximum number of NTMs on the products that are of export interest of India to EC, while the minimum is by Bangladesh.
- Since in case of category 2 and 4 products, we have identified possibility of NTMs, we further investigated into these products and identified NTMs notified by the 15 countries under study on category 2 and 4 products.
- A high number of TBT notifications have been identified on category 2 and 4 products in case of Brazil, China, USA, EU, Korea, Canada, Japan and Taiwan. Maximum NTMs notified by USA, South Africa, Korea and Brazil are in the category of consumer protection and safety. Brazil, Canada and China have made many notifications with human health and safety as the objective. Canada has also made many notifications on labelling grounds. EC and Japan have large number of notifications on technical harmonization and standards. Hong Kong has also notified on grounds of energy efficiency.
- Brazil, Canada, China, EU, Japan, Korea, Taiwan and USA have made large number of SPS notifications in WTO on the products of export interest to these countries in category 2 and 4. Most SPS have the objective of food safety, plant protection, animal health or human health.

Rank	Country	Agri. Lines	NAMA Lines	Total Identified Lines	SPS	TBT	Total
1	EC	411	819	1230	629	930	1559
2	Japan	125	939	1064	263	834	1097
3	USA	94	914	1008	250	832	1082
4	Brazil	89	991	1080	298	733	1031
5	Canada	113	948	1061	191	711	902
6	Korea	97	961	1058	160	713	873
7	China PRP	90	990	1080	136	731	867
8	Taiwan	95	1018	1113	171	494	665
9	S. Africa	96	943	1039	62	388	450
10	Hong Kong	94	964	1058	45	343	388
11	UAE	117	864	981	21	152	173
12	S. Arabia	143	893	1036	0	56	56
13	Pakistan	115	1023	1138	0	18	18
14	Turkey	80	960	1040	4	3	7
15	Bangladesh	105	930	1035	0	0	0
	Total	1864	14157	16021	2230	6938	9168

Conclusions and recommendations

- Strategy for WTO Scheduling and FTA negotiations
- Identifying major export items to top export destinations of India on the basis of existing trade data.

Approach in WTO / FTA negotiations:

- Category 1 products are ones where India already has high exports, and there is scope to further intensify exports in this Category.
- In order to ensure market access for these products, India must ensure that these products are not placed under flexibility list of other countries in WTO negotiations.
- On these items India should focus for seeking market access in FTAs as well.
- Intensive margins may be exploited (increasing exports of already existing export products) to achieve trade diversification.

Conclusions and recommendations

Addressing issues relating to NTMs:

- In Category 2 and 4 products, inputs of the industry would be helpful to gauge the extent of barriers.
- India should look into diversifying its exports into such items. This may be done by making India's exports NTM compatible by upgrading standards to meet market conditions, and seeking MRAs, Conformity Assessment, Accreditation etc. as the case may be.
- In case of Category 5 products, there is a need to examine if they are indeed export potential items.
- Thus, Category 2, 3 and 4 products should be considered as new export items where product diversification can be done.

Investment:

- In Category 3 and 5 items increased investment by the government and FDI can help improve productivity and exports.

A multipronged approach thus would need to be taken for products of different categories.

The Government will have to share the information with the domestic producers in order to formulate appropriate policy or negotiating position in WTO or PTA/FTA.

It would also be important that the domestic producers not only enhance their productivity but should also help the policy makers in advising them while formulating the approach to resolve issues relating to NTMs.

**THANK YOU
FOR
YOUR ATTENTION**