**PAPER TITLE : GAINS FROM TRADE TO INDIA THROUGH DIVERSIFICATION**

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**ABSTRACT**

 The research idea emanates from the fact that diversifying these components of exports could unleash the gains for India. Over the past few years India’s direction of trade has changed wherein the share of developed regions like EU and America which was approximately 49.54% in India’s exports by the end of the first decade following the economic reforms in 2000 declined to 38.38% in 2005 and 30.31% in 2010. Although the proportion of exports to these regions experienced a slight uptick to 33.73% in the fiscal year 2015, it remains lower in comparison to the share held by other developing areas such as Asia, Africa, and Latin America during the same year[[1]](#footnote-1).

The report will delve deeply into potential future export opportunities that could be harnessed to take advantage of the prospects accessible to India, encompassing both trading locations and the variety of trade goods. Export potential could be realized from commodities for which India's trading partners are importing significant volumes, yet India's global exports in those items are currently minimal. These items hold promise as potential candidates for exports. These emerging products represent areas where future export growth potential exists. Strategic government interventions aimed at fostering these exports could greatly contribute to expanding the export sector. Building upon this premise, the report aims to uncover findings regarding the advantages that India could reap through diversifying its trade, encompassing both goods and export destinations.

The research report will concentrate on analyzing India's trade trajectory from 1991 to the present and explore how additional diversification in India's trade destinations or markets could stimulate its exports, leading to increased integration into the global market. The research will utilize the International Trade Centre's Export Potential Map as the primary data analysis tool to examine export possibilities. The insights gained from this analysis will guide the report towards its recommended actions and concluding observations. Additionally, the report will explore the government's efforts in line with the diversification policy, offering insights into initiatives taken. Subsequently, the report will present recommendations for advancing export growth through strategies focused on diversification.

**KEYWORDS** : Markets, Trade, Exports, Composition

1. **INTRODUCTION**

 The history of India is intertwined with the history of India’s trade with rest of the world. Its exquisite products demanded world over along with the strategic position at the mouth of Indian Ocean connecting it conveniently to South Asian and South East Asian countries in the East and African and Central Asian Countries on Western side makes it an important trading destination. With the emergence of independent India, the country adopted a strategy of "inward-looking" industrialization, which involved promoting domestic production and imposing limitations on foreign trade. This approach was embraced because Indian policymakers, rather than perceiving foreign trade as a catalyst for economic advancement, regarded it as a hindrance to the nation's growth and progress. They viewed international trade as a means through which developed nations spread capitalist ideologies worldwide, impacting both developing and underdeveloped countries.

This perspective regarding India's engagement with the global market underwent a substantial transformation in the year 1991 when significant policy reforms were implemented in both India's domestic economic strategies and trade regulations. India's decision to open up to the global market and its reimagined perspective on foreign trade as a driver of growth propelled the country's integration into international trade. The influence of trade reforms is evident in the evolving composition of India's foreign trade, characterized by a greater variety of markets and products. This report will meticulously explore the aspect of market diversification within India's trade composition, delving into its trajectory and the intricate nuances associated with it. The preliminary introduction to the subject matter is as follows.

Subsequent to the reforms of 1991, Indian exports embarked on a consistent upward trajectory. This trend is evident from the data, which indicates that India's exports as a proportion of global exports increased to 0.56% during 1991-1996 and further advanced to 0.65% during 1996-2002, surpassing the 0.48% recorded in the 1980s[[2]](#footnote-2). India's exports saw a significant rise, with values reaching $18 billion in 1991-92 and subsequently climbing to $45 billion in 2000-01. This growth continued, reaching $163 billion in 2007-08. However, the global recession of 2008 had a considerable impact, causing this upward trajectory to stall. The annual export growth rate, which had been at 29% in 2007-08, dipped to 13.6% in 2008-09 and further contracted to a negative rate of 3.53% in 2009-10. A critical factor contributing to this substantial decline was India's concentrated export market, signifying its heavy reliance on a small number of export destinations, specifically the USA and EU. These regions jointly accounted for approximately 40% of India's overall exports[[3]](#footnote-3). Subsequent to this scenario, policymakers came to a realization that in order to attain and sustain consistent export growth, it is of paramount importance to diversify India's export markets.

This introduces the subject of 'Export Diversification' to the forefront of discussion, calling for an examination of how Indian exports have diversified and the potential benefits that can be derived from this strategy in terms of international trade and overall development. The fundamental question at hand is why there is a strong emphasis on promoting export diversification, often considered a pivotal aspect of second-generation reforms. The immediate consequence of pursuing export diversification is a decreased susceptibility to unforeseen risks arising from unfavorable terms of trade with a small number of concentrated markets. In addition to the risk of concentration in a limited number of markets, this scenario also amplifies the potential for heightened protectionist measures. Moreover, such concentration renders a country's foreign trade less adaptable to operational variables within other nations, which make up a significant portion of India's foreign trade composition. Trade diversification also plays a pivotal role in generating novel, higher-productivity employment opportunities, thereby fostering growth through structural transformation. The process of multilateral trade liberalization via institutions like the World Trade Organization and the emergence of regional trade blocs offer fresh avenues for expanding the scope of export diversification. The augmented national income stemming from expanded exports arising from market and product diversification will not only contribute to achieving India's target of $400 billion in exports but also position the country to seize opportunities in the highly interconnected global markets. Furthermore, diversification ensures a varied array of trading relationships between nations, leading to a more interconnected global trade network. This interconnectedness results in increased income for exporting nations from their diverse exports. Consequently, the paper examines the historical trend in exports since India's Independence and elaborates on the potential future prospects that arise from diversifying India's trade portfolio.

1. **OBJECTIVE AND METHODOLOGY**

The research report titled 'Gains from Trade for India through Export Diversification' will centre on an in-depth examination of India's export framework and the path it has taken as a result of various socio-political and economic shifts within the country. The report will emphasize the patterns observed in the makeup and destinations of India's trade. Export composition pertains to the categories of products that India exports to diverse global markets. On the other hand, trade direction encompasses the geographical destinations and regions with which India has established trade relationships for the exchange of goods and services. Building upon this analysis, the report will present the insights derived from the data concerning the trends of diversification and concentration in both the market destinations and the products comprising India's exports. Expanding on this foundation, the research report will proceed to conduct a detailed analysis that involves examining the export potential inherent in India's current context. This potential could be realized through future diversification of India's trade, which the report will delve into. Ultimately, the report will explore the benefits that such a transformation in export diversification could bring to India. The research will be grounded in the analysis of exports using ITC's data tool, specifically the Export Potential Map. The insights gathered from this analysis will serve as the basis for drawing conclusions regarding the potential gains that could result from the suggested diversification strategy.

The study will rely on secondary data analysis gathered from various reputable sources, including the Ministry of Commerce & Industry, Economic Survey, India Trade Portal, Directorate General of Foreign Trade (DGFT), and existing research conducted by scholars and experts in the field of export diversification. To analyze the trends in both product and market diversification, the research will gather data from authoritative sources such as the Ministry of Commerce. Specifically, the research will utilize the percentage shares of exports from these sources and track the observed trends over time. By examining the changes in values, the research will be able to draw conclusions about the extent of diversification that has occurred within India's export framework.

In the concluding section of the report, which will focus on providing recommendations for harnessing India's export potential, the analysis will concentrate on the "Potential Component" of exports using ITC's Export Potential Map as a key parameter. The insights derived from the aforementioned data tool will play a crucial role in formulating suggestions aimed at capitalizing on the benefits of expanding and diversifying exports within the identified regions and product categories.

1. **HISTORICAL BACKGROUND OF INDIA’S TRADE SECTOR**

The echoes of colonial influence on the economy, coupled with inherent weaknesses in vital aspects of the nation such as manufacturing, foreign exchange reserves, education, and investments, manifested in the form of an "inward-looking" approach towards foreign trade. Contrary to perceiving foreign trade as a catalyst for economic advancement, Indian policymakers instead pursued a strategy focused on minimizing imports. They regarded exports as unnecessary vestiges of colonial rule. This stance was evident in India's engagement with global markets, which experienced a decline during the latter half of the 20th century. India's portion of global merchandise exports was 2.2% in 1948, which dwindled to 0.5% in 1983 before slightly rebounding to 0.7% in 2000. However, exports were not assigned priority as a critical economic component of the nation, leading to a steady decline in exports as a percentage of GDP. In 1960, exports constituted 4.46% of GDP, decreasing to 3.78% in 1970. This was followed by a rise to 5.5% in 1975 and further to around 8.5% of GDP in 1990. These fluctuations in export-GDP ratio mirror the disincentives towards foreign trade in the post-independence era, influenced by the lingering effects of colonial experiences. [[4]](#footnote-4)

Major events and fluctuating trends in India’s exports and imports could be summarised in following discussion. In the 1950s, India maintained a relatively open stance in terms of merchandise trade (the combination of exports and imports), which constituted around 16% of the Gross Domestic Product (GDP). However, over time, the role of the external sector in India's GDP diminished due to the adoption of an insular strategy focused on import substitution. The assortment of Indian exports primarily consisted of conventional commodities such as tea, cotton textiles, and jute products. Furthermore, India encountered intense rivalry from burgeoning economies like Ceylon, East Africa, and the Middle East. During this era, policymakers' focus was primarily on conserving imports rather than actively promoting exports. Priority was given to essential commodities and the capital goods sector. As a result, exports remained relatively limited, and the external sector's contribution to the GDP shrank compared to the levels seen in the early 1950s. Simultaneously, the challenges of events like the Indo-China Conflict of 1962, the Indo-Pak war of 1965, and severe droughts from 1965 to 1967 compounded the situation. These factors contributed to persistent current account deficits (CAD) and a scarcity of foreign exchange reserves. The escalating trade deficit prompted a significant devaluation of the Indian rupee by 36.5% in June 1966, marking a pivotal juncture in India's foreign trade trajectory. Due to the constrained range of India's export commodities, this substantial devaluation bolstered the competitiveness of Indian exports. As a result, during the period of 1973-74, the growth of exports, though moderate, outstripped imports, leading to a transformation of the current account from deficit to surplus.

The expansion of exports during the 1970s contributed to India maintaining a comfortable Balance of Payments (BoP) position. The nation was able to navigate the challenges posed by the initial oil shock of 1973-74 without significant disruptions, thanks to the steady growth in exports. Nonetheless, the repercussions of the Second Oil Shock in 1979 were notably severe, and their effects extended into the 1980s. This was compounded by a doubling of imports during the interval of 1978-1982, leading to a renewed strain on India's Balance of Payments (BoP) situation. Concurrently, the export performance was hindered by the substantial global recession that occurred from 1980 to 1983. Amid these circumstances, India's external policy was gradually shifting towards a greater emphasis on openness and external stability.

Another significant event that dealt a significant blow to India's external sector was the crisis of 1991. During this period, India was confronted with one of its most severe Balance of Payments (BoP) crises since gaining independence in 1947. Consequently, the crisis served as the catalyst for long-awaited economic reforms. These reforms were not limited to immediate macroeconomic stabilization measures but also encompassed structural changes in industrial and trade policies. In addition to these factors, other influences played a role as well. The political willingness to embrace liberalization measures, the disintegration of the Soviet Union, and China's remarkable growth following its 1978 reforms collectively paved the way for reforms centered around principles of liberalization, openness, transparency, and globalization, with a strong emphasis on promoting exports. Consequently, the trade policy alterations in the period after 1991 aimed to diminish the reliance on quantitative restrictions and lower tariff rates, aligning with the recommendations of the Tax Reforms Committee chaired by Raja J Chelliah. Steps taken, such as the devaluation of the rupee in July 1991, the shift to a market-based exchange rate system, and India's multilateral commitments to the World Trade Organization (WTO), contributed to bolstering the competitiveness of India's exports. Several notable characteristics led to a shift in trade policy that prioritized increased exports. Firstly, there was a marked transition from import substitution to export promotion. Secondly, the scope of export incentives was broadened to encompass a wider range of non-traditional and non-manufactured export commodities. Thirdly, there was a shift in policy approach where the emphasis moved from direct export subsidies to the prioritization of indirect promotional measures. These various advancements and policy endeavors brought about a discernible transformation in India's trade composition. This encompassed increased diversity in both markets and products and also a shift towards greater trade openness.

The composition of exported commodities has experienced a notable shift, transitioning from traditional and primary products to technology-intensive and industrial goods. Additionally, the profile of export destinations has undergone a significant change, with a substantial shift towards developing countries. The implementation of export promotion strategies led to an increase in the proportion of "manufactured goods" in India's overall exports. This share rose from 70.7% in the period 1987-90 to 75.35% in 1992-97, and further to 77.5% in time period 1997-2002[[5]](#footnote-5).During this timeframe, there was a notable rise in exports of petroleum products and chemical goods. Within the category of primary products, the proportion of ores and minerals declined, while that of agricultural and allied products grew. Concurrently, the segment of engineering goods experienced a significant expansion, indicating an upward shift in the value addition chain. Similarly, the exports of processed agricultural products saw an increase, reflecting the progress of India's food processing sector. However, traditional export items such as tea, handicrafts, coffee, and carpets experienced a decline during this post-reform period.

An examination of India's export distribution by market reveals a consistent position in relation to the Organisation for Economic Cooperation and Development (OECD) group, which continues to hold the largest share of export markets. Additionally, there's an emerging significance of the OPEC nations and developing countries in Asia, Africa, and Latin America. In contrast, the market share of Eastern European countries has declined over time. The dissolution of the Soviet Union led to a significant reduction in the market share of Eastern European countries, causing their share to plummet from 17.9% in 1990-91 to 2.9% in 2001-02. This decline was compensated by the rise in the market share of OPEC nations and developing countries.

The upward trajectory of India's exports continued, marked by a remarkable threefold increase in merchandise exports. These exports surged from less than US$100 billion prior to 2005-06 to surpassing US$300 billion in 2011-12. This growth was predominantly attributed to the substantial expansion in exports of petroleum, oil, and lubricants. India's heightened engagement with the global economy was evident through the trade openness indicator, represented by the ratio of merchandise trade to GDP. This ratio surged from 13.9% in 1991-92 to 27% in 2004-05, and subsequently advanced even further to reach 41% in 2013-14. This progression signifies the evolving patterns within India's trade sector, influenced by numerous events that shaped the country's export and import framework. Building upon this concise historical context of India's foreign trade, the subsequent sections will undertake a comprehensive exploration of export composition over the past two decades. The analysis will delve into the extent of diversification achieved in this period, a pivotal policy consideration paradigm.[[6]](#footnote-6)

1. **DATA ANALYSIS**

(Source: Foreign Trade Performance analysis, Trade Statistics, Department of Commerce, MoC&I)

1. **Destination analysis of Exports**

Examining India's export destinations involves considering the evolution over time in India's trade connections with various countries across the globe. An important factor that could aid in comprehending this is the proportionate contribution of various global regions to India's overall exports to the rest of the world. In the early 2000s, the regions that constituted the largest portion of India's export distribution were North America, accounting for 24.75% of the share, followed by European Union nations and North East Asia with export shares of 20.7% and 15.2% respectively. During the same time frame, other significant regions included ASEAN nations, non-European Union European countries, and countries in West Asia.

An examination of India's primary export destinations within regions at the start of the 2000s reveals that within the European Union, Belgium, Germany, Italy, and the Netherlands held the leading positions in terms of export shares. The United States had been India's most significant export market within the North American region, with Canada and Mexico following as the subsequent export destinations. Among the ASEAN member countries, Singapore, Thailand, and Malaysia stood out as the primary destinations for India's exports. In West Asia, the United Arab Emirates held the largest share of India's exports, while in North East Asia, Hong Kong and Japan accounted for the most significant export shares within that region. During the period around 1999-2001, these destinations collectively represented the regions with which India had established robust trade relationships. Nevertheless, this composition of export destinations underwent changes over the course of two decades. Therefore, these shifts in export destinations would reflect the extent of trade diversification that has occurred in terms of India's market composition. Over the past two decades, the proportion of the ASEAN bloc's share has grown, rising from approximately 6.07% in 1999 to 10.09% in 2005, and subsequently increasing further to 10.8% in 2020. Throughout this 20-year period, the share of exports to this region continued to rise, indicating that India consistently diversified its market presence among the ASEAN nations. Over the past two decades, the share of the Central Asian region, encompassing Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, has consistently remained within the range of 0.15% to 0.25%. Furthermore, this share experienced fluctuations due to variations in tariff schedules and regional political factors. An examination of the African region reveals that the proportions of West Africa and North Africa have grown over time, while the share of East Africa has experienced a slight decrease. Regarding East Africa, its contribution to India's total exports was 1.26% in 1999, which increased to 2.9% in 2012, and then declined to 1.98% in 2020. The share of North Africa experienced an increase but remained within the range of 1.1% to 1.9%. Meanwhile, the share of West Africa saw growth from 1.57% in 1999 to 3.23% in 2020. With export share of 20.73% in 1999, the European Union has consistently been India's longstanding export partner. But, this proportion gradually decreased over time, falling to 15.5% in 2010 and further declining to 14.17% in 2020. Nevertheless, an intra-regional analysis reveals that the share of countries that were previously the highest exporting destinations within the European region has expanded over time. A greater number of countries now hold a significant export share within the European region. Currently, the major export markets also include emerging destinations like Spain, Poland, France along with traditional export markets like Netherlands, Germany and Italy.

India has diversified its trade with Latin America and South Africa, leading to a continuous increase in the export shares of these markets within India's total exports over the past two decades. The consistent and gradual increase in the export share of these destinations serves as an indicator of India's trade diversification towards these regions. Within the Latin American region, in 1999, Brazil and Chile held the highest export shares for India. However, over time, Colombia also gained a significant position as an important exporting destination for India, reaching an equivalent level. Within the South African region, South Africa has consistently maintained its position as the topmost export destination for India. Over time, Botswana and Mozambique have also emerged as prominent trading partners for India within this region. Except for a few fluctuations observed between 2008 and 2010, India’s export share with the South Asian region, which is the closest trading region of India, has witnessed a steady increase.

The North East Asian region, which has traditionally been an export destination for India, has seen a decrease in its share within India's total exports. This is evident from the fact that India’s exports with the North East Asian region was 15.2% in 1999, but it decreased to 12.9% in 2013 and further dropped to 12.3% in 2019. Within the North East Asian region, the list of exporting destinations expanded from being primarily Hong Kong and Japan to also include other countries such as China, Taiwan, and South Korea. The share of India’s exports with Gulf Cooperation Council (GCC) states increased from 8.7% in 1999 to 11.7% in 2004, and further rose to 17.3% in 2008. However, recently there has been a decline, with the share of the Gulf Cooperation Council (GCC) States dropping to 9.5% in the year 2020. Intra-regional analysis of GCC reveals that the share of United Arab Emirates (UAE) and Saudi Arabia which held the highest export share within this region, remained intact. Moreover, other locations such as Oman, Qatar and Kuwait have also emerged as top contenders alongside these traditional markets.

1. **Export Products’ Composition**

The forthcoming analysis will encompass the shifting proportions of different products within India's total exports over the course of the past two decades. Conducting a comparative analysis across various products over the past 20 years will provide insights into the evolving diversification structure of export items. A reduction in the share of traditional export items indicates a decline in the concentration of export product composition and signals the broadening of the export basket.

At the beginning of the first decade of the 21st century, products such as gems and jewellery, chemical products, engineering goods, and textile products occupied the dominant share in the export basket. Among these, textiles held the largest share of 24.26% in total exports, followed by the gems and jewellery category with a share of 16.75%. Additionally, chemical products accounted for 14%, and engineering goods contributed 12.9% to the export composition. Over the period of two decades, the percentage share of these export categories underwent some changes. In 2020, the highest share of 16.5% of total exports was attributed to chemical products, followed by agriculture and allied products accounting for 11.14%. Additionally, around 9% shares were held by each of the machinery, base metals, and petroleum products categories. Textiles contributed to 10.4% of total exports, while gems and jewellery recorded a share of 8.9%. This shows that export basket of India has diversified over the period of last 20 years. This is also evident by a reduction in the highest share along with an increase in the number of product categories that comprise the largest exports. As an example, as compared to the year 2001, products such as agricultural goods and petroleum products have now become part of the topmost exports.

The following paragraph presents a comparative analysis of various products. Beginning with plantation category, which includes both tea and coffee, has witnessed a decline in export share. The export share of tea declined from 0.5% in 2005 to 0.25% in 2014 and in 2020, the export share of tea was at same level as in 2014.Factors contributing to the decrease in exports of this conventional item include the declining prices of Kenyan and Sri Lankan Tea, causing India's tea importers to shift towards these countries due to their competitive pricing. Additionally, the lack of diversity in India's beverage product mix has also played a role in this decline. Over time, the proportion of the Agriculture and Allied Products category in India's overall exports has witnessed an upward trend, rising from 8.8% in 2001 to 10.3% in 2014, and further to 11.14% in 2020. Between the years 2000 and 2014, the share consistently oscillated within the range of 8% to 9%. Within this category of agricultural allied products, the proportion attributed to poultry, dairy, and meat products has increased, while the share of floriculture products has declined. Exports of cereals have demonstrated an upward trajectory, while pulses have experienced a decline. The share of spices, which is another traditional export item, has remained relatively constant over the span of two decades, fluctuating within the range of 0.8% to 0.9%. Conversely, the share of nuts and seeds, which is another significant traditional export, has diminished over time due to competitive pricing and the expansion of markets by competitors such as GCC (Gulf Cooperation Council) countries.

The Gems and Jewellery category of export commodities, which previously occupied a prominent position at the beginning of the 2000s, has experienced a decrease in its proportion within India's overall exports. Its export share was 16.75% in 2001, which decreased to 15.06% in 2006, and further declined to 12.19% in 2020. The fluctuation in the export share of gems and jewellery can be attributed to the imposition of high import duties on cut and polished diamonds, which serve as crucial raw materials for the production of finished jewellery items. Factors contributing to this variation include restrictions on gold imports and frequent fluctuations in gold prices. Furthermore, the lack of significant skill enhancement and manufacturing advancement within this sector has also hindered its competitive edge. On the other hand, India has achieved extensive diversification in the category of petroleum products in the global markets. The share of petroleum products in India's overall export portfolio has consistently expanded over time. In 2001, its share stood at 4.29%, which increased to 8.37% in 2005, and further surged to 18.3% in 2015.

The Chemical and Related Products category also commands a substantial share in India's export portfolio. The proportion of this category in exports has consistently fluctuated within the range of 12% to 14% over the past two decades. The portion of exports attributed to the petroleum products category has witnessed an upward trajectory, rising from approximately 4.3% in 2001 to 15.77% in 2009, and subsequently hovering around 14.2% in 2019. However, this share experienced a recent decline, dropping to 8.84% in the year 2020. Over the years, India's exports within the petroleum products category have grown, leading to its prominent position in recent times. Conversely, textiles, a traditional export category for India, has experienced a decrease in its proportion within India's overall exports. In 2001, textiles held a share of approximately 24.26% in India's exports, but this proportion declined to 8.9% in 2015 and further to 11.17% in 2020. On the other hand, the share of electronic goods has remained relatively stable within the range of 2% to 3% over the course of two decades. The share of the engineering goods category has displayed an upward trend, rising from 12.87% in 2001 to around 20.9% in 2007. It has subsequently remained within the range of 19% to 20% up until recently. This increase in the category's share signifies the growth of manufacturing goods in India's total exports and highlights the nation's diversification from its conventional primary exports to other global markets.

1. **EXPORT POTENTIALITIES**

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| **EXPORT POTENTIAL TABLE (Source: ITC – 2021-22 figures)** |
| **S.No.** | **REGION** | **POTENTIAL EXPORTS (In bn$)** | **ACTUAL EXPORTS (In bn$)** | **UNTAPPED POTENTIAL (In bn$)** | **POTENTIAL AREAS** |
| 1 | North America | 85.2 | 55.4 | 29.8 | Motor Vehicles, Pharmaceuticals, Machinery, Jewellery, Apparel |
| 2 | European Union & West Europe | 79.3 | 50.1 | 29.2 | Jewellery, Motor parts, Apparel, Chemical Products, Machines |
| 3 | East Asia | 67.4 | 31.8 | 35.6 | Fisheries, Jewellery, Chemicals, Machinery, Motor parts |
| 4 | Middle East | 60.4 | 40.6 | 19.8 | Apparel, Jewellery, Rice, Machines, Motor Vehicles |
| 5 | Southeast Asia | 48.2 | 22.9 | 25.3 | Motor parts, Jewellery, Machinery, Chemicals, Metals |
| 6 | South Asia | 23.6 | 17.9 | 5.7 | Ferrous Metals, Cotton Textiles, Motor Vehicles, Machinery |
| 7 | Southern & Central America | 14.8 | 8.2 | 6.6 | Motor Vehicles, Electricity, Chemicals, Pharmaceutical Products, Plastics |
| 8 | West Africa | 10.9 | 6.4 | 4.5 | Rice, Motor vehicles, machinery, Pharmaceuticals, Apparels |
| 9 | Eastern Europe & Central Asia | 9.5 | 4.5 | 5 | Rice, Pharmaceutical Products, Motor Vehicles, Chemical Products, Machinery |
| 10 | Eastern Africa | 9.4 | 6.1 | 3.3 | Machines, Rice, Motor Vehicles, Pharmaceutical Products, ferrous metals |

One of the key rationales for promoting policy measures towards export diversification is to unlock the latent export potential that India possesses. Recognizing the potential direction and product areas can significantly facilitate the process of export diversification, leading to an augmentation in India's export earnings. The ensuing section will delve into the export potentialities covering diverse regions and products that India encompasses in its foreign trade. The data presented in this section is sourced from the International Trade Centre database. This data has been meticulously organized and scrutinized to extract accurate insights regarding India's export potential, the extent of progress made, and the areas where gaps still persist. The evaluation of gaps in potential exports highlights the opportunities for diversification that India can leverage to enhance its export earnings. The table above illustrates the potential for export diversification across the top ten destinations for the five most sought-after products in their respective markets. The data signifies untapped export potential, quantified as the absolute difference between the actual exports originating from India and the potential exports that could be achieved from India to these potential markets worldwide.

Among the potential export destinations from India, North America takes the lead with a potential of approximately 85.2 billion dollars, followed by the European Union, East Asia, and the Middle East. Additional destinations encompass Southeast Asia, West Africa, East Europe, Eastern Africa, and South Asia. The regions with the greatest unrealized export potential are East Asia, North America, the European Union (EU), and Western Europe. Notably, North America and the EU include destinations with which India has maintained robust trade relationships historically, and these relations persist in the present period as well. Hence, establishing close collaborations with these countries and engaging in negotiations for mutually beneficial trade terms could play a significant role in achieving both export diversification and an expansion of India's export earnings. Therefore, these countries, which have historically been traditional trading partners and continue to maintain strong trade ties with India, represent readily accessible opportunities for India to enhance its export expansion. Markets such as Southeast Asia, the Middle East, and South America are not prominently represented among the countries with significant shares in India's exports. However, they offer substantial untapped potential for India to tap into. Specifically, Southeast Asia presents an untapped export potential of around 25.3 billion dollars for India.

Regarding product composition, focusing on categories such as jewelry, machinery, and motor vehicles holds the potential to generate substantial export income through diversification within these segments. In East Asia and Southeast Asia, chemicals and fisheries emerge as dominant product categories where India can augment its trade by fostering higher-quality exports within these sectors. In Eastern and Western Africa, rice and pharmaceutical products take the lead as top priority areas with untapped potential, offering scope for significant expansion in exports.

Within South and Central America, insecticides, rodenticides, and medicaments exhibit the most substantial absolute difference between potential and actual exports, amounting to approximately 354 million dollars. Likewise, the products with the greatest export potential from India to East Europe and Central Asia encompass motor vehicles, organic chemicals, and medicaments. Among these, motor vehicles hold the highest untapped potential, estimated at around 360 million dollars.

The products with the most promising potential for exports from India to North America comprise diamonds, motor vehicles, and medicaments. Notably, tapping into the export potential of diamonds could result in additional exports worth approximately 1.2 billion dollars. Within the South Asian region, the products with the highest export potential include motorcycles, iron & steel, and cotton textiles. Particularly, there is a notable demand for motorcycles manufactured in India within this region. Realizing the export potential in this area could lead to exports worth $345 million. The Middle East region currently presents one of the most significant opportunities for export diversification from India. This is attributed to the increased openness of their markets to the rest of the world. In this context, the potential for diversification rests within products like precious metal jewelry and wholly milled rice. Consequently, the potential for diversification across both destinations and product composition offers a blueprint for trade policies to align in that specific direction, thereby enabling the realization of advantages stemming from elevated and diversified exports.

1. **CONCLUSION**

The structure of India's trade in the global market has experienced significant transformations, especially following the reforms of the 1990s that encompassed liberalization, privatization, and globalization measures. At present, our primary exports encompass manufactured goods such as Engineering Goods, Petroleum Products, Chemicals and related items, Gems and Jewellery, Textiles, and electronic products, among others. Collectively, these categories constitute over 70% of India's export portfolio. This investigation, which centered on the last twenty years, revealed a top-heavy dominance pattern. While the concentration in terms of both products and destinations has diminished over the years from independence until the pre-reform period, the overall pattern remains relatively concentrated. At the pinnacle of this pattern are petroleum products. India must enhance the competitiveness of its products on a global scale and engage in negotiations that foster the diversification of its exports to new goods and destinations. Promising regions with substantial untapped export potential for India include the Middle East, Southeast Asia, South Asia, and Latin America. Exploiting these opportunities judiciously could yield significant export value for India. Modelling trade agreements with nations in these regions could constitute a substantial stride towards formalizing mutually beneficial trade strategies. Additionally, it's imperative to introduce new commodities and services to the export portfolio at competitive prices, thereby augmenting the performance of exports. Commodity groups such as motorcycles, rice, textiles, and machinery represent some of the most promising categories of goods where India should focus on providing significant impetus. Policy assistance in this direction can yield a multiplier and accelerator effect across various sectors of the Indian economy. For example, offering policy support to the agricultural and allied products category will not only benefit farmers by improving access to financing and inputs but also generate long-term higher incomes for them. Furthermore, enhancing the forward and backward linkages of this category, including the integration of supply chains and logistics, will also be advantageous for these sectors. Achieving this necessitates a comprehensive policy approach and cohesive, well-executed integrated efforts from India, aimed at realizing the envisioned targets effectively.

As outlined in NITI Aayog's Three-Year Action Agenda 2017-2020, four developing countries that have achieved significant transformations over the past three decades are South Korea, Taiwan, Singapore, and China. A pivotal factor common to all these four countries has been the expansion of their export earnings, leading to the diversification of their traditional export basket compositions. Consequently, considering the substantial global merchandise market, there are significant opportunities for Indian exports to capitalize on. India's exports must effectively contend with global counterparts and thus continually enhance technology, management practices, and product quality. This approach is vital to uphold India's position as a prominent and persistent exporter in the international market.

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5. DGCI&S [↑](#footnote-ref-5)
6. DGCI&S [↑](#footnote-ref-6)