

How to Boost India's Export Growth

Step up the share of manufacture in output

India's exports have dipped 3.7% in February, though growth for the April-to-February period is still positive. Two major factors account for the February fall: US curbs on generic pharmaceutical imports from India, and India's ban and later imposition of export duty on iron ore exports. The US is taking an increasingly dim view about the quality controls, processes and documentation in Indian drugmaking companies after the exposure of serious lapses at Ranbaxy. Its government has banned imports of drugs from all four plants of Ranbaxy, India's largest drugmaker. Iron ore exports stand banned from two large producing states, Goa and Karnataka. Exports of lumps and fines from everywhere else are taxed 30%. Unsurprisingly, ore exports are down 28%.

A look at the overall exports data for the first 11 months of the economy shows that there are many sectors where growth is flagging: from vehicles to machinery and commodity exports. It also shows that even after a dozen



years of reform, India is still largely a commodities exporter, with its information technology services classified as invisibles. Even though we manage to sell some manufactured goods overseas, their share is still lower than what could have been expected in a large country like India. Even for rela-

tively unsophisticated products such as refrigerators and flat panel television screens, India relies on imports, not domestic production.

India must increase the share of manufacturing in its economy. Eventually, this will lead to India becoming an exporter of manufactured goods. That will help us narrow the current account deficit in two ways: by substituting imported manufactures with domestic ones and by exporting some of the locally-made goods overseas. In order for this to happen, India must clear the decks for large investments by global manufacturing companies that now prefer to operate in south-east Asia or China. The government must cut through the maze of red tape of clearances, licences and permissions that entangle projects and rationalise labour laws.

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