India's Exports: The New Normal?

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Abstract

India's merchandise exports have undergone a quiet revolution over the last two decades with new-age engineering, electronic and pharmaceutical exports gradually replacing India's traditional exports of leather, textile, gems and jewelry. In this paper, using sectoral and firm level data, we ascertain what drives India's exports? Sectoral data reveal that export volumes are largely driven by changes in partner country growth. Interestingly, this is particularly true in the engineering and electronics sector. That said, we find a structural break around 2005 — well before the global financial crisis and the subsequently documented de-globalization — after which these partner country growth elasticities have fallen sharply, with the decline being largest in India's new age exports. In contrast, infra marginal changes in the exchange rate and supply side constraints are not found to impact India's export volumes. Using firm level data broadly produces the similar results. Controlling for external demand conditions and domestic supply constraints, we find little evidence that exchange rate movements hurt competitiveness at the firm level. In fact, the value of imported intermediates increases significantly in response to an appreciation of the rupee. There is however, interesting variation across sectors, with firms in sectors with lower domestic value added content such as drugs and pharmaceuticals, exhibiting a sharper increase in the value of imported intermediates, and a muted response of exports to an appreciation of the exchange rate; while firms in sectors with domestic high value added such as textiles showing a larger response of exports to exchange rate movements.