Enabling exports as a key growth driver

The Budget's thrust on PM Gati Shakti, rationalisation of Customs duties, credit guarantee schemes for MSMEs will spur exports

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The *Economic Survey* 2021-22 projected a GDP growth of 8-8.5 per cent in 2022-23, with exports playing a crucial role. India's exports rebounded strongly and surpassed pre-Covid levels during 2021-22. Merchandise exports touched an all-time high of $375 billion during April-February 2021-22 — more than yearly exports ever registered so far.

However, the Russia-Ukraine crisis has triggered uncertainty in global trade with rising crude oil prices and disruptions in global supply chains due to Western sanctions. While India does not have significant merchandise trade with Russia or Ukraine, exports of pharmaceuticals, telecom instruments, tea, coffee, marine products, etc., are likely to be hit.

But India now has an opportunity to increase its wheat exports, as there are disruptions of exports from both Ukraine and Russia — together they account for more than 25 per cent share in global wheat trade. The impact on Indian exports depends on the length and duration of the crisis; it is expected to be short-term given that both nations are engaged in talks.

Budget 2022-23 has emphasised the long-term potential for exports. It has set its priorities right — with emphasis on infrastructure development, building capacities in sunrise sectors and continued support to R&D — to support exports. While the rationalisation of Customs duties and tariff simplification would boost exports in the short term, the infra and institutional push envisioned in the Budget would go a long way in generating positive externalities for the export ecosystem in the medium to long-term.

Custom duties revamp

The calibration of Customs duty to promote domestic manufacturing of electronic goods would enhance electronic exports. Further, the reduction in Customs duties on diamonds and gemstones and chemicals will lower input costs and make their exports more price-competitive.

This acquires added relevance as gems and jewellery, chemicals and electronic goods are among the leading export commodities. In order to incentivise labour-intensive exports, exemptions are being provided on items used by *bona fide* exporters of handicrafts, textiles and leather garments/footwear.

An efficient and competitive logistics ecosystem is crucial to boost exports. While India has made substantial progress in trade-related logistics, yet the logistics cost in India (14 per cent of GDP) is higher than that of developed countries (8-10 per cent of GDP) (LEADS 2021 Report) — putting Indian exports at a disadvantage.

The Budget has placed considerable emphasis on the PM Gati Shakti National Master Plan that would build world-class infrastructure. This will facilitate seamless multimodal connectivity and logistics efficiency, thereby reducing the logistics cost and time significantly.

Source: Department of Commerce

Further, the Budget has increased capital expenditure by 35 per cent to crowd-in private investment, to enable a virtuous cycle of investment for developing integrated infrastructure. All these put together should enhance the competitiveness of India's exports.

Given that only eight products constitute more than 55 per cent of the country's total exports, there is a critical need for product diversification. In this regard, the support to sunrise sectors such as artificial intelligence, geospatial systems and drones, semiconductor and its ecosystem, space economy, genomics and pharmaceuticals, green energy, and clean mobility systems through facilitative policies and incentives for R&D assumes significance to diversify the export basket.

Further, the concept of 'One Station-One Product' will complement the initiative of developing 'Districts as Export Hubs' and support the government efforts in diversifying the product basket of Indian exports. This would also help MSMEs to be part of the supply chain.

Among other budgetary announcements, the additional allocation of ₹50,000 crore and extension of Emergency Credit Linked Guarantee Scheme (ECLGGS) up to March 2023 and infusion of funds into Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme will benefit the MSME sector. The focus on digitisation in the Budget is well placed as the WTO study (February 2021) shows that global trade growth is estimated to be 2 per cent higher annually, due to adoption of digital technologies by 2030. India, by being the largest software exporting country (WTO report 2021), is expected to gain with increased "servicification".

The emphasis on Ease of Doing Business 2.0 and Ease of Living, through active involvement of States, digitisation of manual processes, bringing in standardisation and removal of overlapping compliances, will lessen compliance costs and enhance the ease of exporting.

In particular, to make States partners in export promotion, it is proposed to replace the Special Economic Zones Act with reforms suggested in Customs administration of SEZs to make them fully IT driven and more facilitative with only risk-based checks, thereby improving ease of doing business by SEZ units considerably.

Overall, Budget 2022-23 has stayed true to the long-term goal of complementing macro-growth, enabling exports as a key driver through increased competitiveness and diversification.

The writer is an Indian Economic Service officer, working as Deputy Director in Department of Economic Affairs. Views are personal