Letting the Elephant Dance: Unlocking India's US$500 Billion Export Opportunity

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Contextual Understanding

- World trade is fragmenting under geopolitical conflict and tariff uncertainty.
- India has moved toward neo-mercantilism through higher tariffs, broader import protection, and QCO proliferation.
- At the same time, services exports and remittances have strengthened the rupee in real terms.
- The paper asks whether India is leaving a very large merchandise export opportunity unrealised.

The Argument in Numbers

US $516B

Estimated Missing Merchandise Exports in 2022

24 Million

Formal Jobs Linked to the Missing Export Gap

Almost 50%

of the missing merchandise export gap is attributable to India's near neighbourhood

1 in 3

of India’s top exports are losing share in growing global markets

Explaining the Stalled Growth in Goods Exports

Process

A product-partner PPML gravity model

Corridor-level decomposition of underperformance

Sectoral mapping of where India is gaining and losing

Diagnosis

Rising protection and QCO frictions

An appreciated real exchange rate

Leading to weak GVC integration, in turn hurting scale and diversification

Policy Options

Tariff rationalisation and disciplined standards

Deeper FTAs and cheaper input access

An East Asia plus neighbourhood pivot

An export-enabling macro stance

India’s Export Story

Before 1991

Closed economy
Import substitution, inward-looking, highly protected, weakly integrated

After 1991

Opened up
Liberalisation, devaluation, lower barriers, and renewed global integration

2001-2012

Export boom
Trade deepens, exports surge, and growth accelerates

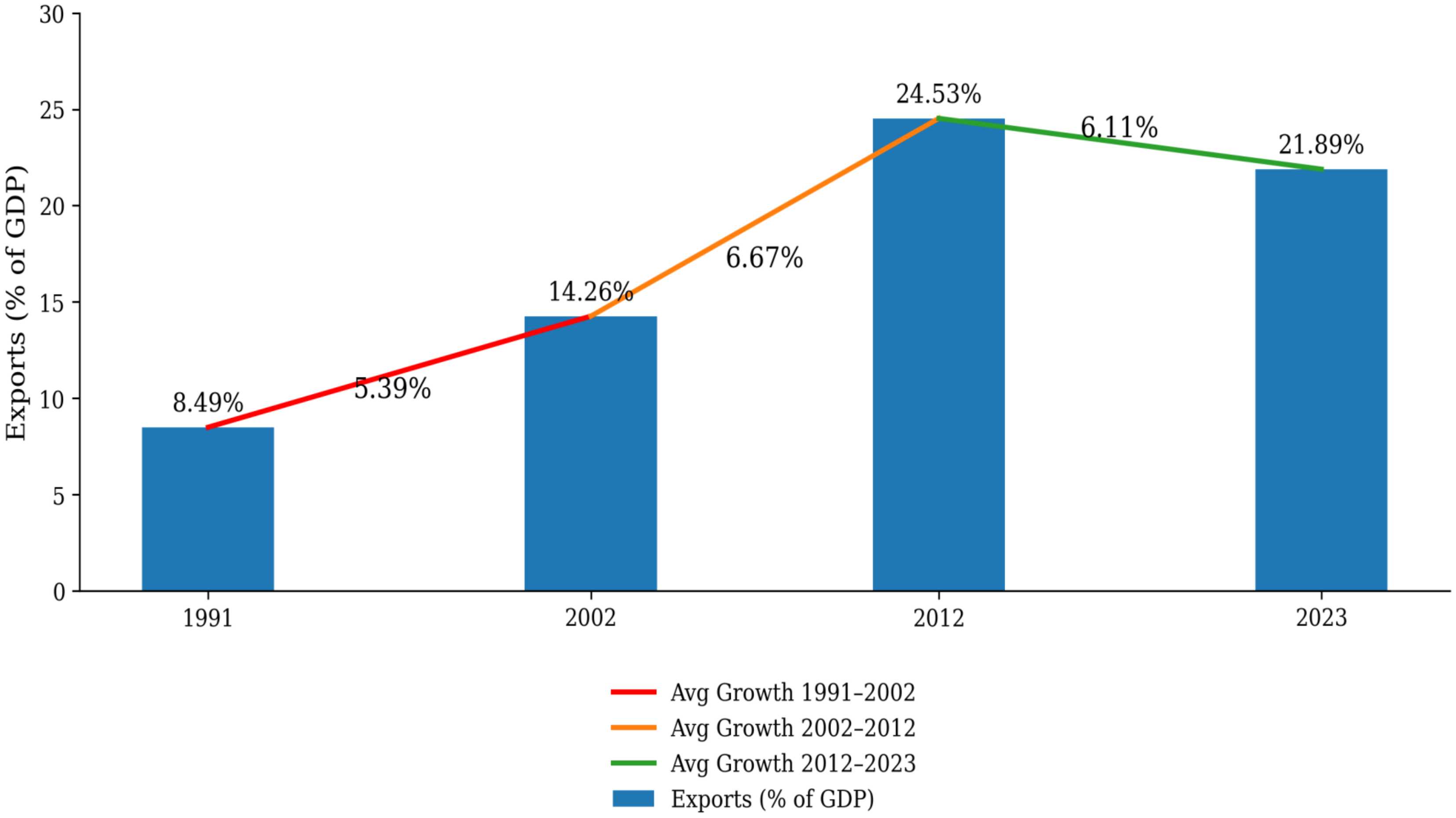
2013 Onwards

Momentum Softens
Stagnation sets in, protection rises, goods trade plateaus, and merchandise export gaps widen

Year	Exports(in billions) (Goods and Services)	Global share
1980	$11.4	0.50%
2001	$61.0	0.79%
2024	$827.4	2.56%

Source: World Bank

Exports were central to India's high-growth phase



Source: World Bank

The Mandeng Framework: Where India Gains and Struggles

Rising stars	Missed opportunities
India gains share where world demand is also also rising	World demand rises, but India loses share.
Falling stars	**Retreats**
India gains share, but global demand is weakening	India loses share in slow-growing segments

The Product Story

Rising stars

- HS 27: Mineral fuels and oils
- HS 30: Pharmaceuticals
- HS 39: Plastics and plastic articles
- HS 76: Aluminium and aluminium products
- HS 73: Articles of iron or steel
- HS 85: Electrical machinery and equipment

Falling stars

- HS 84: Machinery and mechanical appliances
- HS 87: Vehicles and auto parts
- HS 29: Organic chemicals
- HS 72: Iron and steel
- HS 10: Cereals

Missed opportunities opportunities

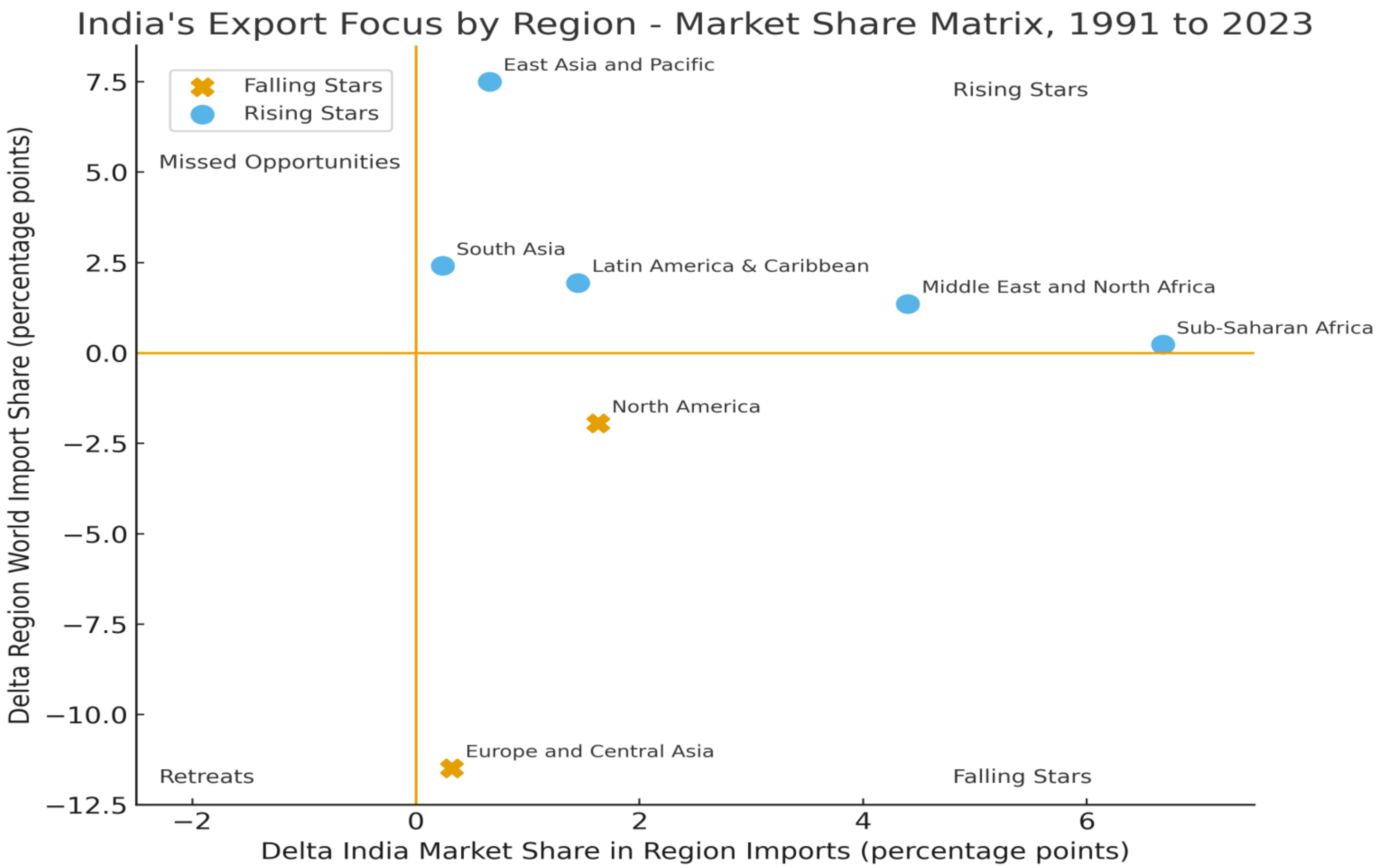
- HS 63: Other made-up textile articles
- HS 61: Knitted apparel and accessories
- HS 26: Ores, slag, and ash
- HS 42: Leather articles and travel goods
- HS 08: Edible fruit and nuts
- HS 71: Precious stones, metals, and jewellery
- HS 23: Food industry residues and animal feed

Retreats

- HS 62: Non-knitted apparel and accessories
- HS 64: Footwear and related parts
- HS 41: Raw hides, skins, and leather
- HS 52: Cotton
- HS 03: Fish and aquatic invertebrates
- HS 09: Coffee, tea, maté, and spices
- HS 57: Carpets and textile floor coverings

Source: UNCTAD, Authors' calculations

The Region Story



Source: UNCTAD, Authors' calculations

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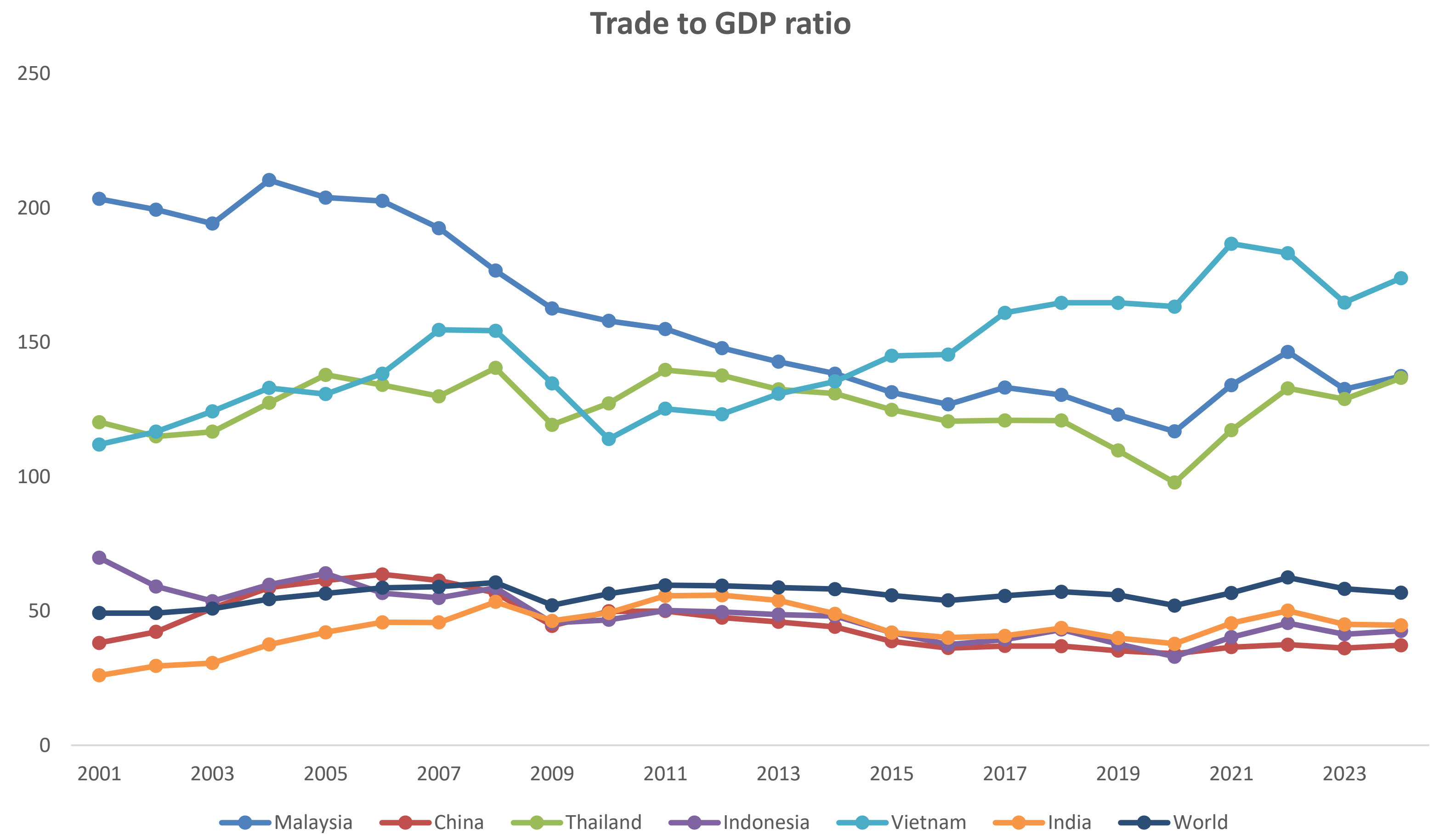
India in Comparative Perspective



Source: World Bank

- Vietnam, Thailand, and Malaysia have leveraged the external sector far more effectively.
- China dispelled the myth that large economies cannot achieve trade-led growth.
- India's trade-to-GDP ratio remains relatively low
- Widening deficits often provoke alarm about freer trade, even though imports are vital to export competitiveness.

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India and China: A Comparison

	Export Value (current US$)	Exports (% of GDP)
India	773 billion (2023)	21.4
China	773 billion (2005)	33.4

	GDP (current US$)	Exports (% of GDP)
India	3.64 Trillion (2023)	21.4
China	3.60 Trillion (2007)	34.9

Source: World Bank

Problem 1: Protection Undercuts Export Competitiveness

- Lerner's theorem suggests that import tariffs can act like export taxes by raising input costs and diverting resources into less efficient production.

- Imports are not just substitutes for domestic output. They provide inputs, capital goods, technology, and variety, making them central to export competitiveness.

- Easier access to imported inputs helps firms lower costs, upgrade quality, expand product range, and export more.

- The paper also notes a broad expansion of QCOs, reaching about 765 by 2024 and covering roughly 6% of HS-6 tariff lines adding another layer of trade friction

- This is a core point of the paper: policies meant to protect domestic production can also weaken exporting sectors.

MFN tariff rates, simple average (%)

Country	2002	2009	2018	2024
India	29.01%	14.03%	17.14%	16.19%
China	12.37%	9.86%	9.74%	7.50%
Vietnam	16.05%	10.39%	9.51%	9.49%

Source: WTO

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Problem 2: A Persistently Appreciated Real Exchange Rate

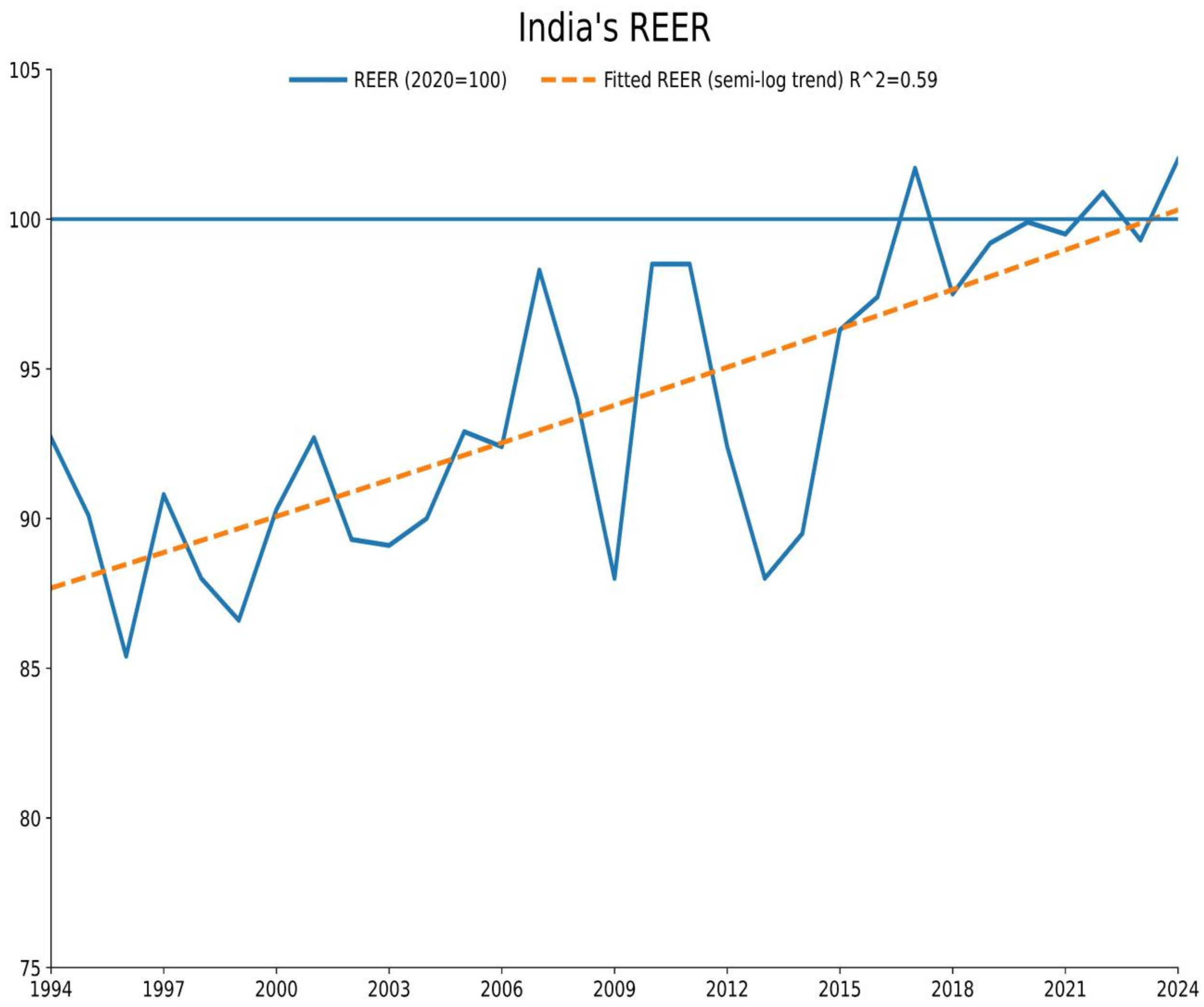
- India's REER has tended to appreciate over time, creating a persistent hurdle for merchandise exports.

- A stronger REER makes Indian goods costlier abroad and compresses margins, especially in thin-margin sectors.

- The effect is large: a 10% real depreciation is associated with about a 6% rise in real exports.

- But India cannot simply follow the East Asian playbook of maintaining a deliberately competitive exchange rate.

- Price stability, financial stability, and the structure of India's external account limit how far exchange-rate policy can carry the export strategy.



Source: FRED, Authors Calculations

The Rupee Relief Is Real, but Not Enough

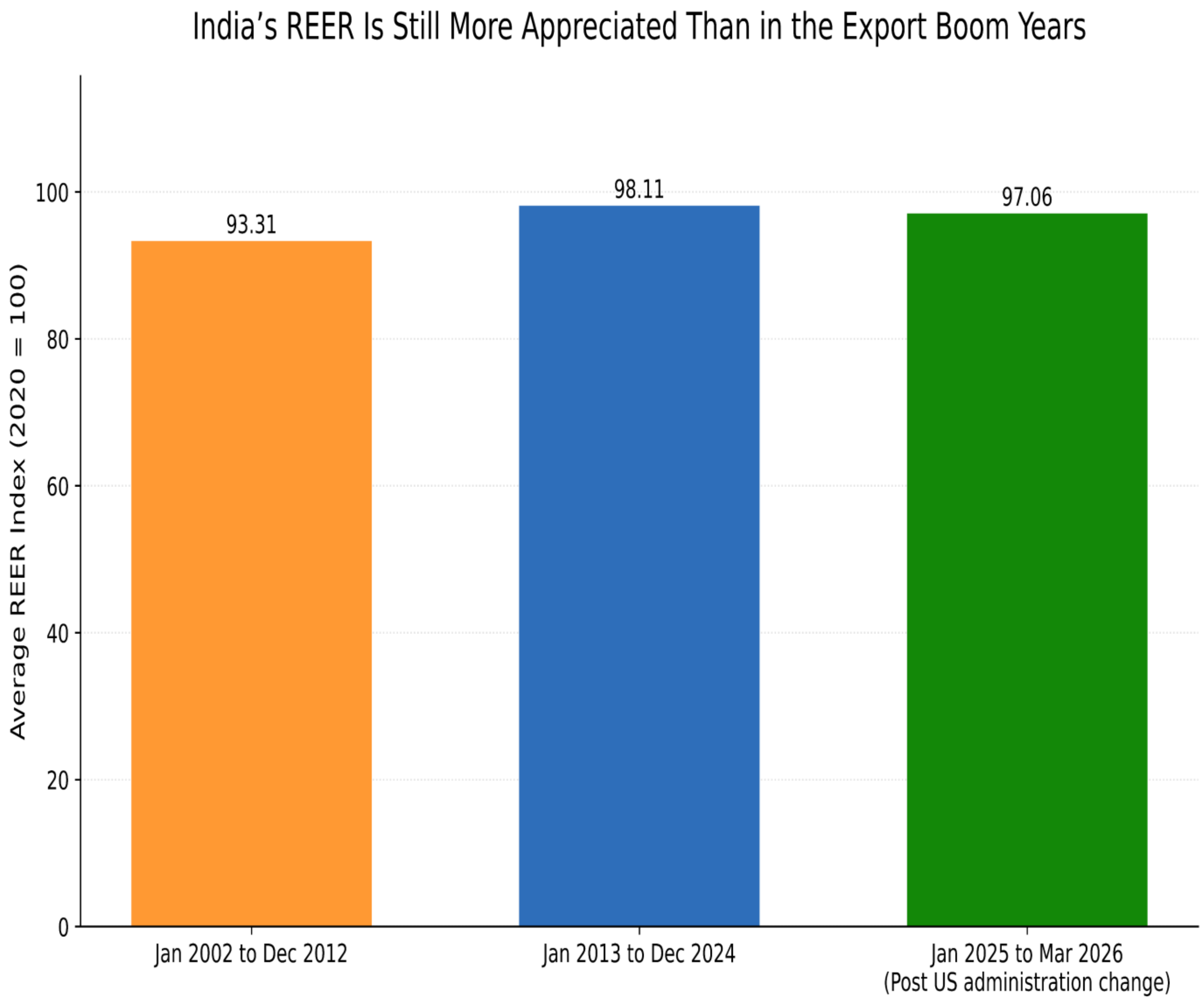
- The recent fall in the REER is welcome, even if much of the media coverage has treated it negatively.

- But the correction does not erase the wider problem: India's recent REER remains above the level seen during the 2000s export boom.

- Exporters therefore still face a real-exchange-rate hurdle, even after the latest depreciation.

- That hurdle is reinforced by two structural headwinds: strong ICT services receipts and large, steady remittance inflows.

- Since India cannot rely on devaluation alone, goods exporters need competitiveness gains from deeper reforms.



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Problem 3 : GVC Integration as a Policy Outcome & Feedback Loop

- GVC integration is policy-shaped: input access, trade costs, standards, logistics, and FTAs determine whether firms enter production networks.
- Once inside, GVCs create a feedback loop through scale, technology diffusion, productivity, and diversification.
- India’s backward GVC participation peaked around 2012, then fell to about 17% by 2020, well below Vietnam and Thailand.
- East Asia used export-oriented policy to embed firms in component trade; India did not do this deeply enough.
- The result is weaker scale-dependent manufacturing and less dynamic goods exports.

25%

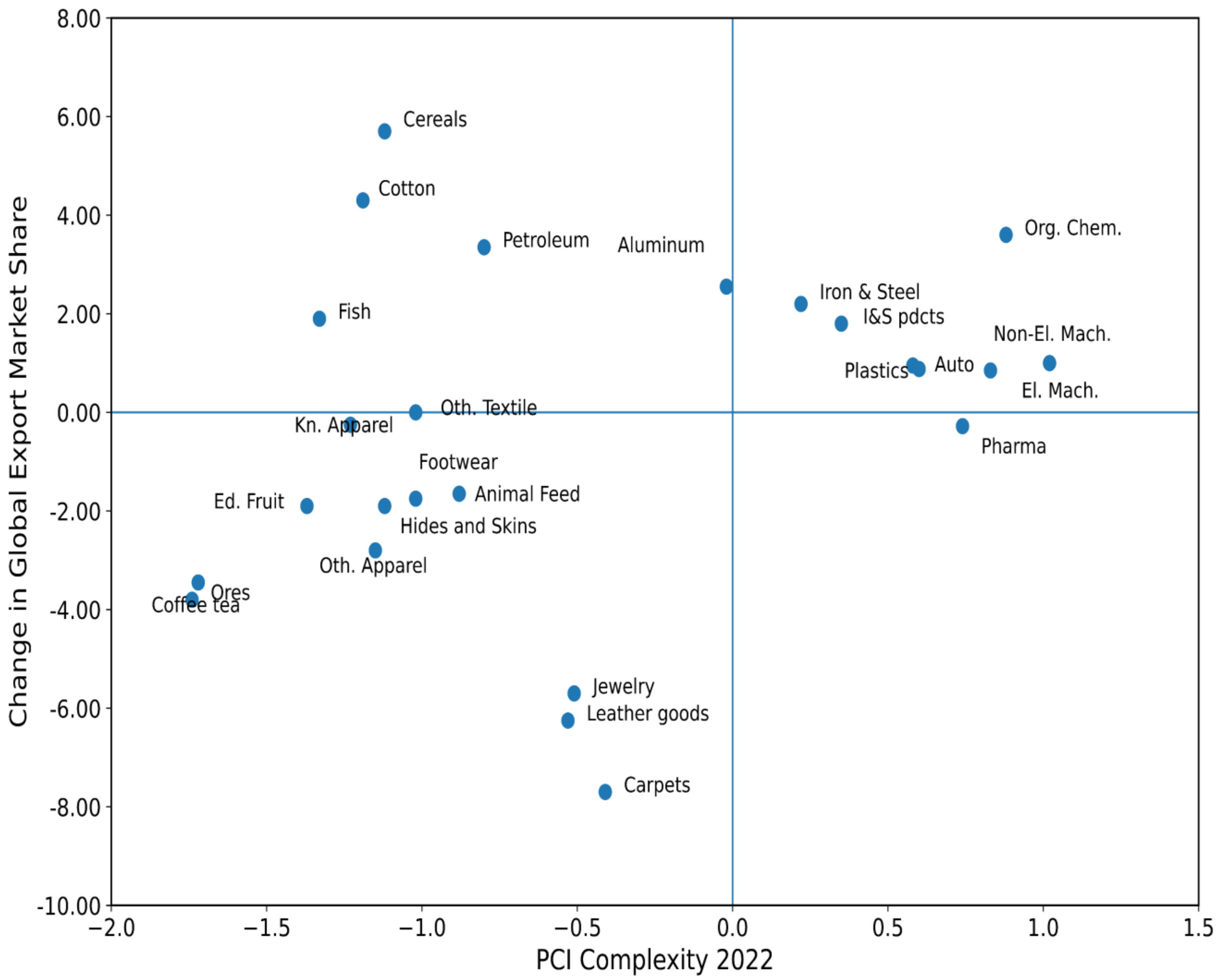
India's foreign value-added share in gross exports at its peak in 2012

17%

India's backward GVC participation by 2020

Most Exposed Sectors: Market Share Losses and Jobs

- Low-complexity goods lost market share.
- Apparel, footwear, leather, carpets, and jewellery cluster in the low-complexity, low-share zone.
- These are labour-intensive sectors where overvaluation and costly inputs bite hardest.
- More complex sectors perform better, but not enough to solve India's jobs problem.
- The lost jobs story is embedded in the lost export basket.



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The Model

- The paper uses pooled cross-section time-series HS-level trade data for 1995 to 2022, covering about 424,000 observations.
- The gravity model is estimated in the PPML form, which allows exports with zero values to be retained in the analysis.
- Data are drawn from the World Bank, UNCTAD, and the CEPII gravity database.
- Bilateral goods exports are estimated using GDP, distance, population, shared language, contiguity, colonial ties, tariffs, exchange-rate terms, and crisis controls.

$$Exp_{ijt} = \exp\{\, \beta_0 + \beta_1 \log(GDP_{it}) + \beta_2 \log(GDP_{jt}) + \beta_3 \log(Dist_{ijt})$$

$$+ \beta_4 \log(PopMag_{ijt}) + \beta_5 \log(1 + Tariff_{ijt}) + \beta_6 \log(Curr_{ijt})$$

$$+ \beta_7 comcol_{ij} + \beta_8 comlang\_off_{ij} + \beta_9 contig_{ij} + \beta_{10} CrisisDummy_t + u_{ij,t} \,\} + e_{ij,t}$$

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The Findings

- The model then compares India's actual exports in 2022 with the level predicted by its fundamentals.
- This yields an estimated shortfall of about US$516 billion in merchandise exports.
- The paper is not claiming India can add US$516 billion overnight. It is arguing that the current policy mix is keeping goods exports far below what India's fundamentals would predict.
- **India has still not reached that level of export intensity, even by 2025**

Actual Goods Exports

US $437bn

Missing Exports

US $516bn

Missing Imports

US $301bn

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The Corridors of Missed Opportunity

Worst Performing Corridors: Missing Exports, USD billion

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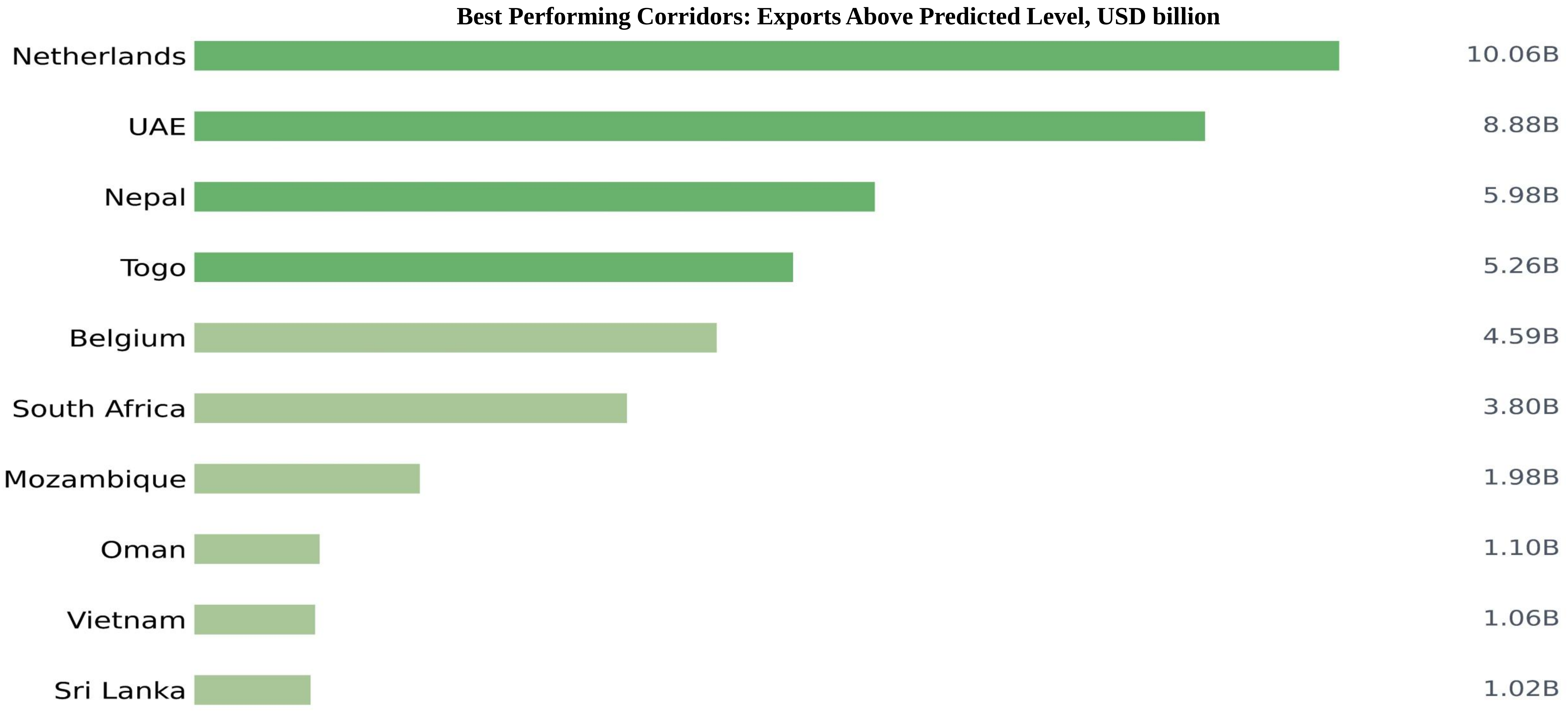
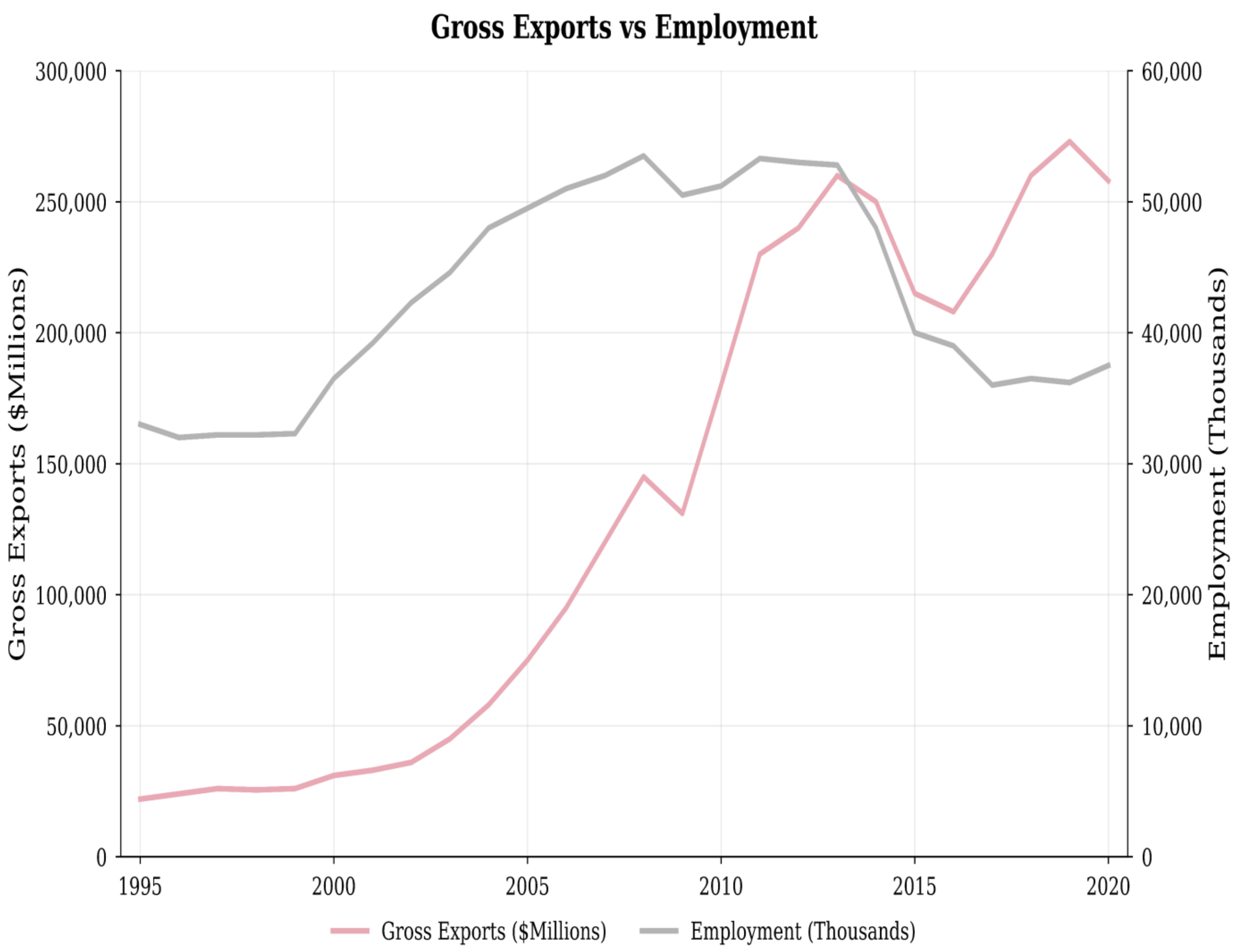
Not All Gloom: Corridors Outperforming the Baseline



India's Export Gap Is Also a Massive Jobs Loss

- In the 1999 to 2012 export boom, real exports grew **12.8%** a year while export-linked employment grew **4.1%** a year.
- That implies an export-employment elasticity of about **0.32**, closely in line with World Bank evidence of around 0.3.
- Using this elasticity, the paper estimates that closing the US$516 billion export gap could support roughly **24 million jobs**.
- The missing exports are equivalent to about **68% of 2020** export-related employment.
- The export shortfall is concentrated in labour-intensive, thin-margin activities where stronger export performance would translate most directly into higher-wage, formal, export-linked jobs.



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The Policy Sequence is Pragmatic, Coherent and Actionable

1	**Rationalise tariffs and discipline standards**	Publish a trade-policy white paper, rationalise tariffs, reduce tariff dispersion, and tie QCOs tightly to transparent safety and quality objectives rather than disguised protection.
2	**Sign deeper market-access agreements**	Use FTAs, and potentially mega-regionals such as RCEP or CPTPP, to lock in openness, support standards recognition, anchor investment, and deepen GVC participation.
3	**Build a more export-enabling macro environment**	Avoid entrenched REER overvaluation, reduce trade costs, and ensure predictable, duty-free access to imported inputs, especially for MSMEs in low-margin sectors
4	**Execute a neighbourhood and East Asia pivot**	Normalise and deepen corridors with China, Pakistan, and Bangladesh, while using the Netherlands and the UAE as hub platforms to extend market reach.

The paper's policy stance is not anti-services. It is about complementarity: preserve the gains from services while restoring the competitiveness of goods. On that basis, India could more than double its goods exports.

"The elephant is ready to dance, but only if India lets it."

Thank You

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