

# An Analysis of Trade Disparities Among Indian States

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## ABSTRACT

There are two set of theories which talks about Inequality in international trade. First theory which was put forward by Gregory Mankiw, the notion that ‘trade can make everyone better off’. Second set theory which was put forward by economists like Krugman and Gunnar Myrdal which states that trade leads to divergence in regional incomes and thus leads to inequality. States has an important role to play in removing these inequalities.

NITI aayog in India plays a major role in it. One important organization tasked with addressing India's regional disparities is NITI Aayog. NITI Aayog released Export preparedness Index 2022-23. This paper seeks to find out causes and challenges behind inequality in export performance among states and suggest some policy measures to uplift the bottom states. The state level data of export disparities among states were extracted from Export Preparedness Index which is released by NITI Aayog. States wise change detection of exports were done.

The index shows there exists disparities among states in export performance. Tamil Nadu, Maharashtra and Karnataka are the top three states in Export Performance While Lakshadweep, Mizoram, Dadra Nagar and Haveli and Daman Die are the worst performing UTs and states. The findings highlights that geographic distribution of exports reveals that India’s states are highly unequal in terms of industrial development, regulatory complexities, infrastructure connectivity, availability of skilled manpower, etc. The data indicates that few states contributes towards a major share of the exports of India and leads to disparities among states in export performance. Geography, natural resources, Infrastructure, industrial history, etc. are few of the causes which leads to disparities among states in export performance.

**Keywords:** Exports, NITI Aayog, Regional disparities, Disparities, Export disparities.

## 1. Introduction

Regional Disparities refers to differences in per capita income, Export performance among different states, health, etc. Regions may be either sub nation or Regions within a sub nation. There are two set of theories of theories which talks about trade and inequality. First one was put forward by Gregory Mankiw, the notion that ‘trade can make everyone better off’. Second one theory was put forward by economists like Krugman and Gunnar Myrdal which states that trade leads to divergence in regional incomes and thus causes inequality.

Regional disparities retard the allocation resources and leads to under utilization of resources and rise in inter-state disparities. States has major role to play in removing these disparities. NITI Aayog in India

plays a major role in it. NITI Ayog releases Export Preparedness Index annually. This is least discussed and most important index to understand inter-state disparities in export performance. Export Preparedness Index has four pillars and these pillars are Policy, Business ecosystem, Export Ecosystem, and Export Performance. Out of these four pillars, Export Performance is the most important pillar. State export performance is measured by the expansion and diversification of exports. Export Performance of states shows how progress and development the states have made in exports.

India has surpassed its pre-pandemic export level by recording a trade value of over 400 US\$ in FY2022. Over the period of time India’s Volume of trade has been Increased but this increase in volume of trade is not coming from all the states equally. Few states are contributing almost 85% of total exports of the country and leads to disparities in export performance among states.

## 2. OBJECTIVES OF THE STUDY

Objectives of the study are as follows-

- 2.1 To study causes and challenges of inter-state disparities in export performance.
- 2.2 To suggest Policy recommendations to reduce inter-state disparities in export performance.

## 3. EXPORT PREPAREDNESS INDEX-2022

The report provides a thorough examination of India's export performance for the fiscal year 2022–2023, as well as export patterns at the state and district levels. The four pillars of the export preparation index are export performance, business ecosystem, export ecosystem, and policy. The index's overall goal is to assess India's exports at the state and district levels. The most crucial pillar is export performance. The export performance pillar demonstrates the extent of development and progress that states have accomplished in terms of export expansion and diversification.

### Export Performance Ranking

Rank	State	Category	Score
1	Gujrat	Coastal	100.00
2	Tamil Nadu	Coastal	63.34
3	Maharashtra	Coastal	59.14
4	Rajasthan	Coastal	51.55
5	UP	Coastal	51.28
6	Haryana	Landlock	49.75
7	Odisha	Coastal	45.05
8	Punjab	Landlock	44.79
9	Karnataka	Coastal	41.55
10	Andra Pradesh	Coastal	41.10
11	Uttarakhand	Himalayan	38.29
12	Telangana	Landlocked	37.68
13	West Bengal	Coastal	36.55
14	Himachal Pradesh	Himalayan	36.46
15	Tripura	Himalayan	36.23
16	MP	Landlocked	33.25

17	Goa	UT/Small States	31.79
18	Delhi	UT/Small States	31.35
19	Dadra Nagar & Haveli & Daman & Diu	UT/Small States	31.13
20	Chattisgarh	Landlocked	26.45
21	Jharkhand	Landlocked	26.14
22	Kerala	Coastal	25.66
23	Puducherry	UT/Small states	21.55
24	Assam	Landlocked	21.45
25	Jammu & Kashmir	UT/Small States	19.39
26	Sikkim	Himalayan	19.03
27	Mizoram	Hiamalayan	15.31
28	Chandigarh	UT/Small States	14.91
29	Bihar	Landlocked	14.50
30	Arunachal Pradesh	Himalayan	9.07
31	Nagaland	Himalayan	7.27
32	Ladakh	UT/Small States	6.78
33	Manipur	Himalayan	3.88
34	Meghalaya	Himalayan	1.56
35	Andaman and Nicobar Islands	UT/Small States	1.20
36	Lakshadweep	UT/Small States	0.00

The above table evaluates the overall performance of a state in exports and reveals disparity among states in export performance. The national average in export performance is 30.40. This low average is mainly to unequal distribution of total exports in the country, in terms of percentage share, top 10 states contributes to 85% of total exports. Gujrat is coastal state that’s why it contributes to 30% out of total exports. Gujrat, Tamil Nadu and Maharashtra are the top three States in the Export performance. On the Other hand, the export performance of Manipur, Meghalaya, Andaman & Nicobar Islands and Lakshadweep are the poor performing states in export performance. In export diversification case out of top ten exported commodities account nearly 80% of our total exports, whereas top ten destinations of exports constituted nearly 49% of our total exports.

Gujrat , Maharashtra and Tamil Nadu are the largest exporter of merchandise goods that is 1/3rd of total exports of India. Gujrat has near monopoly in the petroleum products exports. Again, in Gems and Jewellery case Maharashtra and Gujrat contributes to around 88% of total exports of Gems and jewellery. In organic and Inorganic around 47 % of total exports Gujrat exports. On the one hand exports from Gujrat, Karnatak, odisha and MP outpaced the national average growth rate. On the other hand Exports from Delhi and Kerala had declined.

As discussed above, few states contributes to majority of countries exports which paves way for regional disparities among states. Indian state’s trade basket is not much diversified. Some States export basket are diversified and some state’s exports basket are not much diversified. States such as Gujrat, Maharashtra and Odisha has high export concentration that implies few products dominating their exports.

#### **4. CAUSES AND CHALLENGES**

The causes of regional disparities across states in exports needs to be understand. The following points highlight the major causes and challenges of export disparities among Indian states-

##### **4.1 Geographical**

Regional disparities are significantly influenced by geographic factors. Geographical elements that affect exports include location and port accessibility. Every state must have access to ports when conducting international trade because landlocked areas may be at a comparative disadvantage due to high trade costs and obstacles to maritime travel. That is why coastline states like Tamil Nadu, Maharashtra, and Gujrat performing better in exports as compared to landlocked states like UP, HP, UK and leads to disparities among states in exports performance.

##### **4.2 Concentration of Exports**

One of the biggest challenges to exports disparities is concentration of exports. Exports in India is concentrated in a few states. Only 10 states contributes to 85% of total exports in India. This means that there exists a great disparities among Indian states in exports. 100 districts contributes to 87% of our exports.

##### **4.3 Infrastructure**

Few States lagging in terms of Infrastructure facilities like transport connectivity, air connectivity, port connectivity, road connectivity, power connectivity, internet facilities, cluster strength, and industrial presence etc and this leads to disparities among states in exports performance. Absence of decent export infrastructure across many states leads to differences in exports performance of states. Investment in infrastructure is a state subject and makes the better performing states apart from the rest.

##### **4.4 Investment**

FDI plays an important role in trade. 10 states have registered decrease in the inflow of Foreign Direct Investment. FDI helps to expand manufacturing sector of a state and thus result in increase in merchandise exports. Domestic investment plays an important role in developing industries, fostering Innovation and entrepreneurship, and fostering the potential of the local markets and growth of exports in exports.

##### **4.5 Knowledge**

Proper dissemination of knowledge to exporters is needed in order to compete in the global market. Lack of capacity building workshops for exporters hampers their ability to reap benefit of their comparative advantage to increase competitiveness across regions in the country.

##### **4.6 Natural resources**

Natural resources plays an important role in creating disparities between states. Few states identified their products which are unique to them and boosted their exports but few do not able to do so and this leads to disparities between states. In few states One District One Product scheme in advantageous, they are reaping the benefit of this scheme and boosted their exports.

#### **5. Policy recommendations**

The export performance disparities needs to be addressed in a timely manner for India to grow its states and uplift the bottom states. Some important policy measures that needs to be addressed in order to remove disparities among states -

##### **5.1 Recommendation related to Infrastructure**

Infrastructure needs to be developed in lagging states where there is requirement of infrastructure development for exports. To foster exports of states, it requires Infrastructure support by the government.

Like Special Economic Zones, Dedicated export zones, transport connectivity, ports, waterways, railways, etc. Also, lessons can be learned from States like Maharashtra, Tamil Nadu, Gujrat which are performing better in exports due to well developed infrastructure. A robust Infrastructure promotes growth of exports by states.

### **5.2 Recommendation related to Investments**

Investment plays important role in the development of bottom states which are not performing good in exports. Investment contributes to economic growth, employment, Infrastructure, Innovation, and new industries, etc. Infrastructure development in backward states enhances connectivity, facilitates exports and commerce, attracts further investments, and promotes overall exports in that region.

### **5.3 Recommendation related to Export Concentration**

Bottom states needs to identify products which are unique to them, and boost their regional competitiveness. Then Demand for those products will we be created and later on those products will be dominated in global market and Concentration of exports will be diversified and maintain balance in exports.

### **5.4 Recommendation related to export data**

Better export performance by bottom states requires robust export data. Data like source of origin of goods export and services exports required at the state level for evaluation of export performance. It enables effective monitoring of trade patterns and trends. Data plays a very important role in policy making by any states. The solution to rectify data availability will promote exports from states.

### **5.5 Recommendation related to districts**

Districts are the main forces behind export promotion and aid in bridging the nation's regional divide at the state level. In his 2019 independent day speech, the prime minister urged the government to take action to harness the potential of the districts, stating that they are centers of export. Where states are underperforming in exports, targeted action should be made; either the states or the federal government should be the driving force behind export growth. For example, the central government can help them create the ecosystem they need to export. It is possible to strengthen programs such as One District One Product (ODOP) in every district throughout the states. As per Article 321D of Indian Constitution, Regional Boards with necessary legal powers, funds should be Instituted to remove regional disparities in the states.

### **5.6 Recommendation related to Good Governance**

When institutions and procedures meet the needs of states while optimizing the use of available resources, this is referred to as good governance. Fair distribution of export performance and trade benefits from states is a hallmark of good governance. encouraging the establishment of financial institutions in the nation's underdeveloped areas. In the states that are falling behind, more funding should be allocated for infrastructure development. In the underdeveloped areas, backward links ought to be established.

## **Conclusion**

In FY2022, India's exports were valued at over \$400 billion USD, however as trade volume has grown, so too have the differences in exports between Indian states. Few states/UTs, including Mizoram, Lakshadweep, and Daman Diu, have the lowest export performance, while a few states, like Tamil Nadu, Maharashtra, and Gujarat, have the highest export performance. According to the data, a small number of states account for a significant portion of exports, which causes inequalities between the states. Disparities can be caused by a variety of factors, including geography, infrastructure, and natural resources. Through

cooperation and healthy competition, states can reduce export performance disparities and improve export performance. GI-tagged product promotion can also aid in reaching these goals. In order to eliminate regional differences between states, center-state collaboration is crucial since it enables underperforming states to catch up to high-performing ones. Top-performing states should teach bottom-performing states how to improve their weaknesses. Finally, fair export performance and trade benefits depend on good governance. As the proportion of exports from the poorest states rises, state equality declines and India's overall export volume to the rest of the world rises—a phenomenon known as "Atmanirbhar Bharat."

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