

The Future of Punjab's External Trade

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Abstract

From the very beginning, Punjab has always been considered a prosperous state. The foremost reason for its strong hold on Agriculture products and commodities has been the Green Revolution in early 1960s followed by industrialization that took place in prominent territories in Punjab. Apart from its agrarian benchmark, the other key industries contributing to Punjab's economy are Bicycle, Textile, Hosiery and Garments, Chemicals, Tractors and Auto Components, etc. Besides its initiatives in manufacturing, it has also witnessed strong presence in Information Technology and IT - enabled Services. The state government has also supported sectorial developments by giving lucrative incentives to boost the trade and investments in the economy. To support this, the government also held Progressive Punjab Summit 2013-14 that saw the participation of top most Business Leaders of both domestic and foreign companies been on robust state investments. The state has been also contributing to the External Trade of the country. The objective of this Research Paper is to analyze the state contribution to the national economy of India and its progression towards external trade and business.

Keywords: Industrialization, Trade and Investments, External Trade

Introduction

Punjab is known for its rich heritage, culture and religion and acknowledged worldwide for its self-reliance and glory. Since last decade, Punjab has shown tremendous growth in the GSDP, i.e. Gross State Domestic Product that shows the total value of manufacturing of goods and services for period of a single year. In the year 2004-05, the Agriculture and allied industries contributed 32.7% in 2004-05 that reduced to 30.3% in 2011-12 by taking into account that total productivity is increasing with CAGR of 13.8%. On the other side, the manufacturing and industrial output contribution has increased from 24.7% to 26.8%, which is significant in terms of growth of all the sectors given with 16.4% CAGR. Tertiary sector, or Services, has shown growth in its percentage contribution from 42.6% to 42.9% with CAGR of 15.2% as shown in Figure 1 below. The average Growth rate of GSDP of Punjab is 15% from year 2004-05 to 2012-13, and its total GSDP for 2012-13 was USD 54 bn.

Need for the Study

Because of increase in external trade within countries, the individual states have also started participating in foreign transactions of the industries so that it has its geographical advantage. The Agrarian Economy of Punjab is amongst states trading highest number of transactions for agricultural commodities with the foreign countries and the maximum support given by the government in this primary sector of the state. The study will help the investors to

evaluate the industrial performance of Punjab and its growth rate in comparison to national growth rate. Also it will be of help to the industrialists to critically analyse the contribution of government policies for the benefits or losses to their companies.

Literature Review

Gurpreet Kaur, et al, (2013) analyzed that Punjab agriculture plays an important role in state's economy and contributes a considerable share of wheat and rice to the central pool, and it stands at second rank at all India level in terms of food grain production. Singh, Davinder, et al, (2013) show that the effluents released out of textiles units are not only degrading human health, but are also a cause for deforestation. K.K. Sharma, (2013) has studied the cost competitiveness of textile industry in Punjab. Navneet Gera, (2012) observes that a great deal of work has been done by Indian trade and industry and has achieved significant role in terms of GDP, Exports, Employment and generation of foreign exchange. Role of government has been supportive to textile and clothing industry whereas, post MFA, it has not been good in comparison to China. Gautam Rajkumar, et al, (2012) observed that units from all surveyed industries irrespective of age and turnover believed that liberalization had resulted into more competition, increased quality consciousness, difficulty in marketing, dumping of cheap goods by other countries, reduction in profit margin and high level of consumer satisfaction. But the units of Food and Leather products have seen transformation in business after Liberalization. Chaudhry, Azam, et al, (2012) analyze that more export sector firms enter highly concentrated industries and firm entry increases significantly by as a result of depreciation in the trade-weighted real exchange rate, However the impact of changes in EU and US tariff is not significant. Gautam, Rajkumar, et al, (2011) observe that small scale industry in Punjab is facing quality issues at both domestic and international markets, so these units should focus on quality standards at both domestic and global levels. Banga, Gagandeep, et al, (2011) consider that the main forces that derive the external trade of sports goods and its allied industries are the quality, cost and demand of sports industrial products in the market. Mehra, Anjana, et al, (2011) analyze the growth prospects of textile industry in Punjab between 1991-2008 in respect to post liberalization period and reveal the fact that growth of textile industry in Punjab had declined since post liberalization era.

Objectives

1. To study the sector-wise growth potential of exports from Punjab.
2. To analyze the government policies over export performance in Punjab.

Scope of the Study

The study has been conducted on Punjab state of India. The secondary research is conducted to evaluate the export performance of the state as the markets are flourishing across national boundaries and companies can earn lucrative margins while selling their products overseas.

Research Methodology

The study is based on secondary sources of data collected from authentic resources for conducting the research.

Sector-wise Exports Growth of Punjab

- 1) **Wheat and Rice Exports from Punjab:** Having its fertile and productive soil, Punjab is lauded as "Granary of India" and "Bread Basket of India". In 2009, the state

government announced its agro-industrial policy to facilitate the association between agriculture and industrial sectors so as to organize the agriculture sector and to increase the farmers' remuneration. So, government offered special packages and benefit schemes for the industries entering into agro business. The state has got 1.2% of geographical area of the country and contributes 18% to country Rabi crop of Wheat and 11% to Kharif crop of Rice. Punjab's total food production, in 2016-17, was 274 MTs. Wheat, being its major produce, contributed approximately 160 MTs of total production outlay. State also contributes its two major agri-commodities, i.e, Wheat and Rice to center for three purposes. First being the procurement of these commodities by FCI and distribute in the country. Second purpose is to export the grains procured by FCI from the state, and third is to contribute to the social development programs of the centers like Mid-day meal schemes etc. Its wheat and rice contribution to the central pool was 38% and 22% respectively in year 2016-17. Also, the total area coverage under wheat in Punjab was 35 Lakh Hectare for Rabi in 2016.

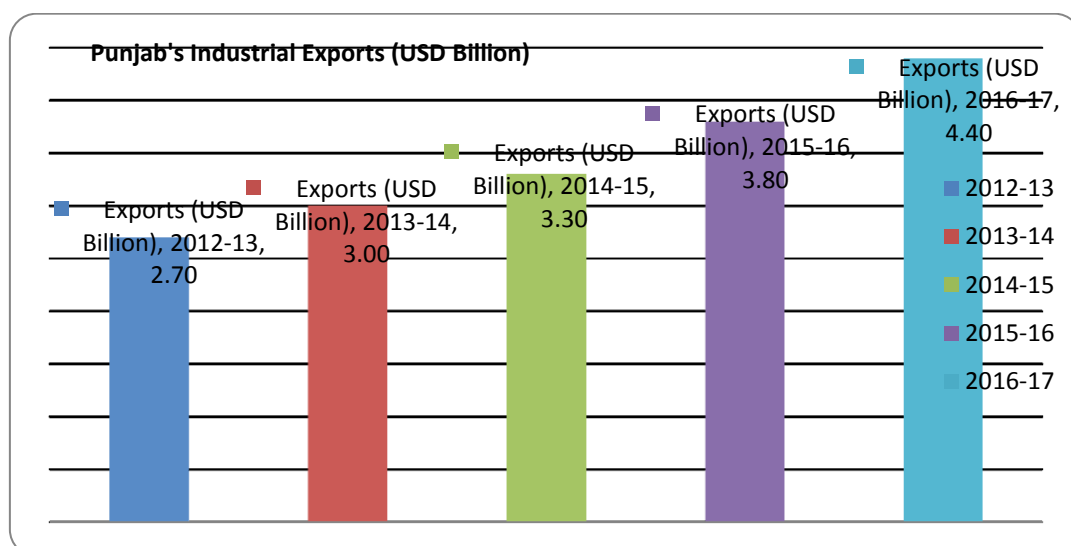


Figure 2: Punjab's Industrial Exports

Source: Punjab Small Industries & Export Corporation limited

2) Textiles and Cotton Exports from Punjab

Textile industry in Punjab has its important significance as it contributes to government's forex revenues with its international operations. Since liberalization till 2005, the industry was suffering from Quota system, that troubled the industry, but, after the ending of quota system, the industry started growing and became cost competitive at international level. The textile hub of Punjab is situated at the center of the state in Ludhiana. Since years city is also known as Manchester of India for its tremendous contribution of Textiles in the economy of the country and the world at large. The sector revived back after financial setback in year 2008 and weakening of the rupee helped the exporters to bag export orders from its traditional markets of United States and Europe. In year 2015-16, Yarn and Textile products were among the principal export items that were traded overseas from Punjab and fetched revenues worth USD 2.02 bn (Consolidated for Yarn, Textiles, Hosiery and Garments). Since 2015, the textile industrialists have been raising concern before the government to put a ban on exporting raw material, i.e, raw cotton, as this

hampers the price of the raw material in the domestic market and further makes Indian garments manufacturers uncompetitive to sell their products in international markets due to increase in input costs. The cotton exporters find it more lucrative to sell the raw cotton in global market than in the domestic because the international price is US\$ 99.85 per pound in comparison to US\$ 87 in domestic market. These pricings also fetch fair value for the cotton growers.

Further to boost trade, investments and exports in this sector, the state government established Textile Park on 100 acres land worth investment of Rs 600 crores in Trident Complex, Barnala under the name of Lotus Integrated Texpark. The establishment can fetch the investments worth Rs 850 Cr under PPP model between state government and Trident Group under centrally sponsored textiles policy. Apparel Training and Design center will also be established to train 1000 young designers including 25% women. Ten companies have given their nod for SITP (Scheme for Integrated Textile Park) to invest in the park, and seven out of ten have already been approved for investing Rs 850 cr. The textile park has also got an added advantage for its close proximity to Malwa Belt that is known for cotton production. The state government is also planning to start three new Textile Parks after witnessing the success of Lotus Park. Also production of raw cotton is one of the sectors where Government of India has authorized the production using Genetically Modified Technology through which the productivity can be improved by hybridization.

The industry has further seen robust growth against ongoing crisis in Sri Lanka, Bangladesh and Indonesia that is putting up intense competition for the Indian industry as a result of global meltdown effect over capacity plants running in China that increased their operational cost during downturn.

The sole challenge that the textile manufacturers are facing is about the industrial effluents that are so toxic, not only for human beings habited in nearby areas, but also for contaminating the natural ground water. The government should make policies to support the small scale textile manufactures to set up common effluent plant to re-treat the water and should focus on efficient disposal mechanism for waste management.

3) Sports Goods Exports:

As regards sports industry in Punjab, Jalandhar is the city of Punjab known for producing and exporting sports products worldwide. In year 2015-16, the total exports of sports goods from Punjab were US\$ 346 mn. Jalandhar sports industry had its foundation in Sialkot, Pakistan and, after partition in 1947, the Hindu Craftsmen in Sialkot shifted to Jalandhar, and established the Industry. Sports industry is a highly labour intensive sector that gives employment to weaker section of the society. The state is responsible for manufacturing hundreds of sports goods consisting Inflatable Balls, Hockey Sticks and Balls, Cricket Bats and Balls, Footballs, and Carom, etc. There are about 1200 sports goods manufacturers in Jalandhar, majority of them being SMEs, catering to 55% of the Export market from India, and the rest is captured by Meerut and other cities. It provides direct employment to 10,000 workers and indirect employment to 40,000 workers. The industry is highly impressive for global outsourcers like Adidas, Reebok, Nike, Puma and other big sports brands of the world. Year 2015-16 was a 'Year of Gloom' for Jalandhar sports industry as the companies were facing three different types of crisis. First being the global slowdown in the market for which Adidas postponed its purchase and discontinued its orders with manufacturers in Jalandhar. Second major setback was Euro Zone Crisis,

and Europe is one of the prominent markets for sports goods manufacturers in Jalandhar. Third biggest problem that the industry is faced regarding government policy. This related to 2.3% Excise duty on General Sports Industry and 12% Excise duty on Leather Products that is one of the major inputs for the industry.

4) Bicycle Industry in Ludhiana

Another industry having strong manufacturing base in Ludhiana is Bicycle and its spare parts industry. The city is home to 4000 (approx.) Micro, Small and Medium Enterprises manufacturing complete bicycles and spare parts. The industry is directly and indirectly giving employment to 2.50 lakh people and having capacity to produce 40,000 – 50,000 units of bicycles everyday. The industry faces intense competition from low cost Chinese goods as the customers in this segment are highly price conscious irrespective of the quality of products. So, the export-driven sector has become highly import driven. In 2015-16, total imports of cycle spare parts were US\$ 486 mn and complete bicycle of US\$ 34 mn. Around 200 units shut down their operations because of their incapability to compete with cheap Chinese markets. Even domestic manufacturers are import low prized Chinese products, instead of assembling in their units and, afterwards, either re-export or sell it at expensive prices in domestic market. So, Rs. 6000 Cr Ludhiana industry is shattering. Even the manufacturers have put forward their suggestions to the government to increase the import duty on bicycles and cycle parts so that increasing tariffs hinder importers to import cheap Chinese products, and will help revive the domestic cycle industry. Currently, the import duty on Cycle parts is 20% and on complete cycle is 30%. The setback further exaggerated with the imposition of 2% Central excise duty. So, this further weakened the grooming industry of Punjab and, in Budget 2015, the manufacturers proposed to the government for Zero percent excise duty.

5) Automotive and Auto Component Exports

As Bicycle industry is suffering from crisis because of some government policies and external factors followed by compressing margins, the companies in Punjab are shifting their businesses to Auto Parts and Components as the margins are high and its flourishing export market. Some of the major players in Light Commercial Vehicles, Auto Parts and components are International Tractors, Punjab Tractors, GNA Group, Swaraj Engines, Vinod and Company and Pabla Bearings. The manufacturers consist of OEM Producers and also cater to replacement markets. The state is also strong in tractor production caters to 15% of total tractor production in the country. Sonalika, Swaraj and Punjab Tractors are leading tractor manufacturers. Sonalika is one of the aggressive company in this field it has already doubled its capacity of its Hoshiarpur plant from 20,000 units per annum, and is targeting towards 70 international markets, and is having its assembly lines in Nigeria, Cameroon, Algeria, Brazil, Germany and Argentina. The company aims to sell 1,00,000 tractors per annum. The industry is showing robust growth in the state.

6) Service Exports from Punjab

Besides Manufacturing, services exports from Punjab is also flourishing day-by-day Comprising IT knowledge trade and Tourism followed by Banking industry. As witnessed in above, tertiary sector contributed app 43% in GSDP in FY 2015-16 and increasing at rapid pace.

7) Software Exports:

Though software and IT industry was an industry rooted in Southern states of the country, Punjab has also taken up in this industry and is proliferating aggressively. During financial year 2015-16, the software export from Punjab was worth Rs. 1,942 crore followed by Rs. 2,140 crore in FY 2016-17, and, the industry had already achieved Rs. 2000 crore mark. Also the industry is employing 30,000 professionals in the state. The added advantage for this sector was the establishment of Software Technology Park of India in Mohali.

8) Tourism:

Cross- boundary movement of people in Punjab is for numerous reasons like Business visits of overseas customers in Punjab followed by Leisure tours to places like Chandigarh and Amritsar, and NRI visits. We have the following database of No. of Tourists who visited Punjab since 2013 upto 2016.

Table 1: No. of Tourists in Punjab

No. of Tourists in Punjab	
Year	No. of Tourists (in mn)
2013	5.50
2014	10.70
2015	16.56
2016	19.12

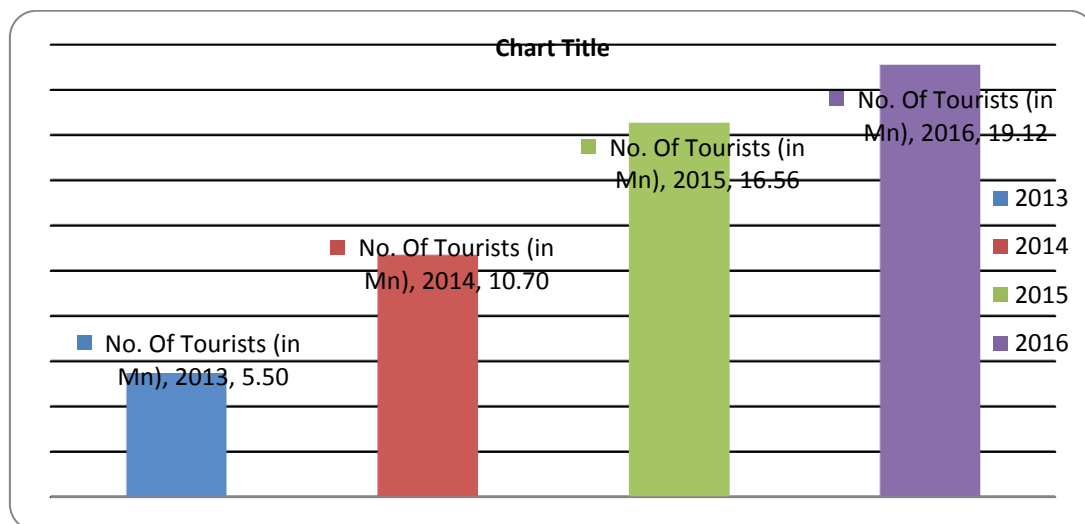


Figure 3: Number of Tourists in Punjab

Source: <http://www.punjabtourism.gov.in/statisticssurveys.aspx>

The above table shows consistency in increase in tourism over a period of four years. The government is providing many incentives to promote tourism in the state under its Tourism Policy such as Tax Incentives, Single Window Clearance systems and provision of loans for tourism oriented projects.

Conclusion

So it is quite evident that Punjab has witnessed a balanced set of Industrial Growth. If one industry is showing futuristic growth prospects, another industry is suffering from crisis. The main causes of crisis are external uncontrollable environmental factors, like change in industrial trends, exchange rate fluctuations, poor monsoons for agri-based products, etc, and another set of crisis is because of policy paralysis in the government. Manufacturing is not the only industry growing, but also in Banking, Tourism IT and ITeS . The, government should aggressively promote the Progressive Punjab Investment plans so as to boost the investments from the state, country and overseas.

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