

EconWorld2016@Barcelona

Extensive and Intensive Margins of India's Manufactured Exports: Comparison with China

Veeramani C.¹, Lakshmi A.¹, Prachi Gupta¹¹Indira Gandhi Institute of Development Research (IGIDR), India

ABSTRACT

Should export promotion policies target growth along the extensive margin (new export relationships) or along the intensive margin (increase in exports of existing relationships)? To help answer this question, we undertake a comparative study of manufactured exports from India and China during 2000-2012 by analysing the role of extensive and intensive margins in export market penetration. We find that along the extensive margin, the gap between the two countries is getting narrower, as India is clearly catching up with China. However, along the intensive margin, China surpasses India significantly. Further, we analyse the factors responsible for the differential export performance between India and China using a gravity model of trade. Our regression results show that China's high export growth along the intensive margin is entirely due to its export-orientation with developed country markets and not because of its exchange rate policy. Our analysis suggests that India can reap rich dividends by adopting policies aimed at accelerating export growth along its intensive margin. Also, there exists great potential for India to expand and intensify its export relationships with developed countries by focusing on labour-intensive products.

KEYWORDS Manufactured exports; extensive margin; intensive margin; India; China

JEL F10, F14, F15