

## RESEARCH BRIEF No. 147

## Charting the Course for Telangana's Export Growth: Strategies and Policy Recommendations

Telangana, the only landlocked state in southern India, has distinct advantages across agriculture, industry, and services sectors. The state is among the fastest growing states in the country, with its GSDP (at constant prices) estimated to have registered stronger y-o-y increase than India's GDP during 2021-22 and 2022-23.

Despite the strong growth, favourable policy environment and robust transport infrastructure in the state, its share in India's merchandise exports stood at only 2.5% in 2022-23. Moreover, the share of merchandise exports in Telangana's GSDP (at current prices) also stood at only about 6.9% in 2022-23, much below the share of merchandise exports in India's GDP of 13.3% in 2022-23, indicating substantial scope for further enhancing exports from the state.

### Merchandise Exports from Telangana

Telangana ranked 9<sup>th</sup> among Indian states/UTs in terms of merchandise exports in 2022-23. Merchandise exports from the state have grown steadily over the recent years, registering a robust Compound Annual Growth Rate (CAGR) of 12.3% during 2018-19 to 2022-23 to reach US\$ 11.4 billion in 2022-23. Merchandise exports from Telangana have remained remarkably resilient to external shocks, including the Covid-19 pandemic. In 2019-20 and 2020-21, while India witnessed two consecutive years of decline in merchandise exports, Telangana's merchandise exports registered y-o-y growth rates of 2.7% and 18.3%, respectively. Telangana's merchandise exports continued to increase during 2021-22 and 2022-23, registering y-o-y increases of 26.3% and 3.8%, respectively. The trend has continued in FY 2023-24 as well. During April-December 2023-24, Telangana's merchandise exports were estimated at US\$ 9.4 billion, witnessing a y-o-y increase of 12.1%.

Drug formulations, biologicals is the topmost exported product category from Telangana, accounting for a share of 35.2% in Telangana's merchandise exports during 2022-23, followed by residual chemical and allied products (share of 10.2% in Telangana's merchandise exports), bulk drugs, drug intermediates (6.5%), organic chemicals (5.7%), spices (3.6%) and electric machinery and equipment (3.4%), among others.

Telangana is the largest exporter of 'fertilisers crude' and 'fruits/vegetable seeds' in India, accounting for shares of 22.9% and 22.1%, respectively, in India's overall exports of these products during 2022-23. Telangana is also a key exporter of 'drug formulations, biologicals' and 'bulk drugs, drug intermediates' in the country, with shares of 20.7% and 15.7%, respectively, in India's total exports of these products during 2022-23.

The USA is the largest destination for exports from Telangana, accounting for a share of nearly 30.0% in the merchandise exports from the state during 2022-23, followed by China (share of 5.8%), the UAE (4.9%), Belgium (3.0%), and the UK (2.5%), among others.

Nearly 33.1% of the merchandise exports from the state in 2022-23 was through the Hyderabad Airport. It is noteworthy that a substantial share of Telangana's merchandise exports is routed through ports in neighbouring states like Andhra Pradesh, Tamil Nadu, and Maharashtra. In fact, ports in Andhra Pradesh jointly accounted for about 13% of Telangana's merchandise exports in 2022-23.

In terms of exports at the district-level, Medchal Malkajgiri was the largest exporting district of Telangana, accounting for 25.8% of merchandise exports from the state during 2022-23. This was

followed by Sangareddy (share of 21.9% in Telangana's merchandise exports), Hyderabad (18.8%), Rangareddy (17.6%), Medak (2.9%), and Nalgonda (2.5%), among others.

## Services Exports from Telangana

Based on Exim Bank estimates, Telangana accounted for at least 10% of the services exports from India, which is much higher than the state's contribution to the merchandise exports from the country. The state has established itself as a leader in the IT and ITeS sector. The state's IT/ITeS exports reached a staggering ₹ 2,41,275 crores during 2022-23 from ₹ 1,83,579 in 2021-22, registering double-digit y-o-y growth of 31.4%. Tourism is another major category of services export from the state, with foreign exchange earnings from foreign tourist visits in Telangana estimated to have reached US\$ 135.4 million during 2022. Tourism and IT sector jointly generated more than US\$ 30 billion in export revenues for the state during 2022-23<sup>1</sup>.

## Identification of Key Products and Markets for Merchandise Exports

During 2022, Telangana exported 2,838 products at HS 6-digit level. To identify the focus products with maximum potential for exports growth, the Study undertakes a granular analysis of the products where the state has comparative advantage and matches it with the global import demand for these products. Based on the analysis, two sets of products have been identified for Telangana. The first set of products, termed 'Product Champions', include those where the state has comparative advantage and global import demand is increasing. These products could be targeted for achieving export growth in the short to medium term. The second set of products, termed 'Underachievers' include those where the state does not have a comparative advantage, but the global import demand has been robust. Capacity building in these second set of products would enable export growth in the medium to long term.

A total of 156 products at HS-6 digit level have been classified as Product Champions. Nearly 48 products identified as Product Champions are in the category of 'Organic Chemicals'. However, in terms of value, the maximum value of exports from Telangana under Product Champions is in the category of 'Pharmaceutical Products'.

Underachievers category for Telangana includes 20 products at HS 6-digit level. There already exists some supply base for exports of these products in the state. In the medium to long term, the state could target these segments for strengthening production capacities and enhancing market share in exports of these products.

## Export Target

The Indian economy has been on a positive growth trajectory, with a distinct possibility of reaching US\$ 5 trillion in GDP by 2026, owing to the numerous policy initiatives to propel economic growth and contain the effects of external shocks. It is further expected that merchandise and services exports will reach a level of US\$ 1 trillion each by 2030.

According to Exim Bank research, the state has an untapped merchandise export potential of nearly US\$ 7.7 billion<sup>2</sup>. Tapping this potential can take Telangana's merchandise exports to US\$ 19.1 billion. Through an appropriate medium to long term export strategy, there is potential for propelling the state on an even higher export growth trajectory. Going forward, considering the target for India's overall exports by 2030, Telangana should aim to achieve at least US\$ 108 billion in overall exports (merchandise and services combined) by 2030.

## Strategies for Exports Promotion

In order to achieve a higher level of exports, there is a need for Telangana to adopt a robust export strategy, built upon six essential dimensions of diversification of products and markets, infrastructure leverage and strengthening, capacity building, fiscal incentives, devising an export promotion campaign, and institutional streamlining.

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<sup>1</sup> As per Exim Bank calculation based on average annual Rupee to Dollar conversion rate of 2022

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<sup>2</sup> Based on estimates of India's untapped export potential from ITC Export Potential Map

### ***Diversification to Focus Products and Markets***

Analysis by Exim Bank indicates that while merchandise exports from the state witnessed an upsurge during the recent period, it remains concentrated in a few products. Analysis of Telangana's merchandise exports indicates that the top 10 export items and top 10 destinations accounted for shares of nearly 72.1% and 56.4%, respectively, in the total merchandise exports from Telangana during 2022-23. There is a need for exporters from Telangana to diversify towards higher value-added segments and lesser explored geographies.

Exim Bank's analysis suggests that Telangana has comparative advantage in exports of products in sectors such as pharmaceuticals; organic chemicals; electrical machinery and equipment; coffee, tea, mate and spice; gems and jewellery; machinery and mechanical appliances; and cereals etc. In the short to medium term, Telangana can focus on leveraging the opportunities arising in these segments, as these are low hanging fruits for the state.

In the medium to long term, the state needs to encourage development of capacities in the segments where the state lacks comparative advantage, but there exists strong global demand. This includes several high value-added products such as other food preparations; immunological products; plates and sheets of polyethylene; articles of plastics; new pneumatic tyres for cars; gaskets and washers; parts of turbo jets; parts of gas turbines; parts of air conditioning machines; static converters; and medical devices, etc. These products could be targeted to impart resilience to the state's exports in the face of declining global demand and price fluctuations.

Besides, analysis also highlights that in several of the identified product categories, the top global importers do not feature among the top export destinations for Telangana. There remains substantial scope for exporters from the state to diversify towards key global markets including several developed economies such as Germany, Japan, France, Singapore, Italy, the Netherlands, Italy etc. There is need for a market entry strategy for enhancing the reach of products from Telangana in these top markets.

### ***Infrastructure Leverage and Strengthening***

The state needs to upgrade the existing export infrastructure, including transportation, storage infrastructure as well as infrastructure for the services sector. In the area of transportation, there is a need for setting up of air cargo facilities (ACF) and inland container depots (ICDs) in the state. Currently, the state has only 1 ACF and 2 ICDs, which is substantially below several other southern states and landlocked states of comparable economic size.

Besides, the state needs to substantially increase the warehousing and cold storage capacities, given that there are considerable exports from sectors such as agriculture and pharmaceuticals from the state. Comparison of the warehousing capacity of Telangana with other states indicates that Telangana has the lowest warehousing capacity among southern states and landlocked states taken under consideration for the analysis. Likewise, the state's cold storage capacity is the second lowest among the states analysed.

The state can utilise the support under the Central Government's Trade Infrastructure for Export Scheme (TIES) for developing and strengthening the ICDs, CFSSs, warehousing and cold storage facilities, and other essential export infrastructure in the state.

### ***Capacity Building***

Telangana has a total of 16 Geographical Indications (GIs), of which 2 GIs belong to the agriculture sector, 1 GI is for a food stuff, and the rest 13 GIs belong to the handicraft sector. Telangana needs to develop a branding strategy for these products with GI status to ensure that all products marketed under the GI brand adhere to minimum specific standards. Initiatives are also needed for identifying more products from the state which can be accorded GI status. This could include culinary delicacies that are unique to the state such as 'Sarva Pindi', 'Sakinalu', 'Golichina Mamsam', as well as beverages like 'Pachi Pulusu', etc. GI tags could enhance the popularity of these food items and thereby boost exports of these products from the state. Obtaining GIs for these prepared food stuffs would also be helpful in promoting culinary tourism in the state.

Further, the state could consider providing support in the form of refund of expenses incurred by exporters in the state for obtaining statutory certifications/ accreditation for promoting exports, such as the WHO-Good Manufacturing Practices (GMP) certification for augmenting pharmaceutical exports, and the Conformite Europeene (CE), China Compulsory Certificate (CCC), GMP certification, etc. for promoting exports from high technology sectors in the state.

### **Fiscal Incentives**

Fiscal incentives in the form of refunds/ reimbursements and concessions could be a major step for mitigating the cost burden and enhancing the price competitiveness of exporters in Telangana. The state government could consider extending freight subsidy for subsidising the freight component in exports of key products from the state, with special focus on districts that are far from the port. Moreover, in order to assist manufacturers, particularly MSMEs, to acquire and evolve cutting-edge technologies, catalyse growth and compete in global market, technology acquisition support could also be extended by the Government of Telangana.


### **Export Promotion Campaign**

Telangana needs to relentlessly push its export promotion campaign. Export promotion efforts of the state government should focus on industrial clusters in the state. In this context, a mechanism for assessment of the existing clusters could be developed. Upon assessment of the clusters, relevant capacity building activities can be undertaken by the state government. Additionally, a brand equity fund could also be set up by the state government for building globally competitive brands for products originating from the state. Besides, a state-level market development assistance scheme could be put in place for further encouraging participation of exporters from the state in trade delegations/ buyer-seller meets/ fairs/ exhibitions abroad.

### **Institutional Streamlining**

To streamline the activities pertaining to export promotion in the state, a single platform would be essential for exporters and stakeholders in the state. The overall institutional ecosystem in Telangana needs to be framed in a manner that facilitates the various schemes proposed for exports, allows regular monitoring of the proposed targets, and thereby propels the state to a higher export trajectory. In this context, the state could set up a Telangana Export Promotion Council under the Department of Industries, Government of Telangana, with the objective of providing a robust institutional mechanism for export promotion.

### **Conclusion**

Telangana has the potential to achieve an exports target of US\$ 108 billion by 2030. The six-pronged strategy outlined in the study shall help enhance trade competitiveness, enhance value addition in the production cycles, create awareness about exports, promote innovation, increase visibility of Telangana's exports, and create an institutional mechanism for nudging exports to a higher growth trajectory. 

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The contents of the publication are based on information available with India Exim Bank. Due care has been taken to ensure that the information provided in the publication is correct. However, India Exim Bank accepts no responsibility for the authenticity, accuracy or completeness of such information.

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