

## CHAPTER - II

INDIA'S EXPORT TRADE : A BRIEF SURVEYA Survey of Studies on India's Export Trade :

In view of the problems of economic development of developing countries in general and India in particular, there has been growing amount of interest among academic community over a span of last two decades and a half to probe in to an analysis of various aspects of India's export trade.

Gupte's<sup>1</sup> work throws light on the problem of foreign exchange constraint on Indian economic growth, the role of exports in India's economic development and the nature of export performance of India viewed from short run and the long run.

With reference to the problem of foreign exchange constraint on Indian economic growth being suggestive of the fact that the three methods of relieving foreign exchange constraint viz. cushioning method, conserving method and augmenting method which have been practised so far in India are problematic in nature in terms of its consequences on India's economic

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1. Gupte D.B., 'Exports in a Developing Economy: A Case Study of India' (unpublished) Ph.D. Thesis, Baroda, The M.S. University of Baroda (1973), Chapter VI, pp.225-267.

development. Therefore, the only way to relieve the problem of foreign exhcnage constraint is to accelerate the export earnings, which is conducive to self sustained economic growth.

Further, it is pointed out that though Indian exports suffered from fluctuations, there is no evidence of its adverse effects on India's economic development. On the country, they had positive impact on India's economic development. They have played the role of quasi-capital goods sector through enabling India to import much needed developmental goods.

As regards the export performance of India, the study being indicative of export pessimism revealed that the growth of Indian exports have been very sluggish during the period of first two pains on account of gross neglect of export promotion measures. During 1951-58 India's exports grew at an annual average rate of 0.028% ranked India 33rd among the 40 developing countries. Further, during the period of 1960-68, while the world exports grew at an annual average reate of 7.9% and the exports of the developed and developing countries grew at an annual average rate of 8.5% and 4.7% respectively Indian export growth rate has been 2.2% ranking India 43rd among 53 developing countries. This state of poor export performance in India was due to neglect of export promotion measures coupled with

deficiency of demand and supply and domestic inflationary pressures in the economy brought down the competitive strength of Indian exports and growing competition in the world market.

Moreover, devaluation of Indian Rupee could improve India's trade balance during the period of 1966-67 to 1970-71 to the extent of 90.5% in terms of U.S. dollars and 66% in terms of Indian rupee. But this improvement in trade balance was largely due to decreases in imports rather than increases in exports. This state of unhealthy growth of Indian exports was due to fact that the devaluation of rupee failed to bring down the prices of Indian exports to a competitive level.

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J.A. Rosario examined the structure of India's export trade during the period of 1951-52 to 1965-66. As per his findings, the world trade during this period recorded a consistently high and relatively stable rate of growth. Whereas India's share in the world trade declined from 1.54% to 0.95%. Thus, India's share in the world trade suffered a severe set back. Further, India's exports reflected no consistent and upward trend, they moved up in spurts during 1959-60, 1962-63 and 1964-65. During the period of upswing a limited number of primary products made a distinguishing contribution to export

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2. Rosario J.A. : "The Structure of India's Export Trade", Foreign Trade Review, Vol.III, No.1 (April-June, 1968) pp.66-84.

trade. Against these, the rate of industrial growth and commodity pattern of industrial output did not alter the structure of India's exports.

As regards, the salient features of the structure of India's export trade, this study revealed that the exports of primary products registered a remarkable rate of increase in comparison to manufactured goods. The increased earnings on account of increase in exports of primary products contributed a little in the beginning but added substantially latter on.

Further, the exports of manufactured goods increased at a much lower rate than that of primary products. The manufactured goods exports continued to be dominated by textile materials. India participated in those commodities in which world trade experienced a lowest rate of growth. Further, there has been change in the pattern of jute and textile exports which reflected a fall in the exports of sacking, rise in the exports of carpet basking and speciality goods. The commodities like rayon, synthetic fabrics, woollen goods and ready made textile products were added. While the commodities like metals - iron and steel and crude products did make a noticeable contribution. Whereas engineering and chemical goods as a group failed to make a significant impact on the structure of Indian exports in spite of large subsidies offered by the Government of India.

In terms of concluding remarks, the study revealed that the export trade in primary product group, there has been more diversification which helped in stabilizing export receipts to a higher degree than at the beginning of the period. Further, the traditional products and new added primary products have been the major expansionary force in our export trade during this period.

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Deepak Nayyar<sup>3</sup> in his study brought out the fictitious optimism that prevailed among the advocates of export-led growth as a strategy for development by examining the export performance of India during the period of 1970-71 to 1974-75 with due recognition of the implications of recent developments in terms of recent booms in prices of primary products, the sharp increase in prices of crude oil and a marked acceleration in the rate of inflation in India as these developments have an important bearings on India's export performance. In view of these recent developments, the claims made by the advocates of export-led growth have little substance. Further, India's export performance has been exemined in terms of overall export trends, changes in commodity composition and market distribution of exports and also

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3. Nayyar Deepak : "India's Export Performance in the 1970s", Economic & Political Weekly, (May 15, 1976), pp.731-743.

principal export goods industries. Moreover, the study analysed the factors underlying the growth in export earnings and also examined the impact of oil crisis, commodities boom and the rapid inflation on the export sector.

The findings of this study are suggestive of the fact that the remarkable expansion in the rupee value of Indian exports since 1970 is rather deceptive on account of global inflation and the steady depreciation in the exchange value. Hence, the growth of exports in real terms was considerably less. Moreover, the export expansion on account of new trade with Bangladesh and the commodities boom cannot be considered as the basis of export growth. In the wider context, the export growth looks even less impressive because the oil crisis and the sharp increases in the prices of India's major imports led to a marked deterioration in the terms of trade and a dramatic reduction in purchasing power of exports. As a matter of fact, India's ability to mobilise the external resources needed to finance development through export earnings declined significantly after 1973. As such, India's exports remain very much a problem of production. Therefore, it would be unrealistic to expect exports to grow at faster rate than real national income.

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S.J. Patels<sup>4</sup> having examined the long-term trends in Indian exports for the period of 1928 to 1956 in terms of volume, composition and direction, projected a gloomy picture of the prospects of increasing traditional exports in future. The state of gloomy picture on export front as pointed out by him is attributable to the falling world demand for India's traditional exports as the main factor accountable for the relative stagnation of Indian exports, indicating the fact that the export promotion measures adopted by the Government are ineffective.

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Whereas Benjamin Cohen in his article commented on S.J. Patel's analysis of Indian exports. He argued that the stagnation of Indian exports has been due to the higher domestic production cost and rising domestic demand leading to a higher relative price of Indian exports in the world markets than to the falling world demand for India's traditional exports. Further, he pointed out that it is the reduced competitive strength of India's exports primarily due to price factor which has led to the falling share of Indian traditional export items in the world

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4. Patel S.J. : "Export Prospects and Economic Growth : India", The Economic Journal, Journal, Vol., LXIX, (September, 1959), pp.490-506.

5 Cohen B.: "The stagnation of Indian Exports, 1951-1961", Quarterly Journal of Economics Vol.78 (November, 1964) pp.604-620.

- "A Comment on S.J. Patel's Analysis of Indian Exports", Indian Economic Journal, (September, 1963)

- The Stagnation of Indian Exports, (unpublished), Ph.D. Thesis, Harvard University, (June, 1963)

market. Moreover, the Government of India's export policy according to Cohen, reflected a conflict with domestic economic policies which contributed to the relative ineffectiveness of the measures adopted for promotion of exports. This state of affairs on export front calls for the formulation of an integrated strategy for export promotion in consonance with the doctrine of comparative advantage to be followed by the Government, if the objective of export promotion is to be effectively accomplished in future.

As regards, the competitiveness of exports, Samuel Paul and V.L. Mote<sup>6</sup> pointed out that the competitiveness of exports depends on non-price factors (such as, quality and service) and price factors. But it is the latter which is significantly a dominant factor in determining the competitiveness of exports. They presented a theoretical model for analyzing export competitiveness at micro level in terms of the factors which explain the net domestic-price/export-price differential. They carried out their empirical analysis of competitiveness of selected export products using Indian data and arrived at a tentative conclusion that in the short run, the pressure of domestic demand is a significant factor which limit the competitiveness of Indian exports.

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6. Samuel Paul and V.L. Mote : "Competitiveness of Exports : A Micro-Level Approach", The Economic Journal, Vol.80, (December, 1970), pp.895-909.

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Charan Wadhva in his paper provides an analysis of the changing pattern of India's export performance during the period of 1951 to 1974 and examines the export performance with special reference to the contribution made by government policies towards promotion of exports.

Further, in veiw of the emerging opportunities for the new non-traditional export products and project exports in the world market, the study emphasizes the need for formulating and impelementing a new long-term strategy for India's exports, contingent upon an integrated planning at national level and export unit level with due recognition of linkages between export sector and the domestic economy. Moreover, it is also suggested that, since the present policy of export incentives doesnot provide greater incentives to industries with higher net foreign exchange earnings and vice-versa, the structure of export incentives is required to be modified by selecting the items in accordance with the criterion of "net" foreign exchange earnings.

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Vijay Kelker and O.P Sharma examined India's export performance for the period of 1961 to 1974 in terms of macro-

7. Wadhwa Charan : "India's Export Performance and Policy: 1951-74 and Planning for the Future up to 1981", Some Problems of India's Economic Policy, Tata McGraw-Hill Publishing Co. Ltd., New delhi, (2nd Edition, Fourth Reprint, 1984), pp.620-653.

8. Kelker Vijay Land Sharma O.P.: "Trends and Determinants of India's Export Performance: 1961-1974", Foreign Trade Review, Vol.XI, No.3, (October-December, 1976), pp.283-311.

economic framework, pattern of growth of India's exports, identification of the determinants of the supply of exportables and the pattern of direction of India's export trade.

With reference to an analysis of India's export performance in terms of macro-economic framework, the study is indicative of the precipitous decline in share of India's exports in the total world exports i.e. the share of India's exports in world exports which remained greater than 1% upto 1965, thereafter it remained less than 1%. Over a period of time it declined from 1.2% in 1961 to 0.50% in 1974. This decline in share as this study emphasizes has to be explained in terms of demand and supply factors. On the demand side, there has been decline in demand for India's exports of traditional products. Even among the underdeveloped countries India's export performance was not proportionate in volume and value terms due to a sharp rise in the unit value of exports of the underdeveloped countries in 1973 on account of the price hike of petroleum products which benefitted only the oil producing countries.

On the supply side, decline in India's share in world exports can be accounted for by reduction in the growth of supply of exportables and or reduction in India's export price competitiveness. At an aggregative level, India's supply capacity can be reflected by the ratio of exports to NNP. Given the foreign demand conditions, this ratio gets affected by

domestic demand pressure on account of increase in population, increase in per capita income etc., and the level of domestic production. The domestic demand pressure has negative whereas the level of domestic production has positive impact on this ratio. India's export ability has not increased because of the exogeneous factors like drought during 1965-66 to 1966-67 and recession in 1969-70 to 1970-71 which depressed this ratio. Thereafter, this ratio reflected a rising trend implying thereby increasing ability of the country to generate exportable surplus. But this tendency has been counteracted by rapid growth in domestic demand for exportables leading to increase in domestic consumption resulted in to diversion of exportables to domestic market and reduction in exportable surplus. This is reflected by relative disparity in growth of domestic prices and export prices indicative of relative profitability of the two markets to the sellers. The inflationary tendencies in the country increased the profitability of selling in the home market vis-a-vis world market indicated the reduced competitiveness of India's exports in the world market.

As regards, the pattern of growth of India's exports, the study revealed that the share of three principal items viz. tea, jute manufactures and cotton textiles declined in India's total exports, whereas the share of cashew, tobacco, coffee, iron ore, leather goods and oilcakes increased. Further, the share of

new manufactured items iron and steel increased but declined in 1974-75. Machinery and transport equipment group registered an increase. The share of sugar export in total exports increased during 1971-72 to 1974-75. Along with, other items, readymade garments, handlooms & other products showed an increase in their shares.

Among non-manufactures, marine products appeared to be fast expanding export earners. Fish and fish preparations continued to increase in its share upto 1971-72 but declined in 1974-75 due to supply constraints. Chemical, rubber and rubber products have much potential for export growth.

On the supply side of exports, domestic consumption, production and export price competitiveness are the three strong determinents of supply of exports. For tea, jute hessian, jute sacking, raw cotton and coffee, there was a reduction in export/production ratio, whereas this ratio fluctuated very sharply for sugar and cotton yarn.

Further, there was a negative trend in export/output ratio for tea, spices, raw cotton, coal and coke, except tobacco, coffee, jute manufactures and yarn, no items showed positive trend.

Increase in domestic consumption was an another constraint on supply of exports. Increase in population in India led to increase in production intake and thus reduced exportable surplus. In connection with this, consumption elasticities were higher for footwear, coffee, rubber tyres & tubes, bicycles, electric fans, iron ore, cotton yarn and finished steel. Thus in many cases, production as well as consumption operated as effective constraints on the supply of exportables.

India's capacity to export was weakened by increase in domestic demand. The profitability of exporting was relatively reduced by rising prices of exportables in the domestic market. Except tea, domestic price level severely affected the unit export price of coffee, cotton piecegoods, cotton yarn and jute manufactures, whereas in case of some important exports goods viz. tea and cotton fabrics, raw sugar, raw cotton, coffee, pepper and tobacco, India faced a stiff competition in the world market.

None the less, the another important aspect of India's export performance was analysed in terms of change in the direction of exports. As regards, the direction of India's export trade there was a rapid growth in its exports to the socialist countries. Their share in India's total exports increased from 7.5% in 1960-61 to 20.62% in 1974-75. Among the

socialist countries, the share of USSR in India's exports increased from 4.4% in 1960-61 to 12.60% in 1974-75. Thus the USSR emerged as the biggest importer of India's export goods.

Whereas the share of exports to U.K., India's most important trading partner in the fifties declined consistently from 26.13% in 1960-61 to 18.17% in 1965-66 and to 9.9% in 1974-75. The U.S.A.'s share of India's total exports increased from 15.52% in 1960-61 to 18.35% in 1965, but declined steeply to 11.35% in 1974-75. Japan emerged as a dynamic market for India's exports, its share increased from 5.35% in 1960-61 to 15.28% in 1973-74 but declined to 8.93% in 1974-75. In terms of directionwise exports, oil producing countries like Iran, Iraq, Saudi Arabia, Dubai and Kuwait emerged as an important export market for India. Whereas in terms of regionwise exports, Asia, Oceania and within this ESCAP accounted for largest share of India's exports, followed by ECM, the East European bloc, North America and Africa.