Chapter I

INTRODUCTION
1. Export and Economic Growth:

The literature on trade and development that discusses the process through which export growth influences economic growth has advanced distinct viewpoints on the relationship of export sector with economic growth as (1) leading sector, (2) lagging sector, and (3) balancing sector. The proponents of the leading-sector model who are closer to the neoclassical school of thought, feel that a rise in export induces new demand for various inputs including industries with significant economies of scale, stimulates technical changes and growth in factor supplies and productivity, and encourages investment by ensuring strong balance of payments. The combination of both "demand-motored" and "supply-motored" effects of export induces economic growth. Since the stimulus to growth comes from abroad, the development strategy implicit in the model suggests an outward-looking trade policy.

In contrast, the structuralists believe that economic development depends on internal forces, whereas, international trade operating under "unequal exchange" is detrimental to poor countries. To them economic growth led by export raises dependence. It is held that "further the exports rise, higher the dependence mounts. More resources become tied to export requirements and less are left to meet the needs of the domestic market so that, there is less room for manoeuvre in organising an economic structure adopted to these needs". This viewpoint implicitly prescribes an inward-looking development and trade strategy.

In between these two extreme positions lies the eclectic view of export as a balancing sector, the central theme of which is "to produce what can be sold and to buy what can be bought". In the balancing sector model the surplus of production over consumption is exported to finance the import. Export as a balancing sector is not to lead economic growth but only to provide close support. This type of trade model implies an import-linked export promotion policy.

Evidently there are different views in the literature about the relationship of export with economic growth. Yet


it can be asserted without attracting any controversy that it is the export performance that in effect determines a country's import capacity. If the rising import that generally accompanies the acceleration phase of the growth process is not matched by increased exports, the growth process is likely to be constrained by balance of payments bottleneck, unless the country opts to increase its dependence on foreign aid. It stands to reason that even an inward-looking development strategy for achieving the goal of self-reliance has to concern itself with the export performance. The empirical analysis of the export performance of a country thus becomes an important step in understanding the development process.

2. Purpose of the Study:

The purpose of this study is to make an analysis of India's export performance concentrating on a set of selected commodities and to identify the factors influencing the observed performance. This type of analysis, it is hoped, will not only sharpen our understanding of the mechanism by which export influences economic growth, but also it will help in exploring policy directions for improving the export performance in the Indian context.

India, as a developing country, set out a planning process in 1950 for achieving economic growth with self-reliance. In the Indian context, self-reliance did not imply
autarchy, but it was intended to be a pragmatic approach in which both import-substitution and export promotion were to play a complementary role. The initial thrust especially during the Second and Third Five Year Plans was on pursuing an inward orientation strategy of giving priority to the development of basic and heavy industries and progressive substitution of imports by domestic production through regulation of trade. It was but soon found that import-substitution programmes not only entailed high domestic resource costs1 but also increased the dependency of the country on the capitalist world.2 Over time, the stress on import-substitution was reduced, and the emphasis began to be placed on exports. Indeed, there was no explicit recognition of an export-led growth strategy; yet some important shifts in industrial policies and programmes and stress on export promotion measures did reflect a bias in the Indian policy frame, whereby export expansion came to be regarded as a critical factor in India's economic development.

In the above context it would be interesting to provide an overview of Indian performance on its export front and to identify main factors that could explain the


observed performance. There have been various studies dealing with India's export performance; most of these have underlined a poor overall performance record. As an explanation some scholars have highlighted the demand constraints while others the supply bottleneck. The analysis so far has been largely at an aggregate level. We feel, the influence of each of these factors differs significantly for different products at different periods. We also feel that the influence of one explanatory factor may either the influence of the other or may get combined with others. Further, we feel that any meaningful analysis of export performance should be carried out at the level of disaggregated products. This study is an attempt to identify the relative significance of both demand and supply factors in explaining India's export performance in selected commodities.

3. **Specific Objectives:**

More specifically, the objectives of the study are:

1. To provide an overview of India's export performance by tracing growth rate of its aggregate export during the period 1951-1976 and structural changes in commodity composition and directions of exports;

2. To seek an explanation of the observed export performance in terms of domestic demand pressure hypothesis, by attempting empirical testing of the relationship between domestic demand and export performance of selected commodities;

3. To examine the compatibility of India's exports with resource structure;

4. To analyse the competitiveness of selected traditional and non-traditional commodities of Indian exports in the world market;

5. To investigate into the price responsiveness of developing countries in general and that of India in particular as compared to developed countries and

6. To explore policy directions for the promotion of India's exports in the light of the findings of the analysis.

4. **Data and Methodology:**

The study is based on the statistical analysis of the relevant data collated from secondary sources, such as *Monthly Statistics of Foreign Trade of India*, *Annual Survey of Industries*, *Statistical Abstracts*, *Economic Survey*, *International Financial Statistics*, *Monthly Bulletin of*
As for the methodology, each of the aspects of the problem has been treated with different but appropriate statistical methods. For example, in the analysis of domestic demand and its relation with export performance, resource structure and export performance and the price responsiveness, various forms of regression models have been used whereas, the examination of overall competitiveness of export has been done with the help of constant market-share model. Generally, working hypotheses have been developed in relation to the problems under discussion and their empirical validity in the Indian context have been examined by statistical tests. In short, the study being empirical in nature analyses relevant data by using simple statistical tools of standard varieties.

This study as distinct from the earlier ones on the subject is based on analysis at disaggregated product levels. It is based on product breakdown up to seven digit classification of Revised Indian Trade (RITC). At some places, however, Standard International Trade Classification (SITC) has been used and that too at times by changing the digit levels for the sake of analytical convenience in the context of data limitations. The above description of data and methodology, though sketchy, is given with a view to indicate at the very outset certain obvious limitations of the study.
5. Plan of the Study:

This chapter I has outlined the framework of the study. An overview of India's export performance is given in Chapter-II. It traces the rate of growth of India's aggregate export during 1951-76 and examines the structural changes in terms of composition and direction of Indian export. The export growth is also examined in relation to the import requirements. The thrust of the analysis is on a discussion as the extent to which Indian export policy has kept pace with her requirements of imports and whether or not enlarged her share in the growing world market.

Chapter-III deals with domestic demand operating in the Indian economy as an explanatory variable of the observed export performance. Alternative interpretations of the demand-pressure hypothesis, as developed by Ball and Linder, are reformulated and subjected to empirical verification in relation to 25 commodities selected from the top three growing non-traditional export commodity groups viz., (a) chemicals, (b) machinery and transport equipment and (c) miscellaneous manufactured goods. It also provides estimates of the domestic demand of these commodities. The analysis establishes certain clear relationships between export performance and domestic demand in respect

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of durable and non-durable goods.

Chapter IV deals with the relationship between resource-structure and export performance. To what extent the export performance of traditional and non-traditional commodities are compatible with India's resource structure? Is the trade strategy based on the specialization as reflected in comparative cost differences? These are the main questions discussed in the chapter.

Chapter V examines the competitiveness of India's exports in the world market. The analysis, which covers traditional as well as non-traditional commodities, is carried out within the framework of constant market share model. It discusses some important factors, both domestic and external, that determine the export competitiveness. The findings prove helpful drawing certain inferences on the rationality of the government's export incentives and promotion policies.

In as much as price is an important element in the total competitiveness there is a detailed discussion on the price responsiveness in Chapter VI. To what extent developing countries in general and India in particular have been able to compete with the developed countries in
terms of price responsiveness? This is the question posed in the chapter. It provides an inter-country analysis of price responsiveness and trade-structure.

The concluding Chapter-VII sums up the findings of previous chapters and draws some inferences about the behaviour of important factors influencing the export performance. It also explores some policy directions for improving India's export performance in consonance with the wider goal of development with self-reliance.