Chapter VII

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We may now recapitulate the major findings of the study and draw some general conclusions about the factors that seemed to explain the observed performance on India's export front. We do so with the hope that it will not only sharpen our understanding of the relationship between export and economic growth, but also help in exploring policy directions for improving the export performance in the Indian context.

India set out a planning process in 1950 for achieving accelerated economic growth with self-reliance. The initial thrust especially during the second and the third Five Year Plans was on pursuing an inward-oriented strategy of giving priority to the development of heavy and basic industries and progressive substitution of imports by domestic production through the regulation of trade. Over time the stress on import-substitution was reduced and gradually the role of exports was emphasised. There was indeed no explicit recognition of an export-led growth strategy as such, yet some important shifts in industrial policies and programmes and stress on export promotion measures reflected a bias in the Indian policy-
frame whereby export expansion came into reckoning as a critical factor in economic growth.

The overview of India's export performance taken by tracing the growth rates of aggregate exports during the period 1951-1976 and structural changes in commodity composition and direction reflected the changing stress on the role of exports in India's development strategy. India's export performance measured in terms of indices of quantum and unit prices showed stagnancy until 1960. Since 1961 the performance showed signs of improvement, and especially after 1966 significant quantitative achievements were recorded. We also observed that as the economy expanded and diversified its production structure, the revealed comparative advantage of the exports also tended to shift towards manufactured items. The process of export expansion was thus accompanied by structural changes in the commodity composition and also in market diversification. The major shift in the commodity composition was highlighted by the increasing share of non-traditional manufactured items such as, Machinery and transport equipment, Chemicals and Miscellaneous manufactured articles at 1 digit RITC classification. The market diversification took place through a decline in the share of traditional developed-country markets and addition of new markets of the developing world. Despite these promising trends, traditional
items and traditional markets occupied the major share in India's exports and hence, their trade policies continued to exert the major influence on the export performance.

The export performance though in terms of the rates of growth and structural changes showed promise, the achievements did not, however, adequately meet the increasing import requirements. The growth of imports was much higher than that of exports with the result, the balance of trade remained unfavourable and over time showed widening gaps. The import propensity of domestic production and consumption outstripped the marginal growth in exports. It was also observed that India's export expansion was unable to capture the increasing world trade. Given the fact that the world markets were buoyant, especially in manufactured products, India's inability either to increase or at least to sustain its share in the world market underlined the poor record of export performance.

It appeared obvious that an export-led growth strategy would be non-viable in the Indian context. But even the inward looking strategy for achieving the goal of self-reliance would have to concern itself with the export performance. The improvement in India's export performance seemingly enhanced by export promotion measure and other policy stimuli indeed raised her import capacity but not adequately to meet the increasing import requirements as
envisaged in the plans. In that sense, even the import-linked export promotion strategy derived from an eclectic view of the role of export as a balancing sector in economic growth, did not meet its objective.

In the above background, we attempted empirical tests of some received theories concerning the factors that influence export performance. First we considered two alternative interpretations of the pressure of domestic demand hypothesis (viz., Ball's hypothesis and Linder's hypothesis) as an explanation of India's export performance at disaggregated level of 25 non-traditional commodities during the period 1960-61 to 1976-77 by adopting a two-staged procedure. In the first stage, we attempted to quantify the factors influencing the domestic demand for durable and non-durable commodities by estimating domestic demand functions and in the second stage, the impact of domestic demand on exports was examined by relating the "true" values of endogeneous domestic demand with the export performance. The analysis by and large confirmed the inverse relationship between the export performance and domestic demand pressure as postulated by Ball et.al. The conclusion emerging from the analysis was that the domestic demand pressure acted as a limiting factor on India's export expansion.

We then examined the compatibility of export performance with India's resource structure by identifying India's
revealed comparative advantage in both traditional and non-traditional commodities vis-a-vis the rest of the world. Overall, India's comparative advantage was found still lying in the traditional commodity groups; however some non-traditional items were also seen to have potential for export in terms of revealed comparative advantage. The share of non-traditional manufactured goods, which revealed comparative advantage, showed an increasing trend in the total trade. We noted that the revealed comparative advantage is determined by a country's (a) resource endowment structure and (b) policy stimuli introduced by the trade regime. The observed revealed comparative advantage for India's traditional commodities therefore underlined her relative advantage in terms of labour costs; but the increasing comparative advantage of some dynamic non-traditional manufactured goods indicated the positive role of the trade regime. Yet, the study underlined that there was the lack of revealed comparative advantage in some important non-traditional commodity groups such as, Machinery other than electric, Electrical machinery apparatus and appliances and Transport equipments (engineering goods). Despite India's active policy of promoting the export of new manufacturers, the study thus suggested that a selective rather than a general policy support would be more rewarding in improving the comparative advantage of manufactured goods.
Earlier studies dealing with India's export performance while indicating the poor export performance had sought to explain the phenomenon either in terms of external demand constraints or by internal supply bottlenecks. The present study showed that the poor export performance should be explained in terms of the joint effect of external as well as internal factors. Towards seeking an explanation of India's export performance, we measured India's competitiveness in the Constant Market Share (CMS) framework which consisted of decomposing the difference between the hypothetical and potential increase into (a) commodity composition effect (b) market distribution effect and the residual (c) competitiveness effect. We took the view that the commodity composition effect and market distribution effect were two interrelated aspects of external factors, particularly the foreign demand, influencing the export performance and hence beyond the scope of unilateral action by the exporting country. On the other hand, competitiveness effect reflected the efficacy of internal factors, particularly the domestic economic policies, influencing price and non-price elements in the export performance and hence were under the control of exporting country. On the whole, the analysis explained India's export performance in order of magnitude to unfavourable market distribution effects and the lack of competitiveness especially of its traditional export items.
The analysis underlined that within the traditional sector, manufactured goods showed relatively better export performance but the performance was truly impressive in the non-traditional items. The major bottleneck in manufacturing export, however, appeared to be the unfavourable market distribution pattern. The negative signs of the market distribution effect in the CMS framework indicated that India had been concentrating its exports in stagnant or slow growing markets. The potential for India's export expansion would therefore lie in the manufactured goods, rather than crude material exports, but this would require making inroads into the fast growing markets. It was significant to note that as between developed and developing countries the market distribution effect was less favourable in the former.

The negative sign of the market distribution in the CMS framework also suggested that external demand factors must have depressed India's overall export growth. The influence of external factors was reflected in the commodity composition effect as well. Overall, the commodity composition effect showed positive signs, suggesting thereby a general tendency for India to diversify its commodity basket in favour of those commodities for which world demand had been increasing. At a disaggregated commodity level, however, the analysis showed a mixed pattern. Negative signs appeared in some product groups, but in important ones. Thus, negative signs in
manufactured goods in the traditional sector and in some of the major groups in the non-traditional sector should be taken as a disquieting feature. It appeared that despite favourable competitiveness of manufactured goods in the world market, the external demand factors depressed their rate of growth of India's export in manufactured goods.

The overall competitiveness effect was reflected by the positive sign of the residual in the CMS analysis. The competitive power of India's export was substantial in non-traditional sector. This reflected upon the efficacy of internal factors and more significantly provided some justification to India's export promotion policy. The competitiveness was more favourable in developing country markets than in the developed country markets though the latter group still remained the major market for India's exports. In perspective, there seems to be a great potential for improving India's export in developing countries, especially in manufactured items which may call for further diversification of commodity composition. In fine, although India's export increased remarkably on account of the favourable effect of the internal factors, the rate of growth was relatively slow due to unfavourable external demand.
In view of the observed importance of external demand factors, we also examined the India's export performance in the perspective of the world demand conditions. The study thus, discovered that India's export was extremely inelastic with respect to price and moderately inelastic with respect to income of the importers. The study also revealed that exports of the majority of developing countries were price inelastic but income elastic. Thus, the study underlined the general validity of the demand stagnation hypothesis.

The findings of the study are not without policy relevance. To the extent the pressure of internal demand is seen as a constraint, two types of policy suggestions are worth consideration. First, exports can be augmented by cutting down the domestic demand and second, export can be induced by expanding the production as much as it could be able to meet simultaneously the home demand and export orders. The reduction in home demand is infeasible as it is likely to impair the social welfare. The second type of suggestion seems to be more viable. Hence, efforts have to be made to enhance the level of output by removing the major production constraints.

It is felt that the present cost of raw materials of some of the Indian industries is very high. The domestic prices of raw materials in some cases (exclusive
of duties) are more than double the import prices (CIF prices) of the similar inputs. It is also held that the "high wage pockets are exerting a pull on the overall wage level, inspite of very low opportunity cost of labour". These are, of course, matters that would need detailed investigation at a disaggregated level.

It is also widely known that lower level of output is reinforced by the low rate of the capacity utilization. We have noted above that the pressure of home demand serves as an important constraint on exports. It is thus advisable to provide production incentive to local manufacturers in terms of subsidies, cash assistance and loan benefits. However, in doing so, care needs to be taken so that the policy incentives are used for increasing the production rather than trading the subsidies or incentives. Policy initiatives at the home need to be linked up with the export needs. An integration of trade policy and production planning with a specific market


2/ In 1965 (worked out on two shift basis) the rate of capacity utilisation is found to be lowest in case of drugs and pharmaceuticals (25.9 percent) followed by office and household equipments (39.8 percent), radio receivers (39.8 percent), electrical fans (47.6 percent) and transport equipment (43.8 percent). Paul Samuel, "Growth Utilization of Industrial Capacity", Economic and Political Weekly, Vol. IX, No. 49, Dec. 7, 1974, p.2028.
orientation is called for. Policy support should therefore be selective and discriminatory rather than general. The case of selective policy incentive is also further stressed by the findings of our study.

The consideration on demand side deserve attention. Here our exports face tariff and non-tariff barriers, particularly in the developed countries. These protectionist measures have adversely affected India's export performance as shown by our analysis. In developing country markets too, though there is great potential for increasing export, there is price war among the rivals which deter India's export expansion. Given these conditions, may be there is a need for an understanding between the developing countries of which India is an integral part. Such an understanding may even mean cartelization depending upon the commodities. Such cartels may be for individual commodities and in each case a subset among the set of developing countries would belong to a particular commodity cartel. These sub-sets of countries of course, would vary from commodity to commodity. It should be realised that these countries do not have price inelastic commodities like oil, but even then cartelization can enhance their bargaining power vis-a-vis the developed countries and avoid wasteful competition within the group of developing countries.
In fine, to improve India's export performance appropriate action is needed to provide selective policy incentives to manufacturers in order to increase the output levels. Attention however, needs to be paid towards restructuring the export incentives schemes on a selective basis and to enhance their proper utilization for efficient export. Second, there is the need to integrate trade policy, production planning, in order to have efficient exports based on comparative advantage. And third, exploration for cooperation with other developing countries in the form of cartelization in resource based products is also needed. These are some of the indicative policy directions emerging from the study for improving India's export performance consistent with its planned objective of economic growth with self-reliance.