Chapter V

SUMMARY AND CONCLUSIONS
Chapter V

SUMMARY AND CONCLUSIONS

The present study perhaps for the first time attempted to make a comprehensive analysis of the trends in, and characteristics of India's exports to the United States. Econometric models of demand and supply functions were constructed and tested with empirical data in order to analyze the factors both on supply of and the demand for, India's exports to the United States. The study also identified structural characteristics of Indian exports to the United States and analyzed economic characteristics such as growth, demand elasticity and elasticity of substitution in respect of important commodities. The main findings of the analysis may now be summarised and in that light some policy conclusions are drawn for increasing India's exports to the United States.

Looking at the total picture, the value of India's exports to the United States indeed was growing. On an average 13 per cent of India's total export reached the United States in recent years. India fulfilled 65 per cent of the United States' demand for jute carpet backing, 33 per cent of the demand for cashews and 25 per cent of the demand for raw shrimps and prawns. India remained as one of the major suppliers of commodities such as handtools, pipes and fixtures to the United States. The United States was the
largest buyer of Indian handicrafts. The total picture thus presented an impressive outlook. However, it was disappointing to find that the India's share in total import of the United States was declining since 1951, while some developing countries like South Korea, Taiwan and Hong Kong improved their share in the growing United States' market. In seventies the United States' imports from India on an average remained only 0.6 per cent of the total United States' imports. The current market share at such a low level was indicative of the considerable scope that existed for expansion of Indian exports to the United States.

In the above context, it was felt important to identify factors affecting the supply of and the demand for India's exports to the United States. An econometric model of market clearing type was, therefore, constructed and tested with the data for 20 years. In the demand equation, six variables were considered but only two appeared statistically significant viz. (1) India's exports to the United States with one-year lag and (2) United States' total import. One could, therefore, draw the inference that inventories of Indian export did not accumulate in United States and that the effect of increased United States' total imports on India's market share in it would be positive. In the supply equation, the two highly statistically significant variables among
the six considered were (1) Indian Government's consumption and (2) India's population. By inference, a higher level of Indian exports to the United States could be sustained by the growth of India's exportable output for which, India's growth rate in terms of real national income should increase. Between the supply and demand models the latter was found to have better predictive values.

Although there were many variables affecting the demand for United States imports from India, the United States' real disposable income was found to be the major factor. The estimate of income elasticity of United States' imports function from India was around 1.96, indicating that the demand for Indian export remained income-elastic for the United States' market. The supply of Indian exports to United States was also found to be income-elastic. The analysis also showed that the income effect was much stronger than the price-effect.

Since the quantity demanded is a function of price, the study examined in detail, various aspects (such as relative price ratio and price elasticity) of the influence of prices on Indian exports to the United States. If the United States' domestic prices increases faster than India's export prices, then the quantity demanded by the United States would tend to increase.
If India's export price increases faster than its domestic price, then the quantity supplied for exports should increase. The results of the present study pointed out that India's exports prices and the value of India's export to United States, during 1948-71 were positively related. An increase of India's export price brought a larger supply from India to the United States in market. India's supply of exports to the United States increased as the relative price ratio between Indian export price and India's wholesale price increased during 1952-71. It was also observed that as India's export price increased as compared to world export-price, India's export to the United State decreased. If Indian export prices remained competitive, then India could increase its total exports to the United States, since, during economic expansion of the United States, the demand for Indian export would increase. As a policy prescription, it can be said that if Indian price is not competitive with the prices of competing countries, the Government of India should provide adequate subsidy for these particular goods to make them competitive. But the subsidization policy will have to be selective, based on the behaviour of elasticity.

The market clearing equation estimated in the study helped to throw some light on the price elasticity of the supply and the demand for Indian exports. The study also estimated the elasticities of important commodities in the
Indian export basket to the United States. It was found that India faced inelastic demand in the United States market for commodities such as hardwood, lumber, manufactured mica, shellac, and light fixtures. The commodities that have elastic demand included dresses and tapestries. Where there were supply bottlenecks and India faced inelastic demand, India could have increased revenue by increasing prices. Commodities with elastic demand could be sold in larger quantities by decreasing prices. In terms of policy measure, it could be suggested that the government should study the elasticity behaviour of the commodities and determine the appropriate fiscal policies such as export subsidies, that would influence the export-price behaviour. In the case of commodities with elastic demand, the research can help determining the extent of elasticity and in influencing a policy of maximizing revenue pricing.

The study also showed a positive relationship between the exchange rate and the dollar value of imports to the United States where this was examined in a simple linear regression model. This would mean that the exchange rate has a direct effect on the price of United States imports from India. Rupee devaluation, therefore, means lower prices for the United States imports from India. If the demand were highly elastic, there would be a positive relationship between the exchange rate and the
dollar value of imports into the United States from India. In the multiple regression model, however, as the number of independent variables increased, the elasticity of devaluation also decreased. The compound effect of many independent variables might have made the demand of India's export to the United States less and less price elastic.

The relationship between the exchange rate and exports may be elaborated in more detail. Usually, it is assumed that the devaluation will increase exports considerably. However, in the Indian case, it was observed that the devaluation of rupee in 1966 did not result in substantial increase in India's exports to the United States. This may be because devaluation was coincided with agricultural droughts that had resulted in upward movement of domestic prices. Besides, the devaluation could not have a favourable effect on the Indian exports to the United States because of production problems. The results of the present study suggests that the Government should carefully review its present policy of exchange-rate determination in the light of its effects on Indian exports to the United States.

The structural analysis of India's export to the United States, in terms of the Gini coefficient of concentration and other measures of commodity concentration, revealed a trend of diversification towards the increasing importance of manufactured goods. The share of the
primary products in exports to the United States decreased, although the exports of cashew nuts, tea, coffee, jute manufactures, cotton textiles, which were based on agricultural production, still accounted for a sizeable foreign exchange earnings from the United States. New products are entering the United States' market from India. Non-traditional exports are rising. On the whole, the importance of traditional exports is decreasing. The study showed that in the long run exports of semi-manufactured and manufactured goods could result in increased foreign exchange earnings for India from the United States. In this context, it may be pointed out that the ten products with top rate of growth during 1948-62 were all manufactured goods.

India is rich in coal and iron resources. With India's increasing industrialization, technological skills, and human resources, India should be able to develop American demand for Indian engineering goods. Labour intensity and richness in resources could help to insure a good rate of return on the marketing efforts in the area of engineering goods.

In general, developing countries have heavily relied on low-technology products in their manufactures, e.g. textiles. This type of products face considerable competition in the world market. Specifically, India is in such predicament, and it also has to compete with
the United States' textile products especially synthetic items in the United States. Besides, United States' imports of these items may have labor displaying effects on United States' industries, which creates opposition of the labor and trade Unions of the United States.1

Nevertheless, India could successfully compete with United States' producers in such manufactures as cotton textiles, shoes where it has relative advantage by using labor intensive methods of production.

The study of competitiveness of the market, in terms of the number of suppliers, could identify commodities that had a total of six or less suppliers to the United States in 1975, and where India enjoyed the position of being the largest supplier. It is suggested that India should concentrate on the economies of scale and externalities in these products and try to sustain the position of the largest supplier. This is an area where further research has to be done to identify India's market potential in the United States.

The present study also identified 64 products that had positive growth rates, in terms of quantity and value and exchange earnings they brought during

---

1 Between 1965 and 1974, the United States lost 2,70,000 jobs because of exports from Japan, Korea, Hong Kong, Taiwan and India. Roughly 90 United States' Mills were closed between 1974-76.
The focus of India's effort could be made on these top products that bring a relatively large amount of foreign exchange. To elaborate this point, leather and dresses had a rate of change that was expanding at an increasing rate. They were among the twenty top products in terms of bringing in revenue. India was the largest supplier of dresses during 1973, 1974, 1975 and 1976. Both these products overtook the competitors considerably since 1965. Leather brought 22 million dollars in foreign exchange in 1976. Further research should be done on these products to identify the efforts that should be made to sustain growth and market position. These type of commodities should be researched upon, from the point of view of economies of scale, and natural possible growth without subsidy.

India's economic factors are complementary e.g., cheaper labor in India compared to the United States. Increased population tends to keep the wage level lower in India than in the countries having lower population. Increased population, consumption, and industrialization create more demand for agricultural production. As income in India increases, from a low base, a high portion of the marginal rupee earned is used for food. As India's population increases, India's exports to the United States increase, since India's relatively skilled and cheaper labor can compete with the other exporters to the United States.
India should concentrate on the relatively skilled labor-intensive export products for future growth. India should concentrate on the manufactured products that are labor-intensive, where India faces monopolistic competition, the products that bring a large amount of foreign exchange, and have an increasing growth rate in terms of quantity and value.

To gear favourable pricing, the supply could be controlled by setting export quotas country by country or by establishing buffer stocks. The buffer stock mechanism could work well with the commodities such as sugar, coffee, and tea. The degrees of perishability cause some problems. Financing is another problem. Storage facilities and capacities are critical aspects. When all the demand factors of the products are favourable and the revenue is not high or there is room for extending the market, the marketing policy plays an important role. Introducing the products in the fashions and advertisements and providing follow-up service after the products have been sold could increase India's exports to the United States.

In the next decade, what presently are the high growth exports in Taiwan and Hong Kong could be the next high growth exports from India to the United States. Part of the problem for India to compete with Taiwan and Hong Kong is the situation in the domestic market. India is at a
lower income level and a large portion of the population lives on the subsistence level. The unemployment level is high and hiring of skilled labor is difficult; industrial workers are unionized or paid relatively higher wages; and substantial benefits are provided, which distort the picture of the relationship between labor cost and theoretical supply of workers. Productivity is low. Production quantity is of lower standard compared to the world standards or the United States' standards. It is difficult to meet the standards of precision, maintenance of equipment, and appearance of product because India's manufacturers produce goods are aimed at the domestic market.

India should take advantage of internationalization of production, by which parts from the United States are shipped to India for assembling and then reexported to the United States. Another method is to join with American retail chains; e.g., Sears, Roebuck and Company and get large scale orders. Another method to promote exports is to form long term contracts between the United States' and Indian firms. The recent Indian shoe export deal with the United States is an example.

The State owned Tannery and Footwear Corporation (TAFCO) will export leather footwear during the next five years which will cost Rs.2.5 crores to Consolidated International Trading Corporation of the United States. In order to meet the contract, TAFCO will have to manufacture 1,500 shoes per day. This contract might be extended after five years.
The United States can send samples of design and quality control specification. Care should be taken about the marketing channels, changing fashion requirements, etc. This arrangement assures a fixed volume and decreases uncertainty. Likewise, channels of multinational companies should be looked into. The wider stakeholders of multinationals could provide many advantages. They have established trade channels, financing, planning marketing channels, research facilities, administrative skills, and engineering talents. Multinationals could increase Indian exports of manufactured products.

Increased Indo-US ventures facilitate the growth of the infrastructure to create economies of scale. The United States' business investment and joint Indo-US collaborations should be encouraged within the proper framework.3/

Good relations between India and the United States facilitate India's growth not only through acquisition of critical supplies of goods and know-how, but also through encouragement of United States' import policy favorable to India's direct exports to the United States.


The United States' investment in India has grown during the last 30 years. In 1948, it was $112 million, compared to $5,097 million in 1973. The United States is the second largest investor country in India after the United Kingdom. The Government of India approved 915 Indo-US joint ventures between 1960 and 1976.
India’s policy geared to the promotion of exports to the United States is important since export could help economic growth of India. Coordinating economic and political policies with this goal could be beneficial.

Increased trade communication through the organized efforts of the Indo-US joint Commission solves many problems involving India's exports by getting proper perspective on both sides.

For export, the Indo-US economic and Commercial Sub-Commissions, and the Indo-US Joint Business Council have been fostering Indo-US trade. Among the growth of many trade institutions, the role of Indo-American Chambers of Commerce needs special mention. IACC provides useful services to Indian and American enterprizers promoting trade, creating contract points, arranging seminars, disseminating information and coordinating countrywise trade activities. IACC has 750 members who represent American, India, and Indo-American trading companies. The Government of India consends fostering the growth of this type of institution.

Another important aspect that needs consideration in the context for increasing India's exports to the United States is the new designation, Generalized System of Preferences, which India received from the United States on January 1, 1976. Under this system, 2700 "India, USA May Join to Set Up Export-Oriented Projects", The Times of India, January 2, 1978, p.VI.
commodities could enter the American market without paying any duty. India should try to expand this list of duty-free items. At present this scheme covers only 3% of India's exports to the United States. If the Indian commodity exported to the United States exceeds $25 million or 50% of United States' total import during a calendar year then that commodity does not enjoy preferential treatment. Thus, India should continue to gear the export promotional policy to a deliberate and conscious attempt to promote exports.

The present study showed that basic ingredients needed for export expansion of India's part are competitive pricing, timely delivery, maintenance of product quality, and efficient marketing. Further research should come forth by economic experts in India in the pertinent fields. Periodically, fresh looks should be made to update the data and analyze since the world situation is changing rapidly. In conclusion, the future for increasing India's exports to the United States is indeed promising. The American market has immense potential for Indian exports.