Chapter 1

INTRODUCTION

1.1 The Problem

Exports of manufactured goods from developing countries to the developed countries have received considerable attention in the post-war years. This is partly due to the growing realisation that exports of primary products which have occupied traditionally a predominant position in the exports of the former to the latter offer limited prospects. It has been observed that in the markets of the developed countries the import elasticity is considerably lower for primary products than for manufactured goods and that this trend is likely to continue in future. Therefore, a substantial increase in developing countries' export receipts, which is necessary for their sustained economic development, would be possible only when these countries try to diversify their exports through the introduction of more and more manufactures.

Developing countries have been exporting mainly primary products to the developed countries. But it is in these markets precisely, as mentioned earlier, that the import elasticities have tended to be considerably lower for primary products than for manufacturers. High
levels of per capita income and consumption in the developed countries have transformed the whole structure of their demand for primary products. It has lagged considerably behind the rise in incomes and consumption of manufactured goods and of the products of service industries. Increasing output of agricultural products and their heavy protection in the developed countries have also added to the problem. Further, technological discoveries in the developed countries have greatly increased the production of synthetic substitutes for several agricultural raw materials. Added to this has been the problem of a shift towards less raw material-intensive products in manufacturing in them.

The slow rise in domestic production of developing countries coupled with an expansion in domestic demand has also affected their exports. With the initiation of the process of industrialisation in most of these countries, an increasing part of the industrial raw materials have begun to be utilised domestically. Similarly, rapid population growth with some rise in incomes has increased domestic demand for foodstuffs. And since the domestic production has not always kept pace with domestic requirements, these factors have depressed the available supplies for exports.

The volume of exports from developing countries, therefore, has been expanding only slowly, the prices of these exports have been deteriorating in relation to those of manufactured goods, and the share of the developing countries in total world exports has been declining.¹ In 1950,

¹ For details see chapter 2, section 2.3.
the share of developing countries in world exports was 31.0 percent; in 1960 it was 21.3 percent and by 1970 it had fallen to just 17.6 percent. The decline is more rapid if major oil exporting countries are left out of account: from 25.3 percent in 1950 to 12.7 percent in 1970.

Hence, it is widely felt that in order to meet their requirements for foreign exchange, the developing countries should increasingly look towards their exports of manufactures. The logic of this viewpoint is very simple. Exports of primary products mostly foodstuffs and raw materials can be expected to grow only slowly because of the factors listed above. Oil exports will grow rapidly but they are only likely to make a substantial contribution to the export earnings of a very limited number of developing countries. Manufactured goods, therefore, present for most of the developing countries the only opportunity for substantially increasing their export earnings, and these goods are considered to be largely free of the limitations of primary products. There are other considerations for favouring a rapid growth of exports of manufactures from developing countries also. For example, it will help in the establishment of large scale modern industries, as the international markets added to the domestic market will allow large scale operations. The necessity of remaining competitive in international markets will exert pressure on the export industries to keep cost low and to improve the quality of the products. This will inhibit the growth of an inefficient industry.

Thus expansion of exports of manufactures by developing countries
shall provide them not only additional export earnings but also additional stimulus to industrial growth. It should, however, be noted that the expansion of exports of manufactured goods by the developing countries is not favoured at the cost of their exports of primary products. As a matter of fact, few developing countries can afford to do so in view of their dependence on exports of primary products. What is meant and advocated is a gradual reduction in their dependence on primary exports.

It was primarily for these reasons that the developing countries demanded a system of preferential treatment to their exports of manufactures and semi-manufactures to the developed countries at the United Nations Conference on Trade and Development (UNCTAD), held at Geneva in 1964. The demand was reiterated at UNCTAD II held at New Delhi in 1968. Since then a considerable progress has been made in this direction and most of the developed countries have introduced the Generalised System of Preferences (GSP) for their imports of manufactures and semi-manufactures from developing countries. Under this system all the developed countries excepting the USA and Canada grant a non-reciprocal and non-discriminatory duty free or reduced duty treatment to most of the manufactured and semi-manufactured exports of these countries.

The introduction of this system is expected to improve the competitive position of the developing countries. Exports of manufactures and semi-manufactures will be largely free of handicaps of tariff barriers in the markets of the developed countries. But the removal or reduction of the tariff barriers by itself is not a sufficient condition
for an expansion of exports of manufactures from developing countries to the developed countries. There are problems related to production and marketing of these goods to highly competitive and sophisticated markets. If these problems remain unsolved, even a substantial tariff concession under the GSP shall not bring the desired results. As a matter of fact, it has been found that in the case of items where quality, performance etc. count, even substantial tariff concessions under GSP have not much influenced the exports of manufactures and semi-manufactures from developing countries to the developed countries. Similarly the image of a developing country as supplier of manufactured goods at competitive prices, its image to maintain the supply line over a period of time and to deliver the goods at short notice etc. greatly influence the import demand for manufactured goods in the developed countries.

1.2 Objective and scope of the study

Our objective in this study is primarily to examine the influence of these sets of factors on exports of manufactured goods from a developing country like India to the developed countries of the West. More precisely we suggest and test the hypothesis that the rather unsatisfactory performance of India in the field of manufactured exports to the developed


3 By the term "developed countries of the West" we mean not only West Europe but also North America and Japan. In other words it refers to the Economic Class I countries of the United Nations Statistics. See also footnote 11 to Chapter 2.
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countries can be largely attributed to a number of internal constraints on their production, marketing and finance.

India is one of those countries that have not fared well in the international markets and whose share in world exports has been steadily going down. This has been attributed both to the slow rise in world demand for Indian exports of traditional goods like tea, jute and textiles and to the domestic shortage of commodities coupled with faulty export policy of the Government. Accordingly considerable attention has been given, in recent years, in India to the diversification of exports through introduction of goods, mainly manufactured items, for which world demand is high and has been growing steadily. Some progress has been registered in this direction and some non-traditional commodities have increased their contribution to her export receipts at the same time that the contribution of traditional commodities has gone down. Among the former, the performance of engineering goods and chemicals has been especially significant. However, bulk of the increase in India's exports of these goods in the past has been mainly due to their increasing to exports to the developing countries and the centrally planned economies. Exports to the developed countries have increased only in a small way.

A study that seeks to isolate, identify and analyse the factors working as impediments to this desired flow of trade may, therefore, be considered significant from the point of developing countries in general and for India in particular. To the extent that India's experience in this respect is any guide, this study will also be helpful to the similarly placed countries.
The study assumes added significance due to the introduction of the GSP by the developed countries. As we have noted earlier, with the introduction of this scheme, opportunities for the expansion of export of manufactures and semi-manufactures from developing countries to the developed countries have appreciably increased. This places additional burden on the supply side which needs to be more closely analyzed to ensure better performance of these commodities in future.

1.3 Coverage and limitations of the study

The study has as its period of reference the years from 1955 to 1970. This is a period for which comparable export statistics for the developing countries are adequately available. For India, its importance lies in the fact that it was after 1955-56 that development of industries particularly heavy and basic industries assumed new dimensions and with that some attention also began to be given to the expansion of exports of engineering goods and chemicals. Export promotion councils for engineering goods and chemicals were constituted with a view to undertake intensive market research for concerned commodities in different countries, send different trade delegations and conduct trade publicity in foreign markets. 4

The study is based on published sources. The statistics relating to world exports and exports from other regions are based on the United Nations compilations published in various issues of UN Monthly Bulletin

of Statistics, Yearbook of International Trade Statistics, Statistical Yearbook and UNCTAD Handbooks of International Trade and Development Statistics. For India, we have relied mainly on official publications like Monthly Statistics of the Foreign Trade of India published by the Department of Commercial Intelligence and Statistics. The non-official sources are too numerous to be mentioned here. Due acknowledgement has been given to them at appropriate places. The data on engineering exports is based exclusively on the compilations of the Engineering Export Promotion Council.

As for the commodity classification, goods are broadly classified under three heads: "all goods", "primary products" and "manufactures". All goods correspond to the U.N. Standard International Trade Classification, Revised (SITC) Sections 0-9; primary products to SITC Section 0-4 and manufactures refer to SITC Sections 5-8. Our classification of manufactures is limited to the extent that it excludes a number of manufactured items such as processed food, vegetable oils, fats etc. falling

5 The Classification has the following commodity groups under various sections.

Sections 0-1 : Food, beverages and tobacco.
Sections 2 & 4 : Crude materials, excl. fuels; and oils and fats.
Section 3 : Mineral fuels and related materials.
Section 5 : Chemicals.
Section 7 : Machinery and transport equipment.
Sections 6 & 8 : Manufactured goods classified chiefly by materials.
Section 9 : Miscellaneous transactions and commodities n.e.s.

For details see U.N. Statistical Papers, series M, No. 34-Standard International Trade Classification, Revised.
within SITC Sections 0-4 and Section 9. Nevertheless, this classification is generally accepted and would serve the purpose on hand. It should, however, be noted that in the case of exports from India, the classification of products is based on the revised SITC since 1964-65 only. Before that it is based on the old SITC classification.

We have selected exports of engineering goods and chemicals for a detailed study in spite of the fact that the exports of these goods constitute a very small part of all exports as well as exports of manufactures from India. We have done so primarily for two reasons. Firstly, exports of these goods have emerged over the years as the most promising source of export earnings among the non-traditional goods and are potentially capable of contributing to India's export receipts to a large extent. World demand is buoyant for these goods and as industrial development progresses in India, more of these goods should be available for exports. Secondly, while there has been growing realisation of the fact that our exports of traditional manufactures like jute manufactures, cotton textiles and leather and leather manufactures etc. offer limited prospects and therefore more attention should be given to new items mostly engineering goods and chemicals, problems and prospects of exports of these items

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6 For a complete list of products to be considered as manufactures or semi-manufactures see UNCTAD document, The Definition of Primary Commodities, Semi-manufactures and Manufactures: Note by the Secretary-General of the Conference, (TD/B/C. 2/3, dated 2 July, 1965).
especially to the developed countries have not been analysed satisfactorily. Most of the earlier studies on Indian exports have as their subject matter exports of traditional manufactures only. Our analysis of exports of engineering goods and chemicals from India will fill this gap in a small way.

1.4 Plan of the study

The plan of the study is as follows:

Chapter 2 discusses the significance of exports of manufactured goods in economic development of developing countries. This is followed in Chapter 3 by an assessment of the major trends in the exports of manufactured goods from developing countries during 1955-1970 in the context of worldwide growth of exports of these goods. Exports of manufactured goods from India in the period under review are analysed in Chapter 4 which helps to identify engineering goods and chemicals as potentially promising items. The next two chapters -- 5 and 6 -- discuss in detail the performance of these items especially in the context of exports to the developed countries. Chapter 7 analyzes the problems and prospects of Indian exports of these goods to the developed countries. Finally Chapter 8 presents the main conclusions of our study.

7 The official document of the Fourth Five Year Plan puts it categorically that "The growth of our major traditional exports, and in particular tea, jute and cotton textiles is likely to be slow. The major directions of future diversification will lie in metals and metal manufactures (including machinery, equipment & engineering goods), iron ore, chemicals and allied products". Government of India, Planning Commission, New Delhi, Fourth Five Year Plan, 1969-74 (Draft), p. 40.

8 For some important studies on Indian exports see footnote 1 to Chapter 4.