Chapter - II
CHAPTER - II

REVIEW OF LITERATURE

This chapter is devoted to a brief review of existing literature on India’s exports in general and that of engineering goods in particular. The existing literature on the subject is wide and varied. We have selected major studies from amongst these, which throw light directly on issues under consideration in our study.

It is common knowledge that during the 1950s India’s export earnings were almost stagnant. This according to S. J. Patel¹ was largely due to stagnant world demand. Patel, however, was criticised particularly by Anne Krueger², B. Cohen³ and Singh.⁴ They maintained that the past behaviour of Indian exports was more than adequately explained by the policies of the Government of India and the Planning Commission. They further maintained that the stagnation of India’s exports was mainly due to higher domestic production costs and rising domestic demand which led to higher relative prices of exports in the world markets. Singh on the basis of a study of bulk of India’s traditional exports concluded that the
country’s ill-conceived planning strategies were largely responsible for her declining share in world trade of many of those products. This view was supported in some of the reports of GATT as well. “It is evident that the failure of some of the semi-industrialized countries (India is one of them) to keep their share in the world trade is due to the fact that their production of principal export commodities was not sufficient to meet domestic requirements and at the same to maintain an adequate volume of export supplies”.5

Halder6 extending the period of study till 1966 also disputed the claim that declining world trade for traditional exports was mainly responding for export failure. He believed that export stagnation was mainly due to failure to compete successfully in high competitive markets and showed that out of total loss in export share, 72 per cent was due to adverse competitive position, 19 per cent due to market distribution i.e. world demand factor and 9 per cent due to commodity composition.

Kelkar and Sharma7 established that India’s export structure underwent a radical change during the 1960s. The share of important traditional export items like tea, jute manufactures and cotton textiles sharply went down while that of new (non-traditional) items like engineering goods, chemicals and allied products, marine products went up during the period. They argued that this trend towards export
diversification be further encouraged in order to exploit demand and supply elasticities as well as to reduce India’s dependence on traditional goods facing inelastic demand and unstable prices. An important conclusion of this study was that in evolving an appropriate export strategy, attempts be made to identify items, whose production and export supplies were elastic and to which the pull of domestic demand did not serve as a constraint. Emphasis be laid on new items like engineering goods; particularly the products like transport equipment, capital goods and consumer goods industries.

Rangnekar⁸ while examining the changing structure of Indian exports in the post-devaluation period concluded that the share of agro-based exports viz., traditional declined. The causative factors, for him, appeared to be two. Firstly, with the growth of investment and incomes the domestic market started absorbing a rising proportion of output, especially of consumables such as tea and clothing. Further, these traditional items did not appear to have comparative cost advantages as they had before. Secondly, the increase in the shares of non-traditional commodities reflected a growing pace of industrialization and a positive advantage in the comparative cost of the new items.

Deepak Nayyar⁹ analysed India’s export performance during the 1970s and concluded that the remarkable expansion in the rupee value of
Indian exports during 1970-75 was deceptive. A major part of the export growth occurred due to global inflation and the steady depreciation in the exchange value of the rupee. These two important factors underlying the export expansion could not be looked upon as a sustainable basis for export growth. The export performance was even less impressive when seen in the wider context. The oil crisis and the sharp increase in the prices of India's major imports led to a marked deterioration in the terms of trade and a dramatic reduction in the purchasing power of exports. In fact, India's ability to mobilize the external resources necessary to finance development through export earnings diminished significantly. The solution appeared to be in export diversification from primary to manufactured goods.

India's export witnessed considerable buoyancy in the early post reform period. This drew a lot of attention of the researchers. They included Brahmbhatt\textsuperscript{10} et al., Marjit and Ray Chaudhary\textsuperscript{11} and Srinivassan\textsuperscript{12} among others. These researchers have highlighted the growth in world trade and sharp depreciation in the external value of the rupee as the main driving factors towards the expansion of exports.

As regards the export of engineering goods, Mark Frankena\textsuperscript{13} in a pioneering attempt to study the determinants of export of such goods from India during 1956-70 analysed the factors that hindered or helped
their export performance. The non-availability and the high prices of raw materials like steel, lack of serious export marketing efforts, etc., were identified by him as factors that inhibited export growth. The increase in exports and export to production ratio during the period, according to Frankena, was primarily due to (i) changes that occurred in the Indian economy, especially relaxation of material supply constraints on production, the industrial recession, the changes in export subsidy schemes and devaluation, and (ii) the changes that occurred in the world economy, particularly the closure of the Suez Canal in 1967, a sharp rise in the world steel price in 1969-70 and increased development expenditures and import substitution in other developing countries.

An important limitation of Frankena’s study was that it did not give any idea about export determinants at disaggregated level. Besides, the study appeared to give too much stress on supply oriented factors overlooking the demand factors.

Asherf\textsuperscript{4} study revealed that Indian engineering export experienced phenomenal growth over many years during the period 1956-2005 and made distinctive contribution to the overall export effort.

Deepak Nayyar\textsuperscript{15} attributed the marked improvement in the engineering product exports during the 1970s to the following three factors:
(i) The demand boom in West Asia, particularly in the OPEC countries.

(ii) The industrial recession at home, which slackened domestic demand and increased supplies of engineering goods available for exportation, and

(iii) The marked depreciation of the rupee vis-à-vis the currencies of major importing countries coupled with the continued subsidization programme, both of which improved competitiveness and raised the relative profitability of exports as compared to domestic sales.

Wadhwa and Sharma\textsuperscript{16} made an attempt to discuss the trends in growth, concentration and diversification of India’s export of engineering goods during 1956-71 and found that industrial recession of 1967 in the Indian economy came as the blessing in disguise by creating exportable surpluses and thus arousing export consciousness among producers of engineering products.

Bhagwati and Srinivasan\textsuperscript{17} in an attempt to explain the influence of devaluation on export performance estimated export functions for a number of traditional and non-traditional commodity groups including engineering goods for the period 1951-52 to 1969-70. The estimated
functions used domestic production, domestic demand pressure and a dummy variable to capture the effect of devaluation on export performance. They found coefficients of all the variables statistically significant and of the right sign. They established that the post-devaluation increase in exports of engineering goods was the result of both the increased incentives due to parity change, reintroduction of subsidies and easing of domestic demand pressure owing to fall in real investment. By extending the period of the study to include 1970-71 and by running the regressions for shorter periods, they established that domestic inflation weakened the effect of devaluation on export performance.

Discussing the problems and prospects of the exports of engineering goods on the basis of their performance during 1955-68, R. H. Patil\textsuperscript{18} observed that devaluation coupled with compensatory support were not solely responsible for increase in the export of engineering goods. Other factors that contributed to the growth in exports were underutilization of capacity and closure of the Suez Canal. They promoted the development of an export oriented outlook.

Satya Sundram\textsuperscript{21} in his study on auto-components observed that this industry had a modest beginning in the 1950s, catering to the needs of the makers of the Ambassador and Fiat cars. The real boost came with
the commencement of production of commercial vehicles in the 1960s and 1970s. In the 1980s, the Japanese investment in the commercial vehicles and passengers cars enhanced the scope and strength of the industry. The opportunities were further enhanced with the influx of foreign auto majors.

Most Indian auto component manufacturing companies are owned and managed by families. They concentrate on items like axles, brakes, engine parts and other ancillaries. Few are in a position to design complete modules. In order to meet the international quality requirements, many ancillary units have entered into joint ventures with foreign component majors. In 2002, there were about 225 active collaboration, of which 67 were with Japan, 40 with UK, 44 with Germany and 31 with the US. The international players are also seeking production base in India due to cost advantages.

On the export front this segment has made significant progress in recent years. Exports have grown at a rate of over 25 per cent in the last few years. The problems of the auto component companies are that they hit by steel price hikes. The industry is not free from the menace of spurious parts. In fact, counterfeit component makers are upgrading the duplication technology, both in terms of external design and packaging,
often by acquiring second-hand sophisticated production equipment from international markets.

Sundaram\textsuperscript{20} in his another study analysed the untapped potential of machines tools. According to him the Indian economy has experienced fluctuating fortunes. Yet, the Indian machine tool industry maintained a satisfactory performance. The analysis showed that the machine tools industry depends heavily on the automotive industry and also the defence sector. In 2000, the market share of the metal forming and metal cutting segments stood at 18 per cent and 82 per cent respectively. About 50 per cent machines tools are consumed in the automobile and auto-component sector. Fifteen to twenty per cent are the supplies to defence production and the railways. The balance is consumed by other engineering industries. He says that according to the experts, India has untapped potential, but the industry here suffers from inadequacy of infrastructure, entrenched bureaucracy, corruption right up to the low levels and protectionist tendencies. If India did not go ahead with required correctives, China would capture most of markets. Though Indian machine tools are of good quality, lack of strong marketing and advertising initiative has led to their negligible exports.

Arunachala and Rajasenan\textsuperscript{21} in their paper, “India’s Engineering Exports: Export potential of Machine Tools Industry” have shown that
India’s engineering industry has made significant strides in the past three decades. Today it occupies a strategic place in the India’s economy. Today it contributes over 16 per cent to the national GDP. The Machine Tool Industry which manufactures mother machines for the use in the engineering industry forms the backbone of the entire industrial engineering sector.

India’s potential as a major exporter of the most important segment of the capital goods sector-machine tools remains largely untapped as over the last decade the share of the exports in total production continues to hover around a meagre 10 per cent. The collapse of the Russian economy, the Gulf war and slump in the world trade due to recession has been responsible for slow progress on the export front.

Goldar and Agarwal\textsuperscript{22} studied the technical efficiency in the Indian engineering industry and considered it as the gateway to success via competitiveness. He argued that with the opening up of trade and liberalization of economic policies in almost all world economies, market forces will play a dominant role in determining the prices and quantities of traded goods. An inefficient firm would hardly be able to survive in the changing global economic situation. Efficiency assumes significance especially for the Indian engineering industries for the following reasons. First, engineering industry is the key to the economic development of the
country as it has high backward and forward linkages with the other sectors of the national economy. As supplier of the capital goods and related services it is the very base for growth and development. It meets the growing needs of the industrial and agricultural sectors as well as those of construction, power and mining sectors besides fulfilling the country's defence requirements. Second, the composite production index of the engineering sector has a weight of 30.5 per cent in the general index of industrial production reflecting the importance of engineering in India's industrial economy. Third, it has over time emerged as a major export sector.

Goldar examined the effect of productivity increase on India's export performance of engineering goods for the period 1960-79. The results indicated that world demand, cumulated output (as measures of learning process), exchange rate and total factor productivity were important determinants of export performance. Domestic demand pressure affected export performance adversely.

Harinarayana specified export function of engineering goods in terms of world demand (measured by the real engineering exports of the OECD countries), the price ratio of the Indian engineering exports relative to her competitors (based on unit value indices) and domestic demand pressure (measured by deviations from an exponential trend in
production) for the period 1960-61 to 1974-75. The estimated export function indicated that world demand was major determinant to India’s engineering exports. Domestic demand pressure and relative prices were not found to have significant effect on export performance. He also estimated export functions for major product classes and for different regions. The results obtained were, in general, similar to those for aggregated engineering exports.

Bhasin\(^{25}\) highlighted the importance of the engineering industry in the national economy as well as its impact on global industrial arena. According to him, the engineering industry provides the sinews of growth. Also, this sector has successfully reversed the role of India from an importer to that of an exporter. In the global industrial arena, Indian engineering industry today commands respect by rendering suitable cooperation in engineering services by way of updated technological know-how and industrial propensity. He reviewed that in addition to direct contribution of engineering exports to national economy by earning increasing foreign exchange, with more and more value addition, they also have an indirect contribution to national economy. For instance, export is necessarily a function of production. The primary objective of an export strategy would be to secure increase in exports without affecting domestic requirement. It would, therefore, mean that a
substantial portion of the increased export would be met by generating additional capacities thereby calling for fresh investment and generation of additional employment.

Thus the result of various studies concerning India’s export in general and that of engineering goods in particular reveal that various factors have affected India’s export performance in the past. We intend to present in this study a systematic analysis of trends and determinants of engineering exports over the period 1991-92 to 2007-08. We have done so primarily for two reasons. Firstly, as already mentioned in the preceding chapter, beginning with 1991, India has brought about distinct changes in its trade policy with the basic objective of creating an environment for achieving rapid increase in exports. It is, therefore, useful to examine in detail the extent to which India’s expectations from reformed trade policy have been fulfilled in the case of engineering exports in the post liberalization period. Secondly, exports in these goods have emerged over the years as most promising some of export earnings and are potentially capable of contributing to India’s export receipts to a large extent. It is, therefore, essential that more attention is paid to these items and problems and prospects of exports are analysed satisfactorily.
References:


