CHAPTER II

AIM AND METHODOLOGY
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This chapter describes the problem under study, importance, objectives and limitations of the study as well as the methodology adopted. A brief narration of the policy implications of this study has also been given. Besides, a comprehensive survey of the related current literature on the subject has been presented.

The Present Study

Foreign trade is a vital sector of a country's national economy and contributes substantially to the economic welfare of the people and the development of resources. Hence there is no second argument on the importance of exports. The magnitude of national exports to a great-extent depends upon the wholesome contribution to be made individually by the respective states in the Union of India. The role of State governments and states as such is normally neglected in the export effort. It appears the states take no interest because international trade like internation relations is a Central subject. Equally, the Commerce Ministry only
makes suggestions, but has been unable to evolve a strategy by which the states, in which production for exports takes place, can be involved on a day-to-day basis and are given an important position so that their policies also get oriented to the export promotion effort. The present research study concerns broadly itself with an examination of the potential of Andhra Pradesh as an exporter and its contribution to the national exports.

The present research endeavour is seeks to make an indepth as well as extensive study of varied types of exports from Andhra Pradesh. The present study covers the period of two decades; however, for the sake of presentation of uniform data, the data relating to the period from 1975-76 to 1988-89 has been presented. It has been expected that the trends of various aspects of exports of Andhra Pradesh and also provide the relevant basis to understand the various facets of export promotion from the State. It may be of interest to note that very few studies of similar nature have ever been undertaken.

The objectives:

The principal objectives of this study are as follows:
1. to describe the economic potential of Andhra Pradesh which form the basis for the growth of export oriented industries;

2. to probe into the trends in the growth of exports of Andhra Pradesh;

3. to examine the existing pattern of composition of exports;

4. to project the possible prospects for A.P. exports and to give suggestions for further participation of A.P. in India's foreign trade.

**Policy implications of the study**

Studies of this kind, in general, provide guidelines to the policy makers in formulating state-strategies of trade. Further, such a study indicates the importance of involving the states in the total export promotion of our country. The study while revealing the capabilities of Andhra Pradesh in the field of production of exportable commodities also brings forth several weaknesses/constraints that stand on the way to more exports.

The study assumes greater significance under the circumstances when the rising deficit in India's
foreign trade can not be allowed to continue at current levels as it is bound to fuel inflation and increase debt repayments to an unmanageable level; and the unavoidable rise in the imports of technology and sophisticated requirements in keeping with government policy of encouraging industry to modernise in order to stimulate economic growth, in general, and exports, in particular.

The strategies to be adopted by the planning experts to bring in a quantum jump in India's exports by dovetailing the efforts of State governments are suggested in this study. Hence the significance of the study.

Methodology

The data and other relevant information were collected through the following sources.

1. Unpublished data available with the Department of Commerce and Export Promotion of Government of Andhra Pradesh.

2. Various reports relating to India's foreign trade.
3. Published literature available with export promotion councils, commercial intelligence departments etc.

4. Secondary sources such as commercial journals, economic dailies, books, trade statistics and records, etc.

5. Consultations with the experts in the area at governmental and non-governmental levels.

6. The information collected from the various resources cited above pertains to the articles published in the area -- highlighting the trends in the growth of A.P. economy, growth of A.P exports, diversification and the existing policy of the government to encourage exports. The information also relates to the various problems being confronted by the A.P. export sector.

The consultations held with the various experts and officials at various institutions and ministries and corporations, and representatives of the industries helped to arrive at important conclusions and to know the policy matters relating to export promotion and to examine the weaknesses, the strategies and to suggest possible solutions.
Survey of literature

Morton and Tulloch\textsuperscript{1} concluded that foreign trade is a vital sector of a country's national economy and contributes substantially to the economic welfare of the people and the development of resources. Today no country in the world is self-sufficient in the sense that it does not possess facilities for economical production of all the goods and services. Kindleberger\textsuperscript{2} stated in his study that every country tries to export more than its imports. Exports can be a leading sector in growth or a lagging one. Rybezynski\textsuperscript{3} proved through his study that an autonomous increase in one factor, as a result of foreign trade, leads to an absolute increase in production of the commodity using a considerable quantity of the increasing factor and a decline, in the production of the commodity using relatively smaller quantity of that factor.

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There is a lot of controversy had gone as to whether international trade promotes or inhibits economic development. On the one hand, economists like Haberler, Cairne, J.S. Mill, and others like Gunnar Myrdal, Prebisch, and Kindleberger concluded that international trade is an engine of economic growth in advanced and unindustrialised countries. On the other hand, economists like Gunnar Myrdal, and others stated that trade did not benefit underdeveloped countries. 

Do Soder stated that trade would make a country as a whole better off, M.C. Verish concluded that for hundred of years, international trade has served as a vehicle for extension of improved techniques of production to an ever increasing number of users.

Meier stresses that if the production increases are in accordance with the comparative advantage.

5. Cairncross, Factors in Economic Development.
and trading takes place at the international ratio of exchange, there arises a gain or increase in real income as a result of a more efficient allocation of resources. This is equivalent to an outward shift in the country's frontier even when resources and techniques of production remain unchanged. Predie Mehta came to the conclusion that though the benefits gained through trades may not be equal to the trading countries, certainly there would be product inventions, and product diversification in case of under developed countries.

India's Economy and Foreign Trade

Dinesh Singh stated that the Indian economy has been set on a rapid growth track as evidenced by the high rate of economic growth achieved during eighties. Focal points of attention are efficiency, competitiveness, technological upgradation and export production. R. Venkataraman, stressed on liberalisation of economic policies affecting the industrial sector with a view to stimulating further investments.

modernisation and export competitiveness.

Now India's foreign trade profile has diversified greatly both in terms of commodities and in the geographical destinations of trade since Independence. Eric Gouslaves stated that India has trading links with practically all the countries and the commodities traded, either for export or import numbered nearly 6,600. Dinesh Singh stated transformation and diversification in commodity composition of export and import and directional pattern requires deliberate and purposive policies by the government, enlarging production base, promotional measures, back-up institutional service support and sustained efforts.

K.R.V. Subrahmaniam suggested that a linkage between exports and imports would give the needed thrust to exports and ensure profitability.


Mahesh Nanavathy regrets that India's export performance on three most important components -- government policy and procedure, production for export and marketing -- is far from satisfactory.

Mutatkar stressed for marketing know-how and innovative approaches to penetrate into different world markets are also essential. Solving the problems of exporters is an integral part of any export strategy. R.L. Misra classified the problems of exporters into two categories -- those general to the industry or sector and those in individual in nature. General problems should be solved by the authorities and the individual problems by organisations involved in export trade like Export promotion Councils, Chamber of Commerce etc. Pande came to the conclusion that counter-trade* in India has been prevalent for more

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*Counter-trade is a generic term. It encompassed many trading arrangements ranging from simple barter to complex frame work agreements.
than three decades, but some times, it is seen that the objectivity additionality of exports has not achieved. Our imports are being financed but at the cost of poor terms for our exports and under cutting in the existing export markets due to dumping by our counter traders.

Commodity - Composition - Farm exports

India has achieved a diversification of its export base in favour of manufactured exports. Still farm exports account for about one-fifth of all exports. What is needed now is a diversification within the agro-goods sector. Some of the traditional items like tea, tobacco, spices have reached saturation. Therefore, it is necessary to give a push to items like fruits, vegetables, meat, poultry, dairy products and processed food of all kinds.

24 Tiwari suggested for the right kind of linkages between growers manufacturers and exporters in order to make the export strategy a success.

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A.O. Khan\textsuperscript{25} found that in case of Ginger, though there is growing unit value, there is no export surplus in India, and suggested for a systematic re-plantation as is practised by the only competitor Guatemala. M.T. Khan\textsuperscript{26} advocated the need for hygiene in processing and storage which is a major constraint in the export of Turmeric.

A Working Group of the Agricultural and Processed Food Products Export Development Authority recommended establishment of export oriented modern abattoirs and duty free import of machinery to increase export earnings from meat and its products. B.V. Rao\textsuperscript{28} foresees good export potential for eggs as there is growing world wide consumption. As such India requires infrastructure support like cold storage facilities. K.G. Paul stated incase of shrimp exports, though there is crash in prices due to dumping on the markets

\begin{itemize}
\item \textsuperscript{25} Khan, A.O., 'Increasing Ginger exports', \textit{The Economic Times}, March 18, 1989.
\item \textsuperscript{26} Khan, M.T., 'Export potentiality of Turmeric', \textit{The Economic Times}, November 4, 1989.
\item \textsuperscript{27} ...., 'Boosting meat exports', \textit{The Economic Times}, October 6, 1988.
\item \textsuperscript{28} B.V. Rao, 'Incentives for export of farm products', \textit{The Economic Times}, August 2, 1989.
\item \textsuperscript{29} Paul, K.G., 'St exporters hit by crash in prices', \textit{The Economic Times}, May 24, 1990.
\end{itemize}
by other Asian countries, India can compete easily given the salinity of the soil, the water and the tropical climate.

30 Toolsidas sees good prospects again for jute products. With synthetic prices on the rise and growing demand for non-traditional jute goods in overseas markets. 31 Maruthi stated that the silk industry needs to modernise the post cocoon technology to produce quality yarn.

32 Suresh Shaw feels that the Indian wool is suited only for carpets. The apparel industry needs mechanised wool which is at present imported from other countries. R.B. Pathal stressed on modernisation of the production process of coir products. In order to enable India to compete with the machine-made products from countries like Srilanka.

33 R.L. Varshene and B. Bhattacharya concluded that the process of industrialisation in India had

brought remarkable changes in the economic structure of the country. Goods which were on import list hitnerto, have now became important export items.

P.N. Agarwala appraises that the share of engineering goods exports though show a remarkable rise in recent years, India's share is very modest in the context of world trade. H.L. Sharma finds that our engineering items are yet to establish their name in the overseas markets in terms of price and quality. Y. Irudayam concludes that engineering exports are price-elastic; Rath concludes that though India has improved its capital goods performance, even exporting to capitalist countries, India has not done well as its competitors like Brazil, Argentina.

Dr. Kulwinder Kaur and Francis Cherunilam that master every economist suggested that the

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development of an economy and the achievement of self-sufficiency in various sectors depend to a very large extent on the development of the engineering industry, so that the industrial base is strengthened and make export of its goods and other goods internationally competitive both in price and quality. S.K. Misra and V.K. Puri in their study on engineering industry found that a large part of investment in the industrial sector of India was earmarked for the sectors which increase the capacity for further production like capital and heavy goods industries, and thus industrial base of the country is now considerably strengthened.

D.S. Arora concluded that the Indian technological base, though advanced to some extent, has not kept pace with marketing requirements abroad, and our technology upgradation needs much to be desired. Ranganayakulu lamented in his study that the machine tools industry in India has failed to achieve the degree of technical innovation which is essential to make it comparable and competitive with international standards.

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42. Arora, D.S., Changing Technological Environment and India's Engineering exports - Foreign Trade Review, April-June, 1985, pp. 116-121.

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Shaw regrets that though there is vast export potential in West Asia for our hand tools, India is not in a position to attain optimum share because of lack of considerable market efforts by Indian manufacturers, absence of personal visits and lack of efficient local agents in major cities.

Though Indian bicycle industry is competent in overseas markets, there is lack of market research by Indian exporters regarding the designs and models prevailing in other countries.

Vittal concluded that in case of electronics unless there is a competitiveness in domestic market like Japan the Indian electronics industry cannot compete on the international front.

The research works of D.M. Baleswar, D.
Sonal, K.V. Chitala point out the fact of shortage

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45. Editorial., Facts for You, October 1989, p. 44.
of raw material and poor quality of Indian plastics. M.N. Hebber\textsuperscript{50} reports that India has bright prospects in the coming years as the competition for Indian plastic products, which hitherto, stemmed from Korea and Taiwan is now on the wane due to rising costs of production in those countries.

In the case of gems, India continues to dominate the monopoly in small size diamonds in the world. India produces two-thirds of all diamonds cut and polished in the world. Indian Jewellery have steadily been exported to all corners of world including the choosy Japanese market.

According to a Report of the Department of Chemicals and Petro Chemicals that the country has become self-sufficient in almost all major heavy chemicals. Exports of chemicals, agro-chemicals and dye-stuffs are expected grow more and more steadily.\textsuperscript{52}


\textsuperscript{51} Economic Survey 1990-91, Government of India.

\textsuperscript{52} Report of the Department of Chemicals and Petrochemicals 1989, Government of India.
A study conducted by Minerals and Metals Trading Corporation identifies the following export trust package - bauxite, barrytes, graphite and granite. Andhra Pradesh was recognised as the prime 53 exporters in case of barytes and graphite.

Reddy and Ramana concluded that there are large, medium and small scale industries and also capital-intensive and labour-intensive industries. Through the industry is predominantly agro-based and resource-based, there is a clear shift in favour of chemicals and chemical products, engineering goods and non-metallic mineral products. In the agricultural sector, more tracts of land were brought under cotton, rice, and other productive crops and more acreage was brought under irrigation facilities by building dams across rivers. A study by J.L. Narayana murthy and Surender expressed in their study that two-thirds share in total investment was given to

infrastructure sector like power and irrigation in the planning in Andhra Pradesh, but now the share of this sector has come down to one-half.

Narayana Murthy and Kanakalatha Mukund stated that in agriculture there has been a significant increase in the per hectare yield of rice as well as of groundnut, sugar cane and cotton but the benefits of irrigation confined to only about 38 per cent of the cultivated area.

Andhra Pradesh has also made considerable progress in its social infrastructure in terms of basic scientific, technical, management education and training.

A look at the list of exports from A.P. over the years reveal us that the exports from A.P. comprise a wide range of commodities ranging from traditional items such as tobacco, oil cakes, palmyra products etc. to new and non-traditional items like electronic components, chemicals and sophisticated machinery and equipment. The state has also made a beginning in the

exports of computer software. It is also heartening to note that some entrepreneurs in the state have established joint ventures in Indonesia, Kenya, Nigeria, Saudi Arabia and Nepal for the manufacture of products like wires, minerals, asbestos products, rubber and industrial chemicals.