CHAPTER I
INTRODUCTION AND RESEARCH DESIGN
CHAPTER-I
INTRODUCTION AND RESEARCH DESIGN

(A) The Problem:

Ever since the commencement of the first plan in 1951, India has been facing an adverse balance of payments position. In the first plan, the current account deficit was around Rs. 49 crores per annum which steadily increased to Rs. 7772 crores (average) per annum during the seventh plan and to Rs. 10644 crores during 1990-91. In the recent years, although foreign exchange reserves have shown a sharp increase from Rs. 6251 crores in 1989-90 to Rs. 19392 crores in 1991-92, they are still insufficient to solve the chronic balance of payments deficit problem. India's balance of payments position which remained difficult throughout the eighties has now become critical. As the Economic Survey (1990-91) noted, the external payments situation continued to remain difficult throughout the seventh plan period. The balance of payments position has been under constant pressure for a variety of reasons, especially the reduced rate of growth of domestic oil production, protectionism abroad,

2. Ibid., p. 62.
There are a number of options available in order to correct the balance of payments deficit during the coming years. Firstly, India has been relying on long term concessional official assistance till 1980. Since 1981, Official Development Assistance (ODA) has been declining. The share of IDA assistance also, to India, as a percentage of its total external assistance declined from around 40% in 1980 to 13.4% in 1989-90. Consequently, the country’s dependence on commercial borrowings has increased. But there is a limit to commercial borrowings, as India’s external commercial borrowings during 1988-89 stood at 18034 crores and it increased to Rs. 26706 crores during 1990-91. Borrowings from International Monetary Fund (IMF) have also increased from Rs. 4732 crores in 1987-88 to Rs. 5132 crores in 1990-91. So due to the pre-dominance of the non-


3. Ibid., p.63.

concessional borrowings, the debt/service ratio has increased from 16% in 1983-84 to 34.67% in 1988-89.¹ Thus, more than one third of the export earnings of India is being utilized for debt servicing, thus lowering India's capacity to import the required inputs for its development. India is the fifth largest debtor country after Brazil, Mexico, Argentina and Indonesia. Recently, the Development Assistance Committee of Organisation for Co-operation and Development (OECD) observed in its 1988 report that India's debt service burden is increasing quite sharply and suggested that India should generate faster economic growth.²

Secondly, a favourable factor for improving the balance of payments position is the increased transfer of savings by non-resident Indian banks. One of the measures to encourage such savings is the provision of an increase in interest rates. However, according to Mr. M.Narasimha former R.B.I. Governor, it was unjustified to increase interest rates of FCNR and convertible rupee accounts as these amounted to simple balance of payments financing, carrying

the danger of financing consumption rather than investments.\(^1\)

Another possible way to overcome the balance of payments problem would be to reduce imports. But 70\% of our imports are compulsory imports comprising capital goods, petroleum, petroleum products and edible oils, and of the remaining 30\% about half represent import of raw materials needed by the industry.\(^2\) It would be difficult to reduce imports. Imports rose form Rs. 20096 crores in 1986-87 to Rs. 43193 crores in 1990-91\(^3\). Considering the present environmental conditions, the imports of all these items is likely to go up further. Sh. P.Chidambaram, the then Commerce Minister had also emphasized that for increasing India's share, imports of capital goods, raw materials, components and spares will not be reduced.\(^4\)

Lastly, the only way to solve the balance of payments problem is to increase exports. Dr. Manmohan Singh, the Union Finance Minister has also emphasized that higher export growth is necessary for improving the adverse balance

of payments position\textsuperscript{1} and the Merchants Chambers of Commerce (MCC) has also suggested that the country's precarious balance of payments gap could be narrowed down if the growth of exports could be maintained at 16% per annum\textsuperscript{2}.

Thus, India has no alternative but to push up exports. For a country of India's size and diversity, the performance on the export front could be much more. Export promotion is one of the key determinants for successful management of the balance of payments.\textsuperscript{3}

As a result of increase in exports there are other benefits which are likely to accrue to the economy. Exports may lead to increase in national output and may become an "engine of growth"\textsuperscript{4}. Expansion of a country's foreign trade may energize an otherwise stagnant economy and may lead it to the path of economic growth and prosperity. Increased foreign demand may lead to larger production and economies of scale with lower unit costs. If labour and capital are unemployed, expanding exports may provide greater employment opportunities. The possibilities of increasing exports may

\begin{enumerate}
\item The Economic Times, 6 July, 1992, p.1.
\item The Economic Times, 1 Feb., 1992, p.6
\item Varshney, R.L. and Bhattacharya, "International Marketing Management", Sultan Chand & Sons, 1984, New Delhi.
\end{enumerate}
also discover the underlying investment opportunities in a particular country and thus assist economic growth.

Rising exports and consequent increase in domestic output may lead to an increase in domestic incomes and employment. This will lead to the creation of new effective demand for a number of commodities in the domestic market. As a result all the industries producing for the domestic market will also get a big boost. Some of the infrastructure specially created for the development of export industries like new transport facilities, training facilities etc. may also assist the development of domestic industries. In recent years Japan, Hong Kong, Korea and Puerto Rico have achieved remarkable growth by exports of manufactures. Thus exports has a multiplier effect on economic growth.

In the recent years, there has been a diversification in the composition and destinations of our exports. This has led to a stable growth rate in our exports. Some of the important countries to which India is exporting include U.S.A., Japan, F.R.G., U.K., U.S.S.R. and other EEC countries.

Over the years it is seen that the share of EEC in total Indian exports has been increasing. In 1990-91, The EEC was involved in 27.4% of our exports and 29.3% of our import requirements.\textsuperscript{1} Thus it can be seen that in recent past EEC

has become a major trading partner of India. Further, EEC is a major trading area as it accounts for about 40% of world trade. EEC through its unification programme 1992, has also sought to remove bottlenecks to complete the unification process. This unification of the Community would open new opportunities for Indian exports. But at the same time Indian exports are likely to face intense competition. Thus it would be in the fitness of things to study this important trading block and its impact on Indian exports.

The main items that are imported by the Community from India are apparel; diamonds; cotton, cotton yarn & fabrics; raw hides and skins, leather goods and footwear; woollen and silk carpets; coffee, tea and spices; marine products; boilers, machinery and parts and edible nuts. These items accounted for around 72% share in the Community's total imports (ECU 3,237 million), from India in 1988\(^1\). Table 1.1 shows the composition of major product groups imported from India during 1986-1988 by EEC.

Table 1.1. shows that textile and textiles articles had the largest share (32.51%) in the total exports to EEC followed by, leather and leather manufactures (15.72%),

---

TABLE-1.1
COMPOSITION OF EXPORTS
Value: in million ECU

<table>
<thead>
<tr>
<th>Product group</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1986</td>
</tr>
<tr>
<td>Total major textile and textile articles</td>
<td>684.5</td>
</tr>
<tr>
<td>(28.55)</td>
<td>(34.7)</td>
</tr>
<tr>
<td>Total major leather and leather manufactures</td>
<td>359.9</td>
</tr>
<tr>
<td>(15.01)</td>
<td>(17.43)</td>
</tr>
<tr>
<td>Pearls &amp; precious &amp; Semi-precious stones</td>
<td>294.5</td>
</tr>
<tr>
<td>(12.29)</td>
<td>(11.34)</td>
</tr>
<tr>
<td>boilers and machinery &amp; electrical machinery and parts thereof</td>
<td>57.96</td>
</tr>
<tr>
<td>(2.42)</td>
<td>(2.33)</td>
</tr>
<tr>
<td>Coffee, tea, mate &amp; spices</td>
<td>208.0</td>
</tr>
<tr>
<td>(8.68)</td>
<td>(5.22)</td>
</tr>
<tr>
<td>Fish, crustaceans &amp; mollusces</td>
<td>58.8</td>
</tr>
<tr>
<td>(2.45)</td>
<td>(2.13)</td>
</tr>
<tr>
<td>Edible fruits &amp; nuts</td>
<td>39.9</td>
</tr>
<tr>
<td>(1.64)</td>
<td>(1.82)</td>
</tr>
<tr>
<td>Others</td>
<td>704.5</td>
</tr>
<tr>
<td>(29.41)</td>
<td>(25.40)</td>
</tr>
<tr>
<td>Total Exports</td>
<td>2395</td>
</tr>
<tr>
<td>(100.00)</td>
<td>(100.00)</td>
</tr>
</tbody>
</table>

pearls and precious and semi-precious stones (15.28%), coffee, tea, mate and spices (4.0%), boilers, machinery and other types of electrical machinery (2.66%), fish crustaceans and mollusces (2.05%) and edible fruit and nuts (1.32%).

For the purpose of detailed analysis for the present study, four major product-groups i.e. textile and textile articles, leather and leather manufactures, gems and jewellery and engineering goods have been considered. These product groups accounted for more than 65% of our total exports to EEC.

Although EEC is a major trading partner, there have been very few studies which have taken up an in-depth study of the trends and prospects of Indo-EEC trade. In particular very little attention has been paid to the impact of the Single European Market in 1992 on Indian exports. Whatever studies are available, focus on a few individual products rather than on a whole gamut of Indian exports to EEC. Some of the important studies include:

1. The Apparel Export Promotion Council, New Delhi has done few studies on the implications of a Single Market and its impact on the textile and clothing
exports from India.¹

2. The Engineering Export Promotion Council, New Delhi has done few studies on Engineering goods import pattern of EEC, sector wise composition of EEC’s Engineering imports and India’s major Engineering exports to EEC.²

1. See for example:

2. See for example:
   iv. Trade Information, Series- 6, Engineering Export Promotion Council (EEPC), New Delhi, 19 January, 1990
The Leather Research Institute, Madras and the Council for Leather Exports, Madras have also done a few studies regarding leather and leather manufactures exports to European Economic Community.1

(B) Objectives of the study:
The present study has been taken up in order to analyse trends, prospects and problems of Indian exports to EEC. An attempt is also made to analyse the effect of Single European Market in 1992 on Indian exports. Following are the major objectives of the study:
1. To highlight the past trends in Indo-EEC exports both, product wise and country wise.
2. To identify the problems of Indian exporters for exporting goods to EEC.
3. To understand the impact of enlarged EEC on Indian exports and to identify the prospects of some selected items.

1. See for example:
4. To suggest possible steps to exploit the new opportunities in the EEC market due to unification in 1992.

(C) Research Methodology and Design

Considering the objectives of the study, data was collected both through the existing studies and a survey of exporters, exporting to EEC.

Primary data was collected through a questionnaire. The questionnaire was administered to the exporters keeping in view the objectives of the study (Appendix I). The questionnaire was tested on a group of exporters. As a result of the study some open-ended questions were introduced.

1. Sample: For the four product-groups chosen the respective export promotion councils were approached for a list of registered exporters. These exporters are spread out all over India, but only important centers for the four product groups were taken. These included Bombay, Delhi, Kanpur, Hyderabad, Jalandhar and Ludhiana. Further, it was very difficult to get detailed answers from all the exporters. Considering these factors a convenient sample of exporters was taken; those were or had been exporting to EEC countries and those who were willing to respond. A sample size of hundred was fixed in view of the time and resource constraint. Data from these exporters was analysed by means of various techniques. The characteristics of the sample are given in Tables 1.2 and 1.3. Table 1.2 shows that most of the exporters (45.58%) have a turnover between 1-5 crores. There are 23% exporters in textile exports (cotton textiles and ready-made garments), 33% each in engineering goods and leather and leather
### TABLE-1.2

**DISTRIBUTION OF SAMPLE SIZE BY TURNOVER AND TYPE OF ORGANISATION**

<table>
<thead>
<tr>
<th>Type of Organisation</th>
<th>Type of Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 5 lakhs</td>
<td>6</td>
</tr>
<tr>
<td>5 - 50 lakhs</td>
<td>4</td>
</tr>
<tr>
<td>50 -100 lakhs</td>
<td>3</td>
</tr>
<tr>
<td>1 - 5 crores</td>
<td>19</td>
</tr>
<tr>
<td>above 5 crores</td>
<td>1</td>
</tr>
<tr>
<td>Grand Total</td>
<td>1</td>
</tr>
</tbody>
</table>

(1.47) (45.58) (41.17) (11.76) (23.52) (33.82) (33.82) (8) (100)

**Source:** Field Survey

**Note:** Figures in brackets show percentage to total exporters.
manufactures and 8% in gems and jewellery exports. The gems and jewellery exporters are having a high turnover (above 5 crores).

Table 1.3 shows the destination of exports for the sample taken. The sample exporters are exporting to all the 12 member countries. However, majority of the exporters are exporting to U.K., F.R.G. and Netherlands. This is also in line with the destination of total Indian exports to EEC.¹

2. **Data Collection:** Secondary data was collected from various sources. Some of these sources are mentioned below:

i. Export Promotion Councils (Engineering Export Promotion Council, New Delhi; Council of Leather Exports, Madras; Gems & Jewellery Export Promotion Council, Bombay; Apparel Export Promotion Council, New Delhi & Cotton Textiles Export Promotion Council, New Delhi.

ii. Other institutions like Indian Institute of Foreign Trade (IIFT), New Delhi; Trade Development Authority (TDA), New Delhi; Federation of Indian Chambers of Commerce and Industry (FICCI), New Delhi; Federation of Indian Exporters Organizations (FIEO), New Delhi; Statistical Office of the Delegation of Commission of European Community, New Delhi and World

**TABLE-1.3**

**DISTRIBUTION OF SAMPLE BY DESTINATION OF EXPORTS**

<table>
<thead>
<tr>
<th>Destination</th>
<th>No. of Exporters</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRG</td>
<td>38</td>
</tr>
<tr>
<td>U.K.</td>
<td>42</td>
</tr>
<tr>
<td>France</td>
<td>28</td>
</tr>
<tr>
<td>Italy</td>
<td>23</td>
</tr>
<tr>
<td>Netherlands</td>
<td>36</td>
</tr>
<tr>
<td>Belgium/Luxembourg</td>
<td>24</td>
</tr>
<tr>
<td>Greece</td>
<td>18</td>
</tr>
<tr>
<td>Ireland</td>
<td>21</td>
</tr>
<tr>
<td>Denmark</td>
<td>18</td>
</tr>
<tr>
<td>Spain</td>
<td>16</td>
</tr>
<tr>
<td>Portugal</td>
<td>14</td>
</tr>
</tbody>
</table>

*Source: Field Survey*
Trade Centre, Bombay were also contacted.

iii. Attempt was also made to collect data from the different Chambers of Commerce like Indo-Italian Chamber of Commerce and Industry, New Delhi; Indo-French Chamber of Commerce and Industry, New Delhi and Indo-German Chamber of Commerce and Industry, New Delhi.

3. **Techniques used:** Following techniques are used for analysing the data.

1. To analyse diversification, both commodity wise and country wise, Commodity concentration index and country concentration index are used. The degree of concentration is measured by the Gini Coefficient of concentration which has also been used by different economists namely Herschman, Michaley, Messel and

   (i) **Commodity Concentration Index:**

   Following Michaley's treatment of Gini-Herschman concentration index, commodity concentration means the degree of concentration involved in the commodity structure. According to Michaley, coefficient of commodity concentration say C is defined as:

   \[ C = 100 \sqrt{\sum_{i=1}^{n} (X_{ij}/X_{j})^2} \]

   \[ X_{ij} = \text{Total value of exports of country 'j' of} \]

commodity 'i' to the rest of the world.

\[ X_j = \text{Total value of exports of country 'j'}. \]

For the purpose of analysis of exports to EEC from India, we have used this coefficient of concentration in the following form:

For example: (Gems and Jewellery exports to EEC)

\[ C_E = 100 \sqrt[n]{\sum_{e=1}^{n} \left( \frac{X_e}{X_E} \right)^2} \]

\[ X_e = \text{Total value of } e^{th} \text{ product exports}. \]

\[ X_E = \text{Total value of exports from India to EEC in a particular year}. \]

\[ n = \text{Total number of commodities in one product group}. \]

In case of gems and jewellery exports to EEC, \( n \) is taken as seven because we are taking only exports of seven items i.e. diamonds, precious and semi precious stones, pearls, gold jewellery, non gold jewellery, imitation jewellery and synthetic stones in the gems and jewellery product group.

The minimum value of commodity concentration index is 100 / \( n \). So in the present case i.e. in gems and jewellery commodity concentration index, it is 37.87 and the maximum value of commodity concentration index is 100, when only one commodity is exported and to only one market. As such if exports are concentrated on a few commodities, the value of \( C_E \) will be near to the upper limit and if there are many
commodity groups in the export list, exported to EEC by India, the value of \( C_E \) will be nearer to the lower limit. Thus when indices of \( C_E \) show a declining trend over a period of a time this shows that diversification has taken place in the composition of particular product's exports to EEC.

(ii) **Geographic concentration index**

Similarly, following formula will be used for computing the geographic concentration indices in the particular product group export to EEC, say, gems and jewellery exports to EEC.

\[
G_E = 100 \sqrt[\sum r=1^p]{\left( \frac{X_r}{X_E} \right)^2}
\]

- \( X_r \) = India's gems and jewellery exports to 'r' member country of EEC.
- \( X_E \) = Total gems and jewellery exports from India in particular year to EEC.
- \( p \) = Total number of countries, in our case, it will be equal to twelve because of twelve member countries of EEC.

Minimum value for geographic concentration index is \( 100 / p \). So in the present case i.e. in gems and jewellery geographic concentration index, it is 33 and maximum value of \( G_E \) is 100 when only one commodity group is exported and to only one country. As such if exports are concentrated on a few countries, the value of \( G_E \) will be nearer to be upper limit and if there are many countries, the value of \( G_E \) will be nearer to the lower limit. Thus when indices of \( G_E \) show a
declining trend over a period of time, this shows that diversification has taken place in the destinations of exports to EEC from India.

2. **Exponential Trend Analysis:**

Exponential trend analysis is used in different product groups exports to EEC and with the help of this trend analysis possible predictions are made in our total exports to EEC by 1995 in each product group.

(D) **Plan of the study:**

The data collected from the above sources has been tabulated, analysed and presented in the study in seven chapters. (Chapter II to VIII). Chapter II highlights the growth and development of EEC. It also provides an insight into the features of the Unification Programme of EEC in 1992 and its implications on the Community. Chapter III discusses the trends and prospects of Indo-EEC trade in general and economic co-operation between India and EEC. The chapter also discusses the implications of EEC unification programme in 1992 on Indian exports. Chapter IV deals with the trends and prospects of textile exports to EEC from India, while chapter V considers the trends and prospects of engineering goods exports to EEC. Chapter VI deals with gems and jewellery exports to EEC, while chapter VII considers the leather and leather manufactures exports to EEC. The final chapter gives a summary of the major findings of the study.