CHAPTER ONE
EXPORTS AND ECONOMIC GROWTH
WITH REFERENCE TO INDIA

Exports interact in a dynamic way with the growth of the whole economy. A rise in exports leads to an increase in national output. An expanding external market provides the means for an increase in the size of the domestic market, growth in money income and spread of specialization and division of labour. Exports, according to Nurkse, worked as the engine of growth during the nineteenth century. This is an example of what Rostow calls a 'leading sector'. There will be the indirect dynamic benefits from exports trade in the form of an outward shift (in the northern direction) of the production possibility curve brought about by a trade induced movement along the curve.

Export trade enables a country to overcome the narrowness of its home market and widens the scope for division of labour. Many of the underdeveloped countries

are very small. Out of 90 under-developed countries usually listed, 72 have less than 15 million population and 51 have less than 5 million population. Given the very small domestic markets, which in many cases may be too small even for simple types of manufactured consumer goods there would seem little choice for the smaller under-developed countries except to seek economic development through the expansion of exports. Lewis maintains that "one does not have to side with Rosenstein Rodan or Schumpeter or Marx to see that growth via production exclusively for the home market is a somewhat precarious affair when compared with the leading sector in exports." In the latter situation income earned from an increase in exports is constantly pulling on the supply of goods for the home market and stimulating home production; whereas in the former case income earned in producing for the home market is either trying to leak out into imports or threatening to drive other producers bankrupt. Exports have an inflationary tendency while domestic production when serving as a leading sector is dogged by deflationary tendency. All sectors of the

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economy do not grow at the same time. Some sectors develop and work as propulsive sectors viz., Agriculture (A) Manufacturing (M) catering to the home market and the export sector (X) producing for the external markets. Growth of these sectors is an inter-dependent complex. In this interrelated function the growth of the export sector is crucial. Prof. Lewis' analysis of this vital function of export sector is very relevant here. "If M expands, the demand for the products of A will increase. If the increased output of M substitutes for imports, the foreign exchange thus released may pay for the increased imports of A. If not and if A is stagnant while M is expanding either A's prices will rise or imports will rise creating a balance of payments deficit and either of these will check the expansion of M. The expanding demand on the other hand could be met by expansion of X which would provide foreign exchange to pay for import. So an expansion of M must be accompanied by an expansion of either A or X or by import substitution if it is to continue. Similarly an expansion of A must be accompanied by an expansion of either M or X or by import substitution. It is only X which can expand continuously by itself without being checked by a failure of either A or M to expand, for the demand generated by an expansion of exports can be met by imports for which
the exports provide the foreign exchange. This is one reason why expansion usually starts with exports and not with production for home markets whether of manufactures or of food.  

Multiplier Effects of Export Sector

Export sector is a propulsive sector. It widens the market; provides economies of scale and sets in the pace of multiplier-acceleration process in the economy.

Exports stimulate production for home market; some part of income earned from producing exports is spent in the first round on home products and some on imports. The process in the second round will be such that those who had sold the home products spend some of the proceeds on other home products; and some on imports. The multiplier effect is felt here. "Assuming imports to be the only leakage the multiplier would be the reciprocal of the marginal propensity to import. If the

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marginal propensity to import were unity, the increase in exports would not stimulate any increase in production for the home market. But if the imports were 0.2 then the multiplier would be five and an increase of four in production for the home market. 5

If export requires substantial investment in transport, warehousing, port facilities and other types of social overhead investment, external economies are created which facilitate the development of other exports industries. If the export industry encourages the growth of complementary and subsidiary industries and if technology, transport costs, and resource endowments permit these to be locally produced further development will be induced. In both, social overhead investment and investment in complementary and subsidiary industry, urbanisation and increased specialisation are promoted and additional residentiary activity geared to the increasing local demand for consumption goods and services develops. At the other extreme is the export industry which requires only the immediate development of a few

centres for collection and export and develops little subsidiary industry and marketing facilities even though they are of the nature to be most efficiently imported.

The disposition of income earned from export industry plays a decisive role in the growth of the region. Related to this is the propensity to import to the extent that income of the region directly flows out in the purchase of goods and services rather than having a regional multiplier accelerator effect. It is inducing growth elsewhere but reaping few of the benefits of increased income from the export sector itself. The successful economy grows because the initial developments from the export industry lead to a widening of the export base and growth in the size of the domestic market. Growing demand in the domestic sector leads to an ever widening variety of residentiary industries. These industries (and services), producing for the local market vary in character. They range from those which must by necessity residentiary (retail trade, some services etc.) to those which — as the size of the market permits firms to achieve efficient scale of operations — become substitutes for some imports. In response to profitable opportunities in the economy there is an inflow of labour and capital to augment the domestic increase. Changing factor proportions along with the cost reducing
consequences of social overhead investments and improved skills, training and knowledge that come from diversion of capital into investment in education, lead to a broadening of the export base. This usually occurs first in the processing of a wider variety of raw materials and then in the fabrication of goods, typically entailing a greater use of capital and skills. Some of this manufacturing may develop initially for the export market, while other forms of manufacturing may be initially oriented to the expanding domestic market.

Export Multiplier and National Income

Export multiplier (foreign trade multiplier) explaining the impact of foreign factor upon the national income of a country is presented by Polak with some basic equations.  

$$Y = C + V + X - M$$

It defines income produced ($Y$) as the sum of the value of output of final goods for domestic consumption ($C$), home investment ($V$) and exports ($X$) minus the value of imports ($M$) contained in the three former.

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There are other two equations which state that both consumption and imports are a linear function of income but not a proportional function as both contain constant terms.

\[ C = r^* Y + C_o \]

\[ M = \mu^* Y + M_o \]

In the above equation \( r^* \) stands for the marginal propensity to consume and \( \mu^* \) for the marginal propensity to import.

It is possible to derive an equation of \( Y \) as a function of \( X \) and a constant term disregarding \( V \) and substituting the above two equations into the first.

\[ Y = \frac{X}{1 - r^* + \mu^*} - \frac{C_o - M_o}{1 - r^* + \mu^*} \]

The fraction \( \frac{1}{1 - y^* + \mu^*} \) is the foreign trade multiplier which indicates the relation between an increase (or decrease) in the rate of national income \( Y \) and an increase (or decrease) in the rate of exports \( X \) by which it is caused.
It is argued that income earned from an increase in exports was constantly pulling on the supply of goods for the home market and stimulating home production. W. Arthur Lewis maintains that though import should in any case increase by as much as exports, growth was promoted most by simultaneously, pushing exports while trying to restrict imports.

Exports providing a stimulus to growth has been effectively explained by Findlay. He starts with the relation \( I = \alpha (X - M) \) where \( \alpha \) is the ratio of the total volume of investment to its imported component, \( X \) is the total exports and \( M \) is the imports of consumer goods only. If we assume that the latter is proportional to income and that income is proportional to the stock of capital and that exports grow at a fixed rate we have

\[
\frac{\partial k}{\partial t} = \alpha \left( x_0 \exp(xt) - mbk \right)
\]

The solution of this differential equation is obtained as

\[
k(t) = \frac{x_0 \exp(xt)}{x + \alpha mb} + \left( \frac{x_0 \exp(xt) - \alpha K}{x + \alpha mb} \right) \exp(-\alpha mbt)
\]

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Ronald Findlay maintains that since the second term diminishes with time we have the result that the capital stock and hence income grows eventually at the same rate as the exogenously determined growth rate of exports. This displays the foreign trade as the engine of growth.

The formula however shows that the rate of savings does not explicitly appear anywhere. Findlay explains that since investment has a domestic component as well, it is clear that the saving rate must accommodate itself to the growth rate determined by the formula, if the complementary domestic resources for investment are to be provided. Assuming balanced trade we have

\[ \frac{dk}{dt} = sbk(t) \]

from which it follows

\[ S = \frac{\kappa}{b} \left( \frac{X_0 \exp(xt)}{k(t)} - mb \right) \]

The above suggests that the rate of savings will change over time as a function of the changing ratio of exports to capital stock and hence of exports to national income with the time tending to infinity we
have from the solution of the differential equation that

\[
\frac{X_0 \exp(xt)}{K(t)} = \frac{X + \alpha mb}{\alpha}
\]

which means that in the limit \( S = \frac{x}{b} \)

Recalling that the growth of national income is equal to the growth rate of exports in the limit, this corresponds to the familiar Harrod-Domar formula for the relation between the saving rate and growth rate of national income in a closed economy.

The above analysis leads us to arrive essentially at the two gap theory* of Hollis Chenery .... "suppose that the \( S \) which we calculate in the manner described turns out to be too large for the economy to sustain. It is then prevented from taking advantage of the growth

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* The two gap theory assumes (i) there is a fixed ceiling on foreign exchange earnings (ii) imported and domestic goods are required in fixed proportions for investment and (iii) there are either no imports of consumer goods or that these are held down to some irreducible minimum.
possibilities inherent in its foreign trade situation, and we have 'Savings limited growth.' On the other hand if it can attain a large $S$ than the one required then we have foreign exchange limited growth the answer to which is a higher or a lower $m$ or both.$^8$

Exports for Financing Import Requirements:

As noted already there are two main constraints to economic growth viz., (1) the savings constraint and absorptive capacity constraint on the internal side and (2) an import constraint on the external side. Savings constraint limits the amount of investment possible and therefore limits the attainable growth rate. Managerial and skilled labour endowments and institutional environments etc., pertain to the absorption capacity constraint. Until recently the savings deficiencies were considered as the principal factor limiting growth. No significant difference was thought to exist between domestic and foreign inputs which were considered highly substitutable for one another. But of late it has been realised that the assumption of high

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substitutability of domestic for foreign inputs does not fit the economic conditions of most developing countries. In this case growth is limited not only by internal absorption capacity and availability of domestic savings but also by the availability of imported resources. Growth is limited both by internal factors and also by the availability of imported resources. An annual rate of growth of 5 per cent or above in real terms is not possible without corresponding annual growth of imports of about 5 per cent. Import multiplier is the appropriate tool in such cases. Import multiplier would relate absolute growth to imports of necessary capital goods. The multiplier is based on the Harrod-Domar growth model. According to this model growth rate of the economy is positively related to the inverse of marginal capital output rates and to the propensities to save and import.

Import content of investment is high in the initial stages of economic growth. The GATT's study model in this respect has been summarised as under:

"Assume that in some country the net investment rate is 6 per cent and gross rate 11 per cent of the national income, the capital output ratio is 2 and
population increases by 2 per cent annually. Then the annual increase in national income would be 3 per cent (and that of per capita income would be 1 per cent).

Suppose this country plans to increase the growth of national income by another 2 per cent. Then gross investment must be raised from 11 per cent of national product, a rise of almost 40 per cent; capital imports must then rise in the same proportion and since capital imports constitute about 28 per cent of total imports of semi-industrial countries, this means a rise of 0.28 x 40 = 11.2 per cent in total imports. Thus an increase of 2 per cent in national product brings about an increase of about 11 per cent in total imports.

Imports to produce investment goods have to be financed through export earnings. This is more relevant in case of developing countries like India since foreign aid prospects are bleak. Aid has generally tended to lag behind the increase in aid giving potential of developed countries. The average aid income ratio has been falling almost steadily since 1960 from 0.83 per cent to 0.62 per cent. The recent trends of the

nominal volume of flows and the terms of lending show that gross flow of assistance has reached a plateau in the last few years. But if recalculated on a real net basis subtracting the mounting reverse flow of debt payments by the developing countries the aid plateau tilts downwards and begins to look more like a chute. The external public debt of ninety-five developing countries increased almost fourfold from 1956 ($10 billion) to 1965 ($39 billion) and annual amortisation and interest payment increased over the same period more than proportionately from $0.8 billion in 1956 to $3.6 billion in 1965. The studies conducted by the U.N.C.T.A.D. Secretariat maintain that if the net inflow is to remain at 1965 level, (1) total debt service would rise from $5.1 billion in 1966 to $10.4 billion by 1975 (2) payment of interest and amortisation by developing countries other than petroleum exporters at the end of the period would absorb an overall average of 23 per cent of their export earnings.

Foreign Exchange Constraint to Growth and Export Capacity of Developing Countries

The foreign exchange gap which assumes the gap between import payments and the capacity to finance them through the export earnings and receipts of foreign
currency through other sources has been considered as a constraint on the attainable rate of economic growth by various writers on development economics. The assumption of foreign exchange constraint by certain authors is too extreme. They maintain that under a foreign exchange constraint an economy can neither increase exports (or their rate of growth) nor reduce imports even though the maximum saving limit has not been reached.

The Chenery type models used in estimating aid requirements explain the saving and foreign exchange or trade gap as follows:

"Assume that the target is to increase G N. by prescribed compound growth rate over a prescribed time-horizon T. Assuming a given incremental capital output ratio, investment requirements in the terminal


period (T) are determined. Initial savings are known. On the basis of this and Linear Keynesian saving function we can calculate total potential savings \( S_T \) in the terminal year. The difference between investment and saving \( (I_T - S_T) \) is the 'Saving gap' which must be covered by foreign assistance. However, there are also certain import requirements which the system has to fulfil. Required imports in the terminal year \( (M_T) \) are determined on the basis of initially observed imports and a fixed marginal prosperity to import. Maximum potential exports \( (X_T) \) are given exogenously. Then \( M_T - X_T \) is the foreign exchange gap or trade gap.\[11\] The assumptions of constancy of the parameters underlie the gap analysis.

Naturally it is relevant to ask whether the technological and trade assumptions and the institutional and other restrictions underlying these are reasonable.

The case for foreign exchange constraint rests on the argument that both export possibilities and import

requirements are exogenously determined. It is contended that the less developed countries are identified with the production of primary goods accounting for nearly 85 per cent of their export earnings. These exports are further beset by many difficulties.

Demand Deficiencies and Exports

Doubts have been raised by some writers that export based growth of the economies would be painfully slow for the under-developed countries in the present conditions of the world trade. Hurkse enlists the following factors preventing the growth of demand for the products of under-developed countries and thereby checking their rate of growth:

1. A shift in the composition of industrial output (in the advanced countries) from industries with a high raw material content of the finished output to those with a low content.

2. Low income elasticities of consumer demand for many agricultural commodities, once a high standard of living has been reached.
(3) Growing technological advances leading to economies in the industrial use of primary raw materials.

(4) Displacement of natural raw materials by synthetic and other manmade substitutes made from a few basic elements mostly of local origin.

The above factors put a constraint on the external demand for the products of less developed countries. Nurkse maintains that international trade therefore cannot be an effective engine of economic growth. He argues that the 19th century mechanism of growth transmission from Western Europe to the periphery of the under-developed countries is no longer available to the present day underdeveloped countries of the tropics. He advances the argument that the world industrial centre is now shifted from the UK and Western Europe to the US. United States with its abundant natural resources and great size has a relatively lesser need to import primary products. Thus according to him the present day underdeveloped countries have to look to the development of the domestic manufacturing sector as the alternative engine of growth to international trade.
The above approach of Nurkse has been contested by H. Myint on the following grounds:

Firstly, the less-developed countries produce only a part of the world's total exports of primary products, so that it is not always safe to regard them as identical with 'primary exports'. Nurkse's reference to the agricultural production in the European countries affecting the export demand pertains mainly to the temperate zone products. Such protection does not affect the tropical underdeveloped countries.

Secondly, the predictions regarding the decline of exports from underdeveloped countries are made by lumping different types of primary products into one general category. During any given period, the exports of the underdeveloped countries depend a great deal on the 'luck of the draw'; those supplying the stagnant declining manufacturing industries having to face an equally stagnant demand and those supplying new and expanding manufacturing industries enjoying buoyant demand. The rise of textile industries in the 19th century created an expanding demand for raw cotton and in the postwar period, the rise of the motor industry

has created a strong demand for petroleum and rubber. Thus, it is not correct to say that the 19th century mechanism of the transmission of growth through international trade has ceased to work.

Thirdly, the growth of domestic imports and the expansion of population resulting in increased demand for food have altered the situation in underdeveloped countries.

The threat from the synthetic substitutes to natural products can be met provided technical improvements are introduced to raise productivity and reduce costs. Murkse's prescription for a 'balanced growth' - a co-ordinated development of local industries in accordance with the growth structure of domestic demand, will itself generally involve an increase in import requirements. This is due to the fact that the available cost of capital and resource inputs that an underdeveloped country has initially at its disposal lack a sufficient degree of malleability and therefore cannot be readily transformed into a structure of output as dictated by the pattern of domestic demand. Moreover, the hump in import demand is unlikely to be a temporary phenomenon. If therefore the development of an economy is not to be
Hampered by a periodic emergence of exchange crisis, leading to cuts in imports and investment, the export-promoting activities have to be built into the strategy of economic development from the very start.

The analysis of Murkse and others that demand deficiencies abroad put a constraint on exports from less developed countries is too extreme in many cases. It is not correct to say that all exports of primary produce have been hindered by demand factors. The developed countries themselves produce and export a number of primary commodities and the less developed countries can therefore make inroads into these markets. The less developed countries have a large share of the world market in some primary commodities — viz., tea, coffee, rubber and a few others. The share of L.D.C.s. in the world market for manufactures is small but the scope for their increased share is large. In case of exports of primary products there are some outstanding successes such as bananas from Taiwan, fishmeal from Peru, cotton from Mexico and Nicaragua. Though countries like India and Argentina have been failures in this respect Taiwan, Hong-Kong and Pakistan provide cases of good success in the exports of manufactured goods. Here again India has not taken advantage of
expanding market for the exports of manufactured goods. Here the causes relate to domestic policy failures and increasing home consumption. With proper export incentives and policy measures India and other less developed countries can expand their export trade provided the developed countries follow a more liberal policies towards them.

The above analysis suggests that foreign exchange is not a constraint on development since countries like India can hope to provide a propulsive effect on the economy through expanding the export sector. The apparent inflexibility of exports in many cases is the result of avoidable inefficiency in managing the export trade and making the economy export oriented... "in many less developed countries the industrialisation programmes have been haphazard ill thought out and insulated from international costs and prices. The lack of any method of project selection has in many cases biased development, away from agriculture and exports and in favour of higher import intensive manufacturing activities .... It seems inappropriate to call foreign exchange shortage which is the result of such policies a foreign exchange constraint." 13

Historical Trend - Export Growth Relationship

Countries with the highest rates of growth of national income tended also to have highest rates of growth of real export earnings. Arthur Lewis maintains that when an attempt was made to correlate growth rates with other economic phenomena no other correlation ratio came near to this one. The correlation of growth with exports was much better than the correlation of growth with capital investment or the foreign aid. "Several studies by United Nations Economic Commission for Asia and the Far East (ECAFE), the World Bank and others have shown noteworthy correlation between the growth of exports of a country and its overall rate of growth; countries with the greatest expansion of exports have also experienced the most rapid rate of overall growth; the examples of Mexico, Peru, Japan, Venezuela, Israel, the Philippines and Thailand among others are often cited."15

Great Britain for example was developing successfully, first on the basis of textile exports and


later by expanding her exports of coal and iron. More relevant for primary producing countries however was the experience of the U.S. which grew impressively before 1860, largely as a result of rapid expansion in her raw cotton exports. Other nineteenth century examples of successful development based on primary product exports include Denmark, Sweden, Australia, Canada, New Zealand, South Africa and to a lesser extent Argentina and Brazil. In certain other countries the export trade, if not a leading sector was still a most valuable support to economic development. In Russia, for example wheat exports provided the foreign exchange needed to service the inflow of foreign capital essential to industrialisation, whereas in Japan where the creation of domestic mass market was precluded by the low income conditions of the peasants and workers, the expansion of foreign markets was imperative as an outlet for the production of the country's new manufacturing industries. The export expansion of peasant products, particularly from South East Asian and West African countries has taken place not so much through the reallocation of the given and fully employed resources from the domestic to the export sector, but through the spread of the exchange economy drawing the hitherto underutilised land and labour of the subsistence sector into export production.
In the last quarter of the nineteenth century the output of many peasant economies increased substantially in response to a growing world demand for their products. Between 1870 and 1913 peasant rice exports from Burma and Thailand grew some 10 to 13 times; Egyptian cotton production rose from 5,00,000 Kcantars in 1860 to 3.1 million in 1879 and 7.7 million in 1913. On the West Coast of Africa palm oil and oilseed accounted for over three quarters of the total value of Nigerian exports in 1913 and cocoa contributed 80 per cent to the value of the Gold Coast's total exports in the same year.

During 1870-1913 UK's exports were larger than home investment, amounting to about one fifth of the national income and probably one third of industrial production. Even a large number of individual industries in the UK, owe their expansion to the stimuli provided by external markets. In the cotton textile industry the proportion of output exported rose from an average to 57 per cent in 1841-45 to 75 per cent in 1875-81, the proportion of output exported in the pig iron and steel industry was 27 per cent in 1841-45; 45 per cent in 1871-75 and about 24 per cent in 1901-05; in the
woollen industry the percentage exported was about one third of total output in the 1840s and one half in the 1870s, in 1840s, 30 per cent of British jute products were exported and the proportion of coal output exported rose from an average of 10 per cent in the 1870s to ?? per cent in 1901-1910. This direct expansionary effect on the output of these industries was helpful in promoting capital accumulation and increasing the productivity in those industries through technical improvement in the production methods. The growth of textile export trade was particularly instrumental in the overall expansion of the industrial economy of Britain in her earlier stages of development. Textile exports during 1850 constituted about 80 per cent of the total exports receipts of the UK. Thus the increase in income earned in textiles induced expansion in other industries through the operation of multiplier acceleration process.

The above process was reversed in the last quarter of the nineteenth century. British exports ceased to grow. During this period of decline in exports, there was also a decline in the rate of industrial expansion in Britain.
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<td>Iron and Steel</td>
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<td>Machinery</td>
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To the question whether there was a casual connection between the decline in exports and the decline in industrial output Meir and Baldwin maintain that ... "the export trade was of such quantitative significance that the decline in export expansion must be given considerable emphasis in the total explanation of the slower growth in the British economy after 1870." 16

The other factors like decline in entrepreneurial vigour, more monopolistic market structures, an unfavourable alteration in distribution of income and a slowing down in the rates of innovations were having their own influence on the economy. However, the decline in exports had a greater contractionary effect on the growth of industrial production of the U.K. Thus expansionary effect of the export sector has been felt in almost all the advanced countries in their early stages of economic development. "Whether one thinks of Britain at the outset of industrial revolution or of the US in the nineteenth century or of Japan in the twentieth the expansion of exports gave a conspicuous momentum to the economy and helped it on its way to industrialisation." Douglas North has attributed the expanding international economy of the past two centuries to the initiating role of successful export sector in the early stages of accelerated growth of market economies. In most cases the timing and pace of an economic development has been determined by (1) the success of


its export sector and (2) the characteristics of the export industry and the disposition of the income received from the export sector. "Determinants of the export sector of the economy and the characteristics of the export sector and the disposition of the income received from outside the economy or region are the two important steps .... one of the perplexing problems in the study of economic growth has been the varying progress of different economies as a result of an increment to income from the export sector."19

Growth Through Exports — Causes for Failure of a Few Countries

Export sector in general has provided a stimuli to the expansionary process of the economy in various countries in the nineteenth and twentieth century. But in a few cases export expansion was unsuccessful or partially successful in generating self sustaining growth in countries like Argentina in the past century. The main reason for such failures are the late integration of such countries into the expanding lines of trade in the world economy. They were late in integrating themselves

into the expanding lines of trade created by the rising 
European demand for foodstuffs and raw materials. When 
they did achieve this, the expansionary forces generated 
within the export sector of these integrating economies 
had then to be diffused through the rest of the economy. 
Late integration into the world economy explains the 
relative backwardness of many African economies. Although 
there was a rapid expansion of African exports in the 
late nineteenth century the extent of the continent's 
integration into the international economy was seriously 
limited by transport difficulties. Transport deficiency 
blunted the impact of world demand on the African economy 
and accounts for the persistence of a substantial 
African subsistence economy which through its low 
productivity and lack of monetization slowed down the 
overall economic growth of the continent. Transport 
deficiencies hindering the export trade in minerals 
from India provides a similar situation. Another factor 
hindering the expansionary effects of exports on economic 
growth was the partial commitment of export production 
implicit in an economic setup where the peasant household 
continued to produce all its own subsistence requirements 
in addition to growing cash crops which limited the spread 
of money economy. In some countries the increase in 
production and exports achieved during these years was
absorbed partly by an increase in population and partly by rise in the level of living of the upper and middle classes and by a much smaller rise in that of the mass population. This appears to have been the case in Egypt in the half century before 1913. This situation prevails in India with a large sheltered market for tea, sugar and a few other goods.

**Adverse Influence of Foreign Monopoly Power**

In some other cases there were also the possibility of a part and often a substantial part of the peasants income passing into the hands of some persons or groups in exports sector, especially in those situations wherein middleman handled the peasants crops and who could exercise monopoly power. A few foreign import export firms would combine to purchase the peasants output at low prices and sell him imports at highly inflated prices. In some cases this monopoly power would be exercised by a government agency like the Netherlands' Hande Manto happy set up in 1820 in Dutch East Indies for purchasing peasant produce at low fixed prices or for acquiring it as taxes in kind. Peasants were also exploited in countries like Cuba where their crops had to be processed at a company factory possessing a local monopoly. Plantation type
production displayed certain characteristics highly inimical to economic development. This type of agriculture predominated in Latin America and the Central American and Caribbean region where sugar, banana, coffee and cotton were the major plantation crops grown. It was also to be found in Ceylon, parts of India and South East Asia where the emphasis was on tea, coffee and rubber. Plantations developed late in Africa.

Plantation production in the 19th century was based originally on the use of slave labour. It was characterised by a high degree of foreign ownership and control; provision of finance by foreign banks and agency houses, large scale factory style operations of the plantations using large amount of labour specially imported from abroad for these purposes, control of import export trade by foreigners and virtually complete reliance on imported supplies of capital equipment, estate supplies and often even food for the workforce. These important characteristics of plantation production had significant consequences for the working of the export sector and its capacity to transmit growth to the rest of the economy. Export sector in such countries
constituted an enclave economy. In such an economy the income generated in the export sector was largely remitted abroad and contributed little to the formation of the domestic market and the promotion of local economic growth. Local population was deterred from entering into export sector and was forced to fall back on the subsistence sector with its associated low productivity and lack of market.

Underdevelopment of Local Market

Domestic market remained underdeveloped since there was a concentration of a country's income and wealth in the hands of a small group of people. Foreign ownership also meant leakage of export income overseas. Even the local owners of plantation did not contribute much towards local economic growth. Their demand for domestic goods was small. Their contact with western culture and consumption pattern turned them into large scale importers of foreign goods and services. This typical situation prevailed very much in India during the British rule. There were social, political, cultural and legal constraints on the propagation of exported growth. Colonialism in particular placed severe limits on the economic development of the annexed territories. In
these countries, the indigenous population could not resist penetration by westerners into the heart of their economy; or the organisation of their laws and institutions according to the interests of western entrepreneurs and governments. The case of India provides a good example. The British need of an efficient and simple method of raising land revenue resulted in two systems of land tenure being introduced—big landlords as in Bengal and individual cultivating peasants. Where peasant farming predominated it meant that in time of drought or other financial difficulty the peasant was forced to turn to the money lender and merchant for credit. Thus the lack of successful economic growth in underdeveloped countries during the nineteenth century can be explained either by inadequate or late integration into world economy or by obstacles which prevented the growth forces originating in the export sector from transmitting themselves to the rest of the economy.

Post Second World War Situation

The situation changed since the last quarter of the nineteenth century when the output of many peasant economies increased substantially in response to growing
world demand for their products. The post second world war period also suggests that the world trade far from being stagnant was growing in the 1950s and 1960s twice as fast as in the half century before 1914. In countries outside the industrialising economies, growth was primarily a reflex action to the steady and persistent rise in world demand for primary products. The benefits of technological progress in Europe could be passed on to the rest of world through the exchange of manufactured goods for foodstuffs and raw materials. Kenwood and Laugheed maintain .... "specialisation in the production of those primary products most suited to the economic resources of these countries tended to raise the general level of their skills and productivity along with the continued growth of exports and the accompanying rise in real incomes provided an incentive to the establishment and expansion of other forms of economic activity and paved the way for further economic development. In this way expansion of primary products exports could induce growth in the rest of the economy."20

Export-led Economic Growth vs Import Substitution Policies

Export led policy favours the specialisation of resources in selected lines of production whether primary production or manufacturing for export. Import substitution policy favours the diversification of resources to match the pattern of domestic demand for manufactured consumer goods.

It is felt that import substitution works as a hedge against foreign exchange uncertainties and as a potential source of domestic economic growth. Import substitution as a viable growth strategy depends on its capacity to lower the average import co-efficient.

The measurable determinants of an economy's import coefficient can be identified by means of the following equation provided by David Felix 21

\[
M = \left( \sum_{i,j} r_{ij} m_j + \sum_{j} p_{ij} k_j + m_i^C \right)^t / t
\]

\[
= \left( \sum_{i,j} r_{ij} m_j + \sum_{j} p_{ij} k_j + m_i^C \right)^{t+1} Y_t + 1
\]

where $Y$ is the vector of final demand, $\sum_{i,j} y_{ij} m^i_j$ is a vector of direct and indirect current import requirements, $\sum_{i,j} p_{ij} k_j$ is a vector of direct and indirect imported capital requirements, and $a^c_i$ is a vector of ratios of individual consumer goods imports to total supply of such goods. In each period the economy's imports $M$ is the sum of the products of multiplying the vectors within the brackets by the $Y$ vector. Import substitution industrialisation has to be analysed in terms of the sequential pattern of domestication of industrial activities, their technological characteristics and import content. The changing composition of final demand over time under import substitution industrialisation is also very significant. According to David Felix "there is no persistent import bias to the changes in the final demand mix. Shifts towards goods with an import intensity above the previous period's average import coefficient are no more likely than shifts in the opposite direction."\textsuperscript{22} It is found that import substitution industrialisation characteristically focuses first on consumer goods substitution on reducing $M^c_i$. David Felix quotes the ECLA study which maintains that

\textsuperscript{22} David Felix: Ibid., p. 62.
"substitution usually begins in the easiest area, the production of finished consumer goods partly because the technology is generally less complicated and less capital intensive but mainly because there is a larger untapped market for goods of this kind either already existing or brought into being as a result of the foreign trade policy adopted as a defensive measure."  

The lowering of $M_1$ by generating backward linkages also alters the other bracketed vectors. Felix says "if import substitution industrialisation shifts to intermediate and capital goods the zeros in the import output and capital output matrices decline in number and the values of $r_{iu}$ and $p_{ij}$ coefficients in successive matrices tend to rise, while the import rows the $m_j$'s and $k_j$'s, correspondingly fall. Technological change may of course dampen the rise in the $r_{ij}$'s and $p_{ij}$'s."  

**Implications for India and Less Developed Countries**

Now the question, whether import substitution or export led growth is more useful in India and other developing countries is of great significance. It is

---

clear that a country's movement from static subsistence level to a modern commercial economy requires high rates of investment and output growth. This process involves a rapidly growing import demand for consumption and investment. In the nineteenth century the development of the economies was facilitated by growth in exports. Now it is maintained by Singer Prebisch Nurkse and others that this pattern of exported growth is short circuited by the trade balance problems in recent years. Demand for exports of the developing countries according to these writers, is growing slowly due to various reasons: low income elasticities of demand for primary commodities; substitution of synthetics for agricultural raw materials and minerals, and economy in the use of raw materials.

The aggregate demand for underdeveloped countries is price inelastic and the consequent deterioration in terms of trade of underdeveloped countries is aggravated by the fact that the underdeveloped countries import demand is more income elastic and price inelastic. Thus Pincus says .... "underdeveloped countries must rely primarily on industrialisation and expansion of the domestic market as the basis for long run economic growth in contrast to the nineteenth century pattern of export-led growth."25

Chenery too argues from cross sectional data that import substitution has been a vital growth factor. 26

Cost of Import Substitution Vs Exportled Growth

In spite of the advantages of import substitution as a basis for growth it is relevant to judge it in terms of the costs to the economy. The real cost of growth achieved by import substitution is measured by the difference between the point on utility possibility function that is actually reached and the one that could be achieved if the factors engaged in import substitution were directly or through factor substitution engaged in export industries. Restriction on imports may give fillip for industrialisation. But growth by itself will produce a further demand for imports because the industrialisation process requires linkages including import linkages. Import substitution has inflationary consequences too. By reducing the import competition the production of import substitutes may set in an inflationary process. This may be simultaneously a cost inflation and a demand inflation. The effect would be

pressure on foreign exchange rates which may lead either to devaluation or to overvalued exchanges, discouragement of exports and the pressure on imports. It is contended by Pincus that "under reasonable assumptions about the elasticity of transformation, efficiency of government, and the strength of political forces favouring inflation and opposing devaluation, it seems likely that forced import substitution can have unfortunate consequences in a number of underdeveloped countries, particularly if the process is pushed very far." Investment in import substitution beyond certain limits has greater cost to the economy in the form of inflation, low productivity of investment in import substitution industries and consequent adverse effects on exports. It is true that the power of exports to generate growth depends on the marginal propensity to import through imports in any case increase by as much as exports. Thus Lewis maintains that "growth is prompted most by simultaneously pushing exports while trying to restrict imports. This was of course, what the mercantilists were recommending 350 years ago. Only they wanted to keep down imports absolutely whereas we want to keep down imports only relatively to total

production, while the absolute level grows as fast as exports. It follows too that development economists make no mistake in looking inwards to see what can be done to reduce the propensity to import; this is most desirable. The mistake is looking only inwards to the neglect of exports: whereas the correct posture is to look both inwards and outwards simultaneously since the division of labour depends on the extent of the market. The fastest growing economies will be those which combine a rapid rate of growth of exports with a low marginal propensity to import like the U.S.A. in the nineteenth century.  

Exports in Indian Economy

A study of the growth trends of India's exports during the plan period reveals some interesting factors. Exports during the fifties exhibited a tendency of stagnation. During this period covering the First and the Second Plan export sector did not provide any significant thrust to the economy. In the next decade of planning during the sixties exports rose at a faster rate compared with the fifties, though the contribution

of exports to meet our import payments and debt obligations was inadequate. Exports during the later half of sixties and the first half of seventies have grown at a faster rate. But the rate of growth of exports in our country have yet to attain a level which could be comparable with the countries in the industrially advanced regions of the world and also with the rate of growth of world exports as a whole during the last two decades. There have been however some significant changes in the structural dimensions of our export sector. A good deal of diversification in our exports -- both productiwise and marketwise has taken place. One can easily observe the impact of our planned industrialisation on the export sector with substantial change in the commodity composition of our exports during the Plan period. There are however some constraints both internal and external which have been dampening our capability to meet the growing international market for a good many of our export items. These in turn have been reducing the propulsive effect upon the entire national economy through the export sector. These various aspects have been analysed in this and the subsequent chapters.
Growth of Exports During the Plan Period

Exports remained virtually stagnant during the first decade of planning between 1951-52 and 1960-61.

Table 1.2: Exports During the Plan Period (Rupees in Crores)

<table>
<thead>
<tr>
<th>Plan</th>
<th>Total Exports</th>
<th>Average per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Plan</td>
<td>3029</td>
<td>606</td>
</tr>
<tr>
<td>2nd Plan</td>
<td>3046</td>
<td>609</td>
</tr>
<tr>
<td>3rd Plan</td>
<td>3812</td>
<td>762</td>
</tr>
<tr>
<td>4th Plan</td>
<td>8517</td>
<td>1703.5</td>
</tr>
</tbody>
</table>

The level of exports during the Second Plan was only marginally higher than during the First Plan. In 1961-62 exports amounted to about Rs. 680 crores an increase of about Rs. 20 crores over 1960-61. Exports in 1962-63 increased by Rs. 34 crores to Rs. 714 crores. Exports in 1963-64 amounted to Rs. 793 crores registering an increase of Rs. 79 crores over the proceeding year. This increase in exports value was due primarily to increases in volume of goods exported rather than to
increases in export price. The spurt in export was not maintained during the last two years of the Third Plan. Exports in 1964-65 and 1965-66 amounted to Rs. 816 crores and Rs. 810 crores respectively. Bad agricultural harvests, fall in the international price of sugar and lower earnings from tea and cotton fabrics were mainly responsible for this decline in exports during the period.

Over the period 1950-51 to 1966-67 our exports increased by an average of 2.4 per cent per annum. This is less than the growth in national income. The marginal rate of growth of exports has been at the rate of 0.38 per cent per every one per cent growth in national income. As a result our exports formed only 5 per cent of our national income in 1966-67 as against 11 per cent in 1950-51.

The recent trends in growth of exports have been provided in the draft Fifth Plan. Exports rose from nearly Rs. 1358 crores in 1968-69 to Rs. 1413 crores in 1969-70, Rs. 1535 crores in 1970-71, Rs. 1608 in 1971-72 and Rs. 1661 crores in 1972-73; the total for the four years worked out to about Rs. 6518 crores. Exports in 1973-74 were expected to amount to Rs. 2,000 crores, and total for the Fourth Plan were Rs. 8518 crores. The
The growth of exports projected in the Fourth Plan was at an average annual rate of seven per cent, but the actual increase was only 4.1 per cent in 1969-70 and 4.6 per cent in 1971-72 with 1970-71 displaying a gain of 8.6 per cent in between. Exports rose by 22 per cent in 1972-73 and by 26 per cent in 1973-74. The trend rate of growth of exports works over to 7.7 per cent per year during the Fourth Plan.

India's exports during the twenty year period between 1950-51 and 1970-71 rose at an average annual rate of 2.4 per cent. During the same period India's gross national product (at 1971-prices) was increasing at the average annual rate of 6.3 per cent. As a result exports fell from 7.3 per cent of the GNP to 3.9 per cent. During the same twenty year period world exports rose at the average annual rate of 7.3 per cent. The pace of expansion of India's exports was only about one third of world average. As a result our share in the total world exports has been falling more or less steadily from 2.2 per cent in 1950 to 0.83 per cent in 1969, to 0.76 per cent in 1969 and to 0.73 in 1970. It remained constant at 0.66 per cent in 1971 and 1972. World exports rose at an annual compound rate of 8 per cent between 1955 and 1969. Exports of developed countries
India's Exports as percent of her Gross National Product (G.N.P.)

- 10
- 9
- 8
- 7
- 6
- 5
- 4

Indias Exports as percent of World Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>2.2</td>
</tr>
<tr>
<td>1955</td>
<td>1.8</td>
</tr>
<tr>
<td>1960</td>
<td>1.4</td>
</tr>
<tr>
<td>1965</td>
<td>1.0</td>
</tr>
<tr>
<td>1970</td>
<td>0.6</td>
</tr>
</tbody>
</table>
increased at an annual rate of 9.2 per cent. Developing countries on the other hand, achieved only 5-3 per cent rise in their exports during the fourteen year period which is less than the world average of 8.2 per cent and far behind the 9.2 per cent growth rate of the developed region. The Eastern European Communist countries achieved a satisfactory growth rate of 8.5 per cent of their exports during the same period. This shows the poor performance by India in her export trade. Our exports as percentage of national income also gives a very unsatisfactory picture. Our exports came down from 10 per cent of national income in 1950-51 to 8.9 per cent in 1955-56, 6.7 per cent in 1960-61 and to 4.5 per cent in 1970-71.

Exports in India's Economy

A dynamic commercial policy as a major instrument of economic growth is needed in our country. Investment policies must be oriented to build up a truly dynamic export sector which could fully explore or exploit the opportunities that may be open to it in the world trade and promote exports as a leading sector in the expansion of the economy. India has a long record of foreign trade
India's Exports as percent of her imports
Table 1.3: Trends in the Growth of GNP Exports and Imports in India During the Plan Period.

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP (Rupees Crores)</th>
<th>Exports</th>
<th>Imports</th>
<th>Exports as per cent of imports</th>
<th>Imports as per cent of GNP</th>
<th>Exports as per cent of GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>9503</td>
<td>947</td>
<td>1025</td>
<td>92.4</td>
<td>10.8</td>
<td>10.0</td>
</tr>
<tr>
<td>1951-52</td>
<td>10049</td>
<td>1106</td>
<td>1379</td>
<td>80.2</td>
<td>13.7</td>
<td>11.0</td>
</tr>
<tr>
<td>1952-53</td>
<td>9857</td>
<td>847</td>
<td>1002</td>
<td>87.1</td>
<td>10.2</td>
<td>8.9</td>
</tr>
<tr>
<td>1953-54</td>
<td>10532</td>
<td>813</td>
<td>855</td>
<td>95.1</td>
<td>8.1</td>
<td>7.7</td>
</tr>
<tr>
<td>1954-55</td>
<td>10798</td>
<td>918</td>
<td>998</td>
<td>92.0</td>
<td>10.2</td>
<td>9.4</td>
</tr>
<tr>
<td>1955-56</td>
<td>10342</td>
<td>922</td>
<td>1224</td>
<td>90.0</td>
<td>11.8</td>
<td>8.9</td>
</tr>
<tr>
<td>1956-57</td>
<td>11730</td>
<td>977</td>
<td>1423</td>
<td>68.7</td>
<td>12.1</td>
<td>8.3</td>
</tr>
<tr>
<td>1957-58</td>
<td>11982</td>
<td>1001</td>
<td>1635</td>
<td>61.3</td>
<td>12.1</td>
<td>8.4</td>
</tr>
<tr>
<td>1958-59</td>
<td>13343</td>
<td>903</td>
<td>1424</td>
<td>63.4</td>
<td>13.6</td>
<td>6.8</td>
</tr>
<tr>
<td>1959-60</td>
<td>13806</td>
<td>1008</td>
<td>1515</td>
<td>66.5</td>
<td>10.7</td>
<td>7.3</td>
</tr>
<tr>
<td>1960-61</td>
<td>14976</td>
<td>997</td>
<td>1768</td>
<td>56.4</td>
<td>11.0</td>
<td>6.7</td>
</tr>
<tr>
<td>1961-62</td>
<td>15940</td>
<td>1033</td>
<td>1718</td>
<td>60.1</td>
<td>11.8</td>
<td>6.5</td>
</tr>
<tr>
<td>1962-63</td>
<td>17067</td>
<td>1069</td>
<td>1763</td>
<td>60.0</td>
<td>10.8</td>
<td>6.3</td>
</tr>
<tr>
<td>1963-64</td>
<td>19654</td>
<td>1244</td>
<td>1927</td>
<td>64.6</td>
<td>10.4</td>
<td>6.3</td>
</tr>
<tr>
<td>1964-65</td>
<td>22960</td>
<td>1282</td>
<td>2126</td>
<td>60.3</td>
<td>9.8</td>
<td>5.6</td>
</tr>
<tr>
<td>1965-66</td>
<td>23921</td>
<td>1264</td>
<td>2194</td>
<td>57.6</td>
<td>9.2</td>
<td>5.3</td>
</tr>
<tr>
<td>1966-67</td>
<td>27467</td>
<td>1153</td>
<td>2078</td>
<td>55.5</td>
<td>7.6</td>
<td>4.2</td>
</tr>
<tr>
<td>1967-68</td>
<td>32513</td>
<td>1193</td>
<td>2008</td>
<td>59.4</td>
<td>6.2</td>
<td>3.7</td>
</tr>
<tr>
<td>1968-69</td>
<td>35006</td>
<td>1554</td>
<td>1909</td>
<td>70.9</td>
<td>5.8</td>
<td>4.1</td>
</tr>
<tr>
<td>1969-70</td>
<td>35950</td>
<td>1408</td>
<td>1567</td>
<td>89.9</td>
<td>4.4</td>
<td>3.9</td>
</tr>
<tr>
<td>1970-71</td>
<td>39000</td>
<td>1531</td>
<td>1647</td>
<td>92.9</td>
<td>4.2</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India - 'Currency and Finance' - various issues.
which is as ancient as its history.

Exports in the Fourth Plan exceeded the original projections of Rs. 8300 crores. The commodities which have made important contributions in this direction are leather and leather products, engineering goods, cotton textiles, handicrafts, fish and fish preparations, jute manufactures, unmanufactured tobacco, oil cakes, iron ore, chemicals and allied products and coffee.

According to the projections during the Fourth Plan exports were to grow from Rs. 1358 crores in 1968-69 to Rs. 1900 crores in 1973-74. This works out to an average rate of growth of 7 per cent per year. The actual increase was 4.1 per cent in 1969-70, 8.6 per cent in 1970-71 and 4.6 per cent in 1971-72. A change in the method of compiling export statistics effective from 1st November, 1970 seems to have overstated it in 1971-72. There was a sharp rise of 22.1 per cent in exports in 1972-73. A part of these exports were of an exceptional type such as for instance, the grant financed exports as also the food grains exports to Bangladesh. In the absence of such exports in 1973-74 even though other exports are likely to show a sizeable rise, the total has been estimated to be higher by about 2 per cent as compared to
1972-73. Over the Fourth Plan period as a whole the trend rate of growth works out to 7.7 per cent per annum. The Planning Commission considers this as a good performance in view of the unusual strains experienced by the economy on account of the influx of millions of refugees from Bangladesh, Indo-Pakistan hostilities, short supply of metals and power, adverse effect of severe droughts and floods, international currency uncertainties and restrictive trade policies pursued by the developed countries. The good performance in the growth of exports is of course favourably affected by the international inflation.

Exports Projections for Fifth Plan

According to the Planning Commission projections exports may grow from Rs. 2,000 crores in 1973-74 to Rs. 2,890 crores in 1978-79, the terminal year of the Fifth Plan. This gives a rate of growth of exports at 7.6 per cent per annum. This is the same as actually realised in the Fourth Plan period. It is expected that large increases in export earnings may come from engineering goods, iron ore, handicrafts (including pearls, precious stones and jewellery) cotton textile and leather products. The table No. 1.4 gives a summary of the above projections.

Table 1.4: Export Projections for the Fifth Plan Period

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Item</th>
<th>Amount (₹, in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tea</td>
<td>840</td>
</tr>
<tr>
<td>2</td>
<td>Jute manufactures</td>
<td>1200</td>
</tr>
<tr>
<td>3</td>
<td>Coffee</td>
<td>190</td>
</tr>
<tr>
<td>4</td>
<td>Tobacco unmanufactured</td>
<td>335</td>
</tr>
<tr>
<td>5</td>
<td>Cashewkernels</td>
<td>405</td>
</tr>
<tr>
<td>6</td>
<td>Oil cakes</td>
<td>315</td>
</tr>
<tr>
<td>7</td>
<td>Spices</td>
<td>170</td>
</tr>
<tr>
<td>8</td>
<td>Raw cotton</td>
<td>115</td>
</tr>
<tr>
<td>9</td>
<td>Fish and fish preparations</td>
<td>580</td>
</tr>
<tr>
<td>10</td>
<td>Sugar</td>
<td>115</td>
</tr>
<tr>
<td>11</td>
<td>Iron ore</td>
<td>980</td>
</tr>
<tr>
<td>12</td>
<td>Coal</td>
<td>40</td>
</tr>
<tr>
<td>13</td>
<td>Mica and Mica Products</td>
<td>120</td>
</tr>
<tr>
<td>14</td>
<td>Cotton textiles—mill made</td>
<td>1000</td>
</tr>
<tr>
<td>15</td>
<td>Handloom piece goods</td>
<td>155</td>
</tr>
<tr>
<td>16</td>
<td>Coir yarn and manufactures</td>
<td>90</td>
</tr>
<tr>
<td>17</td>
<td>Fabrics of manmade fibres</td>
<td>80</td>
</tr>
<tr>
<td>18</td>
<td>Leather and leather manufactures</td>
<td>840</td>
</tr>
<tr>
<td>19</td>
<td>Footwear</td>
<td>105</td>
</tr>
<tr>
<td>20</td>
<td>Chemical and allied products</td>
<td>370</td>
</tr>
<tr>
<td>21</td>
<td>Rubber tyres and tubes</td>
<td>60</td>
</tr>
<tr>
<td>22</td>
<td>Engineering goods</td>
<td>1500</td>
</tr>
<tr>
<td>23</td>
<td>Iron and steel</td>
<td>240</td>
</tr>
<tr>
<td>24</td>
<td>Handicrafts</td>
<td>905</td>
</tr>
<tr>
<td></td>
<td>i) Pearls, precious stones etc.</td>
<td>600</td>
</tr>
<tr>
<td></td>
<td>ii) Other handicrafts</td>
<td>305</td>
</tr>
<tr>
<td>25</td>
<td>Others</td>
<td>1830</td>
</tr>
<tr>
<td>26</td>
<td>Grand total</td>
<td>12,580</td>
</tr>
</tbody>
</table>

Source: Fifth Five Year Plan—Draft Report
The Planning Commission has rightly pointed out that export promotion is not a one shot operation but a sustained endeavour. The realisation of the Fifth Plan export target requires redoubled multipronged efforts. The most important factor in this direction is adequate production of the acceptable quality and at competitive cost of exportable commodities. The supply constraint has reduced the export surplus in the past. It is, therefore, necessary to give priority to exports over domestic consumption.

Increased export earnings are needed to finance import payments and debt repayments during the Fifth Plan and in the subsequent period in the eighties.

The table 1.5 gives summary of the projections for the imports during the Fifth Plan. (vide next page).
Table 1.5: Import Projections for the Fifth Plan. (Rs. in crores)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Metals, ores and scrap</td>
<td>1920</td>
</tr>
<tr>
<td>2.</td>
<td>Metal products machinery and transport-equipment</td>
<td>4010</td>
</tr>
<tr>
<td>3.</td>
<td>Petroleum crude, products and lubricants</td>
<td>3080</td>
</tr>
<tr>
<td>4.</td>
<td>Fertilisers and raw materials for fertilisers</td>
<td>1450</td>
</tr>
<tr>
<td>5.</td>
<td>Others</td>
<td>3640</td>
</tr>
<tr>
<td></td>
<td><strong>Total:</strong></td>
<td><strong>1,4100</strong></td>
</tr>
</tbody>
</table>

**Source:** Draft Fifth Five Year Plan, Government of India, p. 81.

Imports of petroleum oil and lubricants (POL) accounts for 22 per cent of the total imports of Rs. 14,100 crores; metal products, machinery and transport equipment 28 per cent; steel and non-ferrous metals, ores and scrap 14 per cent; fertilisers and raw materials for fertilisers 10 per cent; and the rest including all government imports 26 per cent. The Fifth Plan has not provided for imports of food grains on the assumption that the envisaged
increase in the output of food grains together with the efficient management of the food economy will make it possible to avoid large scale food imports.

The import projections will yield a rate of growth of 7.6 per cent per annum which is the same as for exports. The Fifth Plan has emphasised the need for giving further thrust of the import substitution effort directed towards four major fields POL, metals, machinery and equipment and fertilisers. These items account for over two-thirds of the estimated imports for the Fifth Plan period. (vide Table 1.7).

From Table 1.3 it is clear that imports have been facilitated largely from the export earnings and fluctuations in imports have been invariably accompanied with fluctuations in export earnings. Secondly imports as percentage of GNP have continuously declined from the beginning of the Third Plan due to falling export earnings and also due to shrinkage of foreign exchange reserves and decline in the inflow of foreign aid. Import surplus provided about one quarter of the resources which went into the net domestic capital formation of the country. Since imports of vital equipment play an important role
in promotion of capital formation in our country.

Government's policy is oriented towards promotion of exports to meet these import needs. The main strategy of planning in our country is to promote export sector by providing the imported inputs and regulating the imports on the basis of export earnings and external aid and using foreign exchange reserves on selective basis for developmental imports. This policy has been intensively followed in the wake of the heavy foreign exchange demand for meeting the oil imports.

### Table 1.7: Projected Import Requirements for 1978-79, 1983-84 and 1985-86 (Rs. in crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Metals, ores and scrap</td>
<td>380</td>
<td>340</td>
<td>405</td>
</tr>
<tr>
<td>2.</td>
<td>Metal products, machinery and transport equipment</td>
<td>964</td>
<td>1010</td>
<td>1035</td>
</tr>
<tr>
<td>3.</td>
<td>Petroleum crude, products and lubricants (POL)</td>
<td>811</td>
<td>1240</td>
<td>1500</td>
</tr>
<tr>
<td>4.</td>
<td>Fertilisers and raw materials for fertilisers</td>
<td>270</td>
<td>330</td>
<td>380</td>
</tr>
<tr>
<td>5.</td>
<td>Others</td>
<td>675</td>
<td>750</td>
<td>880</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>3100</td>
<td>3670</td>
<td>4200</td>
</tr>
</tbody>
</table>

Looking at the pace at which both our import requirements for development programmes and also the bleak foreign aid prospects and heavy debt repayment obligations we have to drastically modify our policies and attitudes towards developing the external component as a dynamic factor of economic growth.

**Planning the Export Growth**

Export growth must be in consonance with the following variables in a country like ours.

1. The quantum of import requirements during a given period of planning.

2. Debt obligations during the period.

3. The extent of and the variations in the inflow of foreign aid during the period.

The above three variables constitute an interdependent complex. The requirement of export earnings varies directly with imports, debt repayments and interest payments, and varies inversely with foreign aid inflow.
Symbolically

\[ E \propto I, \quad E \propto D \quad \text{and} \quad E \propto \frac{1}{F} \]

\[ \therefore E = \frac{1 \times D}{F} \]

\[ \therefore E = K \left( \frac{1 \times D}{F} \right) \]

where \( E \) Denotes the requirements of export earnings

I Imports

D Debt repayments (including interest payments)

F Foreign Aid

and \( K \) Constant.

The current year's requirements of export earnings to settle international transactions may be expressed in an algebraical form as under:

\[ E_0 = K_0 \left( \frac{1_0 \times D_0}{F_0} \right) \]

\[ \therefore \frac{E_0}{1_0 \times D_0} = \frac{K_0}{F_0} \]
Similarly

\[ E_1 = K_1 \frac{I_1 \times D_1}{F_1} \]

Thus an estimate of export earnings of the next year can be obtained by multiplying the present year's

where \( E_0, I_0, D_0, F_0 \) are last year's export requirements, imports, debt repayments and foreign aid respectively, and \( E_1, I_1, D_1, F_1 \) are this year's export requirements, imports, debt repayments and foreign aid respectively, and where \( K_0 \) and \( K_1 \) are constants and therefore equal.

\[ \frac{E_0}{I_0 \times D_0} = \frac{F_1}{I_1 \times D_1} \]

\[ \frac{E_1}{E_0} = \frac{I_1 D_1 / F_1}{I_0 D_0 / F_0} \]

\[ E_1 = \frac{I_1 D_1 / F_1}{I_0 D_0 / F_0} \times E_0 \]
earnings by the factor.

\[
\frac{I_1 D_1 / F_1}{I_0 D_0 / F_0} \text{ or } \frac{I_1 D_1 F_0}{I_0 D_0 F_1}
\]

which means

that export earnings would have to increase if imports and debt repayments increased and foreign aid diminished.

The above criteria provides us an approach towards the analysis of export requirements for maintaining the growth process in the economy.

Import Requirements During the Seventies and Eighties and Export Growth to Finance them:

The dimensions of import requirements for the country is quite clear from table 1.5. The oil crisis has further upset the calculations regarding the foreign exchange requirements for import of petroleum products. Import requirements pertain mainly to two categories (1) food, fertilizers, crude oil and petroleum products and (2) machinery parts and components, raw materials and intermediates. The prospects for cutting down of imports of food stuffs are no doubt good due to favourable monsoons and good harvests during the last two years. But the sudden rise in the price of crude oil and petroleum products has upset the calculations regarding the import bill for the coming years.

1383.
The oil crisis has put a great strain on the balance of payments position of our country. The following press report presents the true magnitude of the heavy payments for the crude oil and petroleum products.

"The import bill for crude and petroleum products for the current financial year is now estimated at Rs. 1,300 crores. (The recent upward revision of crude oil by 5 per cent by the oil producing countries will cost an additional 100 crores in import payment every year,) according to the annual report of the Petroleum and Chemical Ministry released here. The Ministry's latest estimates have been based on the current average price of $10 (about Rs. 75/-) a barrel of imported crude oil. The country imported 13.39 million tons of crude oil worth Rs. 242.40 crores and 13.83 million tons of refined products valued at Rs. 99.01 crores in 1973. During the same period 7.2 million tons of crude was produced in the country. According to the report the known available oil reserves of nearly 115 million tons were very insufficient considering the fact that the country's annual requirements of crude in another five years may be of the order of 40 million tons. Oil production by the Oil and Natural Gas Commission was
expected to go up to 8.42 million tons a year which together with oil India's steady production of three million tons would raise the total annual indigenous production to 11.42 million tons at the end of the Fifth Plan. In addition, at least 70 million tons of recoverable reserves would be located through the current intensified exploration efforts during the Fifth Plan. ..."

The above calculations clearly suggest the additional import burden during the coming years. This necessitates vigorous export drive to enable the country to meet the increasing demand for imports.

Aid and Exports:

In addition to the heavy burden of imports the country is faced with the problem of a substantial repayment of foreign debt. The aid inflow is declining and the repayment of old debt is assuming greater proportions.

For the decade as a whole debt repayments amount to $5 billion. During the Fourth Plan debt servicing

30. Indian Express, April 7, 1974, Bangalore
were expected to consume as much as 25 to 30 per cent of our export earnings. This is mainly due to the fact that most of our loans negotiated during the Second Plan and Third Plan were due for servicing during this period. Net external assistance accruing to India has been of the order of ₹ 300 million per year in recent years (excluding debt service obligation). Even this net accrual has been vitiated by unfavourable terms embodied in aid tying etc. For the seventies as a whole debt repayments amount to ₹ 5 billion.

The Fifth Plan envisaged a total investment of ₹ 47,561 (Gross capital formation). The net inflow of funds from the rest of the world is likely to be of the order of ₹ 2,431 crores to finance the above investment. The projected net inflow consists of ₹ 2,231 crores needed for financing the estimated current account deficit in the balance of payments and the balance of ₹ 200 crores as the accrual back from interest payment in rupees of FL 480 debts and deposits. The following table shows the accrual of ₹ 2,231 crores needed to fill the current account deficit.
The declining trend in the net inflow of funds is clear from the following statement in the Fifth Five Year Plan. "The net inflow of funds for financing the current account deficit in the balance of payments has been projected..."
to decline from Rs. 761 crores in 1973-74 to Rs. 372 crores in 1978-79. The net inflow of funds representing the accrual back from interest payments in rupees on PL 430 debts and deposit has however, been estimated to grow from Rs. 25 crores in 1973-74 to Rs. 50 crores in 1978-79. Taking the two components together the total inflow has been estimated to decline from Rs. 786 crores in 1973-74 to Rs. 422 crores in 1978-79. In terms of GNP the decline is from 1.5 per cent in 1973-74 to 0.6 per cent in 1978-79. In relation to total investment in the economy, the draft on foreign savings measured by the net inflow of funds would decline from 11.3 per cent in 1973-74 to 3.3 per cent in 1978-79. 31 Aid is only one part of the problem of economic development .... the main job of development must be done by the people of each country. One of the main assets a country has that sustains its own economic development is its ability to produce goods for exports. 32


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</tr>
</thead>
<tbody>
<tr>
<td>1. Gross disbursement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) PL 480 food and non food</td>
<td>(157.6)</td>
<td>(169.5)</td>
<td>(89.0)</td>
<td>(111.9)</td>
<td>-</td>
</tr>
<tr>
<td>a) repayable in rupees</td>
<td>84.5</td>
<td>107.5</td>
<td>37.7</td>
<td>8.8</td>
<td>-</td>
</tr>
<tr>
<td>b) repayable in convertible currency</td>
<td>73.1</td>
<td>62.0</td>
<td>51.3</td>
<td>103.1</td>
<td>-</td>
</tr>
<tr>
<td>2) Other aid</td>
<td>(745.0)</td>
<td>(686.8)</td>
<td>(702.4)</td>
<td>(722.2)</td>
<td>(626.0)</td>
</tr>
<tr>
<td>a) Loans</td>
<td>679.8</td>
<td>660.7</td>
<td>658.9</td>
<td>671.7</td>
<td>-</td>
</tr>
<tr>
<td>b) Grants</td>
<td>65.2</td>
<td>26.1</td>
<td>43.5</td>
<td>50.5</td>
<td>-</td>
</tr>
<tr>
<td>2. Debt service payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Interest payments</td>
<td>138.8</td>
<td>144.0</td>
<td>160.5</td>
<td>180.0</td>
<td>188.4</td>
</tr>
<tr>
<td>2) Loan repayments</td>
<td>236.2</td>
<td>268.5</td>
<td>289.5</td>
<td>299.3</td>
<td>314.0</td>
</tr>
<tr>
<td>3. Net inflow of assistance (1-2)</td>
<td>527.6</td>
<td>443.8</td>
<td>341.4</td>
<td>354.8</td>
<td>123.6</td>
</tr>
</tbody>
</table>

The Inadequacies of Export Projections

The import requirements for the Fifth Plan and the eighties appear to be under-estimated by the Planning Commission. The assumptions about holding down imports are unduly optimistic. The imports of steel and fertilisers and food are likely to continue. The imports of these essential items at the current level cost around Rs. 700 crores a year. More than one third of maintenance imports are facilitated by foreign aid. The imports of capital equipments are dependent on the foreign assistance.

Our current export earnings are not adequate to meet our requirement for maintenance imports. The projected rate of exports at 7.6 per cent compound per annum is not at all too high. On the contrary, it is too very restrictive. If the Fifth Plan target of growth of 5.5 per cent per annum is to be realised exports must grow in excess of 7.6 per cent. Export sector must be promoted as a leading sector in the expansion of the economy. To meet adequately the mounting imports heavy debt repayments and interest payments coupled with declining inflow of foreign aid, exports in the Fifth Plan should be not much lower than a trend increase of 10 per cent per annum. It
is necessary to regulate the propensity to import that goes with economic growth but it should not be thwarted. Export strategy has to fit in with a liberal import policy. It would be as much a true measurement of our advance in foreign trade to test it in terms of the growth and diversification of our imports as to relate it to improvement in the magnitude of our export performance. Facilitating more imports in fact is the primary function of exports in a developing economy. We can not take an unduly restrictive view of even essential imports. We should work towards a future where our export trade would be more dynamic and responsive to the challenges and opportunities facing it in world trade. Our economic progress will continue to be cramped by avoidable constraints if we do not appreciate the proper role of exports in the economy. Foreign trade is basically a two way traffic. The magnitudes of a country's export trade are for most of the time determined by its willingness and ability to import.

External component in the sense of an emphasis on the growth of exports, balanced by a proper perspective on imports is a necessary and a dynamic factor of development for the country.