CHAPTER IX
SUMMARY AND CONCLUSIONS

Introduction:

The study was undertaken with a purpose of trying to draw some lessons for India from the spectacular growth performance of South East Asian economies based on export growth and the possibility of the replication of export led growth strategy in the context of India. While considering such a possibility the study tried to make a comprehensive analysis of the export led growth strategy from theoretical, empirical, policy and comparative performance perspective. The study stressed on two major questions associated with export led growth in India. First, do India’s export policies and performance reflect the competitiveness of the country in the export market vis-à-vis South East Asian countries? Second, does India have a major chunk of GNP growth coming from the export growth as experienced in case of South East Asian countries and if not, then how to attain high GNP growth through export growth?

Methodology of the study:

In order to find answers to abovementioned questions the study used a simple methodology based on secondary data collected from the sources such as United Nations Statistics Division, International Financial Statistics, UNCOMTRADE and DGCI&S. The methodology used in the study was descriptive as well as prescriptive, as on the basis of collected information and data, the study not only explained the theoretical and policy aspects of the export led growth strategy but also tried to find out how India can improve the export performance at macro and micro level in order to move towards the path of high growth rates through increasing exports.

The study does not claim rigorous statistical methodology considering the fact that many of the studies undertaken by different researchers on export -growth rate relationship employ statistical techniques such as Causality tests or regressions come out with the explanation of the relation between export growth and GNP growth. This study recognizes the importance of such an analysis. However it should be pointed that such studies fail in undertaking a comprehensive analysis of
the export led growth form analytical and policy formulation perspective. Therefore
the study undertaken here uses a simple mathematical exercise such as the use of
macroeconomic identity for apportioning the growth in GNP into various demand
components and computation of Revealed Comparative Advantage for analyzing
the market competition for various export products. There is no doubt that there are
various issues involved in the strategy of export led growth such as the exchange
rate mechanism, elasticity of demand for export commodities, export policies,
administrative mechanism, etc and it is very difficult to give full justice to all the
aspects associated with a vast subject such as export led growth. Considering this
limitation the study has followed a path of analysis that concentrates more on the
relation between export growth and GNP growth from the policy point of view.

The issue of export led growth necessarily has a comparative dimension and
while discussing this issue in the context of India, one cannot ignore the growth
experience of South East Asian economies that followed export led growth
strategies. The study therefore undertakes a comparative analysis of growth
experience of South East Asian economies on the one hand and India on the other
from policy perspective as well as from a point of view of export performance.

Summary and conclusions of the chapters:

The whole study was divided into eight chapters, each chapter discussing
different aspects of export led growth. The Introductory chapter pointed out the
major flaw in the classical and neo-classical growth theories i.e. these theories do
not include trade or exports as a variable in the growth models though there was
consensus among the classical and neo-classical economists that trade can act as an
engine of growth. The open economy endogenous growth theories discussed in this
chapter reflect that trading opportunities and trade policy can have important and
lasting effects on a nation’s growth rate through scale effect, allocation effect,
spillover effect and redundancy effect. On the other hand the historical perspective
brought out how Smithian productivity proposition regarding trade and growth went
beyond free trade and developed into an export drive argument bringing prosperity
to countries such as Canada, Argentina, South Africa etc. The chapter also
explained the fact that the high performance Asian countries became spectacular
example of economic success linked with export performance while India was still
pursuing inward oriented import substitution policies. The chapter also brought out the objectives, methodology as well as the chapter scheme of this research study.

Before undertaking an analytical study of export led growth, understanding the meaning as well as the rationale behind such a policy was necessary. The second chapter, therefore, discussed the various interpretations associated with export led growth strategy as well as the interrelationship between export growth and economic growth. The chapter also discussed the rationale behind the strategy on the basis of theoretical and empirical analysis. The export led growth simply means that an increase in export growth leads to an increase in the rate of growth of an economy. The export growth positively affects the economic growth from the supply side through externality and productivity effects as well as from the demand side through the relaxation of the foreign exchange constraint. It is also argued that export growth and GNP growth are interrelated through a cumulative process. The chapter reflects that the strategy of export led growth has various advantages over the alternative strategy of import substitution such as the cost of earning foreign exchange being less than cost of saving a unit of foreign exchange through import substitution, economies of scale associated with exogenous world demand, the X-efficiency factor, role of FDI and lastly employment generation aspect of export led growth. On the basis of theoretical and empirical analysis the chapter concludes that the rationale behind the export led growth strategy lies in the fact that it represents increase in demand for country’s goods, it raises the productivity and efficiency levels in the country, gives access to advanced technology, learning by doing gains, better management practices and ultimately it enables the country to meet the rising demand for imports by reducing the foreign exchange constraint.

The empirical evidence discussed in chapter 3 also confirms the fact that there exists a strong co-relationship between exports growth and GNP growth. This chapter classified the empirical studies on export led growth undertaken by different researchers into two broad categories – cross section studies and time series studies. The cross-section studies while analyzing the role of exports in GNP growth in different economies mostly use a bivariate framework along with correlation and regression models. Most of these studies come out with a conclusion that the export growth has a positive impact on GNP growth. However the chapter also takes a
review of time series studies for different countries in order to understand the export and growth relationship in a dynamic framework. These studies are aimed at finding out the causality between export growth and GNP growth through different methods such as Granger's causality test, Sims causality test, Vector Auto-regression Model etc. Though these studies come out with different results in terms unidirectional and bi-directional causality between export growth and GNP growth, in case of South East Asian economies many of these studies reflect the evidence of export led growth. There exists either unidirectional causation between export growth and GNP growth in case of South East Asian countries or some studies come out with bi-directional causality between export and GNP growth. As far as empirical studies undertaken for analyzing export and growth relation in case of India are concerned, again the results are varied in terms of direction of causation. Some studies argue that export growth granger causes GNP growth in case of India while other studies reflect two-way causation. Considering the time span some studies come out with conclusions that in the long run there exists bi-directional causality between export growth and GNP growth in case of India, in the short run the direction is only from export growth to GNP growth. What needs consideration is the fact that most of the empirical studies related with export led growth are concerned with the direction of causation using statistical methods. But these studies do not undertake a comprehensive analysis of the export led growth strategy from the theoretical, empirical, policy and performance point of view. Such as analysis is required for a better understanding of role of exports in the process of economic growth.

After discussing the theoretical and empirical evidence for export led growth the fourth chapter takes an overview of the export policy phases in selected Asian countries and a discussion about whether India can draw some lessons in terms of policy initiatives. It is argued that in case of South East Asian economies the target was export growth and economic growth was a consequence of having achieved this target. Therefore the export policies in these economies played a very influential role in determining the pace of economic growth in these countries. This chapter undertakes a review of macroeconomic environment and policy environment that has been a contributing factor in the success of these economies. The countries selected for the analysis include South Korea, Taiwan, Malaysia, Indonesia, Thailand, China and India. The time period for the analysis pertains from 1970s to
1990s, the period when these countries experienced high rates of export growth that got reflected into high rates of economic growth.

The study analyzed the macroeconomic environment in the selected countries by considering four major indicators that determine the macroeconomic stability of a country - level of inflation, fiscal discipline, level of savings and investment and the exchange rate. An important feature of stable macroeconomic environment in the South East Asian countries is the low and stable inflation rates evident in each of these countries during the periods of exports and economic growth. This low level of inflation obviously was the result of the ability of these governments to manage their budgetary deficits at lower limits. What is noteworthy is the fact that the fiscal discipline was the result of adjustments from expenditure side rather than revenue side. In terms of savings and investment the performance of these countries was outstanding compared to that of other developing countries. High savings and investment levels are strongly associated with economic growth and industrial competitiveness. It must be noted that a major contributing factor to the high investment levels in these countries was the large annual inflows of foreign direct investment due to various policy incentives provided by the governments.

The East Asian countries followed diverse exchange rate policies but one aspect that was common to many of these countries was that exchange rate was used to protect the tradable sector. This was done by bringing about real depreciation of the currency or moderating the real appreciation of the currency. It must be noted that these countries followed conservative fiscal policy at the same time to moderate the excess demand pressures brought about by the exchange rate protection policies. Thus the overall macroeconomic environment in these economies provided a sound base for implementing the export promotion policies.

The analysis of export policy phases in the selected countries undertaken in this chapter reveals certain common features of the exports and economic growth in these countries. First, the allocation of various preferences and export incentives in these countries was based on markets and competition. Secondly, it was the private sector rather than the state owned enterprises that responded to various incentives. Third, government managed to carry out the policies in an orderly fashion without interference from the interest groups and there was eventual reduction in state support after a certain point. It is notable that when these features were weakened the countries experienced instability and low performance levels. Thus the chapter
points out that the sound macroeconomic environment along with export promotion measures have played an important role in the miraculous export and growth performance of these economies.

The comparative study of the export performance of India and selected Asian countries was undertaken in chapter five from a broader perspective of export led growth. This chapter tries to find out where India stands from the Asian perspective as far as the export performance is concerned and what are the exportable sectors where our performance was remarkable or at least at par with the selected Asian countries. The chapter was divided into two sections: first analyzed the performance of selected countries in terms of total export, service and merchandise exports considering their shares in world exports and their growth rates; the second section analyzed the trends in world share and growth in the extended manufacturing exports classifying them further into six broad categories on the basis of factor intensity and technology as per the UNESCAP classification (based on SITC revision 2 covering SITC codes 4 to 8). The analysis pertains to a period from 1993 to 2004 for which a continuous series of data for all the selected countries is available in United Nations Statistical Division. The countries selected for the analysis in the first section include India, China, Indonesia, Malaysia, Thailand and South Korea with an addition of Singapore and Hong Kong for the analysis in the second section.

This comparative analysis reveals that in the given period India’s performance in terms of growth in total exports, merchandise exports and service exports as well as manufacturing exports was quite comparable with that of the selected Asian countries. However its high growth in exports was not matched by the corresponding increase in the world market share of different categories of exports, except service exports whose share in the world market has improved quite remarkably over the period and comparable with that of the selected Asian countries. As far as manufacturing exports are concerned India’s average growth rate as well as world export share was greater than that of the total exports reflecting the importance of this category of exports in our total exports. In the broad categories of extended manufacturing exports India experienced remarkable growth above the world average in all the categories except science based exports and differentiated product exports where India’s contribution in the world markets is negligible. A very important point that needs attention is that the change in the
composition of India’s exports basket reflects that the country is exporting the products that are not traditional and labor intensive but more intensive in scale. However, the country doesn’t show any advance in terms of exports of highly sophisticated and technologically advanced commodities. Chinese exports on the other hand reflect that the country has not only performed well in terms of traditional labor intensive exports but also have shown her remarkable presence in more sophisticated and technologically advanced differentiated and science based product exports. Thus, the chapter provides an aggregative analysis of export performance of different countries for different broad categories of exports. As the export performance of any country is closely associated with the price competitiveness of exports, the chapter also briefly discussed the issue of the relation between exchange rates and price competitiveness of exports through the analysis of the movements in relative export price ratios, relative exchange rates and export – imports of selected countries. The relative price ratios between different countries were calculated on the basis of data about unit value index for exports collected from International Financial Statistics Yearbook. The study compared the changes in the relative prices between different countries and exchange rate movements and compared these changes with movements in exports and imports between selected countries. This chapter reveals that India could not gain much in terms of export price competitiveness as the value of Indian rupee did not change enough in response to the changes in the relative price ratios. Rather India experienced low rate of exports growth as compared with growth rate of imports in case of most of the selected countries except Singapore, reflecting that all these countries are having price advantage over India in export markets on account of depreciated exchange rates. The study puts forward a case in favor of an exchange rate policy that will maintain the exchange rate at such a level that it will take care of increased prices in the country and will provide us the required price advantage in international market.

After understanding the fact that at an aggregate level India’s exports reveal some degree of competitiveness in terms of high growth rates, though lagging behind the Asian counterparts in terms of world shares and price competitiveness, it was necessary to find out the competitive strengths of the selected economies at more disaggregate level, that is, in terms of individual commodity groups within the broad categories of extended manufacturing commodities and the possibility of increase in
India's market share in selected commodity groups. Chapter Six presented a disaggregated analysis of the manufacturing exports by the selected Asian countries and traced the degree of competition between these countries at individual commodity group level. For this analysis the chapter considers 3-digit SITC classification (second revision) covering a period from 1994 to 2004 considering the availability of data for all the countries for all the commodities. The data was collected from World Bank COMTRADE where the data up to year 2004 is available in series for all commodities and countries.

For examining the competitiveness of selected countries in different commodity groups the chapter uses the index of Revealed Comparative Advantage developed by Balassa and defined as a country's share of world exports of a commodity divided by its share of total world exports. The RCA has been measured using post trade data. If the index takes a value greater than unity, the country has the revealed comparative advantage in that commodity. The chapter discusses the advantages and disadvantages of the RCA index and reflects that RCA index, though advantageous as it considers the intrinsic advantage of a particular export commodity and is consistent with the changes in an economy's relative factor endowments and productivity, there is a major problem as the country with a declining market share in a particular commodity might end up showing increasing RCA over time if the country's overall export basket relative rest of the world is declining even faster, then the country would have an RCA greater than one but cannot be considered as competitive. Considering this constraint on the RCA index as a standalone measure of competitiveness, the chapter undertakes a two stage exercise: in the first stage for each country only those commodities are selected where the country's exports grew at a faster rate than the corresponding world export growth, indicating sustained presence of the country in the market. In the second stage for each SITC code and for each year the RCA is calculated in order to reflect competitiveness of the country in that commodity in terms of market share. Applying this double criterion, the chapter analyzes the competition among the Asian countries in different commodity exports. And on that basis the chapter also analyzes whether India can eat the competitors' market in a particular commodity group for increasing her world market share.

The analysis reflects that India has reflected quite high RCA values for many of the commodities under the extended manufacturing category as well as
high growth rates than the corresponding world growth. India has also attained unique position, that is lack of competition from selected countries, in around eight commodities including leather manufactures, floor coverings, textile fabrics, synthetic dyes, indigo and lakes, etc., rolled plated steel, iron and steel bars, medical and pharmaceutical products and ethylene in primary forms. These products cover many of the broad categories of extended manufacturing exports. Thus the country is showing a trend that reflects the diversification of export basket in different lines of production and with a high RCA value than other selected countries. As far as the competition with the selected Asian countries is concerned the analysis reveals that China along with Hong Kong has emerged as a major competitor of India in many of the product lines, especially the traditional labor-intensive exports. Even Thailand, Malaysia and Indonesia are also major competitors of India in this category of exports. Therefore, in order to retain her share in the export market for these commodities the country needs to undertake some policy initiatives to improve the competitiveness of these industries in terms of quality and cost considerations.

Another important observation here is that India is the only country along with China that has shown presence in most of the product categories coming under extended manufacturing exports where the selected countries have reflected advantage in terms of high RCA value and higher growth rate than the world export growth. Out of total 45 such commodities where the selected countries have satisfied both the criterion, India showed presence in 22 commodities with only exception to the differentiated product exports category where India does not show any presence while China has shown presence in 17 commodities most of which come under labor intensive category. But this diversification of exports is not getting reflected into India’s share in the world trade. There is a need to concentrate on some selected groups of commodities and increase the share in the world exports through promotion of these selected commodity exports. Increasing the market is possible through creating new markets for our exports or taking over the markets of our competing countries wherever it is possible.

The chapter considers the second possibility more feasible in case of some of the commodities where India has greater advantage in terms of RCA value as well as the export growth rate than the selected Asian competing countries. This
possibility has been further analyzed by finding out those commodities where India's RCA value as well as growth rate of Indian exports is greater than all the competing countries. In commodity groups such as textile yarn (651), pearl and precious stone (667), Gold and silver wear jewellery (897) India has clear advantage over all the selected competing countries and will be able to over take their market in future on account of high RCA value and higher growth rate.

As far as Thailand is concerned India can eat its market share in four commodity groups including Lime, cement (661), woven fabrics of manmade textile (653), travel goods (831), and girl's outerwear (842). In case of Hong Kong India has the scope to take over the markets for fabrics manmade textiles (653) and girl's outerwear (842). Malaysia's market in tubes, pipes of hollow profile (679), Korea's market in flat rolled iron products (673) and leather (611) can also be eaten by India in future.

A major point that needs to be noted is that in many commodity groups India is facing tough competition from China. It won't be possible for India to increase her market share at the cost of China's share in commodities such as manmade textile fabrics (653), Base metals, household equipments (697), girls outerwear (842), footwear (851), pig iron (671) and medical and pharmaceutical products mostly on account of high growth rate in China.

What emerges from this chapter is the fact that India has tremendous scope for increasing her market share in certain manufacturing commodities vis-à-vis the competitors. What is required is proper policy initiatives targeted at certain exports commodities where India has a competitive edge over the other selected Asian countries. This needs a detailed analysis of the strengths and weaknesses of such exportable commodities that can be considered as target exports and certain policy initiatives that will improve the market share and export performance of the country from a broader perspective of the export led growth.

Chapter Seven considers the need for improving the competitiveness of the export sector in order to reduce the gap between the potential and actual export performance and long run growth in the export potential of the economy and undertakes a commodity wise approach. Through the SWOT analysis of some of the exportable commodities the study tries to find out the potential of these sectors
in terms of contribution to the overall export performance and the policy
initiatives through which we can improve the competitiveness of these export
sectors in order to increase their world market share. For selecting the target
commodities the study applied three criteria: the share of the commodity in India’s
export basket, the RCA value calculated in chapter seven and the growth in
exports over a period of time. The study selected four commodities for the SWOT
analysis on the basis of abovementioned criteria including textile and clothing
exports, gems and jewellery exports, electronics goods and computer software.
The first two product categories fulfill all the three criteria mentioned above. As
far electronics goods sector is concerned, even though India does not reflect a very
high RCA in these exports, this sector has shown spectacular growth in recent
years and therefore needs to be considered as target export sector. Similarly the
computer software exports have shown tremendous growth and among all the
categories of the service exports this sector has become major contributor to the
total exports.

The analysis of the textile and clothing sector reflects the importance of
Asia in the global trade in this sector. Though individually Asian countries, except
China, do not command a large market share, collectively the region has emerged
as an important player in the global market for exports. The sector is also playing
a very important role in the employment generation in these countries. The labor
intensity of this sector is a major advantage that the sector endows upon the
developing countries. As far as India is concerned the SWOT analysis reveals that
the country has acquired certain strengths in this sector on account of the
flexibility in production, cheap labor availability, cost advantage in cotton, small
scale and diversified production base, improved designing skills and cultural
diversity as well as rich heritage. However the country has not been able to use the
potential of this sector fully due to certain weaknesses and constraints. The high
transaction cost, longer delivery times, diseconomies of small scale, cotton
domination with narrow product base, Fragmented supply chain, low level of
productivity, low technological intensity and quality constraints are some of the
visible weaknesses that the study has identified in case of Indian textiles and
clothing industry. The chapter also tries to find out the possibilities of future
growth in this sector through the analysis of the future opportunities in the
international market for textile and clothing exports and reveals that India can
definitely improve her export performance as there are opportunities in terms of
improved productivity due to increased competition, post MFA benefits to certain
product categories, increased market access due to WTO negotiations and
expansion of exports in European Union and USA. But it must be noted that the
changing trading environment in this sector due to removal of MFA will not only
open new opportunities but will also bring some threats in the form of non-tariff
barriers to exports, increased tariff barriers after the elimination of quota
restrictions, Regional preferential trading agreements, trade remedy measures and
China’s competitive strength. There is no doubt that the textiles and clothing
industry worldwide is on the threshold of major changes and the Government and
producers in India will have to take certain initiatives in order to gain from these
changes and increase our world market share.

Indian gems and jewellery industry is one of the important foundations of
country’s export growth and it is one of the fastest growing export sectors in
India. India is one of the most important players in the world markets for these
products. India is also world’s largest gemstone and diamond processing center.
The SWOT analysis of India’s gems and jewellery sector reflects certain strengths
that country has achieved in terms of cheap and skilled artisans, world wide
distribution framework, high value addition and employment, blend of traditional
and modern jewellery, certification for quality diamonds, latest modern
technology with CAD/CAM and compliance with international norms. The
analysis of weaknesses reveals that the country is lagging behind the competitors
due to unorganized, fragmented production base, mostly temporary, migrant
workers, non-existence of labor laws for the industry, existence of child labor,
high import orientation and high inventory costs.

The analysis makes it quite clear that India is a significant player in the
world market both as a source of processed diamonds and jewellery as well as a
large consuming market. The industry has significant potential for future growth.
India offers attractive opportunities across each of the elements of the value chain
in this industry due to huge reserves and mining potential, increasing demand
from Indian immigrants in Middle East and South East Asia, availability of entire
range of different products for any type of importer, growing demand in US, EU
and Canada, scope for exports in CIS countries and abolition of gold control act. However, the country is facing stiff competition from Thailand, Shri-Lanka and China in small diamonds sector threatening our exports in that sector. Further there is over-dependence on De Beers and Argyle for supplies of raw material that may affect our cost-competitiveness. A major threat that the sector might face is from the rising domestic demand, which will affect the export surplus of the industry. An overall review of the SWOT analysis reflects that the future of gems and jewellery industry is quite promising and more and more buyers across the world are turning to India as their preferred source for quality jewellery, but there are certain lacunae that need to be considered from the policy perspective.

Though India does not reflect a very high revealed comparative advantage in the exports of electronics goods, this sector has occupied a very important place in India’s. Electronics exports is one of the fastest growing exports sector in India and needs to be considered as target sector. The global production network in this sector is dominated by major transnational corporations and international subcontracting has become an important feature of this sector. It is one of the fastest growth areas in international trade. India’s electronics industry is still in development phase and though India has so far been able to capture only a minor share of the global market, India’s exports of electronics goods have increased steadily over a period of time. The chapter brings out that India’s strength in this sector primarily lies in the availability of primary material, low labor cost, highly qualified, scientific and technical manpower and diversified production base. But the country has not been able to capture a major share of the world electronics market due to certain weaknesses such as massive technology gap, low volume of production and high cost, absence of infrastructure, other inputs and promotional services, inadequate domestic and foreign investments, problems in obtaining required approvals and absence of strategic marketing plan. The global electronics industry is characterized by rapid growth, fast technological changes and ever-increasing applications. Indian electronics industry has also come of age now to participate in the growing world trade in electronics. A major export thrust from India is feasible and it can be achieved on account of the opportunities available to India. The analysis of opportunities reveals that India has scope for increasing exports on account of untapped markets in Asia-Pacific and SAARC.
countries, Russia and CIS countries, consumer electronics and opportunities in high growth areas such as CD- recordable, Un-interrupted Power Supply, color television, memory cards, picture tubes etc. But the country might face certain threats in the form of dominating transnational corporation, China’s advance in the area of electronic goods, the competition from the established players from NICs such as Taiwan, Korea and Singapore and the short product life cycle in the sector that needs to be tackled with rapid innovations and investments in research and development. Thus, the chapter reveals that even though there are opportunities in the new emerging markets, India needs to become competitive to take the advantage of these changing trends in this growing sector.

Service sector is not only the most important contributor to the economic growth of the country but there are also visible signs that even internationally the sector is emerging as country’s driving sector. Within this sector computer software is the most dominating sector with a very high growth and export potential. The sector has become a relatively low investment, environmental friendly, high-growth global industry and considered to be a good target industry for countries like India. The global software industry is still in the process of evolution and as far as India is concerned opportunities in e-commerce software solutions and IT-enabled services are emerging as a major area of growth of the Indian IT and software service industry. The chapter reveals that there are certain factors that have acted as areas of strength in case of India’s software exports growth. These factors include low cost professionals, large English –speaking educated workforce, operational time differences, emergence of outsourcing as a business model, immigrants from Indian origin and high quality and software development standards. Indian exporters have strengthened their position on account of the human resources and time differences. But the analysis also points out that low level of research and development, small domestic market, scarcity of well-qualified trained manpower, high pay scales leading to rising costs and growing operational costs have become major constraints on the growth of this export sector. As far as opportunities are concerned the sector has great potential as a result of outsourcing by US firms, outsourcing from Japan and Europe, E-commerce software solutions, IT-enabled services or remote processing and few alternatives to India available in the global market. However the country’s export
growth in future may get threatened because of scarce management expertise, shortage of technical expertise, emergence of China as a major competitor in the field along with the Philippines, Brazil, Russia and South Africa and lastly lack of innovation and product development.

The whole chapter stresses on the areas of strengths and weaknesses as well as opportunities and threats that the country may face in the exports of the selected commodities and reflects need for certain policy initiatives that will help the country to improve the competitiveness in the global market for these commodities. As the study basically aims at examining the possibility of the export led growth in the context of India, it is necessary to find out how the growth in these selected target commodity exports will affect the growth in the GNP.

Chapter Eight tries to establish relation between export growth and GNP growth and finds out how and to what extent the GNP growth in selected countries was contributed by the export growth. The chapter also examines the effect of export growth in target commodities on the GNP growth and the possibility of export led growth in case of India. As the question of export led growth in terms of causality has already been discussed widely by different researchers and the studies on this issue clearly reflect that there exists a causal relation between export growth and GNP growth in case of India, this study concentrates on another aspect of export led growth i.e. how the GNP growth is affected due to export growth from the demand side. The chapter points out that the output of an economy is demand determined and not supply constrained, and it is the long-term growth in autonomous demand that governs the long run rate of growth of output. The autonomous demand in an economy is in turn determined by domestic demand components and foreign components. If we could find out the extent to which the growth in GNP is financed through growth in different demand components it will be possible to trace out whether the growth is domestic demand led or export led. Further it will also be possible to examine how the change in exports growth may affect the GNP growth.

Therefore, the study takes a demand side approach for analyzing the growth process in selected countries and undertakes ex-post disaggregated analysis of the GNP growth through demand side macroeconomic identity. The
macroeconomic identity considers GNP as a function of final private and government consumption expenditure, gross domestic investment and net exports. The consumption and investment expenditure constitute the domestic components of GNP while net exports, i.e., exports minus imports, reflect the external component of GNP. The share of each of these components in the overall GNP growth will reflect the extent to which the domestic demand and net exports have contributed to the growth process. The equation used for this analysis states that the growth rate of GNP is a function of the sum of the shares in the GNP times the growth rates of private consumption, government consumption, investment and exports less the product of the share of imports and its growth rates. The chapter undertakes this analysis for four Asian countries including India, China, Thailand and Korea, representing the three generations of Newly Industrialized countries. The data for all the variables was collected from United Nations Statistical Division, which provides a continuous series of expenditure components measure at constant 1990 prices. The analysis covers a longer time period from 1983 to 2006, further divided into three sub-periods for the analytical purposes. The sub-periods are from 1983 to 1993, from 1993 to 2003 and 2003 to 2006; the last period though short and not comparable with the earlier two, is considered in order to find out the recent trends in the different components of GNP.

The analysis for all the selected countries reflects that the first period, i.e., 1983 to 1993, was marked by high economic growth for all the four countries accompanied by a high growth in the domestic demand components and net exports contributed negatively to the GNP growth. The second period from 1993 to 2003 witnesses somewhat decline in the average growth rate of the selected countries except India. This was the period when net exports assumed an important place in the GNP growth especially in case of Thailand and Korea, while in case of India and China both the domestic and exports components contributed to the growth. It should be noted that countries that were hit by the financial crisis during this period such as Thailand and Korea, lessened domestic demand expansion and strengthened export growth after 1997. During the third period between 2003 and 2006, all the countries experienced remarkable GNP growth. In case of China, India and Korea the export component gained the
importance in the growth process while in case of Thailand there was reversal in the trend and domestic demand became prominent source of growth. As compared to other countries, however, India’s GNP growth was observed to be dominantly domestic demand led with some pale hints of export led growth after ten years of economic reforms in the external sector. It is pointed out that there should be a proper balance between the domestic demand led growth and export led growth, otherwise we will be taking away from the country the static and dynamic benefits associated with the export growth.

Though this exercise explains the share of different demand components in GNP growth and the extent of export led growth in selected countries, it does not explain the possibility of export led growth in India and how we can achieve high rates of GNP growth through export growth. Therefore the second section of the eighth chapter tries to find out how the export growth in selected target commodities discussed in chapter seven will get reflected into GNP growth. The SWOT analysis in chapter seven clearly reflected that there is huge potential for increasing the exports of the selected four commodities. If we could use this potential and increase the growth rate of these target commodity exports by 100% i.e. we could double the growth rate of the target commodity exports then this will in effect increase the growth rate of total exports and ultimately will have a favorable impact on the GNP growth rate.

For analyzing this effect of target export growth on GNP growth the study considers average growth in target, non-target (other than the four target commodities) and total exports for a period from 2003 to 2006 and then tries to find out what will be the growth rates in the next period 2007 onwards if we could double the growth rate of target exports in that year assuming the growth rate of non-target exports remains constant at the average 2003 –2006 level. The data for real values of commodity exports at constant 1990 prices was collected from United Nations Statistical Division and RBI. Then on the basis of the real values the growth rates and shares of target and non-target exports were calculated. After calculating the effect of doubling of the target export growth on total export growth, the effect on GNP growth of the changed export growth was calculated with the help of the identity used in earlier section of this chapter. However the whole analysis was based on an important assumption, that is, the constancy of
growth rates and shares of all other demand components of GNP at the average 2003-2006 level, except the exports.

The analysis comes out with very interesting conclusions. It was found that due to 100% growth in target exports, the total export grew by 60.24% over the last period. This growth in total exports got reflected into GNP growth quite impressively as the GNP grew at 12.26% in the next period over and above the 10% average growth rate in the period 2003-2006. Similarly the share of net exports in GNP growth increased to 20.36% while that of domestic demand components decline to 79.64% of 12.26% growth rate. This clearly indicates that it is possible to attain a high rate of GNP growth in India if we could increase rate of growth of exports through target -export oriented policies. Thus the whole analysis brings out the case for export led growth in the context of India keeping in mind the fact that it should necessarily be considered as an additional source of growth in GNP along with the domestic demand components and not as an alternative source.

Thus the analysis undertaken in this study points out that it is possible to attain high rates of GNP growth through high rates of export growth in the context of India provided the country undertakes certain policy initiatives at different levels. The study while discussing the case for export led growth in case of India comes out with certain lessons and policy implications for India at macro level and micro level.

Lessons and Policy Implications for India at macro-level:

- The analysis undertaken in this study reflects that considering the static and dynamic benefits associated with export growth India needs to consider exports as an additional source of growth along with the domestic demand components. This necessitates the special consideration to exports as a source of growth than just a source of foreign exchange earnings. The policy makers need to consider the changed role of exports in a broader perspective of export led growth while formulating the export policies.

- As far as the policy lessons are concerned, the first factor that needs consideration is the importance of macroeconomic stability. Strict monetary and fiscal polices with balanced budget, low levels of foreign and domestic debt are
necessary to maintain the stability of the macroeconomic environment. In case of India, the country has not only shown an inability to maintain the stable macroeconomic environment in the past but also reflects the potential threat of instability resulting from the high fiscal deficits. There is a need to restrict the GNP share of government expenditure as a measure towards fiscal discipline.

- The East Asian countries tried to keep the exports growing at a higher rate and one major factor responsible for this high export growth was the protection of real exchange rate from appreciation. India, even though, is showing the signs of stability, the possibility of sudden appreciation may affect the business environment adversely. India needs stable macroeconomic environment in terms of fiscal and monetary discipline in order to maintain and control the appreciation of the currency.

- A very important aspect that needs consideration is that the country needs an exchange rate policy that will help to compensate for the rising prices. Further the bilateral exchange rates should change in accordance with changes in the relative price ratios between different countries to improve the growth performance of exports.

- In case of financial reforms the liberalization of the financial system should be gradual and cautious in view of the possibility of crisis that resulted into East Asian and other countries in the world.

- As far as specific export promotion policies are concerned, it is clear that an open and outward oriented trade regime is of central importance in the development process. A free trade environment is useful because it makes it easier to identify the economy’s comparative advantages and because it gives exporters access to imported inputs at competitive prices. An open foreign investment regime is also important for export promotion. Further the recent research results indicate that that the operations of foreign export oriented affiliates may have a positive impact on the domestic exporting firms through spillovers of technology, marketing and management skills.

- Many of the export policies tested in Asia are also relevant for India. The two major problems that exporters are facing are related with the lack of competitive financing and lack of information on foreign standards, regulations and customer
requirements. In fact the above analysis reflects that the Indian government seem to have given far less support for exports than other selected countries. In particular, the institutions for export credit and export insurance and guarantee schemes are weakly developed. It is possible that the most important lessons from the East Asian experience are found in these areas. While public investment in export infrastructure and financing have been important in these economies, it is notable that several of these economies have established formal institutions for international marketing, market research and technology diffusion. In countries like Korea and Taiwan, the efficiency of these institutions has been enhanced by comprehensive investments in education at all levels. This has not only made it possible to transfer foreign technology and knowledge to selected industries in the country but also to diffuse it throughout the economy. India needs to consider these factors for enhancing the future export potential.

- It is essential to maintain strict discipline in the administration of support system, to preserve the hard budget constraints for exporters. The support should be made available to only those exporters who fulfill the certain predetermined criteria. Especially in case of industries set up in the Special Economic Zones, concessions and support should be provided only after the fulfillment of required export criteria.

- There is also an important point that needs consideration in case of India and that is the role of Special Economic Zones (SEZs) in the overall export policy. Considering the Chinese experience, the special economic zones in India can create the export-oriented environment for the domestic and foreign investors. There can also be a kind of spillover effect of the SEZs on the surrounding areas generating rapid growth in these areas. First the export policy reforms can be introduced in the SEZ areas and then considering the positive effects of the policies in SEZs, the reform process can be extended to other parts of the country.
9.3 Lessons and policy implications at micro-level or commodity level:

9.3.1: Textiles and clothing:

- The global trade in textile and garment sector is concentrated in the hands of large retail firms. Such firms are interested in bulk orders and therefore opt for vertically integrated companies. There is an imperative need to integrate the operation in this industry from spinning to garment making, to gain in such trade. This vertical integration of production processes along the supply chain would help to reduce the turn around time and also improve the quality. Basically the problem of disintegrated supply chain in India is the result of small scale of operations in this sector. Now we need to avoid the policy bias on the part of government against large-scale operations. The Government should reduce the disincentives of operating in the factory mode. The de-reservation for the small-scale industries on the recommendations of Abid Hussein Committee (1977) is a very important step taken by the government in this direction. But this needs to be accompanied by flexible labor policy and increased inflow of FDI along with increased domestic investment in this sector. This will solve the problems of inefficiency and low productivity associated with diseconomies of scale.

- Technology is expected to play a lead role in the weaving and processing that would improve the productivity and quality levels in future. Many developing countries such as Bangladesh have already installed latest technologies in the production processes. Indian textile and clothing industry should also turn into high technology mode to reap the benefits of large-scale operations and quality. It would be preferable for the government to enable the imports of latest technology in addition to investing in research and development. The technology transfer and diffusion of innovations within the country needs to be encouraged.

- The government should remove the policy bias against synthetic, man-made fibers in the form of high taxation, thereby increasing the domestic base of synthetic fibers and providing the factories an additional source of demand in the world market.

- Technical textiles constitute a major portion of world demand with a high growth potential. The current growing demand is for geotextiles, civil engineering markets, sport textiles, and medical and hygiene textile. On this background India
should consider this option while encouraging the diversification of textile industry in order to capture the growing market.

- Poor infrastructure is the major cause behind the longer delivery times and high costs in the exports of textiles and clothing. This can also act as a serious handicap in case of fashion sensitive items. India needs to invest more in the development of infrastructure for exports along with removal of inefficiencies in power sector and fast clearance of customs procedures to reduce the transaction costs and delivery delays.

- Government can help small industries to build reputations for quality, reliability and compliance. This can be achieved through targeting niche products and well publicized compliance with international environmental and labor laws. The brand names can be publicized through trade fairs and missions abroad. Government can play an active role in building the brand “Made in India”.

9.3.2: Gems and jewellery:

- There is an imperative need of labor laws governing the gems and jewellery sector, as the sector is highly unorganized. Sector specific labor laws may help the industry to deal with the problems emerging from the migrated labor or child labor.

- The high import orientation of the industry needs consideration on the part of government. Access to raw material is a major hurdle that has to be taken care of. Considering the limited supply of gold in the international markets, there is a need to search new sources of raw material as well as development of new types of metals such as Palladium that can serve as an alternative to gold jewellery.

- Since India already enjoys 80-85% of world cut and polished diamonds market, scope for further growth in diamond exports is limited. Hence, if India’s gems and jewellery sector is to substantially increase exports, the best bet lies in the jewellery sub-sector. Given the fact that the global market for stone studded jewellery is expanding, there is a scope for expansion in India’s diamond studded jewellery exports also. What is more important here is to consider the fact that India has tremendous scope for exports of gold jewellery. The country’s exports however form
only a small part of the global market for these commodities. This market potential should be recognized and tapped by the Indian exporters as well as the government.

9.3.3: Electronics exports

- The first important implication of analysis of electronics exports is that there is a need to identify a vision and strategic growth plan for the electronics exports from India. As the Indian electronics exports, unlike textiles and gems and jewellery, do not have any long-term tradition and established markets, the government should take steps in formulating a comprehensive strategy for the promotion of these exports.

- The production of electronic goods has to be planned on a scale much larger than what is warranted by considerations of domestic consumption so that it will provide required surplus for exports. This large-scale production can be achieved through the promotion of single manufacturing clusters, for example, Motors Port Valley, Southern England.

- There is a need to initiate a marketing campaign through participation in International Fairs, India contact Programmes, Release of print adds in international publications about Indian advantages and profile in the electronics exports. This marketing campaign will help the exporters to tap the unexplored markets in this sector.

- India can be promoted as a logistically and geographically proximate and economically viable manufacturing base and hub for supply of electronics to the fast emerging markets in SAARC region where the local industry is still under developed. This will also help to attract companies to invest in India with technology and capital.

- Indian electronic hardware products, design capabilities and manufacturing profile need to be demonstrated both qualitatively and quantitatively. This can be achieved through the promotion of a few large companies in this sector.

9.3.4: Computer software:

- Reliable affordable telecommunications and Internet infrastructure is critical to software exports and to its deployment throughout the country. In India the government initiated a program for developing software technology parks, which helped small and medium enterprises. However, low telecommunications density in
India continues to limit the diffusion of ICT and software applications and also affecting country’s advantage in exporting low cost software services. Government needs to undertake innovative approach regarding the connectivity and infrastructure on the lines of Chile that pioneered a least-cost subsidy approach or Shri-Lanka that used smart subsidies to extend infrastructure to rural areas.

- The domestic use of software technology is considered to be an important driver of software industry growth. Government, apart from the private sector, can become a major source of domestic demand for software services and professional in terms of information systems projects. This will help in improving the business systems and competitiveness of the industry. Government and domestic business organizations must offer a “base level” to software firms with innovative ideas, new products etc. Government can create innovation fund to share the cost of R&D with software companies.

- Since the software capacity is correlated directly with the size and skill of the available workforce, country needs to increase the number of software professional and skilled manpower in line with ever increasing demand. There is need to attract talented workforce into the field. This is possible through the creation of long-term stable software career paths that will attract talented people into the field. The curriculum should be directed towards changing needs of the industry. Private software education and training institutions should be encouraged that can support the universities in imparting education and training to produce large number of programmers.

- Small software firms are particularly challenged in identifying, understanding and penetrating foreign markets. Government should undertake marketing programs to position Indian companies and to build country’s image and “brand”. Establishment of trade missions to introduce emerging software enterprises to market influences and intermediaries as well as venture capitalists will also help the software exporters.

- Many countries have transnational communities that play a key role in the development of the software industry. In case of India, the large Diaspora communities can play a major role in keeping the cost competitiveness of the country through creation of infrastructure and transfer of technological know-how. However this potential contribution can be realized only through coherent and effective national
strategies. Government should undertake such policy initiative through government recruitment and incentives and opportunities in order to attract the large number of Indian immigrants.

Concluding remarks:

This study was basically undertaken to find out whether the export led growth strategy that was a part and parcel of growth strategies in the South East Asian countries, can be considered as a possible source of additional growth in case of India. The analysis reflected that from the theoretical and empirical point of view there is a case in favour of export led growth strategy. There is huge potential for increasing the exports of the country and improving the world market share in case of certain target commodity groups. This requires conscious, systematic approach towards exports as well as growth policy.

With the above policy guidelines it can be concluded that, in the changing environment the role assigned to exports in Indian economy should change from a mere “foreign exchange earner” to “exports as a catalyst in the growth process”. The comparative analysis of India vis-à-vis the ‘Asian tigers’ does not provide us an idea about the specific policy instruments that can be used for export led growth. The analysis, however, definitely gives us an idea about the way these economies maintained the environment for boosting the manufacturing export growth as well as certain macroeconomic variables such as exchange rates, price levels etc. to attain high growth through export growth. India needs to use these insights in ways appropriate to her own circumstances. It may not be possible for India to replicate the East Asian miracle due to the demographic, structural and political constraints. But in order to improve the growth performance, India can definitely replicate certain elements that contributed to the growth process in these economies. And, one of the most important elements that this study emphasizes, is the approach towards “exports as a source of growth”.

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