Chapter VI

CONCLUSIONS

1. Summary of Findings and Conclusions

Cotton Fabrics (Mill-Made). For the period 1957-1981, the variations in India's quantity exported and its price are satisfactorily explained by external and domestic factors.

The falling trend in India's export demand is found to be due to her falling price competitiveness *vis-a-vis* her close competitor, Hong Kong. This is evident from the finding that India's export demand is highly price elastic, the estimated demand price elasticity being statistically significant and at around -4.

Further, external demand is found to be *not* a constraint on India's exports. This is supported by the finding that the elasticity with respect to this variable is also greater than '1' and statistically significant.

On the supply side, domestic constraints are found to be responsible for India's declining export performance. The export supply is found to be price inelastic at around +0.35 (own price elasticity).

At the same time, domestic pull on exports, as reflected by domestic price (of cotton fabrics) variable
is found to be a very important factor. The estimated elasticity with respect to this variable bears the negative sign, as it should be, according to the 'domestic pressure hypothesis', and is statistically significant.

Domestic price of cotton fabrics is found to increase mainly due to rising raw material costs, falling labour productivity and a slow pace of modernisation in the mills.

Furthermore, the average export prices including export incentives (viz., cash compensatory support, duty drawback, premia on replenishment licenses) are generally found to be lower than the average domestic prices during the study period.

The forecasts of export volume of cotton fabrics suggest a decline in 1985 and 1986 over the corresponding previous year.

Thus, in order to arrest the falling trend in export volume, it is necessary to improve the cost competitiveness of exports by more effective policies. It is suggested that the policies should aim at improving factor productivities, possibly by intensifying modernisation programmes.
Export subsidisation by itself would not improve the export competitiveness in the long run since, with a rise in domestic prices, the gap between export and domestic prices widens and the exporters would tend to look forward to higher rates of export subsidy from the government in order to shift their sales from domestic to export markets.

**Cotton Handloom Fabrics.** It is estimated that export supply of cotton handloom fabrics is price elastic in the range of 1.0 to 1.3 and is statistically significant. Unlike the case of mill-made fabrics, handloom export prices with incentives are found to be generally higher than domestic prices on an average indicating a possibility that exports are more profitable than domestic sales.

Further, exports are also found to increase with a rise in the share of the decentralised sector in total production of fabrics or with a rise in the consumption of cotton yarn by the decentralised sector. This is indicated by the finding that the export supply elasticities with respect to these two variables, are in the range of 1.4 to 2.2 and are statistically significant.

The forecasts generated up to the year 1987 show a promising future, given that mill deliveries of cotton
(in hank form) to the handloom sector continue to increase over time.

**Readymade Garments.** India's export demand for readymade garments are estimated to be price elastic around -1.57 and statistically significant. In relative price terms, the elasticity is around -1. The world demand is found to be not a binding constraint on her exports as the associated elasticity is also estimated to be around +1.65. These findings suggest that there is a scope for increasing the volume of exports by decreasing the price or making them more competitive in the international markets.

At the firm level, the results of sample survey indicate that a large number of firms export garments to quota countries *viz*., the USA and member countries of the European Community. Their exports are therefore critically dependent on government allotment of export quotas to them. In general, there exists competition among exporters (inter-se competition) for quota allotment, given the export demand. As quotas are allowed to be transferred among them, this has resulted in quota premium which in turn have tended to push up the export price of some sensitive items that have generally high export demand. The export price elasticities for such items are found to be high.
Further, it is found that the average export prices of different garment items have been generally higher for large firms than for small firms.

Intra-firm variations in export performance are found to be largely due to (i) the firm's export price vis-a-vis an index of other competing exporters' prices, (ii) the firm's ability to diversify into different markets, and (iii) the degree of selling efforts, such as firm's participation in trade fairs in the buyer's countries, business trips abroad and effective communications with the importers.

2. Limitations of this Study and Scope for Future Work

This study has been conducted at macro level in the case of cotton fabrics both mill-made and handloom. The findings thus indicate a macro perspective. However, with the emergence of new markets like the USSR and Middle East countries etc., India's exports are likely increase to these markets in future. Thus, there is need to examine export demand structure in these countries.

Similarly, in the case of readymade garments, this study has examined the export demand possibilities for all countries with emphasis on quota countries viz., the USA and member countries in the Europe Economic
Community. In the recent past, quota restrictions have become more and more intensive and reduced the scope to increase India's exports to these countries. Therefore, emphasis is on exports to non-quota countries. Thus, it is necessary to study in detail the structure of overseas competition in non-quota countries.

At the micro level, the present study has focused on India's export behaviour of readymade garments in presence of quota restrictions. The sample survey conducted has yielded some insight into the firm level characteristics. One serious limitation of this attempt is that the sample data used relate to one point of time, the year 1981. Secondly, the sample may not be representative of the population, since it is a small sample of size 24 and only includes exporters located in and around Delhi.

Thus studies involving more representative samples covering larger population, preferably in major cities like Bombay, Calcutta, Madras and Bangalore are required in order to arrive at firm findings. A need exists to compare sample characteristics at different points of time so as to examine the changing structure of the industry and suggests possible measures for increasing the foreign exchange earnings from garment exports in future.
Finally, the micro level export models suggested in this study have a general applicability to other export products as well. The most important variables explaining export supply behaviour at the micro level are the differential characteristics such as firm's ability to diversify into new markets and new categories, its selling efforts, size and its export price vis-à-vis price of other competing exporters. It may be noted that these features are associated with many export products or product groups. Hence the models suggested by this study can also be applied to other export industries with some modifications if necessary. Thus, it is hoped that the present attempt will be useful to researchers, industry and policy makers.