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FUTURE OF INDIA'S EXPORTS : NEED FOR EVOLVING A NATIONAL EXPORT STRATEGY

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FUTURE OF INDIA'S EXPORTS: NEED FOR EVOLVING A NATIONAL EXPORT STRATEGY

The continuous growth in the value of India's exports at an average rate of growth of as much as 25 per cent per annum during the last four year period (1972-73 to 1975-76) has brought about a general feeling in the country that at last our export sector has shown dynamism of the kind which is expected to continue to contribute increasing amounts of foreign exchange earnings at relatively "high" rates of growth in the coming years. Coupled with other favourable developments on the balance of payments front such as the improved prospects for reducing the value of total imports this year and hopefully in the coming years in sight by current reckoning and the surge in inward remittances of foreign exchange noticed in recent months reflected in substantial increase in the country's foreign exchange reserves, the danger of complacency on the export front overtaking the country is emerging in the background. The purpose of this paper is to highlight some of the weak points of our export performance and policy in the past and to make a realistic assessment of the potential contribution of aggregate exports in the economy during the next five years or so and finally to present broad contours of some of the desirable elements in the formulation of an appropriate national export policy to realize the potential contribution of exports.

Appraisal of Recent Export Performance

The apparently high rate of growth recorded in the value of exports in recent years (See Table 1) needs to be appraised in proper perspective by taking into account a number of other developments in the national economy as well as international economy.

To begin with, the noticeable increase in the value of India's exports during the last five years has been due to the operation of a number of favourable developments in the world economy which are not going to last for a long time. The most important of these developments is the international commodity boom of 1972 to 1974 which has already started petering out since 1975. Most of the gains recorded in the value of our exports in recent years have been due to the effect of international inflation. This can be seen from the figures provided in Table 2. Thus, comparing figures in Tables 1 and 2, we see that the growth rate of quantum of our exports has not been anywhere near the growth rate recorded in value terms. In fact, the average annual rate of growth of quantum of our exports during the period 1970 to 1974 has been around 5 per cent per annum with a range from -1.0 per cent (1971 over 1970) to 10.9 per cent (1974 over 1973).

Put in the international perspective, the rate of growth of our exports in real terms has generally been much lower than that of the world as a whole (see Table 1 again). The only exception in this regard has been the year 1975 where India's exports are estimated to have grown in volume by 6.4 per cent over 1974 compared to a decline in the volume of world trade by as much as 6 per cent in the corresponding period. It is well known that the performance of many developing countries (such as Brazil, South Korea, Israel and Taiwan) on the export front has been consistently much better over time than India's performance. The result of the widening gap in the export performance of India and the rest of the world has been a sharp decline in the share of India's exports in world exports. Thus, despite the apparently high increase in India's exports in value terms in recent years, our share in the value of world exports came down from 1.2 per cent in 1960 to 0.7 per cent in 1970 and was further down to 0.5 per cent in 1974. In 1975, however, the share of our exports in world exports registered a small increase and went up to 0.51 per cent.

Put in the perspective of balance of trade, India's imports have registered a much higher rate of growth in recent years (see Table 1) due to a sharp deterioration in the terms of trade. With 1968-69 as the base-year, the index number of net barter terms of trade which was 124 for the year 1972-73 dropped to 77 in 1974-75 when the full impact of sharp increases in the prices of imports of fuel, fertilisers and food was felt. The deficit in the balance of trade touched an enormous figure of Rs.1189 crores in 1974-75 and was still at the estimated level of Rs.1076 crores in 1975-76. Despite the prospects of reduced import bill at current international prices in the near future, the possibility of India continuing to face adverse terms of trade is quite real.

India's debt servicing obligations after taking into account rescheduling of debts by creditor countries has been going up especially after the impact of the oil crisis on the import bill. These obligations are estimated to be around Rs.700 crores in 1975-76. The Final version of the Fifth Five Year Plan makes it abundantly clear that in view of rising costs of investments, the country is planning to rely on more foreign aid for part of the financing of the plan outlay than considered necessary in the Draft Fifth Plan. Net foreign aid required for the Fifth Plan is now revised upward from Rs. 2,400 crores in the Draft Fifth Plan to Rs.5,400 crores in the revised Plan. If this materialises, the debt servicing obligations will further go up during the coming years.

The Target Rate of Growth of Exports for Fifth Plan period

Encouraged by the recent trends in India's exports and realizing the vital need for a more vigorous drive to increase the country's export earnings in the context of the objectives of the national plan, the Planning Commission has raised the target rate of growth of exports (at 1974-75 prices) to 8.5 per cent per annum in the Final Fifth Five Year Plan. The target rate of growth of exports (at 1972-73 prices) set out in the Draft Fifth Plan was 7 per cent per annum.

It needs to be pointed out in this connection that India's exports in quantum terms are estimated to have been growing at an average rate of around 6.4 per cent per annum in the first two years of the Fifth Plan. If the revised Plan target of 8.5 per cent per annum growth rate in the volume of exports has to be achieved for the entire period of the Fifth Plan, the annual average rate of growth of volume of exports during this year and the next two years will have to be roughly of the order of about 10 per cent.

Need for the Formulation of a National Export Policy

The key question in the context of the revised target rate of growth of exports in the Fifth Plan period as stated above is whether such a growth rate for exports would be feasible? In view of the weaknesses of India's export performance analysed in the section dealing with the 'Appraisal of Recent Export Performance', it is difficult to conclude with conviction that Indian exports have now taken off for a self-sustaining rate of growth in real terms at the rate experienced in recent years.

It may be noted that the average rate of growth of exports in real terms in normal years during the period 1968-69 to 1974-75 has been around 4 per cent per annum. The economy experienced demand recession in serveral industries in 1974-75 which was somewhat similar to the recession experienced in 1967-68. The year 1975-76 was also characterised by the spill-over of recession of 1974-75 among certain industries. We do not have to generate recessions continuously to promote growth of exports in real terms. The structural weakness of India's increased exports in recent years also needs to be carefully noted. A large part of the expansion in our exports in 1974-75 and 1975-76 has been due to commodities like sugar and silver which are not our "normal" exports and for which we do not have sufficient capacity to export in future. The performance of exports in 1975-76 reveals the disturbing facts that some of our traditional exports are again not doing well such as tea, jute and cashew kernels whereas our competitors in these products have not fared badly in the same period. The exports of some non-traditional products (such as chemicals) have registered sharp decline in 1975-76 over previous year's performance.

In view of the basic weaknesses in the export performance of our country noticed in the past some of which are still valid, the achievement of the target rate of growth of exports in real terms at the rate of 8.5 per cent per annum during this financial year and the next two years would clearly be a stupendous task. However, this would not be an impossible task. Indian economy is now well diversified and new opportunities for exports have emerged in the markets for a number of our products. In addition, a number of other new non-traditional exports are emerging on the scene such as exports through joint ventures, exports of turn-key projects, consultancy services etc. There is no doubt that several measures taken by the Government of India for promoting the growth of exports, especially since 1973, have helped a great deal in contributing to the growth of our exports in recent years. However, all these measures still do not add up to a long term national export policy. There is a very clear need for evolving such a national export policy to realize the full potential of the contribution which exports can make to the national economy. Once the appropriate national export policy is evolved and efficiently implemented, it should be possible to achieve the revised target rate of growth set for the Fifth Plan.

While formulating an appropriate national export policy, it needs to be remembered that export policy cannot be isolated from the overall economic policy for the domestic sector. Even though the contribution of exports to the Gross National Product has gone up from around 4 per cent in 1967-68 to a little over 6 per cent in 1975-76 indicating a substantial increase at the margin, there are very clear limits on the contribution of growth of exports to the overall growth of the economy. However, within these limits, the potential contribution of exports to the economy ought to be fully realised. What we need in this connection is the formulation of a long term national export policy for the growth of exports which would consider exports not in isolation but as an integrated part of the total growth strategy for the economy in all sectors. The linkages of the foreign trade sector with domestic economy have to be clearly kept in mind while formulating such a long term policy for the growth of exports. To this subject, we turn in the next section of this paper.

Desirable Elements in the Formulation of an Integrated Long Term National Export Policy

Even though the objective of this paper is not to provide a final blue-print of an appropriate long term national export policy, it would be quite in order to spell out some of the major elements which need to be considered by the policy-makers while evolving such a policy. The following points provide a sketch of some of the desirable elements in the formulation of a relevent national export policy:

1. Planning product-mix for country's exports

The first question which needs to be answered in carrying out an exercise of formulating an integrated national policy for the development of exports is to properly plan the product-mix of the export sector. The basic choice to be made in this connection relates to the identification of commodities and services for which the country will continue to possess comparative advantage over time. Such a policy would be generally consistent with the government's encouraging the exports of "labour-intensive" products.

2. Prioritising the "commodities" to be selected for export promotion

In view of the limited resources available for export promotion in a developing country like India, it would be necessary to prioritise the "commodities" for which export promotion schemes need to be devised. This can be done by ranking "commodities" in order of their net contribution to foreign exchange earnings over time taking into account the cost of both the direct and indirect imports required for a dollar worth of export of each alternative commodity to be exported. In view of the changing nature of conditions of trading in the world economy, it would be necessary to continue the practice of periodically reviewing the status of the priority of the various exportable "commodities" over time for the purpose of export promotion. Such a policy would be consistent in most cases with the government's exhortation to (and in some cases compulsion on) exporters to switch wherever and whenever possible, to "higher value added items" within the same broad category of exports (for example, switching from the exports of raw hides and skins to the exports of manufactured leather). However, the long run viability of such switches in terms of net foreign exchange earnings needs to be carefully reviewed before implementing them.

3. Prioritising the "markets" for promotion of exports

It would be necessary to identify the markets for the "commodities" selected for export promotion and to prioritise the various markets (country-destinations of the world) for each of these products according to the contribution of the product in terms of net foreign exchange earnings from each market over time keeping in mind the size of each market for our goods in the long term perspective. The list of prioritised markets will have to be continuously reviewed so as to reflect changes in the market conditions over time. The "product-market" mix will, therefore, have to be simultaneously identified.

4. Orientation of export incentive schemes to net foreign exchange earnings criterion in a time-bound schedule

In a developing country like India, it would be necessary to continue various schemes of export incentives for promoting exports of selected non-traditional "commodities" on the grounds of infant-industry protection. Such schemes must be strictly time bound so as to conform to the principle of demonstrated comparative advantage in the long run. All incentive schemes should be geared to the criterion of net foreign exchange earnings of the "commodities" selected for export promotion. The rates of export incentives should be valid for appropriately long enough period and changes in such rates should be made in a phased manner to enable exporting units to plan their export business for future with greater certainty of the expected rate of profit from export transactions. Such a policy is likely to help in promoting exports of a number of non-traditional exports.

5. Policies for Strengthening production base and exportable surplus

An important requirement of sustained growth of exports from the country would be to ensure growth of exportable surplus for major exportable "commodities" after meeting the requirements of domestic demand. This would require strengthening of the production base. It will call for adoption of policies which will further liberalise expansion of export-oriented units to the optimum economic size over time in the world market so that they can compete in the long run with the units located in the developed nations. Other measures in this direction would include ensuring adequacy as well as timeliness of the availability of critical inputs - both domestic (such as power) and imported. If resources are a constraint, for production planning programmes for exports, it would be better to first put emphasis on the expansion of exportable industries characterised by underutilization of capacities and then only move towards making investments in creating capacities.

It would be of utmost significance that our products are of international quality. This aspect of strengthening production base should be given due importance.

6. Improving the logistics of movement of export goods

The government can help the process of export promotion , still further by improving the logistics of movement of export goods for safer, speedier and less costlier transportation, by rail, road, sea and air. The formulation of a long term policy on expanding our shipping capacity and coordinating this with national shipping lines of other countries is immediately called for.

7. Ensuring appropriate facilities for export finance and insuring export credit risks

The banking system can play a very useful role in facilitating the expansion of exports by providing not only finance (both short term and long term) but also some other services such as providing certain types of trade information, helping exporters in completing various documents required in export-import business and arranging loans in foreign currencies in the international financial centres. There is a need to strengthen the role which banks in India can play in the task of export promotion. The setting up of a separate Export-Import Bank of India specializing in developing the country's exports with long term deferred payment financing arrangements would considerably strengthen our efforts to promote exports on self-sustaining basis.

Similarly, there is a great need for expanding and improving the services provided by the Export Credit and Guarantee Corporation to the exporting community in India.

8. Strengthening marketing efforts

Much greater attention needs to be paid to strengthening the marketing base of India's exports. Wee need to evolve a more effective marketing information system in terms of collection, processing and dissemination. We also need to undertake relevant market research, market planning and market development activities in a non-traditional and imaginative manner. We should also strengthen efforts to build up the image of India as an industrial country.

9. Widening the scope of the export obligation policy

Considering the fact that selling in the domestic market would continue to be more lucrative than selling in export markets for most of our non-traditional products, the policy of export obligations will have to be continued and should be extended in coverage to include more products. This policy should, however, be worked out on a more flexible basis <u>from unit to unit</u> for major production units in the country.

10. Greater Role for fiscal policy

There is a very strong case for assigning a much greater role to fiscal policy for export promotion in the future. Direct tax concessions on total corporate income should be offered to exporting units in selected industries on a graduated scale related to the increase in their share of export sales in total sales over time. It would also be desirable to implement export obligation scheme through fiscal disincentives in terms of tax debit scheme (just the reverse of tax credit scheme). Thus, if a particular unit does not fulfil its export obligation over a number of years, the rate of corporate income tax for it will go up retrospectively. This should serve as a powerful tool for securing compliance on the export obligation by the concerned firms.

11. Liberalizing Exchange Control System

The exchange control system as it is operated is not suited to a growth situation and acts as a very serious block in the way of a possible major thrust towards internationalising Indian business. There is a need to liberalize the exchange control system by decentralising decisions upto some monetary limit and following certain guidelines on the use of foreign exchange by units which earn substantial amounts of foreign exchange.

12. Further liberalization of the transferability of Import Replenishment Scheme for Exporters

There is a need for a further liberalization of the transferability of the import replenishment licences in terms of (i) coverage of items (shopping list) to anything except a few items considered socially undesirable and specified in a banned list, and (ii) enlarging the group of buyers to include all production units in the economy. This will further improve the availability of raw materials for strengthening the production base especially for exports. This will also push up the profitability of exports in white money (in the legally declared accounts) and help in the promotion of exports.

13. Management of an appropriate Exchange rate policy

During the current regime of floating exchange rates when the external value of the rupee is determined by an unspecified basket of currencies, the government may have an opportunity to decide the exchange rate of the rupee in a way that our exports get an advantage while importers and our foreign lenders do not gain much. The scope for evolving such an exchange rate policy exists since some of the countries to whom we export in a major way differ from the countries from whom we import goods and services in a major way.

14. Negotiation for further reduction of tariff and non-tariff barriers

Government of India will have to make greater efforts at bilateral as well as multilateral levels for negotiating further reduction of tariff and non-tariff barriers to the expansion of India's exports still prevailing in other countries especially among the developed countries or group of countries (such as the EEC). It will be equally important for the government to ensure that the benefits secured through negotiations in this respect (such as further liberalisation of the G S P scheme of the EEC) are more effectively utilised by the Indian exporting community.

15. Economic Cooperation among the developing countries of the world for securing better terms for the exports of primary commodities

Our government can take the lead in cooperating with countries like Sri Lanka and Kenya for setting up trade association in the case of tea and with Bangladesh in the case of Jute. This will help in improving the unit value realization from the exports of these commodities in the international markets. The association of Iron Ore Exporting Countries of which India is a leading partner should be used effectively to secure higher prices for iron ore linking them with international price of steel.

16. Furthering efforts for regional economic cooperation among countries of the Asian Region

The Government of India will do well to continue to take the initiative shown by it in the past to further efforts at regional economic cooperation especially in the Asian region. Export promotion through this strategy for India would involve import promotion from the countries of this region and the government **can be advised** to accept this fact and encourage larger imports of selected products (such as rice) from these countries to India.

17. Liberalising Policy towards canalisation of foreign trade

Canalisation of imports and exports must be restricted to only a few selected items where it is deemed to be absolutely essential in the national interest. It should be possible to use the policy of selective decanalisation of imports and exports in a phased manner as an aid to export promotion.

18. Dovetailing India's production plans for selected exportable commodities with the production and trade plans of the countries of the Soviet Block

In view of the fact that the pattern of trade (especially imports) of the countries of the Soviet block, particularly the U S S R, is undergoing substantial change, it would be worthwhile to re-examine the scope of expanding our exports to the USSR and other countries.

Since we have to start repaying our loans from the Soviet Union and other East European countries under foreign aid programmes, it would be prudent to plan for careful dovetailing of our production plans during the remaining years of the Fifth Five Year Plan and beyond with the production and trade plans of the Soviet Union and other countries of this block. We should also explore the possibilities of joint ventures with the countries of the Soviet Block to be set up in third countries.

19. Better management of domestic demand for exportable commodities

The supply of exportable surplus for a number of commodities (especially those experiencing growing world demand with rising prices) can be increased within some limits by the Government of India through a more prudent management of domestic demand by the government without sacrificing the objective of domestic price stability in a major way. In the long run, of course, if such commodities hold promise, we should create additional capacities for making them part of our basket of regular exports.

A second avenue for better management of domestic demand by the government in the interest of creating exportable surplus is in the case of luxury items of consumption such as air-conditioners where capacities have been allowed to be created even though the consumption of such items has been considered to be socially undesirable in terms of the priorities for allocation of resources.

Yet another ingenious avenue for better management of domestic demand for export promotion can be found in exploring the recycling possibilities for our export-import mix. This would include identification of such products where price-wise cheaper varieties of these products would be imported and costlier varieties (fetching much higher price in the international markets) could be diverted from the home market to the foreign markets. For example, we can import broken rice on a large scale to meet the needs of rice for domestic consumption and export costlier varieties like the Basmati. Incidentally, such imports will also promote regional economic cooperation among developing countries.

20. Organizational support for better planning of the export sector and implementation of export promotion policies

An appropriate organizational structure is required to support the efforts of the government in formulating and implementing an integrated export policy in the context of the national plan. The Export Planning Department recently set up in the Ministry of Commerce should be given the task of the formulation of an annual and a three year export plan for the nation in the context of the export plan laid down in the document of the national Five Year Plan. This can be done by integrating the plans of a few leading exporting units (for example, top 100 companies in the public and private sectors) who would account for a very large portion of the country's exports. This department can monitor the progress of each exporting unit classified product-wise in achieving the targets through the Export Promotion Councils and can also suggest mid-term corrective actions required.

CONCLUSION

The future of India's exports has brightened with the emergence of many new opportunities in the world markets for its exports. These opportunities relate to both product exports and project exports (including exports of services such as technical and management consultancy services). India's capabilities in the fields of such exports have already been developed to a reasonable degree and there is a great deal of scope to develop them further. Thus, the potential contribution which exports can make for increasing the foreign exchange earnings of the country in the coming years have also increased correspondingly. However, in order to ensure that this potential is effectively realized, it would be necessary to evolve an integrated long term national export policy.

This paper has provided a sketch of some of the major elements which need to be considered by the policy makers in the government as well as exporting units for jointly evolving such an integrated export policy. If such a policy can be evolved and implemented soon, it would go a long way for achieving the revised Fifth Plan target growth rate of exports in real terms at 8.5 per cent per annum not only for the remaining years of this Plan but also beyond into the period of the Sixth Five Year Plan as well. Perhaps India can do better than this currently ambitious target in the Sixth Plan period with the help of the new policy for which this paper has expressed concern and offered suggestions.

TABLE 1

INDIA'S BALANCE OF TRADE: 1970-71 to 1975-76

(Rs. in crores)

Year	Exports	Imports	Balance of trade
1970-71	1535.2	1634.2	- 99.0
1971-72	1607.0 (4.7)	1824.5 (11.6)	- 217.5
1972-73	1960.9 (22.0)	1796.7 (-1.5)	164.2
1973-74	2523.4 (28.0)	2955.4 (64.4)	- 401.9
1974-75	3330.6 (32.0)	4519.9 (52.9)	- 1189.3
1975-76 +	3942.0 (18.4)	5158.0 (14.1)	- 1216.0

Note: Figures in brackets relate to percentage change over the preceding period.

+ Provisional (revised) Estimates.

Source: Director General, Department of Commercial Intelligence and Statistics (DGCIS)

TABLE 2

INDEX OF UNIT VALUE OF EXPORTS FOR THE WORLD AND INDIA

Year	World		India	
	Unit Value index.	Quantum index	Unit Value index	Quantum index
1970	100	100	100	100
1971	104 (4.0)	107 (7.0)	102 (2.0)	99 (-1.0)
1972	114 (9.6)	117 (9.3)	110 (7.8)	108 (9.1)
1973	141 (23.7)	131 (12.0)	132 (20.0)	110 (1.9)
1974	199 (41.1)	139 (6.1)	170 (28.8)	122 (10.9)
1975	216 (8.5)	131 (-5.8)	196* (15.3)	132* (8.2)

Note: Figures in parenthesis indicate percentage change over the previous year.

* Quarterly average (estimated).

Source: United Nations, Monthly Bulletin of Statistics. Oct. 1976