A STRATEGY FOR EXPORTS

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

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In recent years, India's exports have shown a remarkable progress. This had its start in 1972-73 when India's exports at Rs. 1,971 crores showed an increase of 22.6 per cent as against 4 to 9 per cent growth in the previous three years. The rate of growth was still higher in 1973-74 at 26 per cent when the exports stood at Rs. 2,483 crores. As a result of this notable growth in the last two years of the Fourth Plan, the annual compound growth rate in exports for the Fourth Plan as a whole amounted to 12.8 per cent as against a target of 7 per cent envisaged in the Plan. This compares with the increase of 0.3 per cent in First Plan, 1.1 per cent in the Second Plan and 4.6 per cent in the Third Plan.

The following table gives an idea of India's export performance over the four Plan periods:—

INDIA'S EXPORT PERFORMANCE

(Rs. Crores)	Imports	Exports	Balance of Trade	Export as a % of imports
First Plan Average	723	609	194	85
Second Plan Average	985	624	361	63
Third Plan Average	1241	752	489	61
Annual Plan Period Average	1991	1238	753	62
Fourth Plan Average	1968	1802	166	92
1969-70	1583	1413	170	89
1970-71	1634	1535	99	93
1971-72	1825	1608	217	88
1972-73	1867	1971	+104	106
1973-74	2921	2523	398	86
1974-75	4349	3253	1096	75

Exports continued to increase in 1974-75. They increased to Rs. 3,253 crores, showing an increase of 29 per cent over 1973-74. This continuous increase in exports appears to have given rise to high hopes.

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*The author is Jt. Director of the Indian Institute of Foreign Trade, New Delhi. This compilation is based on a lecture delivered under the auspices of the Delhi Centre of the Forum of Free Enterprise, and his article in "Cross Section", November 1974, and a paper presented at the India Investment Centre Seminar on export promotion in April 1974.

To assess the recent growth in exports in its true perspective let us analyse the reason for this remarkable progress in India's exports. The steep rise in exports during 1972-73 and 1973-74 can be attributed to the following factors:—

(a) Exports to Bangla Desh.

(b) The virtual devaluation of the Rupee in relation to foreign currencies (due to its link with a depreciating sterling) which made India's products more competitive.

(c) The international price boom specially in regard to primary products which started in the second half of 1972 but was accelerated in 1973, as a result of which export price of primary products were 43 per cent higher than in 1972.

(d) The opportunities created by the energy crisis in the revival of the usage of natural fibres and leather as against synthetics.

All this led to a marked improvement in the unit value realization of several export products. The higher value realization on account of exports during 1972-73 was due almost equally to the rise in the quantum and the unit value, while about 85 per cent of the increase in exports during 1973-74 stemmed from higher unit value realization. According to a study by the India Institute of Foreign Trade based on a sample of 32 items, 86.7 per cent of the increase in exports in 1973-74 was due to higher world prices and only 15.2 per cent of the rise was attributable to an increase in the quantum exported. It will, therefore, not be wrong to conclude that the rosy picture exhibited by exports is due not to any inherent strength of our economy nor due to any planned effort by the Government or the exporting community, but mostly due to fortuitous circumstances.

In this respect, India's experience has not been different from that of the rest of the world. The average increase in world exports was 10 per cent per annum in the period 1961-71. It increased to 20 per cent in 1972 and to 36 per cent in 1973. If we compared the growth in India's exports with that of the world exports as a whole, we find India far behind. As a result, India's share in world exports further declined from 0.655 per cent in 1971 to 0.577 per cent in 1973.

There are many indicators to determine a country's export strength. One of them is the rate of growth in exports. In this respect, we find that the rate of growth in India's exports is much lower. The compound annual growth rate in world exports was 11.2 between 1956 and 1970 while that of India's exports was only 3.1 per cent between 1955 and 1970, the respective figures for 1971, 1972 and 1973 were 12.1 and 1.7; 19.0 and 16.5; and 36.2 and 22.5. Another indicator can be a country's contribution to world trade. India's contribution was 2.2 per cent in 1950. It has continuously gone down to 1.4 per cent in 1955 to 1.2 per cent in 1963, to 0.7 per cent in 1970 and 0.6 per cent in 1973. Yet another indicator is a country's rank among international exporters. In this respect too we find India's position going down. It was 15th in 1960, 22nd in 1968 and 24th in 1972. Exports as a percentage of GNP (Gross National Product) can provide another indicator of a country's export strength. India's exports constituted 6.3 per cent of GNP in 1950-51. This percentage came down to 4.2 in 1970-71. Had India maintained a constant percentage of exports to its GNP, India's exports would have been 50 per cent higher, and her balance of payments position much more comfortable.

In one respect, India's position has shown an improvement, that is the percentage of imports financed by exports. It was as high as 92 per cent in 1950-51. It went down countinuously to 85 per cent in the First Plan, to 61 per cent in the Third Plan. It improved slightly to 62 per cent in the annual plan period, 1966-69. In the Fourth Plan period as a whole, there was a tremendous improvement to 92 per cent. But it was more due to a forced decline in imports due to non-availability of foreign aid. This is proved by the fact that in 1973-74, the last year of the Fourth Plan, the percentage declined to 85.

The prospects of continued demand from developed countries do not appear to be bright. The economic growth of the industrial countries is likely to decline. In fact, according to the latest IMF Report, the volume of the total output in the industrial countries suffered an outright (though small) decline in the first half of 1974 under the impact of cyclical influences and of developments relating to oil. According to the latest GATT Report on "International Trade", the combined GNP of the major industrial countries declined at an annual rate of 1.5 per cent in the first half of 1974 against the growth of 8 per cent in the corresponding period of 1973. According to the Report, the annual growth rate of the volume of imports into industrial countries which had attained 16 per cent in the first half of 1973, declined by more than a half to $7\frac{1}{2}$ per cent in the following 6 months, and was again halved to $3\frac{1}{2}$ per cent in the first half of 1974. It may be noted here that the elasticity of the volume of world trade to industrial production is well above unity. On average, over the period 1953-73, each percentage point change in industrial output was accompanied by a change one and a half times as large in the volume of trade.

The unprecedented increase in the export of primary commodities reflected not only the strength of world demand in the face of limited supplies but also hedging and speculative demands stemming from rapid monetary expansion, deeply ingrained inflationary expectation and widespread currency adjustments and uncertainties. As pointed out by the International Finance Corporation in its annual report, "The long term outlook for commodity prices remains unclear due to significant changes in the international demand/supply balance for certain commodities, the effects of rising costs on long-term supply and above all, a new world-wide awareness of the importance of adequate and assured availability of essential primary commodities." According to the GATT Survey, prices of agricultural raw materials have started declining after January 1974. Minerals and non-ferrous metals began weakening in May 1974. But prices of foodstuffs are likely to remain strong. Moreover. if past experience is any guide, primary producers usually try to achieve greater market shares by competitive price reductions. Thus chances are that prices of primary commodities will fall.

From this one can conclude that the favourable factors that operated to boost India's exports in the recent past may not continue and the demand for them may be adversely affected.

High hopes have been raised by the new-found wealth of the West Asian countries. It was expected that this may provide an expanding market for many of India's exports, particularly sugar, cement, iron and steel, leather products, rice, engineering goods etc. Aprt from the fact that the domestic supply of these products is not comfortable, these markets are likely to be subjected to severe competition. The people in Gulf countries have become choosy and may be attracted by goods manufactured in the developed countries. Price may not be the only consideration in selling goods in these markets. Non-price factors like established brands, familiar sources of supply, established political and commercial links, etc. will play an important part. In the case of capital goods and durable consumer goods, after sales service and credit terms may be more relevant.

So also it was expected that the oil crisis will lead to an improvement in the competitive position of natural products as against synthetic products having a petroleum base. Naturally India expected to gain in respect of jute products, cotton textiles and leather. It now transpires that the position of synthetic products has not been so adversely affected as to give any sustained benefit to the natural products. Studies made by the World Bank in respect of jute products show that due to the substantial margin contained in the price of synthetic carpet backing, it has not been difficult for its producers to cut back their prices so as to maintain their competitive position at the pre-oil crisis level.

Coming to the domestic supply base, the position is much more difficult than that created by the weakening demand for India's exports. There are a number of constraints which stand in the way of substantial step-up of exports. In respect of many products, increase in production by full utilization of capacity is being hampered by difficulties like shortage of industrial raw materials, severe power cuts, transport bottlenecks and labour troubles.

In respect of many industries, capacity constraints stand in the way of expansion of production for exports. Credit squeeze is another dampener which has become very serious in recent months.

The major increase in value terms was contributed by 4 items/item groups, viz., cotton textiles (mill-made), oil-cakes, engineering goods and handicrafts. The combined increase in these items amounted to 60 per cent of the aggregate increase in India's overall exports in 1973-74. Other items which are supposed to have good export potential are sugar, rice and cement. Let us analyse the prospects of these items.

As regards cotton textiles. world trade is already facing a slump and Hong Kong, Taiwan and Pakistan are offering severe competition. They are reported to be quoting 25-40 per cent less prices than those quoted by India. Lack of modernisation and the increasing cost of the domestic raw cotton are likely to prove serious handicaps for India while competing with these countries. The increase in the exports of oil-cakes was more due to increase in prices prevailing and it may not be possible to earn the same amount of foreign exchange this year. The long term prospects for engineering exports are definitely good specially in the case of labour intensive items. But the industry is faced with two serious problems — non-availability of industrial raw materials and acute power shortage. While the availability of steel is likely to improve, power continues to be a serious problem. Pearls and precious stones accounted for 65 per cent of the total exports of handicrafts in 1973-74. But here procurement of raw materials like rough diamonds from overseas on a steady basis is a continuing problem.

World prices of sugar are ruling at a very high level and there appears to be almost an insatiable demand for sugar. But India does not have much exportable surplus of sugar. Whatever exports are being made now are being affected by curtailing internal consumption. Unfortunately, nothing is being done to increase production of sugarcane to sustain exports at a high level. Due to the inadequate increase in the minimum price of sugarcane in the face of the sharp increase in cereal prices, there is, a strong possibility of large-scale diversion of acreage from cane to the more lucrative crops. There is an acute shortage of cement in the country and unless capacity is increased, it would not be possible to spare much for export without causing undue hardships to the domestic consumers. In view of the acute shortages of food in the country, it is doubtful whether it would be possible to spare any rice for exports. What is, however, possible is export of superior quality rice provided cheaper quality of rice is imported in adequate quantities.

There is no doubt that India's import bill will remain at a fairly high level in the near future due to several factors: (i) Heavy payments for oil imports which may increase from Rs. 200 crores in 1972-73 and Rs. 500 crores in 1973-74 to anything between Rs. 1,200 to Rs. 1,500 crores. Fortunately, chances of any further increase in oil prices are dim. (ii) Need to import food due to domestic shortage. A conservative estimate would be a minimum of Rs. 300 crores. (iii) Continued increase in import prices. There is a steep rise in the cost of products imported by India, namely, crude oil, fertilisers, machinery, food, non-ferrous metals, etc. In fact, the increase in import prices is reported to have caused a sharp deterioration in the country's terms of trade. Of course, prices of non-ferrous metals have shown a falling tendency in recent months.

So far, the Government of India has taken resort to massive foreign credits in one form or another. It has availed itself of the special credit provided by Iran and Iraq and of the oil facility of the IMF. But it cannot go on borrowing on the requisite scale for an indefinite period. Naturally, we have to take steps to intensify our export effort in right earnest.

It is reassuring to note from the speech of the Secretary, Department of Export Production, at a recent meeting, that the Government is considering a number of schemes to provide additional incentives to exports such as the modification of the present duty drawback scheme, provision of adequate export credit, supply of adequate raw materials, etc. The STC has come out with a scheme of assistance to producers to set up additional capacities for export. The assistance will be in the form of firm loan, supply of plant and machinery or imported raw materials provided that the additional production is routed through the STC.

A sustained export drive requires many more steps.

The first requisite for a successful export drive is identification of the export sector and the commodities which could be easily developed for the purpose of exports. So far, India has been trying to export whatever is possible, irrespective of the cost involved. It is high time to find out the areas where India has a comparative advantage and to encourage growth in just those areas, if necessary, even with the help of foreign capital. This would also minimise the need for subsidy.

Some of the areas which appear to have good prospects for India consist of steel, aluminium and engineering products. The demand for steel and aluminium is rising. Specially, aluminium is replacing zinc, lead, tin, iron and copper. India also has advantage in labour-intensive areas where developed countries are finding it difficult and expensive to continue. Again, there is an increasing tendency on the part of developing countries to reduce the import of products and increase the import of spare parts and components. Herein lies an opportunity to increase the exports of Indian components, spare parts and machine tools. In this respect, ancillary industries can make a significant contribution to the export drive. In the engineering sector specially, there are large unutilised capacities which can be successfully exploited for capturing export markets. Fortunately, many of the products in which India has a decisive cost advantage are basic goods whose buyers do not normally book for prestigious names. However, India with all the iron ore and the successful experience of five big steel plants, has not yet been able to emerge as an exporter of steel.

Export markets are to be wooed and won and, once won, have to be nursed and developed with all possible care. But in India domestic sales are more profitable, so there is a tendency on the part of manufacturers to increase their domestic sales at the cost of exports. However, curtailment of domestic consumption for purposes of exports in certain cases may have serious consequences. The internal market provides an essential cushion to domestic industries in times of world depression. Again, any reduction in supplies for the internal market will necessarily be inflationary. In fact, exercises to locate surpluses for export by means of constraints on domestic consumption have proved futile. Due to this realisation we now have a fairly long list of items whose export was banned or restricted at one time or the after. The list includes steel, aluminium ingots, many categories of tubes and bright bars, cotton yarn, oilcakes, paper and pulp, and some chemicals and compounds, including plastics.

Similarly, the policy of imposing compulsion on the manufacturing units to export more is also open to several objections. Firstly, if manufacturers are compelled to export, they would increase their internal prices to compensate themselves for losses incurred on exports. It may be unfair to the internal consumer if he is asked to pay more when he is already paying prices higher than the world prices because of a protected domestic market. Secondly foreign buyers cannot be compelled to accept commodities they are not interested in. Thirdly, selling below domestic prices may be taken as dumping. This may invite retaliation where the industrially advanced countries usually win. Fourthly, the knowledge of the fact that Indian exporters are under compulsion to export may tend to depress unit values of India's exports and thereby reduce overall foreign exchange realisation.

The basic push to our export effort has to come, therefore mainly through increased production, agricultural, mineral and industrial. In fact, **export production** should get precedence over mere **export promotion**. Again, if the overall production increases faster than the likely growth of domestic consumption, this can go a long way in reconciling the conflicting interests of the domestic and the foreign markets. According to Prof. Hunsburger of American University, Washington, the basis of the success of the Japanese export offensive is "filling the order". Successful compliance of an order is followed by more orders. Unless we are in a position to fill the orders, there will be a credibility gap about India's capacity to export. The Japanese succeeded on the export front not because they are good planners but mainly because they are good performers.

Industrial production can be increased substantially by full utilisation of the unutilised capacities. A study by the NCAER reveals that the extent of underutilisation of capacity in major industries is considerable, mainly due to the non-availability of raw materials either owing to foreign exchange difficulties or poor quality of indigenous supplies. Of late, the three major developments, viz., (a) breakdown of the infrastructure, particularly shortages of coal, power and transport, (b) the impending foreign exchange crisis, and (c) the rapidly worsening labour situation, have raised serious doubts whether we will be able to do anything better on the production front.

When the crying need of the hour is to increase production, it is hardly worthwhile to pursue the public sector and private sector or large and small unit controversies. In fact, it has been contended that domestic pre-occupation with dominant undertakings has inhibited export effort. Even the Estimates Committee was unhappy to note that delays had taken place in the clearance of licences for some export-oriented units. We should seriously examine the case for free licensing of capacity for predominantly export-oriented industrial units. A survey of India's export potential made by the Industrial Development Services commended the Swedish example and suggested that exemption be given to export production from the purview of MRTP Act because these very industrial houses, which are likely to be brought under the freeze, are the ones which control the major part of India's modern industry and hence the export potential.

There is a strong case for re-examination of the minimum export obligation limit of 60 per cent of the new or additional production (75 per cent in the case of items reserved for small-scale sector) required for the licensing of new export capacities. The high percentage of export obligation limit leaves the industry with very little scope for recouping its losses in exports from sales in the domestic market. Similarly, there is need for having a second look at government policies in respect of foreign collaboration to take advantage of the emerging export opportunities in specific sectors. If the USSR could invite the West Germans and the Americans to set up autombile plants and the Japanese to develop Siberia, why cannot India take advantage of foreign capital to increase its export potential? There is need to ensure that foreign investors are not unnecessarily scared.

At present our manufacturers/exporters have to battle all the time to get the right quality of material at the right time and at the right price. If our export effort is to succeed, we have to ensure adequate supplies of raw materials to our exporting units, even if the raw materials have to be imported.

It would be necessary to introduce an element of selectivity and screening of exporters. As recommended by the Selectivity Committee, "any foreign trade promotional policy should deliberately provide for the building up of a cadre of efficient business houses who accepted a total commitment to concentrate on export trade and who possess the required qualifications and adequate resources to undertake overseas trading in a large measure, in a substantial manner, and over a long period." As recommended by the GSP Seminar held in March, 1973, such a selection can be made by Export Promotion Councils on the basis of an appropriate *pro forma*. These selected export units must be provided all the facilities for fulfilling their production and marketing plans. There may, however, be a procedure of appeal in respect of any grievance about the selection of the export-worthy units.

These selected units must fix specific targets in respect of specific markets and specific products and concentrate their efforts to achieve these targets. Favoured units as they would be in the matter of allotment of foreign exchange and scarce inputs, they must be obliged to export a specified percentage of their production so that they contribute, in addition to, the foreign exchange allotted to them, at least 50 per cent thereof. This would be a more desirable way of linking exports with imports than the present system of export obligations which may result in distress sales.

Control of inflationary pressures is imperative to increase the competitiveness of India's exports. The initial success that Japan and the Federal Republic of Germany achieved in export was mainly due to relative stability in their export prices. Empirical evidence proves that countries with price stability have always shown a better export performance. Inflation cannot be controlled unless there is a complete reorientation of domestic fiscal and economic policies. The domestic policies leading to inflation need to be critically examined and suitably amended. Such a step is necessary in the export interest mainly because it is well nigh impossible to insulate the export sector from the inflationary impact of domestic policies. Nor should the intensification of inflationary pressures in some advanced countries make us complacent in this respect.

The competitiveness of India's exports can also be improved by controlling costs. Costs can be controlled by

(i) establishment of export-oriented units with latest technology and optimum scale to permit economies of scale;

(ii) full utilisation of domestic capacities;

(iii) ensuring availability of raw materials and other inputs at international prices;

(iv) rationalisation and modernisation of equipment;

(v) linking wage increase to the rise in labour productivity; and

(vi) rationalisation of indirect taxes.

The Indian producer enjoys a completely sheltered home market, so he has no incentive to reduce his costs.

To bring about a sense of cost-consciousness in Indian industry, it would be worthwhile to examine the possibilities of (i) introducing greater competition among Indian industrialists by delicensing all export industries and (ii) allowing some token imports to impart a dose of foreign competition. To meet the foreign exchange requirements involved in establishing new industrial units, the promoters should be asked to manage the necessary foreign exchange themselves. It is high time that the Indian exporters are gradually prepared to stand on their own without any props.

As an exporter, India is a late starter in the world markets for industrial products. Established suppliers have advantages over newcomers. On top of it, poor performance by many Indian exporters in the past has created a bad reputation for Indian suppliers. In fact, the size of price discount necessary to sell Indian goods is related to the reputation of the supplier and the quality of the product. One possible reason for the low prices obtained for Indian products is probably the fact that Indian firms provided less back-up service to distributors than their competitors from advanced countries. (Mark Frankena "Marketing Characteristics and Prices of Exports of Engineering Goods from India").

No doubt, we do not have unlimited foreign exchange resources to spend on market promotion. From this point of view, our limited resources could be better utilised by identifying and concentrating on the professional groups who make buying decisions. The number of such persons may not exceed 20 to 25 in a particular country. To identify these persons, it would be useful to appoint a couple of competent and knowledgeable persons in each potential market for each commodity to monitor all the marketing information to Indian exporters on a contract basis. Information is needed about who buys our products, for what purposes they are used and what the market conditions prevailing in the importing countries are. By concentrating on a few buyers, operational costs of marketing can be reduced considerably and our exporters can enter a new market in a big way. Professional shows can be arranged for such importers by the concerned Export Promotion Councils either in the importing country or in India by inviting buyers who are always keen to find cheaper sources of obtaining their requirements.

It has also been observed that Indian firms with foreign collaboration do not face the same marketing problems as domestic firms without such collaboration do. This is partly due to their well established brand names and partly due to their better knowledge of the market. In fact, if we could obtain foreign collaboration specially in the area of marketing, a number of products could be manufactured in India and sold in affluent countries without much difficulty. The Vollarath Plan adopted for the sale of India's engineering goods proves this conclusively.

In addition to product exports, there is need to develop export of service also. In fact, export of turnkey projects and our know-how provides new opportunities in the export field. Recently, the Government of Iraq awarded to Greece an irrigation project worth £140 million. This is an area where we have developed sufficient expertise and with some effort we could have won that project.

In fact, there is good demand for India's technical know-how and consultancy services in the co-developing Asian and African countries, which have shown a decisive preference for "intermediate" Indian technology, which is generally labour-intensive. India is now in a position to offer complete plants on a turnkey basis. The engineering industry should develop its own consortia to supply complete plants, erect them and provide after-sales service. There can be some 6 to 7 specialised consortia to deal with specialised industries. These consortia may prove to be the most effective instrument for boosting exports of India's engineering goods. An Export-Import Bank may have to be set up to provide the necessary finance. Government is already thinking on these lines.

Joint ventures abroad should be freely permitted. In addition to profits or dividends, efficient operation of Indian plants can provide the best possible publicity for Indian products. It may be necessary to provide a foreign investment guarantee scheme for underwriting political risks involved in such ventures.

Incentives must be simple to understand and easy to operate. The basic incentives should remain unaltered for a period of 10 years.

If an exporter is able to improve upon his export performance, the Rupee value of the foreign exchange earned by him over and above his past year's performance should be completely exempt from tax in the year in which the increase takes place. This will provide an enduring incentive to the exporters to continue to increase their exports.

If the exporters earmark part of their profits for an export price equalisation account or export subsidy account, the amount thus kept separately should be allowed as a deduction for purposes of income-tax. In course of time, this may reduce the need for Government providing incentives.

The existing diffusion of authorities entrusted with the task of assisting exporters should be avoided by bringing about centralisation. One or, at the most, two agencies should be entrusted with the task of providing export assistance. The Ministry of Commerce may work out a suitable institutional arrangement to bring about improvement in the existing system.

Though it is too late in the day to discuss whether the state should intervene in foreign trade, there is no reason why state agencies should be allowed to function on a monopoly basis. Private sector should be allowed to compete freely with the state agencies for the import and export business. That will motivate them to work more efficiently and at lower costs. Very often, the STC is alleged to have charged high premiums on canalised items in respect of supplies to export producers.

Lack of shipping space and hike in freight charges have created a serious problem for India's exporters, who are even hesitant to accept fresh orders. Congestion in ports has also resulted in diversion of some shipping services away from Bombay and Calcutta. It is, therefore, imperative to accelerate our programme of development and modernisation of port facilities. Besides, it is necessary to ensure adequate shipping services without which our export effort will receive a serious set-back.

The Export Policy Resolution was the first attempt made by the Government of India in 1970 to define its export policy. It laid emphasis on almost all the important facets of the export promotion effort in the country. However, for one reason or the other, many of the directives contained in the Resolution have remained unimplemented. That this is so is proved by the fact that no comprehensive annual statement showing the progress made in the implementation of the Export Policy Resolution has been laid in the Parliament, as suggested by the Estimates Committee in 1972. It is high time that the Resolution is implemented in right earnest.

There should be a complete *rapport* between the industry and the Government. In Japan giant trading companies that spearhead the export drive get complete backing from both the Government and the banks. In fact, the key to the Japanese success in export drive is the effective teamwork between the corporate executives and the Goverrnment officials. The Government even sets minimum sizes for industrial plants when it feels economy of scale is vital. Thus Japanese plants are of economic size from the very beginning, even though there may not be an adequate home market. If the domestic market proves insufficient, search is made for export markets to dispose of the surpluses.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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