

CHAPTER - 3
GROWTH OF EXPORTS
AND
EXPORT FINANCE
IN INDIA :
TREND ANALYSIS

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For indepth undertaking of export financing in India, it is necessary to examine the growth of exports in the country, in the context of the behaviour of important macro variables of economy.

The present chapter is divided into two parts. Firstly, the growth trend in Indian exports is measured with reference to the five year plan periods. Further, the growth in exports is related to the growth in selected macro variables viz. foreign trade, national income and GDP. Second part examines the growth of export finance during the five year plans and relates it with the growth in exports on one hand total bank credit on the other.

TABLE 3.1

<u>Growth of exports in India : Plan wise</u>				
Sr.no.	Year	Total exports (Rs.crores)	Growth over previous year (Per cent)	Compound growth rate (Per annum)
<u>First Five Year Plan</u>				
1	1951-52	733	21.96	
2	1952-53	577	-21.28	
3	1953-54	531	- 7.97	0.26 %
4	1954-55	592	11.49	
5	1955-56	609	2.87	
<u>Second Five Year plan</u>				
6	1956-57	620	1.81	
7	1957-58	635	2.42	
8	1958-59	573	-9.76	1.06 %
9	1959-60	639	11.52	
10	1960-61	642	0.47	
<u>Third Five year Plan</u>				
11	1961-62	661	2.96	
12	1962-63	685	3.63	
13	1963-64	793	15.77	4.66 %
14	1964-65	816	2.90	
15	1965-66	806	1.22	
<u>Annual Plan</u>				

rate shot up to 9 per cent per annum. During the Third Plan, the growth rate was less than 5 per cent, but it shot up to nearly 19 per cent between 1966 and 1969. The high growth rate reflects the spur in exports resulting from the devaluation of Indian rupee in 1966. Several other export promotion measures were taken during the sixties viz. export credit (Interest Subsidy) scheme, Cash Compensatory Support etc.. In 1965, Export Credit and Guarantee Corporation was established for providing insurance facilities to exporters for covering commercial and political risks.

During the decade of seventies, the annual growth rate of exports further increased to 16 per cent. In between, the growth rate during the Fourth Plan, which was 13 per cent, went upto 18 per cent during the Fifth Plan. International commodity boom in 1974 resulting in the first hike in the oil prices brought about the depreciation in the value of rupee vis a vis U.S.dollars. Diversification in the commodity composition of exports and emergence of West Asia market in mid seventies were the major factors for higher growth rate during the Fifth Plan.

During eighties, the decennial growth rate for the first time marginally declined to less than 15 per cent. During the Sixth and Seventh Plans, the growth rate were more or less the same, 13 and 14 per cent respectively.

Exports is one of the major macro level variable of the Indian economy. Hence, it is pertinent to examine the growth in exports in relation to the growth in three important national level variables viz., Foreign trade, National Income and Gross

Domestic Product (GDP). The following table presents exports as percentage of selected three macro variables for the period 1950-51 and 1987-88.

Table 3.2
Exports as a percentage of Foreign Trade National Income and
Gross Domestic product

Sr.no	Year	Foreign Trade	(per cent) (1950-51 to 1987-88)	
			National Income	GDP
1	1950-51	48.04	6.81	-
2	1954-55	47.44	6.79	-
3	1959-60	40.04	5.15	-
4	1964-65	37.69	4.08	3.54
5	1969-70	47.18	4.47	3.84
6	1974-75	42.41	5.59	4.78
7	1979-80	41.88	7.23	6.05
8	1984-85	40.89	6.48	5.16
9	1986-87	38.35	5.49	4.29
10	1987-88	41.24	6.16	4.79

N.B. The relevant data for exports and the variables are presented in Appendix - III

The ratio of exports to the total foreign trade was around 48 per cent in 1950-51, it marginally declined in the year 1969-70 (47.18 per cent) and in 1987-88 it further declined to 41.24 per cent. This data indicates that the share of exports in total foreign trade of our country has followed a declining trend. Efforts need to be put in to reverse the trend for improvising the balance of trade position of our country, which is critical position at the present juncture.

As a percentage of national income, exports worked out to 6.81 per cent in 1950-51. In 1969-70, the percentage declined to 4.47 per cent and again in 1987-88, it rose to 6.16 per cent.

As a percentage of Gross Domestic Product, exports marginally declined over the period 1964-65 to 1987-88. In 1987-88, the ratio was less than 5 per cent.

It is clear from the above table that exports as a percentage of total foreign trade as well as national income and GDP followed fluctuating trends, whereas, ideally there should be rising trend of all these ratios, if exports are to serve as catalyst of economic development.

The above analysis of growth trends in exports during the post nationalisation period provides the necessary perspective for the analysis of export credit during the period. The following table provides data of export credit provided between 1969 to 1988. It also gives the annual growth rates of export credit during the five year plan periods.

Table 3.3
Export Credit by banks in India (1969-1988)

Sr.No.	Year	Total export credit (Rs.crores)	Compound growth rate per annum (per cent)
<u>Fourth Five Year Plan</u>			
1	1969-70	321	
2	1970-71	374	
3	1971-72	426	25.52 %
4	1972-73	524	
5	1973-74	779	
<u>Fifth Five Year Plan</u>			
6	1974-75	731	
7	1975-76	962	
8	1976-77	1200	14.29 %
9	1977-78	1275	
10	1978-79	1519	
<u>Annual Plan</u>			
11	1979-80	1640	-
<u>Sixth Five Year Plan</u>			
12	1980-81	1650	
13	1981-82	1796	
14	1982-83	1726	7.39 %
15	1983-84	2042	
16	1984-85	2342	
<u>Seventh Five Year Plan</u>			
17	1985-86	2409	
18	1986-87	3143	15.76 %
19	1987-88	3633	
20	1988-89	4566	

The above table indicates that export credit went up from Rs.321 crores to Rs. 3633 crores over the study period, registering an annual compound growth rate (three years moving average) of 12.71 per cent. Further, annual growth rates for the decade 1971-72 to 1980-81 was 13.76 per cent but during 1981-82 to 1988-89, the rate declined to 11.93 per cent. As exports

form a critical part of the Five Year Plans of the country, planwise compound growth rate of export credit indicate the performance. As shown in the above table, the growth rate was highest (26 per cent) in the Fourth Plan and there was a steep decline of more than 10 per cent in the Fifth Plan and the rate cut to half during the Sixth Plan. The Seventh Plan only, there was a revival when the growth rate once again went upto 16 per cent. On the whole significant fluctuations are found in the growth rate of export finance during the study period.

Export Credit in Relation to Total Exports and Total Bank Credit

The criteria used for measuring the importance of export finance in an economy are :

- (1) Ratio of export credit to total exports and
- (2) Ratio of export credit to total credit.

In view of the policy emphasis put on export finance by RBI and government of India in the post nationalisation period, we hypothesise that, both the ratios of export credit to total exports and to total credit have rising trends. The following table presents the relevant data.

Table 3.4
Ratio of export credit to total exports and total bank credit

Sr.no.	Year	Export credit (Rs.crores)	Total Exports	Export credit as percentage to total export	Total Bank credit (Rs.cr.)	Export credit as % to total bank credit
1	1969-70	321	1413	22.72	3971	8.08
2	1974-75	731	3328	21.97	8762	8.34
3	1979-80	1640	6418	25.25	21537	7.61
4	1984-85	2342	11855	19.76	48439	4.83
5	1985-86	2409	11012	21.88	55213	4.36
6	1986-87	3146	12566	25.01	62554	5.03
7	1987-88	3909	15719	24.87	70294	5.56

Source : Report on Currency and Finance by Reserve Bank of India,
Various issues.

As shown by the above table, the percentage of export credit to total exports showed a fluctuating trend in the post nationalisation period. The said ratio range between 19 to 25 percent during the period. Similarly, the ratio of export credit to total bank credit also had a fluctuating trend. Over the period it declined from 8 percent to 5.6 percent. Hence, our hypothesis stated above is rejected. The implication of the above analysis is that banks have not made a significant role in promotion of exports. It seems that policy incentives offered to banks increasing export finance are not enough to cancell out the low return on export credit.

Conclusion

The exports followed a fluctuating growth trend between the Five Year Plans. The annual growth rate was less than half a percent during the First Plan, and it rose to 14 percent in Seventh Plan (1985-89). The peak (1990) was achieved during the three annual plan period (1966-69). During the study period, (1969-89) exports increased at an annual growth rate of 9.34 percent.

The performance of export as a proportion of GDP was very poor. Exports as percentage of GDP increased marginally over the period and was less than 5 percent in 1987-88.

Export credit increased at an annual growth rate of 12.71 percent during 1969-89, however, the rate was marginally lower in eighties compared to seventies. There was a notable decline in the first half of eighties, but the rate doubled during the second half. Yet, it was way below the significant achievement in

the Fourth Plan.

The ratio of the export credit to total exports ranged between 19 to 25 percent. This low percentage is due to firstly advance paid by some importers to exporters, secondly substantial part of the export bills sent only for collection to banks and thirdly banks do not accept all bills for discounting/purchasing.

Export credit as a percentage of total bank credit declined from 8 to 5 percent over the study period. Particularly, in the last four years it was stagnant at around 5 percent only. This figures clearly indicate that banks have neglected export financing. The main problem is there is very poor return on export finance. Much needs to be done for enthrusing the banks to play a catalysts role in export promotion.