

## CHAPTER - I

### INTRODUCTION

#### 1.1 Importance of the Present Study :

For a developing economy in general and Indian economy in particular, the foreign trade plays a very significant role in the process of economic development by providing external market outlets to domestically produced goods and required foreign exchange for development purpose of a country through exports and external resources for promoting developmental efforts through imports. The significance of the foreign trade as a transmitter of economic growth has been recognised in so much so that in the historical context, it has been pointed out that international trade has substantially contributed to the economic development of the then developing countries. Diametrically opposed to this view, it is argued that foreign trade has actually favoured the advanced countries of the world at the expense of

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1. Robertson D.H., "The Future of International Trade" in Readings in the Theory of International Trade, American Economic Association, Balackistone Co., (1949)

- Haberler G., International Trade and Development Cairo, National Bank of Egypt, (1956).

- Cairncross A.K., Contributions of Trade to Development. An Essay in Factors in Economic Development, George Allen & Unwin, London, (1966).

underdeveloped countries and thus accentuated international inequality.<sup>2</sup> An another view adopts a neutral position and offers some special observations on the dynamic character of trade as a transmitter of economic growth.<sup>3</sup>

India being a developing economy, foreign trade occupies a place of strategic importance in the context of economic development along with other domestic economic factors with an inception of 'Economic Planning' in India. Subsequently after Independence, the Government of India resorted to various remarkable changes in its foreign trade policy, like export promotion scheme, bilateral trade and payment agreements and preferential import controls and import substitution in order to facilitate the developmental efforts and also to circumvent certain bottlenecks in the availability of productive resources.

It would be quite an admissible fact of experience that

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2. Singer H.W., "The Distribution of gains between Investing and Borrowing Countries", American Economic Review, Papers and Proceedings, (may, 1950)

- Myrdal G., Development and Underdevelopment, Cairo, National Bank of Egypt, (1956)

- Prebisch R., "Economic Development of Latin America", Bulletin for Latin America, (February, (1962)

3. Hicks J.R., "Development and Trade" Essays in World Economics, Oxford, clarendon Press, (1959)

- Nurkse R., "Trade Theory and Development Policy" Economic Development for Latin America, H.S. Ellis Editor, New York, St. Martin's Press (1969)

the structure and composition of foreign trade of a country would certainly exhibit some spectacular changes over a period time in response to changes in the domestic economic policy and foreign trade policy. Therefore, there seems to be a clear prima facie case to examine the various aspects of India's export trade as detailed subsequently over a period of time particularly after the year 1965, which displayed major changes in our economic policy.

#### **1.2 Objectives of the Present Study :**

In contrast to the studies mentioned above, the distinguishing character of our present study can be discerned from the objectives mentioned below:

##### **[A] Price and Quantity Trends in Indian Exports:**

For each country, the recorded aggregates of exports are in terms of exports at current prices. If these aggregates are used over period of time, they indicate only the composite effects of changes in the volume of exports and prices. However, one of the significant problems that is frequently encountered in connection with the behaviour of commodity exports over time is to decompose the combined influence of two factors namely, price and quantity changes on the value of exports that is to ascertain how much of changes in the value of exports is accounted for by varying prices and similarly, how much of changes in the value

arises because of changes in the volume of exports. This decomposition of changes in the value of exports due to price and quantity changes will enable us to examine in detail the relative importance of the two factors mentioned above and also to guess about the nature of demand for and supply of exports. This type of the analysis will be more relevant in formulating policy decisions regarding foreign trade policy of a country.

As regards exports aggregates of a country, it is a fact of reality that it comprises of a heterogeneous groups of commodities for which there is no specific quantity measure common to all. But it is only through the construction of index numbers that it is possible to get a meaningful measure of changes in volume and prices of exports.

So far as the price and quantity indices are concerned, the Central Statistical Organization, Government of India has published price and quantity indices for different commodity groups and for different years. But these indices suffer from severe limitations. Firstly, these indices are available only for 29 groups of commodity exports with different base years for the year 1950-51 to 1976-77. Secondly for certain years, these indices are available at financial years and for other years they are available at calendar years. These limitations make it extremely difficult to compare there indicies for different years of the same commodity group.

Hence, the purpose of this study is to examine variations and trends in the price and quantity indices. This study attempts to construct price index numbers according to Paasche formula and quantum index numbers according to Laspeyres formula. In spite of the fact that this study has adopted the same formula in the construction of price and quantum indices as is used by the Central Statistical Organization, Government of India, it has improved the methodology with regard to the number of commodities covered in the construction of index number and also with regard to the adjustment for the incomplete coverage of different commodities of exports.

With the above improvement in the construction of index number over the methodology adopted by the Central Statistical Organization, this study has constructed the price index number and quantity index number for four major commodity groups of exports, i.e. consumer goods, intermediate goods for producing consumer goods, intermediate goods for producing capital goods and capital goods by aggregating value figures of 170 commodity groups of exports (i.e. all the commodities which are classified at 3 digit level of the RITC 1965 group) at current prices and at constant prices of 1970-71 as against 29 different commodity groups provided by the Central statistical Organization, for the years 1965-66 to 1981-82.

[B] Agricultural Products: Some Issues:

Another aspect of exports that needs to be examined is to analyse the trend in relative prices of agricultural products and manufactured products and also their relations with domestic prices. The importance of this study of this aspect lies in the fact that there has been widespread conviction that compared to prices of manufactured products, prices of agricultural products inexorably decline. As Singer argued "it is a matter of historical fact that ever since the seventies, the trend of prices has been heavily against sellers of food and raw materials and in favour of the sellers of manufactured articles"<sup>4</sup>. The analysis of the trend in relative prices of agricultural goods and manufactured products encompasses the following issues.

- (i) Have the relative prices of exports of agricultural products and manufactured products changed over time?
- (ii) What are their trends? What have been the relative positions of different prices over time?
- (iii) What has been the relation of prices of exports of agricultural products and manufactured products with domestic prices?

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4. Singer H.W. op.cit. PP.473-485.

[C] Structure and Composition of India Exports :

As regards, the various important groups of commodities of exports we expect a change in their structure and composition in an event of divergence in relative price of different commodities. In connection with this, the following issues are examined.

- (i) Whether the structure of exports has narrowed down or widened over a period of time?
- (ii) What has been the relative rates of growth of these groups?
- (iii) What has been the nature of change in the commodity composition of exports?
- (iv) What has been the degree of instability of commodity exports over time?

[D] Structure of Exports: Micro and Macro Levels :

In order to examine these issues, our analysis of structure of exports runs in terms of current prices and constant prices at macro (aggregated) and micro (disaggregated) levels.

In the macro analysis, the salient features of exports and changes therein are examined in terms of the following:

- (i) Share of export in NNP.
- (ii) Share of exports in World exports.

(iii) Growth rates of exports: In order to estimate the growth rates of exports of different commodity groups, we have fitted a semi-logarithmic function to the exports of major commodity groups and also to the principal commodities of exports at constant prices for the years 1965-66 to 1981-82. Algebraically, it may be written as  $Y = ae^{bt}$  Where, 'b' denotes the growth coefficient.

(iv) Instability index for exports of different commodities. After having analysed and reviewed the various methods for estimating instability index, this study has adopted the method as given by J.D. Coppock.<sup>5</sup> Known as Coppock's Log-Variance Method. This method of calculating instability index can be written as

$$V \log = \frac{1}{N-1} \sum \left[ \log X_{t+1} - \log X_t - \frac{1}{N-1} \sum (\log X_{t+1} - \log X_t) \right]^2$$

Where N and X are the number of years and value of exports respectively and subscripts indicate the date.

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5. J.D. Coppock : International Economic Instability - the Experience after World War-II, Mc Graw-Hill Book Co. Inc., (1962), Chapter-2, pp23-26.

Apart from the macro behaviour of trade activity, structural changes in exports are examined at micro level. The micro level analysis of structure of trade refers to commodity composition of exports. With reference to structural changes in the commodity composition of India's exports, this study has examined the following issues:

(i) What is the degree of concentration in the commodity composition of exports? Has there been any change in the degree of concentration over time?

In order to calculate the commodity concentration index, we have used the formula as given by Michael<sup>6</sup> Micael<sup>6</sup> which is useful in analysing as to what extent the economic fortune of a country depends on one or few commodities is defined as  $C = \sqrt{\sum (x_i/x)^2} \cdot 100$ . Where  $X_i$  refers to exports of  $i$ th item in India and  $X$  refers to total exports in India in some specified year this index is calculated at current prices as well as at constant prices at three digit level of RITC commodity groups of exports for the years 1965-66 to 1981-82.

(ii) [a] Is there any shift in the share of different commodities in total exports of a country over time?

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6. Michaely Michael : "Concentration of Exports and Imports, an International Comparison", The Economic Journal. (December, 1958) pp.722-736.

We have examined this issue with reference to India's major commodity groups of exports and principal exports at current prices and at constant prices.

(ii) [b] It is commonly argued that the economic development of an economy generally affects the pattern of exports of a country. In order to ascertain whether there is or not a relationship between the shares of different groups of commodity exports to total exports and the level of economic development of a country, we have fitted a bivariate regression model of the form  $Y = a + bx$ . Where,  $y$  and  $x$  refer to the percentage share of commodity exports to total exports and per capita income respectively to the time series data at current prices and at constant prices for the years 1965-66 to 1981-82.

[E] Direction of Exports :

In response to changes in the foreign trade policy of a country, the direction of its export trade also undergoes a change. Therefore, to analyse the nature of changes in the direction of exports, this study has examined the direction of India's exports over time.

In view of the changes in the direction of exports, it is indispensable to examine the structural changes in world exports. Hence, this study examines the structural changes in the world exports by different groups of countries in terms of the following:

- (a) Percentage share in world exports
- (b) Growth rates of exports
- (c) Instability of exports
- (d) Percentage share of exports in national income.

[F] Trends in India's Foreign Trade :

Since, foreign trade occupies a place of strategic importance in the economic development of a developing country. India being under consideration, we intend to examine and analyse the trends in India's foreign trade during the period of 1966-67 to 1988-89 with reference to the issues furnished below:

- (i) What has been the average percentage rate of growth of imports and exports per annum over time?
- (ii) What has been the trend behaviour of percentage share of exports in total world exports and gross national product?

(iii) What has been the trend behaviour of percentage share of trade deficit in the gross national product?

[G] Structural Behaviour of Indian Exports  
during the period of (i) 1970-71 to 1986-87  
and (ii) 1965-66 to 1981-82 at Current Prices :

(i) As far as the structural behaviour of Indian exports during the period of 1970-71 to 1986-87, we intend to examine and analyse the structural behaviour of Indian exports by various commodity groups [i.e. Agricultural and Allied Products, Ores and Minerals, (excluding Coal), Manufactured Goods, Mineral fuels and Lubricants (including coal) and others] in terms of their percentage share in total exports over period under consideration. This will enable us to know the change in the relative importance of each commodity group of exports in relation to total exports.

(ii) As regards, the structural behaviour of Indian commodity exports during 1965-66 to 1981-82, we intend to examine the following aspects:

[a] Traditional exports and non-traditional exports

[b] Primary exports and manufactured exports

[c] Traditional manufactured exports and non-traditional manufactured exports

[d] Indian commodity exports according to market environment, viz. monopolistic, oligopolistic, competitive and others.

[e] The direction of Indian exports according its regional destination.

[f] The Indian exports according to SITC commodity groups.

With reference to above, the following issues are intended to be examined:

(i) What has been the trend behaviour of percentage shares of each commodity groups of exports in total exports?

(ii) What has been the average percentage rates of growth of exports per annum?

(iii) What has been the nature of commodity composition of Indian exports over time according to market environment and SITC commodity groups of exports?

(iv) Whether has there been a diversification or concentration of Indian exports?

(v) What has been the nature of stability of Indian exports overtime?

(vi) Whether has there been any relation between commodity groups of exports and economic development of India?

### 1.3 Sources of Data :

The statistics regarding the foreign trade of India are available in two series. The first series is published by the Directorate General of Commercial Intelligence and Statistics, Calcutta, regarding the foreign trade as registered by the custom authorities at Indian Seaports, airports and at land customs stations. The other series published by the Reserve Bank of India is based on the data collected from the information furnished to the Reserve Bank of India by the administration of exchange control. The foreign trade statistics as published by the Directorate General of Commercial Intelligence and Statistics in Monthly Statistics of Foreign Trade of India relate to the physical movement of goods in to and out of the custom territory of India, regardless of when payment is made or received.

Whereas the exchange control data record the value of current transactions when payment is made or received. Thus, stocks bought and accumulated by foreign buyers in india and Indian overeas would get reflected in to exchange control data but not in customs data. As regards, exports, the statistics published by the first series relate to exports and re-exports valued at f.o.b./f.o.r. from all the seaports, airports, and land customs stations of the country are based on declarations made by exporters as subsequently checked by sustoms officials. Further, exports and re-exports figures are credited to the country of

final destination. However, it is significant to note that the statistics given in this publication differ from exchange control data compiled by the Reserve Bank of India owing to differences in timing, coverage and valuation of recording.

The present study uses the data given in the 'Monthly Statistics of Foreign Trade of India', Vol. I, Exports and Re-exports published by the Directorate General of Commercial Intelligence and statistics as detail quantitative break-down is available therein.

Moreover, this study also uses the data published in the following official publication:

- (i) 'Economic Survey', Ministry of Finance, Government of India, New Delhi.
- (ii) 'National Account Statistics', Ministry of Planning, Government of India, New Delhi.
- (iii) 'Basic Statistics Relating to the Indian Economy', New Delhi.
- (iv) 'International Financial Statistics', International Monetary Fund, Geneva.

#### **1.4 Plan of the Study :**

Chapter II presents a brief survey of research work on India's export trade.

Chapter III is designed to estimation of price and quantity indices of Indian exports.

Chapter IV examines price and quantity trends in Indian exports by various commodity groups over time.

Chapter - V is designed to examine and analyse the structural behaviour of Indian export at macro (i.e. aggregated) and micro (i.e. disaggregated) levels in money terms and in real terms.

Chapter - VI presents an overall view about trends in India's foreign trade in general and examines various aspects of India's commodity exports in particular with reference to its structural behaviour over time.

Chapter VII presents main findings and conclusions of the study.