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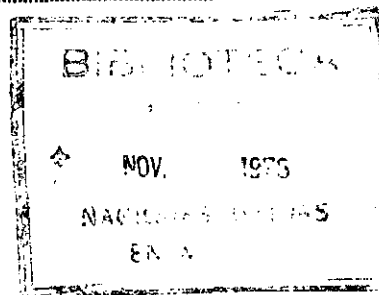
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INDIAN EXPORTS

by

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The Role of Exports

1. The ratio of gross exports to GNP was 5.8% in 1950/51, fell to 3.7% in 1965/66, and subsequently rose to 4.8% in 1973/74. The direct contribution of exports to GNP is, therefore, low. ^{1/} For the period 1969/70 to 1974/75 export growth, at between 5% and 6% per annum in real terms, has exceeded that of GNP, which has been about 2%. Nevertheless, the proportion of GNP growth directly contributed by production for exports has been only about a tenth, or 0.2% of GNP per annum on average, during this period.
2. The major importance of exports for the economy arises in the context of the balance of payments. The slow growth of exports plus the relative inflexibility of such items as debt service, food and POL imports has meant a succession of severe balance of payments crises which have affected the economy adversely by repeatedly forcing a stop-go process in foreign exchange availability. Thus, improved export performance is important, above all, in order to reduce the constraints imposed by foreign exchange scarcity and eventually, to reduce India's dependence on external finance.
3. But an increased emphasis on exports is also important to promoting industrial growth. Given the stagnation in levels of investment, the slow growth of agriculture, and the diminishing opportunities for import substitution, industrial growth, is restricted, in part, by inadequate demand. Exports offer an alternative outlet. Although the scale of the potential effect in the medium-term, should not be exaggerated -- since the proportion of exports in total sales of most industrial products is still low -- if export growth continues to exceed that of total production by a wide margin -- as is the case, for example, in engineering goods -- it will become an increasingly significant positive factor. Moreover, those structural weaknesses of Indian industry, such as inadequate exploitation of economies of scale and poor quality, which result in part from protection from foreign and domestic competition, will be reduced by an increased orientation towards exports.

Past Developments and Problems

4. Trends: Although the rate of growth of exports in real terms has been rising over time, overall performance since India's Independence has been poor. Between 1950/51 and 1968/69 the average compound growth of exports in value terms was 2% per annum. Thereafter, the rate of value growth has risen appreciably. However, most of the value growth of the past three years has been the result of inflation, and the rate of growth in real terms has been

^{1/} With few exceptions, such as gems, cashew nuts, and, to a lesser extent, chemicals and engineering goods, domestic value added in India's exports is very high. Rough calculations indicate that, in India's total exports, domestic value added must be at least 85% of the gross amount.

modest, considering India's low base. Export volume during the past five years grew by 5% per annum. 1/

TABLE 2.2

Export Growth
(1968/69 base)

	<u>1960/61</u>	<u>1968/69</u>	<u>1969/70</u>	<u>1970/71</u>	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>
Value ^{a/}	70	100	104	112	119	141	179	229
Volume								
IBRD	n.a.	100	98	105	107	118	122	125
DCIS	70 <u>b/</u>	100	100	106	107	120	125	133

a/ Converted into US dollars.

b/ 1958/59 base.

Source: Department of Commercial Intelligence and Statistics.

5. A feature of India's past export performance has been the growth in barter trade with Eastern European countries. From 1955/56 to 1967/68, of a total increase in exports of US\$346 million, 84% was accounted for by the growth of this trade. Since 1967/68 the average growth in barter trade has been about the same as that in convertible currency earnings. Barter trade, which now accounts for about one-fifth of India's export, limits to some extent India's flexibility in balance of payments management since India does not have a free choice in what it can purchase. However, the range of choice has been improving over time, and the system possibly also allows India the advantage of exporting some commodities which cannot be sold in the convertible currency markets.

6. India is also taking advantage of new opportunities in Middle Eastern countries. 2/ This effort was reviewed briefly in last year's Economic Report. Exports to these countries since 1974 rose rapidly reaching US\$561 million in 1974/75. Engineering exports to the Middle East rose from US\$38 million in 1972/73 to US\$132 million in 1974/75. Thus, these countries' share of India's total exports rose from 4.2% in 1972/73 to 14% in 1974/75, and of India's engineering exports, rose from 20.6% to 29.9%. This is a successful area of recent performance.

1/ The preliminary official estimate for 1974/75 is appreciably higher than our estimates and would bring the growth rate to 5.8%. We were unable to account for this difference.

2/ Includes Iran, Iraq, Saudi Arabia, Kuwait, Qatar, Bahrain, UAE, Libya, and Algeria.

TABLE 2.3
The Direction of India's Exports
(US\$ million)

	<u>1955/56</u>	<u>1960/61</u>	<u>1967/68</u>	<u>1969/70</u>	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>
Eastern Europe	11.1	104.1	301.3	410.2	461.6	609.6	628.2	854.0
Middle Eastern)			61.7	108.4	91.9	108.2	209.4	560.9
OPEC)	1,241.2	1,282.4						
Rest of World)			1,235.3	1,365.8	1,607.0	1,839.7	2,403.3	2,727.7
TOTAL	<u>1,252.3</u>	<u>1,386.5</u>	<u>1,598.3</u>	<u>1,884.4</u>	<u>2,160.5</u>	<u>2,557.5</u>	<u>3,238.9</u>	<u>4,142.6</u>

Source: Department of Commercial Intelligence and Statistics.

7. Explanatory Factors: Part of the explanation for India's generally poor overall performance has been the initial dominance of subsequently stagnant items like jute, cotton textiles, and tea, which accounted for 52% of India's exports in 1950/51. But this dominance has long since faded; by 1974/75 these commodities accounted for only 20.5%. To some extent, given their low rate of growth and steady decline in importance, the overall rate of growth would tend to rise as other, and slightly more dynamic items gain a greater weight. However, although there have been many items that have grown significantly over the past 25 years, characteristically the growth of individual items has been spasmodic, rather than sustained. What is disturbing is that the level of sustained growth of such items has not been adequate to raise the overall growth rate significantly. For example, oilcakes and iron ore, both of which showed great dynamism in some years between 1960 and 1970, also periodically stagnated, and have recently grown at somewhat lower rates. Three major categories to show growth of more than 15% per annum in volume terms since 1968/69, namely sugar, many engineering goods, and garments, now face problems, which imply lower rates of growth in the future, thus repeating the pattern. One result of India's relative failure to find items with sustained rapid growth is its declining share of overall world trade and of world trade in all major categories.

8. The factors that explain the poor performance of individual items are many and varied, since the composition of India's exports is

heterogeneous. ^{1/} A distinction can be made, however, between the problems of exporting the commodities for which incentives are crucial, the situation of homogeneous commodities which face an inelastic world demand, and those for which the volume of exportable surpluses is the main bottleneck. Regarding the latter category of goods such as iron ore, steel and coal, the basic problem has been one of inadequate production, and in the case of iron ore, a lack of internal transportation facilities and ports. The lack of priority and unwillingness to make commitments to exports of raw materials also has a negative effect. For most manufactured items, the most important reason for slow export growth has been the disincentives inherent in a policy of import substitution and the reliance on detailed controls as the main policy instruments.

TABLE 2.4

India's Share in World Exports
(US\$ million and percentages)

	<u>1951/52</u>	<u>1960/61</u>	<u>1965/66</u>	<u>1968/69</u>	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>
India's Exports	1,261	1,387	1,692	1,811	2,160	2,558	3,187
World Exports	61,100	128,000	186,000	239,300	348,000	413,900	569,700
India's Exports/ World Trade (%)	2.06	1.08	0.91	0.76	0.62	0.62	0.55

Sources: IBRD Report No. 691a-IN, "Economic Situation and Prospects of India," May 1, 1975, Statistical Appendix Table 3.1; UNCTAD Handbook of International Trade and Development Statistics; UN Statistical Office, Monthly Bulletin of Statistics, June 1975.

^{1/} The variety of Indian exports can be illustrated by the following classification of major exports of 1974/75: 34% were agricultural commodities which undergo little further processing, namely sugar (10.3% of total exports), tea (6.8%), cashew kernels (3.6%), oilcakes (3.1%), tobacco (2.4%), fish (2.0%), spices (1.9%), coffee (1.6%), vegetable oils (1.0%), raw cotton (0.5%) and essential oils (0.3%); 6% were minerals, namely iron ore (4.9%), mica (0.6%), and manganese (0.5%); 23% were manufactures whose primary raw material is agricultural, namely jute textiles (8.9%), leather and leather manufactures (5.0%), cotton piece goods (4.8%), clothing (2.9%), coir manufactures (0.6%), and cotton yarn and thread (0.6%); 15% were manufactures whose primary input is mineral, namely engineering goods (10.7%), chemicals (2.8%), iron and steel (0.6%), and mineral fuels (0.6%); and 6% were handicraft items (excluding textiles), namely gems (2.9%) and other handicrafts (2.6%). Even with this lengthy list, more than 16% of India's exports are unaccounted for.

9. An import substitution oriented strategy, whatever its benefits for industrialization at certain stages of development may be, will have the effect of discouraging exports. The domestic prices of import substitutes vis-a-vis those of exports will rise thereby reducing the profitability of exports that use import substitutes. Because of the very great difficulty in calculating effective rate of export subsidy, which is a result of the complexity of the incentive system, and the lack of sufficiently disaggregated data, comprehensive studies of the relative profitability of sales in export and domestic markets do not, to our knowledge, exist. 1/ For most industrial exports this is the relevant question, but one that can best be answered at present only from partial and impressionistic information.

10. Examples can easily be given of exports whose profitability is reduced by the high cost of inputs. Raw cotton has usually tended to be more expensive in India than in world markets, which penalizes textile exports. Synthetic filament yarn is also expensive in India, which makes export of fabrics that use it almost impossible. 2/ The problems of the textile industry in turn affect the garment industry, which is restricted to Indian mill-made cotton fabrics. Garment exports are currently successful only thanks to a strong, but somewhat unpredictable, international fashion for handloom materials, which account for 75% of India's garment exports. The leather finishing industry is also penalized by high input costs -- in this case of dyes and of machinery, on which a high protective duty is imposed. Other industries where import substitution policy had led to high output prices, consequent penalization of their users, and direct uncompetitiveness, are chemicals, certain automobile ancillaries, and electronic components.

11. Problems are also created either because of the non-availability of domestic inputs and delays in obtaining them, or their frequent poor quality. This is a problem for many engineering goods, and for garments. Exports of garments, that use production of Indian textile mills, will amount to a trifling US\$35 million at most in 1975/76, largely because of inappropriate quality, and high prices in the case of synthetic and blended fabrics. Another important effect of import controls is that price cycles for major commodities in India are out of rhythm with those of the world. Steel is a major case, but cotton fabrics are another. At present, raw cotton is available at international prices, but it would, on past performance, be very risky for an industrialist to make investments for exports that assume that this relationship will be maintained.

12. Adequate expansion by the dynamic and successful firms, which are to be the potential backbone of an export drive, has been important in the past, and will be vital in determining long-run prospects especially of engineering

1/ A study currently being undertaken by the Industrial Credit and Investment Corporation of India will analyze this question for a range of industrial goods.

2/ In February 1975, the Indian cost of production was 70% above the world price.

goods. The World Bank's detailed analysis of several engineering industries, such as commercial vehicles, tractors, foundries and forgings, and textile machinery, indicate that firms with good export potential, in terms of product quality generally do not suffer from excess capacity, unlike many weaker firms in their industries. ^{1/} However, expansion of capacity is not always easy. In cases where expansion in the domestic market is not officially restricted, problems arise where the subsidization of failing firms restricts the ability of the best firms to increase their market share rapidly. The allocation of actual user import licenses on the basis of past use also tends to protect the weaker firms. Thus, for the firms which cannot expand in the domestic market, either as a result of policy or of characteristics of the individual industry, rapid expansion of exports inevitably means an increased reliance on exports for long-term profitability. Many firms appear unwilling to expand predominantly on the export side of their business. This point has been recognized and recent policy changes have introduced some flexibility in this area.

13. A high export orientation is, of course, always risky, but it is much more tolerable in countries where firms can be reasonably sure that the prices they pay for inputs will be no higher than those facing their competitors, where the basic infrastructure of transportation and power is reliable, and where their speed of response and flexibility is not affected appreciably by bureaucratic delay. In India, the problem of predicting over the life of an investment the value of the incentives that are designed to offset some of the problems faced by exporters, makes export-oriented investment especially risky. Of course, where profitability is large, and flexibility in use of capital considerable, the risks may be taken. Hand-tools appear to be a good example. In general, an increasingly export-oriented development does not appear to be considered worthwhile by Indian firms within the present policy framework. The high protection afforded industry has weakened internal competition and has not encouraged a risk-taking, entrepreneurial attitude. Of course a restrictive policy on licensing of industry has the general effect of losing the benefit of economies of scale, which are important for cost reduction and competitiveness of engineering products in world markets.

14. Agricultural and processed agricultural commodities are affected by the trade policy regime as well as by other pricing policies that reduce profitability. Generally, these commodities have had export taxes imposed on them, which add to problems already created by the trade policy regime in their competition with non-traded agricultural goods. These export duties do not appear to have been designed to exploit monopoly power optimally, as the uncompetitiveness of important jute manufactures has shown.

^{1/} The difficulty a really good firm has in expanding its exports is illustrated by the case of textile machinery where the best firm has up to a seven year domestic backlog, and is under great pressure to supply these orders.

15. The combination of policy aims and Instruments reviewed very briefly above is a major factor in creating a series of problems for exporters, which have been described as "structural" in the World Bank's reports on several of India's industries. ^{1/} Thus, in many industries there are a large number of firms, of very varied quality, often producing a wide range of products on an uneconomic scale. Poor firms that produce inputs for firms at a higher stage of production, penalize the latter's export efforts. Poor firms compelled, or encouraged, to export their products damage India's reputation. Good firms, on the other hand, facing a buoyant domestic market, have no great incentive to export. Finally, inadequate "R & D", partly an inevitable result of the small size of most Indian firms by international standards combined with restrictions on import of technology has meant that Indian products are often outmoded. Finally, because of industrial licensing, there are few strong competitive forces in the Indian economy to eliminate these problems.

16. Quite apart from problems created by such basic features of the policy environment, there have been other significant difficulties. Overseas demand is, of course, an important factor in explaining the low growth or even decline of major items like tea and jute manufactures. Other serious problems facing private firms are those of sea freight, which is expensive and, because of congestion in many ports, both slow and unreliable; and the inadequacy of export credit facilities.

17. Export Incentives: The Government has tried to reduce the effect of constraints on exports by introducing various incentives. Some of these are designed to increase the attractiveness of exports, while others are mainly intended to make exports possible through mitigation of the negative effects of qualitative controls. The most general action taken to encourage exports was the 57.5% devaluation of the rupee in June 1966. However, at the same time many export subsidies were reduced and export duties imposed on some "traditional items" over which India was thought to have monopoly power. (This belief was sometime erroneous, as the subsequent history of jute carpet-backing exports to the USA bears witness.) The resulting net devaluation on trade account has been estimated at 21.6% for exports and 42.3% for imports. ^{2/} Thus, in a somewhat perverse development, although the devaluation increased the profitability of tradeables vis-a-vis non-tradeables, it also raised the rupee price of imports by more than that of exports! That is, import substitutes were encouraged more than exports. Subsequently, the inadequacy of this devaluation was revealed. Since then, the Government has introduced a series of further measures for promoting the exports.

^{1/} E.g. commercial vehicles, foundries and forgings, textile machinery and textiles, and tractors.

^{2/} T.N. Srinivasan, Foreign Trade Regime and Economic Development of India, ISI Discussion Paper No. 105, Mimeo. p. 86.

18. In August, 1966, cash assistance was introduced. It is the most important positive incentive, but its rationale, and basis of the calculations are not explicit. Sometimes, it appears to be aimed at offsetting those taxes and imports which do not come within the range of the duty drawback system. At other times, it is said to offset the differences between domestic short-run marginal costs of production and the f.o.b. realization. To the extent that the latter is the case, and high marginal costs reflect high transformation costs in the subsidized activities, the incentive would tend to be concentrated on industries with the least comparative advantage. In practice, it is a highly variable, and somewhat arbitrary, incentive with the highest incidence on the engineering industry, which still accounts for only about 10% of total exports. ^{1/} Less fashionable industries, which appear on the basis of the performance of other LDCs, to have great promise (such as leather goods, garments, and textiles, as well as agricultural commodities) have received lesser amounts of assistance. An additional problem has been the short periods for which cash assistance used to be announced -- usually one year -- which limited the willingness of firms to plan investments with an export orientation. Furthermore, to the extent that cash assistance is not designed to cover long-run costs, it provides no incentive for such investment.

19. Another important incentive, or rather offset to existing disincentives, is the duty drawback. It is designed to repay to the exporter almost all excise and import duties. ^{2/} Difficulties have been created by the complex procedures involved in agreeing on the initial rate of drawback, a process which has sometimes required appreciably over a year. This is especially important for those firms that have a constantly changing input-mix. It is also argued by many firms that drawbacks do not give adequate allowance for wastage.

20. Import replenishment licenses (REPs) are, in practice, given to exporters, both as an incentive, since inputs command a scarcity premium, and as a necessary condition for increased export activity, since additional imported inputs are thus made available to exporters. ^{3/} A limited transferability of REPs has always been permitted. Thus, the possibility that REPs might be in

^{1/} It should be noted that the use of cash assistance on low value added items can lead, and has led, to very high effective subsidy rates. See on this "Report of the Comptroller and Auditor General of India for the year 1972-73," p. 39 et seq. In certain cases, negative value added exports have resulted (e.g. galvanized pipes and black pipes at that time).

^{2/} The existence of a high level of excise duties on intermediate inputs is a deeply entrenched part of India's tax structure. Since such taxes are high, duty drawbacks are vital for international competitiveness.

^{3/} The REP license was introduced in August 1966. On the development of the various incentives after the devaluation, see J. Bhagwati and T.N. Srinivasan, Foreign Trade Regimes and Economic Development: India, mimeo., Ch. 9, p. 1 seq.

excess of the needs of the firms has been implicitly admitted. In theory, however, the REP is supposed only to supply necessary inputs for the exporter himself. A serious problem with the REP is the strong relationship between the incentive to export and the import intensity of the activity. In the past, the application of restrictions on transferability, on import of items produced domestically, and on the proportion of the license permitted to be used for specific items, has severely reduced both its value, and the flexibility it provides to exporters.

21. A measure taken by the Government to offset the attractiveness of the domestic market has been the imposition of general and specific export obligations. However, failing adequate profitability, there appears to be unwillingness on the part of firms to invest when high export obligations, sometimes of 60% of output or more, are imposed. ^{1/} Indeed, for many engineering goods, such an extreme export orientation is difficult to sustain, since it provides firms with a very small domestic base for production.

22. There are several schemes to provide raw materials at international prices to exporters. The most important of these is for steel, which dates back to 1967. This is also the most successful. The various schemes that cover other items do not, on the basis of discussions with a limited number of firms, work very well. In addition, there is a host of other incentives, including subsidies on freight, and some tax relief on export earnings.

23. Two additional problems have in the past weakened the usefulness of the incentives. First, they have not been predictable for long periods — indeed they have usually been known for one fiscal year and announced at the beginning of the year. Secondly, the payment of money, and receipt of licenses were delayed for long periods, while all the papers were being processed.

24. It must be stressed that the analysis of the problems and of the incentive system involves very substantial simplifications. Not only is the range of commodities large, but the ruling principle of Indian policy is the elaboration of very detailed and specific rules and exceptions, as well as preservation of a wide area of "ad hoc" discretion. Therefore, the broad statements that have to be made in a summary report are of necessity generalizations which may not fit every case. Nevertheless, we believe it is reasonable to describe the major problems that have affected India's export performance, and have not been removed by the plethora of ad hoc incentives, as:

(1) inadequate profitability, which is largely the result of the strategy of

^{1/} As of October 27, 1975, while 2,020 specific export obligations had been imposed, only 1,221 had been accepted. In addition, there are firms who have, no doubt, not applied for licenses at all.

import substitution; 1/ (2) lack of access to imported inputs, which is a consequence of the use of import controls as the main weapon of trade policy; (3) the poor quality of much that is produced, which is largely a result of lack of competition; (4) instability of the policy environment and vulnerability to ad hoc decisions. These problems all affect the industrial sector in varying degrees. In addition, for agricultural commodities, export taxes are significant. For homogeneous commodities, production itself has been a problem. For the country as a whole, the question of the variability of incentives and of the efficient use of trade is important.

Recent Policy Changes and the Medium-Term Targets

25. Export Policy: Mainly because of the large trade deficit the Government has increased its emphasis on exports. As a result, although the fundamental orientation of India's industrial and trade policy and the specific instruments of export regime have, by and large, remained the same, a significant shift in emphasis and in the way these policies are operated, have occurred. These are important both because they are likely to lead to better utilization of current export potential and as an indication of willingness to make policy adjustments when necessary to expand exports. The changes made so far are focused in four important areas, namely, industrial licensing, import licensing, bureaucratic procedures, and the level and extent of cash incentives. 2/

26. The most significant changes in industrial licensing policy, at least for exporters of engineering goods, resulted from the recommendations of the Sondhi Committee on engineering exports. Of particular interest is the automatic approval for production beyond authorized capacity, when earmarked for exports, 3/ and improved arrangements for the supply of inputs for export production. A second major policy change of relevance to one of the problems

1/ Of course, some items are profitable. However, on the basis of World Bank studies it appears that rather few industrial products offer really inviting returns. At the same time, it should be recognized that exporting, especially initially, entails considerable costs.

2/ The list of policy changes given below is very simplified. As is indicated for one or two items, there are numerous qualifications and restrictions, which we do not have the space to examine here.

3/ In a press note of November 4, 1975, it is explained that such approval is not automatically given to firms coming under the Monopolies and Restrictive Trade Practices Act or the Foreign Exchange Regulation Act, but a simplified procedure for disposing of these cases is in operation.

considered above is the permission to all firms of automatic capacity expansion of 25% over a five year period. 1/ Other important recommendations of this committee, not strictly limited to industrial licensing, were (i) expansion of the period for which cash assistance is guaranteed; (ii) exemption of import duty on raw materials imported under Advance Licenses; (iii) focusing the right to impose export obligations in the Licensing Committee; and (iv) various changes in export credit. All these recommendations have been accepted. One important recommendation, perhaps the most crucial, concerns the basis for the computation of cash assistance, and is still under discussion.

27. The second major area in which changes have occurred, is that of import licensing. Under the 1975/76 import policy any actual user is guaranteed an automatic license for import of raw materials equal to the quantity used or the quantity of import licenses obtained in the previous year, whichever is the less. However, for those who exported more than 20% of their production, the automatic license is available for the greater of the two. In addition, replenishment licenses are available, as before, and interest licenses equal to last year's replenishment licenses are available on acceptance of an equivalent export obligation. Replenishment licenses have been increased by 10% for all exporters, and by an additional 10% for those whose replenishment licenses are less than 50%. Finally, both the transferability of replenishment licenses, and the flexibility with which they can be used, have been significantly increased, partly through de jure and de facto reductions in restrictions on import of goods which are also domestically produced. 2/ Thus, problems with the availability of imports are significantly reduced. Furthermore, since exporters can get all of last year's imports through actual user licenses, the replenishment license must presumably now be regarded as predominantly an incentive.

28. In October 1975, the Government announced a temporary extension of cash assistance to some marine products, coir products, processed food, handicrafts, leather products, some chemicals, and jute products. This announcement, when considered along with reductions in various export duties, indicates that GOI is considering increasing the incentives for export of a wide range of products. However, with the announcement effective only until the end of March 1976, incentives to expand capacity for export have clearly not been affected.

29. The final area of improvement has been in procedures. The details are complex, but it is clear that over the past two years there has been a

1/ In a press note of August 21, 1975, it is explained, however, that expansion is automatic only if there are no imports of capital goods, there is no recourse to financial institutions and the firms are not "dominant" in their line of manufacture.

2/ It is of only limited value to firms for Government to waive indigenous angle clearance informally, since firms cannot plan on that basis. It remains true that a firm cannot be sure that, at some future date, an Indian firm will not produce a vital input, which the exporter will have to use.

continuing acceleration in the speed with which the various industrial and import license applications and incentive payments are being processed. This is expected to go further with implementation of the present proposal to introduce automatic payments of duty drawbacks and cash assistance, on receipt of claims, through the commercial banks.

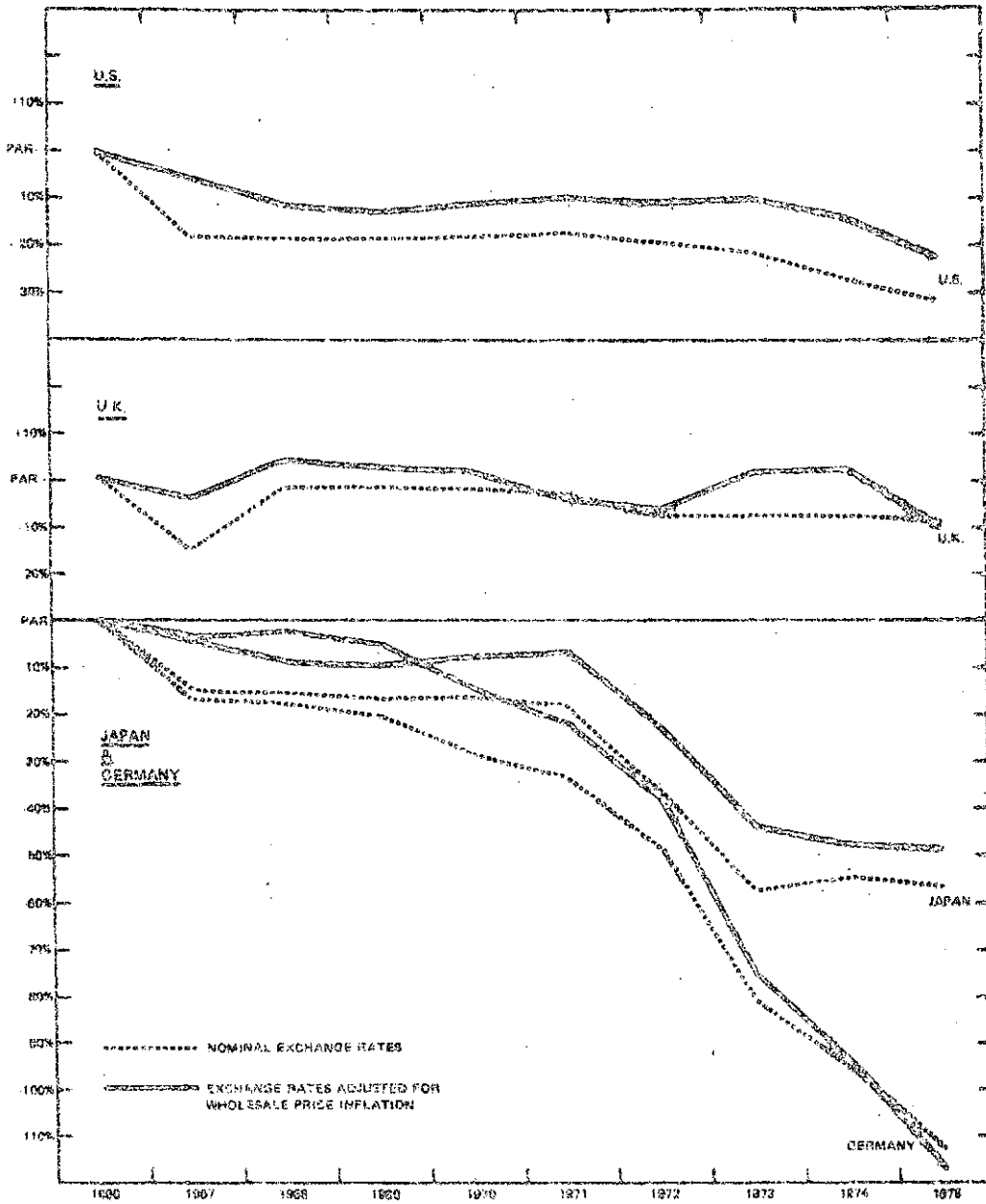
30. Recent Exchange Rate Policy: Policy towards the exchange rate is not determined solely by considerations of export promotion, and cannot, therefore, be reviewed simply in the context of the export policy. Nevertheless, it is clearly important. During the period of exchange instability which began in August, 1971, the rupee remained tied to the pound sterling. This has meant a fairly steady devaluation against most currencies. Since, until recently, India's inflation rate has been relatively high, the effect of the devaluation has been to offset, and, in most cases, more than offset the diminished competitiveness that inflation would otherwise have brought about. Only in the past year because of the impressive performance in reducing inflation have the two worked together in the direction of increasing the competitiveness of India's exports. In fact, the rupee's nominal devaluation was 19.5% between 1971 and 1974 on a trade weighted basis, vis-a-vis the dollar, deutsche mark, yen and pound sterling but 15.6% in real terms, after allowing for relative rates of inflation. However, between 1971 and 1975 it was 25.1% and 27.4% respectively.

31. In September 1975, the rupee was officially delinked from sterling and subsequently tied to an unspecified basket of currencies. The effect has been to raise the exchange rate above what it would otherwise have been. Between late September and early June the rupee revalued by about 14% against sterling and devalued slightly against the US dollar, the German mark, and the Japanese yen.

32. Monitoring Export Progress: A Cabinet Committee consisting of the Ministers of Finance, Commerce, and Industry has been established. It possesses the delegated power of the Cabinet. Its establishment has clearly speeded up decision-making, has cut through inter-ministerial conflicts, and focused attention on the importance of exports. Several examples can be cited of its effectiveness: the speed with which the recommendations of the Sondhi Committee on engineering exports were accepted; the ease with which quite a significant increase in the automaticity and flexibility of import licensing was introduced; the speed with which the decision to expand the scope of cash assistance was taken in October; and the willingness to push through and organize the politically and administratively complex task of exporting a quarter of the available sugar. The Cabinet Committee is principally serviced by the Ministry of Commerce, with the support of the other two ministries, and appears to be receiving fairly regular information on short-term progress from these sources. Information on specific industries comes largely from the export promotion councils, which meet regularly with their sponsoring ministries. Perhaps the most important such meeting is a monthly one between the Engineering Export Promotion Council

FIGURE II

RUPEE EXCHANGE RATE MOVEMENTS AGAINST MAJOR CURRENCIES, 1953-1975



PAR BASED ON AVERAGE RUPEE/DOLLAR RATE FOR 1956
 SOURCE: IMF INTERNATIONAL FINANCIAL STATISTICS

World Bank-10012

and the Secretary of the Ministry of Heavy Industry. Although DCIS ^{1/} statistics on exports are usually about four months out of date, the Trade Development Authority prepares quarterly forecasts, which are of high quality. Thus, the primary inflow of information into the Government is good, and the Cabinet Committee at the other end is able to make decisions quite rapidly.

33. Medium-Term Targets: GOI has prepared some export targets for 1978/79, which have been analyzed specifically in the light of the policy changes reviewed above. It is virtually impossible to assess, even in a rough and ready manner, the impact of a host of new measures in an area where policy is already baroque in its complexity. While these changes are likely to achieve some improvement in medium-term performance, especially since good prospects exist for immediate increases in the exports of iron ore, steel and coal, they do not appear to affect those structural problems that will determine the ability of India to sustain higher export growth over the long term. Although the changes may affect the willingness of private firms to use existing capacity for export, they are not likely to induce much investment in production oriented towards export markets.

34. As shown in Table 2.5 the Government's 1975/76 constant price target for 1978/79 is Rs. 48.4 billion (US\$5.3 billion), which implies 8.5% average annual compound growth over the 1975/76 target of Rs. 37.9 billion, 7.9% compound growth when GOI's estimated relative price changes are allowed for in a constant price framework, and 9.5% average compound growth over 1974/75. The items expected to contribute the greater part of the growth over the 1975/76 target (with percentage contributions to total increment in parentheses) are: engineering goods (14.3%); cotton textiles (10.7%); leather and leather goods (10.1%); handicrafts (9.6%); iron ore (8.4%); sugar (7.1%); coal (4.1%); oilcakes (3.9%); iron and steel (3.1%); chemicals (2.8%); tobacco (2.7%); and marine products (2.6%). Smaller positive contributions are expected from cashews, tea, jute manufactures, spices, rice and coffee. When account is taken of probable relative price changes, the positive contribution of cotton textile and iron ore increases significantly while those of sugar, coal, oil-cakes and tea fall.

35. Our own estimates of the prospects for 1978/79 indicate that Rs. 43-45 billion in constant 1975/76 prices is a more likely figure. This implies growth over the 1974/75 level of about 7% per annum in volume terms, or when relative price changes are taken into account, of about 6% per annum. Achievement of these rates would imply significant, if hardly dramatic, improvements over those achieved in the recent past. Although we have some concern about many items, the discussion deals with four -- cotton and synthetic textiles, leather goods, sugar, and jute manufactures -- for which concern is particularly great.

36. In the case of cotton and synthetic textiles, the Government is projecting mill-made piecegoods exports in 1978/79 at 600 million square meters.

^{1/} Directorate of Commercial Intelligence and Statistics.

TABLE 2.4
EXPORT EARNINGS
(Value in Rs. Billions)

Commodity	Unit	1975/76 (Estimate)			1976/77 (Projection A)			1976/77 (Projection B)		
		Qty.	Value	Unit B/	Qty.	Value	Unit C/	Qty.	Value	Unit B/
Tea	M. Kg	210	2.37	11	289	2.44	11	289	2.44	11
Coffee	000 T	54	0.59	11,000	62	0.65	11,000	65	0.69	10,000
Sugar	000 T	1,200	4.50	3,150	1,000	3.25	3,150	1,000	4.22	3,000
Rice	000 T	70.5	0.09	5,850	70	0.10	5,800	70	0.10	5,800
Oil Seeds	000 T	1,100	0.91	970	1,000	1.25	1,000	1,000	1.25	1,000
Spices	000 T	50	0.60	12,000	40	0.50	12,000	40	0.50	10,000
Chemical Exports	000 T	30	0.95	19,000	40	1.12	19,000	40	1.02	10,000
Fish & Fish Preparations	000 T	55	0.98	17,200	72	1.15	17,200	70	1.00	17,200
Tobacco Unmanufactured	000 T	71	1.67	15,000	90	1.25	15,000	90	1.25	14,000
Coal & Coke	000 T	700	0.25	900	2,000	0.70	900	2,000	0.70	900
Iron Ore	M. T	24.9	1.96	70	35.9	2.04	60	35.9	2.04	60
Jute Manufactures	000 T	720	2.45	700	750	2.65	700	750	2.65	700
Handloom	000 T	(250)	(1.27)	(5,000)	(200)	(1.12)	(5,000)	(200)	(1.20)	(5,000)
Knitting	000 T	(80)	(0.24)	(4,000)	(70)	(0.23)	(4,000)	(70)	(0.23)	(4,000)
Woolen Knitting	000 T	(100)	(0.80)	(3,500)	(100)	(0.80)	(3,500)	(100)	(0.80)	(3,500)
Others	000 T	(60)	(0.18)	(1,000)	(60)	(0.18)	(1,000)	(60)	(0.18)	(1,000)
Cotton Textiles and Manufactures			3.24			4.47			4.67	
Cotton piecegoods (HIL-KMB) M. Sq. Mts.	(430)	(1.29)	(5)	(600)	(1.87)	(3)	(600)	(1.87)	(3)	
Cotton piecegoods (Handloom) M. Sq. Mts.	(50)	(0.50)	(7)	(30)	(0.30)	(7)	(30)	(0.30)	(7)	
Yarn M. Sq.	(50)	(0.15)	(9)	(12.5)	(0.15)	(10)	(12.5)	(0.15)	(10)	
Apparel		(1.60)			(1.50)			(1.50)		
Others		(0.35)			(0.35)			(0.35)		
Leather & Leather Manufactures including Footwear			2.12			3.18			3.18	
East India Tanned Leather M. Sq.	(25.4)	(1.10)	(25.5)	(15.0)	(0.69)	(25.5)	(15.0)	(0.69)	(25.5)	
Cracca Tanned Leather M. Sq.	(17.4)	(0.47)	(39.1)	(7.3)	(0.25)	(39.1)	(7.1)	(0.25)	(39.1)	
Finished Leather		(0.25)			(0.25)			(0.25)		
Footwear		(0.10)			(0.10)			(0.10)		
Others		(0.14)			(0.18)			(0.18)		
Handicrafts			2.24			3.23			3.23	
Gold & Jewellery		(1.20)			(1.20)			(1.20)		
Woolen Carpets		(0.40)			(0.40)			(0.40)		
Others		(0.64)			(0.63)			(0.63)		
Chemicals & Allied Products excluding Essential Oils			1.50			1.50			1.50	
Iron & Steel			1.17			1.50			1.50	
Engineering Goods			4.00			3.20			3.20	
Sub-Total			22.22			22.52			22.52	
Others			7.11			8.41			8.41	
GRAND TOTAL			29.33			30.93			30.93	

Note: The totals may not add up due to rounding.

a/ Rs. per unit.

b/ On the basis of constant 1975/76 prices.

c/ Assuming overall price stability, but allowing for relative price changes.

Source: Ministry of Commerce.

Since 1968/69 India's exports of these items have exceeded 450 million square meters only in the international boom year of 1973/74. There seems to be only a slight chance of achieving 600 million square meters in a normal year without the successful establishment of an export-oriented textile industry producing high-potential items such as broad width cloths, canvas, denim, towelling and a variety of synthetic blends. This would require substantial investment, which the industry may have neither the willingness nor the ability to make, unless incentives are offered that are both large and secure for a four to five year period. The other major question mark is against exports of garments. Growth here has recently been very dramatic, but because of the high prices, limited varieties, and poor quality of mill-made fabrics, the bulk of it has been in garments made of handloom cloth, which now account for 74% of the total. These exports depend on the continuation of a specific fashion, especially in the USA, and are now increasingly constrained by quotas.

37. The targets for leather goods and footwear will be difficult to achieve since they imply volume growth of 200% and 450% respectively. This will require a very well developed organization to control design, market and quality. Although the potential exists, we have seen no evidence that such an organization is likely to develop fast enough to achieve so much in such a short period.

38. Jute manufactures are another major problem. The Government has taken the positive step of abolishing the export duty on hessian and carpet backing, and announced, in October, 10% cash assistance for carpet backing and specialty manufactures, effective for the remainder of this fiscal year. It should be noted that this cash assistance does not have any effect on carpet backing's international competitiveness since it is already at the official floor price but, by increasing profitability, it may lead to a desirable increase in the industry's rate of investment and marketing efforts, although being so short-term, this is far from probable. The overall world jute market is likely to continue to be under pressure from synthetic substitutes, although jute's price disadvantage was definitely diminished sharply in 1975. Furthermore, competition in backing, hessian, and even carpet backing from Bangladesh, following its devaluation, may be serious if Bangladesh can meet the demand for its exports. Raw jute supply is also likely to be a problem, because of its continued poor profitability for farmers. A shortfall from COI's target for 1978/79 is quite possible, largely on account of erosion in hessian.

39. The Government expects sugar exports to rise to 1,500,000 tons by 1978/79 which is about 20% above the level expected in 1975/76. Our own analysis, however, indicates that, with increased pressure of domestic demand, even sustaining the present level may require both a reduction in per capita consumption of sweeteners; and a shift of cane to the sugar mills. This will require very positive efforts, especially in pricing policy.

40. Apart from these four major categories, shortfalls are also quite likely in cashew, largely because of a serious and worsening problem of supply of raw nuts from East Africa; in chemicals because of the unprofitability of most export items and the consequent likelihood of diversion of production to

the domestic market following any upsurge in the domestic industrial activity; in tobacco, for which the projected increases in light low-nicotine tobacco does not yet appear solidly based in well-developed production program; and in iron ore for which the stagnation of the past bodes ill for the immediate future. (On paper, however, India's increases in port capacity should make the large planned increases possible.) Engineering goods will, in the present very competitive world environment, face enormous difficulties in achieving anything like the growth of the past four years.

41. Considering the medium-term prospects as a whole it appears, not surprisingly, that a major effort further to improve export profitability and competitiveness might achieve the target, partly through increased exports of some presently doubtful commodities like jute manufactures, sugar, and textiles and garments. Given the low proportion of the production of several major industries that is now exported, strong incentives designed to raise the share of exports could have a good medium-term effect.

Longer-Term Prospects and Policy Issues

42. Only a very rough judgment can be made of the likelihood of the target of 8%-10% real growth being achieved in the long run. For this purpose, it is useful to divide India's current major exports into three broad categories: firstly, those whose long-term prospects are poor, and which are unlikely to show a sustained growth of more than about 3% per annum -- largely because of demand constraints, or difficulties in increasing supply (e.g. tea, spices, cashew kernels, essential oils, tobacco, semi-finished leather, most jute manufactures, coir manufactures, and fuels). These items now account for about 30% of India's total exports. A second group consists of those with intermediate prospects, which could, with more or less effort, achieve sustained growth of up to 8% in terms of volume (e.g. oilseed products, coffee, raw cotton, sugar, iron ore, handloom and mill-made cotton piece goods, iron and steel, and chemicals). These items also account for about 30% of India's total exports. The final group consists of items with really good potential, whose sustained rate of volume needs to be 12% or more if the overall target is to be achieved. In order of importance they are engineering goods, apparel, gems, other handicrafts, marine products, and finished leather and leather goods. There may be others still unidentified, but these are the ones most likely to figure prominently. They are all items, in which India should have a comparative advantage, and for which the problem of profitability will be particularly important.

43. Achieving a better performance in the long run will undoubtedly involve going further in tackling the many problems that have been considered above. Mention should also be made of two problems, which will be increasingly important in the future.

44. If the great opportunity for expansion of exports from traditional industries like handicrafts, carpet weaving, hand weaving of cotton and silk fabrics, and leather manufactures is to be realized, organizations must be

created to coordinate marketing, develop design, organize training, and ensure quality. In the leather goods industry, for example, the cobblers of Agra must be organized to produce shoes to meet the demands of Western fashion. Further development of the export of handloom fabrics is thought to require establishment of factories especially for export production. The problems are far from insuperable, and have been tackled successfully so far, since these items, along with gem-polishing, have been sources of dynamic export growth. Nevertheless, as they grow, both the number of people involved and their geographic dispersion will create a significant burden for organizations like the Leather Development Corporation, the Handloom and Handicrafts Export Corporation, and the All India Handloom Fabrics Marketing Co-operative Society Limited.

45. A far more significant and disturbing problem is that of protective controls in developed markets. These appear to affect garment exports especially severely. One problem is that the USA has ruled that garments of handwoven material, made on powered sewing-machines, are not excluded from the quota as handicrafts. Although recent negotiations on this ruling have improved the overall quota position, it is expected that the entire allotment will be filled well before the end of the USA quota year. Subsequent growth is restricted to 7% per annum in volume terms. In the EEC there are also quota restrictions, except on items like utility and industrial garments. But such exports depend on the availability in India of cheap, high-quality, internationally acceptable textiles, which it lacks. Fortunately, garments made of handwoven fabrics are outside the EEC quota. The textile industry, if significantly modernized and improved, will face the same marketing difficulties. The U.S. Tariff Commission is now reviewing a case against imports of shirtings to the USA, India's major market, and diamonds have been left outside the GSP structure, as recently announced by the United States. Thus, several of India's most promising exports are affected.

46. A long-term strategy for exports has also to be based on an appreciation of an "efficient" trade policy, not only in a static sense of making use of comparative advantage, but as stressed above, by functioning as an engine of growth for the economy and industry, particularly after import substitution ceases to perform this role. The basic features of an efficient export policy system, namely fairly uniform effective subsidization, free expansion by the most efficient firms, and free access to all desired imports, have been frequently discussed in the literature. For many complex reasons, including the multiplicity of other policy aims, and a preference for selective controls, a comprehensive reform in the policy environment does not seem likely in the foreseeable future. However, there are a number of alternative policy systems which would improve on the present one.

47. Such a second-best approach to export policy has to start from the realistic postulate that the Indian trade policy regime has been biased against exports and that measures to encourage exports offers substantial net benefits to the economy, particularly given the present high value attached to foreign exchange. This does not mean, of course, that exports should

be encouraged at any cost, but that the exports should be encouraged in the most efficient possible manner. The principal components of such a policy can be indicated. First, given the foreign trade and exchange rate regimes, most exports do require long-term incentives. Secondly, given the complexity of defining the optimum subsidy for each item, even in theory, the bureaucratic difficulties of finely differentiating between incentives and the insecurity created by frequent policy changes make it imperative that the incentive system should be as uniform, simple, and stable as possible. If the export subsidy is differentiated, this must be limited to only a few general categories. From a long-term point of view, basing the differentiation on labor intensity of industries would make most economic sense. Thirdly, exporters must have free access to inputs of international quality through relaxation of the process of indigenous angle clearance. And, finally, the expansion of the most competitive firms on the export side must be encouraged by secure and attractive incentives.

ANNEX

ENGINEERING GOODS

Description and Potential

1. Categorization. Indian engineering goods exports are very heterogeneous, reflecting the broad base of the engineering goods industry in India. Products exported range from relatively complex heavy electrical equipment and sophisticated electronics (largely re-export), to simple labor-intensive goods such as handtools. In recent years, Indian engineering firms have begun to develop turn key projects abroad, either accepting subcontracts from major engineering firms established in developed countries, or, by approaching such projects with a consortium of Indian engineering firms.

2. Engineering goods exports are usually classified by the Indian authorities in four major groups: (i) capital goods, which include relatively sophisticated and substantial finished investment goods, ranging from industrial plant and machinery to complete motor vehicles, but also including wires and cables; (ii) primarily steel and pig iron based items, comprising mainly intermediate goods where the predominant raw material is ferrous; (iii) non-ferrous products, composed of aluminum products, EPSS ware and a catch-all subcategory of non-ferrous products not otherwise specified; and (iv) consumer durables, which is a misnomer for relatively small engineering goods, and includes for example auto parts, handtools, cutting tools and electronics. A complete categorization is given in Table 13.

3. Recent Growth of Exports. Engineering goods exports have been one of India's most dynamic export items. The value of Indian engineering goods has risen from Rs. 134 million in 1960/61 to about Rs. 1304 million in 1970/71 to Rs. 3491 million in 1974/75. It should be noted that the increase has not been entirely smooth, and for example, earnings grew by only 8% in 1971/72 which will have represented a very small increase in real terms; but since then, earnings growth has been very rapid.

Growth in Earnings of Engineering Goods Exports
(Rs. millions)

<u>Year</u>	<u>Earnings</u>	<u>Annual Percentage Change</u>
1960/61	103	
1965/66	294	23 /1
1970/71	1158	32 /2
1971/72	1253	8
1972/73	1411	13
1973/74	1935	37
1974/75	3491	80

Sources: EEPC

/1 Average 1960/61 to 1965/66.

/2 Average 1965/66 to 1970/71.

4. Indian engineering goods exports constituted quite a small percentage of total sales by the engineering industry in India; in 1970 only 4% of sales were exported. Total sales by the domestic engineering industry were Rs. 3474 crores in that year. ^{1/} Nevertheless, engineering goods exports have contributed quite significantly to the growth of some subsectors. The incremental export-output ratios shown below represents the percentage of growth over the period concerned which can be attributed to exports.

Incremental Export-Output Ratios for Selected
Engineering Industries (1960-1969)
(Percentages)

	<u>1960-1965</u>	<u>1965-1969</u>	<u>1960-1969</u>
Industrial machinery, machine tools	1.04	- ^{1/}	21.58
Fittings, fixtures and fasteners	0.39	-	13.74
Hand and small tools	4.67	19.58	10.21
Prime movers	3.41	34.16	8.39
Electric lamps and fans	3.56	10.86	5.65
Motor vehicles and bicycles	1.15	8.00	4.32

Source: R. Banerji "Exports of Manufactures from India", 1975; p. 126.

^{1/} Negative because either exports or overall output declined during the period.

By comparison with non-engineering goods like footwear, where just over 40% of output growth between 1960 and 1969 was in exports, these percentages are not very impressive; but obviously industrial machinery, fixtures and hand and small tools benefited significantly from export growth. Moreover, between 1960 and 1965, when industry was expanding at about 9% per annum, the contribution of exports growth was small, while in the second period, when industrial growth averaged only 3.3%, the growth contribution of exports was much more significant. Given the acceleration in export earnings since 1970, and the modest growth of domestic demand for industrial goods, it seems likely that these contributions to growth by exports for the period 1970-1976 would be even greater than those for between 1965 and 1969.

5. In the most recent past, all four major categories of engineering goods have shown rapid progress in exports. Firstly, among capital goods, the earnings from industrial plant and machinery tripled in the three years

^{1/} Value added in engineering was only Rs. 9080 million in 1970 or 26% of output value.

ending with 1974/75 (Table 1). Over the same period, heavy electrical goods, such as switchgear and transformers, complete vehicles and machine tools have also grown rapidly. Secondly, primarily steel and pig-iron based items have also done very well: steel pipes and tubes have perhaps been the most important growth point, from Rs. 7 crores of foreign exchange earnings in 1971/72 to Rs. 41 crores in 1974/75; high carbon wire products, castings and forgings have also been very dynamic. Thirdly, non-ferrous products earnings doubled from Rs. 4.5 crores in 1971/72 to Rs. 11.6 crores in 1974/75. Finally, in the consumer durables category, as with capital goods, earnings have tripled in the last three years, rising from Rs. 46 crores to Rs. 130 crores. One might single out automobile parts, bicycles and bicycle parts, and diesel engines, pumps and compressors as particularly important subgroups.

Engineering Export Goods Earnings (1971/72-1974/75)
(Rs million)

	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>
Capital Goods	505	544	640	1116
Primarily Steel				
Based Items	239	281	457	958
Non-ferrous Products	45	53	91	116
Consumer Durables	<u>564</u>	<u>532</u>	<u>746</u>	<u>1301</u>
Total	1253	1411	1935	3491

Source: Table 1.

6. Heterogeneity makes an assessment of real growth of engineering goods exports very difficult. Table 2 shows the change in prices and earnings and volume of a sample of engineering goods, that covers approximately one-third by value of all engineering goods exports, for the three years 1972/73 to 1974/75. These changes in quantity and price are summarized in the following table.

Prices, Quantity and Earnings Indices for 1972/73 to
1974/75 for a Sample of Engineering Goods Exports

	<u>Percentage Increase</u>	<u>Period of Change</u>
Quantity Index	28	1972/73-1973/74
	16	1973/74-1974/75
Price Index	16	1972/73-1973/74
	51	1973/74-1974/75
Earnings	47	1972/73-1973/74
	76	1973/74-1974/75
Earnings increases for all engineering goods	37	1972/73-1973/74
	80	1973/74-1974/75

Source: Table 2.

Note: The base period for each index is the earlier of the two years concerned.

7. At first glance, these figures suggest a rather striking decline between the two periods under consideration in the rate of growth of volume of exports. However, the earnings increase in the sample is 10% above that for engineering goods as a whole for 1972/73 to 1973/74 and in the second period, 1973/74-1974/75, the opposite is true. Thus, all it is possible to say is that in both 1973/74 and 1974/75 there were substantial increases in the volume of engineering goods exports, and that they were probably in the region of 20% in each year.

8. What evidence there is suggests that export growth in volume terms since 1968 or so has been sporadic and with a generally low trend. Thus, it is really only the last two or three years where engineering goods have behaved with so much dynamism.

9. There is some indirect evidence that this rapid export growth was associated with an increase in the concentration of the engineering export sector between 1972/73 and 1974/75.

Export Performance of the first 150 Exporters of
Engineering Goods
(Rs. crores)

<u>Year</u>	<u>Earnings of 150 Firms</u>	<u>As a Percentage of all</u> <u>Engineering Goods Exports</u>
1972/73	96.5	69.8
1973/74	137.9	71.3
1974/75	256.1	73.4

Source: Table 3.

In 1973/74 and again in 1974/75 the first 100 and first 150 engineering goods exporters increased their share in the total value of engineering export earnings. On the other hand, the share of first 10 firms actually fell over the period, while that of the first 50 firms dipped in the middle year before recovering. While the largest exporters are not necessarily the largest firms, these figures do suggest that there may have been some competitive advantages to being above average size which helped these 150 firms do better than was typical of engineering exporters during this period.

10. The destination of engineering goods exports has been changing (Table 4). Between 1973/74 and 1974/75 overall earnings grew by about 80%. The most important area of sales growth was the Middle East, where earnings increased from Rs. 48 crores to Rs. 114 crores, or from 26% to 33% of all engineering goods export earnings; this accounted for just over 40% of the increase in overall earnings. The fastest increase was in fact recorded in Australasia, but from a base constituting only 2% of all earnings, this was not so significant. Perhaps the most disappointing market was South East Asia, where earnings fell to 25% of the total in 1974/75, from 30% in 1973/74. East Europe, including the USSR, also declined in relative importance.

11. The most striking increase, namely in the Middle East market, can be explained to a large extent by the very rapid expansion of demand from these countries for capital goods. The shift in exports from East to West Europe, which is also significant, seem to indicate an important increase in acceptability of Indian engineering products in West Europe. Finally, it may be worth observing that the decline in relative importance of South East Asia could perhaps be explained by tougher competition from Korea, Taiwan and, more importantly, Japan.

12. Indian's Position in World Trade. It is difficult to find fully comparable data to show how this record compares with other developing countries that export engineering goods. There is some evidence however that India's performance is fairly typical. Statistics of machinery and

equipment exports ^{1/} for 1968 to 1972 show earnings growing by 52.7% per annum in the case of Brazil at one extreme, and only 13.8% in the case of Malaysia at the other; Indian earnings grew at 24.4%.

Average Annual Growth of Engineering Product Exports
from some Developing Countries (1968-1972)
(Percentage)

Brazil	52.7
Israel	19.8
Korea	26.9
Malaysia	13.8
Mexico	50.8
Singapore	32.8
Yugoslavia	10.3
India	24.4

Source: IBRD Report No. 531 "Export Financing for Capital Goods" September 24, 1974; Annex A, Table 5.

13. India exports a very small quantity of engineering goods by world standards. As a measure of this, in 1971, 98.6% of world trade in machinery and transport equipment originated in developed countries, and of the remaining 1.4%, Indian exports contributed somewhat under 5%, that is less than 0.1% of all machinery and transport equipment trade. This percentage may fractionally understate India's contribution to world trade in engineering goods as a whole, since for example steel structuralis and pipes, which are important elements in India's engineering exports are excluded from the above percentages, but the order of magnitude is correct.

Problems Facing Engineering Goods Exporters and GOI Policies

14. Demand and Supply Factors. Demand for engineering goods is depressed worldwide at the moment. There is evidence of a very slow recovery from the current recession in the developed western countries. The secondary effect of this continued recession will be smaller markets for almost all types of exports and tough competition from exporters in other countries.

15. India is a marginal exporter of engineering goods in two senses. Firstly, Indian engineering goods exporters are new entrants in a number of markets, and therefore labor under the disadvantage of an unestablished

^{1/} Electric consumer goods and parts and passenger cars, cycles, and parts were excluded from the SITC 7 figures on which these growth rates are based.

reputation. Secondly, in some cases Indian products may not be the first choice of customers and are bought only when all other suppliers are quoting impractical delivery delays or prohibitive prices. The effect on demand is that in times of general expansion, India's engineering export earnings are likely to grow at an above average rate, but when the market is generally depressed, Indian sales are likely to contract more rapidly than most.

16. Indian engineering goods exports are marginal in a third sense, in that India's share in world markets is very small for most products. As was mentioned above, less than 0.1% of world trade in engineering goods in 1971 originated in India. Perhaps partly as a consequence of this, tariff and non-tariff barriers have not been a serious obstacle to expanding exports. Most Indian engineering goods exports have benefited from the GSP in Europe. Temporary problems have arisen from time to time, such as the recent Italian requirement of a deposit with the government by importers of 100% of the value of the goods imported. This of course did not discriminate against India. Looking at particular product groups exported to Europe, only electronics have experienced difficulties with low quota levels. In the United States, the domestic producers of EPNS ware, handtools and hardware are lobbying at the moment for protection against Indian imports, which naturally is causing some concern in India. Otherwise, the North American market for Indian engineering goods appears to be quite open.

17. Supply problems, which plagued the engineering industry in the past, have eased considerably in the last 12 months. The improved availability of indigenous steel and coal has been backed up by improved labor relations following on the emergency, and a much improved power supply position, largely caused by hydro-electric reservoir replenishment after this year's good monsoon. At the same time, import policy has been liberalized considerably and procedures streamlined especially for registered exporters, so that imported raw materials are now more freely available than in the past.

18. The domestic situation affects prospects for exports in another way. Engineering goods exports constitute a small proportion of all the engineering industry's production in India (see paragraph 4), and there is widespread under-utilization of capacity. However, an upturn in domestic demand could still choke off exports in the next two or three years, because the best producers, who are most able to export, can in many cases make larger profits in the domestic market. 1/ If this situation persists, sustained expansion of supply of engineering goods for export will be difficult to achieve.

19. Freight Problems. Freight problems constitute an important obstacle in expanding exports. In the past, inland transport difficulties were a contributory factor, but over the last year, the Indian railways

1/ In the machine tools and cutting tools industry, profits on domestic sales can be as much as 20% at the same time that export sales can barely cover costs.

system has become considerably more efficient and laws governing interstate road transport have been liberalized. International air freight is not particularly important for any engineering goods exports except those with very high value-weight ratios, such as electronics goods, and goods with short delivery times: air freight has not been a problem. The main difficulties are connected with sea transport.

20. The problems begin with the condition of Indian ports which are in general congested and fitted with inefficient cargo handling equipment. Congestion in ports of destination has also contributed to these difficulties. Partly because of port conditions, and partly because of small and fluctuating shipment sizes, last minute postponements have occurred. In general, there has been too little shipping space available, and, what there was, has not always been on schedule. Finally, in addition to port congestion charges, the exporter has had to pay much increased freight rates, caused in part by fuel and wage cost escalation, but also perhaps by the monopoly bargaining position which the shipping conferences have held.

21. Indeed, shipping rates have risen to the point where it is not unknown for the rates between Europe and the Far East to be less than those between either market and India.

22. The present incidence of ocean freight rates for some typical engineering goods is shown in Table 5. Since it is not unusual for 20% or more to be added to the f.o.b. price by the cost of freight for European and North American markets, it is apparent that this is an important element in costs to the consumer. Table 6 shows that the freight rates for Indian exporters to U.S. markets are between 40% and 110% higher than for their European competitors for mild steel pipes and diesel engines. These differences cannot begin to be explained by the different distances between different markets, and the explanation must lie among the factors discussed above. Taking the example of mild steel pipes, 14.2% is added to the f.o.b. price of pipes exported from India to the US which puts India at a c.i.f. price disadvantage against European competitors of about 7.4% on the U.S. East Coast and about 3.8% on the West Coast.

23. Certain developments may shortly provide some relief to this situation. Port congestion may be alleviated by the completion of bulk cargo harbors and handling facilities at Haldia, Madras, Paradeep and Vishakhapatnam. The Ministry of Commerce has recently established a unit to act as a clearing house for orders for shipping space by Indian exporters, so that amount and reliability of shipping space may both improve. Finally, two major Indian shipping lines have withdrawn from the Indian-Pakistan-US (East Coast) shipping conference, in protest to the high freight rates charged Indian exporters. While these developments will no doubt have a beneficial impact on the shipping problems facing Indian engineering goods exporters, it is likely that these problems will still constitute a disadvantage vis-a-vis conditions facing competitors in other countries.

24. Industrial Policy Affecting Exporters. The Government of India has, since independence, had an active hand in directing all aspects of industrial growth and development in the private sector. The most important tool of industrial policy that affects long term development prospects is industrial licensing. Economies of scale are particularly important for export competitiveness. Over the last year, the government has liberalized capacity licensing, so that expansion of production is now easier. Hitherto, all firms not covered by the MRTP Act or FERA ^{1/} were permitted to produce from their existing plant 125% of their licensed production capacity. This blanket provision was intended to ensure the fullest possible utilization of capacity and elimination of bottlenecks. The first major innovation has been the introduction of a policy by which production for exports, over and above licensed capacity, is now automatically licensed for all firms, regardless of whether they are large, dominant or foreign concerns. This constitutes one of the major policy changes to have resulted from the Sondhi Committee Report on Engineering Goods Exports, presented to the GOI in 1975 (see Annex 1).

25. A second major policy change introduced recently has been automatically to permit all firms to expand capacity by up to 25% over a five-year period. This provision applies to most capital goods, commercial vehicles and tractors, automobile ancillaries and forgings and castings within the engineering sector. However, the permission will not be automatic for firms who: (a) may encroach on products reserved for production in the small scale sector; (b) need external finance; (c) need imported capital equipment; (d) are subject to regulation under the MRTP Act; or (e) are party to foreign collaborations. This goes some way towards permitting firms to achieve the economies of scale for international competition, but 5% average annual growth in capacity is very modest and furthermore, some firms with foreign collaborations and some firms affected by the MRTP Act are among those not likely to realize economies of scale in exports.

26. Thirdly, 21 industries have been delicensed, that is, there is no need to have an industrial license to expand capacity indefinitely. Within the engineering goods category, the main groups of products to be affected are industrial machinery, forged hand tools and small tools, switchgear and machine tools. Once again, this liberalization does not apply to firms affected by the MRTP Act or FERA, to firms requiring imported raw materials, or to expansion that might encroach on products reserved for the small scale sector.

^{1/} Large houses are those with at least Rs 20 crores of assets: together with dominant houses, which control one-third or more of domestic production of a given product, they are subject to regulation under the Monopolies and Restrictive Trade Practices Act of 1969 (MRTP). Foreign concerns are those in which at least 40% of the equity is foreign owned, and are subject to regulation under the Foreign Exchange Regulation Act of 1973 (FERA).

27. Fourthly, 29 industries are now assured permission to expand capacity without limit though they must remain licensed. Within the engineering goods sector, all the industries listed above in paragraph 26 are affected, together with scooters and electronics. Unlike the delicensing provision, firms which are under the FERA or MRTP Acts regulation may benefit from this policy change, provided all additional output is exported or the firms agree to government-directed distribution of production.

28. Lastly, capacity expansions that are the result of replacing old equipment are automatically licensed, provided once more there is no encroachment on small scale sector markets and provided no additional foreign exchange is required.

29. Import Licensing. The 1975/76 Import Trade Control Policy for Registered Exporters has eased licensing procedures and policies, so that imported raw materials, spare parts and capital equipment are all more freely and flexibly available than hitherto. The availability of imports is no longer likely to be constrained by licensing problems. Formerly, any established actual user of imports could import raw materials or components but only against documentation of end use. Now any actual user, including those registered as exporters for the purposes of the Import Trade Control Policy, is now guaranteed a license for the amount of raw materials at the outset of the financial year equal to the amount he imported or the amount licensed last year, whichever is less. In addition, registered exporters continue to receive import replenishment licenses (REPs) 1/, and can receive further rights to import under the new import, supplementary 2/ and advanced schemes. Of these, the most important is the import scheme, under which REP licenses equal to last year's consumption of imported raw materials and components for export are granted at the year's outset. The supplementary scheme add 10% to REPs, both under the import scheme and as they are applied for during the year. Furthermore, those who exported over 20% of their sales receive licenses for the value of raw materials consumed last year (regardless of the licenses received), and, in addition, preferred sources of financing. 3/

30. If we consider, for example, a manufacturer who exported 20% of his sales in the previous year, he would receive an additional licensing of 20% of last year's requirements at the year's outset under the import import replenishment licensing scheme. To encourage expansion of exports,

1/ REPs are licenses granted to registered exporters to replenish their imported material input stocks after they have exported.

2/ "Supplementary" is usually used to refer to import licenses available to actual users in the select industries. Here, as is clear in the following paragraph, the meaning is different.

3/ Preferred sources of financing means the preferred foreign exchange currency will be made available to such exporters.

the government has also granted a 10% supplement to the replenishment license. ^{1/} This would add to the year-start licensed imports a further 2% of last year's requirements. In addition, for those whose domestic value added is over 50% of their sales price, a further 10% supplement to the replenishment license is granted - in our example a further 2% of last year's requirements, totalling 124% of the raw materials of last year. As well as these licenses, an exporter may have import replenishment licenses left over from last year, and every three or six months during the current year he can apply for import replenishment licenses against his new exports.

31. In addition to this more generous initial allowance, exporters can import raw materials and components under an advanced license against an export obligation if they can show a bill of goods for the export. Under this scheme, the exporter pays no duty on the imports, and, although under normal circumstances this duty should be covered anyway by duty drawback, the financing of the duty during the manufacturing cycle is thus avoided.

32. The system of bank guarantees has been liberalized for all exporters of at least three years standing so that they no longer need to submit a guarantee to export against advanced or imprest licenses; a legal undertaking is now sufficient for advance licenses, and no guarantee or obligation is required at all for imprest import replenishment licenses, though, of course, the license would not be renewed unless the firm concerned did export.

33. The position with regard to imports of components and spare parts of imported machinery has also improved. Separate licenses are now available for spares imports for all users of imported machinery; formerly this option was confined to "priority" industries. The value of these licenses is normally limited to 5% of the value of the machinery if it was imported before 1970 and 3% otherwise. The types of spares that may be imported have been liberalized including 10% for non-permissible spares i.e. spare parts which are manufactured in India. Indeed, the exporter can now utilize his import replenishment up to Rs. 7.5 lakhs to import machinery, which presumably includes spares. Furthermore, select industries can use up to 5% of these raw materials licenses for non-permissible items, including spares. The list of capital goods which may be imported without individual indigenous angle clearance has also been enlarged. Although these measures related to imported capital equipment are not part of export policy as such, they are of course important for exporters.

34. All in all, policy changes over the last year have done much to increase the availability of raw materials required for export production. Procedures have improved significantly too. In general, license processing is far faster than in the past, and as an example of this one may note that

^{1/} This applies to chemicals, leather and sports goods, cotton textiles and garments as well as engineering goods.

import and imprest license applications can now be sent directly to the Licensing Authority without sponsorship by any other government agency.

35. Export Incentives: Cash Assistance and Duty Drawback. Duty drawback is a reimbursement to exporters of almost all import duty and central excise paid during production of goods for export. Cash assistance was originally an additional financial compensation for unidentified local taxes. However other considerations play a part in determining the appropriate rate of cash assistance, including the cost disadvantage Indian manufacturers may face and the condition of the world market; these considerations are summarized by the difference between the f.o.b. realization and the variable (short run) cost of production, to which cash assistance approximates for some goods.

36. These two types of fiscal assistance are paid to the manufacturer after he has exported his goods. As a result, they require financing by the exporter during the manufacture and delivery cycle and during the period of administrative processing. Until two years ago, examination of documents (shipping bills, invoices and bank certificates) to establish claims for cash assistance and duty drawback could take anywhere between 6 months and a year, during which period the exporter went without payment. This recently became a problem, and the need to speed up the payment procedures more acute, when the government tightened credit policy to fight inflation. Accordingly, the government has greatly speeded up administration of these two schemes. Now, on submission of a claim certified by a chartered accountant to the customs authorities, 95% of cash assistance and 100% of duty drawback are paid to the exporter. Thus, the delay is reduced to only 2 or 3 weeks. Subsequently, the exporter must submit more documentation for ex-post checking. The Government is considering whether or not to administer these two schemes through the commercial banks, which would further simplify and expedite their administration; these banks have recently been granted permission to help finance the duty drawback through the manufacture and delivery cycle, by granting an interest free advance equal to the drawback amount.

37. Cash assistance rates have been changed from time to time for a number of exported engineering goods. In some cases it has been greatly increased - such as railway wagons which now enjoy 33-1/3% cash assistance - 1/ and in others reduced; in general, engineering goods which do receive cash assistance support receive between 5% and 15%. The Market Development Fund, which is mainly used to finance cash assistance, recently received an additional Rs. 200 million (over a basic annual allocation of Rs. 500 million) for additional cash assistance, so that we can expect a short-term increase in average rates of cash assistance, some of which may benefit the engineering goods exporters.

1/ This percentage refers to domestic value added. In almost all other cases, cash assistance is expressed as a percentage of f.o.b. price.

38. Duty drawback rates are of course dependent upon the excise and import duties of particular material inputs into each industrial industry. ^{1/} However, it has been reported that duty drawback often does not cover the full cost of excise and duty. The commonest explanations are that insufficient allowance is made for waste so that the amount of taxed raw material required to produce a given export product is underestimated, and that price rises and consequence increases in ad valorem taxes are not taken into account.

39. Export Obligations. Export obligations are a significant policy instrument for promoting exports. The Indian government imposes them at a number of stages including the licensing of capacity, of imports, and of foreign collaborations. Certain engineering industries are under an obligation to export 10% of their annual production ^{2/}. Every firm that has been producing for over five years and is not in the small scale sector must meet this obligation, which is sanctioned by the removal of 10% of their allocation of imported raw materials in subsequent years.

40. Apart for this type of industry-wide obligation, individual firms may incur an obligation if they wish to expand. Foreign companies are broadly speaking allowed to enter new collaborations in India only if there is a technical need for their participation or if they are prepared to commit themselves to a high proportion of output being exported (usually between 40 and 100%). ^{3/} The same type of obligations apply to a lesser extent to foreign technical collaborations, large houses and other enterprises affected by the MRTP Act who may be called upon to export a certain proportion (typically 60%) of output from new plants, at the time the industrial license is granted. Finally, imports of capital equipment may also carry an export obligation which, once again, is specified as a percentage of annual output and is typically between 40 and 60%.

41. The underlying justification for these obligations are: either there is the market abroad and the capacity at home to export a particular product (industry-wide type of obligation); or, a firm is incurring additional foreign exchange cost and should therefore undertake additional foreign exchange earnings (foreign collaboration or participation and

^{1/} If an individual firm feels for some reason that their excise and import duty is above the average for their industry, they may apply for a separate assessment of duty drawback.

^{2/} These industries are bicycles, some small and cutting tools, storage batteries, some automobile ancillaries, most steel pipes and tubes and transmission towers. A general 5% export obligation is imposed on certain non-engineering industries, mainly chemical-based industries such as drugs and pharmaceuticals.

^{3/} In addition, foreign equity participation is almost always limited to 40%, and technical collaboration royalties to 5% of domestic value-added. Lump sum payments for designs, etcetera, are also controlled; so that there are in general numerous controls on foreign involvement of any sort.

import of machinery); or, an expansion would not usually be permitted, and only the premise of exports justifies the exception (expansion by foreign or MRTP firms).

42. None of these reasons for export obligations is related directly to efficiency. For example, even if excess capacity does exist, it may be inefficient to export, if marginal domestic resource cost exceeds net foreign exchange earnings. A more serious problem which obligations can create is poor market reputation, since low quality as well as high quality firms may be affected; this is of course particularly true of industry-wide export obligations. Though outside the engineering industry, the example of the textile industry in India is generally illuminating, where it is quite possible that periodic industry-wide export obligations have contributed to the generally poor reputation of Indian textiles abroad.

43. Nonetheless, export obligations have been used effectively in such countries as Korea, and there may be some practical gain to be reaped from a modest level of obligation related to industrial expansion. When the domestic market is protected, and therefore inevitably more profitable, it is one way to ensure some investment for export. Perhaps the most practical criticism which can be levied at the present policy position is that the level of obligation is too high; instead of being a tool for channelling expansion into exports, it has become a disincentive to expand at all.

44. Raw Material Policy Problems. Metal imports are canalized through two agencies, Hindustan Steel Limited (HSL), which handles iron and steel imports (and also produces steel) and the Mining and Minerals Trading Corporation (MMTC), which imports all other metals. The Steel Authority of India Limited (SAIL), which is a major producer of steels in India, is responsible for canalizing all steel exports from India. These three public sector organizations are all supposed to be commercially viable undertakings and their pricing and distribution policies do therefore reflect to some extent commercial as well as economic considerations.

45. The canalizing agencies were established partly to achieve advantages from economies of scale in international trade in metals. For example, it was intended that the engineering industry should benefit from MMTC being able to hold inventories of copper from which manufacturers could buy "off the shelf" with relatively little delay. Thus, factory inventories could be held down. Unfortunately, the wide variety of specifications industry requires has made it difficult for MMTC and HSL to perform this function efficiently, and in fact the opposite situation seems to be prevalent, where manufacturers complain of large and sporadic consignments of metals in specifications which are not those desired. International standards are not wholly applicable because order sizes are much smaller in India than they would be typically in industrialized countries, but at the same time there is probably room for improvement in meeting specifications and in smooth distribution of engineering industry raw materials. At the moment, the credit squeeze makes fluctuating and sometimes very long inventories very expensive for an export manufacturer.

46. MMTC has a policy of pricing metals in relation to the cost of their own inventory; with 3 or 4 months stocks of metals, this implies domestic prices are usually below international (c.i.f.) prices when international prices are rising, but are likely to be higher when international prices fall. Since these price cycles are usually demand induced, downturns in international prices usually reflect weak demand and therefore an intensely competitive situation in the user industries. Hence, Indian exporters are under a cost disadvantage at precisely the time they can least afford it. This price cycle for copper is reflected in Table 7, which shows international prices rising until mid 1974, when Indian prices were competitive and falling thereafter when Indian prices have been as much as 30% above international prices.

47. Manufacturers producing engineering goods with a significant copper content, who export against advance contracts, are able to avoid this price cycle problem. MMTC will arrange to supply copper as needed to fulfill an export contract at the price that prevailed at the time the contract was signed or for those whose contracts have cost escalation clauses related to international prices, MMTC will buy forward to avoid the price change risk. While this provision should accommodate many exporters, those who cannot use contracts, are unfortunately not protected.

48. Apart from relatively high prices the impact of excise and import duties on work-in-progress and inventory financing has been a handicap to engineering goods exporters. Both types of duty are recoverable through duty drawback at the end of the production and selling cycle, but, the additional financing requirement during the present credit squeeze adds substantially to costs. For example, duties on copper in the second quarter of 1975 were about Rs 10,000 per metric ton over a basic cost of Rs 14,280 per ton; with a production and sales cycle of 12 to 15 months, this can add between Rs 1,000 and Rs 2,000 per ton of raw material to the cost of production at the present rates of interest on bank borrowing. Similarly, excise duty on E.C. grade aluminum was about Rs 5,300 per metric ton in July 1975, over a basic price of about Rs 6,600 per metric ton. Of course, import duties on copper can be avoided by importing under an advanced licence which requires an advanced obligation to export on the manufacturer, but it is not always possible to make such arrangements.

49. In Table 8, international and domestic prices for a variety of raw materials are compared. It is apparent that in most cases, domestic manufacturers are at a significant disadvantage: pig iron, steel structurals, mild steel plates and boiler quality plates are important exceptions, though it has been reported that the competitiveness of domestic prices for these items has been eroded in the last 6 to 9 months. Aluminum is also an important raw material which appears to be available at international prices, but the financing of excise probably makes the domestic product marginally less

competitive. 1/ Copper, zinc, and lead appear to be the most uncompetitive raw materials which suggests that heavy electrical engineering goods and cables may be at a particular disadvantage at the moment.

50. Where the economic cost of the domestically supplied raw material exceeds the international cost, as is perhaps the case for lead and aluminum, it may still be appropriate to adopt pricing policies which move towards a domestic price that equals international price. 2/ However, it should be possible for India to maintain a relatively competitive price for iron and steel. The appropriate pricing policy for imported metals, such as copper, may well be simply to follow the international price with a small markup to reflect overheads, transport costs and inventory costs, with the result that MMTC and SAIL may have years with windfall profits and others of windfall losses on their international trading; however, over the period of complete international price cycles, their financial performance should not be too seriously affected.

51. Export Credit. Export credit plays a vital role in selling Indian engineering goods abroad. Three types of credit are important: short-term pre- and post-shipment credits, both of which are intended to finance the exporter's working capital on concessionary terms; and medium-term deferred payment arrangements, which may be subdivided into supplier's and buyer's credits. The short-term credits are available for all engineering goods exports, and the medium-term for capital goods, turnkey projects and major engineering goods and services exports. Recently, construction projects have also become eligible for medium-term credits.

52. Pre- and post-shipment credit is available at a concessional interest rate of 11.5% p.a. Limits of between 90 and 180 days apply to most pre-shipment credit and 90 to 120 days for post-shipment. For additional days of credit the commercial banks may charge higher rates.

1/ In the past, the unreliable supply of domestically produced aluminum was the principal problem. Now, however, the freer availability of power has contributed to a satisfactory supply position.

2/ Consider the case of aluminum: the economic cost of producing aluminum is almost certainly understated by the present pricing policy, because electricity, a major input, is widely sold to aluminum plants at concessional rates. However, the "efficient" economic pricing policy would be: (a) to sell electricity at its long run marginal cost to the aluminum plants; and (b) at least for exporters, to subsidize the consumption of domestically produced aluminum, in order to avoid penalizing the user for the high cost of production of the supplier. The essential point is that exporting industries should usually pay international prices for their inputs.

53. There has been almost no change in the level of pre- and post-shipment credit available to exporters in the manufacturing sector in the last year. In June 1975, about Rs 7 billion had been extended against about Rs 15 billion of manufactured goods exports. One reason for the stagnant availability may be that the concessionary interest rate does not present an incentive to the commercial banks to extend export credit. While the level of credit would appear to be about adequate (sufficient to finance a 6 months average production and delivery cycle), some shortfall in pre-shipment credit availability has been reported.

54. The maturity of deferred payment arrangements is anywhere from 1 to 15 years, the average being somewhat less than 10 years; the average grace period is between 12 and 15 months. The annual interest rate is usually between 7.5% and 8%, and like the grace and maturity periods, is varied according to the size of contract, the competition from alternative suppliers and other such factors. When a commercial bank extends the deferred payment arrangement, the bank may rediscount the bills with the IDBI with a 1.5% spread (i.e. at 6% to 6.5%).

55. Advance down payments by the foreign buyer are expected to cover the foreign exchange requirements of the imported components and raw materials needed for execution of the export order. When only domestic resources are involved, the advance down payment is usually at least 10% of the contract value, and shipment payment another 10% to 15%.

56. Except for the negligible percentage of deferred payment arrangements financed by commercial banks with an interest rate subsidy, the IDBI is involved in all medium-term export financing in India, either by direct participation or through its rediscounting scheme. Table 9(A) shows the distribution of deferred payment arrangements. Textile machinery is the single most important recipient category of export goods, followed by railway wagons, transmission equipment and steel bars/rails and railway equipment. The value of all finance sanctioned by IDBI up to June 1975 constituted about 60% of the value of all export goods benefiting from deferred payment arrangements; the remaining 40% is in the main accounted for by advance and shipment payments by foreign buyers. Table 9(B) indicates the extent of credit in 1974/75 for deferred payment for Indian exporters as being in the region of Rs. 300 million. This constitutes somewhat less than 30% of the value of Rs. 1.1 billion of all capital goods exports in 1974/75.

57. Indian credit terms are by and large quite competitive with commercial credit from other countries, but Indian engineering goods exporters are now in markets where industrialized countries sometimes use aid finance to sell their goods. A second serious price competition problem is the "political pricing" of exports from Eastern Bloc countries. A difficult judgment, which is a matter for macro-economic policy, involving a trade-off between stimulating exports and realizing foreign exchange earnings has to be made. Borrowing foreign exchange against deferred payment paper in European commercial banks or selling paper on the Euro-dollar market (both

of which are examined periodically by the IDBI) are important methods of realizing foreign exchange earnings quickly, but neither is costless.

58. The Impact of Export Policies. There are many reasons for firms to export that are not directly related to profits: for relatively large, dominant or foreign concerns this may be the only way to expand; and status and market reputation at home are enhanced by being known as an exporting firm. Furthermore, the impact on profits may be indirect or hard to measure. For example, preferred access to imported raw materials may permit an exporting firm to keep lower inventories or maintain higher quality standards than his competitors in the domestic market which in turn could lead to higher profits. On the other hand, the effect of cash assistance, duty drawback and the premia on import replenishment licenses are hard to quantify because the rates of these incentives did not vary so widely from commodity to commodity and time to time.

59. From the policy-making viewpoint, it would be desirable to know which exports yield the greatest economic benefit, and which receive the greatest encouragement under a given system of incentives. One concept which is useful towards this end is the domestic resource cost (DRC) which measures the economic cost per unit of net foreign exchange earned by exporting a given product. 1/ The degree of protection or subsidy afforded a production process can be estimated by the difference between the domestic and international value added, that is the effective rate of protection (ERP) or effective export subsidy (EES) 2/. Thus, the DRC identifies products which are candidates for export promotion and the EES reveals has policies presently affecting exporters. However, a high EES will not necessarily induce export growth where there is also a high ERP. Exports must be relatively profitable for entrepreneurs to prefer expansion in export markets.

60. A number of recent studies have made estimates of DRC, EES and ERP for selected Indian manufactures. Table 10 provides data on DRCs and ERPs from recent projects financed by ICICI. There is a striking spread in DRC estimates from Rs. 5.4 per dollar (for seamless tubes) to Rs. 10.6 per dollar (for cold formed springs). Other studies have made the same broad observation - that DRC varies greatly among exported products - and also suggested that there is only a very poor correlation between DRC and the

1/ DRC estimates can be based on costs of domestic resources valued at market prices (which yield the most crude estimates), at world prices for tradeable domestically produced inputs which yields an "adjusted" estimate) or with all inputs shadow priced (including capital and labor). The DRC for import substitution will generally be lower than for exports, because of transport costs.

2/ Two methods of measuring ERP and EES are widely recognized: the Corden method which includes non-traded inputs in value-added and the Balassa method which does not. Essentially, the former reflects the protection to all the domestic manufacturing processes involved in producing a product while the Balassa method measures the protection to the final manufacturing process.

level of subsidy incentive. 1/ This absence of economic rationale can be largely written down to the complexity of the incentive and control system, and the ad hoc manner in which it has developed in the past. These observations suggest firstly that it may be worth considering simplifying policies, so that it is possible to understand and predict their economic effect more clearly, and secondly there is a need from the national viewpoint to select exports carefully: out-and-out export maximization may be an unnecessarily expensive policy to follow.

Prospects

61. The Medium-Term Prospects. The prospects for significant expansion of engineering goods exports by 1978/79 seem to be relatively good. The EEPC target is an increase of Rs 2 billion over 1975/76, to Rs 6 billion by 1978/79, which especially in the light of the short-run difficulties, may be too high, but a figure of between Rs 5 and Rs 5.5 billion (in constant 1975/76 prices) should be attainable.

Engineering Goods Exports - Targets and Projections
(1974/75-1978/79)
(Rs million)

	<u>Year</u>	<u>Engineering Exports</u>
Actual (1974/75 Rs)	1974/75	3491
EEPC Targets (1975/76 Rs)	1975/76	3975
	1976/77	4300
	1977/78	5030
	1978/79	6000
	1978/79	5100
IDA Estimate (1975/76 Rs)	1978/79	5100

Sources: Tables 1 and 13.

62. The EEPC estimates of growth of engineering goods exports are based on the submissions of principal exporting firms, which are reviewed in the light of market and policy prospects, and then aggregated. There

1/ For example, Charles P. Staelin: "The Cost and Composition of Indian Exports." Discussion Paper for the Center for Research on Economic Development, University of Michigan.

is a tendency for the EEPC figures to be high as projections because they are targets and as such they represent the best that engineering exporters hope to achieve. ^{1/}

Engineering Goods Exports - Projections for 1978/79
(Rs billions - 1975/76 Rs)

	1974/75	1978/79	Change between 1974/75 and 1978/79	Percentage Distribution of Change
	<u>(actual)</u>	<u>(projected)</u>		
A. Capital goods	1.12	1.69	0.55	34%
B. Primarily steel and pig-iron baked items	0.96	1.20	0.24	15%
C. Non-ferrous products	0.12	0.23	0.11	7%
D. Consumer durables	<u>1.30</u>	<u>1.98</u>	<u>0.68</u>	<u>43%</u>
Total	3.49	5.10	1.60	100%

Source: Table 13, IDA Estimates.

63. The expected growth in engineering goods exports is concentrated in the capital goods and consumer durables categories ^{2/}. Within the capital goods category, exports of industrial plant and machinery are expected to continue to grow (by Rs 0.14 billion between 1974/75 and 1978/79); coastal vessel ships, which is a new and potentially very dynamic item, are expected to increase from only Rs 20 million to Rs 200 million; and machine tools exports

^{1/} A second reason, is that these targets may embody an allowance for inflationary increases in unit prices. Because it is virtually impossible to predict inflationary changes as distinct from changes in prices caused by specification/design changes, it is normal to present and interpret projections of such goods as engineering goods in "constant" price terms, that is, with no account taken of inflation. Moreover, when considering the contribution to the balance of payments prospects, import projections are usually formulated in constant terms and the overall picture would be misleadingly optimistic if export projections only are scaled upwards for inflation. However, a major difficulty in the short run (1 or 2 years ahead) is that contracts on which targets are bound to be based are often in current prices. The practical problems of converting to constant prices in a generally acceptable way are considerable. For the sake of clarity of discussion, it is assumed here that the EEPC projections are in constant prices, at the risk of overstating the differences between their projections and ours.

^{2/} See paragraph 5 for a similar discussion of past trends.

could well grow significantly by Rs 50 million over these four years. Among consumer durables: automobile parts, bicycle and bicycle parts, and diesel engines, pumps and compressors all promise continued growth (by Rs 130, Rs 100 and Rs 70 million respectively between 1974/75 and 1978/79); electronics also are expected to be important, at least in terms of gross foreign exchange earnings, with a projected increase of Rs 200 million, most of which is attributable to the expected impact of the Santa Cruz Export Processing Zone; and, finally it is anticipated that handtools exports will increase by Rs 6 crores over the period.

64. If the target of Rs 4 billion of engineering goods exports is realized in 1975/76, and there is very little real growth in 1976/77, growth in exports in the following two years will have to be fairly rapid at about 12% per year to achieve the projected figure of Rs 5.10 billion in 1978/79. The growth of nearly 20% per annum for two consecutive years between 1972/73 and 1974/75 suggests that this should be possible.

65. The Long Term Prospects. India should have a comparative advantage in a number of engineering goods. In the nearby South and Southeast Asian and East African markets, India's substantial existing industrial base constitutes a definite advantage in the production of most engineering goods; in industries which pollute or inevitably have poor working conditions, such as foundries or forgings, India has a comparative advantage over many developed countries; and of course, the low cost of Indian labor should make labor-intensive products highly competitive.

66. India's resource endowment of basic raw materials is sufficient to support a sustained expansion of engineering goods exports. Coking coal, iron ore and bauxite, which are needed for iron, steel and aluminum production, are all present in sufficient quantities to ensure that their cost will be comparatively low. It is more difficult to argue that energy availability will be a source of comparative advantage. Power shortages are likely to be prevalent for some time to come, and will only disappear after a considerable commitment of scarce capital to power sector development.

67. While some engineering goods are relatively labor-intensive, the majority are not. However, labor-intensity is an aspect of engineering goods exports to be approached with caution. High quality and high labor-intensity do not always go together. The fact that India has relatively cheap skilled labor means that some comparative advantage remains even within the quality constraint, but it may be necessary to use sophisticated, possibly imported, capital equipment to complement the skilled labor input.

68. Engineering goods export growth will depend to a considerable extent on government policy. Because engineering goods exports constitute such a small fraction of production in India, it is unlikely that resource constraints will be a determining factor so much as export profitability. Private sector enterprises will only expand their export sales voluntarily

if they are profitable. In any case, the bulk of engineering goods sales are almost certain to remain in the domestic market for the foreseeable future. For example, if engineering exports were to grow on average in real terms by 15% per annum from their 1970 base until 1985, while engineering industry gross output were only to increase by 5% per annum, exports would grow from 4% of total output to only 15% by 1985.

69. The share of Indian engineering goods exports in world trade is so small that demand is unlikely to be a constraint as long as Indian goods are competitive in quality and price. Within an appropriate policy environment, it should be possible for engineering goods exports from India to continue to contribute significantly to the growth of foreign exchange availability.

ENGINEERING GOODS TABLES

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THE SONDHI COMMITTEE RECOMMENDATIONS

The Sondhi Committee made recommendations early in 1975 to the Cabinet on policy for promoting engineering exports. Most of the recommendations were formally accepted and decisions were made as follows: 1/

- (i) Automatic approval for production earmarked for exports beyond the authorized capacity.
- (ii) Improved arrangements for supply for inputs for exports production. Within the resources available, the exporters will be provided with all the inputs needed, including raw materials, power and export finance on a priority basis.
- (iii) The procedures for allocation of steel have been simplified, and the Iron and Steel Controller will have the sole responsibility to make allocations after the exporters' obligations are sponsored by the Engineering Export Promotion Council.
- (iv) In cases where the prices of steel are revised upward by 10 percent or more, the contracts entered into by the exporters will be protected against revised prices, provided the contracts do not contain escalation clauses to cover the price increase adequately.
- (v) In respect of export of capital goods and turnkey projects the rate of cash assistance obtaining at the time of concluding the contract will be protected till the completion of the contract, as against the existing limit of 2 years for turnkey projects and 18 months for capital goods.

For other engineering goods such protection will be made available for a maximum period of three years against the existing limit of one year.

This protection will be applicable in cases where the price is not negotiable.

1/ With the exception of recommendation (vi), which is apparently still under discussion, all the others are now implemented.

- (vi) For determining cash assistance, while the existing basis of marginal costing will continue, 25 percent of the rates of such cash assistance will be added towards the fixed cost of production.
- (vii) Import duty on raw materials imported against advance licenses will not be charged if such imports are approved by the Advance License Committee.
- (viii) Export obligations in future will be imposed only by one authority, namely, the Licensing Committee.
- (ix) The procedures regarding approval on deferred payment proposals have been simplified. The IDBI has been made the focal point for the receipt and processing of all export proposals for deferred payment, instead of applications being processed as at present at three or four points, namely by the RBI, the ECGC, the IDBI and Government.
- (x) In cases where IDBI financing is not required the exporters can enter into firm commitments with foreign buyers without the prior approval of the RBI and the ECGC, provided the deferred payment contracts are of a value not exceeding Rs. 50 lakhs and the deferment period is up to five years.
- (xi) A High Powered Standing Committee on Export Finance has been set up under the Chairmanship of the Deputy Governor of Reserve Bank of India to deal with general problems faced by the exporters with regard to export finances.
- (xii) Decisions have been taken for liberalization of facilities for grant of foreign exchange for travel abroad in connection with export contracts, making available pre-shipment credit at a concessional rate of interest up to 180 days for specified medium and heavy engineering goods and arrangements for collection of specialized data and information and the taking up of preliminary studies by consultants.

TABLE 1

Summary of Engineering Goods Exports and EKPC Projections (1972-79)
(Rs millions)

	<u>71/72</u>	<u>72/73</u>	<u>73/74</u>	<u>74/75</u>	<u>75/76</u>	<u>76/77</u>	<u>77/78</u>	<u>78/79</u>	Growth bet ween 74/75 and 78/79 (%)	%age Dis- tribution 1974/75 (%)	%age Dis- tribution 1978/79 (%)
	-----Actuals-----			Provisional	-----Projections-----						
Capital Goods (Percentage increase over previous year)	505	544 (7.7)	640 (17.7)	1116 (74.3)	1455 (30.4)	1550 (6.5)	1880 (19.4)	2300 (24.3)	106	32	38
Primarily Steel-Based and Pig Iron Items (Percentage increase over previous year)	239	281 (17.6)	457 (62.6)	958 (109.7)	870 (-8.5)	960 (10.3)	1150 (19.8)	1270 (10.4)	33	27	21
Non-Ferrous Products (Percentage increase over previous year)	45	53 (17.8)	91 (71.7)	116 (27.4)	125 (7.8)	140 (12.0)	180 (28.9)	230 (27.8)	98	3	4
Consumer Durables (Percentage increase over previous year)	464	532 (14.6)	746 (40.2)	1301 (74.4)	1520 (16.8)	1600 (5.3)	1820 (13.8)	220 (20.9)	69	37	37
Total (Percentage increase over previous year)	1253	1411 (14.3)	1935 (37.1)	3491 (79.7)	3975 (13.7)	4300 (8.3)	5030 (12.3)	6000 (19.3)	72	100	100

Source: EKPC, 1975

INDEX OF SELECTED ENGINEERING ITEMS (1972/73-1974/75)

Description	Percentage Changes												
	1972-73		1973-74		1974-75		1972/73-1973/74		1973/74-1974/75				
	Unit Price	Value	Quantity	Unit Price	Value	Quantity	Unit Price	Value	Quantity	Unit Price			
Aluminum screws	11.3	6.09	730	11.9	89.43	626	+5	116.13	+39	+47	+36	-17	+30
Aluminum coils	8.1	1.97	376	8.5	31.79	494	+5	55.36	+55	+61	+32	+31	+74
Brass stencils	35.5	3.31	89	25.0	22.27	223	+61	96.07	-61	-37	+72	-151	+331
Brass tubes, rods and wires	9.7	.74	365	12.6	45.99	131	+30	24.20	+362	+402	+47	-65	-87
Brass sheets, circles and strips	8.2	9.65	1981	11.3	224.48	578	+38	107.55	+69	+133	+85	-71	-52
S. P. K. S. Ware	49.7	21.12	476	50.2	339.06	623	+1	322.91	+59	+61	+52	-37	-5
Bright steel bars and shaftings	1.0	10334	1071	1.8	13778	28178	+80	336.17	+52	+163	+28	-8	+19
Bolts and nuts	3.0	1827	546	3.5	3810	6099	+17	313.57	+76	+107	+46	+90	+178
C I washers covers	0.9	6102	5731	1.0	5731	5731	+11	185.99	-6	+12	+70	+96	+211
C I pipes and fittings	0.9	24953	28765	1.2	28765	24573	+53	405.82	-7	+9	+42	+14	+85
Ballistic iron castings	4.0	2396	937	4.2	2967	1619	+5	103.60	+23	+29	+52	-45	-16
Stainless steel accessories	22.9	5.10	233	29.7	69.73	266	+30	125.70	+5	+37	+59	+13	+80
Steel pipes and tubes and fittings	1.6	57244	9024	2.1	100943	30657	+3.7	3789.00					
Pipes and tubes - fittings	(1.3)	(365463)	(85.86)	(2.0)	(91778)	(100139)	(+33)	(3421.32)	(+73)	(+126)	(+80)	(+2)	(+87)
	(4.5)	(1061)	(4.38)	(4.6)	(2773)	(2347)	(+2)	(247.68)	(+157)	(+190)	(+54)	(-15)	(+32)
Tension bars (galvanized)	1.4	11714	1648	1.6	13789	20912	+2.0	9118	+8	+27	+75	-28	+23
Wire ropes	3.8	4893	1631	4.4	6101	12794	+6.8	869.58	+25	+61	+55	+109	+227
Transmission line towers & poles	2.5	19311	48.66	2.1	12402	243.09	+2.8	498.03	-41	-50	+33	+55	+104
Sanitary and water fittings	15.3	756	11.60	13.3	1969	208.01	+16.2	495.59					
Sanitary fittings	(33.2)	(193)	(6.79)	(13.7)	(406)	(939)	(-35)	(204.08)	(+213)	(+59)	(+37)	(+58)	(+118)
Water fittings	(4.5)	(243)	(4.86)	(11.8)	(896)	(105.37)	(+39)	(289.51)	(+59)	(+118)	(+17)	(+135)	(+175)
Diesel engines complete	2.9	10771	30.67	2.4	15960	479.36	+2.6	31811	+81	+53	+8	+79	+93
Sewing machines complete	0.10	65436	6.38	0.11	33189	31.17	+0.14	43.14	-38	-29	+27	+13	+45
Elec. fans complete	0.11	219713	23.63	0.11	130882	289.96	+0.16	394874	-11	-11	+43	+102	+196
Auto buses and lorries	48.1	689	98.89	66.2	387	342.84	+80.9	433.99	+83	+21	+22	+53	+87
Bicycles complete	0.13	211376	25.78	0.09	138363	169.92	+0.21	364.91	-25	-34	+135	-10	+115
Railway wagons	43.6	669	29.27	63.9	633	417.43	+146.4	363.60	+20	+43	+77	-101	-14
TOTAL					419.06	917.318		1000.109					

Source: BSC, 1975

1/ Unit Price is derived by dividing Value by Quantity.

2/ Quantity units vary: in some cases it is metric tons and in others it is number of units.

TABLE 3

Export Performance of First 150 Exporters
of Engineering Goods
(Rs millions)

	<u>-----1972/73-----</u>		<u>-----1973/74-----</u>		<u>-----1974/75-----</u>	
	<u>Value</u>	<u>Percentage</u>	<u>Value</u>	<u>Percentage</u>	<u>Value</u>	<u>Percent</u>
First 10 firms	398	28.2	466	24.1	912	26.1
First 50 firms	683	48.4	913	47.2	1831	52.1
First 100 firms	880	62.4	1219	63.1	2303	68.8
First 150 firms	<u>965</u>	69.8	<u>1379</u>	71.3	<u>2651</u>	73.4
Total Exports	<u>1411</u>		<u>1935</u>		<u>3491</u>	

Source: EEPC, 1975

TABLE 4

Geographic Distribution of Indian Engineering Goods
Exports for 1973/74 and 1974/75
(Rs millions)

	<u>1973/74</u>	<u>1974/75</u>	<u>Contribution to Growth (%)</u>
South East Asia	5793	8810	19.4
Middle East	4767	11365	42.4
Africa	2708	4800	13.4
East Europe	2186	2675	3.8
West Europe	2154	3425	8.2
North and Central America	1123	2420	8.3
South America	95	155	0.4
West Indies	34	60	0.2
Oceanic Island	129	275	0.9
Australasia	<u>358</u>	<u>925</u>	<u>3.6</u>
	<u>19347</u>	<u>34910</u>	<u>100.0</u>

Source: EEPC, 1975

TABLE 5

The Incidence of Ocean Freight from India
(Percentage at f.o.b. Price)

<u>Product</u>	<u>Destination</u>		
	<u>US</u>	<u>UK</u>	<u>KUWAIT</u>
Bicycle and Parts	41.0	30.0	20.0
Bolts and Nuts	17.0	9.0	8.5
Steel Folding Furniture	140.0	-	25.0
Electric Fans	25.0	-	12.0
Steel Forgings	37.0	19.0	-
C. I. Castings	31.5	27.0	-
Steel Wire Nails	14.3	9.8	11.0
C. I. Pipes and Fittings	28.3	20.0	27.0
Steel Pipes and Fittings	14.2	9.4	13.0
Steel Wire Ropes	18.7	10.3	11.0
Machine Tools	28.0	13.4	-
Manhole Covers	30.2	29.4	24.0

Source: EEPC, 1975

TABLE 6

Comparative Freight Rates
(US\$)

<u>Product</u>	<u>Origin</u>	<u>Destination</u>			
		<u>U. S. East Coast</u>		<u>U.S. West Coast</u>	
		<u>(US\$ per metric ton)</u>	<u>(Percentage)</u>	<u>(US\$ per metric ton)</u>	<u>(Percentage)</u>
Diesel Engine	India	138.0 ^{1/}	212	n.a.	-
	West Europe	<u>63.0</u>	<u>100</u>	<u>n.a.</u>	<u>-</u>
	(Difference in rates)	75.0 =====	112 ***	n.a. =====	- =====
Mild Steel Pipes	India	71.0	191	62.0	136
	West Europe	<u>37.25</u>	<u>100</u>	<u>45.5</u>	<u>100</u>
	(Difference in rates)	33.75 =====	91 ***	16.5 =====	36 ***

1/ Includes 7.5% Suez Canal surcharge and bunking surcharge of US\$20.4.

Source: EEPC, 1975.

TABLE 7

Domestic and International Prices of Copper (1973-75)
(Pounds Sterling per Metric Ton)

		<u>International Price ^{1/}</u>	<u>Domestic Price ^{2/}</u>
1973	-October-December	921	817
1974	-January-March	1032	950
	-April-June	1161	1106
	-July-September	731	1106
	-October-December	587	971
1975	-January-March	532	802
	-April-June	541	752
	-July-September	581	752

1/ LME average ex-warehouse price.

2/ MMTC c.i.f. import price; domestic users would usually pay substantially more initially, but the difference which is mostly the import duty, is mainly recoverable through duty drawback.

Source: MMTC.

TABLE 8

Domestic and International Prices of Selected Raw Materials (1975)
(Rs per metric ton)

	<u>International Price</u>	<u>Domestic Price^{2/}</u>
Pig Iron ^{3/}	866	748-888
Steel ^{3/}		
-M.S. billets	1165	1556
-M.S. rounds	1310	1726
-Structurals	1347-1529	1351-1422
-M.S. plates	1529	1497
-Boiler quality plates	3058 ^{4/}	1497
Copper ^{5/}	10883	14280
Zinc ^{6/}	6588	7900
Lead ^{7/}	3111	7475
Aluminum ^{8/}	6700	6552

1/ Rs. 8.8 = US\$1; Rs. 18.3 = £1.

2/ Price faced by Indian exporter.

3/ July 1975; SAIL f.o.b. export or HSL c.i.f. import prices are taken to be international price; JPC base price is taken as domestic price.

4/ Average of July prices £ at ECSC, Brussels, Japan and U.K. markets. (Source: HSL).

5/ April-June 1975; international price is LME average ex-warehouse and domestic price is MMTC c.i.f. price; the actual selling prices for actual users was Rs. 26,000 and under import replenishment licences was Rs. 24,000 per metric ton; the bulk of the difference (about Rs. 10,000 per ton) is import duties which should be recoverable by duty drawback.

6/ April-June 1975; the international price is LME average ex-warehouse; Rs. 7,900 is the price paid under an actual user licence; with an import replenishment licence this falls to Rs. 6,650 per metric ton; high grade zinc prices for actual users and import replenishment licences are Rs. 13,740 and Rs. 12,500 per metric ton respectively.

7/ July-September 1975 for domestic price; October 18, 1975 price from LME for international price.

8/ EC grade aluminum prices in July 1975. The international price is the U.S. price of 38/39 c per lb.; the domestic price is the levy price to which must be added excise duty of about Rs. 5,300 per metric ton to give the price paid by domestic users, but this duty should be recoverable through duty drawback for exporters. Commercial grade aluminum is now Rs. 8,600 per metric ton plus duties, since July 1975.

TABLE 9

Export Credit

A. Deferred Payment Arrangements Sanctioned and Financed or Refinanced by IDBI during 1974/75^{1/2}

	<u>(Rs millions)</u>	<u>%</u>
Textile Machinery	64	22
Construction/Turnkey Project	114	38
Transport Equipment	113	38
Other	<u>6</u>	<u>2</u>
	297	100

B. Deferred Payment Arrangements Sanctioned by IDBI up to the End of June 1975^{2/}

<u>Commodity</u>	<u>(Rs millions)</u>	<u>(%)</u>	
Transmission Equipment	177	12	
Textile Machinery	303	20	
Steel rails/bars/railway equipment	171	12	
Railway wagons	248	17	
Diesel engines	40	3	
Sugar mill machines	86	6	
Automobiles and spares	115	8	
Boilers	45	3	
Bicycles and parts	17	1	
Others	<u>282</u>	<u>19</u>	
Total	<u>1484</u>	<u>100</u>	(61%)
Value of all exports financed by IDBI and Banks	2444		(100%)

1/ Buyer's and supplier's credit.

2/ Direct loans, refinance of medium-term export credits, overseas buyers credits and foreign lines of credit.

TABLE 10

Domestic Resource Cost for Selected Major Engineering Industries
(Rs per US\$)

	<u>1963/65</u>		<u>1964/65</u>		<u>1968/69</u>	
	<u>DRC</u>	<u>Rank</u>	<u>DRC</u>	<u>Rank</u>	<u>DRC</u>	<u>Rank</u>
Electrical Equipment	14.3	3	11.6	1	16.5	2
Metal Products	9.5	1	11.8	2	17.5	3
Transport Equipment	11.4	2	14.2	3	12.1	1

Sources: Columns 1 and 3: T.N. Srisivasan, "Foreign Trade Regime and Economic Development in India," Discussion Paper No. 105, October 1974. Indian Statistical Institute; Column 2: R. Banerji, "Exports of Manufactures from India," 1975.

TABLE 11

Provisional Exports of Engineering Goods
during April to September 1975^{1/}
 (Value in million Rs)

<u>Months</u>	<u>1974/75</u>	<u>1975/76</u>	<u>% of variation over 1974/75</u>
April	135.0	318.0	+ 135%
May	144.0	249.0	+ 73%
June	130.5	265.0	+ 103%
July	273.7	324.0	+ 18%
August	209.8	220.0	+ 5%
September	171.9	217.5	+ 27%
October	310.0	254.5	- 18%
November	310.1		
December	322.5		
January	385.0		
February	310.0		
March	<u>788.6^{2/}</u>		
Total (Apr. - Oct.)	1374.9	1848.0	+ 34%
Total (Apr. - Mar.)	3491.1		

Source: EEPC, 1976

- 1/ EEPC data is compiled on the basis of data from major ports only; DGCLIS give an export figure for April to October 1975 of Rs. 215.93 crores, which includes exports via land, air, and minor shipping ports.
- 2/ Includes correction for exports via minor ports, land and air.

TABLE 12

Provisional New Exports and Engineering Exports: 1974 and 1975
(Rs millions)

	<u>New Orders</u>	<u>Executed Orders</u>	<u>Orders Outstanding (at start of period)</u> ^{1/}
<u>1974</u>			
April	neg.	135.0	311.15
May	neg.	144.0	
June	neg.	130.5	
July	266.0	273.7	
August		209.8	
September	112.5	171.9	
October	210.0	310.0	
November	52.5	310.1	
December	<u>15.0</u>	<u>322.5</u>	
Total	656.0	2007.5	
(Total, April- October)	(586.5)	(1374.9)	
<u>1975</u>			
April	55.0	318.0	308.10
May	120.0	249.0	
June	192.5	265.0	
July	160.0	324.0	
August	403.0	20.0	
September	323.0	217.5	
October	284.0	254.5	
November	210.0	n.a.	
December	<u>237.0</u>	<u>n.a.</u>	
Total	1984.5	n.a.	
(Total, April- October)	(1537.5)	(1848.0)	

n.a. = not available.

^{1/} The net orders outstanding position is available only for April 1, 1974 and 1975.

Source: EEPC, 1976.

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INDUSTRIAL GROSS OUTPUT - TRENDS AND ESTIMATES FOR 1973/78
(Rs. Millions)

	1973/74 Actual (1973/74 Rs)	1974/75 Actual (1974/75 Rs)	1975/76 EEPC Projection (1975/76 Rs)	1976/77 EEPC Projection (1976/76 Rs)	1978/79 IDA Estimate (1975/76 Rs)	1978/79 MOC Projection (1975/76 Rs)
A. CAPITAL GOODS						
1. Industrial Plant and Machinery	129.5	312.3	430.0	650.0	670.0	
(a) Textile and Jute	(26.4)	(162.8)	(210.0)	(290.0)	(220.0)	
(b) Sugar	(30.0)	(33.8)	(35.0)	(30.0)	(50.0)	
(c) Cement	(11.0)	(05.9)	(05.0)	(10.0)	(10.0)	
(d) Food Processing	(12.9)	(23.0)	(30.0)	(40.0)	(40.0)	
(e) Other Industrial machinery including overhauling equipment, tractors, coker plant, etc.	(26.3)	(84.2)	(130.0)	(280.0)	(130.0)	
2. Heavy Electricale	60.5	137.9	170.0	200.0	150.0	
3. Steel Structural (Fabricated)	112.6	155.9	180.0	250.0	250.0	
(a) Transmission Line Towers	(26.6)	(51.2)	(60.0)	(80.0)	(60.0)	
(b) Cranes and Lifts	(07.0)	(07.6)	(10.0)	(20.0)	(10.0)	
(c) Boilers including pressure vessels	(26.5)	(31.2)	(110.0)	(150.0)	(150.0)	
(d) Other Structural	(51.9)	(61.9)				
4. Wires and Cables	119.0	172.3	200.0	250.0	150.0	
5. Tractors and Coaches	31.9	91.2	200.0	250.0	150.0	
6. General Vessel Ships	39.0	19.7	100.0	300.0	200.0	
7. Complete Vehicles	61.4	183.4	170.0	250.0	200.0	
8. Machine Tools	29.2	71.8	100.0	130.0	120.0	
TOTAL OF 'A'	650.4	1116.3	1420.0	2200.0	1890.0	2120.0
B. PRIMARILY STEEL AND PIG IRON BASED ITEMS						
1. Steel Pipes and Tubes	208.0	414.0	250.0	400.0	400.0	
2. Bright Bars	30.3	26.3	30.0	45.0	45.0	
3. Ferrous Hollow ware	19.0	39.9	30.0	30.0	30.0	
4. Mild Steel Wire Products	19.9	64.3	80.0	100.0	100.0	
5. Industrial Fasteners	20.0	33.8	50.0	100.0	100.0	
6. High Carbon Wire Products	26.6	69.9	80.0	110.0	170.0	
7. Sanitary Castings	66.4	79.2	100.0	130.0	130.0	
8. Industrial Castings	62.8	18.4	35.0	80.0	40.0	
9. Forgings	24.1	28.4	25.0	45.0	25.0	
10. Steel Products (n.o.c.)	74.1	131.2	140.0	220.0	230.0	
TOTAL OF 'B'	656.7	927.0	870.0	1870.0	1890.0	1190.0
C. NON-FERROUS PRODUCTS						
1. Aluminum Products	10.8	30.3	30.0	60.0	60.0	
2. ERS Ware	33.9	49.9	35.0	60.0	60.0	
3. Non-Ferrous Products (n.o.c.)	28.2	22.8	60.0	110.0	110.0	
TOTAL OF 'C'	72.9	103.0	125.0	230.0	230.0	200.0
D. GENERAL MERCHANDISE						
1. Auto Parts	119.0	221.3	250.0	400.0	350.0	
2. Bicycles and Parts	152.1	218.4	210.0	320.0	320.0	
(a) Complete	(27.0)	(27.7)	(50.0)	(80.0)	(80.0)	
(b) Parts	(125.1)	(190.7)	(200.0)	(240.0)	(240.0)	
3. Hand, Nail and Cutting Tools	90.6	161.5	170.0	230.0	200.0	
4. Diesel Engines, Pumps and Compressors	103.6	254.1	250.0	340.0	300.0	
(a) Diesel Engines and Parts	(81.3)	(191.1)	(200.0)	(250.0)	(220.0)	
(b) Mechanical Pumps	(17.5)	(45.2)	(30.0)	(40.0)	(50.0)	
(c) Air Compressors	(26.0)	(17.8)	(20.0)	(30.0)	(30.0)	
5. Heating and Cooling Equipment	16.1	27.3	40.0	60.0	60.0	
6. Electric Fans and Serts	26.3	97.7	60.0	80.0	80.0	
7. Electronics	92.6	133.0	250.0	370.0	370.0	
8. Batteries	28.0	27.0	25.0	100.0	80.0	
9. Sewing and Knitting Machines	12.0	26.6	80.0	30.0	30.0	
10. Electrical Manufactures (n.o.c.)	24.8	70.3	60.0	130.0	100.0	
11. Miscellaneous Manufactured Articles	70.0	131.8	120.0	140.0	120.0	
TOTAL OF 'D'	756.8	1303.1	1320.0	2100.0	1990.0	2020.0
GRAND TOTAL	1934.7	3491.1	3975.0	6000.0	5100.0	5260.0

Source: EEPC, Ministry of Commerce, COI, and IDA Estimate.

