UNIT 1 INTRODUCTION TO EXPORT

Structure

1.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the importance of international trade;
- discuss why a firm is motivated to export;
- identify major products exported from India;
- analyse major markets for India's products;
- describe various methods of export promotion and sources of information for export.

1.1 INTRODUCTION

A country gets specialisation in a specific commodity due to diversification of economic resources. This stimulates a country to go for international trade. International trade is instrumental in using the world's resources more efficiently and effectively. In this unit, you will learn the importance of international trade and major products exported from India. You will also learn about major markets for India's products and various methods of export promotion.

1.2 IMPORTANCE OF INTERNATIONAL TRADE

The basis of international trade is to be found in the diversity of economic resources in different countries. All countries have not been endowed by nature with the same production facilities. There are differences in climatic conditions and geological deposits as also in the supply of labour and capital. Due to these differences each country finds it advantageous to specialise in the production of some specific commodities. Such specialisation is facilitated by the exchange of surplus production through international trade. International trade takes place when buyers find foreign markets cheaper to buy in and sellers find them more profitable to dispose of their products than the domestic market. Thus a more effective use of world's resources is made possible through international trade. The importance of foreign trade has been discussed as below:

i) **Greater availability of goods:** Through international trade, it is possible for a country to obtain those goods which it cannot produce or cannot produce as cheaply as other countries. Thus a country's well-being is determined to a great extent by the extent to which it participates in international trade. Consumers benefit from international trade as much as they can purchase from the cheapest source. India depends upon foreign countries for a substantial portion of her supplies of edible oils. US consumers depend upon imports for the supply of coffee and sugar while the UK consumers obtain the major portion of their foodstuffs and the entire supply of tea from foreign countries. Foreign trade can also help countries to overcome the adverse effects of famines and crop failure.

ii) **Better use of country's resources:** International trade helps in the utilisation of country's resources in the best possible manner. In many cases, domestic industries depend upon foreign markets for the disposal of their production. For example, the jute and tea industries of India are mainly dependent upon export markets. Japanese industry depends upon exports for its prosperity. Though the US dependence on foreign trade is not so great, yet more than 25% of US production of a number of agricultural and industrial production is exported. In many cases, the existence of an export market enables the producers to increase their production and thus avail themselves of the economies of large-scale production. Some domestic industries depend upon foreign countries for the supply of capital goods and equipment as also for their supply of raw materials and components.

iii) **Reduction in costs of production:** As capital goods and raw materials are purchased from the cheapest sources, the overall cost of production goes down leading to lower prices.

iv) **Stability of prices:** Whenever the price of some commodity tends to increase in a country, it can increase the level of its imports of that commodity to check the rise in prices. Similarly, whenever the price of a commodity falls due to a glut in its supply, the trend may be checked by exporting the same. This in turn leads to more or less uniform price throughout the world. Foreign trade could also be utilised to control the nefarious activities of monopolists.

v) **Greater employment opportunities:** Foreign trade leads to an increase in domestic agricultural and industrial production which in turn generates more employment in the country.

vi) **High rate of economic development:** Foreign trade leads to rapid economic development and higher rate of growth in national income. In fact, foreign trade was considered as an engine of growth. Many developed countries like the UK, the USA and Japan owe their prosperity to their exports of manufactured products. In recent years, many developing countries like Korea, Taiwan, Thailand, Singapore and Hongkong have benefited a lot by active participation in foreign trade.

vii) **Contribution to government revenues:** Most governments impose duties on imports and sometimes on exports too. These duties generate substantial revenues for the State exchequer. For example, in India, customs duties contributed 33.6 percent of the total tax revenue in 1996-97.

viii) **Harmonious relationship between various countries:** Foreign trade is a major force in linking various countries to each other. It promotes harmonious and cordial relationships between all of them. It can lead to world economic integration. This in turn leads to political peace and greater cooperation in countries regarding socio-cultural developments. Growth of trade can thus reduce the likelihood of war.

1.3 WHY EXPORT ? A FIRM'S PERSPECTIVE

There are a number of factors which may motivate a firm to export. Let us discuss them in detail.

i) **Relative profitability:** The price realised in export markets may be relatively higher than that realised in the home market. This is so, for example, in the case of readymade garments and jewellery. In other cases, export incentives provided by the Government may make exporting relatively more profitable than selling in the domestic market.

ii) **Insufficiency of domestic demand:** The level of domestic demand may be insufficient for utilising the installed capacity in full. Export business offers a suitable mechanism for utilising the unused capacity. This will reduce costs and improve the overall profitability of the firm. Recession in the domestic market often serves as a stimulus to export ventures. In fact, export of engineering goods from India picked up momentum at the time of recession in the Indian economy during 1967-69. As a result, Indian manufacturing units faced with large inventories and weak order book position. This led them to go for export markets. Developing diversified export markets thus provides a firm with a degree of protection against cyclical domestic economic slowdown.

iii) **Reducing business risks:** A diversified export business may help in mitigating sharp fluctuations in the overall activity of a firm. When a firm is selling in a number of markets, the downward fluctuation in sales in one market, (which may be the domestic country) may be fully or partially counterbalanced by a rise in the sales in other markets.

Secondly, geographic diversification also provides the momentum to growth in as much as a single or a few markets will have only limited absorbing capacity.

iv) **Legal restriction:** Governments may impose certain restrictions on further growth and capacity expansion of some firms within the domestic market in order to achieve certain social objectives. But there may not be any such restrictions on making investments overseas or the restrictions may be relaxed even in the domestic market, provided the additional capacity envisaged by the company is utilised for exports. In such a situation, a firm may contemplate export operations, because it offers a way to achieve corporate growth, which may otherwise not be possible.

v) **Social responsibility:** In many cases, businessmen themselves feel a sense of responsibility and contribute towards the national exchequer by increasing their exports.

vi) **Increased productivity:** Increased productivity is necessary for the ultimate survival of a firm. This itself may lead a company to increase production and then seek export markets. Moreover, in these days of technological developments, bigger companies have to spend a lot on research and development. To meet the increased cost of research and development, larger markets become necessary and exports become unavoidable.

vii) **Technological improvement:** Entry into export markets may enable a firm to pick up new product ideas and to add to product line. This also helps in improving its product and reducing the costs. The firm can discover new applications for its product.

viii) **Obtaining imported inputs:** Nations have to export to pay for imports of materials, technology or processes not available within their national boundaries. Government therefore, may be compelled to impose export obligations on the firms specially those in need of imported inputs.

x) **To build up image and goodwill:** By exporting at a time when it is difficult to export, some firms build up their image in the domestic market. They also look at exporting to attain status and prestige.

1.4 IMPORTANCE OF EXPORTS IN INDIA

Look at Table 1.1 for clear understanding of India's Exports Imports and Trade Balance. The table shows that India's Trade Balance was -2 Crores during 1950-51 and it has gone up to Rs. -16,325 crores during 1995-96. The trade deficit has been gradually increasing.

Table 1.1
India's Exports, Imports and Trade Balance

(Rs. in crores)

Year	Exports(including re-exports)	Imports	Trade Balance
1950 51	606	608	-2
1960-61	642	1112	-480
1970-71	1535	1634	-99
1980-81	6711	12549	-5838
1990-91	32553	43198	-10645
1991-92	44041	47851	-3810
1992-93	53688	63375	-9687
1993-94	69751	73101	-3350
1994-95	82674	89971	-7297
1995-96(P)	106353	122678	-16325
1996-97(P) (April-Dec)	85623	97111	-11488

(P= Provisinal)

Source : *Economic Survey (1996-97), Ministry of Finance, Government of India.*

A reduction in trade deficit is possible either by a deduction in imports or by an increase in exports. A reduction is not only necessary to curtail the trade deficit but also because, quite often, imported supplies are costlier than domestic supplies. Some of our imports consist of essential consumer goods which are necessary to maintain the domestic price stability. Any cut in these imports would adversely affect production leading to unutilised capacities and a cut in exportable surpluses. Capital goods which have shown a significant increase in the last few years now account for about 28 per cent of the total imports because of the need for technology upgradation. Fuel accounts for about 23 per cent of the total imports. It may be very difficult to curtail these imports because they contribute to the economic development of the nation.

In the past, we depended on foreign aid, largely consisting of loans, to finance our import surplus. India's total debt was US $ 92.2 billion at the end of March 1996. The debt service ratio was about 26% in the year 1995-96. Our debt service obligations have increased in terms of rupees because of continuous decline in the value of rupees. India's external debt is very high. The world Debt Tables ranked India as the fourth largest debtor among developing countries. Thus, there is no alternative but to intensify export effort. The expansion in export sector will be able to generate the revenue for meeting the import requirement.
Realising the importance of exports in the development of the economy, Government of India have been making continuous effort to promote the exports. The Government took major steps in July, 1991 by introducing reforms in industrial, trade and fiscal policy. The trade reforms aimed at creating environment to enable increase in exports at a rapid pace. Country specific and commodity - specific measures were taken to promote exports. The Board of Trade in its meeting on Dec 13, 1991 identified 34 extreme focus products aimed at achieving 30% annual growth in exports. The Ministry of Commerce has undertaken in depth analysis for identifying countries and products for boosting exports. 15 products and 15 countries have been identified covering 75% of India's foreign trade. The identified products include: Gems and Jewellery, Cotton Yarn, Fabrics and made-ups man-made yarn, marine products, transport equipment, metal manufactures, machinery and instruments, leather, organic and inorganic chemicals, Dyes intermediates, etc., plastic and linoleum products, agro-chemical and oil, etc. The identified countries are US, Japan, Germany, Belgium, UAE, Saudi Arabia, UK, Singapore, Russia, Italy, , Bangladesh, France, Netherlands, Hongkong and Thailand.

Check Your Progress A

1. List three important aspects of international trade.

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2. Write three points for the need of export trade in India.

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3. State whether the following statements are True or False:
   i) A more effective use of world's resources is made possible through international trade.
   ii) Foreign trade can help countries to overcome the adverse effects of natural calamities.
   iii) No Indian industry depends on exports.
   iv) Imports enable manufacturers to reduce their cost of production.
   v) Foreign trade is an engine of growth.
   vi) A ruthless cut in imports is necessary to reduce our huge trade deficit.
   vii) Price realised in exports is in all cases lower than the price realised in the home market.
   viii) Indian manufacturers are promoted to export only when there is a glut in the domestic market.
   ix) Indian manufacturers export only to obtain export incentives.
   x) Entry into export markets leads to an overall increase in the cost of production.

1.5 MAJOR PRODUCTS EXPORTED FROM INDIA

Look at Table 1.1 which shows the major products exported from India and the changing pattern thereof over the last 40 years. It is clear from the above table that the first three products in order of importance in 1995-96 were Textiles Fabrics and Manufactures (22.7%), Gems and Jewellery (16.6%) and Machinery, Transport and Metal Manufactures (13.7%).

They accounted for 53% of India's total export. How the pattern of India's exports has changed would be clear from the fact that none of the above products figured in India's exports during 1960-61 except textiles. The three important items then were fabrics, jute manufactures and tea. The traditional trio accounted for 51.3% of India's total exports. These three items now account for hardly 10%. Other new products which have entered into the export basket are chemicals, leather, marine products, Rice, etc. However, one weakness of India's export structure is that they are highly concentrated in a few products only. Table 1.2 shows that five top products i.e. Textiles fabrics & manufacturers, Gems & Jewellery, Machinery, Transport and Metal Manufactures, Chemical & Allied products and Leather Products account for about 68% of the total export.

Table 1.2

Major Products Exported from India (Rs. in crores)

ITEMS	1960-61	1970-71	1980-91	1990-91	1992-93	1993-94	1994-95	1995-96
Agricultural and Allied produtcts	284 (44.2)	487 (36.0)	2057 (30.7)	6317 (19.4)	9457 (17.6)	13021 (18.7)	13712 (16.6)	21138 (19.9)
Ores and Minerals	52 (8.1)	164 (12.1)	414 (6.2)	1497 (4.6)	1814 (3.4)	2371 (3.4)	2538 (3.1)	3061 (2.9)
Textiles fabrics and Manufactures	73 (11.4)	145 (10.7)	933 (14.0)	6832 (21.0)	12498 (23.3)	14863 (21.3)	19945 (24.1)	24149 (22.7)
Leather and Leather Manufactures	28 (4.4)	80 (5.9)	390 (5.8)	2600 (8.0)	3700 (6.9)	4077 (5.8)	5057 (6.1)	5790 (5.4)
Gems and Jewellery	1 (0.2)	45 (3.3)	618 (9.2)	5247 (16.1)	8896 (16.6)	12533 (18.0)	14131 (17.1)	17644 16.6)
Chemicals & Allied Products	7 (1.1)	29 (2.1)	225 (3.4)	2111 (6.5)	3991 (7.4)	5688 (8.2)	7642 (9.2)	9849 (9.2)
Machinery Transport and Metal Manufactures (Including Iron & Steel)	22 (3.4)	198 (14.6)	827 (12.3)	3872 (11.9)	7118 (13.3)	9484 (13.6)	10947 (13.2)	14578 (13.7)
Minerals Fuels and Lubricants (Including Coal)	7 (1.1)	13 (1.0)	28 (0.4)	948 (2.9)	1520 (2.8)	1554 (2.2)	1610 (1.9)	1761 (1.7)
Others	168 (26.1)	194 (13.3)	1219 (18.2)	3129 (9.6	4694 (8.7)	6160 (8.8)	7092 (8.6)	8383 (7.9)
Total	**642**	**1355**	**6711**	**32553**	**53688**	**69751**	**82674**	**106353**

(Figures in Parentheses denote percentages)

Source : *Economic Survey (1996-97), Ministry of Finance, Government of India.*

1.6 MAJOR MARKETS FOR INDIA'S PRODUCTS

Look at Table 1.3 which shows major markets for India's products and how the share of various countries in our export has changed over the last 40 years. It is clear from the table that the six major customers of India, viz., the USA, Japan, UK, Germany, Belgium and Russia accounted for about 44% of total India's exports for the year 1995-96. You can also. see in the table that six major customers of India was UK, USA, Japan, Russia, Germany and France during 1960-61. They accounted for about 54% of India's total export. In the year 1960-61, India's major export destined to UK (26.9%) followed by USA (16%), Japan (5.5%), Russia (4.5%), Germany (3.1%) and France (1.4%). In the year 1995-96, India's major export destined to USA (17.4%) followed by Japan (7.0%), UK (6.3%), Germany (6.2%), and Belgium (3.5%). These six countries accounts for 44% of total export. This shows that India's export is concentrated in a few markets.

Table 1.3
Major Markets for India's Exports

Country	1960-61	1970-71	1980-81	1990-91	1992-93	1993-94	1994-95	1995-96
UK	26.9	11.1	5.9	6.5	6.5	6.2	6.4	6.3
Germany	3.1	2.1	5.7	7.8	7.7	6.9	6.6	6.2
Belgium	0.8	1.3	2.2	3.9	3.7	3.8	3.8	3.5
France	1.4	1.2	2.2	2.4	2.5	2.3	2.2	2.3
Netherlands	1.3	0.9	2.3	2.0	2.2	2.3	2.2	2.4
USA	16.0	13.5	11.1	14.7	19.0	18.0	19.1	17.4
Japan	5.5	13.3	8.9	9.3	7.7	7.8	7.7	7.0
Saudi Arabia	0.5	0.9	2.5	1.3	2.2	2.3	1.7	1.5
Russia	4.5	13.7	18.3	16.1	3.3	2.9	3.1	3.3
Other Least Developed Countries	14.8	19.8	19.2	16.8	20.8	24.2	23.9	25.7
Others	25.2	23.2	21.7	19.2	24.4	23.3	23.3	24.4

Source : *Economic Survey (1996-97), Ministry of Finance, Government of India.*

Check Your Progress B

1. Write five major customers of India's products.

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2. Write three products exported from India.

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3. State whether the following statements are True or False.
   i) Textiles, fabrics and manufactures was the top foreign exchange earner in 1995-96.
   ii) Chemicals and Allied products was the top foreign exchange earner in 1990-91.
   iii) The traditional trio, tea, cotton textiles and Jute manufactures now account for more than 50% of India's exports.
   iv) Many new industries have been developed for exports.
   v) The USA always constituted the most important market for India.
   vi) The UK was the most important market for India at the time of independence.
   vii) Russia is now the most important market for India.
   viii) The first six major customers of India account for 44% of her total exports.

1.7 PROMOTING PRODUCTS ABROAD

The various methods of export promotion usually adopted are advertising, direct mailing, point of purchase displays, and trade fairs and exhibitions. Let us discuss them one by one.

i) **Advertising:** This is the most usual way adopted to bring the products to be sold to the notice of foreign customers. The advertisement campaign has very often to be adapted to the specific requirements of the target market. Hence, advertising in foreign markets becomes a pretty expensive affair. Availability of media may also be different from country to country. In a country where literacy rate is low, the effectiveness of a printed advertising copy obviously becomes low. Commercial radio may be the proper medium in such a marketing situation.
ii) **Direct mailing:** As against advertising, direct mailing costs much less. In addition, it is selective and more personal. It is selective because approach is made directly to those who have been identified as the target audience. It is personal because the letter and other publicity materials are mailed either by name or by designation of the identified receiver. Mailing lists can be prepared on the basis of names and addresses given in the trade directories or they can be purchased from merchandising service companies. Once the list is ready, the letter and other printed material are to be designed in a way so as to give a personal touch. The receiver must feel that the letter is not a routine one but something different and personal. It must also be attractive to retain attention. By and large, direct mailing is the most effective method of promoting products abroad provided sufficient care is taken to design the product brochures, catalogues, etc.
iii) **Trade fairs and exhibitions:** They constitute the means of presenting goods and services in an attractive manner with the aid of colour, light and motion. This catches the imagination of the visitors, attracts their attention and get them interested in the objects displayed. Participation in a trade fair will help the exporter to have an idea of (i) what is available in the market concerned, (ii) who would be his competitors, (iii) to what extent would the product have to be adapted, (iv) prevailing prices in world markets and (v) strengths and weaknesses of competing products. In addition, he would be able to know the new developments and technological trends in his industry.

1.8 SOURCES OF INFORMATION

An exporter would like to know about the market conditions and business practices in foreign countries. Let us study some major sources of information which may provide the exporter with a lot of useful information.

i) **India's export statistics:** as provided in monthly bulletin of Foreign Trade Statistics, volume I - These will enable the exporter to know where his product is being exported, to what extent and what is the value realisation per unit.
ii) **Import statistics of foreign countries :** The exporter can find out the overall size of a particular foreign market for his product, which are the competing countries and what are approximate unit value paid to each individual country.
iii) **Import promotion centres established in most developed countries :** These centres provide a lot of valuable information to the exporters of developing countries including India. The information provided by these centres include : (i) Statistical information on the market concerned (ii) Information on marketing techniques and business practices (iii) Information on import regulations and practices, (iv) List of importers, wholesalers, agents and distributors and (v) Dates of various trade fairs and exhibitions.
iv) **India's commercial representatives abroad :** They can inform the exporters about the export potential of their products in their respective countries, tariff and non-tariff barriers facing them and the government procedures in the importing countries.
v) **Export promotion councils and commodity boards :** They can provide information about where and to what extent your product can be sold in different countries. They also provide information about export incentives, availability of shipping services and freight rates, approximate prices which can be realised for your products and also provide you overall guidance in your export operations.
vi) **India Trade Promotion Organisation (ITPO) :** India Trade Promotion Organisation has been formed by merging Trade Fair Authority of India and Trade Development Authority. This is the premier trade promotion agency of the Government of India with

the headquarter in New Delhi. It has set up a Trade Information Centre in New Delhi which is considered the best source of information on export import. It has the best collection of trade directories on almost all countries. It also organises India promotion programmes with select Department Stores in different countries.

Check Your Progress C

1) Write the names of two institutions which provide information for India's foreign trade.

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2) Write the names of two export promotion methods.

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3) State whether the following statements are True or False.
   i) Commercial radio is the most effective means of promotion in developing countries.
   ii) Direct mailing is the least cost effective method of promoting products abroad.
   iii) Preparation of mailing lists is the most difficult work involved in export promotion.
   iv) It is desirable to visit a country for trade promotion at a time when a trade fair specific to the exporter's product is being held in the country of visit.
   v) Import promotion centres established in developed countries can give useful information about the business practices in the country concerned.
   vi) Import statistics of foreign countries can provide an idea of the total market size for a particular product in the importing country.
   vii) Export promotion councils provide overall guidance to the exporters in their export effort.
   viii) India Trade Promotion Organisation can guide the exporters about export prospects of their products in foreign markets.

1.9 LET US SUM UP

Trade takes place because of diversity of economic resources in different countries which makes it possible for countries to specialise in the production of specific commodities. International trade leads to greater availability of goods, better use of a country's resources, reduction in overall cost of production, uniformity and stability of prices the world-over, greater employment, overall economic development and substantial addition to government revenues. Moreover, it leads to harmony and cordial relations among all nations.

In the Indian context, when the country is faced with huge trade deficit and the chances of getting foreign aid are very dim, there is no alternative but to lay stress on increasing exports. Indian firms stand to gain by exports through higher productivity. They can also overcome a number of controls on domestic production, obtain essential imported inputs, and build up their image and goodwill in the domestic market.

Besides the traditional trio of tea, jute and cotton textiles, many new products like Jems & jewellery, Textiles & manufactures marine products, leather manufactures, Engineering goods and others have also contributed significantly to India's exports. Moreover, the share of manufactured goods in India's exports is now more than two thirds reflecting the progress made by India in the field in industries. However, as far as direction of exports is concerned, the USA, Japan, UK, Germany, Belgium and Russia account for more than 44% percent of India's exports for the year 1995-96.

The methods that can be used to promote India's products abroad are advertising, direct mailing and trade fairs and exhibitions. Participation in trade fairs and exhibition is specially important because it can provide an idea of competing products, competitors and their prices which are the most important points of commercial intelligence for any exports. Export Promotion Councils, Import Promotion Centres, India Trade Promotion Organisation, and the Indian Commercial Representatives abroad provide a lot of useful information to Indian exporters.

1.10 KEY WORDS

Cyclical Economic Slowdown : Tendency of slackness in an economy after a certain period of time.
Debt Service Ratio: It is the ratio of debt service payment (interest and maturity portion of external debt) to the balance on current account (net export of goods and services and net unilateral transfer).
Trade Deficits: Excess of import over export.

1.11 ANSWERS TO CHECK YOUR PROGRESS

A 3 i) True ii) True iii) False iv) True v) True vi) False vii) False viii) False ix) False x) False
B 3 i) True ii) False iii) False iv) True v)False vi) True vii) False viii) True
C 3 i) True ii) False iii) False iv) True v) True vi) True vii) True viii) True

1.12 TERMINAL QUESTIONS

1) What are the specific advantages that a businessman can derive by entering into the export field?
2) Why does trade take place ? What are the gains from international trade?
3) What are the major items of India's exports? Do you agree with the view that India's exports are concentrated in a few markets ?
4) Which are the major customers for India's exports ? Do you agree with the view that India's exports are concentrated in a few markets ?
5) How can an Indian manufacturer promote his product abroad?

Note: These questions and exercises will help you to understand the unit better.
Try to write answers for them. But do not send your answers to the University.
These are for your practice only.