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***India's Exports: An Analytical Study* by Sugata Marjit and
Ajitava Raychaudhuri, Oxford University Press, 1997,
pp ix + 179, Rs. 350.**

The authors of the book under review set out a meaningful agenda in studying the behaviour of Indian exports during the last three decades or so. Some of the familiar hypotheses relating to Indian exports have been put to statistical tests taking into account the recent developments in exchange rate, incentive structure and market share. The book presents a succinct review of India's trade policy and export performance both in the macro and micro policy setting and in particular, the role of exchange rate in promoting exports. The application of 'high tech' econometric techniques by the authors indicates the long and fruitful association of Sugata Marjit with the Indian Statistical Institute, Calcutta.

The synoptic view of the evolution of India's trade policy, especially during the post-reform period, has been spelt out in the opening chapter of the book. The trade policy reforms put in place since 1991 included, *inter alia*, relaxation of quantitative restrictions on a large number of exportables and importables, elimination of export subsidies and reduction of export and import taxes and adjustment of the exchange rate to more realistic levels. The authors have chosen to provide a descriptive outline of these reforms without sufficient focus on their analytical contents. For example, the initiation of trade policy reforms in 1991 may be considered as a watershed as it represented a paradigm shift in India's trade and exchange rate regimes. The switch over to an exchange rate neutral regime envisaged the adoption of an effective exchange rate for exports (EER_x) which is equal to that for imports (EER_m). The change resulted in narrowing the gap between profitability of sales in the overseas and the domestic markets. The import substitution or inward-looking strategy which was in vogue prior to 1991 was characterized by a situation where EER_m was higher than EER_x.

This takes us to the main theme of the book. The authors put forward a view that Indian exports are residual in character, at

least for a number of major exportables (Pp-167). The residual character of Indian exports was a logical outcome of the in-built anti-export bias in the exchange rate regime which was in vogue for about four decades. It has been noted for long that India's loss of overseas market was by and large policy-induced. Textiles are a case in point. After having enjoyed a strong comparative advantage in textile exports India lost valuable ground due to various restrictions that stifled the growth and modernisation of Indian textile industry. While China, Korea, Pakistan and Thailand have increased their shares, India's share had declined through the seventies and eighties. The declining Indian share in world exports of textiles during the period could be explained by the fact that India concentrated on certain quota markets which are relatively stagnant markets.

An interesting issue to which the authors devote their attention in the book is whether price competitiveness is both a necessary and a sufficient condition for promoting exports. Answer to this question is based on a Constant Market Share (CMS) analysis which is negative. Some of the non-price factors, viz., quality of products and timely delivery have been found to be more important than price. The authors point out that export competitiveness may be defined as the capacity of an exporting country, both in terms of price and non-price factors, to improve the exportability of a commodity in the overseas markets. Transaction costs which vary across the sectors are indicative of the incidence of non-price factors. Since transaction costs are by and large reflected in prices, the export competitiveness of an economy hinges critically on the relative prices. Conceptually, export competitiveness is related to factors such as real exchange rate, prices, labour costs, etc.

Needless to mention that commonly used indicator of competitiveness is real effective exchange rate. The authors have adopted Constant Market Share (CMS) analysis to evaluate the export performance of the Indian economy. *A priori*, the CMS approach essentially decomposes export growth into four components: (i) a global market growth factor; (ii) a commodity composition effect; (iii) a market distribution effect; and (iv) a residual competitiveness

effect. An intrinsic weakness of the CMS model is that it can't be used to trace out the direction of chain of causation. Most importantly, it cannot decompose competitiveness effect into price and non-price components.

The authors evaluate the impact of devaluation on exports in the chapter "Micro Foundation of India's Trade Policy". Referring to the exchange rate adjustment of 1991 as a part of economic reforms programme, the authors have erred on the side of pessimism by pointing out that real devaluation has a positive though insignificant impact on exports (Pp 167). Needless to point out that the impact of exchange rate adjustment hinges critically on the fulfilment of Marshall-Lerner condition. Empirical evidence produced in a number of studies have shown the fulfilment of Marshall-Lerner condition in the case of India economy. It is worth recalling that the exchange rate adjustments effected in 1991 did have a significant impact on India's exports during the period 1993-94 through 1996-97. Exports recorded an annual average growth rate of about 20 per cent in dollar terms in the period 1993-94 through 1996-97, surpassing even the previous peak witnessed during 1987-88 to 1990-91.

The chapter "Micro Foundation of India's Trade Policy" deals with a host of issues which include, *inter alia*, the impact of devaluation on exports, the relationship between the firm size and exports and tariffs and volume of trade. That apart, the authors have brought out succinctly the indirect impacts of devaluation on the economy. The authors have rightly argued that devaluation reduces the extent of distortion in the foreign exchange market. As far as the firm size and exports are concerned, Indian experience suggests that larger firms prefer to sell in the domestic market with the result that the output of small scale sector is exported. Needless to point out that a bulk of Indian exports is contributed by the small scale sector.

In chapter "Micro Foundation of India's Trade Policy" the authors have raised various issues relating to 'Washington Consensus' which promoted the ideas of unhindered trade with low or zero

tariff, market-determined exchange rates and current account convertibility. Washington Consensus is based on the implicit assumption that there are no non-price barriers and distortions in the flows of trade, investment and technology. The authors feel that the exchange rate has a very limited role to play in a supply-constrained economy like India. It is no doubt true that the importance of supply factors can not be underplayed. It is equally not possible to deny the role of price factors. The impact of exchange rate is diluted, albeit partially, in the context of inflow of foreign capital. Thus, some of criticisms against IMF - World Bank policies are no doubt without substance.

The authors discuss issues relating to foreign trade multipliers in the chapter "Macro Economic Perspectives". The casual link between the GDP and exports has been explored with the application of Granger causality tests. Econometric evidence reported by the authors show that the chain of causation runs from GDP to exports but not vice versa. The hypothesis is, however, contestable, both theoretically and empirically. Prime facie, it was apposite for the authors to examine whether the time series on GDP and exports are co-integrated or not. Perhaps, it is not plausible to apply causality tests without ascertaining whether the two series are co-integrated or not. The importance of high level of savings and investment has been highlighted by the authors. This has been considered to be an essential condition for the operation of foreign trade multiplier. The argument of the authors loses force in the context of welcome upward shift in the growth trajectory of the Indian economy. This could be explained, as already stated above, in terms of causal link between income and exports. A study conducted by the Indian Institute of Foreign Trade has brought to focus the role of economic growth in export promotion.

The operation of foreign trade multiplier in any economy could hardly be denied. This fact is unmistakably corroborated by the positive impact of exports on GDP of the Indian economy during the period 1994-95 through 1996-97. An average growth rate of 7.5 per cent per annum in GDP in the last three years of the Eighth Plan (1994-95 to 1996-97) could be explained, albeit partly,

in terms of a spurt in income terms of trade. The income terms of trade increased from 283.3 in 1993-94 to 373.1 in 1994-95 and further to 530.3 in 1995-96. Although quantification of the impact of income terms of trade on India's GDP falls beyond the scope of this review its role in the generation of additional income could hardly be underplayed. However, this should not detract us from the fact that the present volume is an invaluable addition to the swelling literature on India's exports.

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