

Deepak Nayyar, *India's Exports and Export Policies in the 1960s* (Cambridge University Press, Cambridge, 1976) pp. xviii + 392, £12.50.

The size and complexity of India's economy has allowed it (or perhaps condemned it) to be the testing ground for almost all of the changing fashions in development policy. Trade policy has been no exception. After textbook import substitution in the 1950s, India suffered in the 1960s from the many problems such policies were found to generate. The cycle has now repeated itself. After pushing exports in the 1960s as an antidote to its earlier import substitution policies, India is again suffering from its zealous and yet often misdirected attempts to follow the economic fashion.

Deepak Nayyar describes the latter part of that cycle in a careful study designed 'to analyse India's export performance and policies in the 1960s' (p. 1). His work takes off from Manmohan Singh's similar study for the 1950s (M. Singh, *India's Export Trends*, Oxford University Press, 1964) and elaborates upon several of those difficulties in India's export sector which were previously exposed in the work of Jagdish Bhagwati and Padma Desai (J. Bhagwati and P. Desai, *India: Planning for Industrialization*, Oxford University Press, 1970).

After a short overview of export trends, Nayyar begins with what he calls a 'micro' study of India's major exports. Working within a very loose framework formed from constant market share analysis, Nayyar examines the export of jute manufactures, cotton textiles, tea, cashews, tobacco, iron ore, manganese ore, mica, leather, chemicals and engineering goods. In each case, performance is judged not by the absolute levels of exports, but rather by the change in India's share of world exports. Looked at in this way, India's export performance over the 1960s looks even less impressive than its 4½ percent annual growth rate would suggest. For 'it appears that India failed to exploit even the limited opportunities which were available, and although world demand for a large proportion of her exports increased very slowly, it did not, except in mica, constitute an effective constraint on export growth. *It was domestic factors and policies that were basically responsible for the relatively poor export performance*' (p. 340, emphasis added). Apparently, the debate over demand versus supply constraints in India's poor 1950s export performance (cf. M. Singh, *op. cit.* and B. Cohen, 'The Stagnation of Indian Exports, 1951-1961', *Quarterly Journal of Economics*, November 1964) need have no counterpart in the 1960s.

In the next section, Nayyar turns to a discussion of Indian export promotion policies, both pre- and post-devaluation. He points out that although import substitution policies imposed an effective tax on both traditional and non-traditional exports, the export subsidies and other export incentives of the Government of India were aimed exclusively at the nontraditional sector. It is perhaps not surprising then that traditional exports performed as poorly as they did. Nayyar goes on to argue that even in the promotion of nontraditional

exports, serious mistakes were made, for 'available evidence suggests that, in the early 1960s, some exports were granted excessive and indiscriminate subsidization' (p. 345). Resource costs were ignored and export maximization became the overriding goal. Although the 1966 devaluation was designed to rationalize export incentives by evening them out across exports, it was soon followed by the reimposition of a highly selective policy of subsidization. Indeed, Nayyar argues that the devaluation had little effect on exports, offset as it was by the imposition of export taxes on traditional exports and the (albeit temporary) removal of subsidies on nontraditional exports. In spite of the approximately 50 percent change in the exchange rate, net export proceeds for most goods rose little, if at all. Because of the very product-specific nature of incentives, the introduction of new exports was discouraged, for it was difficult and time-consuming for new products to be included in the various subsidy schemes. And finally, export policy failed to aim at the root of the export problem, the phenomenon of the growth in domestic demand outpacing the growth of domestic production (except during the 1966-1968 recession).

The last portion of the book provides a short discussion of India's bilateral trade and its impact on export performance, and a postscript providing an overview of Indian exports from 1970 through 1974.

It seems to this reviewer that the major contribution of this volume lies in its first part, the detailed discussion of the export performance of India's major exports. The lesson here is clear: export policy must worry as much about export supply as it does about export sales, for in the short run at least, the elasticity of supply may be quite low. Yet Nayyar ignores at least one important issue. If India's comparative advantage is changing as India develops and as world markets change, the decline in several of India's major exports may be an efficient development, not an alarming 'failure'. Unfortunately we are given none of the information we need to judge such a possibility for Nayyar avoids any analysis of the relative efficiency of various exports. Such an analysis is difficult and, in the Indian case, existing studies are limited. (Two examples of such studies are J. Bhagwati and P. Desai, *op. cit.*, and C. Staelin, 'The Cost and Composition of Indian Exports', *Journal of Development Economics*, September 1974). Yet it would seem that any evaluation of export trends must wrestle with this issue.

The second section of the book, that on export policy, is thorough but it presents little material not published elsewhere. There is, in addition, little formal microeconomic theory analyzing the way in which the incentives described might affect the decisions of the firm. The impact of most incentives may be indeed quite straightforward, but others can have some rather unexpected results. Furthermore, Nayyar ignores some of the most complex 'incentives', the strong pressure the Government put on many firms through the linking of export performance to industrial expansion licenses and import licenses for the production of goods destined for domestic markets. And finally, in estimating

the impact of devaluation on export proceeds, the increased cost of imported inputs brought about by the devaluation is ignored.

The major contribution of this volume is descriptive rather than methodological. It adds to the growing literature which indicates that any policy, no matter how well intentioned may do little good, and even some harm, unless it is very carefully designed. For that reason alone, this book is a useful one. Beyond that, however, the book will be of interest largely to those with a particular interest in Indian economic policy. Although they may find little new material here, they will find it nicely boxed and labeled with sensible conclusions.

Finally, it is unfortunate that the lag in the publication of this work, a revision of the author's 1973 doctoral dissertation, has been so great. Not only have the material and conclusions become somewhat dated, but India's present problems seem now to far exceed any even thought of in the 1960s.

Charles P. Staelin
Amherst College