

AN ANALYSIS ON THE EXPORT PERFORMANCE OF HANDICRAFTS IN INDIA

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Abstract

The performance small scale industries assumes greater importance during the last decade because of the huge labour force present in the rural and semi-urban areas. India is finding very difficult to enhance investment because of the paucity of the capital. In this regard, the industrial sector, which helps the government of India, is the small scale industries. Handicraft is one such sector where the government can concentrate and increase the employment and foreign exchange by export. Another added advantage is the low capital-output ratio of this sector. The present study tries to analyse and compare the performance of India's export of handicrafts before and after the introduction of the new economic policy. The study also helps to identify whether the performance of the handicraft sector is up to the expectation of the government of India while introducing the new economic policy. The study has certain conclusion and policy implications.

Keywords: *small scale industries, semi-urban areas, Handicraft, foreign exchange, capital-output ratio, new economic policy*

Introduction

Cottage industry occupies a predominant place in the industrial economy of the world. Its contribution in terms of the number of units, employment and the volume and value of industrial production is quite impressive in both the developed and the developing countries. Handicraft is a labour intensive industry included in the Village and Small scale industries sector of Indian economy. Handicraft comprises a variety of crafts such as metal ware, wood carvings, carpet weaving, ivory carving and so on is diversified in its nature also. The importance of small scale industries is echoed by P.C. Mahalanobis '.....considering the household or cottage industries. They require very little capital; about six or seven hundred rupees would set an artisan family get started. With any given investment, employment possibilities would be ten or fifteen or even twenty times greater

in comparison with corresponding factory industries". The Cottage Industries Board which was set up in 1948 recognized the importance of cottage industries on grounds such as generation of income, equitable distribution of wealth, development of entrepreneurship ability, utilization of locally available raw materials and contribution in export earnings¹. Handicrafts provide employment opportunities to various women and weaker sections of the society. One of the notable aspect of handicrafts sector is the high output to investment ratio. Many economist argue that unless industrialization is inclusive, it is not the real industrial growth. Industrialisation should reach the semi-urban and rural areas. Only when the benefits of industries reach the semi-urban and the rural areas, it will be an inclusive growth.

Handicrafts are known for their proud tradition and appreciated for their aesthetic and as well as their utilitarian values. In this regard, Handicrafts is one of the traditional sector which is mostly labour intensive in their character, it creates more employment opportunities which is very important in an over populated and agriculturally oriented country like India which has an enormous surplus of manpower. The Working Group on Textiles and Jute has given the detail that the total employment in handicrafts sector as at the end of 10th plan is period is 67.70 lakhs. The average investment in handicrafts is much less than that of the investment needed in other small scale industries. Handicrafts serve as seed beds and nurseries for the development of the entrepreneurial and managerial talent, which are very essential for inducing speedy economic development. It provides direct employment to about four million craftsmen. Besides another five million are indirectly dependent on it for their livelihood².

Statement of the problem

Economist advocating capitalism believes that real progress ultimately depends upon industrialisation and modernisation. Since India cannot raise all the capital required for the establishment of a large number of large-scale industries quickly, it is only through the units of the small scale industries like handicrafts it could find a solution to the problems of poverty, ill health, illiteracy, unemployment and under employment. It is also felt that the growth of the small scale industries sector would ensure a better social order and social justice, since economic power would be diversified and not concentrated in the hands of a few as in the case of large-scale industries. In India after the introduction of the new economic policy, the county is neglecting the traditional sectors like handicrafts. Among the small scale industries, handicrafts have the potential of earning more foreign exchange with minimum exchange. The current trend of a growth of service sector could not increase the employment. So it becomes imperative to analyze the recent performance

¹ Dr.S.Jalal, *Industrial Entrepreneurship in Small Scale Industries*, Anmol Publications, Agra, 1991, p.281.

² *Handbook of Statistics and Indian Economy*, Reserve Bank of India, Mumbai, 2006, pp. 131-132.

of the handicrafts sector and comparing it with the performance of the period before the introduction of new economic policy.

Objectives of the study

The overall objective of this paper is to analyse the impact of new economic policy on India's exports of handicrafts. The specific objectives of the study is

1. To analyse the trend and growth of exports of handicrafts in India
2. To analyse the performance of the growth of exports of handicrafts during the pre and post reform period.
3. To analyse whether there is a structural change in the export of handicrafts due to the introduction of economic reforms.

Methodology and Data source

This analysis is based on the secondary data. The researcher has selected 30 years from 1980-81 to 2009-10 for the analysis. The whole study period has been divided into two sub-periods, the pre-reform period (1980-81 to 1990-91) and the post-reform period (1991-92 to 2009-10)

Tools of Analysis

The researcher has used simple linear trend model and the semi-log model which is otherwise known as the log-linear model for analyzing the trend and growth of the export of handicrafts.

1) Linear trend model

The linear trend model fitted is

$$Y = \beta_0 + \beta_1 t + U_t$$

Where,

Y = Total amount of exports of handicrafts in crores of rupees;

t = Denoted the time period in terms of the number of years.

U_t = Stochastic disturbance term.

β_1 = Slope (Annual average absolute growth of handicrafts export)

2) The Semi-log Model: Log-Linear model

The semi-log model and the compound growth rate were fitted to find out the percentage change of handicrafts export per year.

$$\text{Log } Y = \beta_0 + \beta_1 t + U_t$$

The Compound Growth Rate = $[(\text{Antilog } b - 1) \times 100]$

The Chow Test

Chow's test³ had been carried out to examine whether there is any structural change in the export of handicrafts in India. Chow test uses F-statistics for analysis.

$$F = \frac{S_5 / K}{S_4 / (N_1 + N_2 - 2K)}$$

Where,

N_1 = Number of years before economic reforms,

N_2 = Number of years after economic reforms,

Degrees of freedom = $(k, N_1 + N_2 - 2K)$

$S_5 = S_3 - (S_1 + S_4)$

$S_4 = S_1 + S_2$

S_1 = Error Sum of Squares obtained in the first equation.

S_2 = Error Sum of Squares obtained in the second equation.

S_3 = Combined Error Sum of Squares.

Computed F -value was compared with table 'F' for $K, N_1 + N_2 - 2K$ degrees of freedom. If computed 'F' value was greater than the table 'F', value it had indicated the structural changes in the post-reform period as compared with that of the pre-reform period for exports of handicrafts.

Results and Discussion

The following table presents the computed trend values of the exports of handicrafts in India for different periods.

Table 1
Trend and Growth Rate of Exports of Handicrafts

Period	Linear Model				
	a	b	t	R ²	
Pre-reform period (1980-81 to 1990-91)	-396.6909 (511.3460)	551.2818 (75.3939)	7.312**	85.59	
Post-reform period (1991-92 to 2009-10)	14259.7368 (2173.2868)	-602.1368 (190.6098)	-3.159*	36.98	
Whole period (1980-81 to 2009-10)	5034.3793 (2005.8121)	95.6344 (116.7828)	0.819	2.42	
Semi-log Model					
	a	b	t	R ²	CGR
Pre-reform period (1980-81 to 1990-91)	6.6170 (0.0927)	0.1932 (0.0136)	14.137**	95.69	21.32

³ Gregory C. Chow, "Tests of Equality between Sets of Coefficients in Two Linear Regressions", *Econometrica*, Vol.28, No.3, 1960, p.321.

Post-reform period (1991-92 to 2009-10)	9.4796 (0.2131)	-0.0632 (0.0186)	-3.386**	40.27	-6.13
Whole period (1980-81 to 2009-10)	7.9693 (0.2612)	0.0360 (0.0152)	2.367*	17.18	3.66

Source: Computed by the researcher

*Significance at 5% level

**Significant at 1% level

Table 1 shows the trend coefficient of exports of handicraft goods. It can be inferred that on the average during the pre-reform period the export of handicraft had increased by Rs.551.2818 crores during the pre-reform period while the post-reform period it decreased to the level of Rs. 602.1368. The annual average rate of growth of handicrafts export during the whole period is negligible amount of only Rs.95.6344. The R^2 value was found to be significant during the pre-reform period. The 't' value was found to be significant at one percent level for pre-reform period

The semi-log model and the compound growth rate also give the same image. As far as the log-linear model is considered, the annual average growth rate of the export of handicrafts during the pre-reform period is 19.32 percent. The corresponding value for the post-reform period is a decrease of 6.32 percent. As far as the whole period of study is concerned, the growth rate is only 3.60 percent. The compound growth rate also gives the similar trend.

Structural Change of Exports of Handicrafts in India

Table 2
Growth rates of India's export of handicrafts before and after the adoption of the New Economic Policy

Period	R^2	RSS
Pre-reform period (1980-81 to 1990-91)	0.85	5627391.26 (S_1)
Post-reform period (1991-92 to 2009-10)	0.37	352058263.8 (S_2)
Whole period (1980-81 to 2009-10)	0.40	762063426.3 (S_3)

Source: Estimated by the Researcher

In this study

$$S_4 = 357685655.01$$

$$S_5 = 398750380.02$$

$$N_1 = 11, N_2 = 19$$

Substituting the values we get

$$F = \frac{S_5 / k}{S_4 / (N_1 + N_2 - 2k)}$$

$$F = \frac{398750380.02/2}{357685655.01/20}$$

$$F = 14.49$$

The theoretical value of 'F' at the 95 per cent level of significance with $V_1=2$ and $V_2=26$ degrees of freedom was 3.3690. The computed F value was found to be greater than that of the critical F value, and hence the null hypothesis was rejected and therefore it seemed to support the proposition that there had been a structural change in respect of export of handicrafts over the period 1980-81 to 2009-10.

Conclusion

The above analysis shows that the export of the handicrafts in India is not improving. It is disheartening to note that the export after the introduction of new economic policy has decreased by 6 percent. The export before the introduction of new economic policy is an increase of 19 percent. While taking into account the whole period the percentage of handicrafts export is only 3 percent. In absolute terms the export of handicrafts before the new economic policy is only Rs. 551.28 crores. The corresponding value after the new economic policy is a decrease of Rs. 602 crores. The export of handicrafts during the whole period is an increase of Rs. 95.63 crores. The Chow test shows that there is a structural change in the export of handicrafts before and after the introduction of new economic policy. However, this structural change is negative after the new economic policy.

The performance of the export of handicrafts in India is unsatisfactory. The export before the new economic policy is increasing in a small proportion. During the post reform period, the export is decreasing. The export during the whole period is an increase of a meager amount. This trend in the export will have an adverse effect on the rural economy. The employment in this sector will decrease which will further force the artisans to depend on the agricultural sector for their livelihood. This will increase the under employment and unemployment. A good performance of handicrafts sector is vital for maintaining the regional balance in rural area. The government should take strong policy shift in order to increase the village and cottage industries.

While introducing the new economic reforms in 1991, the congress government expressed that it will lead to increase in the productivity and foreign exchange with favourable balance of payment. However, as far as the handicrafts sector is considered it has disproved the myth of new economic policy that it will help the growth of the industrial sector.

Implication for policy

The above analysis shows that the handicrafts sector was facing difficulties in promoting its export. It was not able to with stand the pressure it gets from foreign exporters and the firms that produce by mechanised way. The major reasons were the existence of problems like middlemen, shortage of materials, defective marketing, outdated tools and ailing co-operatives in this sector.

In order to abolish the middleman more handicraft emporia can be opened by the government and make the handicrafts sector more profitable one.

In order increase the marketability, the government can facilitate the handicrafts artisans to organise exhibitions and mela for improving marketing opportunities of craft persons.

The government and the NGO should invest more in nonfarm enterprises in rural area. This investment will attract more rural people towards this handicrafts sector.

The handicraft sector should be modernized. It will help the handicrafts to compete more with the imports and the challenges from big companies.

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