

## HOW TO SUSTAIN GROWTH OF INDIAN RUBBER INDUSTRY?

by  
**K.J. MATHEW\***

**Competitiveness and quality are the price guiding factors determining the feasibility of NR production in the context of globalisation.**

**T**he continuing financial crisis afflicting the east and southeast Asian countries since mid-1997 has attracted considerable attention both at the academic and policy levels. However, responses to the crisis varied in terms of the exploration of the underlying factors, in assessing the economic consequences and the policy prescriptions.

The competing explanations of the crisis are clustered around three major factors, acting singly or in conjunction : (i) structural aspects, (ii) macro economic imbalances and (iii) financial failures. Among the three factors, failures in the financial sector is now increasingly accepted as the crucial one though the other two have played important roles in precipitating the crisis.

### FINANCIAL COLLAPSE

The financial collapse was the logical culmination of an inappropriate financial liberalisation strategy with volatile capital flows acting as a triggering factor. The east Asian financial crisis is generally

characterised by a sudden and steep devaluation of the national currencies in terms of dollar, a similar drop in prices of stocks in the national stock markets, a steady decline in the stock of the officially held foreign exchange reserves and increase in the interest rate.

Among the east and Southeast Asian countries, Indonesia, Thailand, Malaysia and South Korea have so far been reported to be the worst-hit victims of the crisis.

While all newly industrialising countries (NICs) in the region have been affected by the current crisis, those less affected are Taiwan, Singapore and Hong Kong. These economies are reported to be successful in exporting capital since mid-1980's using mainland China and other Southeast Asian economies as manufacturing bases.

However, convergence of the crisis in the region appears to underline a particular phase of international capitalism – characterised by deregulation and increased economic integration – which has led to dramatic material changes and uncertainty.

### SERIOUS IMPLICATIONS

It is interesting to note that the three worst-hit victims of the current crisis are the major natural rubber (NR) producing countries, viz., Thailand, Indonesia and Malaysia. In 1997, the combined share of these three countries in total world NR production and exports were 71.3 per cent and 86.8 per cent respectively. The developments in these countries since mid-1997 may have serious implications on the world rubber economy as well as other major NR producing countries like India.

What is the current status of the Indian rubber economy in the context of the crisis, what are the potential implications and what are the strategies to be adopted for the sustained growth of the Indian rubber industry?

The unique feature of the Indian rubber production sector is its internal market orientation arising from a captive domestic market compared to the export orientation of the three major NR producing countries. In 1996-97, the relative share of exports of rubber in the total

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production was less than one per cent which is in sharp contrast to the respective shares of Thailand (91 per cent), Indonesia (89 per cent) and Malaysia (60 per cent).

Though the estimated relative share of rubber products manufacturing sector in the total value of industrial output in India is estimated to be only less than 2 per cent, two distinct features of this sub-sector compared to other three major NR producing countries are: a comparatively wider and larger manufacturing base and the inward market orientation.

### PIVOTAL ROLE

India is the fourth largest producer and consumer of NR in the world and it occupies fifth rank in total rubber consumption. In fact, the manufacturing sector has played a pivotal role in the growth of the production sector by absorbing the steady increases in the production of rubber.

The genesis of the dynamic growth of this sub-sector has been the colonial patronage to cater to the increased industrial requirements during the interwar years. During this period, domestic consumption of NR was the highest in India compared to other major NR producing countries and as early as in 1947 domestic consumption of NR outstripped its production in the country. This marks the graduation of Indian rubber production sector from its initial position of a net

exporter to the status of a net importer exhibiting the characteristic of a widening manufacturing base.

A significant decline in growth of the consumption appears to be mainly rooted in the recent industrial recession in the country and partly due to the structural characteristics of this industrial sub-sector. The evolution of Indian rubber products manufacturing sector as a supplementary segment catering to the requirements of the large industrial base in the country rather than as a relatively independent export oriented sector as in the case of Malaysia is the most important structural characteristic of the industry.

Consequently, the industry dominated by the production of dry rubber products; especially automotive tyres and allied products, is concentrated in the industrially advanced regions in the country rather than in the state of Kerala which has a near monopoly in NR production (93 per cent).

### BALANCE OF TRADE

Despite an insignificant share of rubber products (0.96 per cent) in India's total export earnings, the country has been enjoying a favourable balance of trade in the foreign trade of rubber products during the 25 year period between 1971-72 to 1996-97. In fact, the surplus has been registering a steady increase as the total value of imports

expressed as a percentage of the value of exports has declined from 40 per cent in 1971-72 to 27 per cent in 1996-97. To a large extent, Indian rubber products exports is a horizontal extension of the structure of its rubber products manufacturing sector.

### DISPARATE TRENDS

The relative shares of the three product groups, viz., dry rubber products (including auto tyres and allied products), latex products, and other products show disparate trends during the 26 year period. Though the auto tyres and allied products group has been maintaining its position as the most important individual product group with a marginal increase of more than 7 per cent, its share has declined from the peak level achieved in 1990-91.

The share of dry rubber products as the major sub group has registered a steady decline to the extent of more than 12 per cent. Conversely, the latex products and the other products groups have more than doubled the relative shares indicating higher export intensity of production compared to the dry rubber products group. In this connection, it is important to note that in 1996-97, the export intensity of bus and truck tyres which is the single important product accounting for about 55 per cent of the exports was only 21.50 per cent.

How the financial crisis has affected the Indian rubber industry?

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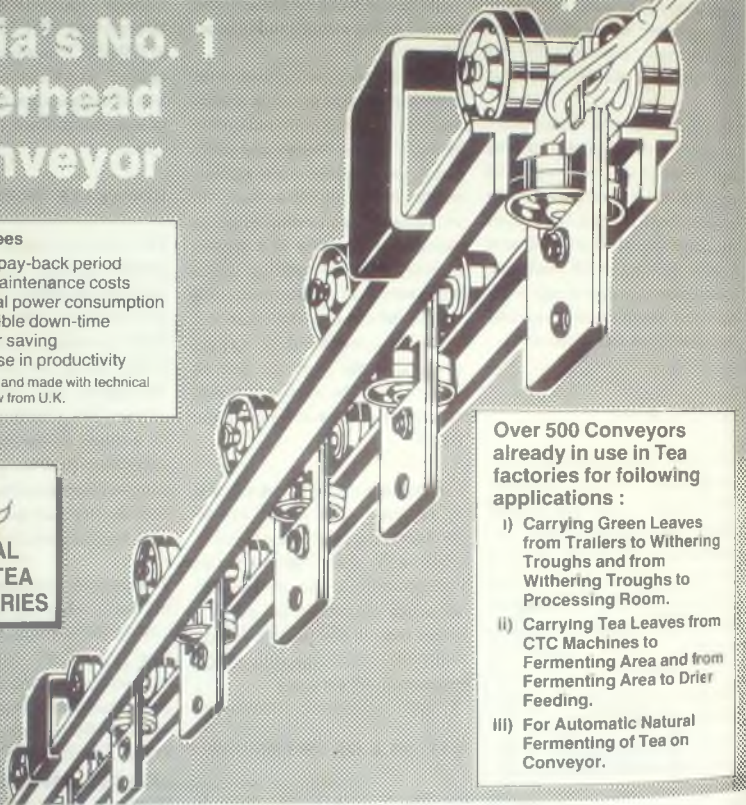
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The emerging trends in the financial sector had a cascading effect on the various segments of the real sector as evident from the sluggish performances of exports, GDP growth rate, the external balance and FDI flows into these economies. Among the various segments, the trends in the export segment assume more importance for two reasons : (i) the glittering growth performances of the NICs since 1980s has been on the export-led growth strategy and (ii) the net impact of the crisis on Indian economy and its rubber sector will be mainly transmitted through the external trade channel.

Theoretically, the exports from the crisis-ridden countries now have to be super-competitive and extraordinarily cheaper mainly on account of the higher rates of devaluation. In fact, the affected countries are India's competitors in several major markets for products ranging from primary commodities to engineering goods. However, it is reported that at least in the short run, apprehensions on this issue are unlikely to be realised for three reasons: (i) a relatively higher interest rates consequent to tight monetary policy have pushed up the exporter's costs, (ii) a higher import-intensity of exports from these countries and (iii) difficulties of exporters in securing letters of credit through local banks.

### THREAT

There are other potential sources of threat on India's performance

emanating from the financial and trade sectors. However, all major crisis indicators of India vis-a-vis the five affected countries suggest a comparatively stronger position of the country except the government budgetary deficit. Nevertheless, controls on capital account convertibility is the single major reason for insulating India from the serious consequences of the Asian crisis. Similarly, the direct trade impact of the Asian crisis on India's is also likely to be limited as the major destinations of Indian exports are European Union and the USA.

As bulk of India's exports are accounted for by the developed industrial countries, the direct impact of the crisis on Indian exports would be marginal at least in the short run. However, the case of rubber products exports demands further analysis since relative share of Asia is about 50 per cent of the total value of exports from this sector.

### ECHO EFFECTS

Conceptually, there are three important sources of indirect or 'echo' effects on the rubber sector in the context of the current crisis. The three potential sources are : (i) impact of the declining world NR prices on India's NR production sector, (ii) indirect and direct effects on the rubber products manufacturing and export sectors on account of Asia's dominant share in

exports and (iii) competitiveness of the latex products manufacturing and export in the backdrop of the decline in raw material prices consequent to devaluation of currencies.

The declining trends in world market prices of NR assume importance due to a very high degree of export-orientation of NR production in Thailand, Indonesia and Malaysia and its indirect effect on Indian NR prices since early 1990s.

Despite a higher price of NR in 1998 in Indian and world market compared to the 1992 level, there has been a substantial decline in both the prices since 1996. To a certain extent, the comparability of the prices is circumscribed by the exchange rate variations in the relevant local currencies vis-a-vis the US dollar. However, an important trend having serious implications on the Indian NR production sector has been a more or less synchronised movement of prices in both the markets since 1992.

A plausible explanation for the observed trend since 1992 is the policy changes on the procedural formalities regarding the channel of imports. Since 1991-92 the canalised imports through the State Trading Corporation has not only been dropped, more than 97 per cent of the total quantity of imported NR till 1997-98 (1, 61, 781 tonnes) was exempted from import duty under the Export Incentive Scheme and Public Notification Scheme.



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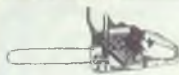
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### SERIOUS IMPACT

In spite of the serious limitations in quantifying the net impact of the policy change, it is increasingly becoming evident that with the liberalisation of the procedural formalities, the Indian manufacturers-cum-exporters of rubber products will be inclined to import NR if the domestic prices are higher than the C.I.F. value of the imported rubber. Therefore, the repercussions of the declining world NR prices and the liberalized export-import policies appear to have serious impact on the dominant NR production sector in India as there are limitations in pursuing a protected price policy regime.

The composition of exports shows that except the EEC, among the four trading blocks, the major product exported to all the other three regions is truck and bus tyres and Asia's share is the highest (67.9 per cent). The relative share of latex products group is the highest in the EEC followed by other countries group and the USA.

However, the most striking feature of composition of the exports is a higher degree of diversified exports to the EEC compared to other regions. The net impact of the current export structure will be centered around the truck and bus tyre segment due to its share in total exports (55 per cent) and Asia's share in the total exports of this product (61 per cent).

The slow down of industrial growth in 1996 and 1997 and negative growth in the production of commercial vehicles (-6.9 per cent and -33.2 per cent respectively) have reflected in a negative growth rate (-4.0 per cent) in the production of truck and bus tyres in 1997. Despite a large captive internal market and prevalence of the traces of protectionist policies, the tyre sector is on the very of significant shake-ups with the entry of multinational corporations in the field of vehicle and tyre manufacturing in the country consequent to policy changes in recent years.

### LATEX PRODUCTS

The potential impact on the latex products sector consequent to the crisis in Malaysia, Thailand and Indonesia has implications for the export and NR production sectors in India. The currency devaluation in these countries leading to a comparatively cheaper raw material base enable the latex products manufacturers to compete with an inherent initial advantage.

The issue assumes importance since it is reported that between 1992-94 India has made the highest increase in exports of gloves (156 per cent) offering stiff competition to her NR producing countries in the world market. This product group is considered as the booming segment as it nearly doubled its share in exports during the period between 1970-71 and 1996-97.

To summarise, the analysis of the impact of the Asian crisis on the Indian rubber sector indicates the following:

- (i) In the short run the direct impact of the crisis would be limited on India's financial sector and exports due to controls on capital account convertibility and destination of exports.
- (ii) The impact on the NR production sector is mainly confined to the synchronization of domestic prices vis-a-vis world market prices due to policy changes.
- (iii) The trends in the dominant dry rubber products sector would be mainly influenced by the growth indicators in the Indian economy rather than the exports to Asian countries.
- (iv) The emerging trends indicate a comparatively higher potential impact on the export-oriented latex products manufacturing sector.

### STRATEGIES

The future priorities and strategies of Indian rubber sector shall be focused on the basis of the emerging issues confronting the production, manufacturing and export sectors. The foregoing analysis suggests considerable recasting of the policy

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inputs in the backdrop of growing market integration, liberalisation of policies and procedural formalities and recent developments in the three major NR producing countries.

The focus on the production sector is confined to the NR sector due to its dominant position in total rubber production and consumption in the country. In spite of the achievement of the highest reported productivity of NR in the world, there exists marked differences in productivity among the different rubber growing regions to the extent of more than 40 per cent.

The major issues in the traditional rubber growing region of Kerala are : increasing share of part-time farmers, growth of homestead farms and operational level problems associated with the availability of hired labour. In the emerging scenario, there are serious constraints in pursuing expansion of NR

cultivation in marginal areas where the reliable productivity is below the national average. Simultaneously, R & D inputs and specific extension packages are required to enhance productivity in the regions with lower levels of productivity as competitiveness and quality are the prime guiding factors determining the feasibility of NR production in the context of globalisation.

The attainment of the short term and long term targets and realisation of the projections depend to a great extent on the potential issues influencing the relative profitability of NR production. The strategies employed to achieve the desired results are : squeezing unit cost of production of NR and increasing net income per unit of area. The promotion of the practices of discriminatory fertiliser application, low frequency tapping systems and group processing of raw rubber are expected to yield considerable

savings in the operational cost components of NR production.

At the same time, earnest attempts are being made to increase the ancillary sources of income by popularising intercropping in the immature phase and commercial exploitation of the by-products.

Though a comparatively large industrial base ensuring a captive domestic market has a 'cushioning effect' to the manufacturing sector at times of crisis in the export market, it is important to note that the industrial base itself is undergoing significant transformation process.

Therefore, matching efforts to modernise and upgrade the manufacturing sector are vital for maintaining the share in the domestic market as well as sustaining the growth in exports.

While equipping the manufacturing sector for global production with competitiveness and quality in the long run, the immediate concerns are centered around identification and promotion of products suited for the domestic and export markets with an inbuilt option for flexibility in restructuring the production process. The guiding principles in this endeavour shall be optimum allocation of the available resources in the rubber sector and comparative advantage in the manufacturing and exports of rubber products.

— RUBBER ASIA

Table : 1

## PROJECTIONS OF RUBBER PRODUCTION AND CONSUMPTION IN INDIA ('000 TONNES)

Year	NR Production	Consumption		
		NR	SR	Total
1998-99	620	600	173	773
1999-2000	651	633	190	823
2000-01	687	674	207	881
2001-02	717	717	226	943
2002-03	744	762	247	1009
2003-04	773	810	270	1080
2004-05	795	861	295	1156
2005-06	811	915	322	1237
2010-11	930	1170	501	1671
2015-16	1018	1453	783	2236