THE UNIVERSITY OF MANITOBA

A STUDY OF INDIA'S INTERNATIONAL TRADE WITH SPECIAL REFERENCE TO EXPORTS (1951-1964)

A Thesis

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by

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PREFACE

This is a study of India's International Trade with special reference to exports in the Planning period (1951-1964). The realization of India's development schemes depends critically on raising the volume of the nation's exports (from a value of about Rupees 6,336 million in 1960-61) to Rupees 13,000 to 14,000 million by 1970-71*. Thus the feasability of the production and income targets for the sixties and the prospects for making the approach towards self-support that is planned to be well underway by 1970, all hinge on the feasability of doubling Indian exports during the course of this decade. Since the beginning of the First Five Year Plan, India's import bill has been rapidly rising while exports have not grown that fast. Between 1951 and 1964 export earnings of India increased by only 6.6 percent whereas imports increased by 27.4 percent. This has led to a significant decline in the the ratio of export earnings to total imports from 91.7 percent to 76.7 percent over the same period. Perhaps still more important is the burden of the interest charges and repayment of capital that India has procured from abroad during this period. There is thus a need for reappraising

*The Planning Commission has stressed that India's export receipts will have to rise to Rupees 13,000-14,000 million if the objective of self-sustained growth is to be realized by Fifth Plan - Third Five Year Plan, New Delhi, 1961, p.138.

the export performance since the beginning of the First Five Year Plan and viewing whether this provides any background for assessing the export prospects of India during years that lie ahead. The present study is an attempt in this direction.

The scope of the study has been largely determined by the availability and accessibility of relevant data. In the course of this study the writer felt greatly constrained by the paucity of data. However, he has tried to make the analysis as complete as possible by tapping every possible source. The statistical publications of the United Nations have been the main source of empirical data of this study.

The study consists of seven chapters. Chapter I is devoted mainly to a general discussion of the theory of international trade as related to economic development. Chapters II and III analyze general trends in exports, major export commodity performance, direction and composition of exports and imports. Chapter IV discusses terms of trade. Chapter V deals with the problem of external finance and payments. In Chapter VI an attempt is made to define the rationale of trade policy consistent with the strategy of economic development. The main conclusions of the study and a brief summary are assembled in the final chapter.

This thesis was written under the supervision of Professor Koilpillai Jassudas Charles. I wish to express

my appreciation for the guidance I received from him. I would also like to express my appreciation for the help and cooperation I received from the staff of the Manitoba Provincial Library and reference section library of the University of Manitoba for procuring for me the necessary material, sometime even on inter-library loan. I also wish to express my thanks to my friend Mr. Donald Astwood whose criticisms and help was invaluable to me in the preparation of this thesis. My thanks are also due to the Graduate School, University of Manitoba and Professor C. L. Barber for the financial assistance received.

ABSTRACT

The main purpose of this study has been to examine the role of international trade in development planning and to assess whether the export targets fixed by the Planning Commission for self-sustained growth by 1975 are feasible.

International trade does not play an important role so far as its quantitative aspect is concerned. However, despite its quantitative smallness, international trade is vital to the operation of the Indian economy. The Indian economy, unable to produce locally the machinery, components and raw materials needed for development, has of necessity to look to imported supplies. The availability of such supplies from abroad means that the pace of development is not held up by bottlenecks in the domestic sources of supply. The imports are, therefore, called upon to provide some of the most vital and strategic goods and their availability has not only added to the supply of investible resources but also imparted a much needed element of flexibility to India's planning efforts. Imports have, however, been paid either by current export earnings or by withdrawal from the reserves of foreign exchange or by a massive fresh capital inflow. Depleted reserves and capital inflow have led to lower interest receipts and higher service charges. Given the difficulty of expanding exports at any substantial pace,

the policy of development has put India in balance of payments difficulties.

India's export earnings have remained almost stagnant. India's major export commodities, Jute manufactures, tea and cotton textiles, face a bleak future due to stagnant export markets and growing technological advances resulting in the discovery of synthetic and other man-made substitutes, low income and price elasticity of consumer demand, increasing competition from her aggressive low cost Asian, African and European rivals, the process of import substitution and balance of payments difficulties of under-developed countries and discrimination practised by advanced countries against Asian exports. The "New Exports" with their present structure, extremely low base, the possibility of their being victim of import substitution and the unhelpful attitude of industrial countries towards manufactured goods exports from primary countries, do not appear to form the basis of a great leap forward on the export front. Thus the export prospects do not appear bright to secure a substantial net increase in India's export earnings and the export targets set by the Planning Commission for self-sustained growth by 1975 appear to be over-optimistic and non-feasible. However, inspite of the limited prospect of export expansion, India should do every possible effort, including drastic measures where necessary to bring about substantial increase in the

volume of exports as well as necessary changes in their composition. A wise mix of export and import strategy will definitely produce some desired results. Devaluation is likely to add to India's foreign exchange earnings provided the Government can control the inflationary potential inherent in the measure. Bilateral trade agreements with East Europe and U.S.S.R. can greatly alleviate India's problem and she should take steps to conclude long term agreements with them. It is one of the findings of this study that the economic cooperation within the ECAFE region will not help India in solving her foreign trade problem.

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CHAPTER I

ROLE OF INTERNATIONAL TRADE IN ECONOMIC DEVELOPMENT

> The ordinary means...to increase our wealth and treasure is by foreign trade.... This ought to be encouraged for upon it hangs the great revenue of the King, the honour of the Kingdom, the noble profession of the merchant, the school of our arts, the supply of our poor, the improvement of our lands, the nursary of our mariners, the walls of the Kingdom, the means of our treasure, the sinews of our wars, the terror of our enemies.[1]

The above passage from Thomas Mun is indicative of the pervasive nature of trade. The importance of trade was recognised not only by mercantilist writers who gave it first place in economic development, but even by physiocrats, who relegated it to a subordinate position, had to pay attention to the fact that through trade a country must obtain the goods it cannot produce within its boundaries. Adam Smith also, who gave priority to agriculture, stating that capital should first be used in agriculture and the excess invested in trade, paid attention to the benefits that can be derived from international trade. H. Myint points out that though Adam Smith did not formulate any trade theory as such but through his "productivity theory" suggests a dynamic theory of free international trade depicting export led growth.

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[1]Thomas Mun, England's Treasure by Foreign Trade, quoted by Lewis Henry Haney, History of Economic Thought, (4th Edition), p.121.

> The productivity theory looks on international trade as a dynamic force which, by extending the extent of the market and the scope of division of labour, permits a greater use of machinery, stimulates innovations, overcomes technical indivisibilities, raises the productivity of labour and generally enables the trading country to enjoy increasing returns and economic development.[2]

This trend of thought was continued throughout the classical period and Ricardo laid the foundation of the doctrine of comparative costs.[3] The theory of comparative advantage shows that under free trade every country should specialise in the production of those commodities for which its relative costs are low and import those commodities for which its relative costs are high. It is not the absolute difference that is important but the relative or comparative advantages. Thus, even if one country produces all goods at a lower cost than any other country, it will pay for it to export those goods in which its relative advantage is the greatest and import all other goods for which its relative advantage is less. Because of the superior resource allocation, a country without any increase in resources or technological change is able to enjoy a higher real income by specialising in production according to its comparative advantage and trading.

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[2]Myint, H. "The Classical Theory of International Trade and the Under-developed Countries", Economic Journal, June, 1958, p.318.

[3]Ricardo, David, The Principles of Political Economy and Taxation, Ricard D. Irwin Inc., Homewood, Illinois, 1963.

Developments in International trade in the 19th century substantiate the validity of the theory of comparative advantage. Trade played a vital role in the development of Great Britain and other Western European countries and their colonies in North America, Australia, Argentina and South Africa. Empty lands were developed to raise food stuffs and raw materials for the industrialising countries of Europe while in return Britain provided the manufactured goods. The rapidly industrialising Britain transmitted economic growth to the newer countries via massive trading that was caused by her need for raw materials and market for her finished goods and by tarrif reductions and great improvement in transportation. Obtaining these needs of Britain (and later of France and Germany) helped economic growth in outlying areas by (a) improving their barter terms of trade, (b) by giving "comparative advantage" employment to any increases in domestic labour force or capital stocks, (c) by stirring up idle resources to work for export production and (d) by inducing capital and immigrant workers into developing new export industries and productive social capital (e.g. railways, canals, etc). This model of export led growth has been vindicated in other instances as foreign trade has led to the development of many other countries also that we think of today as advanced. Swedish development occurred as a result of exports in timber, Canadian development

depended heavily upon exports of wheat, Australian development received great stimulus from her exports of wheat and wool, in Switzerland it was lace making and clock making that led the way to development. Puerto Rico, Japan, Hong Kong, and other poor areas have achieved remarkable growth by exporting manufactures and Jamaica and oil countries and certain others have found growth in the export of primary products. A.K. Cairncross sums up the case for export led growth when he says: "...as often as not, it is trade that gives birth to the urge to develop, the knowledge and experience that makes development possible and the means to accomplish it".[4]

Apart from the above historical instances of export led growth, there are other dynamic advantages which trade bestows on the exporting country. To begin with, "...of major benefit is the opportunity that trade offers for the exchange of goods with less growth potential for goods with more potential thereby quickening the progress".[5] An obvious example is the import of capital goods necessary for economic development. Secondly, there are what may be termed as "Educative" effects of trade. The contact with the more advanced countries that trade provides is an invaluable

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[4]Cairncross, A.E., Factors in Economic Development, p.214.

[5]Meiers, G.M., International Trade and Economic Development, p.157, Harper & Row Publishers, New York.

stimulus to development. With the importation of goods comes the importation of technical know how and skills which leads to technological progress. Thirdly, trade leads to development through what might be called "demonstration effects". The opening up of trade may help to transform a society whose tastes are under-developed and who are satisfied with few comforts and little work. Because trade introduces new commodities and makes other commodities more easily obtainable, the result might be greater ambition and more work on the part of the people in order to satisfy their new tastes. This renewed energy directed towards the export industry might even lead to increased saving and capital accumulation working a kind of industrial revolution in the country. Professor G.M. Meiers has also noted the effects of trade on domestic factor supply specially on capital accumulation. Thus he says:

> The capacity to save increases through the more efficient resources allocation associated with international trade. And the stimulus to invest is strengthened by the realisation of increasing returns in the wider markets that international trade provides.[6]

In addition expanding trade induces the accumulation of capital through international investments. The growth of British imports of primary products between 1870 and 1913 induced British capital exports to most of the primary produc-

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[6] *Ibid.*, p.158.

ing countries during that period. A final point can be seen in the fact that international trade allows producing countries to adopt economies of large scale production in their export industries. The trade with foreign markets makes it profitable to adopt more advanced techniques of production often requiring more capital. The opportunities of investment and dynamic development are greater than if the industry were confined to the narrow local market. Thus we can see that trade does more than provide a market and encourage the reallocation of resources necessary in order to supply it, in that it bestows certain dynamic benefits upon a developing country.

More recently there have been doubts whether trade really increases or encourages the growth of an economy. The twentieth century economists, concerned with the development of under-developed countries are divided in their opinion on the contribution of trade to growth. While many economists accept the classical doctrine of the transmission of growth through international trade (Cairncross, Haberler, Youngson, Meier and others), there are other "balanced growth" theorists, notably Ragner Nurske, Singer and Preibisch who maintain that under-developed countries are hindered rather than assisted through their participation in international specialisation and trade and that the export led growth so prominent in the 19th century is losing

its drive today. It is true that while some countries which were poor a century ago developed through foreign trade, other countries have remained poor until the present day, though their export trade was also expanding.

The chief exponents of the above line of thought are Dr. Prebisch[7] and Ragner Nurske.[8] Prebisch's argument is that international specialisation does not benefit the peripheral (under-developed) countries as the classical argument maintains because the terms of trade always tend to be unfavourable to the primary producing countries. This conclusion is based on a U.N. study of Britain's terms of trade between 1876 and 1946. Secondly, the nature of international demand is such that under-developed countries do not receive any gain from trade. This occurs because the imports by industrial countries are primary goods and their income elasticity of demand tends to decline, while income elasticity of imports (i.e. manufactured goods) by peripheral countries is relatively high. On the basis of Engel's law, increase in income and productivity results in reduced expenditure on imports by the industrial countries and increased expenditure on imports by under-developed countries. Thus the gains from trade are not equally divided. Nurkse bases

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[7]Prebisch, Paul, Commercial Policy in Under-developed Countries, American Economic Review, 1959.

[8]Nurkse, Ragner, Patterns of Trade and Development, Basil Blackwell, Oxford, 1961.

his judgement on empirical studies and other factors operating in the present century in the trade relations between developed and under-developed countries which create doubts regarding trade to be a propulsive force for economic development of under-developed countries.

1. LONG TERM TRENDS IN WORLD TRADE

Empirical studies of the patterns of world trade show that there has been long term slackening in the rate of world trade expansion. This slackening has occurred in spite of the fact that in the world as a whole economic growth is now taking place at probably a faster rate than ever before. And not only is the increase in international trade lagging behind the increase in world output, but major structural changes are occurring. Yates[9] estimated that world trade has trebled between 1873 and 1913 but had increased only by two third between 1913 and 1954. Similar conclusions have been drawn by the GATT.[10] The retarded rate of growth in trade was even greater for the countries dependent mainly on primary commodity exports, which are the chief exports of under-developed countries.

> In the mid-twentieth century, we find, by contrast, a tendency for food and raw material exports to lag behind exports of manufactures goods. More (cont'd)

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[9] Yates, Lamartine, Forty Years of Foreign Trade, George Allen and Unwin, Ltd., 1959.

[10] Trends in International Trade, GATT., 1958.

> specifically, we observe a lag in the export of primary producing countries compared with those of industrial countries.[11]

The same trend shows clearly in OECD figures presented at the 1964 Geneva Trade Conference of 119 countries. These figures reveal that between 1950 and 1962, the total world exports increased by 129 percent but exports from developing countries increased by only 50 percent.[12] Further, both for primary products and manufactures, exports from the primary producing countries have risen substantially less than exports of similar commodities from the industrial countries since the early 1950's. Indeed, the major flow of exports from the primary producing countries - namely, their exports of primary produce to industrial countries rose at only half the rate of exports of primary produce from the industrial countries.[13] Thus the developing countries are getting a decreasing portion of total world trade. Concluding a review of the 1950-60 decade Maizels[14] states that

> The economic growth of the primary producing areas over the past decade has thus been dependent to an important extent on increased borrowing rather than on increased exports. If exports fail to (cont'd)

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[11]Nurkse, Ibid., p.20.

[12]"Role of Trade in Developing Countries", in OECD Observer, August 1964.

[13]Maizels: Recent Trends in Trade: International Trade in a Developing Economy,edited Harrod and Hague. The authors above conclusions are based on International Trade,1959, GATT,Geneva,1960.

[14]In Harrod and Hague, op.cit., pp.31-51.

> expand appreciably - not likely, other than fuels, there is a serious danger that the growing burden of interest and debt repayment will severely restrict the further expansion of imports for developing purposes.

There are several reasons which are responsible for the slackening in the world trade in the 20th century and specially in the lag in the primary product export, as compared to total output. There has been a shift of the world's industrial centre from the U.K. and Western Europe, the centre of growth in the 19th century, to the United States which with its abundance of natural resources has a relatively lesser need for import of primary products. The U.S. imports to G.N.P. fell from about 6 percent to 3 percent in the last fifty years.[15] This analysis of the cause of the lag in the exports from under-developed countries becomes very interesting when we apply it to the problem of the substitution of the synthetic products for raw materials in the advanced countries and other technological changes resulting in the economies in the use of raw material (e.g. through electronic tin plating and through systematic recovery and reprocessing of metals). The demand for such staple commodities as crude rubber, silk,

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[15]Dr. W. Lederer, the economist responsible for U.S. Balance of Payments estimates that U.S. merchandise imports as a percentage of G.N.P. have fallen from 5.70 percent in the period 1896-1914 to 2.97 percent in 1955. Review of Economics and Statistics, May 1956, p.184.

Jute, vegetable oils, hides, skins has certainly been held back and in some cases severely reduced by the growth of the chemical industry. In the U.S.A. in particular total manufacturing production in the last fifty years has increased more than three times as fast as has the U.S. economy's intake of raw materials.[16] In a country so well supplied with capital and technical know how it is a natural tendency for investment in "research and development" to displace crude materials with synthetic products. It is, therefore, in no way surprising that the increase in U.S. imports of primary products has failed to keep pace with the growth of the American economy. Similar tendencies are at work in Western Europe.[17]

The nature of industrial production has also changed in favour of industries using large quantities of raw materials to one where the raw material content is low as is seen in the rise of chemical and engineering good industries.[18] The slower rate in growth is however not universally felt by all primary producers depending on their composition of primary products. There has also been a fall in the import content

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[16] Nurkse, op.cit., p.25.

[17] Cairncross, A.K. and Foaland, J. Long Term Trends in Europe's Trade, Economic Journal, March,1952,pp.26-27.

[18] Nurkse, op.cit.

of consumption due to shift in pattern of demand and in part to substitution of home output for imports. For example, there has been small increase in consumption of tropical beverages and vegetable oils, each of which has a high import content and the relatively large increase in meat consumption with a low import content.[19] This shift in the output pattern and consumption pattern in industrial countries has had a substantially adverse effect on the exports of primary producing countries.

In addition, domestic policies causing limitations on the supply side in producing countries have also been effective in certain cases contributing to relative decline in trade in primary commodities. Increased domestic consumption arising from increasing population and of raw materials arising from expansion of industries hurts primary production for exports. Gains in the production of primary products by the United States, specially of food stuffs under its farm support policy have had opposite effects on the volume of trade, reducing the United States imports and increasing its exports of cereals. Domestic policies attempting at self-sufficiency through economic diversification adopted in some primary producing countries also account for the decline in the volume of output that enters international trade.

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[19]Maizels, in Harrod and Hague, op.cit., p.34.

Thus the forces making for the diffusion of economic growth from advanced to less developed countries are not as powerful in the trade field as they were a hundred years ago. The 19th century pattern of development in outlying areas was geared to export markets for primary goods. This mechanism of growth transmission is now in a comparatively low gear. The conditions in trade field have some influence on international investment also. The vigorous expansion of demand for primary commodities induced a massive flow of private capital to under-developed areas in the past. Movement of private capital for productive investment in less developed countries have always depended to a large degree on the growth of external demand for the export staples of such countries. The present lag in the export trade of most under-developed countries is responsible for the lack of incentive for private foreign investment. The home market does not generally offer any strong inducement in a backward economy due to low real purchasing power. In addition, the flow of private capital at present is also inhibited by highly progressive home and foreign tax rates, political instability, hostile attitudes related to surging sense of nationalism and association with the days of "imperialism" and even aspects of the "cold war".

In addition to these factors there is a great desire for economic development among the poorer nations of the world today. This is the very desire for rapid development that generates balance of payments problems as can be seen below.

In an open economy:

$Y = C + I + X - M$ I

We know in a closed economy:

$Y = C + I$

$Y = C + S$

$\therefore I = S$ and $S = Y - C$

In an open economy X and M have the same function as I and S. Therefore,

$I + X = S + M$ II

Therefore $S = Y - C$ (closed economy) which is

$I + X - M$ III

$\therefore I = S + M - X$ IV

Dividing both sides through Y, we get

$\frac{I}{Y} = \frac{S}{Y} + \frac{M}{Y} - \frac{X}{Y}$ V

Multiplying the left side of the equation by $\frac{\Delta Y}{\Delta Y}$ we get,

$\frac{I}{\Delta Y} \cdot \frac{\Delta Y}{Y} = \frac{S}{Y} + \frac{M}{Y} - \frac{X}{Y}$ VI

Putting G for $\frac{\Delta Y}{Y}$ (rate of growth), v for $\frac{I}{\Delta Y}$ (marginal capital output ratio), s for $\frac{S}{Y}$, m for $\frac{M}{Y}$ and x for $\frac{X}{Y}$, from the equation VI we get

$vG = s + m - x$

$\therefore G = \frac{s + m - x}{v}$

The rate of growth of the economy depends on domestic savings and on the excess of m over x. Therefore, the poor countries with low savings under contemporary conditions of world trade have to depend during the early stage of development on a net inflow of foreign capital to supplement their meagre domestic savings. Unless this excess of imports over exports is facilitated by an inflow of private foreign capital, the country is bound to face serious balance of payments problems.

2. DUAL ECONOMIES

Further doubts as to the propulsive role of trade in economic development arises from the fact that dual economies have developed in many under-developed countries specialising in primary production for export. A well developed export sector co-exists with a backward low productivity sector leading to the lopsided development of the economy. It is the foreigners who see the possibility of the expansion of the export of primary products and invest capital accordingly. The inflow of foreign capital and technical skill has developed some export industry particularly mining or plantation or oil fields or refineries to the neglect of domestic sector. "Foreign enterprise have transformed the export sector into the most advanced part of the economy but this imported western capitalism has not penetrated deep into the indegeneous economy".[20] Foreign investment becomes to a large extent

[20]Meier, op.cit., p.166.

economic "enclaves" and remains isolated from the domestic economy and a part of the economy of the metropolitan state. Methods of production in the advanced sector are capital intensive while in the backward sector methods are labour intensive. It is argued that while capital flowed into the advanced sector, the rate of investment does not keep pace with the rate of growth of population and part of the labour force has to seek employment in the traditional backward sector. As a result "disguised" unemployment appears in the under-developed sectors of the economy. Any technological progress that occurs takes place in the advanced sector and results in a further bias towards capital intensive production thus making the "disguised" unemployment problem still worse.

But what has caused the most problems is the fact that the increased income resulting from the expansion in international trade has not been spent in the domestic economy. The outflow of interests, dividends and remittances remove the multiplier effects of investment. Thus the stimulating effects of foreign trade have been lost abroad. "And not only there has been drain of profits to the capital exporting countries, but the poor countries have also had to import from richer countries the capital equipment associated with any investment that has been induced by a growth in exports".[21]

Thus a given amount of investment in the under-developed

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[21] Meier, G.M. op.cit., p.168.

economy has resulted in far less income than would have been the case in a more developed country. Production and export under foreign monopoly and monopsony control does not often allow for rapid innovation and development of other sectors and consequently the export sector fails to perform the function of the Rostovian leading sector in under-developed countries. This then is a typical picture of an economy characterised by capital intensive export sector in the midst of stagnant domestic economy. We have seen this type of development taking place all over the world in Africa, ~~India~~ Asia, Latin America and the Far East.

Further, many of the developing countries rely almost exclusively on the export proceeds of one or two commodities. This dependence on one or two commodities for most foreign exchange earnings does not allow for the diffusion of the benefits of international trade to the rest of the economy. Further, this dependence on one or two export products for most of foreign exchange earnings, also limits the ability to import, specially when export values are highly sensitive to income movements abroad and so creates dependence on external forces which is often resented in under-developed countries. Planning for economic development is rendered difficult when foreign exchange earnings are indeterminate and volatile.

3. PRICE INSTABILITY AND VULNERABILITY OF EXPORT EARNINGS

A major difficulty with under-developed countries has been widely fluctuating export prices. A U.N. study of the problem showed that:

> During the period 1901 to 1950 the year to year price changes of 18 primary commodities which represent the major exports of 47 under-developed countries, averaged about 14 percent....the change in export volume showed up as even larger than the price changes and for the sample studied averaged between 18 and 19 percent on a year to year basis. Usually they did not run counter to the price changes except in case of food stuffs - but reinforced them. The fluctuations in export proceeds, therefore, tended to be still wider.[22]

The major reasons for the instability in primary export markets are due, on the demand side, to cyclical fluctuations in output and income of industrial countries. The resulting booms and depression in industrial countries lead to violent fluctuations in primary export markets of under-developed countries. In recent years such unpredictable influences such as the Korean War, the Suez crisis, the atmosphere of "Cold War" and specific government policies in advanced countries relating to stock piles and the accumulation and reduction of surpluses, etc., have added to price instability in primary export markets and consequently fluctuations in export earnings of under-developed countries. Supply changes (drought, flood, etc., affecting the supply position of

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[22]GATT. "Trends in International Trade", A report by panel of experts, Geneva, 1958. p.44.

agricultural products) also contributed to instability in primary markets.

The violent price fluctuations in exports, in addition to affecting employment, also affect the balance of payments position causing harmful repercussions on capital development through the availability of foreign exchange for imports. These price fluctuations, through their effect on income and employment in the export sector and on government development expenditure, transmits its effects on other sectors of the economy.

Many developing countries rely heavily on export earnings of one or two commodities. This lack of diversification naturally tends to increase the fluctuations of their total export earnings. In many countries that have exports concentrated in one or two commodities, the foreign trade ratios are often high and export earnings account for up to 50 percent of the national income (Ceylon, Ghana and India, for example). These violent vaccilations in export earnings are likely to disrupt monetary instability in the economy and ignite strong inflationary and deflationary tendencies which may seriously disrupt planning for economic development.

4. TERMS OF TRADE

A trend towards worsening of terms of trade has been operating for the past half a century, causing an undermining of growth programs for today's less developed nations which

generally rely heavily on a small range of primary exports for foreign exchange earnings. The causes of this deterioration are associated with the differences in the distribution of the gains from increased productivity, diverse cyclical movements of primary produce and industrial prices and disparities in the rates of increase in demand for imports between the industrial and primary producing countries. The technical progress resulting in increased productivity has manifested itself in higher incomes through higher wages and profits, the technical progress in the case of food and raw materials production in under-developed countries has resulted in price reductions.[23] Industrial countries have, therefore, benefitted both from the higher productivity obtained through technical progress in manufacturing as well as increase in production of primary goods. As creditors also the industrial countries have gained in terms of repayments. The differential price movements between poor and rich countries have been accentuated by a relative decrease in demand for primary products and a relative increase in demand for industrial products. Besides, the persistence of agricultural surpluses in North America, the consequences of farm support policies, the technical progress resulting in economies in the

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[23A]. U.N. Department of Economic Affairs, Relative Prices of Exports and Imports of Under-developed Countires,1950, pp.13-24.

[23B]. Singer, H.W., "The Distribution of Gains between Investing and Borrowing Countries", American Economic Review, papers and proceedings, May 1950, pp.477-79.

use of raw materials, the discovery of synthetic substitutes, the low income elasticity of demand resulting in a secular decline in the demand for primary products have all led to the deterioration of terms of trade of primary countries and have even given rise to pessimism regarding long term terms of trade for primary products.

In the 20th century the poor countries have almost continuously suffered a secular deterioration in their commodity terms of trade.

> From the later part of the 19th century to the eve of the Second World War...there was a secular downward trend in the prices of primary goods relative to prices of manufactures goods. On an average, a given quantity of primary exports would pay at the end of this period, for only 60 percent of the quantity of manufactured goods which it could buy at the beginning of the period.[24]

The sharp upward movement of prices of several primary products during the Second World War and early post-war periods has created a belief that an improvement has occurred in the price relationship of primary goods vis-a-vis manufactured articles. But changes since 1948, however, were simply reflection of abnormal conditions caused by acute scarcity of supplies in the immediate post-war years and the Korean War which also caused considerable speculative activity and strategic stock piling.

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[24] United Nations, Department of Economic Affairs, Relative Prices of Exports and Imports of Under-developed Countries, 1949, p.72.

Since 1951 the primary producing countries have been experiencing significant downward trend in their terms of trade. The UNECAFE experts[25] feel that the fall in prices of primary products since 1951 is a corrective of the abnormal price trends that were witnessed in the late 1940's and early 1950's and is an indication of the downward trends in terms of trade of primary producing economies. We may conclude the discussion with an observation of G. Myrdal. He writes,

> With individual exceptions, the under-developed countries have had rather bad luck in the historical development of prices of their typical export articles, which have not on the whole, been the dynamic industrial raw materials, essential to modern industrial development.[26]

Myrdal's above observation is based on the United Nations' "Relative Prices" study as an adequate basis of generalisation.

Considering the general problem of development it will be seen that a sluggish rate of growth in demand for primary products coupled with increase in labour force and capital stock in under-developed countries, reliance on the exports of primary goods does not offer attractive opportunities. To push traditional exports in the face of an inelastic and more or less stationary demand would not be a promising line of development. Population in under-developed countries is

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[25]UNECAFE, Economic Survey, 1959.

[26]Myrdal, G. An International Economy, Harper, New York, 1956.

increasing at a much faster pace than the export demand for their primary products. Hence the diversification of the economy is required. But this does not mean contraction or abandonment of export of primary commodities which a country is well-suited to produce. To the extent there is an expansion of demand for such commodities there is even a *prima facie* case for increasing the traditional exports. Attempts may also be made to develop other agricultural products and miners for the export market. But to the extent that the growing labour resources cannot, with comparative advantage, be absorbed by the expansion of the traditional export sector industrialisation becomes logically necessary.[27]

Industrialisation has to be resorted to either for the export of simple manufactured goods or for meeting the increasing needs of home market. The resources of most under-developed countries do not permit them a comparative advantage in industries with a heavy base complex. Professor W. A. Lewis has stressed the point that the road to progress in poor densely populated areas, where labour is the most abundant factor in relation to capital and land, lies in the establishment of manufacturing industries producing for export to the mass markets of advanced countries. Similarly, the CATT experts regard it as,

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[27]Nurkse, Ragner, *op.cit.*, p.36.

> ...a natural economic development that relatively poor countries like India and Hong Kong should export cheap labour intensive manufacturers in order to import food stuffs like wheat from advanced countries as Australia, Canada and the United States which are rich in land capital.[28]

But it should be noted that the economic efficiency of illiterate and unskilled labour is very low. The creation of an industrial labour force is a task of formidable difficulty and requires enormous social overhead investment specially in education and health. The development of export industries also faces the lack of foreign demand, and restrictions imposed on them by advanced countries. Under-developed countries like Hong Kong and China have manifested the success of developing their potential comparative advantage in simple manufactured goods only to be faced with protective measures in industrial countries. Thus this pattern of development depends for its success on the adoption of a more liberal commercial policy in the industrial countries, the prospect of which does not appear very bright. Faced with these difficulties the under-developed countries embarking on industrial development may seek solutions in the output expansion for domestic consumption or seek markets in the under-developed world.

Industrialisation for domestic needs runs into difficulties from the very beginning. The difficulty lies in

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[28]Trends in International Trade. A report by a panel of experts, GATT, Geneva, October, 1958.

in the fact that there is not sufficient market for manufactured goods in under-developed countries since the real purchasing power of people in under-developed countries is low. Therefore, industrial development for domestic market requires a complementary advance on the farm front. It is difficult to push domestic industrial development in isolation. Hence Nurkse recommends balanced development "promoting increases in output that are diversified in accordance with domestic income elasticities of demand so as to provide markets for each other locally, in contrast to output expansion for export, which is specialised in accordance with international comparative advantage".[29]

But it should be noted that there are limits to output expansion. The minimum size of efficient plant is an important practical consideration. One promising approach to the problem of achieving diversification and efficient scale appears to be in creation of regional trade blocks among developing countries. The case for diversified output growth for domestic consumption cannot be confined to national limits. Manufacturing for home markets must include also production in these countries for exports to each others markets. If countries of Western Europe can combine their resources for development there is no reason why under-developed countries cannot pool their resources for development of their industries and agriculture, providing a market

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[29]Nurkse, Ragner, op.cit., p.44.

for each other. Developing countries are probably too closely tied to markets in industrially advanced countries and trade too little with each other. Enlarged regional markets, for industries selected for national specialisation within the region, might enable the early achievement of efficient scale in industries. The secretariat of the Economic Commissions for Latin America and Asia and the Far East have already recognised the importance of cooperation between the regional countries of development is to proceed.[30] The authors of the report proposed reciprocal trade liberalisation and other measures to encourage trade between the countries of region.

Industrial production for home consumption would mean import substitution. The under-developed countries who are unable to increase export earnings sufficiently, will be able to increase their imports of capital equipment by cutting down their imports of consumption goods. In this way they will be able to convert their own savings into capital goods even if they receive no capital funds from abroad. When industrialisation for home market has taken firm ground it becomes easier to develop ways and means of producing the "progressive" products to be exported to the mass markets of high income countries without displacing any

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[30] The UNECLA, The American Common Market, 1959. The UNECAFE, Regional Economic Cooperation, Economic Survey of Asia and Far East, 1960.

existing producers there.

We have so far analysed the relationship between international trade and development in general terms. Under-developed countries form a diverse economic group and, therefore, what applies to the group as a whole does not necessarily apply to any individual country. This study aims at studying the above problems with reference to India and attempts an empirical verification of some of the existing theories with regard to international trade and development.

In the following chapters we shall examine the extent to which international trade has been "engine of growth" of India in the planning era and consider the changes necessary in the character and composition of her trade to make it a more valuable aid to her future development.

CHAPTER II

AN ANALYSIS OF INDIA'S EXPORTS

1. TRENDS IN EXPORTS

To live beyond the mere subsistence level requires a range of commodities beyond those available in even the largest and most generously endowed nation. The range of needed imports is obviously greater for a nation engaged in ambitious programs of economic development. Economists generally agree that for an under-developed country like India to achieve and sustain a program of economic growth requires a deliberate and intensive drive to mobilise a judicious mix of factors such as productive capital, domestic saving and expansion of the export sector and the opening up of foreign markets. Most economists mark capital formation as the most critical factor. Foreign trade must then receive the most careful attention not only to sustain existing living standards but to obtain at an accelerated rate capital goods, and the strategic raw material and technical know-how necessary to foster growth in agriculture and industry. But unfortunately since the beginning of economic planning in India in 1951, foreign trade has turned out to be a major constraint on economic development. Since the last decade imports have been running at a much faster rate, while the export earnings have remained almost stagnant. The subject has been examined by numerous expert bodies but

in spite of several studies by experts the problem still defies solution and the ugly foreign exchange crisis appears again and again, sometime in menacing forms resulting in import cuts to the detriment of the growth of agriculture and industry. The development of agriculture and industry requires initially a considerable increase in imports of machinery and other capital goods for this could not be produced at home and the basic industries which were constructed and started producing, there arose increased requirements for increased imports of various raw materials and also of further import of machinery to continue the process of industrialisation. This laid a heavy burden on the balance of payments. In the early stages of development it was reasonable to argue that the balance of payments problem could be solved by drawing on external capital through the liquidation of external resources or recepits of loans or grants. As a long run policy, however, it is clearly undesirable that India should continue to depend for her development program on a continued inflow of capital, even if there were reasonable chances of such an inflow from abroad. India must depend for its foreign exchange needs on its own export earnings. The lack of foreign exchange is a major constraint on India's economic development. This is for the obvious reason that there is, at the moment, no perfect or even approximate domestic substitute for many

of the foreign products India needs. India now has and will continue to have many specific needs for imports. According to the official Indian development design, the country's needs for imports will be heavier in the coming years and with all the emphasis on potential import savings, the total import bill of India will continue to grow if development by itself is to be a continuing process. Sooner or later India must increase its exports substantially. Unfortunately, India's exports earnings have remained stubbornly unchanged since the last decade. It is now widely recognized that there are important factors at work in industrial countries, which are preventing a fast enough increase in export demand for the products of under-developed countries. Some of these as noted in the earlier chapter, as listed by Nurkse,[1] are a shift in the composition of industrial output in advanced countries from a high raw material content of the finished output to those with a low content, low income elasticity of consumer demand for many agricultural commodities, technological advancements resulting in economy in the use of industrial raw materials, displacement of natural raw materials through the use of synthetic substitutes and the protection given to industries

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[1] Nurkse, Ragner, Pattern of Trade and Development, Basil Blackwell, Oxford, 1961.

in advanced countries. This analysis is equally applicable to India.[2] Consequently if the rate of growth in under-developed countries was made dependent on the rate of growth of foreign demand for their exports, the pace of their development must be painfully slow. Hence international trade cannot be an "engine of growth" and a better strategy of growth of under-developed countries would be to lay emphasis on "balanced growth" - a coordinated development of local industries in accordance with the growth and structure of internal demand. As far as India is concerned this view has been supported by many Indian economists as well as interested foreign observers.[3] Most economists see it difficult to secure a sizeable increase in India's traditional exports. Of course they see good prospects for substantial growth in the exports of iron ore, light

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[2] Dr.S.J. Patel is a leading exponent of the view that India's stagnant export receipts can be adequately explained in terms of stagnant world demand for Indian exports due to reasons as listed by Nurkse. See his article "Export prospects and Economic Growth-India", Economic Journal, September, 1959, pp.490-506. His critics Miss Anne Krueger and Professor P.T. Bauer, however, argue that "the past-behaviour of Indian exports can be more than adequately explained by the policies of the Government of India and the Planning Commission combined with internal demand supply factors within India" - See Anne Krueger's Comment on Patel's article in Economic Journal, June 1961, pp.436-442.

[3] See: John P. Lewis, Quiet crisis in India, The Brookings Institution, Washington, 1962. Reddaway: Indian Economic Development, George Allen and Unwin Ltd., London, 1962. Malenbaum: Prospects for Indian Development, George Allen and Unwin Ltd., London, 1962.

engineering goods and other minerals but because of a variety of considerations concerning the cost, transport and marketing, successful battle appears non-feasible at the moment. Among the traditional exports, Tea, which is India's biggest is facing great difficulty in the world market, partly arising from competition from other countries. Consequently, it is unlikely that India can expect her earnings from tea to expand more rapidly than the rate at which the demand for tea in the world market grows. In the case of jute manufactures, the second great Indian export, the market has been static because of technical developments resulting in paper, plastic and other rival packing materials.

> Whilst one should not regard selling efforts by manufacturers as useless and whilst there is scope for reduction in the protection given to manufacturing industries in western countries (including U.K.), nevertheless, a realistic view must be taken that the likelihood of a big expansion in sale is less than in the case of tea and an absolute decline will not be very surprising.[4]

As regards textiles, they argue that the simple political fact to be recognised is that in west the governments have been persuaded to keep out the products of "Cheap Asiatic labour". Besides, India is not the only country. Japan has long been in the arena and enjoys the advantages of established connections and experience. Hong Kong has also shown a

[4] Op.cit., Reddaway, p.27.

remarkable capacity to produce and sell cheap in large quantities. Besides, many under-developed countries which at present import from India are developing their own mills. Consequently, the prospects for expansion of India's exports are bleak. As for India's exports of hides and skins they argue that synthetic products have been developed in the advanced countries. For oils and minerals substitutes have been discovered. "On the whole significant changes in exports will have to await the general expansion and diversification of the economy".[5] Similarily Lewis observes,

> Several of India's traditional commodity exports such as Jute, tea appear sluggish, the country can expect, to say the least, no exportable surplus of staple foods, the export market for its minerals and other new materials constitute highly volatile, unrealistic basis upon which to rest the internal development program.[6]

Consequently often far reaching policy recommendations are being made for the strategy of Indian economic development on the assumption of stagnant exports - as if the stagnation of India's export was an inescapable phenomenon. This "export fatalism" has led thinkers to make recommendations as to output and investment policy ranging from the development of capital good and machine tool industries to consumer goods industries and a variety of industrial outputs for domestic use - all with a view to reducing dependence on

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[5] _Op.Cit._ Malenbaum, p.97.

[6] _Op.Cit._ Lewis, p.40.

imports. The protogonists of the heavy industries often make a very telling argument: India has a mountain of highest grade iron ore. So why not smelt iron and steel and fabricate it. Some economists have cited the experience of the U.S.S.R. and Czechoslovakia and other centrally planned economies in support of a policy of priority for domestic capital goods industries.

The acceptance of Nurkse's thesis with regard to under-developed countries in general and the views of Reddaway, Malenbaum, Lewis and Patel with regard to India in particular does not imply that the foreign trade sector has no important part to play in development planning. Whatever be the development and output strategy - whether "balanced growth" or otherwise, the practical problem, that the initiation of the process of "balanced growth" or development of heavy and capital goods industries itself involves a growth in import requirements, has to be recognised. This is due to the fact that the available stock of capital and other resource inputs that India commands lacks a sufficient degree of malleability and therefore, cannot be readily transformed into a structure of output determined by development strategy. Hence import needs will continue to present themselves in the coming years. Import substitution may be physically possible only upto a limited extent. Hence if, therefore, the growth of the

economy is not to be hampered due to the frequent emergence of foreign exchange crises, leading to cuts in imports and investment, export-promoting activities have to be built into the strategy of economic development from the very start.

Whatever be the development strategy, the international trade as supplier of material means indispensable for growth is likely to retain its importance for long years for India in its quest for higher rate of growth. Mere size alone will be an inadequate measure of the contribution of the foreign trade to India's development. As can be seen from the following table, exports have been fluctuating between 4 and 8 percent of India's national income. However, in terms of its contribution to development program, foreign trade is playing a much more important role than is depicted by the following figures:

TABLE 2.1

Exports and Imports in Relation to India's National Income (Percentage Distribution)

	1951	1952	1953	1954	1955	1956	1957	1958
Exports	7.9	6.3	5.1	5.9	6.1	5.5	5.8	4.6
Imports	8.6	8.2	5.5	6.4	6.7	7.3	9.4	7.0

	1959	1960	1961	1962	1963
Exports	4.8	4.5	4.5	4.4	4.6
Imports	7.3	7.7	7.3	7.3	6.3

Source: 1. Statistical Year Book, United Nations, New York.
2. Economic Survey of Asia and Far East, U.N. Bankok.

In the present stage of its development, the Indian economy is unable to produce by itself all the capital goods and raw material needed for industry and agriculture has of necessity to rely on imported supplies. The procurement of these goods from abroad means that the development program is not held up by bottlenecks in the local sources of supply. Imports are therefore, called upon to provide some of the most vital and strategic goods for industry and agriculture and their procurement has not only added to the availability of investible resources but has also added an element of flexibility to India's planning efforts. Import bill has, however, been paid either by current export receipts or by liquidation of external reserves or by receipts of loans and grants. Withdrawal of reserves is not an endless process and it has already been carried too far. The repayment of capital and interest on foreign loans already received is estimated by the planning commission to be an increasing burden in coming years. In the long run, therefore, the import capacity of the economy and other benefits of international trade are crucially dependent on its export earnings.

The developments that have taken place in India's foreign trade since the last decade are shown in Table 2.2 below.

TABLE 2.2

India's Exports, Imports and Balance
(Value in Million Rupees)

Period	Imports	Exports	Balance of Trade	% Change Imports Annual Increment	% Change Imports Accumulative Increment	% Change Exports Annual Increment	% Change Exports Accumulative Increment
1951	8,544	7,836	-708				
1952	8,088	6,192	-1,896	-5.3		-21.0	
1953	5,748	5,316	-432	-28.9	-34.2	-14.1	-35.1
1954	6,180	5,628	-552	7.5	-26.7	5.9	-29.2
1955	6,732	6,072	-660	8.9	-17.8	7.9	-21.3
1956	8,220	6,192	-2,028	22.1	4.3	2.0	-19.3
1957	10,680	6,564	-4,116	29.9	34.2	6.0	-13.3
1958	8,784	5,820	-2,964	-17.8	16.4	-11.3	-24.6
1959	9,456	6,216	-3,240	7.7	24.1	6.8	-17.8
1960	10,920	6,336	-3,684	15.5	39.6	1.9	-15.9
1961	10,764	6,600	-4,164	-1.4	38.2	4.2	-11.7
1962	11,196	6,708	-4,488	4.0	42.2	1.6	-10.1
1963	11,424	7,896	-3,528	2.0	44.2	17.7	7.6
1964	10,884	8,352	-2,532	-4.7	39.5	5.8	13.4
Annual Average			-2,499.4	3.04		1.03	-

Source: Economic Survey of Asia and Far East, U.N. Bankok.

The above table suggests that value of exports have registered no upward trend since 1951 except during 1963 and 1964 and that too by a very nominal amount. As against this while there has been slight downward trend in imports up to 1956, they have continuously grown since then. Consequently deficit in balance of trade has also continuously increased since 1956.

The average annual value of exports increased from R_s 6,208.8 million during the five year period 1951-55 to R_s 6,225.6 million in the following five year period (1956-60) and during the period of 1961-64, the exports averaged R_s 7,389 million a year. As against the average annual value of imports increased from R_s 7,058.4 million during the five year period 1951-55 to R_s 9,612 million in the following five year period (1956-60) and during the period of 1961-64, the average import value was at R_s 11,067 million a year.

The lagging behind of export receipts is also clearly apparent if we compare the annual average percentage change of exports and imports. As can be seen from the table that exports increased at an annual rate of 1.03 percent whereas imports increased at the annual rate of 3.04 percent. The same tendency is revealed by accumulative increments of exports and imports during the period under study.

The stagnation of India's export-earnings will be well appreciated from the following table which shows that during

the same period value of world exports has increased much faster than the Indian receipts.

TABLE 2.3

Exports: India and World

1958 = 100

Period	Exports India (Mill.U.S.$)	Exports World (Mill.U.S.$)	India Total Value Index	World Total Value Index
1951	1,646	82,400	132.63	76.29
1952	1,299	80,600	104.67	74.62
1953	1,130	82,600	91.05	76.48
1954	1,193	86,100	96.13	79.72
1955	1,288	93,700	103.78	86.75
1956	1,317	103,800	106.12	96.11
1957	1,403	111,800	113.05	103.51
1958	1,241	108,000	100.00	100.00
1959	1,329	115,300	107.09	106.75
1960	1,367	127,700	110.15	118.24
1961	1,429	133,700	115.14	123.79
1962	1,447	141,200	116.59	130.74
1963	1,657	153,700	133.52	142.31
1964	1,748	172,200	140.85	159.44

Source: Statistical Year Books of various years, United Nations, N.Y.

A comparison of trends in the value of India's exports with those of world exports brings out the fact that while India's exports in 1964 were only 6 percent higher than in 1951, in the same period the value of world exports increased by 109 percent. As a consequence India's share of world exports fell from slightly less than 2 percent in 1951 to 1 percent in 1964 as is revealed by Table 2.4 on average world exports increased 81.7 percent faster than Indian exports.

The same tendency is revealed if we compare the total value indexes of India and world exports.

If we view Indian exports as percentage of world exports, we see the same declining performance of Indian exports.

TABLE 2.4

Indian Exports as Percentage of World Exports

Period	Indian Exports (Million $)	World Exports (Million $)	Indian Exports as Percentage of World Exports
1951	1,646	82,400	1.99
1952	1,299	80,600	1.61
1953	1,130	82,600	1.36
1954	1,193	86,100	1.38
1955	1,288	93,700	1.37
1956	1,317	103,800	1.26
1957	1,403	111,800	1.25
1958	1,241	108,300	1.14
1959	1,329	115,000	1.15
1960	1,367	127,700	1.07
1961	1,429	133,700	1.06
1962	1,447	141,200	1.01
1963	1,657	153,700	1.07
1964	1,748	172,200	1.01

Source: Year Book of International Trade Statistics of various years, United Nations, New York.

To a certain extent stagnant Indian export earnings since 1951 are explainable in the fall in export prices after 1952 from their peak levels when Korean war demands had registered their full impact in 1951. However, the picture is not much changed even if we ignore the price changes. In terms of volume too there is no appreciable upward trend in Indian exports as can be seen from the following table.

TABLE 2.5

Volume Index of Exports: India and World
(1958 = 100)

Period	India	World
1951	N.A.	74
1952	93	73
1953	93	78
1954	97	82
1955	106	89
1956	102	97
1957	110	102
1958	100	100
1959	107	107
1960	101	118
1961	105	124
1962	112	131
1963	126	141
1964	136	155

Source: United Nations: Statistical Year Books.

The sluggish performance will be well appreciated if we examine them against the background of the fact that during the same period world exports rose rapidly in terms of volume too. This fact is brought out by the above table which shows that world exports have simply by-passed India. While India exports in 1964 were 43 percent higher than in 1952 and 36 percent higher than in 1958, the volume of world exports in 1964 went up by 82 percent as compared to 1952 and 55 percent over the 1958 figure.

The poor performance of India's exports since 1951 is equally evident if we consider the contribution of the export

sector of the economy to the national income.

TABLE 2.6

Exports as Percentage of National Income

Period	Total Exports (Million R_s)	National Income (Million R_s)	Exports as % of N.I.
1951	7,836	99,700	7.9
1952	6,192	98,200	6.3
1953	5,316	104,800	5.1
1954	5,628	96,100	5.9
1955	6,072	99,800	6.1
1956	6,192	113,100	5.5
1957	6,564	113,900	5.8
1958	5,820	126,000	4.6
1959	6,216	129,500	4.8
1960	6,336	141,600	4.5
1961	6,600	148,000	4.5
1962	6,708	154,000	4.4
1963	7,896	172,000	4.6

Source: Statistical Year Book of various years, United Nations, New York and Economic Survey of Asia and Far East, U.N., Bankok.

It will be seen from the above table that national income has been continuously rising since 1954, but the contribution of the export sector has been either almost stagnant or declining. It means that the export sector has failed to keep pace with the growth of the economy.

The above developments have created a basic imbalance between her exports and imports, a situation which efforts at export promotion and continued import restrictions have failed to alter significantly. The following table shows that the export earnings financed 88 percent of India's

total imports during the first plan period. During the second plan period the proportion of imports financed by export earnings dwindled to 64.8 percent and during the third plan for a period of four years (1961-64), in spite of vigorous export promotion efforts and import restrictions, the performance slightly improved and the export receipts could cover 66.8 percent of the total import bill.

TABLE 2.7

Average Annual Value of Indian Exports - First, Second and Third Five Year Plans

	First Plan (1951-55)	Second Plan (1956-60)	Third Plan (1961-64)
Exports	6,208.8	6,225.6	7,389.0
Imports	7,058.4	9,612.0	11,067.0
Export-Import Ratio	88.0%	64.8%	66.8%

Source: Table 2.1

Thus the mounting import requirements had to be financed either by withdrawal from India's foreign exchange reserves accumulated during the Second World War or external assistance from friendly countries and international organisations. But in spite of this assistance stringent import controls have had to be imposed resulting in restricting the supply of components and raw materials which has led

to idle capacity in the industrial sector of the economy. Besides, the country's foreign exchange reserves having been nearly exhausted the Fourth Plan has started under conditions of almost no sterling balances to depend upon to cushion the effects of an unexpected rise in imports or fall in exports. The economy, therefore, faces a situation where even a small fall in export earnings or in the expected amount of foreign aid can have very unfavourable effects on the economy.

2. DIRECTION OF EXPORTS (Geographical Distribution)

Tables 2.8 and 2.9 below show that about 60 percent of India's total exports are destined to North America and Western Europe. This heavy dependence on the markets of the West and North America causes the domestic economy to be highly sensitive to pace of economic activity in these areas. It will be seen from Table 2.8 that India's exports to North and Central America have been fluctuating between 18 and 22 percent and have registered a decline. In the period 1951-53, India's exports stood at 22.9 percent and in 1960-62 they declined to 20.9 percent. In this group of countries India's main export market is the United States. Traditionally India's main export commodities have been jute manufactures, tea and primary agricultural products and other raw materials. The discovery of new substitutes for jute manufactures and

TABLE 2.8

Geographical Distribution of Exports

(Percentage Distribution)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
						(Million Dollars)						
Total Exports of which to	1645.8	1298.8	1116.2	1182.3	1276.5	1251.1	1350.0	1215.8	1307.8	1322.5	1411.0	1414.9
1. North and Central America	22.8	23.8	22.2	19.6	19.1	18.6	24.1	20.2	18.5	20.0	21.5	21.2
2. South America	4.0	2.5	4.8	3.2	2.8	1.8	2.3	2.2	1.9	1.5	1.1	2.1
3. Western Europe (including U.K.)	35.9	30.5	36.8	41.4	39.7	41.8	35.4	38.2	38.6	38.2	36.0	34.6
4. East Europe and U.S.S.R.	1.2	.6	.7	.9	.7	2.9	3.7	5.3	6.9	7.2	8.4	11.8
5. Middle East	5.3	6.9	6.9	7.9	8.8	8.6	8.9	8.5	8.7	8.3	8.5	8.1
6. Other Africa	4.1	5.0	5.0	5.8	5.0	4.6	4.7	4.0	3.1	3.3	4.3	3.7
7. Other Asia	19.7	26.3	20.0	16.3	18.7	17.0	16.0	16.8	18.3	16.7	16.7	14.6
8. Oceania	7.0	4.4	3.6	4.9	5.2	4.7	4.9	4.8	4.0	4.8	3.5	3.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Direction of International Trade, United Nations, New York.

TABLE 2.9

Geographical Distribution of Exports
Percentage Distribution: Yearly Average

Period	1951-53	1954-56	1957-59	1960-62
Total Exports of	(Million Dollars)			
which to	1,353.6	1,236.6	1,291.2	1,382.8
1. North and Central America	22.9	19.1	20.9	20.9
2. South America	3.8	2.6	2.1	1.6
3. Western Europe (including U.K.)	34.4	41.0	37.4	36.2
4. East Europe and U.S.S.R.	.8	1.5	5.3	9.1
5. Middle East	6.4	8.5	8.7	8.3
6. Other Africa	4.7	5.1	4.0	3.8
7. Other Asia	22.0	17.3	17.0	16.0
8. Oceania	5.0	4.9	4.6	4.1
Total	100.0	100.0	100.0	100.0

Source: Table 2.8

other goods. Changes in technology, methods of marketing and distribution and changes in import policy have all combined together to hit hard the Indian exports and this explains to a large extent the decline in India's exports. South America has never been an important export market for India, nevertheless, India has been continuously loosing this market and in 1960-62 this market accounted for only 1.6 percent of total Indian exports as compared to 3.8 percent in 1951-53. Western Europe is the largest export market for India and here India has improved her position slightly. In this area India's exports went up from 34.4 percent in 1951-53 to 36.2 percent in 1960-62. This increase has been mainly due to commonwealth preference to Indian exports to U.K. and rapid industrialisation of Germany requiring agricultural and industrial raw materials in increasing quantity. India's export performance has been remarkable in the markets of East Europe and U.S.S.R. and since 1956 her exports have been continuously growing. While in 1951, her exports to these centrally planned countries stood at 1.2 percent of her total trade, the figure rose to 11.8 percent in 1962. To a large extent this increase has been due to bilateral trade agreements between India and these countries. India's exports to Middle East Countries have also been continuously rising, showing minor fluctuations within narrow limits. It accounted for 6.4 percent of India's total exports in 1951-53 and gradually rose to 8.3 percent in 1960-62. This rise is reflected

through the export of "new manufactures" developed in recent years. In other Africa, India has not been able to maintain the 1951-53 position. Up to about 1954-56, her exports to this region was on the increase but since then have been declining and in 1960-62 period Africa's percentage share slipped to 3.8 percent from 4.7 percent in 1951-53. In recent years Africa has developed cotton textiles and other industries which they have traditionally imported from India. The growth of these industries has naturally affected India. Besides, in the case of jute manufactures competition from Pakistan has also contributed to this situation. In other Asia, India has continuously lost ground. Asia accounted for 22 percent of Indian exports in 1951-53, but this figure slipped down to 16 percent in 1960-62. This decline can be explained in terms of strained political relations with Pakistan, China and Indonesia, the development of industries in Asia and the tough competition from Japan which India could not stand because of political and economic reasons. In Oceania too India has continously lost ground, her exports falling from 5.0 percent in 1951-53 to 4.1 percent in 1960-62. Traditionally India's exports to Oceania have been primary products, cotton textiles and jute manufactures. The use of synthetic and substitute products are in part responsible for this decline.

3. DIRECTION OF EXPORTS BY MAJOR COUNTRIES

Tables 2.10 and 2.11 bring out the developments in the direction of India's exports to individual countries which provide major markets for India's export goods. It will be seen from Tables 2.10 and 2.11 that India's exports to most of the countries have either remained stagnant or decline. Only in a few countries India has successfully improved to make major gains or held her position. Among the North American countries, India's most important export market is the United States and here India's exports have been fluctuating between 14 and 19 percent and during the period 1962-64 India's exports declined as compared to 1951-53 period. India's most important export commodities to the United States have traditionally been jute manufactures, tea and some agricultural products and crude material. These exports have been hit hard partly due to change in policies and tastes on the part of the United States resulting in a shift in import demand and partly because of technological advancements in methods of production and distribution resulting in discovery of substitutes, synthetic goods and economies in the use of raw material. Canada is not a very important export market for India. Nevertheless, India has not only maintained her 1951-53 position, but improved over it. U.K. has traditionally been the most important export market of India and here India has successfully maintained her position,

TABLE 2.10

Direction of Exports: By Major Countries

(Percentage Distribution)

Period	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
						(Million Dollars)						
Total Exports of which to	1645.8	1298.8	1116.2	1182.3	1276.5	1251.1	1350.0	1215.8	1307.8	1322.5	1411.0	1414.9
1. U.S.A.	18.2	19.4	18.3	15.6	15.2	14.7	16.8	16.1	15.3	17.5	17.5	16.8
2. Canada	2.2	2.0	2.6	2.6	2.6	2.6	2.1	2.5	2.4	2.3	2.6	3.3
3. U.K.	25.2	20.4	28.1	31.5	27.6	30.9	25.0	28.7	27.6	27.5	24.6	23.5
4. France	1.8	0.9	1.0	0.9	1.1	1.1	1.5	1.2	1.3	1.3	1.2	1.2
5. West Germany	-	2.0	1.9	2.6	2.6	2.4	2.5	2.5	3.1	3.1	3.2	2.3
6. Italy	2.0	1.7	1.0	1.0	1.2	1.5	1.1	0.9	0.9	1.3	1.4	1.3
7. Netherland	1.2	1.7	1.2	1.8	2.9	2.0	1.3	1.1	1.4	1.1	1.4	1.3
8. Belgium Luxemberg	1.3	1.0	1.0	0.8	1.6	1.2	1.0	0.8	0.8	0.8	1.0	0.7
9. U.S.S.R.	0.8	0.3	-	0.5	0.4	2.1	2.7	4.0	4.9	4.7	4.9	5.3
10. Czechoslovakia	0.2	0.1	0.5	0.4	0.2	0.5	0.6	0.7	0.7	0.9	1.3	1.4
11. Egypt	0.7	1.0	0.9	1.1	1.6	1.9	1.8	1.5	1.4	2.2	1.9	2.0
12. Ceylon	2.3	3.2	3.4	3.3	3.3	3.3	2.6	3.5	3.6	2.9	2.5	2.2
13. Pakistan	4.1	7.5	1.4	1.8	1.4	1.3	1.0	1.2	1.0	1.6	1.4	1.4
14. Japan	2.3	4.1	5.1	2.9	4.3	5.0	4.0	4.5	5.5	5.4	6.1	4.7
15. Australia	5.9	3.8	3.0	4.0	4.3	3.8	3.8	3.7	3.1	3.4	2.3	2.8
16. New Zealand	1.0	0.5	0.7	0.7	0.8	0.8	1.0	1.0	0.8	1.2	1.0	1.0
TOTAL	69.2	69.6	70.1	71.5	71.1	75.1	68.8	73.9	73.8	77.2	74.3	71.2

Source: Direction of International Trade, United Nations, New York.

TABLE 2.11

Direction of Exports: By Major Countries
(Percentage Distribution: Yearly Averages)

Period	1951-53	1954-56	1957-59	1960-62
Total Exports of which to	(Million Dollars) 1,353.6	1,236.6	1,291.2	1,382.8
1. U.S.A.	18.6	15.2	16.1	17.3
2. Canada	2.3	2.6	2.3	2.7
3. U.K.	24.6	30.0	27.1	25.2
4. France	1.2	1.0	1.3	1.2
5. West Germany	1.3	2.5	2.7	2.9
6. Italy	1.6	1.2	1.0	1.3
7. Netherland	1.4	2.2	1.3	1.3
8. Belgium Luxemberg	1.1	1.2	.9	.8
9. U.S.S.R.	.4	1.0	3.9	5.0
10. Czechoslovakia	.3	.4	.6	1.2
11. Egypt	.8	1.6	1.6	2.0
12. Ceylon	3.0	3.3	3.2	2.5
13. Pakistan	4.3	1.5	1.1	1.5
14. Japan	3.8	4.1	4.7	5.4
15. Australia	4.2	4.0	3.5	2.8
16. New Zealand	.7	.8	.9	1.1
Total	69.6	72.6	72.2	74.2

Source: Table 2.10

thanks to commonwealth preference. The U.K. accounted for 25.2 percent of the total Indian exports in 1951 and for the whole period 1951-62 maintained this percentage. India's exports stood at the peak level of 30 percent during 1954-56 and since then exports showed somewhat declining tendency. However, still the 1960-62 percentage showed an improvement over 1951-53. India's main export commodities to the U.K. are cotton textiles, tea, tobacco, jute manufactures and some primary products. India's position in the U.K. would have been much better but for Pakistani jute manufactures and Ceylonese tea which also receive preferential commonwealth treatment. Among other Europe, next important market for India's exports goods is Western Germany. The main exports to Germany are crude materials which she required for her industrialisation. During 1951-53, Germany accounted for 1.3 percent of total Indian exports and during 1960-62 her share rose to 2.9 percent. Other West European countries, namely, France, Italy, Netherland, Belgium, Luxumberg are not important markets for Indian exports and Indian exports have been fluctuating within narrow limits and have shown either a declining or stagnant tendency throughout the period under study. The reason why India could not penetrate into these markets lies in the economic policies pursued by these countries resulting in discrimination against Indian goods. Indian exports to U.S.S.R. have shown a remarkable growth. During the period

1951-53, U.S.S.R. shared only .4 percent of total Indian exports but by 1960-62, U.S.S.R.'s share rose to 5.0 percent. Most of the exports to U.S.S.R. are agricultural products like coffee, tea, spices, tobacco, besides Jute, leather and coir manufactures, drugs, etc. Similarily trade with Czechoslovakia, though accounting for a very minor percentage of Indian exports has also shown an upward trend rising from .8 percent during 1951-53 to 2.0 percent during 1960-62. The explanation for this growth of Indian exports to these countries lies in the bilateral trade agreements between India and these countries entered into from time to time. Indian exports to Ceylone have not fared well declining from 3.0 percent during 1951-53 to 2.5 percent in 1962-64. Ceylone has been running in deficit in trade with India for a long time and has imposed strict restrictions on imports from India. With respect to Pakistan falling percentage of Indian exports are to be blamed to strained political relations between the two countries. Among the Asian countries, Japan is probably the only major market where Indian exports have increased. The main exports to Japan are agricultural products and minerals, raw materials which Japan requires for her enlarging export industries. Though small, Egypt has turned out to be an enlarging market for Indian exports and from .8 percent during 1951-53, her percentage share of Indian exports rose to 2.0 percent during 1960-62. Egypt provides a very encouraging market for India's

"new manufactures goods" which India has developed in recent years. Turning to Oceania, India has lost ground in Australia over the period under study, whereas in New Zealand very marginal gains have been made. Australia's percentage share declined from 4.2 in 1951-53 to 2.8 in 1962-64, whereas over the same period New Zealand's rose from .7 percent to 1.1 percent. In the case of Australia the same factors as in U.S.A. operated to the detriment of Indian exports.

4. COMPOSITION OF EXPORTS BY COMMODITY GROUPS

Table 2.12 below gives composition of exports by commodity group. Table 2.13 summarises Table 2.12. The most important group of Indian exports is food averaging 29 percent of total exports in the period under consideration. Under this group most important commodities are tea, spices, coffee and cashew kernals. Though earnings from tea, which is India's second leading export commodity have remained almost stagnant partly due to stagnant demand in advanced countries and partly due to faulty policies of the Government of India, earnings from other commodities of the group, particularly coffee and cashew kernals have registered a rise. Table 2.12 shows that earnings from food group have continuously grown from 1951 with small ups and downs. In 1951 they accounted for 19.2 percent of total export receipts and in 1964 they were contributing 30.8 percent to total foreign exchange earnings. During the period 1951-53, this group of commodities

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TABLE 2.12

Value of Exports by Commodity Groups (Million Rupees)

Period / Commodity Group	1951 Value	1951 % of Total	1952 Value	1952 % of Total	1953 Value	1953 % of Total	1954 Value	1954 % of Total
1. Food	1502.4	19.2	1340.4	21.6	1424.4	26.8	1737.6	30.9
2. Crude material inedible except fuel	1198.8	15.3	1065.6	17.2	1035.6	19.5	878.4	15.5
3. Vegetable oils	330.0	4.2	273.6	4.4	94.8	1.8	88.8	1.6
4. Chemicals	80.4	1.0	73.2	1.2	52.8	1.0	56.4	1.0
5. Leather manufactures	334.4	4.3	177.6	2.9	254.4	4.8	218.4	4.0
6. Cotton Yarn fabrics	940.8	12.0	724.8	11.7	637.2	12.0	716.4	12.7
7. Jute yarn fabrics	2402.4	30.6	1633.2	26.4	1104.0	20.7	1214.4	21.6
8. Other Manufactured goods	421.2	5.4	348.0	5.6	370.8	7.0	351.6	6.2
9. Miscellaneous	625.2	8.0	555.6	9.0	342.0	6.4	366.0	6.5
TOTAL	7836.0	100.0	6192.0	100.0	5316.0	100.0	5628.0	100.0

Period / Commodity Group	1955 Value	1955 % of Total	1956 Value	1956 % of Total	1957 Value	1957 % of Total	1958 Value	1958 % of Total	1959 Value	1959 % of Total	1960 Value	1960 % of Total	1961 Value	1961 % of Total	19[illegible] Value
1. Food	1574.4	25.9	1891.2	30.6	1791.6	27.3	1923.6	33.1	1930.8	30.5	2150.4	32.6	2150.4	32.6	2239.
2. Crude material inedible except fuel	1179.6	19.4	1010.4	16.3	1245.6	19.0	1021.2	17.5	1172.4	18.9	1111.2	17.5	1182.0	17.9	1100.
3. Vegetable oils	374.4	6.2	208.8	3.4	114.0	1.7	74.4	1.3	139.2	2.2	99.6	1.6	49.2	.7	94.
4. Chemicals	49.2	.8	54.0	.9	55.2	.8	44.4	.8	49.2	.8	69.6	1.1	79.2	1.2	74
5. Leather manufactures	228.0	3.8	224.4	3.6	217.2	3.3	153.6	2.6	288.0	4.6	258.0	4.1	261.6	4.0	228
6. Cotton Yarn fabrics	636.0	10.5	622.8	10.0	685.4	10.4	526.8	9.1	661.2	10.6	628.8	9.9	535.2	8.1	531
7. Jute yarn fabrics	1234.8	20.3	1135.2	18.3	595.2	9.1	595.2	10.2	666.0	10.7	748.8	11.8	744.0	11.3	976
8. Other Manufactured goods	375.6	6.2	370.8	6.0	1316.4	20.1	973.2	16.7	902.4	14.6	1045.2	16.5	1300.8	19.7	1034
9. Miscellaneous	420.0	6.9	674.4	10.9	542.4	8.3	507.6	8.7	396.0	6.4	444.0	7.0	297.6	4.5	428
TOTAL	6072.0	100.0	6192.0	100.0	6564.0	100.0	5820.0	100.0	6216.0	100.0	6336.0	100.0	6600.0	100.0	6708

Source: Economic Commission for Asia and the Far East, United Nations, Bankok

1954		1955		1956		1957		1958		1959		1960		1961		1962		1963		1964		Average	
alue	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total
737.6	30.9	1574.4	25.9	1891.2	30.6	1791.6	27.3	1923.6	33.1	1930.8	30.5	2150.4	32.6	2150.4	32.6	2239.2	33.4	2556.0	32.4	2570.4	30.8	1896.1	29.0
878.4	15.5	1179.6	19.4	1010.4	16.3	1245.6	19.0	1021.2	17.5	1172.4	18.9	1111.2	17.5	1182.0	17.9	1100.4	16.4	1269.6	16.1	1388.4	16.6	1333.0	17.4
88.8	1.6	374.4	6.2	208.8	3.4	114.0	1.7	74.4	1.3	139.2	2.2	99.6	1.6	49.2	.7	94.8	1.4	175.2	2.2	139.2	1.7	161.1	2.4
56.4	1.0	49.2	.8	54.0	.9	55.2	.8	44.4	.8	49.2	.8	69.6	1.1	79.2	1.2	74.4	1.1	70.8	.9	88.8	1.1	64.1	1.0
218.4	4.0	228.0	3.8	224.4	3.6	217.2	3.3	153.6	2.6	288.0	4.6	258.0	4.1	261.6	4.0	228.0	3.4	253.2	3.2	274.8	3.3	240.8	3.7
716.4	12.7	636.0	10.5	622.8	10.0	685.4	10.4	526.8	9.1	661.2	10.6	628.8	9.9	535.2	8.1	531.6	7.9	554.4	7.0	632.4	7.6	645.3	10.0
214.4	21.6	1234.8	20.3	1135.2	18.3	595.2	9.1	595.2	10.2	666.0	10.7	748.8	11.8	744.0	11.3	976.8	14.6	1084.8	13.7	1110.4	13.3	1088.9	16.6
351.6	6.2	375.6	6.2	370.8	6.0	1316.4	20.1	973.2	16.7	902.4	14.6	1045.2	16.5	1300.8	19.7	1034.4	15.4	1214.4	15.4	1683.2	17.7	822.0	12.3
366.0	6.5	420.0	6.9	674.4	10.9	542.4	8.3	507.6	8.7	396.0	6.4	444.0	7.0	297.6	4.5	428.4	6.4	717.6	9.1	664.8	7.9	498.7	7.6
528.0	100.0	6072.0	100.0	6192.0	100.0	6564.0	100.0	5820.0	100.0	6216.0	100.0	6336.0	100.0	6600.0	100.0	6708.0	100.0	7896.0	100.0	8352.0	100.0	6550.0	100.0

as,Bankok

TABLE 2.13

Value of Exports by Commodity Group
(Yearly Averages) (Million Rupees)

Period	1951-53		1954-57		1958-61		1962-64	
Commodity Group	Value	% of total	Value	% of total	Value	% of total	Value	% of total
1. Food	1422.4	22.5	1748.7	28.7	1986.6	31.8	2455.2	32.2
2. Crude materials inedible except fuel	1100.0	18.0	1078.5	17.6	1121.7	18.0	1252.8	16.4
3. Vegetable oils	232.8	3.1	196.5	3.2	90.6	1.5	136.5	1.7
4. Chemicals	68.8	1.1	53.7	.9	60.6	1.0	78.0	.9
5. Leather and manufactures	255.6	3.7	222.0	3.7	240.3	3.8	252.0	3.4
6. Cotton yarn and fabrics	767.6	11.9	665.4	10.9	588.0	9.4	572.8	7.5
7. Jute yarn and fabrics	1713.2	25.9	1044.9	17.3	688.5	11.0	1057.2	13.9
8. Other manufactured goods	380.4	6.0	603.6	9.6	1055.4	16.9	1244.0	16.2
9. Miscellaneous	172.6	7.8	584.7	8.1	431.8	6.6	675.5	7.8
TOTAL	6113.0	100.0	6198.0	100.0	6263.5	100.0	7724.0	100.0

Source: Table 2.12.

accounted for 22.5 of the total earnings, in 1962-64, their contribution jumped to 32.2 percent. But for food and manufactured goods (other than cotton, jute and leather manufactures) earnings from other commodity groups have either remained stagnant or shown a declining tendency. Group 2 (crude materials, inedible except fuel) have shown a downward trend, their contribution declining from 18 percent in 1951-53 to 16.4 percent in 1962-64. Earnings from group 3 (vegetable oils) has shown a declining tendency. This group includes mainly linseed, castor and ground nut oils. In 1951-53 earnings from this group averaged 3.1 percent and during 1962-64 they dwindled down to 1.7 percent. Group 4 (Chemicals) is not an important export commodity group. This group's contribution to total foreign exchange earnings has remained almost stagnant throughout the period under study fluctuating around 1 percent. Group 5 (leather manufactures) has also shown a downward trend, accounting for 3.7 percent in 1951-53 period and dwindling down to 3.4 percent in 1962-64. This declining tendency in groups 2,3,4 and 5 is explainable through advancement in technology and methods of production in advanced countries resulting in the discovery of substitute products and economies in use of raw materials. Group 6 (cotton yarn and fabrics), India's leading export commodity group has shown almost a continuously deteriorating trend. During 1951-53 this group accounted for 11.9 percent

of total export earnings and its share in 1962-64 fell down to 7.5 percent. As will be seen later this loss of India has gone as a gain to Japan and Hong Kong. The failure of cotton textiles and yarn to become a leading export commodity group is partly due to stagnant world demand due to discovery of substitute product and also due to severe restrictions practiced in advanced countries. But we cannot put the entire blame on stagnant world demand because as will be seen later over the same period Japan and Hong Kong have made some gains. In fact the government policy and the rising cost structure of the Indian industry are largely responsible for this state of affairs. Commodity Group 7 (jute yarn and manufactures) is the most leading and principal export group. This is unfortunate that this group too should have fallen in line with other commodity groups. During the period 1951-53 this group was accounting for 25.9 percent of total export earnings and during 1962-64 it accounted for 13.9 percent only. As will be seen later this decline was inevitable due to technological changes in methods of marketing and distribution. Though the policies of the Government of India are also to be blamed to some extent, little could have been done to improve the situation even if the right policies were pursued. Group 8 (the other manufactures) is another commodity groups which has shown a substantial rise and for the whole period under study averaged 12.3 percent in comparison to 5.4 percent

figure in 1951. This group mainly comprises manufactures of metals, machinery, transport equipment, footwear etc. and also new exports of light machinery, engineering, electrical and pharmaceutical goods and drugs. In official circles great hopes are pinned on the likely further growth of such exports. This group accounted on the average 6.0 percent in 1951-53 and in 1962-64 their average contribution stood at 16.2 percent. These are the exports developed in recent years and they give a light of hope in the midst of export hopelessness created by declining earnings from major export commodities. That these exports have grown in recent years gives an indication of economic transformation going on in India and point to the progress and development India is making.

5. COMPOSITION OF EXPORTS ACCORDING TO END USE

The composition of Indian exports according to end use is given in Tables 2.14,and 2.15 summarises the data of Table 2.14 in more convenient form. It will be seen from the tables that capital goods form the smallest proportion of export trade, being only 1 percent of the total exports for the period 1951-64 as a whole. In comparison to 1951-53 period they have registered a small rise of only .4 percent in 1962-64 period. This increase comprises light electrical and engineering goods. Consumption goods exports are the

TABLE 2.14

Composition of Exports According to End Use

Period	Value: Million Rupees				Percentage Distribution			
	Consumption Goods	Material Chiefly for Consumption Goods	Material Chiefly for Capital Goods	Capital Goods	Consumption Goods	Material Chiefly for Consumption Goods	Material Chiefly for Capital Goods	Capital Goods
1951	5131	1604	493	60	70.4	22.0	6.8	0.8
1952	3598	1411	637	77	62.9	24.7	11.1	1.3
1953	3604	1028	570	47	68.7	19.6	10.8	0.9
1954	4215	1225	386	48	71.7	20.9	6.6	0.8
1955	3755	1673	414	51	63.7	28.4	7.0	0.9
1956	4093	1172	447	51	71.0	20.3	7.8	0.9
1957	3995	1606	723	51	62.7	25.2	11.3	0.8
1958	3857	1277	532	40	67.6	22.4	9.3	0.7
1959	4099	1420	585	54	66.5	23.1	9.5	0.9
1960	4219	1271	670	66	67.8	20.4	10.8	1.0
1961	4521	1335	669	74	68.5	20.2	10.2	1.1
1962	4682	1380	521	81	70.3	20.7	7.8	1.2
1963	5274	1568	664	95	69.4	20.6	8.7	1.2
1964	5517	1650	854	146	67.5	20.2	10.5	1.8
Average	4325.6	1401.4	583.2	67.2	67.8	22.0	9.2	1.0

Source: ECAFE: Economic Survey (various years)

TABLE 2.15

Composition of Exports According to End Use
(Yearly Averages)

Period	Value: Million Rupees				Percentage Distribution			
	Consumption Goods	Material Chiefly for Consumption Goods	Material Chiefly for Capital Goods	Capital Goods	Consumption Goods	Material Chiefly for Consumption Goods	Material Chiefly for Capital Goods	Capital Goods
1951-53	4111.0	1347.7	566.7	61.3	67.3	22.1	9.6	1.0
1954-57	4014.5	1419.0	492.5	50.0	67.2	23.7	8.2	.9
1958-61	4174.0	1326.0	614.0	58.5	67.6	21.5	10.0	.9
1962-64	5157.7	1532.7	679.7	107.3	69.1	20.5	9.0	1.4

Source: Table 2.14.

highest averaging 67.8 percent for the period as the whole and this average has not fluctuated very substantially. In comparison to 67.3 percent in 1951-53 period, they stood at 69.1 percent during 1962-64, thus registering a rise of 2.1 percent from 1951 to 1964. This rise is reflected through India's "new manufactures". Exports of material chiefly for consumption goods have shown a stable tendency. They stood at 22.0 percent in 1951 and for the period as a whole averaged 22.0 percent. However, in the later years of the period under study they have not fared well. They declined by 1.6 percent during 1962-64 in comparison to 1951-53. Material chiefly for capital goods averaged 9.2 percent during 1951-64, although the annual percentages have fluctuated quite substantially.. Since 1951 they have continuously grown with minor ups and downs, though in later years they have not fared well, registering a decline by .6 percent in 1962-64 in comparison to 1951-53. From the above figures we can deduce some conclusions. In the modern sense the growth and export of capital goods, material for capital goods and manufactured goods is often taken as indication of economic progress. If this criteria of judging the growth is correct then the above figures do indicate that India is making advance.

In the next section we take up India's major export commodities, i.e. jute manufactures, cotton textiles, and

tea individually and analyse their behaviour and performance since 1951. Another crucial component of India's exports is the "new manufactures" developed in recent years. In Indian official circles much hope is pinned to further growth of these exports and are expected to form the basis of a great leap forward on the export front. It is, therefore, important to examine the growth of these "new manufactures" and to assess their future prospects. To these considerations, we now turn.

6. INDIA'S MAJOR EXPORTS

1. Jute Manufactures

Jute manufactures are one of the most important foreign exchange earning commodity and in the last decades normally brought about 20 percent of the total annual export receipts. Undivided India had almost a complete monopoly of the production of raw jute and was also one of the largest producers and exporters of jute manufactures in the world. With the partition of the country in 1947, important jute growing areas in East Bengal were transferred to Pakistan and therefore, India is now no longer exporter of raw jute but she is still the world's largest producer and exporter of Jute manufactures and accounts for nearly 75 percent of world exports.

Table 2.16 brings out the following facts:

TABLE 2.16

Trends: Jute Manufactures: India and World

Period	Value of Indian Exps.	% of Total Exp.Earnings	Volume of India's Exps.	Volume Of World's Exps.	India's Share of World Exps. (%)
1951	2697	34.4	789.2	921.1	85.7
1952	1289	20.8	746.0	840.2	88.8
1953	1138	20.1	759.3	901.2	84.3
1954	1238	22.0	855.7	987.5	86.7
1955	1182	19.5	891.1	1044.5	85.3
1956	1188	19.2	876.8	1068.7	82.0
1957	1109	17.0	873.5	1056.7	82.7
1958	1011	17.4	806.2	1023.4	78.8
1959	1090	17.5	874.0	1066.7	74.9
1960	1372	21.7	810.4	1105.2	73.3
1961	1104	15.7	N.A.	N.A.	-
1962	1237	18.4	N.A.	N.A.	-
1963	1085	13.7	N.A.	N.A.	-
1964	1130	13.5	N.A.	N.A.	-

Source: International Trade Statistics, United Nations, New York.

(1) In terms of value Indian exports never reached the 1951 level and exports earnings since then have been continuously declining with slight ups and downs.

(2) As a percentage of total export earnings too, export receipts from this commodity have been almost continuously declining. From 34.4 percent contribution to total export earnings in 1951, its contribution fell down to 13.5 percent in 1964. It means that in 1964 there has been a reduction in its contribution to total export earnings to the tune of 60.8 percent as compared with 1951.

(3) In terms of volume, it will be evident from the above table that Indian exports have not registered any appreciable rise. They reached their peak level in 1955 and since seems to have stabilised at a somewhat lower level. The average annual volume of India's exports for the five year period 1956-60 was about five percent higher than the average annual volume during the five year period 1951-55. In comparison to 1951 the volume of Indian exports was higher by about 2.7 percent in 1960.

It will be seen from the above table that world exports have also not fared well, though certainly better than India. The average annual volume of world exports for the five year period 1956-60 was about 15.5 percent higher than the average annual volume for the five year period 1951-55 and in comparison to the 1951 level volume of world exports was higher

by about 20 percent in 1960.

(4) Although both the world and the Indian exports on the whole have not fared well, nevertheless, world exports increased at a faster pace than Indian exports, particularly during 1956-60. Consequently the share of Indian exports in world exports fell from 85.7 percent in 1951 to 73.3 percent in 1960. Table 2.17 below summarises the trends in world and Indian exports of Jute manufactures in a more convenient form.

TABLE 2.17

Salient Features of World's and India's Exports of Jute Manufactures, (Annual Averages)

	1951	1952-54	1955-57	1958-60
1. World Exports (000 metric tons)	921.1	909.6	1056.6	1098.4
2. Index of World Exports 1951=100	100	98.75	114.71	119.25
3. Indian Exports (000 metric tons)	789.2	787.0	880.5	830.2
4. Index of Indian Exports 1951= 100	100	99.72	111.57	105.20
5. Indian Exports as Percentage of World Exports	85.7	86.5	83.3	75.6

Source: Table 2.16.

There are two possible explanations as to why India's and the world's exports of jute manufactures have remained almost stagnant in spite of the fact that world production of industrial goods has continuously increased since 1951. The first could be that hitherto importing countries have set up their own industries or that consumption of jute manufactures in these countries for some reason has remained stagnant. All the available evidence points to the fact that the cause of sluggishness of world and India's exports of jute manufactures is to be found in stagnant consumption of jute manufactures outside India and Pakistan. The production of raw jute is mainly confined to India and Pakistan, though recently Burma and Thailand have also started producing jute for exports. Therefore, if we substract imports of raw jute into India from the figures of world exports of raw jute, we shall have some idea of the extent of manufacturing activity outside India. This is done in the following table.

According to these calculations world import of raw jute (excluding imports into India) during the four year period 1960-63 were higher than the average annual imports during 1951-54 by only 2.5 percent. This means that the production of jute goods outside India and Pakistan has grown very moderately since 1951. Thus in the absence of any significant growth in import substitution, stagnation

TABLE 2.18

World Exports of Raw Jute and Imports into India
(000 Metric Tons)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
1. World Exports	1090	870	1000	919	1004	890	823	955	871	793	634	790	802
2. Imports into India	437	273	238	221	252	186	119	75	37	135	82	60	29
3. Imports by Rest of World	653	597	762	698	752	704	704	880	834	658	552	730	773

Source: FAO: Trade Year Book of Various Years.

in world exports in jute manufactures in the importing countries is immediately suggested by the above figures. This conclusion is further confirmed by a more direct piece of evidence as depicted in Table 2.19.

According to these estimates the average annual apparent consumption of jute goods outside India and Pakistan increased by only 15.5 percent from 1934-38 to 1958-60. And in comparison to 1957-58, it increased only by 6.9 percent in 1958-60. Thus basically the reason for the sluggishness of world trade in jute manufactures must be found in the stagnation of jute consumption in the importing countries.

> This stagnation is a consequence of stagnant jute consumption in the industrial countries in North America and Western Europe, accounting for over 50 percent of the total world consumption of jute goods. For example, the average annual apparent consumption of jute goods in North America in 1957-58 was only 73 percent of the estimated apparent consumption in 1937, while in Western Europe, it was 92 percent of the prewar apparent consumption.[1]

Of course, in primary producing countries consumption in post-war years has gone above the pre-war levels (by 22 percent in Latin America, 27 percent in Oceania, 36 percent in Africa and 60 percent in Near East from 1937 to 1958),[2] but because of great importance of industrial

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[1]FAO, "Trends in World Demand for Jute Manufactures", Monthly Bulletin of Agricultural Economics and Statistics", December, 1960 and January, 1961.

[2]*Ibid*.

TABLE 2.19

World Production of Raw Jute, Apparent Consumption of Jute Goods in India, Pakistan and the Rest of the World
(000 Metric Tons)

	1934-38 (average)	1957-58	1958-59	1959-60	1957-58 to 1953-60 (average)
1. World Production	1954	2172	2453	2173	2266
2. Apparent Consumption in India and Pakistan	288	372	329	324	342
3. Consumption in the Rest of the World	1666	1800	2124	1849	1924

Source:FAO: Trade and Production Yearbooks of Various Years.

countries in the world consumption of jute manufactures on the whole has failed to rise appreciably.

Stagnation in Consumption of Jute Goods in Industrial Countries: Jute goods are mainly required for the packaging of agricultural and industrial goods. It may be noted that between pre-war years and 1960, agricultural production has increased by about 60 percent in North America and about 38 percent in Western Europe.[3] That the rising agricultural production has not been accompanied by a rise in consumption of jute goods suggests that there are some factors at work hindering the growth in the use of jute goods. These factors are quite well known - the most important one is the change in the techniques of transportation of commodities to what is known as "bulk handling" which altogether eliminates the use of a container for packaging purposes.[4] The growth of new techniques in distributive trades is also an important factor at work.[5] According to the new techniques the producer supplies goods to the trader in small pre-packed units, thus almost completely dispensing with the use of large traditional jute containers. Besides, in many cases paper has also been found to be substituted

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[3]FAO: Statistics published in State of Food and Agriculture.

[4]*Op.cit.* FAO: Trends in Demand for Jute Manufactures.

[5]*Ibid.*

for jute as a packaging material. The following table will give some idea of the extent to which the paper bags have captured the market for burlap (jute) in the United States.

TABLE 2.20

Index No's of Quantities of Burlap (jute), Paper and Cotton Fabrics Used for Bag Making in the U.S.A.
(1940 = 100)

	1940	1948-50	1952-54	1955-57	1958-60
Burlap (jute)	100	90.9	88.4	99.1	105.9
Paper	100	313.2	400.5	437.9	440.7
Cotton	100	68.6	53.5	34.2	30.1

Source: Adapted from Verghese, S.K. "India's Foreign Trade", Allied Publishers, New Delhi, 1964.

Let us now analyse the causes which brought the above factors into play (techniques of transportation, distributive trade and packaging) to the detriment of the growth of jute trade. It may be noted that prices of jute do not account for the decline. Prices of jute goods did rise very fast up to 1951 but since then they have shown a falling tendency and at the end of the last decade competitive position of jute relative to paper was much more favourable as will be evident from the following table.

TABLE 2.21

Index No's of Prices of 100 lb. Flour Bags in U.S.A.
(1940 = 100)

Yearly Averages

	1940	1948-50	1952-54	1955-57	1958-60
Burlap (jute)	100	233.6	194.5	160.8	165.3
Cotton	100	296.9	268.0	275.2	280.0
Paper	100	156.3	179.9	182.3	193.0

Source: Adapted from Verghese, S.K.:"India's Foreign Trade", Allied Publishers, New Delhi, 1964.

To answer the question as to what extent is the behaviour of prices of jute goods responsible for stagnant consumption in industrial countries, we must examine the above factors separately. As far as bulk deliveries are concerned it appears that the techniques of bulk handling are the outcome of increasing mechanisation of farm and factory operations which receives impetus from high rising labour costs. For example, when commodities are moved from field to the warehouse in bulk truck labour is saved in both collection and transportation of the produce. Deliveries in bulk of the commercial feed from factory to the farm reduced the amount of farm labour required in the mixing and handling of the feed. Thus the inducement to the process of technological change appears to have come primarily from the desire to save on labour costs.

As to the change in method of marketing, and the manufacturer supplying goods to the trader in small pre-packed packets instead of traditional jute containers, they seem to have originated independent of jute prices. This change appears to be an outcome of the desire of manufacturers to differentiate their products and are linked in new developments in retail trade whereby large self-service multiple stores have grown in importance. The manufacturer attempts product differentiation not only to ensure that the ultimate consumer gets the desired quality, but also to reduce his dependence on the retailer for promoting the sale of his brand by establishing a direct contact with the ultimate consumer through advertising media. This becomes all the more essential as the self-service stores are growing in importance, since the manufacturer cannot be sure of the personal interest of the retailer in promoting the sales of his particular brand. To cope with the need of self-service stores, manufacturers have to pack their products in small ready portable packages. For such ready to take home packages jute is not a suitable material because of its roughness and difficulties in printing attractive designs over it. Thus the changes in marketing practices have prompted paper and other material to take place of jute irrespective of the price of jute goods.

Regarding the substitution of paper for jute bags, it may be noted that in those branches of distributive trades where branded goods have increasingly gained in popularity the use of paper bags at the expense of jute bags appears inevitable because of the difficulty of printing attractive brand levels on rough jute. Hence, the losses suffered by jute bags have to be attributed to some extent to factors other than the relative prices of jute and paper. Besides, there are other factors too, independent of prices of jute and paper, which have also affected the use of jute goods. For example, during the Second World War normal supply of jute goods was cut off to many importing countries and they had therefore, to restrict the use of jute goods to be conserved for essential war purposes and as a consequence had to fall back upon paper bags for packaging. And once people get used to an alternative material, the sheer force of inertia often prevents them from switching back to the old material even if its supply is in plenty.

The losses suffered by jute and gains earned by paper in the post-war years is explanable by the relative price behaviour of jute and paper bags for the relative price of jute continued to rise until 1951. However, the prices of jute goods have tended to fall since 1952 and in 1958-60 were about 50 percent lower than the peak

levels reached in 1951. Yet this has brought only minor gains as is shown in Table 2.20. This means that markets once lost are not easily recaptured even when prices return to a lower level.

Regarding the behaviour of Indian jute exports in the last decade, the policies of the Government of India are also to be blamed to a certain extent. It has been argued by many observers that steep rise in export duties levied on jute manufactures by India in 1950 and 1951 were ill-conceived and harmful to the long run interest of exports of jute manufactures. The duty of hessian (a superior type of jute cloth exported to the U.S.A.) was just raised from R_s. 80 to R_s. 350 per ton in 1949. In October 1950 the duty was further raised to R_s.750 per ton and in November 1950 it was further increased to R_s. 1050 per ton and remained at this level up to 1952. And from 1952 there began a gradual process of lowering of duties and in 1955 all export duties on jute manufactures were abolished. However, this did not result in any substantial gain.

India's Export Position: In addition to the factors restricting the growth in the use of jute in industrial countries, India's export performance is also to be attributed to the steady deterioration in her competitive ability in the world markets. This is evident from Table 2.15 showing a fall in her relative share of world markets

since 1952. Until 1955 her main competitors were European and Japanese industries competing with India in the world's most important market for jute goods in U.S.A. But since 1955 Pakistan, specialising in a cheaper variety of jute goods (called sacking), has also been posing a very serious challenge to India. The European jute industry started threatening India mainly since 1950 and were helped by many favourable circumstances. Because of inadequate world production of raw jute, prices of jute goods steeply rose until 1951 and this encouraged the European industries to develop their exports to the U.S.A.. Secondly because of strained relations, India could not procure raw jute from Pakistan and instead Pakistan diverted her raw jute to European countries. With insufficient availability of raw jute India could not meet the entire export demand. In such a period of scarcity when prices were rising, European countries assured of plentiful supplies of raw jute were able to expand their production and exports. Table 2.22 shows the developments in United States imports from India and other countries.

It will be seen from the table, that though prices in India started falling since 1951, Indian exports did not show much upward trend. The reason for this is that the European industries once having got foothold in the American market made it difficult for India to displace

TABLE 2.22

Imports of Burlap (Jute Fabrics) into U.S.A.
(000 Metric Tons)

Period	Total Imports	Imports from India	Imports from Others	India's Share %
1947	245.5	235.7	9.8	95.9
1948	230.0	220.7	9.3	95.9
1949	202.6	193.6	9.0	95.5
1950	190.0	164.6	25.4	86.6
1951	151.5	125.1	26.4	82.6
1952	219.1	180.4	38.7	82.3
1953	197.5	153.9	43.6	77.9
1954	188.7	155.6	33.1	82.4
1955	215.2	182.0	33.2	84.6
1956	239.0	199.4	30.6	83.4
1957	224.0	190.2	33.8	84.9
1958	221.1	189.9	31.2	85.9
1959	260.3	221.9	38.4	85.2
1960	243.1	203.4	39.7	83.7

Source: Adapted from Verghese, S.K. "India's Foreign Trade", Allied Publishers, New Delhi, 1964.

them and their exports in the American market maintained a high level through the fifties, though India's relative share of the U.S. market has also tended to rise since 1951. Because of uncertainty of supplies from India till 1951, American importers, not having jute industry of their own, have encouraged imports from European countries as a second reserve line. While the European competition has somewhat grown weaker since 1954, Pakistan has developed into a strong rival. The following table gives some idea regarding this.

TABLE 2.23

Exports of Jute Manufactures from Pakistan and India
(000 Metric Tons)

(Pakistan Manufactures)

Period	Hessian	Sacking	Total (including others)	Indian Exports	Pakistan's share of Indian Export %
1957	29.7	60.4	90.4	873.5	10.3
1958	36.9	78.5	115.8	806.2	14.4
1959	50.7	135.7	188.4	874.0	21.6
1960	61.9	123.8	190.7	810.4	23.5

Source: Table 2.16 and Pakistan's Foreign Trade Statistics.

Our above analysis leads us to the following conclusions:

1. That the most important factor responsible for India's poor performance in the export of jute manufactures has been stagnant consumption of jute goods in the industrial

countries of West and North America.

2. Process of technological change in methods of transportation and distributive trades and bulk handling and co-eliminating the use of jute as container and packaging material has also affected India's exports of jute goods. Besides, the relative prices of jute bags to paper until 1951 also damaged the use of jute as a packaging material.

Future Prospects of World Trade in Jute Manufactures: North America and Western Europe account for over 50 percent of jute consumption in the world and on the basis of past trend, it can be safely argued that the possibility of increased future consumption is not very bright. In a recent study FAO[6] has estimated that in these two areas together consumption of jute goods between 1957 and 1965-70 is likely to fall.

The FAO study has a most pessimistic conclusion of a severe fall in the use of jute as a packaging material in these countries -- from an estimated 0.39 million tons in 1957 to 0.17 - 0.29 million tons in 1967.[7] The basis of this projection is the assumption that the technological

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[6] Ibid.

[7] Ibid.

time trend which was noticed in the last decade would continue to operate tending to reduce the input of jute per unit of packageable goods in future also. On this assumption this study predicts a fall of 40-60 percent in the input of jute per unit of packageable output. However, for other end uses, the FAO study estimates, the consumption of jute goods in industrial countries of North America and Western Europe would rise from 0.67 million tons in 1957 to 0.74 - 0.83 million tons in the late sixties, which means a rise of 10-24 percent over a decade. As far as primary producing countries are concerned almost the entire demand for jute is for packaging material. In the sixties agricultural production in these areas would rise by 25-30 percent over the fifties.[8] If there were no adverse factors at work affecting the use of jute as a packaging material, jute consumption should be expected to rise at the same rate. But there are reasons to believe that the consumption of jute is unlikely to rise at the same rate as output of packageable goods. Though the use of paper as a packageable material is not very widespread in primary producing countries but it is on increase. Besides, bulk handling is quite advanced in some countries particularly Australia. But the movement towards bulk handling is likely to remain

[8]FAO: State of Food and Agriculture, 1961, Rome.

limited in underdeveloped countries for a long time in view of the inefficient road systems. Under these circumstances, it may be reasonably assumed that input of jute per unit of output of packageable goods would not fall much from 1960 to 1970.

II. Tea

India is the largest producer and exporter of tea in the world. Ceylon is the world's second most important exporter of tea and the two countries together accounted for about 75 percent of world exports during 1960-63. Indonesia was also an important exporter before but since 1951 her exports seem to have stabilised at a much lower level. China (Mainland and Taiwan) are also important exporters but no reliable statistics about Mainland China are available. African exports have also continuously grown since 1951 though her share of world exports is very small. The following table gives an idea about export performance of the above countries along with the developments in world trade.

Table 2.25 summarises Table 2.24 in a more convenient form.

Table 2.25 shows that from 1951-53 to 1963 the average annual volume of world trade in tea rose by about 14.8 percent, while over the same period average annual volume of Indian exports rose only by less than 1 percent. As a consequence

TABLE 2.24

Exports of Tea: World, India, Ceylon, Indonesia, China (Taiwan) and Afric and Their Relative Shares in World Exports (000 Metric Tons)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
World	472	440	494	524	443	516	499	537	522	516	536	537	538
India	206.1	188.1	272.2	204.1	166.8	237.7	201.3	229.7	214.3	195.1	204.9	212.3	223.6
Ceylon	138.4	142.7	152.2	163.9	164.5	158.1	167.0	186.5	173.9	185.9	193.1	204.8	206.8
Indonesia	40.1	31.9	28.9	40.2	22.8	34.5	35.7	34.6	29.6	35.0	32.2	29.2	N.A.
China (Taiwan)	11.3	9.5	10.4	15.1	7.8	10.7	12.0	11.9	14.3	11.8	14.6	12.4	13.7
Africa	16.2	16.6	16.0	25.4	25.3	29.4	30.5	34.0	34.4	41.9	42.8	50.5	51.0
Relative Shares (Percentages)													
India	43.66	42.75	55.10	38.95	37.65	46.06	40.34	42.77	41.05	37.81	38.22	37.44	41.56
Ceylon	29.32	32.43	30.80	30.80	37.13	30.63	33.46	34.72	33.31	36.02	36.02	36.11	38.43
Indonesia	8.49	7.25	5.85	5.85	5.14	6.68	7.15	6.44	5.67	6.78	6.00	5.14	--
China (Taiwan)	2.39	2.15	2.10	2.10	1.76	2.07	2.40	2.21	2.73	2.28	2.72	2.18	2.54
Africa	3.40	3.77	3.23	3.23	5.71	5.69	6.11	6.33	6.59	8.12	7.98	8.90	9.47

Source: FAO Trade Year Book of Various Years.

TABLE 2.25

Exports of Tea: World, India, Ceylon, Indonesia, China (Taiwan) and Africa and Their Relative Shares in World Exports (Annual Averages in 000 Metric Tons)

	1951-53	1954-56	1957-59	1960-62	1963
1. World	468.7	494.3	519.3	529.7	538.0
2. India	222.1	202.9	215.1	204.1	223.6
3. Ceylon	143.2	162.2	175.8	194.6	206.8
4. Indonesia	33.6	32.5	33.3	32.1	--
5. China (Taiwan)	10.4	11.2	12.7	12.9	13.7
6. Africa	16.3	26.7	33.0	45.1	51.0
			Relative Shares (Percentage)		
1. India	47.17	40.89	41.39	37.82	41.56
2. Ceylon	30.85	33.18	33.83	36.05	38.43
3. Indonesia	7.20	6.50	6.42	5.97	--
4. China (Taiwan)	2.21	2.24	2.45	2.39	2.54
5. Africa	3.47	5.41	6.34	8.33	9.47

Source: Table 2.24

India's share of world exports fell from 47.17 percent in 1951-53 to 41.56 percent in 1963. As against this Ceylon which is India's number one rival in tea export has on the other hand not only successfully held on to her 1951-53 position but further improved her share of world exports. From 1951-53 to 1954-56 her share rose from 30.85 to 33.18 percent and from 33.18 percent in 1954-56 to 33.83 percent in 1957-59 and during 1960-62 its share went up to 36.05 percent and in 1963 it was 38.43 percent. Thus while Ceylon has not only firmly held on to her relative share of world trade but improved over it, India's relative share has tended to fall since 1951. This suggests that there has been something wrong with India's export policy.

It was noted above that world exports of tea from 1951-53 to 1963 increased only by 14.8 percent. This ought to be contrasted with the fact that over the same period world trade in other commodities has increased at a much higher rate. Thus it is a misfortune for India that her leading export commodities are those whose world trade has grown relatively at a slow rate. That the trade of a particular commodity has not grown fast enough may be due to the faulty policies on the part of major exporting countries. It is therefore necessary to analyse consumption of tea in important countries to find out if the policies of exporting countries are responsible for this state of affairs. This analysis is meaningful for India since she is a major country in the

production and export of tea ans is, therefore, powerful enough to exert an influence on world trade in tea. North America, Oceania, U.K. and other Europe (excluding U.S.S.R.) were responsible for about 74 percent of total world imports during 1963. These are the countries which wholly depend on imported tea and their consumption may, therefore, be taken as a determinant of world demand for imported tea.

TABLE 2.26

Imports of Tea Into North America, Europe and Oceania

(Annual Averages 000 Metric Tons)

	1951-53	1954-56	1957-59	1960-63
Total Imports	459.7	489.7	549.0	559.0
1. U.K.	219.8	235.1	257.0	249.7
2, Other Europe	29.5	34.9	39.0	45.9
3. U.S.A.	43.6	48.4	47.7	54.4
4. Canada	20.3	20.2	20.7	20.1
5. Oceania	34.1	31.5	35.7	36.8
Sub-total (1-5)	347.3	370.1	400.1	406.9

Source: FAO: Trade Year Book of Various Years.

The above table brings out the fact that between 1951-53 and 1960-63, the average annual volume of tea in these areas increased by only 17 percent. In comparison to U.K., the consumption of tea in the U.S.A., Canada and other European countries is very low. These countries are mainly coffee drinking and at high income levels consumption

of a beverage is determined by habit rather than by income or price. Moreover, during the Second World War tea was rationed whereas coffee remained a free commodity. This too must have caused a shift in tastes of the people for coffee. Thus the possibility of an expansion in demand for tea in these areas should not be expected. Hence the fact that consumption of tea in advanced countries from 1951-53 to 1960-63 increased by only 17 percent must be attributed to factors beyond control of exporting countries. It has been established through studies that at high income levels the income elasticity, of demand for tea is negligible.[9] This further suggests that factors affecting tea consumption in advanced countries originated outside the policies of exporting countries. The following table will show that tea has remained a relatively cheaper commodity than other competiting beverages.

India's Falling Position: From the above discussion it is clear that the price policies of exporting countries could not have improved the consumption of tea in developed

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[9]Richard Stone: "Measurement of Consumer's Expenditure and Behaviour in the U.K. During 1920-38," Cambridge, 1954. Quoted by Singh: India's export Trends and Prospects of Self-sustained growth, Clarendon Press, Oxford, London. Mr. Stone estimated that in U.K. market income elasticity of demand for tea is 0.04 and price elasticity of demand is 0.3. His study also suggested that though some price substitution relationships between tea on one hand and coffee and beer on the other, they were not very significant.

TABLE 2.27

Indices of Deflated Wholesale Prices of Coffee, Cocoa and Tea

	Coffee	Cocoa	Tea
1934-38	100	100	100
1950	263	260	122
1951	254	264	88
1952	260	271	66
1953	283	288	94
1954	384	448	146
1955	277	289	95
1956	273	204	104
1957	260	222	90
1958	218	317	93

Source: Singh, India's Export Trends and Prospects of Self-Sustained Growth, Clarendon Press, Oxford, London.

countries. But there is no doubt that there are some reason peculiar to India which contributed to her falling share for while Ceylon not only firmly held on to her 1951-53 position but her share went up from 30.85 in 1951-53 to 38.43 in 1963. India's share of world exports started declining from 1951 and from 47.17 percent in 1951-53 it fell to 41.56 percent in 1963. It will be seen in Table 2.25 that Indonesian and Chinese (Taiwan) exports have remained more or less stabilised during the period under study, but the African exports have continuously risen. We must seek answers to the question as to why African exports hit India harder than Ceylon. The answer to this lies in high production cost in India relative to Ceylon.[10] Wages in India have risen faster than in Ceylon. Whereas from 1948 to 1958 daily earnings of male workers in Ceylon

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[10]Singh: "India's export Trends and the Prospects for Self-Sustained Growth", p.64. Mr.Singh reaches this conclusion of high production cost in India relative to Ceylon on the basis of comparison of labour costs in the two countries. Since tea is a labour intensive industry, labour costs are the most important constituent of cost of production. Of course for cost calculations and comparisons one need look at "efficiency wages" rather than money wages, but, argues Mr. Singh, since production techniques in tea industry have changed very little and are uniform in India and Ceylon, therefore, it will not be too wrong to treat labour earnings as reflector of labour costs per unit of output. He, therefore, compares cost of production in India and Ceylon on the basis of their respected wage costs. In both countries production techniques and management practices are similar and tea plantations are being owned in both countries by common foreign ownerships.

rose by 54 percent, over the same period average earnings in Assam (India) rose by 136 percent.[11] As a result of this India's competitive ability relative to Ceylon has weakened and this is the reason for Ceylon's superior performance over India. Besides this, there is yet another reason why the growth of African exports hit India harder than Ceylon. A major portion of Indian output and exports consists of common teas (60 percent) the same as are exported by Africa. On the other hand, a very small part of Ceylonese exports (33 percent) consists of common teas.[12] Since there is a very restricted competition between high grade tea and common tea, the expansion of African exports from 16.2 thousand metric tons in 1951 to 51.0 thousand metric tons in 1963 was bound to affect India's exports more than Ceylon's. (Vide Table 2.24).

Government of India's policies were also a contributory factor to India's poor export performance. Up to 1963 export of tea from India were subject to export duty as well as an export cess. In the last decade these two levies accounted for 10 to 15 percent of export prices of tea.[13] Though these duties were keeping in step with

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[11] Op.cit. p.66.

[12] Op.cit. p.66.

[13] Op.cit., p.66.

Ceylon, they further weakened India in her relative competitive power to African countries whose exports mostly compete with India's.

The system of the distribution of export quota rights was yet another contributory factor.[14] The way in which quotas were being distributed to exporters often raised the marginal costs of exports to some of them. Quotas were distributed among the producers of tea on the basis of their production rather than on the basis of their export performance. Those who wanted to export more than the permitted quota had to buy export rights from those quota holders who did not want to utilise the right. There developed a regular market where such quota rights were traded. Quota prices before 1950 were often high enough to have involved some considerable discrimination against marginal exports of tea by those who exported more than their official quotas.

Presumably the authorities who imposed the above burdens did not think of the adverse effect they might produce on India's exports. They might have thought that since foreign demand for tea is inelastic and since India holds an important position in world market for tea, they could easily pass on this burden on foreign consumers without adversely affecting her earnings. Obviously this view ignores the long run consequences of such measures. Even if such burdens

[14] *Op.cit.*, p.68.

could be shifted on to the foreign buyer in the form of high price, in the long run they encourage rival sources of supply.

The final contributory reason to India's declining tea exports is the rapidly increasing domestic demand. This sapped the incentive on the part of tea industry to make vigorous efforts and interests to promote sales abroad. The following table brings out the fact that domestic consumption of tea has grown faster than exports in the period under consideration.

TABLE 2.28

Production and Exports of Tea: India
(Annual Averages, 000 metric tons)

	1951-53	1954-56	1957-59	1960-63
Exports	222.1	202.9	215.1	209.0
Production	289.4	303.0	329.7	341.7
Export-Production Ratio (%)	76.7	67.0	65.2	61.2

Source: FAO: Year Book of Trade and Year Book of Production of Various Years.

The above table shows that percentage of output exported fell from 76.7 percent in 1951-53 to 61.2 in 1960-63. The fact that the production of tea has grown from 1951-53 to 1960-63 by about 18 percent whereas exports have declined

has been interpreted by an eminent scholar as a sufficient evidence that exports have been limited by lack of foreign demand.[15] Though, as we observed earlier, it is true that there was not much scope to increase India's exports, the fact that India's relative share of world exports has tended to decline since 1951 suggests that poor export performance cannot be attributed to lack of foreign demand. There were other factors also which injured India's exports. Besides, internal markets have also grown in profitability since the last decade, and the factors responsible for the rise in domestic consumption of tea are the government policies.[16] Throughout the period of study excise duties on tea were lower than the combined incidence of export duty and export cess on tea and probably tea was the only export commodity in which refund of excise duty on the output exported was not permitted by the Government.[17]

No doubt production of tea in India increased by about 18 percent between 1951-53 and 1960-63, but large part of this production was due to coarser plucking rather than of new planting.[18] This led to deterioration in quality and consequently difficulties in selling abroad.

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[15] S.J.Patel, "Export Prospects and Economic Growth", Economic Journal, Sept.1959, p.495.

[16] Singh, Ibid., p.70.

[17] Singh, Ibid, p.70

[18] Singh, op.cit., p.71.

We summarise the above discussion as follows:

(1) High income countries account for nearly 74 percent of the world imports and since in high income countries tea has a negligible income elasticity of demand, the course of world trade has been determined by this very fact. Consequently the price policy of exporting countries could have done little to improve the world trade in tea. In fact tea throughout the period covered has remained cheaper than its competitive substitutes.

(2) Policies purused by the Government of India also contributed to the deterioration of India's relative share of world exports.

<u>Future World Trade in Tea</u>: Since the high income countries account for nearly 74 percent of world imports, the future of world trade is, therefore, closely linked with the future developments in the consumption of tea in these areas. At high income levels the consumption of tea is almost not at all responsive to income and price changes and depends on habit. This leads to argue that in future consumption of tea in these countries will largely depend on growth of population and development of tastes. In under-developed countries, consumption of tea is, of course, responsive to income and price changes but from the point of view of world trade only Near East and North Africa are

important. According to FAO projection consumption of tea in all the importing areas taken together would rise by 18-29 percent between 1958-60 and 1970.[19] However, if the past trend in the importing areas is any guide the FAO's upper estimate (29) appears to be optimistic. Besides, the FAO estimates did not take note of the fact that under-developed countries faced with balance of payments difficulties may attempt to reduce domestic consumption of tea from growing and this may lead to imposition of restraints on imports of tea. It seems, therefore, reasonable to assume that tea consumption in all the importing areas of world would probably not increase by more than 20 percent over the decade.

III. Cotton Textiles

In order of importance as a foreign exchange earner, cotton textiles come next to jute manufactures and tea. In the last decade, they contributed about 11.3 percent to India's total export earnings. The developments in cotton textile exports are shown in Table 2.29.

It will be seen from the table that the leading export commodity cotton textile has not fared well. It contributed 12.0 percent to India's total export earnings in 1951 but its contribution in 1960 slipped down to 10.9 percent. In terms of value the exports were at top level in 1951 and in the succeeding years exports could never reach

[19] FAO: Agricultural Commodity Projection for 1970, Rome, 1962.

TABLE 2.29

Cotton Textiles (Million Rupees)

Period	Value of Indian Exports	% of Total Exports	Percentage Change	
			Annual Increment	Accumulative Increment
1951	943.7	12.0	-	-
1952	741.1	12.0	- 21.5	-
1953	638.4	12.0	- 13.9	- 35.4
1954	723.2	12.8	+ 13.3	- 21.1
1955	637.2	10.5	- 11.9	- 33.0
1956	622.8	10.5	- 2.3	- 35.3
1957	749.4	11.4	+ 20.3	- 15.0
1958	575.8	9.9	- 23.2	- 38.2
1959	716.8	11.5	+ 24.5	- 13.7
1960	689.7	10.9	- 3.8	- 17.5
Annual Average	703.8	11.3	- .9	

Source: Statistics published in Economic Weekly, Bombay, Various issues.

equal to or somewhere near the 1951 figure. Exports grew at a negative rate and showed an annual average rate of growth of -.9. In comparison to 1951 the export value declined by about 27 percent and in comparison to period 1951-53 value of exports for the period 1958-60 slumped down by 14.7 percent.

Table 2.30 presents a statistical picture of world trade in cotton textiles from 1951 to 1960 and also exhibits the behaviour of exports of cotton textiles from major exporting countries. Table 2.31 presents a birds eye view of Table 2.30.

These tables show that the volume of Indian exports fluctuated widely throughout the period and averaged 98.8 for the whole period (1951-60) which is less than the 1951 exports which stood at 103.5. The average annual volume during 1958-60 was 9.7 percent higher than the corresponding volume during 1951-53. During the same period world export of cotton textiles also increased modestly but they rose faster than Indian exports. Between 1951-53 and 1958-60 the average annual volume of world exports rose by 14.8 percent.

From Tables 2.30 and 2.31 one may conclude that one of the factors affecting Indian exports during the period could be attributed to the sluggishness of world exports in cotton textiles. However, it is equally evident from

TABLE 2.30

Exports of Cotton Textiles (Tissues, Yarn and Other Manufactures) from India, Japan, Hong Kong, U.S.A., U.K. and West Germany and Relative Share of these Countries in World Exports

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
All Cotton Textiles (000 Metric Tons)										
World	789.8	800.3	795.8	872.3	832.2	876.7	946.3	852.7	983.8	1132.3
India	103.5	81.0	86.4	116.7	97.0	93.5	113.0	89.8	113.9	93.5
Japan	131.1	101.4	114.5	151.8	141.2	149.8	176.6	153.0	160.5	204.9
Hong Kong	38.6	36.5	37.9	36.8	43.8	54.3	60.5	62.2	54.5	69.6
U.S.A.	133.3	110.2	95.8	95.0	84.3	81.2	90.0	78.7	73.2	70.2
U.K.	154.5	114.9	118.7	115.0	101.8	92.9	92.9	77.8	72.3	66.9
W. Germany	29.0	31.0	26.9	28.7	31.4	26.2	28.7	22.6	30.3	36.2
Relative Shares (Percentage)										
India	10.5	10.1	10.8	13.4	10.4	10.7	11.9	10.5	11.6	8.3
Japan	13.2	12.6	14.4	17.3	16.9	17.1	18.7	17.9	16.3	18.1
Hong Kong	3.9	4.6	4.8	4.2	5.3	6.2	6.4	7.3	5.8	6.1
U.S.A.	13.4	13.7	12.1	10.8	10.1	9.2	9.5	9.2	7.4	6.2
U.K.	15.7	14.4	15.0	13.1	12.3	10.6	9.8	9.1	7.3	5.0
W. Germany	3.0	3.9	3.4	3.3	3.8	3.0	3.0	2.6	3.1	3.2

Source: FAO Per Caput Fibre Consumption, Commodity Bulletin Series No.31, 1958 and FAO Monthly Bulletin of Agricultural Economics and Statistics, Vol.XI, January,1962.

TABLE 2.31

Exports of Cotton Textiles from India, Japan, Hong King, U.S.A., U.K. and West Germany

(Annual Averages in 000 Metric Tons)

	1951-53	1954-57	1958-60	% Change 1951-53 to 1958-60
World	862.0	882.9	989.6	+14.8
India	90.3	105.0	99.1	+ 9.7
Japan	115.7	154.8	172.8	+49.4
Hong Kong	37.7	48.8	62.1	+64.7
U.S.A.	113.1	87.6	74.0	-34.5
U.K.	129.4	100.6	72.3	-55.9
West Germany	29.0	28.7	29.7	+ 2.4
Relative Shares (Annual Averages)				
India	10.4	11.6	10.1	
Japan	13.4	17.5	17.4	
Hong Kong	4.4	5.5	6.4	
U.S.A.	13.1	9.9	7.6	
U.K.	15.0	11.4	7.1	
West Germany	3.4	3.3	3.0	

Source: Table 2.30

the above tables that India's competitive position has also tended to weaken as is suggested by a fall in her relative share of world trade. India's share of world exports fell from 10.4 percent during 1951-53 to 10.1 percent during 1957-60, whereas the relative share of her Asian competitors went up. However, over the same period the relative shares of U.K. and U.S.A. also tended to fall during the last decade. India could have made use of this situation to her benefit. While India just failed to exploit this opportunity,Japan successfully seized it and increased her relative share of world exports. From 1951-53 level Japan managed to raise her exports by 49.4 percent during 1958-60, whereas over the same period India could manage to raise only by 9.7 percent. In terms of relative share of world exports, Japan's share went up from 13.4 percent during 1957-60. As against Japan's gains India's share over the same period fell from 10.4 percent to 10.1 percent. Even tiny Hong Kong beat down India and her exports over the same period increased by 64.7 percent and her relative share of world exports went up from 4.4 percent to 6.4 percent. During 1951-53 Hong Kong's exports were only 41.7 percent of Indian exports but her exports during 1958-60 reached 62.7 percent of Indian exports. From the above figure it is thus clear that while one may attribute stagnation in world trade as one of the reasons for India's poor performance, it does not account for it exclusively.

Stagnation in World Cotton Textile Trade: Table 2.31 shows that world exports in cotton textiles from 1951-53 to 1957-60 rose modestly by 14.8 percent. This is misleading. As will be clear from the following tables this modest increase in world trade was sustained because during the period the earstwhile net exporters U.K. and U.S.A. were willing to see their exports fall and import more from Asian net exporters. Thus this modest expansion in world trade from 1951-60 was caused because of the trade among the net exporting countries themselves. In fact over this period imports into net importing areas fell as will be evident from the following table, (Table 2.32).

Table 2.32 shows that between 1951-53 and 1957-60, imports of cotton textiles into traditionally net importing areas fell by 8.1 percent. And if we exclude the net importing industrial countries of Western Europe and Canada the decline would be 13.2 percent. Thus it is the rapidly expanding exports from net exporting countries of Asia to the U.K. and U.S.A. over the last decade that gave a modest expansionary picture to an otherwise declining volume of world trade in cotton textiles in the period under consideration. Thus the fact that trade in cotton textiles did not register an appreciable rise after 1951 must then be attributed to factors operating in the net importing areas of the world. The first reason of this phenomenon is that the use of non-

TABLE 2.32

Cotton Textiles: Imports into Net Importing and Net Exporting Areas

(Average Annual Volume, 000 Metric Tons)

	1951-53	1954-57	1958-60
1. Net Importers:			
A. Primary Producers			
1. Africa	188.3	194.3	180.8
2. Latin America	58.3	56.6	54.4
3. Near East*	71.6	59.9	53.3
4. Oceania	38.7	45.2	53.4
5. Net Importing Far East*	271.2	219.2	204.1
Total	628.6	575.2	545.9
B. Industrial Net Importers			
1. Canada	27.2	21.5	37.9
2. Net Importers of W.Europe*	26.7	55.8	70.9
Total	83.9	87.3	108.8
Grand Total (A + B)	712.5	662.5	654.7
2. Net Exporters:			
1. U.S.A.	13.1	25.0	47.0
2. Net Exporters of W.Europe*	101.7	129.8	196.1
3. Net Exporters of Far East	25.8	40.1	57.9
Total (Net Exporters)	140.6	194.9	301.0

Source: FAO: Per Caput Fibre Consumption, Commodity Bulletin Series No.31, 1958 and FAO:Monthly Bulletin of Agricultural Economics and Statistics, Vol.XI, Jan.1962.

* New Importing Far East: Burma, Ceylon, Taiwan, Malaya, Singapore, Indonesia, South Korea, Pakistan, Philippines, Thailand, Vietnam. Near East:Abghanistan, Iraw, Iran, Israel, Lebonan,Sudan,Syria,Turkey,U.A.R.,Aden,Cyprus, Jordan,Lebya. Net Importing Western Europe:Austria, Denmark,Finaldn,Greece, Ireland, Norway,Sweden, Yugoslavia, Iceland,Malta Gozo.Western Net Exporters:U.K.,West Germany, France,Italy,Belgium,Netherland,Switzerland,Spain and Portugal. Net Far East Exporters;Japan,Hong Kong, India, Mainland China.

cotton textiles as a substitute for cotton textiles has very much increased. The following table will show that the share of cotton textiles in total consumption of all textiles has been declining since 1951.

Table 2.33 shows that between 1951-53, and 1958-60, consumption of all textiles in net importing areas went up by 34.5 percent. On the other hand over the same period consumption of cotton textiles rose only by 28.4 percent. Consequently share of cotton textiles in the consumption of all textiles fell from 69.8 percent during 1951-53 to 64.9 percent during 1958-60.

Growth of import substitution in the net importing areas is another development affecting the world trade in cotton textiles. This is brought out by Table 2.34 which shows the net imports and consumption of cotton textiles and net import consumption ratios for the net importing regions of the world for the period 1951-60.

Table 2.34 shows that barring Oceania and Canada, the import consumption ratio of all countries in 1958-60 period have declined in comparison to 1951-53 period. Taking all net importing areas we find that the ratio of net imports to consumption of cotton textiles fell from 45.1 in 1951-53 to 39.1 percent during 1954-59 and during 1958-60, it further fell down to 36.4 percent.

TABLE 2.33

Consumption of Cotton Textiles and all Textiles in Net Importing Regions of the World and Relative Share of Cotton in Consumption of all Textiles

I. All Textiles (000 Metric Tons)

	1951-53	1954-57	1958-60
1. Africa	291.0	358.5	370.7
2. Latin America	651.0	784.0	845.7
3. Near East	242.3	358.0	421.7
4. Net Importing Far East*	425.9	561.0	615.0
5. Net Importing Western Europe*	317.6	350.9	396.7
6. Oceania	102.3	119.5	134.7
7. Canada	184.6	187.8	193.5
TOTAL	2214.7	2719.7	2978.0

II. Consumption of Cotton Textiles (000 Metric Tons)

	1951-53	1954-57	1958-60
1. Africa	213.3	228.0	234.0
2. Latin America	482.7	583.5	635.7
3. Near East	208.0	264.5	311.3
4. Net Importing Far East	361.7	475.2	525.0
5. Net Importing Western Europe	180.0	190.1	181.3
6. Oceania	54.0	64.5	74.0
7. Canada	113.2	110.8	109.2
TOTAL	1612.9	1916.6	2070.5

III. Relative Share of Cotton Textiles (Percent)

	1951-53	1954-57	1958-60
1. Africa	73.3	63.3	63.1
2. Latin America	74.1	74.4	75.2
3. Near East	85.8	73.9	73.8
4. Net Importing Far East	84.9	84.7	85.4
5. Net Importing Western Europe	56.7	54.2	45.7
6. Oceania	5.28	54.0	54.9
7. Canada	61.3	59.0	56.4
All Net Importers Average	69.8	66.2	64.9

Source: FAO: Per Caput Fibre Consumption, Commodity Bulletin, Series No.31,1958 and FAO: Monthly Bulletin of Agricultural Economics and Statistics, Vol.XI, Jan,1962.

* Net Importing Far East: It is net importing Far East excluding net exporters, i.e. India, Hong Kong, Japan and Mainland China.
Net Importing Western Europe: is Western Europe excluding the net exporters of cotton textiles, i.e. excluding U.K. West Germany, Italy, Netherland, Belgium, France, Spain, Portugal and Switzerland.

TABLE 2.34

Cotton Textiles: Net Imports, Consumption and Net Import Consumption Ratios

	1951-53	1954-57	1958-60
Net Imports (000 Metric Tons)			
1. Africa	184.3	191.0	179.2
2. Latin America	49.0	53.9	51.6
3. Near East	47.0	37.5	19.4
4. Net Importing Far East	252.7	207.1	156.0
5. Net Importing Western Europe	57.5	46.4	51.6
6. Oceania	38.4	45.0	53.3
7. Canada	26.4	31.1	36.9
Consumption (000 Metric Tons)			
1. Africa	213.3	228.0	234.0
2. Latin America	482.7	583.5	635.7
3. Near East	208.0	264.5	311.3
4. Net Importing Far East	36.17	475.2	525.0
5. Net Importing Western Europe	180.0	190.1	181.3
6. Oceania	54.0	64.5	74.0
7. Canada	113.2	110.8	109.2
Net Import/Consumption Ratio (Percent)			
1. Africa	86.4	83.8	76.6
2. Latin America	10.2	9.2	8.1
3. Near East	22.6	14.2	6.2
4. Net Importing Far East	69.9	43.6	29.7
5. Net Importing Western Europe	31.9	25.0	28.5
6. Oceania	71.1	69.8	72.0
7. Canada	23.3	28.0	33.8
All Combined (Average)	45.1	39.1	36.4

Source: FAO: Per Caput Fibre Consumption, Commodity Bulletin Series No.31, 1958 and FAO:Monthly Bulletin of Agricultural Economics and Statistics, Vol.XI,January 1962.

The growth of import substitution in the cotton textile trade is not a surprising phenomenon. By nature the cotton textiles industry falls an easy prey to import substitution. It does not require any sophisticated technical skill. Besides, many countries have traditionally handloom weaving so that know how of techniques and skill is not a difficult task. Moreover, its growth does not necessarily depend on fresh demand. It can easily grow on existing demand simply by replacing imports, some time by import duties and export quotas. It is probably because of these features of this industry, that the development of cotton textile industry is a popular and favourite program of industrialisation of most of the developing countries. Cotton textile industry took the lead in the industrialisation program in India by replacing Lancashire as the main supplier to India. During the Second World War this industry grew fast in Latin America. In the post-war period cotton textile industry expanded at a fast pace in Egypt, Turkey and Pakistan and today they are not only self-sufficient, but also export small quantities. The growth of this industry is under way in many Asian and African countries. Consequently, world trade in cotton textiles does not show an upward trend.

India's Position: India's rise as an exporter of cotton textiles is only a post-war phenomenon. Before the war she was a heavy importer. Some very favourable circum-

stances were on India's side which put India on the world map of major exporters of cotton textile. World demand in cotton textiles rose rapidly in the post-war period. Because of war-time shortages, the post-war period witnessed a large unsatisfied demand in most countries and India cashed in on it. This factor might have been only short lived but for the Korean War. War created fears of renewed shortages and induced the businessmen in stock hoarding. On the supply side the post-war period was too short to permit the development of new industries in the importing regions. Besides, because of the pressing rehabilitation needs of the European industry itself, imported machinery were not freely available for the development of new industries in the under-developed countries. Under such circumstances the rising demand for cotton textiles could be satisfied only through increasing imports. Among the exporting countries, Circumstances were extremely favourable to India to increase her exports to Asia and Africa. To India's great advantage the inability of British industry to expand its output fast was very significant. Within the sterling area imports from outside were being discriminated because of balance of payments reasons. This provided an opportunity to India to expand her exports to the sterling area. In the Far East, India's prospects brightened because of delayed recovery of Japan. The major growth of Japanese industry took place only after 1951. All

these factors worked together to produce favourable outlook for Indian exports. Besides, the competitive ability of the Indian industry was also strengthened by the policies of the Government of India. The Government was controlling the prices of raw cotton at a level which was 30 percent below the prevailing world prices. And since in the cotton textile industry the cost of raw cotton constitutes fifty percent of the total cost of production,[20] this conferred a great competitive advantage to India.

Developments after 1951, however, took a reverse turn for India. Japan was able to recover and recoup her industry and extreme profitability of export markets started disappearing as supplies were available from other sources too. Under the changed circumstances it was difficult to expand exports. But since India is better endowed than others, it could have at least consolidated her position as an exporter. After 1951 exports of U.K. and U.S.A. were declining. India could have cashed in on it to raise her exports. But India just failed, Japan grabbed this opportunity. India could not even retain her 1951-53 share of world trade in the coming years.

Why could India not maintain her 1951-53 share of world trade during the late fifties? One of the reasons is that

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[20] Report of the Central Wage Board for the Cotton Industry, quoted by Singh: India's Exports Prospects, p.86, Clarendon Press, Oxford.

since 1951, India has been losing her relative cost advantage over Japan and others. India relies largely on home produced raw cotton and in the post-war period the Government of India was maintaining the price of raw cotton at about 30 percent lower level than prevailing in world markets and since cost of raw cotton accounts for about 50 percent of the total cost of production, this was a great advantage to India. On the other hand, Japan relying on imported cotton was obviously at a disadvantage. However, since 1955, prices of raw cotton have tended to come down and India's relative advantage over Japan has disappeared.[21] Besides, since 1951, wage costs in India have also been rising faster than in Japan.[22] This is a very significant factor in view of the fact that wage costs in textile industry constitutes 28-32 percent of total cost of production in India.[23] Because of the above factors, prices of cotton textiles in Japan since 1953 have been falling whereas in India they have been rising. This is substantiated by U.N. statistics as shown in Table 2.35.

Thus according to these figures while in Japan prices

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[21]Op.cit. Singh, p.88. He basis this conclusion on statistics published in Bulletins of International Cotton Advisory Committee, Washington.

[22]Op.cit. Singh, p.89. He provides statistical evidence of earnings and productivity of workers in India and Japan.

[23]Report of the Central Wage Board for the cotton textile industry, Government of India, 1960, quoted by Singh, India's Exports Trends, Clarendon Press, Oxford, 1964.

of cotton textiles in 1960 were 23 percent lower than in 1953, in India prices in 1960 were 23 percent higher than the 1953 level.

TABLE 2.35

Indices of Wholesale Prices of Cotton Textiles: India and Japan

	1953	1954	1955	1956	1957	1958	1959	1960
India	100	104	103	107	109	105	106	123
Japan	100	92	87	88	82	75	77	77

Source: Monthly Bulletin of Statistics, U.N., June 1961.

Another reason why India could not stand Japanese competition is that there has been little improvement in the quality of Indian exports since 1951. On the other hand, there has been a steady improvement in the quality of Japanese exports. Japanese government stressed the development of advanced techniques as an instrument of export promotion by granting special treatment through special taxation measures regarding depreciation of machinery and equipment necessary for modernising production facilities.[24] Standards were laid down regarding the fastness and washableness of colour and primitive hand printing was replaced by automatic screen printing.[25] As against this

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[24]Kuriha Textile Review, No.3, January 1960, quoted by Singh. India's Export Trends, p.90, Clarendon Press, Oxford, 1964.

[25]*Ibid.*

Indian exports have remained confined to coarse and medium cloth. Grey cloth constitutes about 60 percent of total Indian exports, bleached cotton and dyed cotton share about only 17 percent each of total exports.[26] This naturally limits the scope of exports. Besides, since the production of coarse and medium cloth is relatively simpler, the developing countries are most likely to concentrate on coarse cloth in the initial stages. Apparently Indian exports will be more hit than the Japanese. In recent years foreign importers have been giving preference to flawless cloth which can be produced only on automatic looms. In India ordinary looms account for bulk of loomage. The "other countries like China and Japan having equipped themselves extensively with automatic looms were at an advantage vis-a-vis India".[27]

Besides, home sales have also been growing increasingly attractive under the impact of rising demand. The following table will show that in the last decade wholesale prices of cotton textiles have grown faster than other goods, whereas prices of raw cotton have comparatively risen much less.

This table provides sufficient evidence as to why home sales have become increasingly profitable than export sales. And since the home market absorbes nearly 85 percent of the

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[26]Texprocal Bulletin, quoted by Singh. Ibid., p.91.

[27]Report of the Textile Enquiry Committee, Government of India, 1958, Ibid., p.91.

total mill made cloth,[28] such a development naturally resulted in insufficient attention being given to export market.

TABLE 2.36

Wholesale Prices of Cotton, Raw Cotton and all Goods

Period	Raw Cotton	Cotton Manufactures	All Commodities
1951-52	128	108	118.0
1952-53	100	100	100.0
1953-54	104	104	104.6
1954-55	102	107	97.4
1955-56	97	105	92.5
1956-57	111	116	105.3
1957-58	106	116	108.4
1958-59	99	112	112.9
1959-60	106	117	117.1
1960-61	112	128	124.8

Source: Adapted from Singh: India's Export Trends, Clarendon Press, Oxford, 1964. His original sources are Reserve Bank of India Reports on Currency and Finance and Reserve Bank Bulletins.

Future Prospects of World Trade in Cotton Textiles: The future of India's exports of cotton textiles is closely linked with future world trade. The prospects of world trade

[28]Ibid., p.94. Mr. Singh's source is Statistical Bulletins of the Textile Commission, Bombay, India.

in cotton textiles will largely depend on the growth of imports into the net importing regions and also on the policies of hitherto net exporting countries of Western Europe and U.S.A. as to their further liberalisation of import trade. If the past trends are any guide, imports into net importing regions are not likely to grow. Between 1951-53 and 1958-60 imports into these areas fell absolutely. Of course, world trade showed a modest upward trend but this was due to the growth of trade among net exporting countries themselves - because of the rise of imports into the U.K. and U.S.A. from Asia. Many countries whose dependence on imports remained quite heavy even during 1958-60 (i.e. African countries) having attained their independence in recent years are bound to embark upon the program of industrial development and the cotton textile industry is the favourite in programmes of industrial development in most under-developed countries. Therefore, import trade in cotton textiles is always the easiest victim of import substitution. Besides the synthetic fibres are increasingly acquiring a new appeal because of their novelty, durability and consequent cheapness. It appears, therefore, quite realistic to assume that world trade in cotton textiles will show no upward trend in the future and may well fall. As to the liberalisation of imports into industrial countries, nothing can be predicted. Many countries of Western Europe already impose quantitative

restrictions on cotton textiles produced by "Cheap Asiatic labour". Only U.K. and U.S.A. considerably liberalised their imports in the last decade. However, it is doubtful if there will be further liberalisation from these countries. Given a static if not declining volume of world trade, India will have to make vigorous efforts to maintain her 1958-60 level of exports. The fact that 60 percent of Indian exports consist of coarse and medium cloth, is further likely to prove a handicap in expanding exports as world demand in recent years has been for flawless cloth and export of coarse and medium varieties is likely to be an easy victim of import substitution in developing countries of Asia and Africa. Under these circumstances India's exports do not appear likely to rise beyond their 1958-60 level. At the most we may assume it may remain constant at the 1958-60 level.

From the above analysis of India's performance in cotton textile exports and behaviour of world trade in cotton textiles, the following conclusions emerge.

1. The world trade in cotton textiles shows no upward trend. The modest expansion registered between 1951-53 and 1958-60 was due to liberalisation of imports into the U.S.A. and the U.K. from Asian countries. Imports into traditionally net importing areas fell during this period by 8.1 percent.

2. However, the same environment did not hinder the growth of exports from Japan and Hong Kong. They both registered an expansion of exports between 1951-53 and 1958-60 by 49.4 percent and 64.7 percent respectively. On the other hand India even failed to stay at her 1951-53 level. In fact during 1951-53 and 1958-60 her exports declined and her share of world trade fell from 10.4 percent during 1951-53 to 10.1 percent during 1958-60.

3. Since 1951 cost of production relative to Japan has also been rising in India. Wages and raw cotton costs have risen faster for India than for Japan. This is one of the reasons why India could not stand Japanese competition.

4. India also did not improve the export quality of her textiles. Her exports remained confined to coarse and medium cloth which are likely to fall easy victim of import substitution in the developing countries of Asia and Africa.

5. During the last decade while the export markets became highly competitive, home markets grew steadily lucrative. It is, therefore, not surprising that India failed to maintain her 1951-53 share of world market during 1958-60.

7. THE NEW EXPORTS

In the last few years India has developed some new

export products consisting of light engineering goods, iron and steel manufactures, cinematographic and photographic films, medicinal and pharmaceutical products, etc., accounting for less than 4 percent of India's total export earnings. In India much hope is attached to the further growth of these exports. However, in view of their recent emergence and the attitude of industrial countries towards manufactured goods exports from primary countries, it is difficult to draw any firm conclusions about their future prospects. The following table gives some idea of the growth of these exports.

Engineering goods include a great majority of capital goods, and intermediate products such as nuts and bolts, hand pumps, screws, hand tools, simple type of agricultural appliances, utensils, sewing machines, electric fans, road building equipment, aircraft parts. Most of these products are being manufactures on small scale in small industrial estates established in large number. Iron and steel manufactures include buckets, tubes, cutlery, steel trunks, utensils, etc. Among the miscellaneous manufactured articles, besides others, the most important are medicinal pharmaceutical products, art silk fabrics, cinematographic and photographic films, etc. These things are also being manufactured on small scale but with highly sophisticated machinery and technology. Footwears are also manufactured

TABLE 2.37

India's New Exports (Million Rupees)

	1955	1957	1959	1960	1961	1962	1963	1964
A. Engineering Goods:								
1. Manufactures of Metals	N.A.	19.7	18.7	22.3	21.5	40.0	50.0	80.0
2. Machinery	12.0	N.A.	N.A.	30.0	34.0	38.0	43.0	64.0
3. Transport Equipment	3.0	N.A.	N.A.	7.0	5.0	6.0	17.0	22.0
B. Iron and Steel Manufactures	N.A.	3.7	20.5	81.2	96.7	122.7	N.A.	N.A.
C. Miscellaneous Manufactured Articles								
1. Medicinal and Pharmaceutical Products	2.0	10.3	8.4	10.0	10.0	11.0	11.0	21.0
2. Art Silk Fabrics	5.0	N.A.	N.A.	32.0	67.0	69.0	99.0	63.0
3. Footwear	15.0	27.0	29.4	31.0	24.0	28.0	36.0	43.0
4. Cinematographic and Photographic Films	N.A.	12.1	16.7	19.7	16.0	14.6	N.A.	N.A.
5. Chemical Elements and Compounds	9.0	N.A.	N.A.	8.0	13.0	13.0	11.0	19.0

N.A. = Not available.

Source: Compiled from Statistics published in Eastern Economist, Annual Number 1966 and various issues of Economic Weekly.

on a small scale, usually in cottage industries.

The bulk of the above products are exported to under-developed countries of Asia and Africa. In the light of these characteristics, we may now consider their export prospects. Firstly, with the present structure and extremely low base it is extremely difficult to imagine that they can really form the basis of great push forward as is hoped in official circles in India. Secondly, since they can be manufactured on a small scale with none too advanced technology, they are likely to become the first victim of import substitution in developing countries. Since most of the developing countries have balance of payments difficulties, the possibility that the importing countries may cut their imports altogether is not entirely unreal. In fact most of the developing countries where these exports find market have already started encouraging domestic production of most of such goods. Thus, if India's export of such goods remains as narrow based as they are now and her markets remain confined to neighbouring Asian and African countries, they are not very likely, to form the basis of a great leap forward. Of course, the picture will be different if India can develop markets in advanced countries and it is not entirely improbable provided India makes a determined effort to develop these simpler manufactures of a type that may suit the taste and need of the advanced countries for

because of labour cost reasons, the advanced countries may find it cheaper to import from India than to produce domestically. Under these circumstances if these new export goods are to be relied to make a major impact on India's exports, India needs to diversify these exports. In order to protect her exports against import substitution and import restrictions, India should see to it that majority of her exports consist of capital goods, chemicals, medicinal and pharmaceutical products which cannot be easily manufactured locally and which are very likely to occupy a high place in the import list of importing countries. India has also to ensure the competitiveness of prices and standard of quality. Very often importing countries have complained about low quality and once the U.S.S.R. returned the imported footwears for this reason.

India's traditional export products have a dismal prospect. There is, therefore, an urgent need for the expansion of these new exports. The present structure and base of these exports is extremely low. If these exports are to fill the trade gap there is an urgent need for the creation of additional export capacity. The Third Five Year Plan recognised this by stating that in industrial development emphasis will have to be on projects which "by contributing to exports will earn foreign exchange".[29] It further states

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[29] Third Five Year Plan, Government of India, New Delhi, p.458.

that "special attention will have to be given to the development of industries for whose products there are reasonable prospects of finding export markets".[30] But the plan while discussing industrial demand and capacity makes no mention of export demand at all and export possibilities have not been allowed for in planning additional capcity. That was a fault on the part of the planners. India can no longer delay the development of new exports. A successful build up to new export goods is a long process and requires careful planning. The world markets are becoming increasingly competitive and India will have to face a tough competition from advanced countries who have with them the weight of experience, reputation as well as the tied loans and grants extended by them to importing under-developed countries. India is well endowed with natural resources, with large reserves of iron ore and coal and sufficient know how, it would be a good strategy if her exports include iron and steel, industrial machinery, railway rolling, stock equipment, etc., otherwise the "new exports" alone will not provide a sufficient base for a big push on the export front and the great hopes pinned in official circles in New Delhi will be belied. Since India possesses an abundance of unused and under-utilised human capital, she should pay special attention to the manufacture of export goods involving labour intensive technology.

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[30] Ibid., p.459.

CHAPTER III

AN ANALYSIS OF IMPORTS

1. IMPORTS AND GROWTH

The Planning Commission of India's higher export targets for self-sustained growth by 1975 is presumably made on the belief that this will produce higher earnings of foreign exchange which can be used to purchase a higher absolute level of imports so that this will increase India's rate of growth.

One form of growth model (the Harrodian model) which is supposed to deal with open economies makes use of the equation

$$G = \frac{s + m - x}{v}$$ where G, rate of growth;

s, average propensity to same; m, average propensity to import; x, ratio of exports to income and v, marginal capital output ratio. The Harrodian model, in the form in which it is stated does not bring out clearly the impact on growth produced by the composition of imports.

It tends to refute the belief that a higher level of M can sustain a higher rate of growth simply because the rate of growth is not a function of the absolute level of M. It is a function of the difference between the propensity to import and ratio of exports to income, i.e. it is a function of (m-x). This can be seen from the following example. Suppose there are two countries A and B, and both have the same level of

income, say \$1,000. Both have the same propensity to save, say .10. Both have the same marginal capital output ratio, say 4. But they have differences in the level of their M and X, say M = \$100 for country A and \$50 for country B. X in A is \$80 and in B, \$30.

Tabular form:

Country A. $Y_A = \$1,000$, $s_A = .10$, $v_A = 4$

$M_A = \$100$, $X_A = \$80$ $\therefore$ $m_A = .10$ and $x_A = .08$

Country B. $Y_B = \$1,000$, $s_B = .10$, $v_B = 4$

$M_B = \$50$, $X_B = \$30$ $\therefore$ $m_B = .05$ and $x_B = .03$

Substituting the above values in the equation

$G = \frac{s + m - x}{v}$, we have

For Country A = $G_A = \frac{.10 + (.10 - .08)}{4} = .03$ or 3%

For Country B = $G_B = \frac{.10 + (.05 - .03)}{4} = .03$ or 3%

Thus according to the above type of analysis,(a) the composition of imports has no effect on the rate of growth, (b) so long as the difference (m-x) remains unchanged, a change in m will have no effect on growth.

Both the above statements are wrong,not because the theory is wrong in the absolute sense but because it is too simple. In actuality the composition of imports and a change in m brought about through a change in M or for any other reason (say Y) may affect the rate of growth.
At any moment of time (the growth equation holds for all moments in time supposedly), it does not matter what level M is at or what M consists of, but over time it must

matter because:

1. It is increasing the capital stock and,

,2. It could lower v (level of G varies) if M consists of capital whose v is lower than that of existing stock of capital.

One basic implicit assumption of this analysis is that s and v are both independent of both the levels of M and X and the type of goods included in M and X which follows from the explicit assumption in a Harrod-type model that the economy in question is a "one good" country. In the kind of economy to which Harrod-type analysis applies, strictly speaking there is only one good produced and this good can be either consumer good or used to produce more of that same good. This same assumption still holds when the growth equation is modified to fit an open economy. The underlying assumption is still the same, namely, that there is only one good and·that this can be considered as a consumption good, an investment good, an imported good or a domestic good. It is because of this assumption that this kind of analysis discalims any relation between the absolute level of imports (so long as m-x remains constant) and G on the one hand and between the composition (the consumption - investment mix) of import and G on the other hand.

Once we alter the model to allow for at least two types of goods - demestically produced and foreign produced

goods - which have certain distinguishing characteristics we believe that in fact there is a relationship between G and the level of imports and the composition of imports.

Although by no means a complete model, it is a relatively simple proceedure to alter the previous growth equation, $G = \frac{s + m - x}{v}$ in order to demonstrate this.

Instead of a "one-good" economy we can consider a "two-good" economy, - one with domestic good and imported goods. For our purpose we will assume that the only difference between these two kind of goods is that in their capacity as capital goods, they have different capital output ratios. We thus get the following set of relationships:

$$Y_T = C_T + I_T + X - M \qquad (1)$$

$$S = Y_T - C_T \qquad (2)$$

$$S = sY_T \qquad (3)$$

$$I_T = I_D + I_M \qquad (4)$$

$$I_D = v_D \Delta Y_D \qquad (5)$$

$$I_M = v_M \Delta Y_M \qquad (6)$$

$$\Delta Y_T = \Delta Y_D + \Delta Y_M \qquad (7)$$

where Y, C, I, X, M, S, s and v represent income, consumption, investment, all exports, all imports, the average propensity to save and the marginal capital output ratio. The subscript "T" stands for total goods, e.g. I_T stands for total volume of investment goods, both imported and domestic. Subscript "D" stands for domestic and subscript

"M" stands for imported. ΔY_D simply represents that portion of the increase in the total output that came from the increase in domestic capital goods. Similarly ΔY_M represents that part of ΔY that came from newly imported capital goods.

From relationships (1) to (6) we can develop the corresponding growth equations which will describe the actual growth ~~rate~~ path of an economy given particular values for the various variables.

Re-arranging equation (3);

$$s = \frac{S}{Y_T} \qquad \text{(3a)}$$

From equation (1), (2) and (4) we know that:

$$S = I_D + I_M + X - M \qquad \text{(2a)}$$

Substituting (5) and (6) for I_D and I_M in (2a):

$$S = v_D \Delta Y_D + v_M \Delta Y_M + X - M \qquad \text{(2b)}$$

Substituting (2b) into (3a):

$$s = \frac{v_D \Delta Y_D + v_M \Delta Y_M + X - M}{Y_T} \qquad \text{(8)}$$

Substituting ($\Delta Y_T - \Delta Y_M$) for ΔY_D (from equation 7) in (8)

$$s = \frac{v_D \Delta Y_T - v_D \Delta Y_M + v_M \Delta Y_M + x - M}{Y_T} \qquad \text{(9)}$$

where $x = \frac{X}{Y_T}$ and $m = \frac{M}{Y_T}$ or

$$s + m - x = v_D G - (v_m - v_D)\,\frac{\Delta Y_m}{Y_T} \quad \ldots\ldots\ldots\ldots\ldots\ldots (9a)$$

where $G = \dfrac{\Delta Y_T}{Y_T}$

Solving for (6) we have:

$$G = \frac{s + m - x}{v_D} - \frac{(v_M - v_D)}{v_D} \cdot \frac{\Delta Y_M}{Y_T} \quad \ldots\ldots\ldots\ldots\ldots (10)$$

We are interested in relating (6) not only to the level of M but also to the proportion of M that consists of investment goods (I_M).

$\therefore$ Let $\quad \mu = \dfrac{I_M}{M} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots$ (11)

where μ is the "investment intensity" of imports.

Rearranging (11), we have:

$$I_M = \mu_M$$

and from (6) $\quad v_M \Delta Y_M = \mu_M$

or

$$\Delta Y_M = \frac{\mu_M}{v_M} \quad \ldots\ldots\ldots\ldots\ldots\ldots (12)$$

Substituting (12) into (10) for ΔY_M and knowing that $\dfrac{M}{Y_T} = m$ we have:

$$G = \frac{s + m - x}{v_D} - \frac{v_M - v_D}{v_M v_D} \cdot \mu . m \quad \ldots\ldots\ldots\ldots\ldots (13)$$

or

$$G = \frac{s + m - x}{v_D} - \left(\frac{1}{v_D} - \frac{1}{v_M}\right) \cdot \mu . m \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots (13a)$$

Equation (13) or its alternative form (13a) provides us with a growth equation which relates the rate of growth to the

level of imports (through "m") and to the capital good-content of imports (through "μ").

To repeat our basic assumption here (apart from those involved in the basic model) is that domestic and imported capital goods have different capital output ratios. This means that there are three different cases which will have different effects on the rate of growth under this kind of analysis, namely, (1) $v_M = v_D$, (2) $v_M > v_D$, and (3) $v_M < v_D$.

If $v_M = v_D$, then (13) reduces to $G = \frac{s + m - x}{v_T}$ where $v_T = v_M = v_D$, and μ has no effect on G, nor has m so long as (m-x) is constant.

If $v_M > v_D$, the larger μ, the smaller will be G and the larger m, the smaller will be G even when (m-x) is constant.

If $v_M < v_D$, the larger μ, the larger will be G and the larger m, the larger will be G even when (m-x) is constant.

This last case is the case we are looking for. So long as $v_M < v_D$, increasing the level of imports and increasing the proportion of imports that consists of capital goods will definitely be beneficial to growth. We could, of course, still use the simpler growth equation:

$$G = \frac{s + m - x}{v_T}$$

instead of equation (13) or (13a).

$$G = \frac{s + m - x}{v_D} - \left(\frac{1}{v_D} - \frac{1}{v_M}\right) . \mu . m,$$

but, in doing so we disguise the fact that v_T is not independent of m or the proportion of M that consists of capital goods (μ).with the simpler equation, as m and μ change, so does v_T, yet the equation does not tell us how.

Our model could be further improved if we could incorporate into it the fact that a higher absolute level of capital for any given level of income would allow a higher rate of growth. To do so, however, we would require a much more complex model. Without developing such a model equations (13) and (13a) serve to illustrate the main point, that the rate of growth of income does depend on the level of imports and on the proportion of them that consists of capital goods. It further highlights the desirability of importing capital goods that embody a more advanced level of technology than domestic goods as reflected in their (technical) capital output ratios. With our present model we can only say that such a situation is desirable. We can not say that it is absolutely necessary because of the weakness that we have already mentioned, namely, that we have not included the relationship between the rate of growth and the absolute size of the total stock of capital.

Because of the lack of data on the propensity to save and on the capital output ratios, it is not possible to demonstrate with the use of actual data the effect on

growth of the various factors included in our growth equation. The annual data (Table 3.1) in which we have ΔG, $\Delta(m-x)$ and $\Delta\mu.m$ does not always show a relationship consistent with the assumption that $v_M < v_D$. However, we should not take this as a refutation of our growth equation simply because we do not know whether s, v_M and v_D have remained constant which they must do if this type of analysis is to have any validity. The main reason for including Table 3.1 is that it provides a data upon which Table 3.2 is based, that is, it provides a basis for making a rather general statement about the period as a whole, without a complete and reliable set of data, it is not very possible to say any thing very specific about the relation between growth and the level and use of imports for India. We are restricted to the use of generalities and common sense. Both tell us that an increasing investment intensity of imports (μ) coupled with increasing imports must be beneficial to growth. The best that we can do by way of supporting such a statement is to show, as in Table 3.2 that the data are not inconsistent with our growth equation when the data are used for broad time periods such as the planning periods. The change in the average rate of growth between each of the three planning periods is perfectly consistent with the changes in μ, m, and m-x.

TABLE 3.1

Growth and Imports

	G	m	x	(m-x)	μ	μ.m	ΔG	Δ(m-x)	$\Delta(\mu$.m)
1951	+.0962	.086	.079	.007	.242	.021			
1952	-.0152	.082	.063	.019	.220	.018	-.0614	+ .012	-.003
1953	+.0629	.055	.051	.004	.280	.015	+.0781	- .015	-.003
1954	-.0905	.064	.059	.005	.291	.019	-.1534	+ .001	+.004
1955	+.0370	.067	.061	.006	.408	.027	+.1275	+ .001	+.008
1956	+.1175	.073	.055	.018	.472	.034	+.0805	+ .012	+.007
1957	+.0070	.094	.058	.036	.437	.041	-.1105	+ .018	+.007
1958	+.0960	.070	.046	.024	.403	.027	+.0890	- .012	-.014
1959	+.0270	.073	.048	.025	.397	.029	-.0690	+ .001	+.002
1960	+.0854	.077	.045	.032	.395	.031	+.0584	+ .007	+.002
1961	+.0432	.073	.045	.028	.452	.033	-.0422	- .004	+.002
1962	+.0389	.073	.044	.029	.435	.032	-.0043	+ .001	-.001
1963	+.1046	.066	.046	.020	.458	.030	+.0657	- .009	-.002

Source: Calculated from statistics published in U.N.E.C.A.F.E. various years.

TABLE 3.2

Growth and Imports - Planning Period

	G	m	x	(m-x)	μ	μ.m	ΔG	Δ(m-x)	Δ(μ.m)
1st Plan	+.008	.071	.062	.009	.288	.020			
							+.059	+.018	+.012
IInd Plan	+.067	.077	.050	.027	.421	.032			
							-.005	-.001	-.001
IIIrd Plan	+.062	.071	.045	.026	.441	.031			

Source Table 3.1

2. DIRECTION OF IMPORTS BY REGIONS AND COUNTRIES

Table 3.3 shows geographical distribution of India's imports. Table 3.4 gives a bird's eye view of Table 3.3.

These tables show that India's major import markets are North and Central America and Western Europe which together in 1960-62 accounted for over 60 percent of total Indian imports. Under-developed countries of Asia, Africa and the Middle East shared about 25 percent of total Indian imports. East European countries and U.S.S.R. and others accounted for less than 10 percent of total imports. Why are India's imports with advanced countries of North America and Western Europe so high and under-developed countries of Asia and Africa so low? The reason for this is that India's main import requirements are capital goods and machinery which can be supplied only by advanced countries of North America and Western Europe. Under-developed countries of Asia, Africa and the Far-East do not have the type of machinery and equipment which India requires for her growing industries. They themselves are heavy importers of machinery. Among Asian countries only Japan is an exception. Among the North and Central American, the most important market for India is the United States. The import goods obtained from the U.S.A. are mainly foods and capital goods. The second in importance is Canada, which supplies mainly food and some other primary products.

TABLE 3.3.

Direction of Imports: Geographical Distribution
(Percentage Distribution)

Period	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Total Imports of Which from	1792.7	1695.4	1200.7	1234.5	1413.4	1708.7	2154.2	1814.8	1863.5	2123.6	2006.1	2223.6
1. North and Central America	26.8	38.3	19.7	14.4	14.8	12.6	18.0	22.8	24.8	25.6	22.9	29.5
2. South America	.5	.1	.5	.4	.6	.3	.2	.2	.2	.1	.2	.2
3. Western Europe (including U.K.)	29.9	30.4	42.7	44.1	45.0	51.4	49.3	42.1	44.4	41.7	44.2	35.0
4. East Europe and U.S.S.R.	.9	.7	.7	.9	1.2	3.2	3.7	3.9	3.5	3.4	6.2	9.5
5. Middle East	13.4	8.0	11.6	12.3	13.0	11.8	10.9	9.6	9.9	9.0	8.7	9.6
6. Other Africa	3.4	3.7	5.7	5.1	4.8	4.5	3.3	4.2	4.3	4.7	4.3	2.9
7. Other Asia	22.7	16.7	14.3	20.1	17.5	14.5	12.7	15.3	11.5	13.1	11.8	11.4
8. Oceania	2.4	2.1	4.8	2.7	3.1	1.7	1.9	1.9	1.4	2.4	1.7	1.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Direction of International Trade, U.N. New York.

TABLE 3.4

Direction of Imports (Geographical Distribution)
(Percentage Distribution)
(Yearly Averages)

Period	1951-53	1954-56	1957-59	1960-62
Total Imports of which from				
1. North and Central America	28.3	13.9	21.9	26.0
2. South America	.4	.4	.2	.2
3. Western Europe (including U.K.)	34.3	46.8	45.3	40.3
4. East Europe and U.S.S.R.	.8	1.8	3.7	6.3
5. Middle East	11.0	12.4	10.1	9.1
6. Other Africa	4.2	4.8	3.9	4.0
7. Other Asia	17.9	17.4	13.2	12.1
8. Oceania	3.1	2.5	1.7	2.0
TOTAL	100.0	100.0	100.0	100.0

Source: Table 3.3

North and Central America have been losing India as an export market and their share in total Indian imports declined from 28.3 percent in 1951-53 to 26.0 percent in 1960-62. This has been largely shift of imports from North America to East Europe and U.S.S.R. trade with whom has increased under bi-lateral arrangements. South America is an insignificant import market for India and their share of total Indian exports

fluctuated between .1 and .6 percent throughout the period under study. Western Europe is the largest import market of India and among them the largest single supplier is U.K. Indian imports from this part of the world mainly consist of machinery, capital goods and chemicals and other materials necessary for the process of industrialisation on in India. Imports from Western Europe increased from 34.3 percent in 1951-53 to 40.3 percent in 1962-64 for the very above reason. Imports from East European countries and the U.S.S.R. have continuously grown throughout the period and in comparison to .8 percent of total Indian imports in 1951-53, this part's share of total Indian imports stood at 6.3 percent in 1960-62. This expansion has been mainly due to bilateral trade arrangements between India and East Europe and the U.S.S.R. entered into from time to time. As the U.S.S.R. and East European countries are industrialised or semi-industrialised, to a certain extent they are in a position to supply the goods India needs. As we have seen that Indian exports to this part of the world over this period has also very much grown, this may have important policy implications. The main imports from this part of the world consist of capital goods and equipment. Imports from Asia, Africa and the Middle East have been declining over the period 1951-53 to 1960-62 because they are unable to supply the type of goods India requires for her development planning. Only Japan is an

exception. Imports from this part of the world consist mainly of food, primary products and industrial raw materials. Oceania has never been an important import market for India and Indian imports have shown a declining tendency over the period under coverage. Indian imports slipped down to 2.0 percent in 1960-62 from 3.1 percent in 1951-53. Here too the same reason operated in this decline which operated in the case of Asia, Africa and the Middle East. The main Indian imports from this part are food, primary products and some crude materials.

Table 3.5 shows that India's main import markets are the United States, U.K. and Germany and in 1960-62 these three countries together accounted for over 50 percent of total Indian imports. Other less important markets are France, Italy, Luxemberg, U.S.S.R. and Czechoslovakia have developed into important import markets for India, their share together from .3 percent in 1951-53 jumped to 4.4 percent in 1960-62. India's imports from Asian and African (Middle East) countries - Egypt, Iran, Ceylon, Pakistan, Indonesia - have tended to decline. Japan is the only one among Asian countries which has consistently grown as an important exporting country to India. Semi-industrialised Australia and New Zealand failed to maintain their 1951-53 share of Indian imports.

India's import markets are determined by her requirements -

TABLE 3.5

Direction of Imports: By Countries
(Million Dollars)

Total Imports of which from	1951-53	1954-56	1957-59	1960-62
1. United States	17.4	12.4	19.0	24.3
2. Canada	2.2	.9	2.5	1.4
3. U.K.	19.8	24.8	20.9	19.1
4. Belgium (Luxemberg)	1.1	2.2	2.0	1.2
5. France	1.6	2.4	2.3	1.5
6. Germany	2.4	8.2	12.1	11.0
7. Italy	2.5	3.1	2.9	2.3
8. Netherland	1.5	2.0	1.3	1.2
9. U.S.S.R.	.1	.9	2.2	3.1
10. Czechoslovakia	.2	.5	.6	1.3
11. Egypt	3.8	2.8	.9	1.2
12. Iran	1.7	2.4	4.5	4.0
13. Ceylon	.7	1.2	.6	.4
14. Pakistan	5.8	3.1	.9	1.4
15. Indonesia	.2	.2	.4	.2
16. Japan	2.4	4.4	4.9	5.6
17. Australia	2.6	2.1	1.6	1.9
18. New Zealand	.2	.3	.2	.1

Source: Direction of International Trade: U.N., New York.

the type of goods she needs. As noted earlier India's main imports are machinery, capital goods and chemicals needed for the development of agriculture and industry. These are obtainable only from advanced industrial countries of Europe and North America. It is for this very reason that India's main import markets are concentrated in the U.S.A., the U.K. and Germany and other European countries. Though towards 1960-62 the Indian import shares of Italy, Netherland, Belgium, Luxumberg, France and the U.K. have declined, but for this it is the increasing competition with the U.S.A. and Germany that is to be blamed and also to a certain extent the shift in import demand to the U.S.S.R. and Czechoslovakia. Imports from the U.S.S.R. and Czechoslovakia have grown from .3 percent in 1951-53 to 4.4 percent in 1960-62. This has been due to bilateral trade arrangements between India and these countries. Besides, these countries are also capable of supplying machinery and capital goods. Imports from Egypt, Ceylon, Pakistan and Indonesia have declined in 1960-62 as compared to 1951-53 for the reason that these countries are unable to provide machine and capital goods which India needs. India's imports from these countries consist of mainly agricultural and raw products. Besides, political reasons with respect to Pakistan are also responsible for declining Indian imports. Among the non-western countries Japan and Iran are the only

countries which have increased exports to India. These countries have achieved a stage of industrialisation that they can provide the type of goods which India requires to a certain extent. Imports from Australia and New Zealand have also declined in 1960-62 as compared to 1951-53. These countries are mainly suppliers of agricultural products and raw materials. The decline in imports from these countries has been because of shift in import demand to U.S.S.R. and Czechoslovakia. A decline in imports from Canada has been due to a shift in import demand to the U.S.S.R. Canada supplies mainly food and other agricultural products. These are obtainable from the U.S.A. under P.L. 480 against rupee payment.

CHAPTER IV

TERMS OF TRADE

Empirical evidence seems to show that terms of trade in the post-war period have generally shifted against primary exports in favour of manufactured goods.[1] This view is strikingly corroborated by the evidence furnished by the Indian case. Terms of trade measures the relative changes in the values of imports and exports compared with base year values. Statistically it is computed by the ratio of index numbers of average value of total exports to that of total imports. The following table shows India's terms of trade.

TABLE 4.1

India's Terms of Trade
(Base 1958 = 100)

Period	Unit Value Index of Imports	Unit Value Index of Exports	Terms of Trade
1951	109	152	139
1955	95	96	101
1956	90	101	112
1957	78	105	135
1958	100	100	100
1959	93	100	107
1960	98	109	111
1961	99	111	112
1962	94	106	113
1963	97	106	109
1964	99	106	107

Source: Eastern Economist, Vol.45,No.7,August,13,1965

[1] Menzies:"Trends in Terms of Trade,International Trade Theory in a Developing Economy", Edited Harrod and Hague.

The above table shows that for the period 1951-64 terms of trade on the whole have moved against India. Some years they moved favourably and some years adversely but the trend for the period as a whole is an adverse one. In other words, due to a gradual fall in the prices of exported commodities accompanied by a relative increase in the prices of imported commodities India has had to make larger payments in 1964 than in earlier years. It is evident from the table that the greater part of the adverse movement of the terms of trade for the period as a whole occurred before 1958, with the movement being generally favourable since 1958 but not favourable enough to restore the earlier level, in fact, since 1962 they have once again turned against India. In 1962 exported commodities were sold at nearly 6 percent more as compared to 1958 and imported commodities were purchased at over 6 percent below the prices prevailing in 1958. After 1962, export prices have remained almost stable while import prices have continued to increase. Consequently between 1962 and 1964 the terms of trade have moved against

India to the tune of 6 percent.

The following table gives a breakdown of the changes since 1958 in the prices of major items of India's foreign trade and shows their relationship to the changes in the overall terms of trade of the country.

TABLE 4.2

Unit Value Indices of Imports and Exports
(Index:Base 1958 = 100)

	I 1958	II Indices of Imports 1964	III Indices of Exports 1964
1. Food	100	97	110
2. Beverages and Tobacco	100	112	101
3. Crude Materials	100	105	87
4. Mineral fuels, lubricant	100	75	97
5. Chemicals	100	60	143
6. Manufactured Goods (Textiles, paper and metal products)	100	98	106
7. Machinery and Transport Equipment	100	120	82
8. Miscellaneous Manufactures	100	115	134
Total	100	98	107

Indices of Imports: 1 includes fruits also, 3 includes textile fibres, pulps etc., also, 6 includes textile papers, metal products.

Indices of Exports: 1 includes tea also, 3 includes hides and skins, metallic ores, coal, textile fibre, 7 includes leather goods, textiles.

The above table shows that though between 1958 and 1964 the overall unit value index of imports moved by only 2 percent, there were considerable fluctuations between

various groups. For example, between 1958 and 1964, imports in the beverages and tobacco group were at about 12 percent higher prices in 1964 as compared with 1958. Similarly, machinery and transport equipment, which at present constitute the largest single group in the import list were imported in 1964 at 20 percent higher prices as compared to 1958. Miscellaneous manufactured articles, unspecified in any other group, have also been imported at about 15 percent higher prices. The simple reason for this is that more and more sophisticated types of import machinery has been purchased in recent years at higher prices. With regards to chemicals, it is interesting to observe that in 1964 chemicals were brought at prices 40 percent below the ones prevailing in 1958. This is due to competitive reduction in prices of some chemicals all over the world. The same is true of minerals and fuels which were priced 25 percent lower than the 1958 level. The import prices of food as well as the manufactured goods groups tended to be almost constant though leaning towards the lower side.

Table 4.2 further shows (Column III) that the overall index of unit value of exports was higher by 7 percent in 1964 as compared to 1958. This seems to have been influenced mainly by food (including tea) which constitutes the largest export commodity group. During the period 1958-64, prices

of tea in the export markets have tended to be higher[2] and this is the reason that unit value index in the food group registered a rise of 10 percent. One significant figure in the above table is the unit value index (exports) of machinery and transport equipment showing a decline of 18 percent between the period 1958 and 1964. This may be contrasted with unit value of imports of this group. The comparison will show that while machinery and transport equipment have been imported at 20 percent higher prices as compared to 1958, the same group of commodity over the same period has been sold at 18 percent lower prices. This is rather unfortunate for India because India has been developing and attempting to export various items of machinery. Export prices of crude materials also showed a lowering tendency and were 13 percent below the prices that ruled in 1958. Beverages and tobacco prices remained more or less steady. Manufactured goods (leather goods and textiles) also showed an upward trend in their unit value. There has been a very significant rise in the unit value of unspecified manufactured goods.

Looking at the terms of trade table and comparing with 1958 base, it would appear that terms of trade in 1964 were favourable by 7 percent, but if we consider the trend for the period 1951-1964 as a whole, we find that terms of trade have moved

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[2] India's Terms of Trade, Eastern Economist, Vol.45, No.7, August 13, 1965, p.303.

against India. Even if we compare the 1964 terms of trade with the base 1958, we have to take note of the fact that terms of trade were "disguised" to some extent because the various export promotion schemes helped exporters to sell at subsidised rates in foreign markets. If this element were taken into consideration, and were measurable, then it might even show that when compared to 1958 terms of trade in 1964 were adverse and in comparison to 1951 still more adverse.

CHAPTER V

PROBLEM OF EXTERNAL PAYMENTS AND FINANCE

1. BALANCE OF PAYMENTS

Given the difficulty of expanding exports at any substantial pace, it was inevitable that the policy of development would lead India into balance of payments problems. Though the foreign trade of India has been fluctuating between 4 and 9 percent, it is crucial to development strategy. They obtain from imports such of the equipment and capital goods required for economic development. The lagging exports have, however, caused difficulties and imports had to be paid in addition to export earnings by a withdrawal from reserves of the foreign exchange accumulated during the Second World War and also from massive aid from friendly countries and international agencies. Thus during the First Plan export earnings financed 88 percent of imports; during the Second Plan the import-export ratio stood at 64.8 percent and during the Third Plan the ratio could rise to 66.8 percent. The foreign aid has had to help finance these imports and at the same time supplement both domestic savings and real resources. The following table will give some idea of the role of foreign aid in financing the imports in excess of export earnings.

(The ratio of foreign assistance and import plus export-import ratio during the Third Plan exceeds 100 percent. The

reason for this is that whereas the aid received from the U.S.A. includes the U.S. public Law Assistance, the import figures obtained from UNECAFE sources do not include the imports under the U.S. public law schemes. Hence the import and foreign assistance ratio during I, II and III plan are not strictly correct. However, they give some approximation of the trend).

TABLE 5.1

Foreign Assistance as a Ratio of Exports and Imports (Million Rupees)

	I Exports	II Imports	III Foreign Aid	Ratio of III to I	Ratio of III to II
I. Plan Period (1951-55)	31,044	35,292	2017.0	6.5	5.7
II. Plan Period (1956-60)	31,128	48,060	14353.0	46.1	29.9
III. Plan Period (1961-64) 4 years	29,556	44,269	17156.0	58.0	38.7

Source: Eastern Economist, Budget No. March 1965.

In addition to foreign assistance imports had also to be financed by withdrawal from foreign exchange reserves. The withdrawal from reserves could not be an unending process. It has already gone too far and the reserve stands

depleted today as will be evident from the following table.

TABLE 5.2

India's Foreign Exchange Reserves
(Million Rupees)

End of	Amount	% Change
1951-52	7866.9	
1955-56	8246.1	+4.8
1956-57	6811.0	-17.4
1957-58	4212.2	-38.0
1958-59	3789.2	-10.0
1959-60	3628.6	-4.2
1960-61	3036.1	-16.3
1961-62	2973.1	-2.1
1962-63	2951.0	-1.0
1963-64	3058.1	+3.7
1964-65	2496.8	-18.4

Source: Eastern Economist, Annual Number,1966.

An attempt is made here to examine the problems of external payments and finance for India. After considering the balance of payments difficulties an examination is made of the role of export earnings and long term capital movements in financing imports and service payments. A comparison of the balance of payments position between 1956-60 and 1961-64 is shown in the following table. The most striking feature is the deterioration in the aggregate current account position which moved 3,305 million rupees in 1956-60 to 3,658 million rupees in 1961-64. Though the trade balance in 1961-64 declined marginally in comparison to 1956-

60 but there was a marked deterioration in invisibles which contributed to this situation of a rise in the current account deficit in 1961-64. The reduction in the invisibles item comprising services, insurance and transportation stood at 868 million rupees in 1961-64. This has been owing to the growing interest and dividened payments after foreign capital had flown into the country during the First and Second Plan periods.

India's large deficit in the current account during both the periods was the direct result of the gathering momentum of economic development during the Second and Third Plan periods. The trade deficit of 4645.0 million rupees during 1956-60 was slightly offset by the large surplus of 981 million rupees in invisibles. Though the invisibles show a surplus they have fallen since 1956-60 because of the lower interest receipts as sterling balances were reduced and because of increasing payments for interest and dividends on funds borrowed.

2. FINANCING OF THE PAYMENTS DEFICIT

Both in 1956-60 and 1961-64 the current account deficit was matched to a great extent by an inflow of long term capital. In fact during the period 1961-64 the current account deficit was more than matched by an inflow of long term capital. However, the net result of all international financial

TABLE 5.3

India's Balance of Payments: Annual Averages
(Million Rupees)

	Trade Balance	Other Invisibles*	Official Donations	Current Account Net	Private Capital	Banking Capital	Official Capital Net**	Capital Account Net	Net Errors and Omissions
1956-60	-4645	981	359	-3305	-101	2	2183	2084	-128
1961-64	-4315	112	580	-3658	69	-28	3807	3779	-291

* Includes debt servicing and other services - like transportation and insurance.

** Including loans, I.M.F. account, other foreign assets, government liabilities, monetary gold.

Source: Compiled from statistics published in U.N. ECAFE, Economic Survey of Asia and Far East, various years.

transaction shows a fall in the official foreign exchange resources between 1951 and 1964. Reserves by the end of 1964 bore a precarious ratio of about 23 percent[1] to total imports of 10,884 million rupees and in comparison to 1951 reserves in 1964 declined by 68.3 percent. The problem of external payments is likely to become more acute as imports increase further with the building of domestic infrastructures and increased tempo of industrialisation. Between 1951 and 1964, export earnings of India increased by 6.6 percent whereas imports increased by 27.4 percent.[2] The disparity in growth rates of exports and imports led to a significant decline in the ratio of export earnings to total imports from 91.7 percent to 76.7 percent over the same period.[3] There was, therefore, increasing reliance on foreign aid. The declining role of export earnings in financing current payments has required India to mobilise to an increasing extent foreign resources to bridge the gap. The ratio of foreign aid to payment for imports rose from 5.7 percent during the First Plan to 38.7 percent in the Third Plan period.[4] This large increase came from a combination of favourable factors within the aid giving countries as well as in India

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[1]Compiled from Tables 5.1 and 5.2.

[2]Table 2.2.

[3]Table 2.2.

[4]Table 5.1. Of course this ratio is not completely correct since it represents U.S. public law assistance also.

and also for an expansion of lending activities by international institutions. This sizeable increase in the flow of external assistance is in conformity with the marked upward trend in the flow of foreign assistance to under-developed regions.[5] The greater part of this capital came from the United States. Next come the continental West European countries and in recent years international institutions and centrally planned economies have also stepped up their contributions. The Government of India has also taken various measures to attract public long-term capital and private business investment. The following table provides a breakdown of foreign assistance received by India in terms of its natural origin.

It will be seen from this table that the U.S.A. is the most important source of assistance in India. Its total assistance rose from 1,419 million rupees in the First Plan period to 10,569.4 million rupees during the Third Plan. Her share of total assistance during the First Plan stood at 70.0 percent and 61.6 percent during the Third Plan.[6] There was also a perceptible increase in the flow of assistance from European Countries during the Second and Third Plans, during the First Plan there being no inflow. Foreign funds from the rest of the world, including international

[5] See U.N. Studies "International Plan of Long Term Capital and Official Donations", 1961 and "Capital Development Needs of Less Developed Countries", 1962.

[6] Compiled from Table 5.4

TABLE 5.4

External Assistance
(Million Rupees)

	I First Plan	II Second Plan	III Third-Plan (1961-64)	Cumulative Utilisation (I+II+III)
A. <u>Loans</u>				
1. I.B.R.D.	338.2	2227.9	926.8	3492.8
2. I.D.A.	-	-	784.4	784.4
3. U.S.A.	926.0	1536.6	5305.0	7767.6
4. U.K.	-	1218.5	1092.8	2311.3
5. West Germany	-	1250.8	1370.9	2621.7
6. Canada	-	157.1	43.4	200.5
7. Japan	-	160.1	436.9	597.0
8. Italy	-	-	69.2	69.2
9. France	-	-	-	-
10. Austria	-	-	16.3	16.3
11. Netherlands	-	-	5.3	5.3
12. Belgium	-	-	-	-
13. Switzerland	-	-	19.7	19.7
14. Sweden	-	-	-	- -
15. U.S.S.R.	-	748.5	1370.3	-
16. Czechoslovakia	-	-	38.9	38.9
17. Poland	-	-	55.7	55.7
18. Yugoslavia	-	-	14.8	14.8
19. Denmark	-	-	-	-
TOTAL (A) Loans	1264.2	7299.5	11550.4	20114.1
B. <u>Grants</u>				
1. T.C.A. (Dollar Grants and Ford Foundation.	442.6	855.9	233.4	1531.9
2. Colombo Plan Countries	252.6	701.7	316.5	1279.8
3. Norway	16.6	18.7	12.8	38.1
4. West Germany	-	6.1	11.5	17.6
5. U.S.S.R.	-	11.5	-	11.5
6. Sweden	-	-	-	-
TOTAL (B) Grands	701.8	1602.9	574.2	2878.9

continued

TABLE 5.4 CONTINUED

	I First Plan	II Second Plan	III Third-Plan (1961-64)	Cumulative Utilisation (I+II+III)
Total Loans and Grants excluding U.S. Public Law Assistance	1966.0	8902.4	12124.6	22993.0
C. U.S. Public Law Assistance	51.0	5450.5	5031.0	10532.5
Grand Total (A+B+C)	2017.0	14352.9	17155.6	33528.5

Source: Eastern Economist: Special Budget Number, March 5, 1965.

agencies, also increased from a modest 590.8 million rupees during the first plan to 2027.7 million rupees during the third plan.[7] There was no flow of assistance from the U.K. during the first plan, but from 1218.5 million rupees during the second plan, her contribution rose to 2311.3 million rupees. The share of U.K. in the total foreign assistance during the second plan was 8.5 percent and dropped down to 6.4 percent during the third plan period.[8] Similarly the share of the U.S.A. in the total assistance dropped down from about 70 percent during the First Plan to 61.6 percent during the Third Plan,[9] but there was substantial increase in the

[7]Compiled from Table 5.4.

[8]Calculated from Tables 5.4.

[9]Calculated from Table 5.4.

absolute sense over the same period and accounted for a lion's share of the total assistance. The share of the rest of the world in the total aid received also dropped down from 24.2 percent during the First Plan to 11.8 percent during the Third Plan.[10] The assistance from European countries (excluding the U.K. and including the U.S.S.R.) was almost nil during the First Plan, but from 2035.6 million rupees during the Second plan it rose to 2985.4 million rupees and the share of this group of countries stood at about 14.2 percent during the Second Plan period and rose to 17.4 percent during the Third Plan.[11]

Another way of looking at this problem is to link the direction of imports with that of assistance from these countries. During the First Plan period almost no assistance was received from European countries in any form. During the Second Plan period (1956-60), Europe and the U.S.S.R. accounted for about 49.3 percent[12] of the total Indian imports but for only about 22.7 percent[13] of total foreign assistance to India during this period. As against this the United States accounted for about 18.7 percent[14] of total Indian imports

[10] Calculated from Table 5.4.

[11] Calculated from Table 5.4

[12] Calculated from Table 3.3.

[13] Calculated from Table 5.4

[14] Calculated from Table 3.4.

during the Second Plan period but accounted for about 54.7 percent[15] of total foreign assistance during this period. The rest of the world accounted for 32 percent of imports during this period and shared 22.6 percent[16] of total foreign assistance. But this relationship in the case of the rest of the world is less meaningful because of lack of correspondence between loans from international institutions and imports. During the Third Plan period (1961-64), European countries including the U.S.S.R. accounted for 44.8 percent[17] of total Indian imports but during the same period shared about 23.8 percent[18] of total foreign assistance. As against this U.S.A. shared about 25.9 percent[19] of Indian imports during 1961-64 but accounted for 61.6 percent[20] of total foreign assistance over this period.

Foreign assistance from European countries (including the U.S.S.R.) financed about 14.8 percent[21] of imports purchased from them during the Second Plan period and during the Third Plan period (1961-64) foreign assistance from them

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[15]Calculated from Table 5.4.

[16]*Ibid.*

[17]Calculated from Table 3.3.

[18]Table 5.4.

[19]Table 3.3.

[20]Table 5.4.

[21]Tables 3.3 and 5.4.

financed 23.1 percent[22] of total imports from them. As against this during the Second Plan period foreign assistance from the United States financed about 28 percent[23] of imports purchased from them over this period and during the Third Plan period (1961-64) foreign assistance from the U.S.A. financed about 51.3 percent[24] of imports bought from them.

3. PROBLEMS OF FOREIGN AID

Changes also took place in the composition of assistance reflecting new attitudes of aid giving countries. It is obvious that grants and donations requiring no repayment and bearing no interest rates are different from loans that have to be repaid with interest over a period of time. The extent to which aid comes through grants and the extent to which loans have liberal financial provisions have a direct bearing on future balance of payments. As much as 701.8 million rupees or 34.8 percent of total foreign assistance during the First Plan period was received in the form of grants while the loans constituted the rest 65.2 percent and during the Third Plan period the grants were reduced to 574.2 million rupees amounting to 3.3 percent of the total assistance received.[25]

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[22] Table 5.4.

[23] Ibid. This foreign assistance and imports ratio does not include the aid received under U.S. public law because the imports figures do not include the value of imports under this scheme.

[24] Tables 3.4, and 5.4.

[25] Table 5.4.

It is clear from Table 5.4 that European countries make hardly any contribution in the form of grants and that the United States is the only major source of such aid and from the United States too the flow of this type of aid has decreased. Thus during the First Plan grants constituted 32.4 percent of the total assistance from the United States and during the Third Plan period grants bore a ratio of only 4.2 percent of the total U.S. aid.[26] This relative decline in the importance of grants reflects the shift of emphasis to loans. The absence of grants aid from Europe and decline in the U.S. grants indicates their rather stiff financial orthodoxy. It is less difficult to obtain legislative approval for loans than for grants. Besides, the aid giving countries also feel that loans are more in keeping with the spirit of private enterprise, avoid political strings attached to grants and ensure the financial soundness of the projects financed. It will be seen from Table 5.4 that grants from the United States in fact increased during the Second Plan in the absolute terms but they declined since then. This was in direct response to President Kennedy's March 1961 message to Congress emphasising the United States foreign aid policy of self-help, progress and absorptive capacity in aid receiving countries.

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[26] *Ibid.*

The shift of emphasis from grants to loans also raises the question of the financial terms upon which loans are given. A valid distinction can be made between "hard loans" on market conditions, i.e. at high rates of interest with stringent amortisation provisions and "soft loans" at lower rates of interest with longer grace and repayment periods. India has often urged, but unheard by aid donors, except the United States that soft loans are better suited to Indian conditions and requirements without being burdensome to developed countries. Nor do they necessarily impair the financial soundness of aid programs or that of the projects financed.

4. THE PROBLEMS OF DEBT SERVICING

The next thing to be considered is the problem of debt servicing. Though the data for gross payments for debt services are not separately available, "other invisibles" items of Table 5.3 comprising investment services charges, transportation and insurance services will give some idea of the trend in debt servicing charges. The table shows that the invisbles showed surplus during both the periods 1956-60 and 1961-64, but this surplus moved down from 981 million rupees in 1956-60 to 112 million in 1961-64. This fall has been mainly due to increasing payments for interest and dividends on funds borrowed and also in part due to lower interest re-

ceipts on reduced sterling balances. According to a recent study of the UNECAFE India's gross receipts on investment service charges dropped from 48.44 million dollars in 1953-55 to 29.82 million dollars in 1959-60, whereas the gross payments increased from 58.17 million dollars to 102.48 million dollars over the same period, thus showing 9.73 and 72.66 million dollars deficit during 1953-55 and 1959-60 periods respectively,[27] on interest and dividend accounts. This burden will increase as more foreign aid is received in the form of loans rather than grants, as loans are given on market terms rather than on special terms and as past loans become due for repayment.[28]

Foreign assistance is crucial for financing import requirements. In view of India's foreign exchange difficulties and its mounting debt burden the case is strong for assistance in the form of grants and loans on liberal financial terms. The terms on which aid is offered are generally governed its purpose which ranges from budgetary support to profit making projects in manufacturing industry. Some times political and military considerations also have an important effect on the availability and financial conditions of aid. Differences in financial terms also reflect differences in

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[27]Asia's Trade with Western Europe with Special Reference to Common Market, Part I, UNECAFE, Bankok, 1962.

[28]For example, the Planning Commission for India estimated that during the period 1961-66, maturing obligations amounting to more than 200 million dollars would be entirely refinanced by new external assistance. Third Five Year Plan, Planning Commission, Government of India, p.190.

the general ability of countries to give aid as well as their judgment and caution as lenders. Among the aid giving countries U.S.A. is the only major one to give substantial aid in the form of grants. European countries have hardly made any contribution in this form. Similarly the "soft loans" have been important only from the United States where the International Cooperation Administration has provided development assistance loans carrying a 3.5 percent rate of interest with a maturity above 40 years with payment in the Indian rupee starting after four years after disbursement. The U.S. President's Asian Economic Development Assistance is also of this type. Terms for loans advanced by other lending agencies in the United States are not so favourable, though more liberal and flexible than those granted by western countries. The D.L.F. (Development Loan Funds) loans are also repayable in the Indian currency, carry different rates of interest depending on the purpose of the loan. For "overhead" projects (e.g. roads, dams, etc.), the rate of interest is usually 3.5 percent and for profit making projects it is 5.3/4 percent. The maturing period for loans for profit making runs from five to fifteen years but for other cases the obligation may mature after forty years. In the event of economic difficulties, the D.L.F. accepts only token payments of interest and principal for periods of up to five years. Loans from Import-Export Bank, enabling India to maintain essential imports are tied to purchases from the United States and

generally carry a rate of interest of 5 percent with maturity extending up to 10 years.

Soft loans have almost no place in the aid programs of West European countries and Canada. The U.K. and West Germany have maintained complete financial orthodoxy and adhered to principle of conventional loans. The rate of interest charged by the U.K. on "Commonwealth Assistance" loans is the current rate at which the British Government borrows funds for comparable periods plus a small management charge of ½ percent. Under the Colombo Plan soft loans repayable in Indian rupees have been obtained from the U.K., Canada, Australia but such loans are very small. Besides, Norway and the U.S.S.R. have also provided such loans but in very little amounts.

Rates of interest on loans provided by the West German Government vary between 5.25 and 6.5 percent with maturity over four years and between 5.3/4 and 7 percent with maturity period up to 20 years. The attitude of West Germany towards conventional loans is governed by its view that soft loans impair the role of private capital, distort the competitive position and weaken the function of interest rate in allocating scarce capital among competitive uses. India has also received some soft loans from West Germany, but the amount is too meagre amounting only to 17.6[29] million rupees up to the end of 1964.

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[29]Table 5.4.

It is often argued that Western Europe has a great responsibility in financing the economic development of under-developed countries in general and of India in particular because of her size and importance among under-developed countries and since she is making an experiment in democratic planning. Her success or failure in this venture will affect the future political shape of the under-developed regions. The West European countries should, therefore, feel greater responsibility in financing economic progress of India on terms and conditions more suited to Indian requirement. The prospects, however, appear remote for bold and unconventional aid from this source. Even the flow of capital from Western Europe may not increase to any appreciable extent as the European Economic community gathers momentum and as the West European countries discriminate. The probable inadequacy of inflow of capital from West Europe to India and with sluggish growth of exports from India to Western Europe may seriously threaten the development programs in India. The moral is that India will continue to rely heavily on the United States for long term assistance to finance import requirements.

Since India is in serious foreign exchange difficulties a powerful case exists for aid in the form of grants particularly for social and economic infra-structure projects. To the extent that loans have to be made, their terms and conditions should be increasingly geared to requirement without imperilling the financial soundness of the aid giving countries

aid programs. Loans carrying low interest rates and longer grace and maturity periods need not be burdensome to donor countries. In all this much more needs to be done by West European countries and Canada than by the United States. The U.S. General Assembly has urged the advanced countries to increase the flow of capital to under-developed countries during the 1960's so as to reach a level of about one percent of their combined national incomes. The long term solution of foreign exchange problems of course lies in increased exports and import substitution by domestic products. But these developments very much depend on capital formation and so the foreign capital is crucial for economic programs.

The foreign exchange shortage has since the beginning of the Second Five Year Plan particularly, brought in its train a series of difficulties and strains affecting economic development. There are sluggish exports and mounting import requirements. Import substitution, though occupying top priority in development plans has not yet progressed enough so as to bring about a substantial net saving of foreign exchange spending. The acute shortage of foreign exchange has to a great extent been eased by loans and grants from developed countries. However, while financial assistance from developed countries has helped in crisis, the outlook for the future seems ominous when it is seen that during the Third Five Year Plan period export earnings financed only

66.8 percent of total imports in comparison to export-import ratio of 88 percent during the First Plan period. The loans granted by developed countries have led to payment problems and according to a U.N. study[30] India's gross payments on interest and dividend account increased from 58.17 million dollars in 1953-55 to 102.48 million dollars in 1959-60; on the other hand the depletion of foreign exchange reserves has cut down the interest receivable on interest-bearing reserve assets. India's gross receipts on interest and dividend account slipped down from 48.44 million dollars in 1953-55 to 29.82 million dollars in 1959-60 and thus the deficit on interest and dividend account has increased from 7.73 million dollars in 1953-55 to 72.66 million dollars in 1959-60.[31] This is likely to be accentuated in the future in view of the trends towards increase in share of loans as against grants from the developed countries. Thus India's receipts of grants was reduced from 701.8 million rupees during the First Plan to 574 million rupees during the Third Plan (1961-64), thus showing a decline by 18.2 percent[32] over this period. In the circumstances the grant of "soft loans" - loans with low interest rates and long period maturity is more desirable.

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[30]Asia's Trade with Western Europe with Special Reference to Common Market, Part I, UNECAFE, Bankok, 1962.

[31]Ibid.

[32]Calculated from Table 5.4.

There is a need of more forward looking attitude on the part of the governments of Western Europe to replace the financial orthodoxy and inertia which has made them to view the development problems of India in a way as a business concern would view them.

CHAPTER VI

THE TRADE POLICY

The development of export trade affects the Indian economy in two ways. Firstly, growing exports mean greater scope for the expansion in the production of commodities in which India has a comparative advantage and therefore, the allocation of the resources of the country will tend to an optimum pattern and the growth will be rapid. Secondly, since most of the traditional exports are unlikely to grow, India is saddled with a difficult problem. The lagging behind of traditional exports will not be a matter of much concern if new exports could be developed rapidly to offset the decline in traditional sector. It is in this field that the expansion of export trade can play an important role in the growth of the Indian economy by strengthening the import capacity. Since most of India's capital requirement is imported material, the slow expansion of export earnings places a serious constraint on import capacity and therefore, the volume and the rate of growth of investment of the country are inhibited.

That the shortage of external resources is the most important limiting factors affecting the rate of economic growth of India is well recognised. Our export earnings have remained practically stationary while import requirements have been increasing at a very rapid rate. In order to expand exports so as to make larger imports of capital

equipment possible, the Government of India took various export promotion measures but without appreciable results. Obviously, there is something wrong with our trade policy. Development is a long process and in the near future capital import requirements are likely to increase and with stagnant exports, foreign exchange shortage must act as the biggest constraint to development efforts. What shall India do in such a situation? What should be her trade policy? In the following pages we seek to explore the rationale of our trade policy consistent with the development strategy and its objectives.

1. EXCHANGE RATE POLICY

One measure taken by the Government in recent months to boost the exports and to improve the foreign exchange position or the import capacity has been through exchange rate variations. The tendency of Indian exports to be priced out of foreign markets has been in evidence for some time and in this connection the Government of India in the last few years took a number of steps to remedy the malady. But these measures failed to produce the desired results. The problem of ensuring that Indian goods are fully competitive in the world market is not entirely a matter of prices. Styling, salesmanship and after sale service, etc., are also important. But there is no doubt that prices are the most important element in a competitive strategy. For some time

leading Indian economists as well as interested foreign economists[1] have been arguing that since India is suffering from chronic balance of payments difficulties does imply that the rupee is in some sense over-valued and that the devaluation could be an effective solution of the problem. The world Bank and the International Monetary Fund have also been repeatedly advising a downward adjustment in the external value of the rupee so that straight encouragement be provided to exports and unwanted imports be discouraged. The present position of India's balance of payments is such that while import controls have severely reduced imports to bare essentials, export earnings are not sufficient to finance even this bill. The volume of essential imports is fixed by the structure of Five Year plans and cannot be reduced if the plan is to be fully implemented. In these circumstances they were seeing a very hopeful possibility of increasing export earnings by an exchange depreciation and consequently improvement in balance of payments. In the course of this study the Rupee was devalued. The devaluation came into effect on June 6, 1966. The new par value has been fixed at one Rupee equal to 0.118516 grammes of gold as com-

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[1]In a recent study for the National Council of Applied Economic Research, New Delhi, India, Professor G.L.Reuber is also reported to have found that Indian goods prices are well above the world prices and is believed to have recommended the devaluation of the Rupee to ensure competitive ability of Indian goods. According to our information, the National Council of Applied Economic Research has not yet published the report of Professor Reuber's findings.

pared to pre-June 6 value of one Rupee equal to 0.186621 grammes of gold. The rupee has thus been devalued by 36.5 percent. This corresponds to a new rate of exchange of R_s. 7.50 to \$1 (U.S.) which again corresponds to R_s.21 to one pound sterling as compared to pre-June 6 rates of R_s.4.76 to \$1 (U.S.) and R_s.13.33 to one pound sterling.

The main economic consequences of this decision according to the Ministry of Finance Press note would be "an increase in the profitability and attractiveness of Indian export industries which would facilitate a greater flow of resources and investment in such industries. Similarly by increasing the cost of imports it will also make it more profitable and attractive for people to invest in import-saving activities. This will provide stable conditions for future progress and development".[2] Giving explanation for taking this decision, the Finance Ministry Press note further said:

> The decision has been taken after the fullest consideration. The Government is convinced that in our present circumstances such a measure is essential. The requirements of economic development over the last fifteen years have thrown a heavy strain on our resources. Despite the aid that we have been receiving from abroad, we had to make considerable inroads into our own foreign exchange reserves....At the same time import requirements for the maintenance of our economy have been steadily increasing following the growth of industrial capacity as a result of our plans....Unfortunately the growth of our own earnings in recent years both through exports and invisibles has not been adequate for our needs despite the assistance given to exports in a variety of ways....The tendency of our exports to be priced out in foreign markets has been in evidence for some time and the government (cont'd)

[2]The Finance Ministry Press note published in The Hindu, Madras, India, June 6, 1966.

> has during the last few years taken a number of steps to remedy this situation. These measures have, however, clearly proved inadequate... In regard to imports also, despite the progressive increase in import duties, imported goods still continue to command a premium as Indian prices of comparable goods are wll above world prices. The result is that we have not been able to realise full potentialities of import substitution with the present severe restrictions on imports. It is in these circumstances that the government has come to the conclusion that the status quo cannot be maintained any further without serious damage to our economy and that the only remedy lies in fixing the par value of the rupee at more realistic level... The whole objective of these measures taken by the Government is to put our economy on a sounder footing and pave the way for future progress and development.[3]

Along with devaluation also came the announcement with regard to import duties and various export promotion schemes. With effect from June 6, 1966 all special export promoting schemes providing for the grant of import entitlement schemes as well as other minor schemes have been abolished and alternative schemes of export promotion are being worked out. In the case of traditional exports which at present require relatively little assistance appropriate export duties have been levied to mop up the surplus but at the same time leaving a sufficient edge to exporter so as to give him a competitive advantage. Simultaneously, import liberalisation measures have also been introduced by downward adjustment in the rates of basic import duty on a large number of items. The high cost of imported food would be subsidised by the government. Similarly in the interest of higher agricultural production, the increase in the cost of imported fertilisers will not be passed on to the farmer but would be absorbed

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[3] _Ibid._

through an appropriate subsidy.

The devaluation decision of the Government of India had a mixed reception in India and abroad. While the industrialists, businesmen and the rightists welcomed the decision describing it as an act of self-help, it came in for bitter criticism from the Communist Party of India and other leftist elements in the political life of the country, seeing in devaluation a loss of national honour which has been accepted under pressure from "imperialists" and "reactionary" United States and the U.K. and the capitalist gang, the World Bank and the I.M.F. The leftist press described it as the "rape of the Rupee". Press reports indicate that the East European countries and the U.S.S.R. also did not relish the decision, whereas, U.S.A., U.K., World Bank and the I.M.F. have described it as a very "right and wise" step. The general criticism of the devaluation decision in India is that it would lead to deterioration of the terms of trade of the country. Their argument runs in the following manner: Devaluation means fall in export prices and rise in import prices and, therefore, India's terms of trade will go against her. But long ago Mrs. Robbinson has guarded us against this sort of popular fallacy. According to her devaluation may lead to adverse terms of trade provided products of the two countries' elasticities of supply of exports exceeds the product of the elasticities of their demand for imports. Thus before we venture to say anything about India's terms of trade, we have to know not

only import and export elasticities of India, but also the values of import and export elasticities of each of her partners in world trade. The task is indeed formidable, and a priori, nothing could be said, one way or another, about India's terms of trade. To depend upon Learner-Robbinson's condition to predict the behaviour of terms of trade is likely to be at best a conjecture.

The devaluation decision is also likely to have repercussions on other countries. The devaluation of the rupee has already caused alarm in Ceylon, particularly as it is bound to affect Ceylon's tea exports which constitute over 65 percent of her exports. Ceylon is a major competitor of India in tea exports and the devaluation of the rupee means that Indian tea would be much cheaper abroad than Ceylonese tea and to that extent Ceylon's exports will be affected. Pakistan may also follow suit. Though Pakistan at present has denied any such move but observers do not entirely discount it at a later stage. Pakistan is a competitor of India in jute goods exports and therefore, bound to feel the pinch of Indian decision. Moreover, it is feared that Indian devaluation would encourage smuggling of jute from East Pakistan to Calcutta mills. It is precisely for these reasons that Pakistan had to devalue her rupee in 1949 following the Indian devaluation.

In the following pages we make an attempt to analyse the effects of devaluation and see how this would enable the

country to earn progressively larger amounts of foreign exchange to finance the growing volumes of essential imports. The stimulus provided to exports through devaluation would vary from commodity to commodity. For this purpose commodities may be grouped into three catagories - the first including all those commodities in which India is a major exporter, the second comprising those in which India is only a marginal exporter and the third including India's new exports of manufactures. The commodities in which India is a major exporter in the world are tea, jute manufactures and cotton textile. The effect of devaluation on export earnings from these commodities will depend on the elasticity of demand as well as the elasticity of supply of these goods. In the case of all these goods supply could be increased if there is a larger demand. Hence in the case of these commodities the foreign elasticity of demand is the most important element determining export earnings.

Devaluation is unlikely to add to India's exports earnings from tea in any appreciable degree. In tea export, India's main competitor is Ceylon and both together account for 75 percent of the world exports of tea.[4] Tea accounts for nearly 65 percent of total Ceylonese export earnings[5] and, therefore, an attempt by India to increase her share of

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[4]Calculated from Statistics published in FAO Trade Year Book.

[5]Op.cit. "Hindu", June 8, 1966.

world market is likely to be resisted by Ceylon. There is already a talk in the press of the likely devaluation of the Ceylonese rupee so as to counterbalance the effects of Indian move on her tea exports.[6] Thus an attempt by India to increase her relative share of world exports would lead to a fall in export prices without a more than proportionate increase in volume of exports. Moreover, as noted earlier in Chapter II, the price elasticity of tea in major importing countries is negligible. Thus devaluation is not likely to help India to raise her relative share of world exports. Of course, it can help in preventing a further fall in India's relative share of world exports. Because of tough competition from East Africa and other exporters of low grade tea, India's share of world export has tended to fall. These teas could benefit from devaluation by allowing them exemption from export duty.

India's second major export is jute manufactures. In this case too devaluation is not likely to be helpful. The elasticity of demand for jute goods is very low. As a packaging material jute goods encounter a severe competition from paper bags. Theoretically, devaluation should encourage greater use of jute by bringing about a fall in prices of jute goods in relation to paper bags. But we have already seen that it is not the price that matters much in the case

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[6] *Op.cit.*, "Hindu", June 8, 1966.

of jute manufactures. Prices of jute goods have generally tended to be lower than paper bags. It is the modern marketing and distributive techniques which are responsible for slacked world demand for jute manufactures and increasing use of paper bags. Maybe in the long run low prices of jute goods may bring gains to jute in those uses in which paper bags have no technical superiority, in the short run such possibilities are very small.

As noted earlier in recent years Pakistan has been posing a serious threat to India's jute export industry. Devaluation will help India in facing the Pakistan challenge and maintaining or even increasing slightly her exports but if Pakistan also devalues her rupee[7] to neutralise the Indian move, India's relative share will depend on her relative costs, export promotion efforts, salesmanship and prevailing political condition.

In cotton textiles which is India's third largest export commodity, devaluation is likely to improve India's export performance. We have seen in Chapter II that since the last decade Japan has successfully captured world market to raise her share of world exports whereas India has failed to maintain even her 1951 share and that faster rise of wages and costs in India relative to Japan was one of the reasons contributing to this state of affairs. Hence devaluation

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[7]As reported in the "Hindu", some observers speculate that Pakistan may also sooner or later devalue her currency.

will help India to neutralise her this cost disadvantage and improve her competitive position.

We may sum up our discussion by arguing that as far as the above group of commodities is concerned, with the exception of cotton textiles, there is a limited scope to boost India's exports mainly because of the low elasticity of foreign demand. However, devaluation will certainly act to serve as a defensive weapon and would moderate the losses which India would have suffered at the hand of Pakistan and East Africa in the case of jute manufactures and common teas respectively.

In respect of those commodities in which India is only a marginal exporter, elasticity of world demand for Indian exports is not going to affect India's exports. In this case the most important determinant of India's export performance would be elasticity of supply from India. Given an inelastic output in the short run (unless there is excess capacity) the extent of the rise in export earnings will initially depend on a cut in their domestic consumption. In the long run, since the productive resources can move more freely, the outcome, besides a cut in domestic consumption, will depend on the likely expansion of their production to provide for larger exports. Exports of coffee, vegetable oils, leather, tobacco, etc. can rise even in the short run provided the domestic consumption could be restrained. But the exports of leather does not hold promise in the long run

run because of inelastic supply of raw hides and skin. As for other agricultural products the prospects will depend on various development programs currently going on and in successive Five Year Plans. If sufficient fertilizer and irrigation facilities could be provided it is possible that cash crop farmers may favourably react to price incentive provided by devaluation.

The exports of new manufactures are likely to be most benefitted by devaluation. The present composition of these exports is such that it would be unrealistic to assume that they could really form the basis of a big forward push on the export front. But there is no doubt that export potentialities have not been exploited to full extent. But if efforts are made there is every hope that they can constitute leading export sector. In fact, India's long run export earnings are closely linked with the prospects of the export of new manufactures. India can already compete effectively in world markets in some items. Devaluation will, therefore, not only provide incentive to the existing export products but will also make it possible to export many new products. There is considerable idle capacity in engineering industries and therefore supply can be made quite elastic. The main reason for under utilization is shortage of imported raw material. Provided the government provides the necessary raw material, devaluation will then provide incentive to export more.

In addition devaluation will also attract larger foreign funds and discourage repatriation of profits, capital and royality and remittances abroad. It will also expected to discourage the black market operations and a reduction in the loss of foreign exchange due to smuggling, retention of illegal earnings abroad and concealed over payments for imports. It is also likely to help revival of earnings from invisibles which have declined in the past half dozen years. In terms of rupees the cost of imports will automatically rise with the result that import saving or substitution will be more eagerly pursued.

We have also to consider the other side of the picture. Theoretically the rupee has been devalued only in terms of its foreign exchange rate and internally it remains the same. But the impact of devaluation of the external value of the rupee will invariably be felt on its internal value also (in fact it is being felt). Imports have now become costly. Many articles and commodities of daily use are influenced either directly or indirectly by the import elements. The imported food grains, fertilisers will be the worst sufferers. Though the government has announced that the rise in the prices of these will be subsidised and will thus not be passed over to the consumer. But to the extent of this subsidy there will be a deficit in the budget (unless expenditure on other items is drastically cut down) and to that extent taxes will be raised. Thus what in the first stage is a

"gift" from the government to the consumer will become a liability in the final stage. Thus the prices are bound to rise. With an incompetent congress administration which can neither book the profiteers and black marketeers nor punish them severely, if caught, prices are going to rise substantially. Further, wages are bound to rise. Thus the cost structure will go up and India may lose its export markets and may not be able to realise the purpose of devaluation. The moral is that India will be able to derive the fullest advantages of devaluation only if it can effectively hold the price line. However, the past experience in this connection is disappointing. In 1949 also the rupee was devalued by about 30 percent and the government assured the country that the price line will be held firmly. But in these seventeen years what happened? The price situation worsened in the country and exports did not show any justifiable increase. The purpose of devaluation was defeated through the price rise. This can be seen from the following table which shows the wholesale price movement in India since 1948.

If the history is going to repeat itself, we are afraid, India is not going to realise the objective of devaluation. Let us hope the Government of India will take a lesson from the past experience and firmly hold the price line through fiscal, monetary and physical controls and by

punishing severely the profiteers, black marketeers and other anti-social elements. To make devaluation meaningful, the inflationary potential of this measure must be held in check and we hope the Government of India will realise this and rise to the situation.

TABLE 6.1

Index of Wholesale Prices:General (India)
(1948 = 100)

1948	100	1954	101	1960	127
1949	104	1955	94	1961	129
1950	109	1956	106	1962	131
1951	120	1957	111	1963	136
1952	105	1958	114	1964	153
1953	109	1959	119	1965	165

Source: Calculated from three separate indices with 1948, 1953 and 1958 as the base year as published in U.N. Monthly Bulletin of Statistics.

One of the major items on the debit side of the account in India's balance of payments in the service of the external debt. The repayment of loans and credits due within the Third Plan period amounted to R_s.450 crores with another R_s.100 crores for miscellaneous capital repayments. The task of financing this debt service represents a heavy burden on the economy. Now with devaluation debt repayments will be heavier. To remit the amount at the new exchange

rate will cost 57.5 percent more in rupees which will represent a heavy addition to the Government of India's external debt charges. But this will not be felt as it will be offset through the expansion of exports which of course depend on the ability of the Government of India to hold the prices and keep the cost structure in check. The "invisibles" have made a useful contribution to the pool of India's foreign exchange earnings. The invisible earnings in recent years have tended to decline but let us hope the devaluation will give them a fillip that will lead to a revival.

With the hope that the price line and cost structure will be held the devaluation decision of the Government of India is welcome. But we do not agree with the import liberalisation measures introduced. We feel that the government ought to retain import controls. In an economy where imported consumer's durables are a symbol of social status we feel that strict controls are essential to keep the imports at essential level. Import controls enable the government to determine not only the level of private investment but also its composition. This is so because investment in most cases is dependent on the availability of imported material. There is no guarantee that devaluation will bring about a correct division of imports between consumer goods and investment goods or between various catagories of investment goods according to priorities laid down in development plans. If the resulting

composition of imports consequent upon import liberalisation is such that planned investment cannot be carried out because of insufficiency of foreign exchange for the import of capital equipment, then the rate of capital formation in the economy will be severely affected. We, therefore, feel that import controls should be retained to keep out inessential imports but at the same time they should not be allowed to impinge on essential imports of capital goods, industrial raw materials, etc. So far import controls in India were very stringent involving a considerable underutilisation of the available capacity of the industrial sector. This should not be allowed any further. The relaxation of import controls after devaluation might be justified in a developing economy in which the only problem is that of shrinking foreign exchange reserves and no real problem of acquiring the capital goods necessary to the economy. It is not justified in a developing economy in which foreign exchange is essential for the acquisition of capital equipment, where the purpose is not only to control the level of imports but also the composition of imports. Our second objection to import liberalisation is that even if the Government is justified in relaxing import controls, then action is hasty and they should have waited a prior improvement in export receipts.

However, it should be noted that devaluation is not an "open sesame" to boost exports, what is the good of devaluation if trade barriers in western countries prevent India from

reaping full advantage. It would have been better if devaluation had been preceeded or at least accompanied by a definite understanding with the western countries on the reduction of tariffs and no tarrif barriers against Indian manufactured goods. At present there is a big, hiatus between the trade policy of the west which is restrictionist and protectionist and aid policy which under normal conditions is liberal.

2. EXPORT POLICY

It has been often charged that India as a nation is not export minded and there is a great deal of truth about this charge. Indian economic thinking for long dwelt far more on saving foreign exchange than on earning foreign exchange. Up to the end of the Second Five Year Plan particularily, there has been a complete lack of export consciousness in India. There was a feeling that in view of stagnant world demand for major export commodities, not much can be done to increase export receipts.[8] The result of this was the neglect of export. Though it is difficult to

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[8]The Second Five Year Plan did not envisage any increase in export earnings during the plan period. It stated "On the whole, the fact remains that the increase in exports that we visualise over the plan period is not very striking. India's export earnings are derived from a few commodities. Three of them namely, tea, jute and cotton textiles, account for nearly one half of the total. These major exports are meeting increasing competition from abroad. This limits the scope for any substantial increase in the short run. While every effort has to be made to promote exports of new items and to develop and diversify the market for the country's major exports, it has to be recognised that it is only after industrialisation has proceeded some way that increased production at home will be reflected in larger export earnings". -- The Second Five Year Plan, Government of India, New Delhi,1956,pp.98-99.

estimate the loss suffered by India through this neglect, but our analysis in Chapter II suggests that India's relative share of world exports in these commodities has declined in comparison to 1951. Since the beginning of the Third Five Year Plan there has, however, been a welcome shift in emphasis. The Third Five Year Plan admitted that "One of the main drawbacks in the past has been that the programme of exports has not been regarded as an integral part of the country's development effort under the Five Year Plans.[9] The Third Five Year Plan has understandably, therefore, found it necessary to lay emphasis on the need for making people in India export minded that has been urged repeatedly by foreign as well as Indian economists. It is also recognised that intensification of export efforts is a basic condition for the realisation of the objective of self-sustained growth. How deep is export consciousness among the businessmen and state (provincial) governments, the Import and Export Policy Committee in 1962 reported "The country had no great export tradition nor has one been developed so far -- much less have we developed the necessary export apparatus....State Governments do not always seem to be alive to the primary of export promotion, and some of their policies, particularily in the fiscal field, have hindered even flow of exports". Thus the first essential of an effective

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[9]The Third Five Year Plan, Government of India, New Delhi, 1961, p.137.

export policy should be the recognition of the necessity of greater export effort on the part of all those whose activities can affect exports.

As the industrialisation progresses, not only the volume of imports will go up but the value of imports may also go up. As it is, India will be importing more of capital goods and other manufactures. This may result in the adverse terms of trade for India, judging from the experience of earlier years when the relative prices of food grains and other agricultural products tended to go down compared to those of manufactured commodities. On the other hand, as we have seen in the present conditions, there does not seem to be much scope for changing the composition of export trade in the near future. And so long as structure of export remains what it is, namely that of agricultural commodities and manufactures based on agricultural raw materials predominate, it follows that if the earlier trends continue, India shall be receiving lower prices for exports and paying higher prices for imports. In other words, terms of trade are unlikely to remain stable. In view of this, there is urgent need of export expansion consciousness and exports as well.

Another important development, the implications of which will be far reaching for India, is the emergence of European economic community and more particularly the decision of the Great Britain to Join it. When Great Britain joins the market, the situation will be very grave for India.

The decision by Great Britain will be taken by keeping its own interests in the forefront and it is unreasonable that the countries which will be affected directly or indirectly thereby , should expect Great Britain to go out of its way in order to help them. This should also be realised that the economic values of the commonwealth to Great Britain is much less today than it was some years back. The effect of Britain joining the E.C.M. on India will be two fold. On the one hand it would mean a loss of special preference to which the commonwealth countries are entitled today in the British markets. On the other hand, India shall have to face more severe competition from associate member states of Africa in the British markets. As Indian trade is significantly oriented towards Great Britain, India is bound to be hit rather hard. It has been estimated in India that in the event of U.K. joining the E.C.M, Indian exports to U.K. may decline by 400 million rupees or so. How accurate such estimates will turn out to be, it is difficult to say, but the loss will be appreciable to begin with. The group of commodities which India is exporting to Great Britain can be put into two categories, (1) simple manufactures like cotton and jute textiles, (2) agricultural commodities like coffee, tobacco, hides and skin. The prospect of greater development in the exports of either of these two categories in the event of U.K. joining the European community will become remote. Even if the U.K. is able to secure some concessions for the

commonwealth, India may not derive much benefit from them, for they are more likely to be agricultural goods which will suit commonwealth countries like Australia and New Zealand. However, now that the rupee has been devalued, India's position will not be that bad, nevertheless India has to take note of all these developments and formulate her export strategy.

In recent years the Government of India took a number of export promotion measures ranging from establishment of new institutional arrangements to help the export trade, creation of export promotion councils, export risk insurance corporation, several schemes to remove disincentives to export, offer of some positive incentives to some categories of exporters, like raw material price concession, reduction in railway freight rates, exemption from excise and export duties, etc. In its press note on the devaluation of the rupee, the Finance Ministry, however, admitted that all these proved inadequate to improve the matters and with the devaluation of the rupee many of the above special export promoting schemes have been abolished and alternative schemes of export promotion are being worked out. To our knowledge these new schemes have not been announced so far by the government. While it is difficult to formulate the exact export plans without a detailed study of overseas markets, nevertheless in the following pages we seek to outline some elements of long term export strategy.

Basically, the first and foremost requirement for a rational export policy should be sufficient attention to the development of export industries in the allocation of investment and other scarce resources. In India's export strategy, the role of agricultural production is very important. Export surpluses in many of India's traditional exports is crucially dependent on the growth of agriculture. A progress in agriculture will also make a significant contribution to the control of inflation and thus ensuring the competitiveness of Indian exports. Besides, since these is a good deal of uncertainty about the exports of "new exports", we feel that India cannot afford to neglect her agricultural exports and, therefore, agricultural sector should receive a fair treatment in the allocation of investment. In view of the large net work of irrigation facilities and fertilizer production, progress in agriculture is a matter of greater use of improved techniques. Besides, agrarian unemployment is probably one of the greatest challenges facing India. Should India be able to exploit the opportunities offered by agriculture, in addition to improving the export sector, it will also be able to offer gainful employment to agrarian unemployed. It is a fairly widely held view that there is not much scope for creating additional demand for our exports, because the demand for commodities which we ordinarily export, is inelastic. The demand, however, has presumably been found inelastic in relation to existing markets for these commodities. If India could open up new markets, there may be considerable

demand for these very items. This has actually been shown to be the case by the manner in which East European countries and the U.S.S.R. have found it possible to absorbe more and more of these very commodities of India. India has, therefore, to find new markets where there may be more responsive customers. Even in the case of traditional markets, it is by no means clear that India cannot sell more because of the inelasticity of demand. There may well be demand in those countries which India so far has not been successful in locating. Moreover, it is possible that the demand is limited because of the restrictive practices which several of these countries have adopted. We could argue for selfish reasons that these restrictions should be removed so that we could increase our exports to these developed countries. However, we do not need these selfish reasons as there is a sound economic argument for their removal. It is in the interest of developed countries to encourage exports from under-developed countries so that they may attain a higher rate of growth and import more from them. If the exports of under-developed countries do not grow, they will suffer from balance of payments difficulties and will not be able to import much from developed countries.

If we accept the position, it seems we must, that at least for ten or fifteen years the structure of Indian exports will not change to any material extent - that is the importance of the principal export commodities like tea, jute and

cotton manufactures, etc. will remain more or less undisturbed -- India has no alternative but to explore other markets for increasing sales and adding to foreign exchange resources. Except for Eastern European countries and the U.S.S.R., India has not endeavoured to win entry into any other market.

It has been suggested by some economists[10] that India should develop iron ore, other minerals, iron and steel. We agree that export prospect of iron ore and iron and steel are good but this has to be remembered that the opening up of the new mines requires large investment in the form of of mining operations and transport facilities and consequently strain on our meagre foreign exchange resources.

The second export strategy should be restraint over domestic consumption. That the rupee has been devalued and we should expect the things to improve. But this does not mean that India can afford to relax all curbs on domestic consumption of traded goods. In an economy where reserves of excess capacity are extremely low, devaluation to be successful must involve some cut in the domestic absorption of available resources. If other instruments (fiscal) of economic policy are not used to assure this outcome, devaluation may just fail to achieve its purpose. There is yet

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[10] John P. Lewis, Quite crisis in India, Brookings Institution, Washington, D.C., 1962.

another reason for arguing that devaluation be combined with deliberate restraint on domestic consumption of traded goods. Theoretically, devaluation seeks to expand exports by increasing incentive to export relative to sales in the home market. But the business firms may not be willing to avail this opportunity if the domestic market is fairly prosperous. Even though the export market may be more lucrative than the domestic market, yet the businessmen may not be interested in the maximum profit as is often assumed by the economists and this distinterest is particularly strong when they are earning reasonable profits in home markets. Entering the new foreign market requires special effort and skill and the firms may, therefore, let the opportunities pass by. Thus the lure of high profits may prove ineffective in providing incentive to firms in foreign markets. But this disinclination would be weak if domestic markets also decline in profitability. Faced with reduced domestic demand and profit, they would be more willing to seek overseas markets for the sale of their goods. This point has special relevance with export promotion of manufactured goods.

The problem of keeping prices of goods in export markets steady is often made difficult because of short run fluctuations in agricultural production and prices. It has often become difficult to quote the same prices for jute goods, cotton textiles and other goods in overseas markets because of

the rising prices of raw materials. Foreign customers annoyed with the Indian prices often had to switch on to substitute material or alternative sources of supply. To face this situation the Third Five Year Plan emphasised the need to create buffer stock describing it as "key to stabilisation".[11] But the plan limits the use of buffer stocks to food grains only. This is a mistake on the part of the planners and the operation of the buffer stock ought to be extended to cover important commercial crops also which enter directly or indirectly in India's export trade.

The policies pursued by the export control authorities can contribute to improve the competitiveness of Indian goods. The existing export controls are such that they create additional uncertainty regarding the quantity available for export and thus affects India's reliability as a steady source of supply.[12] Besides, the individual exporters have to obtain quotas whose volume can fluctuate from year to year. Consequently the exporters cannot make long term commitments to foreign buyers and thus cannot adopt a long view with regard to export promotion.

Since the last few years, India has been exporting what are described as "new exports", consisting largely of the products of light engineering industries, besides the base metals like iron and steel, medicinal and other pharma-

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[11]The Third Five Year Plan, Government of India, New Delhi.

[12]Verghese, India's Export Trade, Allied Publishers, New Delhi, 1964.

ceutical products. While great hopes are being pinned on the export of these new products, there appears to be confusion in India with regard to these products and not much thought has been given to most promising lines of export.

In selecting the most promising lines of exports consideration has to be given to demand prospects for such exports as well as India's competitive ability relative to well established exporters. Most of these exports go to neighbouring developing countries and, therefore, in our export strategy we have to take note of the strong desire of these developing countries to industrialise themselves. This means that many of the light engineering goods which India has been exporting to these countries may not be able to provide basis for a "big leap forward". Since these industries are relatively easy to establish, naturally developing neighbours will like to meet their requirement from domestic output. Secondly, we have also to take note of the fact that the under-developed countries which constitute potential markets for India's "new export" will also be receiving "tied" loans and grants from developed countries. It is, therefore, in the interest of India to concentrate on such goods which are not likely to be financed by such loans, i.e. essential consumer goods which cannot be fabricated locally like drugs and pharmaceuticals, fertilizers, cement and simple type of machinery. Thirdly, India has also

to keep in mind that World Bank loans to under-developed countries are generally for utility undertakings. Therefore, India should try to produce and export machinery and equipment like railway rolling stock, rail and road building equipment needed for public utility works.

India should also explore the possibilities to find markets for her new manufactures in advanced countries. Already some goods like cast-iron pipes have found markets in U.K. and it is possible that some goods entering under-developed countries may find still profitable outlet in advanced countries.

Having determined the "new exports" which are likely to command demand in foreign markets, India has also to choose those lines in which she hopes to exploit most of the economies of large scale production so as to enable her to compete effectively against the established exporters. In the short run the need for restraining domestic consumption is apparent, in the long run large home markets should contribute to the efficiency of export trade. The reason for this is that a large home market permits the exploitation of economies of scale and also very often helps in acquiring and developing industrial technology in the easiest way. Besides, by providing a stable and predictable home demand, a large home market also secures for the firm an established position to enable it to enter in all sorts of risky games with overseas competitors without endangering its stability, if it loses the game. What should be these lines of production and

exports? This will require a great deal of engineering and other data and we are not competent to handle it. There is a need for study groups consisting of economists, engineers, exporters and manufacturers which should examine the export potentialities of various industries. Teams of experts may be sent abroad to report on new developments in the sphere of technology, standards of quality and methods of cost reduction.

Vigorous and efficient export industries cannot be created overnight. Export markets must begin to be tapped and cultivated as soon as possible if they are to be fully exploited in due course. With the devaluation announcement the Government of India withdrew all special export promotion and incentive schemes. We do not agree with this part of the announcement. We feel that a deliberate policy of giving incentive to export industries in the initial stages is imperative. The case for export incentive is essentially the same as that for "infant industries" protection or for import restrictions with a view to widening the balance of payments bottlenecks. Unfortunately, while the term "infant industries" argument is generally accepted, its application is generally supposed to affect only import policy and the equally valid case for export incentive often gets branded with the emotive term "dumping". We feel that incentive to export industries, at least in the initial stage is more than essential.

India should also try to enhance the invisible earnings and there is a definite scope for enhancing them. It is encouraging to note that in recent years India has become aware of the potentiality of tourism as a source of foreign exchange earnings. This source ought to be harnessed to maximum extent. Items like insurance may also be able to make sizeable contribution if a conscious and deliberate effort is made in that direction. There is no reason why with an imaginative and vigorous policy, India's foreign exchange earnings from insurance, life and general, should not increase. Already the Life Insurance Corporation of India is able to make a contribution in terms of foreign exchange. In regards to freights, much more can be done and although it looks as if the government is beginning to realise this, it is doubtful if the government is beginning to realise this. In this connection reference may be made of the bilateral trade agreements entered into by India with the Soviet Russia and Poland. These agreements provide to transport the cargo resulting from the trade between India and them in their ships and Indian ships. It is estimated that by the end of the Third Five Year Plan, India would be saving about seventy or eighty million rupees by way of foreign exchange from the shipping services that it would be providing. India has now considerable experience in dam building, and therefore, encourage her engineers and technicians to tender abroad. In addition to bringing invisible earnings,

it will also help India's new exports.

However optimistic a view we may take of the possibilities of increased earnings, the fact remains that it cannot make a material difference in the next ten years or so. India, therefore, has to rely upon earnings from merchandise trade for meeting the greater part of import bill. In the next sections we examine in detail the possibilities of bilateral trade arrangements to solve India's foreign trade problem and also seek possibilities of economic cooperation within the ECAFE region.

3. IMPORT POLICY

India's foreign exchange problem in the context of economic development is so chronic that it deserves severe hammering from all corners. Only measures of export promotion will not do. A rising level of production and investment cannot be sustained without a steady growth in demand for machinery, raw material, etc. The question of defining an import policy consistent with the development strategy and its objectives should, therefore, naturally occupy our attention. What should be the rationale of our import policy? In this connection one often hears of suggestions like import restrictions, "import substitution" and "import savings" etc. through the development of our own industries, if necessary through protection, being made by economists and statesmen. While the case for developing such industries has

long been generally accepted by economists of all persuasions, however, it may be noted that this familiar "infant industries" argument is too broad in the context of Indian development planning. In a country like India a case can be very well made out for practically every conceivable industry for each of them would qualify for "infant industries" protection because there is no reason why sooner or later they cannot gather strength to stand on their own legs. Besides, it must be emphasised that what needs to be economised is the level of imports over time and not just immediately. One can not just sort out the current import list and start encouraging import substitution according to the importance of the import goods. It has also to be recognised that the development of import substituting industries themselves will press for imports of raw material, components and investment goods. However, if import substitution is to be tried, it would make sense to develop capital goods, machine tools and heavy industries despite the fact that such industries initially will set up large import demand. In the past, in addition to capital good industries, too much emphasis has been laid on consumer good industries. The domestic output of capital goods should be raised much faster than that of consumer goods so as to ensure adequate volume of capital goods forthcoming for investment needed for economic growth. As India is very rich in iron ore,

further development of heavy industries, if necessary through protection may also be worth trying. This was the strategy of Soviet Union and other socialist countries and their example may well provide inspiration to India.

But this drive for import saving should not be carried too far else it would be cutting too deeply into efforts to promote exports and will be self-defeating. From the point of view of balance of payments export promotion is as important as saving on imports. In view of the export fatalism prevailing in India, economic opinion is leaning heavily in favour of import substitution. But superiority of import substitution over export promotion cannot be established merely because of the fact that India's traditional exports face dismissal prospects in world market. In the context of long term growth resources entering into import substitution may well be diverted to the creation of new exports where domestic supply conditions and world market conditions are more favourable. Besides, beyond a point import substitution would be harmful if it is at the expense of domestically produced and consumed goods. An undue retardation of growth of the purely domestic sector would have adverse effects on the growth of savings and consequently on balance of payments to some extent.

Import restrictions in India have been favoured on other counts also. It is been argued that in view of urgent need to increase investment, India should curtail the demand for

inessential and luxury goods so that she can divert resources to larger import of machinery and other capital goods. Since the imported goods enjoy an unusual social prestige, the imported luxuries create new demand and reduces the saving potential. This argument has reference to the so called "demonstration effect". However, this argument does not take much cognizance of the fact that by increasing machinery and capital good imports and curtailing the imports of cars, refrigerators and other luxury goods, we do not necessarily produce additional savings which alone can sustain additional investment and terms such as "demonstration affect" can be countered by reference to "inducement goods". Nevertheless, the above argument contains an essential core of truth. Under the circumstances direct measures of cutting the luxury imports should be a necessary part of the optimum development strategy. But side by side it should also be recognised that the availability of "inducement goods" is also very important in any development strategy. India, therefore, should try to strike a correct balance between the two.

Despite the controversy surrounding the issue of import restrictions, the importance of such restrictions in developing economiesis being recognised by common custom and international sanction. The importance of import restrictions for balance of payments reasons has been recognised by the GATT.

The GATT, also provides that these reasons apply with special force to developing economies. In India one argument often advanced against such restrictions is that restrictions be exercised by tarrifs and general fiscal measures rather than by import quotas. Obviously this argument does not question the validity of the fundamental case for restraint but only concerns with the proper means to implement the policy. As far as the choice between tarrifs and quotas is concerned, we feel that tarrifs should be preferable in view of the administrative complications of quotas and the corruption to which they give rise to. Moreover, under the quota system the benefits of higher domestic prices and profits go only to a few quota holders.

While there should be no objection to the policy of import restrictions, much thought should be given to the manner in which policy is implemented. Since the rationale for restrictions against luxury imports is that such restrictions would widen balance of payments bottlenecks and encourage saving by moderating "demonstration" effect" and thereby permitting higher rate of growth. Clearly there should be no attempt to substitute the import by greater domestic output of the same commodity. In India the restrictions on the imports of refrigerators, air conditioners, scotters, etc. have been followed by greater domestic output. Taxes which the domestically produced articles bear are only a small fraction of the duties which they would have yielded if

imported. Moreover, very often the domestic production has been undertaken by the foreign supplier of earstwhile imports. The general policy of encouraging of private foreign investments obscures the fact that such an investment represents a wasteful diversion of resources which by preventing the dampening of demonstration-effect nullifies directly or indirectly thë original import-saving that was intended. Moreover, the manufacture of the earstwhile imports has often, in many cases, been just only for name. The bulk of components and parts are imported and thus the easy profits made in a sheltered market represent an additional burden on balance of payments. Moreover, the foreign private investors, once having established domestic luxury industries have developed vested interests claiming a share in growing production and investment opportunities so that their direct and indirect claim on balance of payments grows. What starts out as an import saving activity often, therefore, develops into a trap. Thus even if there is a case for allowing domestic production to take place of imported luxuries, it can be established only with a careful and detailed consideration.

We have also to take into account the reactions of and repercussions upon other countries. It is generally believed that repercussions of restrictions on luxury imports fall on rich countries. But that is not always so. There are several developing countries and the policies of India cannot be deemed rational if she does not take account of the interests

of other countries struggling with similar problems. For example, Chinese high quality silk, Burmese high quality timber would be luxury for most Indian consumers and, therefore, good targets for restrictions on their entry into India. But similar restrictions can also be placed in these countries on Indian exports of luxuries such as carpets, fine clothes and handicrafts. This dilemma would be solved only through mutual understanding or some sort of agreement.

4. BILATERALISM

A striking development in India's foreign trade since the last decade that has occurred is the one basic change regarding India's trade with her traditional trade partners, the private enterprise economies of the western world and the United States. India's trade with her traditional western partners and the U.S.A. has either remained almost stagnant or declined. On the other hand India's exports to and imports from centrally planned economies (Eastern Europe and the U.S.S.R.) has many times increased particularly since 1956-57. Now how much of this increase in our trade with East European countries can really be ascribed to bilateral arrangements of 1954 and 1959? Though it is difficult to give a categorical answer, what can, however, be stated is that because of these arrangements it was possible for India to establish exports during a period when export trade showed every sign of shrinkage. At the same time India was able to procure essential imports and thus able to maintain the pace

of development program. As in the case of export trade with other countries, here too the traditional commodities predominated in the exported trade. The traditional commodities in question were tea, magnese ore, mica hides, skin, leather, unmanufactured tobacco, iron ore. Indian imports consisted of almost entirely manufactured commodities, chemicals, manufactured goods, machinery and transport equipment. In a way, as a result of the bilateral trade arrangements with the countries in these areas, India was able to have a larger volume of essential capital goods, without which some at least of its development effort might have been delayed. To the extent that India was able to pay for these exports, it did not have to draw upon its other resources. Similarly, by finding outlets for its traditional commodities in these countries during a period when these commodities were generally facing a difficult time, it became possible for India to prevent its exports from having to go through a period of perceptible decline.

Being impressed by the above results and the growing desire on the part of the Soviet Union and other allied countries to develop trade with India, this development has been seen by many[13] as if a new continent has been suddenly discovered, a continent not virgin and unexploited but with

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[13](i) See Patel: Export Prospects and Economic Growth: India, Economic Journal, September, 1959. (ii) Surendra Dave, India's trade Relations with East European Countries,1952-53, 1959-60, - A study of Bilateralism, Indian Economic Journal, Vol IX, July 1961. (iii) Malenbaum:Prospects for Indian Development, George Allen and Unwin, London, 1961.

a well-developed economic structure and have come out with enthusiastic arguments favouring further expansion of trade with East European countries and the U.S.S.R. through long term bilateral trade arrangements and arguing that India has been trying to sell more of the wrong things to wrong places. "The main fact, nevertheless, remains, that offering of the same thing to the same people, who no longer want more of them, lies at the basis of a remarkably poor performance in the export trade in the last three decades".[14] Not only this, bilateral trade policy has been seen by some as a possible cure of all ills of India's foreign trade and have favoured its extension to intra-regional trade and trade with under-developed countries as well.[15] In the following pages we seek to discover whether India could further use bilateral trade and payments arrangements to raise her export receipts.

Before 1959, with the exception of Pakistan, Afghanistan, Burma and Egypt, bilateralism was not used in India as a technique of raising her exports or to reduce her trade deficits. Most of the agreements were signed in 1953 and 1954 but they were simply an expression of mutual desire to expand their trade subject to existing trade and payments

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[14] Ibid., Patel, p.497.

[15] Lakadwala, D.T., Trade Cooperation among Asian countries; Pakistan Development Review, Vol.II, 1962.

regulation in the countries concerned. With regard to East European countries and U.S.S.R. also most of the agreements were signed in 1953-54. The trade agreements aimed at promoting trade "on the principle of equality and mutual benefit... within the rules and regulations prevailing in both the countries". The payment could be made in pound sterling or Indian rupee depending on the convenience of the signatory country. The outstanding balance were to be convertible either at demand or at the expiry of the agreement in pound sterling at the prevailing exchange rate. Since 1959, however, the new trade agreements signed with these countries constitute a new step towards strict form of bilateralism. Thus the rupee balances held by these countries in India are no longer convertible into pound sterling and the outstanding balances are to be used within the next six months for the purchase of each other's goods.

At the outset it should be admitted that India's bargaining position is not such as to be able to thrust bilateral trade agreements on her trading partners. A major part of India's import of machinery, other capital goods and essential consumer goods are of such a nature that India cannot afford to cut their volume or else her development process will be considerably slowed down. On the other hand, there is not a single country which depends in any significant degree on imports from India. Consequently, India cannot threaten any country by saying "...if you do not buy more from us, we

would not buy from you" so as to induce them to buy more from India.

In 1962 Western Europe, North and Central America and Japan together were responsible for 69.8 percent of Indian imports, 60.5 percent of her exports.[16] India has the largest trade deficits (697.6 million dollars)[17] with these countries, but bilateralism is not a feature of their trade policy and India is not in such a position as to force them into bilateral settlements with her. As far as under-developed countries of Asia, Africa, and Middle East are concerned in 1962 they accounted for 21.7 percent of Indian exports and 18.6 percent of imports.[18] With this group as a whole in 1962 India had a trade deficit of 85 million dollars.[19] But a resort to bilateralism with under-developed countries will in the long run prove harmful to India's interests. It has to be admitted that North America and West European countries are going to stay for a long time as India's main import markets and it is equally obvious, as noted earlier, that these countries offer a very limited opportunity for expanding Indian exports to them, unless of course, India can develop and expand new exports in a significant degree. Consequently, for a long future India cannot expect her trade with these countries to balance and will

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[16] Calculated from Statistics published in "Direction of International Trade", U.N., New York.

[17] Ibid.

[18] Ibid.

[19] Ibid.

have to rely on her export surpluses with other countries to balance her external account with these advanced countries of North America and West Europe. But India's capacity to do this will be greatly shaken if bilateralism becomes a popular practice in under-developed countries of Asia, Africa and Middle East. Hence India's interest demands that she should not encourage the growth of bilateralism among under-developed countries, even if India has to bear a short run loss in doing so.

The above analysis leaves only East Europe and U.S.S.R. India's trade with these countries has rapidly risen since 1951 as the following table will reveal.

This table shows that since 1950-51 there has been a very rapid expansion of India's trade with East Europe and the U.S.S.R. However, East Europe and the U.S.S.R. still account for a very small part in India's trade. In 1964-65 East Europe and the U.S.S.R. accounted for 17.7 percent of India's exports and 11.4 percent of her total imports.[20] How much of this increase in trade can really be ascribed to bilateral trade arrangements is difficult to answer. But this trade has been of special advantage to India. On the one hand they provided additional markets for India's traditional goods and prevented a deterioration in India's total export trade and also in the terms of trade and on the other hand, in as much as imports from these countries were in the main of the nature

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[20] Calculated from statistics published in Eastern Economist Annual, number 1966 and other issues of the same journal.

TABLE 6.2

India's Trade with East Europe and U.S.S.R.
(Million Rupees)

Exports

	1950-51	1955-56	1960-61	1961-62	1962-63	1963-64	1964-65
1. US.S.R.	13.0	33.0	289.0	321.0	385.0	521.0	824.0
2. Czechoslovakia	11.0	13.0	73.0	81.0	114.0	162.0	159.0
3. East Germany	.3	.2	33.0	45.0	85.0	101.0	129.0
4. Poland	.9	.3	39.0	46.0	117.0	97.0	111.0
5. Hungary	.2	.8	14.0	49.0	66.0	61.0	83.0
6. Yugoslavia	-	2.0	33.0	62.0	113.0	93.0	115.0
7. Bulgaria	-	.2	1.5	N.A.	N.A.	28.2	30.7
8. Romania	-	.2	11.4	N.A.	N.A.	27.5	31.6

N.A. = Not available.

Imports

	1950-51	1955-56	1960-61	1961-62	1962-63	1963-64	1964-65
1. U.S.S.R.	2.0	62.0	159.0	399.0	555.0	685.0	780.0
2. Czechoslovakia	28.0	29.0	88.0	150.0	197.0	173.0	198.0
3. East Germany	8.0	4.0	33.0	56.0	79.0	98.0	89.0
4. Poland	3.0	4.0	44.0	83.0	78.0	105.0	151.0
5. Hungary	1.0	4.0	20.0	56.0	29.0	67.0	69.0
6. Yugoslavia	1.0	3.0	44.0	70.0	74.0	109.0	110.0
7. Bulgaria	N.A.	N.A.	N.A.	N.A.	N.A.	37.0	24.1
8. Romania	N.A.	N.A.	N.A.	N.A.	N.A.	18.5	17.7

Source: Compiled from Statistics published in Eastern Economist, Annual Number 1966 and other numbers of the same journal.

of the capital goods, the best possible use was made of the export earnings from these countries. Besides, the bilateral agreements with the U.S.S.R. and Poland provide to transport the cargo resulting from trade between India and them. This must have meant a definite gain to India in terms of foreign exchange. It is estimated that before the end of the Third Plan India may save something like 70 to 80 million rupees by way of foreign exchange from the shipping services that Russian and Polish trade agreements will provide.

Looking at the above percentage export and import trade, apparently there appears to be considerable scope for the expansion of trade between India and these countries. The living standard of these countries is much below the western countries and North America and the consumption of many agricultural products and light manufactures which India is capable of supplying them is far below the saturation point. As their living standards rise there should be expansion of consumption of many commodities like tea, tobacco, vegetable oils, leather goods and other light electrical and engineering goods, etc. entering India's export trade. These countries are also capable of supplying various types of capital goods which India requires. Their rapid industrial progress has steadily increased their capacity to export machinery and other capital equipment.[21] Thus an exchange

[21] See Economic Survey of Europe 1960 and 1964.

of Eastern Europe and the U.S.S.R. exports of capital equipment for India's primary products and light manufactures could lead to a mutually beneficial expansion of trade on a substantial scale. The trade by communist countries is usually conducted on bilateral basis probably because of the nature of their planning process which requires quantitative planning for some years in advance so as to be sure beforehand of likely supplies from foreign trade. Since India is faced with a chronic balance of payments problem, she should welcome the desire of the communist countries to conduct trade on bilateral basis. As India's exports prospects are not too bright, due to dismissal future prospects of her traditional exports which bring in a major share of her export earnings, she is constrained in her ability to import machinery and other capital goods. She should, therefore, avail this opportunity of obtaining the desired imports in exchange for her traditional exports. However, the extent to which bilateral trade arrangements would help India would depend on many "ifs". One basic condition if India is to benefit from bilateral trade arrangements is that there is sufficient elasticity in Indian exports leading to an increase in their volume in response to an increase in demand. If supply elasticities can not be ensured then bilateral agreements may simply mean a diversion of exports from traditional partners to bilateral partners.

If this happens then India will be worse off with bilateral arrangements than without them and loss to India will be equivalent to the difference in costs of imports from bilateral countries and the cost of importing similar goods from the rest of the world. Besides, if the traditional importers are not assured of regular and timely supplies from India, they will naturally look elsewhere and Indian exports will suffer. The second thing to be considered is whether the bilateral partners have the capacity to supply India the capital goods and machinery which are likely to occupy the top place in India's import list. In the short run East Europe and the U.S.S.R.'s capacity to supply India the desired goods will depend on their own domestic expansion, commitments to the soviet area and also commitments of aids to other under-developed countries. Given the present emphasis of heavy investment in all these countries, in the short-run their export capacity is not likely to be very large. The claims of domestic investment and commitments to other countries of the soviet block and race with the capitalist countries in assisting under-developed world for political gains can be important factors constraining their exports to non-soviet countries. In the long run, however, their export capacity can be greatly expanded. In the long run if the export of capital goods offers profitable opportunities, these economies are capable of adjusting their production patterns enlarging capital goods sector by divert-

ing resources from other sectors and satisfying their needs of food and light manufactures from imports. If these countries decide to avail advantages of international division of labour to a larger extent than hitherto, large possibilities of mutually profitable trade would open up. In agricultural sector, East European countries and the U.S.S.R. have very often failed to achieve their targets whereas in industrial sector they have often overshot the mark leading to divergent rates of growth in industry and agriculture. They can greatly solve their agricultural problem by putting reliance on international trade. However, in the past they have simply tolerated the differences in the relative rates of growth of industry and agriculture and have tried to solve the problem by diverting investable resources to agriculture as can be seen by soviet efforts at increasing mechanisation of agriculture. It is, therefore, difficult to predict what course of action these countries will choose to adopt. If these countries at all decide to increasingly rely on agricultural commodities imports, the major benefit could be expected to under-developed countries. In view of very strained relations of these countries with Communist China and China's own difficulties because of bad luck in agriculture, these countries may have to turn to other sources for imports. In that case under-developed countries would benefit unless of course agricultural surpluses of the U.S.A. are not readily made

available to these countries.

East Europe and the U.S.S.R.'s trade with India is extremely small. Hence even if they do not have large amounts of exportable material, even a small amount diverted to India would significantly add to their total exports to India. Similarly they would greatly increase their total imports from India even if the increase is very modest. Thus there appears to be great scope for the expansion of Indian-East European trade. However, from economic point of view there are certain features in the present situation which are likely to go against India. In the expanded trade many of the Indian export goods like tea, textiles, footwear and other manufactures or raw material, leather and consumer goods may find only a low priority in the import list of these countries. Since they do not constitute "essential goods", East European countries may be willing to import Indian goods in exchange for their capital goods only up to a certain extent. However, this fear is not unsurmountable to the expansion of trade between India and East Europe and the U.S.S.R. Since 1959 a genuine element of bilateralism has been introduced in their trade relations with India. The immediate outlook of Indian exports to East Europe are encouraging as can be seen by new trade agreements entered into between India and these countries in 1963. With the U.S.S.R. a new trade and payments

agreement was signed by India in Moscow in June 1963 for a period of five years and according to the statement of Mr. Manu Bhai Shah, Indian Minister for International Trade, this agreement provides for the expansion of Indian exports to the U.S.S.R. from Rupees 385 million in 1962-63 to R_s. 1,000 - 1,050 million by 1966. A similar agreement was negotiated with Czechoslovakia in November 1963 in New Delhi. It is quite possible that East Europe and the U.S.S.R. may further provide for still larger imports from India if they are satisfied with the working of the existing agreements. Under the circumstances it will be a good idea if India were to offer to conclude long term agreements with them for the supply of specific amounts of export goods. This would help India to plan her export strategy more effectively. Such an agreement would provide India an assured market for some years ahead and consequently she would be able to plan her production plans much better. The importing countries of East Europe and the U.S.S.R. will also enjoy greater security of imports for a long period ahead and will, therefore, feel it convenient to plan their production and consumption. Of course, there are some risks and opportunities in long term agreements. The trading parties may enjoy gains or suffer losses because of price fluctuations. But provision can be made to renegotiate prices in the light of changing trends. Such an agreement will fit in very well in the planning procedures of these countries as well as India.

5. TRADE COOPERATION WITHIN THE ECAFE REGION

The idea of regional economic cooperation has gained strong support during the post war period. The exports of the under-developed countries barring the oil countries, have not grown as fast as the exports of developed countries. Consequently wide gaps between import needs for development and import capacity as determined by export earnings has emerged in most under-developed countries. Moreover, in view of the improvements in technology and methods of production and distribution resulting in the discovery of new synthetic substitutes and economies in the use of industrial raw materials, it is contended that there is very little hope that the developing countries would be able to expand their exports to their traditional markets.[22] One often hears the suggestion being made that the above problem could be solved to some extent by mutual expansion of trade among under-developed countries through the creation of regional trade units. In recent years the U.N. Commission for Asia and the Far East[23] has become a leading champion of above cause and has come out with enthusiastic arguments in

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[22]Nurkse, Ragner, Patterns of Trade and Development, Oxford, Blackwell, 1961.

[23](i) U.N. Economic Survey of Asia and the Far East, 1959, Bankok, 1960. (ii) Scope of Regional Cooperation among Asian Countries, ECAFE, Economic Bulletin for Asia and Far East, June 1961 and December 1965.

favour of regional arrangements. Since India's problems are not much different than other developing countries, in the following pages we explore the possibilities of regional trade arrangements in Asia to see their bearing on India's export prospects.

I. Arguments for Regional Cooperation

Most of the under-developed countries in the ECAFE region specialise in a very narrow range of primary products or agricultural based manufactures[24] and do not face encouraging prospects in these traditional exports. Commodities like tea, rice, maize, vegetable oils have very low elasticity of demand in their traditional markets of advanced countries of the west. Similarly the commodities of industrial use like jute, cotton, natural rubber and tin, etc. also do not face favourable prospects because of the discovery of synthetic substitutes in advanced industrial countries. Under the circumstances if the countries of

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[24]Tea and rubber accounts for about 80 percent of Ceylon's foreign exchange earnings. Malaya earns about 80 percent of her total foreign exchange from rubber and tin. For Burma rice alone accounts for about 70 percent of foreign exchange. Thailand earns about 70 percent of her foreign exchange from rice and rubber. About 60 percent of India's total foreign exchange earnings come from jute manufactures, tea and cotton textiles. Seventy percent of Pakistan's foreign exchange earnings come from raw jute and raw cotton. Cambodia earns 60 percent foreign exchange from rubber, rice and maize. For Indonesia, rubber and tin account for about 60 percent foreign exchange earnings. -- These figures are based on regional statistics published in ECAFE, Economic Bulletins.

the ECAFE region were to exclusively depend on these traditional exports in their development strategy, they are likely to face increasing difficulties because of progressive deterioration in their terms of trade. Besides, these countries are also very likely to be constrained in their development efforts by the well-known instabilities arising out of short term fluctuations in the volume of prices so characteristic of the primary products. In such a situation if the growth of imports in the long run is not to exceed their import capacity, as determined by their export earnings, the growth strategy of these countries must lay emphasis on import substitution. But import substitution may be physically impossible for want of sufficient diversity of natural resources and other factors. Besides, the pace of import substitution will itself be constrained by the state of balance of payments of a country, since in the investment stage the contribution of projects to saving is always negative. Moreover, if the home market is small in relation to economic size for the industry, cost of production will be high and if the level of likely home demand is insufficient to absorb the output for a long period in future, there will be wastage of scarce capital resources due to idle capacity. Under such circumstances the establishment of domestic industries substituting imports will require a large degree of protection for the developing

industries. Regional cooperation offers for such countries an alternative. The ability to produce for the large regional market will enable these countries to utilise fully the economies of scale as well as to minimise the chances of capacity remaining idle. Now the new industries to be started in the region having access to reasonable economies of scale to start with would be better able to compete in the export market outside the region. The point is that though the need for import substitution in the region as a whole is obvious, regional cooperation will provide an opportunity for the countries of the region to specialise more rationally vis-a-vis their partners. The consequent expansion of intra-regional trade would enable countries to import from one another such goods which cannot be imported from outside the region because of the shortage of foreign exchange. Regional cooperation will allow the partner countries to avoid uneconomic import substitution and at the same time help them avoiding balance of payments difficulties. ECAFE, therefore, feels that regional cooperation is the best possible method of maximising growth potential of the developing countries of the region. The establishment of a regional market is a specially important factor in the industrial development of ECAFE region and would substantially increase the expected level of industrial production. As a factor in the industrial development of Asian countries, a regional

market is economically far superior to the relatively small national market behind a protectionist tarrif wall. The policies of the many of the newly independent countries of Asia, of developing industries for their small domestic markets by imposing restrictions on imports completely ignores the considerable advantage associated with the production for export markets, e.g. the benefits from trade in the form of new products and from improved technology and technical assistance from abroad. What is needed for industrial development of Asian countries is the encouragement of a pattern of investment which besides ensuring the sustained growth of industries catering domestic markets will also take advantage of favourable opportunities of producing for export market.[25] The conditions favourable to such an investment pattern are more likely to be associated with mutual cooperation, on a regional basis, in promoting trade and development than with a policy of narrow economic rationalism.[26]

To what extent the above plans would materialise would, of course, depend on what shape these arrangements take. In this connection one thing can safely be said that if regional arrangements are to succeed it must involve an element of reciprocity. The benefit of the establishment

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[25] Chenery, H.B. "Comparative Advantage and Development Policy", American Economic Review, March 1961.

[26] Buh Lim Tay, Regional Trade Cooperation among Asian Countries, Pakistan Development Review, Vol.II,1962.

of an industry through protection to the country concerned is obvious. But other countries by giving preferential entry to the products of that industry into their country, will be suffering a loss by paying more for this product bought from the member country than the alternative case of importing from outside the region. They will, therefore, agree to such an arrangement only if they feel convinced that benefit to their own "infant industries" justify a high price for some products made in other number countries. Thus there has to be an element of reciprocity in the sense that all countries must get equal opportunities to increase their exports to one another and these must not be at the cost of their exports to countries outside the region. Only under this condition their development prospects would considerably improve. If such an agreement does not increase a country's exports but merely causes a diversion of her imports from outside the region to a country within the region, such a country will be worse off for the only effect of regional arrangement on such an unfortunate country will be a diversion of the sources of her imports from a low cost area outside the region to a possibly high cost area within the region.

II. Regional Cooperation

Before we discuss any scheme of regional cooperation, we may take note of some of the important characteristics of the region. Geographically the region is not a compact area and is characterised by differences in political,

economic conditions. Whereas in other parts of the world, developments favouring regional integration have occurred, trends in the ECAFE region have not been encouraging in this regard. This is easily evidenced by separation of Burma from India, division of India into two separate sovereign states and division of former Indo-China and Korea. Besides, there is also uncertainty about Communist China's attitude towards any regional arrangements and how the small countries of the region will behave under pressure from the mighty neighbour. On the economic plane also there are differences. The countries of the regional differ in their dependence on intra-regional trade and most countries have found intra-regional trade less important than trade with outside the region countries. The following table brings out this fact.

Most of the countries of the region are primary producers and specialise in a narrow range of products. Ceylon specialises in tea and rubber, Burma and Thailand in rice, Indonesia in sugar, rubber, tin and tea and Malaya in tin and rubber. Some of these products are industrial raw material and in the absence of industrial development in the region, there is not much demand for them in the region. There being absence of sufficient diversification of non-primary output, the mutual complimentarity among these countries is very limited. Except Japan and to some

TABLE 6.3

Intra-Regional Trade as Percentage of Total Foreign Trade in Selected Developing Countries in the ECAFE Region (Excluding Japan): Yearly Averages

Period	Burma		Ceylon		India		Hong Kong	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
1959-61	67.7	28.8	9.6	33.4	11.2	10.3	30.1	35.2
1962-64	59.4	28.2	12.6	32.9	10.8	9.1	23.9	35.7
	Malaya		Pakistan		Singapore			
1958-60	28.0	65.2	29.1	25.8	51.1	70.3		
1961-63	28.5	54.9	28.6	20.3	45.0	60.6		
	Thailand		Cambodia		China(Taiwan)			
1958-60	60.7	36.6	32.7	34.0	36.9	5.3		
1961-63	64.4	67.1	30.7	33.1	36.8	6.4		

Source: Compiled from Regional Statistics published in Economic Survey of Asia and Far East and ECAFE, 1965.

extent India, most of the countries of the region have little to offer in capital goods. There have been many factors like the difficulties of transport and communication, trade preference policies, tied loans, political connections, etc., which have resulted in restricting the level of intra-regional trade. For regional trade to be effective, close dependence among countries is very essential and since intra-regional trade among these countries is not very significant, this may greatly affect the scope of regional cooperation. The second important thing to be noted in the countries of the ECAFE region is that with the

exception of Japan most of them are classed as under-developed countries, yet there are differences in the rates of growth as will be seen from the following table.

TABLE 6.4

Average Annual Rates of Growth of Real Gross Domestic Product in Developing Countries of ECAFE

Country and Period	Total	Per Capita	Country and Period	Total	Per Capita
Burma			Malayasia		
1950-60	6.3	4.3	1955-60	4.1	0.9
1960-63	4.0	1.9	1960-63	6.1	2.8
Cambodia			Pakistan		
1960-63	4.6	2.3	1950-60	2.6	0.5
			1960-64	5.2	3.1
Ceylon			Phillipines		
1950-60	3.2	0.6	1950-60	5.5	2.4
1960-63	3.9	1.4	1960-64	4.4	1.0
India			Thailand		
1950-60	3.7	1.9	1951-60	6.4	3.3
1960-63	3.1	0.7	1960-63	5.5	2.4
Republic of Korea					
1950-60	4.5	2.4			
1960-64	6.1	3.1			

Source: Yearbook of National Accounts Statistics, U.N. 1965.

III. Customs Union

One form of regional cooperation may be the formation of a customs union. Under the customs union the member countries would agree to abolish tarrif walls on their mutual trade and would also agree to administer a common

external tarrif outside the region. This is the type of cooperation advocated for Latin American countries by the U.N. Commission for Latin America.[27] At the very outset it may be argued that for ECAFE region countries the formation of a custom union does not appear very feasible. The countries of the region stretch over an extensive area and this together with their numerous political divisions, their different political and cultural history and varying stages of economic development will render the establishment of a custom union a difficult task. Besides, many countries of the region (for example, India) assign a great role to public sector and state trading and trade is quantitatively controlled. It will be found difficult to reduce all these to duties vis-a-vis non-member countries, not even possible to dispense with them in favour of price conformative restrictions regarding member countries.

Setting aside the above objections, we may consider the likely effects of custom union. The likely effects will depend on the relative strength of trade creating and trade diverting effects of such a union. It is generally held that custom union among countries that trade more among themselves than with the rest of the world will be a very beneficial arrangement since in this case trade

[27] U.N., ECLA, Latin American Common Market, 1959.

creating effects are likely to be more important than trade diverting effects. But since the intra-regional trade among the ECAFE countries is very small, on the above analogy, one may conclude that custom union in the ECAFE region would mean a loss of welfare rather than a gain. It may, however, be argued that on the above basis alone the conclusion that in the ECAFE region trade diverting effects will be more important than trade creating effects is not justifiable. In this region the capital goods and intermediate goods are either not available at all or not available in required quantities and this situation is likely to remain unchanged for a long time in the future. Besides, the countries of the region depend heavily on foreign aid and this situation is also likely to remain unaltered for a long time to come. This aid has often strings to import from lending countries. This will ensure that the scope for trade diverting effects will long remain small and so will be the scope for trade creating effects in view of the very limited complementarity of the region.

The U.N. Economic Commission for Asia and the Far East has been for some time consistently championing the cause of common market[28] by arguing that common market will enable these under-developed countries to avail the economies of

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[28]ECAFE, Economic Survey of Asia and the Far East, 1960, 1962 and Economic Bulletin for Asia and the Far East, Dec. 1965, and Dec. 1965.

large scale and the process of import substitution. Apparently this suggestion sounds very appealing but on practical plane many serious difficulties are likely to emerge. The first difficulty to encounter is the "infant industry" argument. To the extent that economies of large scale confer competitive advantage on well established countries, those countries who developed their industries earlier than others will be able to secure permanent monopoly of these industries in the region. This obviously will be resented by other member countries and the problem may not be solved by allowing a temporary protection to infant industries. Since the countries of the region differ in their capacity to invest, obviously they will have divergent rates of economic growth. Some countries by virtue of larger investments will be able to secure faster growth and consequently competitive advantage over other members of the customs union. As a consequence weaker members will suffer in the wake of increased competition in their home markets for their more advanced partners of the custom union. The UNECAFE has consistently urged[29] the beneficial effects of wider market and the elimination of waste and inefficiency from wider market. There is no doubt that the enlarged market will provide stimulus to enterprise and also enable the member countries to avail the economies of large scale production.

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[29] *Ibid.*

But if the countries of the region differ in their ability, as they do, to take advantage of such opportunities because of lack of savings or other reasons, the weaker countries will be worse off in the regional union than without it.

The above analysis would suggest that the establishment of custom union be postponed till such time that member countries be able to reach sufficient level of growth so as to be able to avail advantages presented by a large common market and as the countries of the region successfully proceed from "take off" to "self-sustained" growth, their saving ability will improve and so will their ability to take advantage of the benefits of a large common market.

IV. Planning of New Investment

Our previous analysis suggests that custom union will prove useful only if it is supplemented by proper planning of new investment taking note of the need of the whole region and ensuring that all the countries of the region get equal opportunities to expand their exports in the region. Planning of new investments could, therefore, be an alternative. It is suggested that since most of the countries of the region heavily depend on foreign assistance for their development, it may be possible to canalise this aid through a regional agency. At the same time the aid giving countries may also cooperate by making the aid available conditional on regional cooperation among the recipient

countries. This will force the member countries to think and act together with regard to coordination of their investment plans. With regard to this scheme, however, it may be argued that since the bulk of the resources needed for development program must come from internal sources and since the countries of the region differ in their ability to mobilise internal resources for development, it may be difficult to bring about the necessary coordination.

V. Trade Liberalisation

We may also consider the alternative suggestion of trade liberalisation and removal of intra-regional trade barriers. The possibility of trade liberalisation and removal of intra-regional trade barriers seems to be a rather remote ideal. In the conditions prevalent in the region removal of trade barriers is not possible since the free factor movements are not likely to be immediately acceptable. The biggest country in the region, India, is comparatively poor, wages low and employment opportunities are limited. The neighbouring countries are most unlikely to welcome large scale migration from India. In fact, they are inducing the Indians in their countries to leave. The Chinese are even less welcome in other parts of the region. In the present employment conditions no country is likely to agree to unrestricted immigration of labour. Most countries are capital hungry and the limited

capital movements that are possible within the region cannot do much. Besides, the countrys of the region have different policies with regard to field and conditions of foreign business and capital. Consequently harmonisation of their policies in this regard would be difficult. An investment bank for the region, a social fund or agricultural improvement fund would, of course, be useful devices, but can hardly be expected to attract enough resources to play a significant role in creating conditions wherein free trade could lead to all round progress for all the member countries.

The suggestion for mutual relaxation of quantitative controls for the promotion of intra-regional trade. With regard to this suggestion, we have to take note of the fact that intra-regional trade in the ECAFE region is very small and for countries like India it is still less significant than for the region as a whole. In the absence of a feeling of inter-dependence, it appears difficult that a scheme of minimum coordination can be evolved. Moreover, the balance of payments difficulties of most of the countries of the region is due to ambitious development policies and therefore the import policies may form an essential part of the development strategy in order to conserve scarce foreign exchange for more essential purposes. In under-developed countries monetary and fiscal policies often present difficutlies as alternative tools of correction of balance of

payments position. This is because financial institutions are often rudimentary in character. Besides, fiscal policy is often frustrated by a lack of political courage in the national leadership to make an effective use of indirect taxes. This leaves the quantitative controls on imports as an indispensable tool of balance of payments policies. There is yet another difficulty with regard to relaxation of quantitative control suggestions. First, there are differences in the intensity of import controls used in different countries of the region. For example,in Malayasia import controls are much less vigorous than in India. Further while some countries specialise in the export of only one or two commodities and will, therefore, gain very little from liberalisation, others who have a diversified export sector will gain much. In order to satisfy the above two groups of exporters, scope of liberalisation will have to be limited or some special arrangements to compensate the countries who would otherwise lose from liberalisation. Still further, the intensity of import controls will differ according to the intensity of balance of payments difficulties. A country applying vigorous controls so as to be able to conserve foreign exchange for essential capital imports may express their inability to greatly relax controls on intra-regional trade.

VI. Sectoral Integration

While it may not be possible to throw overboard the duty

and other trade barriers over the whole economy of the country, it may be feasible to have partial regional integration over a particular sector of the economy. There may be sectoral regional integration of the type of ECSC in Western Europe. Under the ECSC scheme the member countries parted with their soveriegn power to set up a common authority in coal and steel. The common authority was armed with powers to direct the activity and development of the industries. The question to be examined here is how far such an arrangement is feasible in Asia.

It may be argued that factors connected with the development of the coal and steel industries have no applicability in Asia. In the case of Europe the political objective of encouraging a spirit of political and economic cooperation between France and Germany was the most important and the establishment of the ECSC was the first step to an eventual political and economic integration of all continental Europe. The coal and iron and steel industries are distributed over many member countries and the high authority of the steel and coal community can influence investment. The authority is entitled to give loans and guarantees to encourage promising investment projects. It can also prohibit investments requiring borrowing if the project in question is likely to require discriminatory measures or if they are uneconomical.

The circumstances in the ECAFE region would be different. While there could be scope for similar cooperation and collaboration within the region in established industries, difficulties will develope regarding the growing and developing industries with large economies of scale like engineering goods industry, steel industry, cement industry, etc. In their case, the important problem is that of deciding the number of plants that should be established with due regard to growth of demand in the region, the country in which they should be established, the method of encouraging the establishment of these industries and the ways to ensure the proper pricing and distribution of products. All these decisions will not be easy to make. The first is the problem of choosing the nation of location. Each nation may feel strongly that if it is allowed to establish the industry, it can run it economically. Even within the same nation like India, location of certain big industries has given rise to heated controversies. One would be great optimist not to expect a recurrence of such events in the region on a bigger scale.

However, there is a way out and the national feelings have some probability of being legitimately assuaged. If a regional program of coordination of a number of industries is started most of the countries would get some of their claims legitimately satisfied. If one industry can not be located in a country, the other is likely to be.

A common authority may be set up to decide on location of all such industries. Financial assistance may be provided for the starting and establishment of these industries. The authority should command sufficient respect to have its decisions, even when unpopular, accepted without a serious challenge.

However, it must be recognised that the above scheme though very useful and vital in some sectors, has rather limited applicability because the number of such industries in which most of the national markets of the region are too small for them to be operated on purely technical grounds is not large.

Taking the overall view of the above difficulties, an effective program of regional integration appears impracticable. However, there appears to be an effective alternative in the beginning of concluding long term reciprocal agreements among the like minded countries. These agreements may then be integrated in the development plan of the countries concerned.

The above analysis is not to mean that we altogether rule out the possibility of a common market in the ECAFE region. Since the idea of common market has caught on all the countries all over the world to strengthen their bargaining position relative to power of ECM, it is possible that the ECAFE region may also be able to form a common market. But we feel that even if it were to come into existance, it is unlikely to have an important impact on

economic relations of the countries of the region.

VII. Common Market and India

Supposing that a common market of the custom union type is born. Are India's problems going to be solved? We feel that India is not going to gain much. India's trade with ECAFE region is very small and, therefore, even a significant increase in trade will not bring much gains to India. Moreover, a country of India's size should be able to utilise all the reasonable economies of scale within her national frontier at an early stage of her development. The costs of import substitution will, therefore, be much less for India than for other smaller countries.

It is believed in India that since India is relatively more advanced than other countries of the region, she would greatly benefit in terms of exports. But this does not appear very likely since why should other countries permit India to increase her exports to them without importing from them. Regional trade formulae will be acceptable to member countries only if it secures expansion of trade of all of them. Looking this way, we would find that India's foreign trade problem cannot be solved through regional arrangements. The basic problem of India is the expansion of exports so that she can buy the required capital equipment and industrial raw material in sufficient quantity for her industrialisation. In the present stage of their development and also for a long time to come, the other countries

of the region can hardly supply India the type of capital goods and industrial raw material which will occupy top most place in India's import list. Except rubber and tin, the region does not have many capital goods or industrial materials to sell to India. Thus there does not appear to be much prospect of mutually profitable trade between India and other countries of the region. Of course, the picture will be different if Japan were also to enter the market. But in view of her very high level of development as compared with the rest of the countries of the region, it is difficult to visualise the form of her association with this arrangements.

If common market was to come into existence, the weaker members would naturally demand effective protection to their infant industries. In the past decades many countries of the ECAFE region have already established or are on way to establishing textile and light engineering industries and these are precisely the goods in the export of which India is much interested. If such industries enjoy protection, India's export prospects will be hard hit. If regional arrangements was also to include coordination of member's investment plans, then many light industries that have been developed in India since the last decade will be fit claimants to be established in other countries. The other member countries will obviously not relish this suggestion and may well plead that in view of India's relative industrial advancement, India better concentrate on more complex

industries and leave the light industries to them. But this would greatly hit India for a long time. It is for all these reasons under the regional arrangements India's export prospects are not likely to be very bright. Coming to imports, we find that India requires the type of capital equipment which cannot be procured from other countries of the region. Thus the solution of India's foreign trade problem does not appear possible through regional arrangements. However, there appears some possibility of gain to India from regional arrangements in terms of her agricultural problem. India is a heavy importer of food and raw materials like raw cotton and raw jute. The ECAFE region has surplus production of rice, raw jute and raw cotton. India and other countries of the region can mutually benefit by exchanging India's industrial products for region's surplus agricultural products. But in India vigorous efforts to increase agricultural production is already underway and if these efforts prove successful, which are bound to, then the scope of mutually beneficial exchange of region's agricultural products with India's industrial goods will be very much reduced. Even if India in spite of these efforts is to remain deficient in agricultural production, the continued concessional availability from the United States under the Public Law 480 is bound to affect India's keenness to enter regional arrangements.

We may also consider the economies of mutual relaxation of quantitative controls on intra-regional trade referred to earlier. India has been running a trade deficit with the region as a whole as will be evident from the ~~following~~ table. 6.5

This table shows that since 1954, India has been running in deficit with the region as a whole. Among the individual countries, Ceylon and Hong Kong are the only major countries with whom India has a surplus trade. Under these circumstances India probably cannot afford to liberalise her imports and more so since the region does not have the capacity to supply India the type of goods which she needs most. Of course, the picture will be different if Japan was also to associate herself in this arrangement. But in view of the very high stage of Japanese development, it is difficult to visualise in what form Japan can be a party to this.

The above analysis is not to suggest that India should be indifferent to regional cooperation. On the contrary it is in India's interest that her neighbours should rise to prosperity for which she herself is trying and once the region develops, the scope for beneficial mutual trade will also grow. India may not gain in the short run, but in the long run she will gain. India should agree to import from the region capital goods and industrial raw material which they can afford to supply and thus stimulate their develop-

ment. Besides, India should try to harmonise her trade policies with respect of jute manufactures and tea vis-a-vis Pakistan and Ceylon respectively and avoid wasteful competition. Let the spirit of cooperation among the countries of the ECAFE be started like this. Maybe this may ultimately lead to greater cooperation and integration of the ECAFE region.

TABLE 6.5

India's Balance of Trade With the Major Countries of the ECAFE Region: (Million U.S. $'s)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
1. Burma	-9.4	-15.6	5.1	-57.5	-18.5	9.4	.2	-79.8	1.1	-26.4	-.1	-12.3
2. Ceylon	25.7	32.3	28.4	23.4	23.6	24.0	23.7	33.2	34.0	30.6	25.9	16.1
3. Pakistan	-102.2	36.2	-24.7	-16.2	-34.4	-26.9	-13.9	1.8	1.9	-10.3	-2.9	-17.6
4. Thailand	-8.2	-9.4	4.8	4.1	5.7	4.0	6.4	4.2	4.0	3.8	2.8	3.2
5. Indonesia	2.6	8.2	10.8	8.3	20.4	12.4	4.0	1.0	0	.8	9.9	6.1
6. Afghanistan	-	-	-	-	-	-4.3	-6.6	-3.6	-2.6	2.3	5.5	6.4
7. Iran	-56.5	-3.8	0	1.2	-27.3	-48.6	-103.2	-57.0	-65.4	-62.1	-54.4	-94.7
8. Malaya Fed.	13.0[a]	5.0[a]	-13.7[a]	-26.0[a]	-12.3[a]	-19.9[a]	-28.6[a]	-12.2[b]	-12.3[b]	-18.8[b]	-9.0[b]	-11.2[b]
9. Hong Kong	16.4	12.5	4.3	4.7	8.4	4.2	9.3	9.6	4.8	1.9	3.9	6.8
10. Phillipines	3.0	1.4	2.5	1.5	3.6	1.6	2.4	1.7	1.6	1.5	.9	.2
TOTAL	-115.6	66.8	17.5	-56.5	-30.8	-44.1	-106.5	-103.1	-35.1	-76.7	-17.5	-97.6
Japan	-8.8	11.7	30.5	0	-12.5	-28.8	- 59.6	-29.0	-14.0	-42.6	-38.6	-51.8

[a]Refers to Malaya Singapore; [b]Refers to Federal Malaya

Source: U.N., Direction of International Trade, New York.

CHAPTER VII

SUMMARY AND CONCLUSIONS

In this concluding chapter an attempt will be made to summarise and synthesise the discussion in the preceeding chapters. We shall analyse the role of international trade in development planning and assess whether the exports targets set by the Planning Commission for self-sustained growth by 1975 are feasible.

Though the foreign trade of India constitutes a very small part of national income in terms of its contribution it plays a much more important role. The Indian economy unable to produce the necessary capital goods, machinery and raw materials needed for development has of necessity to rely on imported supplies. The procurement of these goods has not only added to the availability of investible resources but has also added an element of flexibility to Indian planning efforts. Import bill has, however, been paid in addition to current export receipts from withdrawal of foreign exchange reserves and massive foreign assistance which has put India in balance of payments difficulties.

Since the beginning of planned development program in 1951 foreign trade has turned up as a major problem. Since the last decade imports have been running at a very fast rate, while export earnings have registered a sluggish growth. Exports have grown at an annual rate of 1.03 percent, whereas imports increased at an annual rate of

3.04 percent. The stagnation of Indian exports is strikingly borne out from the fact that in 1964 Indian exports were only 6 percent higher than in 1951. However, over the same period the value of world exports increased by 109 percent. Consequently India's share of world exports fell from slightly less than 2 percent in 1951 to less than 1 percent in 1964. In terms of volume also Indian exports failed to keep pace with the growth of world exports. Over the period 1952-64, the volume index of Indian exports rose by 43 percent while the volume index of world exports rose by 82 percent. In terms of their contribution to national income exports reveal the same tendency. These developments have created a basic imbalance between exports and imports. Thus during the First Plan period (1951-55) export earnings financed 88 percent of the import bill and during the Third Plan (1951-64) exports could cover only 66.8 percent of imports. The mounting import requirements had to be financed by withdrawal of foreign exchange reserves and massive external assistance but in spite of this stringent import controls had to be imposed resulting in restricting the supply of components and raw materials which has led to idle capcity in the industrial sector of the economy.

Sixty percent of Indian exports go to North America and Western Europe and these export markets have been

declining. India's exports consist of mainly agricultural goods or agricultural based manufactures. In advanced countries of Europe and America these exports have been hit because of the discovery of substitutes and synthetic goods consequent upon changes in technology and methods of marketing and distribution and also to some extent the economic policies pursued by these countries resulting in discrimination against all Asian (including Indian) exports. Among the European countries U.K. and West Germany are the only countries where Indian exports have registered a rise -- in the case of U.K. it is the commonwealth preference to Indian exports and in the case of Germany it is her rapid industrialisation that are responsible for this situation. In East Europe and the U.S.S.R. India's export performance has been remarkable but this has been possible due to bilateral trade agreements between India and these countries. In Asia and Africa, with the exception of Japan and Egypt, Indian exports have tended to decline either due to import substitution for Indian traditional exports to these developing economies or due to strict import controls due to their balance of payments difficulties. In addition, in certain countries political factors have also operated to the detriment of Indian exports. In Oceania the very same tendencies operated as in North America to the detriment of Indian exports.

The same depressing picture of Indian export performance is revealed when one examines the composition of exports. With the exception of food and manufactures commodity groups, other commodity groups, viz., crude materials, vegetable oils, chemicals, leather and manufactures, cotton yarn and fabrics and jute yarn and fabrics have all tended to decline in varying degrees over the period 1951-53 to 1962-64. Apart from faulty government policies in some degree, the technological advancements, changes in methods of production and distribution resulting in economies in the use of industrial raw material and discovery of synthetic products and substitutes and also in some degree discrimination practised in advanced countries -- all acted together to the detriment of Indian exports. Only food and manufactures have registered a rise. In the case of food group it is the cashew kernels and coffee that have pushed up the earnings. The manufactures group comprises manufactures, machinery and new exports developed in recent years going to under-developed countries. The same sluggish behaviour of Indian exports can be seen if one examines the composition of exports according to end use.

The problem looks even worse when one examines the behaviour and prospects of major export commodities, viz., jute manufactures, tea and cotton textiles. These commodities face dismissal future prospects due to stagnant

export markets. Jute manufactures which traditionally has been India's leading export commodity declined mainly due to stagnant export markets, and also in part due to faulty policies of the Government of India. Jute goods are required mainly as a packaging material. Indian and world exports of jute goods have remained stagnant in spite of the fact that world industrial production has continuously increased since 1951 which requires jute goods for packaging. All the available evidence points to the fact that the cause of sluggishness of world and Indian exports of jute manufactures is to be found in stagnant consumption of jute goods in industrial countries in Western Europe and North America which together account for over 50 percent of total world consumption. Of course, in primary producing countries the consumption of jute goods in post-war years has gone above pre-war levels, but because of great importance of industrial countries in world consumption, the over all consumption of jute manufactures has failed to rise appreciably. The factors responsible for this stagnant consumption are to be found in the change in the technique of transportation to what is known as "bulk handling" which altogether eliminates the use of containers for packaging purposes. The growth of new techniques in distributive trade resulting in the discovery of paper as a packaging material is another factor. But for these developments the price of jute goods is not to be blamed. Since 1951 prices of jute goods have

tended to be lower and competitive position of jute relative to paper favourable. The technique of bulk handling is an outcome of increasing mechanisation of farm and factory operations. As to change in method the marketing and the manufacturers supplying goods to the trader in small pre-packed packets instead of traditional jute containers appear to be an outcome of the desire of manufacturers to differentiate their products since jute containers do not easily lend themselves to attractive printing and design over them and are linked with the new developments whereby large self-service stores have grown in importance.

The future prospects in world exports of jute goods do not appear bright. Since the U.S.A. and U.K. account for nearly 50 percent of jute consumption in world and on the basis of past technological time trend, the FAO studies conclude that in these areas between 1965-70 jute goods consumption is likely to fall. In primary producing countries agricultural production in the 1960's is likely to rise by 25 percent over 1950's, but this is not likely to increase jute consumption for packaging material as the use of paper bags as a packaging material is on the increase. Bulk handling is already quite advanced in some countries but on the whole movement in bulk handling is likely to remain limited. It may, therefore, reasonably be assumed that jute consumption per unit of output of

packagable goods would not fall much from 1960 to 1970.

Tea, another major export commodity faces the same dismal future prospects. During 1951-53 to 1963 volume of world exports increased by 14.8 percent; over the same period the volume of Indian exports increased by less than 1 percent. The fact that between 1951-53 to 1963, the volume of world exports of tea rose by only 14.8 percent ought to be contrasted with the fact that over the same period trade in other commodities increased at a much faster rate. It is a misfortune for India that her major exports are those whose world trade has grown at a relatively slow rate. The reason for this is the shift to coffee drinking in advanced countries of the U.K., U.S.A., Canada, Oceania and other European countries which account for nearly 74 percent of total world tea imports. But for this the price policies of exporting countries is not to be blamed. At high income levels the consumption of a beverage is determined by habit rather than by price. At high income levels the income elasticity of demand for tea is negligible. Moreover, tea has relatively remained a cheaper commodity than other competiting beverages.

With regard to Indian exports, there is something more than the stagnant consumption in advanced countries as is indicated by India's falling share of world exports, while Ceylon, which is India's No.1 rival, improved. The reason for this is the growth of African exports which

have hit India harder than Ceylon because of high production cost in India relative to Ceylon. Besides, Indian exports consist of 60 percent common teas which are the same as exported by Africa, whereas Ceylon's exports of common teas account for 33 percent. Hence expansion of African exports was bound to hit India harder than Ceylon. Besides, Government of India's policies with regard to export duty and export cess accounting for nearly 10 to 15 percent of export prices of tea and the system of distribution of quota rights also weakened India's relative competitive ability. The rapidly increasing domestic demand which sapped the incentive on the part of tea industry to make vigorous efforts and interests to promote sales abroad is another contributory factor to India's relative falling share of world exports.

According to FAO projections, consumption of tea in all importing areas together would increase by 18-29 percent between 1958-60 to 1970. However, looking at the past trend of low income and price elasticity in advanced countries of Europe which account for 74 percent of world imports, the upper estimate appears optimistic.

Cotton textiles, third major export commodity has fallen in line with the two other major export commodities. There has been no appreciable rise in Indian and world exports in cotton textiles. Between 1951-53 to 1958-60

Indian and world exports grew by 9.7 and 14.8 percent respectively. But this modest expansion was sustained because during the period the net exporters, the U.K. and U.S.A. were willing to see their exports fall and import more from Asian countries. Thus this modest expansion was caused because of trade among net exporting countries. In fact over this period imports into net importing areas fell by 8.1 percent. Why trade in cotton textiles did not register an appreciable rise after 1951, the reason lies in the tremendous expansion in the use of non-cotton textiles. The growth of import substitution in net importing areas is another development affecting the world trade in cotton textiles.

But in the case of India, in addition to sluggish growth of world exports, there is evidence that India's competitive ability has also tended to weaken as is suggested by a fall in India's relative share of world exports from 10.4 percent in 1951-53 to 10.1 percent in 1958-60, while over the same period relative shares of Japan went up from 13.4 percent to 17.4 percent. Even the tiny Hong Kong beat India by raising her relative share of world exports from 4.4 percent to 6.4 percent over the same period. The reason for India's weakening competitive ability relative to her Asian rivals is that India has been losing her cost advantage over Japan and others. Besides, there has been no improvement in the quality of

Indian exports which consist of about 60 percent of her total exports. Further, home sales have also been growing increasingly attractive. This has naturally resulted in insufficient attention being given to export markets.

If past trends are any guide, the prospects of future world trade in cotton textiles appear bleak. Many countries whose import dependence remained quite heavy even during 1958-60 (i.e. African countries) having attained their independence are bound to embark upon a program of industrial development and cotton textile industry is the most favourite program of industrialisation in under-developed countries. Hence import trade in cotton textiles is the easiest victim of import substitution. Besides, synthetic fibres are increasingly acquiring new appeal. Many countries in Western Europe already impose quantitative restrictions on cotton textiles produced by "cheap Asiatic labour". India is in a still more difficult situation. The fact that 60 percent of Indian exports consist of coarse and medium cloth is further likely to prove a handicap in expanding exports as world demand in recent years has been for flawless cloth. Moreover, exports of coarse and medium variety is likely to be an easy victim of import substitution in developing countries of Asia and Africa. Hence Indian exports do not appear likely to rise in coming years.

In India much hope is pinned to further growth of new exports, consisting of light engineering goods, iron and steel manufactures, cinematographic and photographic films and medicinal and pharmaceutical products, developed in recent years. However, in view of their recent emergence with present structure and extremely low base and attitude of industrial countries towards manufactured goods exports from under-developed countries, it is extremely difficult to imagine that they can really form the basis of a great push forward on the export front. Further most of these exports go to under-developed countries of Asia and Africa. Since these can be manufactured in small scale with none too advanced technology, they are likely to become first victim of import substitution. Further, since most of the under-developed countries have balance of payments difficulties, the possibility that the importing countries may altogether ban their imports is not unreal. Thus if India's exports of such goods remains as narrow based as they are and her export markets remain confined to neighbouring Asian and African countries, they are not likely to form basis of a great leap forward and the great hopes pinned in official circles in New Delhi may be belied.

The rate of growth of income does depend on the level of imports independently of any particular balance of payments position, and the proportion of them that consists of capital goods. It is desirable to increase the level of imports and increasing the proportion of import of capital

goods that embody a more advanced level of technology than domestic goods as reflected in their (technical) capital output ratios.

India's import markets are determined by the type of goods she needs. Since India's main import requirements are machinery, capital goods, chemicals and industrial raw materials and since these can be obtained only from advanced industrial countriies, India's import markets are located in Western Europe and North America. The U.S.A., U.K. and Germany alone accounted for over 50 percent of total Indian imports in 1962. The required imports are also obtainable to some extent from East Europe and the U.S.S.R. and Indian imports from this region have tended to increase, but apart from the availability of required imports the main reason for this expansion has been the bilateral trade agreements between India and these countries. In Asia, Africa and Oceania with the exception of Japan and Iran, India's imports have tended to decline for the simple reason that in these countries industrialisation has not proceeded to an extent so as to enable them to supply India the type of material which occupies a high place in India's import list. However, in the case of certain Asian countries political reasons have also operated to the decline of Indian imports.

The overall terms of trade of India have moved against her for the period 1951-1964. Looking

at terms of trade and comparing with 1958 base, it would appear that terms of trade in 1964 have moved favourably over the period 1958-64, but when the 1964 figure is compared with 1951 it would appear that terms of trade moved against India over the longer period from 1951-64. Even when the 1964 terms of trade are compared with 1958 base, we have to take note of the fact that the terms of trade were "disguised" to some extent because the various export promotion schemes helped exporters to sell at subsidised rates in foreign markets. If this element were taken into consideration, it might even show that when compared to 1958, terms of trade in 1964 were adverse and in comparison to 1951 still more adverse.

Given the difficulty of expanding exports at any substantial pace, it was inevitable that the policy of development would put India into balance of payments difficulties. The most striking feature of the balance of payments position is the deterioration in the aggregate current account position which moved from 3305 million rupees in 1956-60 to 3658 million rupees in 1961-64. Though the trade balance in 1961-64 decline marginally in comparison to 1956-60, there was a marked deterioration in invisibles which contributed to this situation of a rise in the current account in 1961-64. This reduction in invisibles was owing to the growing interest and dividend payments after foreign capital had flown into the country and lower interest receipts as sterling balances were reduced. The problem of external

payments is likely to become more acute as imports increase further with the building up of domestic infrastructures and increased tempo of industrialisation.

The declining role of export earnings in financing current payments required India to mobilise to an increasing extent foreign resources to bridge the gap. The ratio of foreign aid to payments for imports rose from 5.7 percent during the First Plan to 38.7 percent in the Third Plan. Most of this aid came from the United States. Next came the continental countries of Europe, international institutions and centrally planned economies.

The extent to which aid comes through grants and the extent to which loans have liberal financial provisions have a direct bearing on future balance of payments. Most of this aid came in the form of loans and the percentage share of grants in total aid declined from 34.8 percent in the First Plan period to 3.3 percent in the Third Plan period. The major source of grants aid is U.S.A. and from them too the flow of this type of aid declined from 32.4 percent in the First Plan period to 4.2 percent in the Third Plan period. European countries hardly make any contribution in the form of grants. Similarly "soft loans" have been important only from the U.S.A. and have no place in aid program of European countries. This foreign assistance has created problems of debt servicing. Though

the date for debt servicing are not available separately but the fact that surplus in the "invisibles" dropped from 981 million rupees in 1956-60 to 112 million rupees in 1961-64 will give some idea of debt servicing burden, though a part of this reduction was also due to lower interest receipts on reduced sterling balances. According to a U.N. ECAFE study India's gross payments on investment service increased from 58.17 million dollars to 102.48 million dollars over a period 1953-55 to 1959-60. This burden will increase as more foreign aid is received in the form of loans rather than grants, as loans are given on market terms rather than on special terms, as past loans become due for repayment. In view of India's foreign exchange difficulties and mounting debt burden and India's special political circumstances and experiment in democratic planning there is urgent need that West European countries realise that terms and conditions of their assistance be increasingly geared to meet Indian requirement without imperilling the financial soundness of aid. However, there appears to be very remote prospects for bold and unconditional aid from this source. Even the flow of capital from West European countries may not increase in any appreciable extent as the European economic community gathers momentum and as the West European countries discriminate. However, it may be argued that there is need for more forward looking attitude on the part of the governments of Western Europe to replace the financial

orthodoxy and inertia which has made them to view the development problems of India in a way as a business concern would view them.

Thus from the preceding discussion it would appear that India's difficulties of balance of payments are solely due to development programs and stagnant exports. However balance of payments difficulties should not be depressing, of course, stagnant exports should be cause of concern. In a developing economy imbalance in balance of payments is almost inevitable. Fundamentally this problem springs from the fact that development and rising national income produces a strong tendency for imports to rise rapidly in the absence of special measures to restrict imports. In an important sense the whole strategy of India's development has to be decided in relation to the problem of reconciling progress with a tolerable balance of payments. Obviously, if development schemes are to be made good, India must engineer a radical change of pace in its export expansion and must do so very abruptly. As India confronts this formidable task it can not draw much reassurance from her past experience. India's major export commodities are facing dismal future prospects due to stagnant export markets and increasing competition from her aggressive low cost Asian, African and European rivals. Industrial countries are unwilling to open their markets to under-developed countries who have a potential comparative advantage in

the production of simple manufactures using less heavily capitalised techniques. Thus the export prospects do not appear bright and it appears that the export targets set by the Planning Commission for self-sustained growth by 1975 are too optimistic and non-feasible. However, the prospects of expanding exports however limited their outlook may be, India can afford to leave no stone unturned to this end. Though it does not seem possible to achieve the Planning Commission's export targets for self-sustained growth by 1975, a rational trade policy can definitely improve the situation and remove export fatalism prevailing in India.

One measure taken by the Government of India in recent months to boost exports is the devaluation of the Rupee. The stimulus provided to exports through devaluation would differ from commodity to commodity. Devaluation is unlikely to add to India's export earnings from tea in any appreciable degree mainly because of low income and price elasticity in importing countries. Of course, it will help in preventing a further fall in India's relative share of world exports. In the case of jute manufactures too devaluation is unlikely to be helpful. The elasticity of demand for jute goods is very low and is uninfluenced by prices. It is the modern marketing and distributive techniques which are responsible for slacked world demand

and increasing use of paper bags. Hence in this case devaluation is unlikely to be much helpful except that it may help India to face the Pakistan challenge. In case of cotton textiles devaluation is likely to be helpful. Since the last decade Japan has successfully captured world market whereas India failed to maintain her even 1951 share due to her weakening competitive ability due to faster rise in wages and production cost in India relative to Japan. Devaluation will help India to neutralise her this cost disadvantage and improve her competitive position. In the case of these commodities in which India is a marginal exporter, devaluation will bring major gains provided the supply could be made more elastic. The exports of new manufactures is likely to be most benefitted by devaluation. Devaluation will not only provide incentive to existing export products but will also make it possible to export many new products. Devaluation will also revive the invisible earnings. Since the imports prices will go up import substitution will also be more eagerly pursued. But all these benefits from devaluation will accrue only if India can effectively hold the price line. There will be no good of devaluation if the trade barriers in western countries prevent India from reaping full advantage. It would have been better if devaluation was accompanied by a definite understanding with the western countries on the reduction of tarrifs on Indian manufactured goods. It is difficult to

pronounce judgement whether devaluation will lead to the deterioration of India's terms of trade since we do not know import and export elasticities of India and her trading partners.

As to export policy, the fundamental requirement of a rational export policy should be sufficient attention to the development of export industries in the allocation of investment. In view of uncertainty about new exports, India should not neglect her agricultural sector and should give it fair treatment in the allocation of investment. The view that there is not enough scope for creating additional demand for our exports because of inelastic demand in foreign countries does not appear very sound. This has been shown by the manner in which East European countries have found it possible to absorbe more and more of these very commodities. India has, therefore, to find new markets where there may be more responsive customers. Since the structure of present exports is not likely to change materially for a long time, India has no alternative but to explore other markets. The second strategy should be restraint on domestic consumption. Devaluation to be successful must involve some cut in domestic absorption of available resources. To keep the prices of goods in export markets steady, the Third Five Year Plan provides for the creation of buffer stocks but limits the use of buffer stocks to food grains only. This is a mistake on the part

of the planners and the operation of buffer stocks ought to be extended to cover important commercial crops also which enter directly or indirectly into India's export trade.

With regard to new exports much thought should be given to most promising lines of exports. Since most of the exports go to under-developed countries, in its export strategy India should take note of the strong desire of under-developed countries to industrialise themselves. Besides, under-developed countries will also be receiving tied loans and grants from developed countries. India should, therefore, concentrate on those exports which cannot be fabricated locally. The World Bank loans to under-developed countries are generally for utility undertakings. India should, therefore, produce and export machinery and equipment needed for public utility works. Since India possesses an abundance of unused and underutilised human capital, she should pay special attention to the manufacture of exports goods involving labour intensive technology. To determine the lines of production and export, study groups consisting of economists, engineers, exporters and manufacturers may be sent abroad to examine the export potentialities of various industries.

India should also try to enhance the invisible earnings. Insurance and freights can make a sizeable contribution if a conscious and deliberate effort is made in this direction. As India has considerable experience in dam building, engineers and contractors should be

encouraged to tender abroad. India should also encourage tourism, export of Indian services like dances, music, yoga, etc.

With regard to import policy, it would make sense that import substitution be tried to develop capital goods, machine tools and heavy industries despite the fact that such industries will initially set up large import demand. In the past in addition to capital goods industries, too much emphasis has been laid on consumer good industries. The domestic output of capital goods should be raised much faster than that of consumer goods so as to ensure adequate volume of capital goods forthcoming for investment needed for economic growth. But this drive for import saving should not be carried too far else it would be cutting too deeply into efforts to promote exports and will be self-defeating.

India should curtail the demand for inessential and luxury goods so that she can divert resources to large import of machinery and other capital goods. But side by side it should also be recognized that the availability of inducement goods is also very important in any development strategy. India should, therefore, try to strike a correct balance between the two. Thought should also be given to the manner in which policy of restrictions is implemented. Since the rationale of restrictions against luxury imports is that such restrictions would widen balance

of payments bottlenecks and encourage saving by moderating demonstration effect and thereby permitting higher rate of growth, clearly there should be no attempt to substitute the import by greater domestic output. In India the restrictions on import of luxuries have been followed by greater domestic output.

Another manner in which exports can be expanded is through bilateral trade agreements. Since the last decade, India's trade with East European countries has many times increased. To a large extent this has been possible through bilateral trade agreements. Being impressed by these results bilateral trade agreements has been seen by many prominent economists as the cure of all ills of India's foreign trade and have favoured its extension to intra-regional trade and trade with under-developed countries as well. India has the largest trade deficit with Western Europe and North America but bilateralism is not a feature of their trade policy and India is not in a position to force them into bilateral agreements with her. As far as under-developed countries are concerned, a resort to bilateralism with under-developed countries will in the long run prove harmful to India's interests. This leaves only East Europe and U.S.S.R. The living standard of these countries is much below the Western countries and North America and consumption of many agricultural products and light manufactures which India is capable of supplying them

is far below saturation point. These countries are also capable of supplying various types of capital goods which India requires. Their rapid industrial progress has steadily increased their capacity to export machinery and other capital equipment. Thus an exchange of East Europe and the U.S.S.R.'s exports of capital equipment for India's primary products and light manufactures could lead to mutually beneficial expansion of trade on a substantial scale. Since India's export prospects are none too bright, she should try to avail this opportunity of obtaining the desired imports in exchange for her traditional exports. India should, therefore, offer to conclude long term agreement with them for the supply of specific amount of export goods. This will help India to plan her export strategy more effectively.

In recent years the U.N. Commission for Asia and Africa has been suggesting regional cooperation through the creation of intra-trade units for the expansion of exports of ECAFE countries. This regional cooperation may take the form of custom union, trade liberalisation or sectoral integration. Firstly, there are various practical difficulties in way of creation of custom unions, trade liberalisation or sectoral integration and effective program of regional cooperation appears impracticable. Even if a common market of a custom union type is born, India's problems are not going to be solved. India's trade with

ECAFE region is very small and, therefore, even a significant increase in trade will not bring much gains to India. The basic problem of India is the expansion of exports so that she can buy the required capital equipment and industrial raw material in sufficient quantity for her industrialisation. In the present stage of their development and also for a long time to come, the other countries of the region can hardly supply India the type of goods which will occupy top most place in India's import list. Except rubber and tin, the region does not have many capital goods or industrial material to sell to India. They will not permit India to increase her exports without importing from them. Thus there does not appear to be much prospect of mutual profitable trade between India and other countries of the region. Of course, the picture will be different if Japan were also to associate herself with these arrangements, but in view of her very high level of development as compared to others, it is difficult to visualise the form her association with these arrangements.

If the common market was to come into existence, the weaker members will naturally demand effective protection. In the past decade many countries in the ECAFE region have already established or are on the way to establish textile and light engineering industries and these are precisely the goods in which India is much interested. If such industries enjoy protection, India's export prospects

will be hard hit. If regional arrangements also include coordination of member's investment plans, then many light industries developed in India in recent years will be fit claimants to be established in other countries which will obviously be not relished by others.

As to mutual relaxation of quantitative controls, India has been running in trade deficit with the region as a whole since 1954. Under these circumstances India probably cannot afford to liberalise her imports and more so since the region does not have the capacity to supply India the type of goods she needs most. Thus India's foreign trade problem cannot be solved through regional cooperation among ECAFE countries.

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