CHAPTER X

TRADE AND COMMERCE

I. Inland Trade

The size of the total market is in modern economic literature regarded as an important determinant of economic progress just as the share of the market of each unit determines its survival value. Thus value and quantum of trade — foreign as well as domestic—provide a major parameter of economic strength, actual and potential. Even in large countries with a well-knit transport and communication system with the outside world, inland trade is generally much greater than international trade which touches a comparatively few commodities and a relatively small portion of them. In the case of the United States of America, for instance, inland trade has been calculated over a decade to be about ten times foreign trade. In India's case, where production is largely for home consumption, and communications with the world outside are few, domestic trade must be relatively more important, though qualitatively foreign trade would be more significant because of its ability to supply a vast range of goods not produced in the country. But even here for exports, domestic production must provide the base of an export strategy which must have a "surplus" over domestic needs in order to endure.

We may begin our discussion with the size of India's inland trade. It may be best to begin with a definition in view of the terminological confusion that surrounds the subject. Inland trade may be taken to include all exchanges that go through the money mechanism. In this sense, it can be said to be fairly measured by the total money transactions in the country. In any worthwhile sense, however, transactions pertaining to the same goods in the same form should not enter more than once, only because they change hands twice or thrice from the producer to the consumer. To be on a comparable basis with foreign trade, once the value of one commodity used as input is taken into account, only value added should be calculated later, and both exports and imports should be excluded.

Unfortunately no reliable estimate of such trade is available. In 1921, K. T. Shah made an estimate of total inland trade of Rs. 2,500 crores compared with Rs. 550 crores of foreign trade. The year 1921 can, however, hardly be called a normal one. A substantial portion of our food and other rural production is for self consumption or exchange in kind; and this portion must be excluded from trade estimates. The estimated size of inland trade for the National Planning Trade Sub-

Committee was Rs. 6,000 crores for 1925-29 (excluding Burma and Indian States). The sub-committee on trade thought this estimate should be raised to Rs. 7,000 crores to allow for the trade of Indian States. The estimate was for the total turnover. A more accurate estimate of the upto-date trade comparable with exports would be about Rs. 17,500 crores — about fifteen times the export trade*. This higher figure considerably underestimates the real change that has taken place in the interval due to difference in the method used.

While statistics of the aggregate value of inland trade have certain uses, much more important from our viewpoint would be the composition and the direction of this trade, their behaviour over time, and break-up into rural-urban, and regional-interregional. No such overall figures are available. What is available is scattered information regarding some types of movement of goods. Statistics regarding rail movement are available, a great spurt in the total goods' traffic by weight. Value figures cannot be obtained. Indian Railways carried 93.0 million metric tonnes of goods in 1950-51; by 1968-69 the goods carried had increased to 204.0 million metric tonnes — an increase of 119.4 per cent in about two decades. Figures of rail movements of principal commodities showed a similar upward trend, the increase being most marked in case of cement, iron and steel, iron and other ores, and paper and paper-boards. The rail movements of oil-seeds, vegetable oils, cotton manufactures jute, and jute manufactures and tea declined or remained stagnant (Table 1).

TABLE I

Movement of Principal Commodities by Rails 1950-51, 1960-61 and 1968-69

Commodities	*Railway Movement (in '000 tonnes)*			*Percentage of rail movement to production*		
	1950-51	1960-61	1968-69	1950-51	1960-61	1968-69
Coal	30,811	50,396	68,638	94.2	95.8	91.6
Cement	2,471	6,548	9,397	93.1	83.5	78.7
Iron and steel	2,750	7,588	9,652	146.2	138.2	128.1
Iron and other ores	3,055	11,140	21,916	82.3	75.1	84.4
Manganese ore	881	1,230	1,268	98.2	102.6	81.8
Foodgrains	7,805	12,659	15,849	14.8	14.7	15.9
Oil-seeds	1,595	1,517	1,360	30.9	22.9	19.6
Vegetable oils	—	—	—	—	—	—
Sugar	933	1,488	775	82.3	49.1	21.8
Raw cotton	525	536	473	71.4	45.1	43.8
Cotton manufacture	472	380	269	81.0	38.3	22.0
Raw jute	470	644	677	78.9	86.6	114.4
Jute and jute manufacture	271	263	278	31.9	24.3	25.6
Salt	1,576	1,981	2,728	59.2	57.7	54.1
Tea	265	250	260	95.0	77.9	77.2
Paper and paper-boards	193	442	795	92.8	99.3	103.4

* The national income for 1967-68 is estimated at (current prices) Rs. 27,900 crores. Consumption not entering into exchange may be placed roughly at Rs. 9,200 crores. The remaining may be compared with the exports of Rs. 1,200 crores.

More recent figures are available only for wagons loaded. They show a similar trend for most of the common commodities. Iron ore movements show the largest increase. The wagons loaded of cement, pig iron, iron and steel, and grains and pulses also have considerably increased. On the other hand, movements of raw cotton and cotton manufactures show a decline (Table II).

TABLE II

Number of Wagons Loaded by Commodities

Commodities	*Broad Gauge*			*Meter Gauge*		
	1951-52	1960-61	1968-69	1951-52	1960-61	1968-69
Coal and coke	1,145	1,337	2,176	207	254	338
Grains and pulses	358	455	565	268	382	375
Oil-seeds	50	59	60	51	73	61
Raw cotton	35	30	26	26	22	24
Cotton manufactures	24	13	6	13	3	1
Raw jute	43	56	67	42	60	48
Jute manufactures	6	8	10	5	7	8
Sugar	38	55	31	59	73	35
Sugarcane	79	65	25	189	227	118
Cement	102	213	320	69	188	230
Pig iron	14	50	63	6	6	7
Iron and steel (others)	117	260	360	22	57	53
Tea	10	13	17	27	19	20
Manganese ore	49	58	50	11	21	15
Iron ore	146	446	904	8	75	85
Other ores	2	12	55	3	22	11
Total number of wagons loaded	4,230	6,164	8,557	2,607	3,593	3,692

Estimates of the volume of traffic carried by road vary widely according to the assumptions made and the organizations attempting them. For instance, the ton miles performed in 1958-59 by commercial road transport were estimated at 8,500 millions by the Secretariat of the Committee on Transport Policy and Co-ordination, at 12,800 millions according to the data given by the Indian Roads and Transport Development Association and 17,400 millions on the assumptions indicated by the Railway Board. It is, therefore, difficult to say anything precise on the point. The only firm data are the number of trucks registered in India which show an increase between 1948-49 and 1968-69 — from 73 thousand to 301 thousand. The trucks numbered 82 thousand in 1950-51. According to the estimates of the above Secretariat, road transport carried 11 per cent of the total tonne kilometres moved in 1948-49; in 1968-69 the share increased to about 24.2 per cent. Since relatively more of the road traffic is of high-priced goods and for short distances, the proportion of goods carried by roads to the total movement by rail and road by value must be greater.

Statistics of inter-block trade by rail and steamer are available in a long time series; figures of trade within the bloc are not unfortunately available. Break-down by certain important commodities can also be obtained. These, however, partake of the nature of international or inter-regional trade statistics where the creation of new States or amalgamation of existing States vitiates the series. The trade blocks are mostly based on political boundaries. The changes in the number and boundaries of the States that have taken place since independence have, therefore, made these figures non-comparable over years. For example, the earlier figures pertained to 22 principal blocks, we have now 31 blocks of which 9 are port blocs (Andhra ports, Bombay, Calcutta, Cochin, Goa, Madras port, other Madras ports, Pondicherry and Saurashtra ports). Exports from these ports by rail are often re-exports of foreign goods, and imports into them are for export abroad. The port figures have, therefore, to be interpreted after taking into account the foreign trade through them. The annual figures show in all major commodities — agricultural, mineral and industrial — a great inter-dependence. Many manufactured and other commodities are, however, not included in this series; and the absence of value figures makes it impossible to draw any balance of trade picture for the blocks (Table III).

TABLE III

Commodities	*Major exporting trade blocks*	*Major importing trade blocks*
Rice (not in hush)	Ports (Andhra, Cochin, Calcutta), West Bengal, Punjab, Orissa, Tamil Nadu.	Ports (Calcutta, Tamil Nadu, Cochin), Andhra, Kerala and Maharashtra.
Wheat	Ports (Andhra, Gujarat, Cochin, Tamil Nadu, Bombay, Calcutta), Punjab.	Andhra Pradesh, Assam, Bihar, Delhi, Gujarat, Madhya Pradesh, Tamil Nadu, Maharashtra, Karnataka, Punjab, Rajasthan, Uttar Pradesh and West Bengal.
Jute raw	Assam, Bihar, West Bengal.	Calcutta Ports and West Bengal.
Raw cotton (lint) (Indian and foreign)	Rajasthan, Punjab, Karnataka, Maharashtra, Madhya Pradesh, Gujarat.	Uttar Pradesh, Tamil Nadu, Gujarat, Andhra Pradesh, and Bombay port.
Cotton piecegoods	Gujarat, Madhya Pradesh, Maharashtra and Bombay port.	Bihar, Madras, Uttar Pradesh and Calcutta and Tamil Nadu ports.
Coal and Coke	Bihar, Madhya Pradesh, Maharashtra, Orissa and West Bengal.	Andhra Pradesh, Delhi, Gujarat, Tamil Nadu, Karnataka, Rajasthan, Uttar Pradesh and Calcutta port.
Iron and steel bars, sheets, girders and other forms	Bihar, Madhya Pradesh, West Bengal, Orissa, Punjab and Calcutta ports.	Andhra Pradesh, Assam, Delhi, Gujarat, Tamil Nadu, Maharashtra, Uttar Pradesh and Calcutta, Bombay and Madras ports.
Oil-seeeds	Andhra Pradesh, Gujarat, Maharashtra, Madhya Pradesh, Punjab, and Uttar Pradesh.	Bihar, Tamil Nadu, West Bengal and Bombay, Calcutta ports.
Salts	Gujarat, Maharashtra, Rajasthan and Gujarat ports.	Bihar, Madhya Pradesh, Orissa, Uttar Pradesh, Karnataka.

Table III (Contd.)

Sugar (including *Khandsari*)	Andhra Pradesh, Bihar, Maharashtra, Uttar Pradesh.	Gujarat, Madhya Pradesh, Rajasthan, West Bengal and Bombay and Calcutta ports.
Sugar — raw (*Gur*, jaggery and *Shakkar*)	Andhra Pradesh, Punjab, Maharashtra, Uttar Pradesh, Tamil Nadu.	Gujarat, Rajasthan and Calcutta ports.

The defects of inland trade statistics have been widely commented upon and were ascribed before independence to the indifference of foreign rulers to internal trade. This reasoning no longer holds good but deficiencies largely persist.

II. Evolution of Foreign Trade

Evolution before Independence: Since the dawn of civilization, India seems to have been eminent in the field of foreign commerce. The diversity, quantity and prosperity of this trade were the envy and admiration of the world, but judged by the present standard the quantum would no doubt appear insignificant. The international division of labour then showed India to be comparatively very developed. In earlier periods India seems to have exported manufactures like fine cotton and silk textiles, iron goods, wooden goods, ivory work, precious stones and indigo, and imported gold and raw materials like silk, metals, etc. Great Britain in its early years of the Industrial Revolution found it necessary to protect many of its new manufactures against imported Indian products. This was indeed a great tribute to the comparative stage of artistic and technical excellence that India had reached.

Modern Indian foreign trade may be said to have made a firm start in 1870, after the opening of the Suez canal, the rapid development of the shipbuilding industry, the spread of Industrial Revolution in Europe the opening of the Indian railways and the firm establishment of peace and order in India after the chaos that had followed in the wake of the break-down of the Mughal system of administration. Indian foreign trade in this period had three distinguishing characteristics — the importance of raw materials in exports and of manufactured goods in imports, the overwhelming importance of the U.K. as a supplier of imports and only a little less so as a market for exports and a favourable balance of trade. These characteristics continued to mark Indian foreign trade for seven decades, though in a modified form. Total foreign trade increased in value at an annual compound rate of 4 per cent.

Percentage increase in trade over previous decade	
1879-1980 to 1888-89	46.1%
1889-1990 to 1898-99	22.9%
1899-1900 to 1908-09	44.7%
1909-1910 to 1918-19	49.3%
1919-1920 to 1928-29	51.1%

The above position continued till the Great World Depression intervened and changed almost all the earlier features of world trade; the quantum growth, though lower, was satisfactory.

Indian trade expanded at a faster rate than the trade of many developed nations in the period prior to the First World War, but afterwards its relative performance was less satisfactory. Different groups of commodities naturally participated in this increase in different proportions. Manufactured imports increased less then imports of raw materials, a first indication of more rapid industrialization. Exports of manufactured goods also advanced at a higher rate than those of raw materials, though the change was not as significant as in the case of imports, for it was to the domestic market that new production, particularly textiles, was largely directed.

TABLE IV

Annual Percentage Increase of Exports and Imports of Raw and Manufactured Products

	Annual percentage increase			
	Between	*Between*	*Between*	*Between*
	1879 *and* 1892	1892 *and* 1907	1906-7 *and* 1912-13	1912-13 *and* 1927-28
Manufactured Imports	2.8	6.2	15.3	3.0
Raw Imports	6.5	8.5	26.0	6.0
Manufactured Exports	15.0	9.3	7.3	3.3
Raw Exports	3.0	3.8	3.8	2.5

The same tendency was manifest during the Depression, Recovery and War periods.

These transformations were welcome to Indian opinion. Because of the diversity of its resources, its size and its development, the index of export dispersion in India was much higher than that of other similar underdeveloped economies. The foreign trade of India thus began to reflect the economic structure of an industrializing country. Both export and import trade became less dependent on Great Britain; Germany, the U.S.A. and Japan participated in the share thus released. In the five years ending 1869-70, U.K. accounted for 53.2 per cent of our exports and 73.7 per cent of imports. Table V indicates the broad change since 1901.

During the depression, due to peculiar circumstances, U.K. partially gained the lost ground, but this was a special phenomenon likely to be reversed soon. In this long period involving the First World War and the Great Depression, most of the years were characterized by heavy export surpluses. There were only two years marked with trade deficit, 1920-21 and 1921-22 and a few years of small surpluses. While a part of the export surplus was necessary to meet the deficit on invisible account including "Home Charges", a substantial surplus remained even on current account and except in the thirties, imports of precious metals

TABLE V

	Percent share in imports						Percent share in exports					
	1901	1913	1919	1929	1932	1937	1901	1913	1919	1929	1932	1937
U.K.	63.8	63.0	45.0	44.7	35.4	38.4	30.1	25.1	29.2	20.9	27.5	32.4
British Empire	74.6	69.7	57.4	53.9	44.8	49.2	52.1	40.8	52.8	34.8	43.6	45.6
U.S.A.	1.7	3.2	9.5	7.0	10.1	6.5	6.9	7.7	13.8	11.8	8.9	9.4
Germany	3.4	6.4	—	6.2	8.0	10.0	8.8	10.3	—	9.7	6.5	5.1
Japan	1.0	2.5	19.8	6.9	10.5	17.0	2.0	7.7	12.1	10.4	8.9	15.3

could be financed from this. Modern planners would look back with envy on this feature, which might have been utilized for imports of capital goods to accelerate industrialization if there had been a real will directed to that end.

In judging this period and comparing it with later ones, there is one special feature of this period that should be remembered. Throughout this period, with the exception of the First World War, free multi-lateral trade prevailed. It was such an article of faith with the British rulers that they carried it to a ridiculous length in the matter of cotton import duties, when they insisted on lowering the small revenue duties on imported cotton yarn and manufactures, and countervailing them by excise duties. This article was haltingly departed from with the policy of discriminating protection laid down by Indian Fiscal Commission. More important departures were necessitated by the policies followed all over the world in the depression which led in India to the adoption of the Imperial Trade Preference and the Trade Agreements with U.K. and Japan. But even during this period, direct controls either on the commercial or exchange side were infrequent, and the discrimination practised was mild. The trade developments of the period can, therefore, be truly described as the results of free trade policies.

The Second World War changed greatly the quantum, composition and direction of Indian foreign trade. Owing to shipping shortages, non-availability of goods abroad, cessation of trade with enemy and enemy-occupied countries (whose number increased with the course of war) etc., the quantum of imports declined sharply, even though our willingness and ability to pay for imports increased. Some of these adverse factors also operated on the export side, but the allied demand for defence and other essential goods was insatiable, and India's capacity to export was strained to this end. The export quantum, therefore, decreased less. Exports at their lowest level in 1943-44 were more than half the 1938-39 level; imports fell in 1942-43 to two-fifths of the pre war level. Exports of textile manufactures — cotton and jute, greatly increased, while exports of raw cotton shrank. On the import side, raw materials and semi-manufactures, especially cotton and mineral oils, increased in importance; imports of machinery, iron and steel and cotton manufactures declined. Trade with Western Europe (excluding U.K.) and Japan ceased; and their place was taken up by the U.S. The British Empire became a more important purchaser of Indian goods. These changes were, however, the results of war-time circumstances and carried within themselves the seeds of their reversal. During the war, the Indian economy had been greatly starved both of consumption goods and capital goods, and there was a large pent-up demand for imports. Individuals and businesses had accumulated surplus liquid funds, which

could be utilized for purchases from abroad. In the case of Railways and many other industries, an urgent rehabilitation programme was essential. Even after the end of the war, however, owing to world scarcityof goods, competing claims of reconstruction from all over the world, dollar scarcity, and inconvertibility of sterling balance, the return to normalcy was likely to be postponed. As these limitations disappeared one by one, war-time trends were likely to be reversed, and after an initial period of adjustment and adverse balance of trade, a new and more normal pattern was likely to emerge.

Evolution after Independence: As it happended, however, before things could settle down to normal, important political events intervened which placed persistent pressure on India's balance of payments. In August 1947, two years after the cessastion of war, came partition and independence. Hitherto, India and Pakistan had been one country, and trade between them had developed unhindered. Their economies had become highly inter-dependent. India produced most of the manufactured cotton and jute goods, while Pakistan supplied 73-80 per cent of raw jute and 40 per cent of cotton required by these industries. West Pakistan having a larger proportion of irrigated land was surplus in foodgrains, and though the Eastern part (now Bangla Desh) was deficit, on the whole Pakistan had a small surplus which went to alleviate the substantial food deficit of undivided India. Pakistan, on the other hand, used to purchase coal, cement and a variety of other manufactured goods from India. Table VI showing trade between India and Pakistan gives a broad idea of the division of labour that had developed.

TABLE VI

India's Trade With Pakistans 1948-49
(in crores of rupees)

Imports		*Exports*	
Raw jute	71.23	Cotton manufactures Incl. yarn	21.10
Raw cotton	16.68	Jute manufactures	5.51
Agricultural seeds	4.37	Manufactured tobacco	5.29
Foodgrains	1.79	Artificial silk goods	5.16
Hides and skins	1.78	Vegetable and other non-essential oils (mainly mustard oil)	4.62
Building and engineering items	1.23	Tea chests	3.04
Others	10.01	Spices	2.43
		Coal and coke	1.78
		Tea	1.48
		Molasses	1.48
		Leather	1.37
		Metals (iron and steel)	0.95
		Boots and shoes	0.86
		Sugar	0.86
		Rubber manufactures	0.75
		Others	15.73
	107.09		72.41

Partition was bound to have in due time important effects on the course of Indo-Pakistan trade, apart from the purely statistical effects that would ensue because of changing a part of the formerly internal trade into foreign trade. Pakistan was likely to pursue a vigorous policy of industrialization, even as India had done earlier, and naturally the industries it would think of developing first would be the simple jute and cotton textile industries, for which the raw materials were being domestically produced in abundance, thus reducing the exportable surpluses of these raw materials. On the Indian side, the scarcity of foreign exchange and the decrease in Pakistani demand for Indian manufactured goods would lead to a policy of import substitution in respect of raw cotton and jute. But given understanding and willing acceptance of the consequences of the new situation the process could have been more gradual, and the transition could have been made smoother by suitable agreements. This would also have helped the quicker development of both countries. Unfortunately, the atmosphere in which partition was agreed to and the events which followed in their wake vitiated the climate for such an agreement. When India devalued in 1949, and Pakistan did not, raw jute prices raised all the difficulties connected with the determination of a fair and equitable price under bilateral monopoly. The views of both sides so conflicted that a trade war ensured, and legal trade was confined to a trickle in spite of many efforts made to arrive at satisfactory trade agreements. Imports from Pakistan declined to Rs. 44 crores in 1949-50 and exports to Rs. 40 crores. This put an additional strain on the Indian economy.

The year 1947 witnessed another major difficulty for India. The 1946 U.S. loan of $3,750 millions to the U.K. was exhausted by September, 1947, much earlier than anticipated without doing any perceptible benefit to the British economy and exchange control all over the sterling area was tightened. As a measure of alleviating the strain on the balance of payments, England and many other members of the sterling area including India devalued in September, 1949. Though it was a protective devaluation meant only to safeguard the export position *vis-a-vis* other members of the sterling area, it had the effect of increasing the value of Indian exports. Import control was so tightened that imports diminished even in terms of rupees. The Korean War boom gave a brief welcome upward thrust to exports, through changes in export prices. Imports were liberalized but owing to scarcity of goods they did not show a substantial increase till 1951-52 when they reached the peak of Rs. 979 crores.

On January 26, 1950, India was declared a Republic. One of the first major steps taken by the Government was the setting up of a Planning Commission and the adoption of Five-Year Plans to increase the

tempo of economic development and the more equitable distribution of its fruits. It took some time for the impact of the Plan to be felt on foreign trade. But by the second year of the Second Five Year Plan, 1957-58, it led to a radical transformation in the structure of our import trade.

The aim of the First Five Year Plan was largely the restoration of the pre-war per capita standard of living though it was also aimed to build the overheads and lay the foundations for rapid progress in future. It was a modest plan of a Rs. 2.069 crores, aiming at a national income increase of 11 per cent. The next Plan was much bigger, contemplated a relatively greater investment in industries, was heavy industry oriented, and aimed at the socialist patttern of society. It visualized a public sector outlay of Rs. 4,800 crores and a national income increase of 18 per cent. The Third Plan was cast in the same mould and estimated a public spending of Rs. 7,500 crores to achieve a 30 per cent income increase in total income and 17 per cent rise in per capita income.

The three Fve-Year Plans were followed by three annual Plans covering the period 1966-1969. These annual Plans involved an outlay of Rs. 6,665 crores in the public sector. The Fourth Five Year Plan covering the period 1969-1974 places the public sector spending at Rs. 15,902 crores.

The size and nature of the First Plan meant a modest quantum of developmental imports. Favourable monsoons and good food production in the later years of the First Plan reduced the need for food imports, so that foreign aid and use of sterling balances were minimal. The draft on foreign reserves was only Rs. 127 crores as against the estimate of Rs. 290 crores. Net long-term private and official capital and official donations accounted for only 8 per cent of the exchange receipts and 10 per cent of Plan expenditure. With increases in public and private investment, however, developmental imports greatly increased. By the middle of the Second Plan, the demand for imports had so greatly increased that in spite of using up the available foreign exchange reserves and generous foreign aid amounting to 24 per cent of Plan outlay, not even the Plan or developmental imports could be permitted, and foreign exchange became a severely limited factor on the progress of the Plan. The rapid industrial progress and the import-substitution programmeslaunched since then have not helped the position substantially. Throughout this period, India had to maintain a delicate balance between the natural desire to permit the imports essential for achieving the Plan target (and the foodgrain imports required to feed her teeming millions), and the need to live within the bounds of foreign exchange receipts on current and long-term capital account (Table VII).

TABLE VII

Foreign Trade of India Value and Quantum

(Rs. in crores)

	*Exports**	*Imports*	*Balance of trade*	*Export ffiuantum*	*Import ffiuantum*	*Export price*	*Import price*	*Terms of Trade*
					(Base: 1952-53—100)			
1948-49	459	644*	—185	92	114	84	78	108
1949-50	506	648	—142	94	131	85	75	113
1950-51	601	650	— 49	105	100	93	81	115
1951-52	733	970	—237	90	135	142	101	141
1952-53	577	702	—125	100	100	100	100	100
1953-54	531	610	— 79	100	93	92	92	100
1954-55	592	656	— 64	105	110	98	89	110
1955-56	596	679	— 83	115	116	90	87	103
1956-57	604	841	—237	110	137	94	91	103
1957-58	561	1,035	—474	119	156	94	98	96
1958-59	681	906	—325	108	140	93	92	101
					(Base 1958 — 100)			
1959-60	640	961	—321	107	110	100	93	107
1960-61	660	1,140	—480	100	128	110	96	115
1961-62	680	1,107	—427	105	121	109	98	111
1962-63	714	1,136	—422	112	131	106	94	113
1963-64	793	1,223	—430	126	135	105	97	108
1964-65	816	1,349	—533	135	146	107	29	108
1965-66	805	1,408	—603	124	154	113	104	109
1966-67	1,157	2,078	—921	119	149	169	150	113
1967-68	1,199	2,007	—808	122	166	169	136	124
1968-69	1,360	1,862	—502	142	151	166	141	118

*Includes re-exports.
*Excludes land trade with Afghanistan and Iran.

III. Analysis of Foreign Trade

Exports: Since the exports were less affected by restrictions than imports, one may begin with a brief account of how they fared. The great scarcities immediately after the end of the Second World War led India to resort to export quotas and duties to maintain domestic supplies and contain inflation. Destinational export quotas were laid down to encourage exports to hard currency areas. The fear of the domestic consequence of devaluation and the Korean export boom strengthened this restrictive tendency. Nevertheless, the boom had a stimulating effect on exports, whose quantum increased from 92 in 1948-49 to 105 in 1950-51. In 1951-52, exports fell below 1948-49 level, but the export price index increased to 142, leading to the record export earnings of Rs. 733 crores. The First Five Year Plan document devoted some thought to the need for increased exports, and provided for substantial increases in production of certain export crops like oil-seeds. It was estimated that by the end of the First Five Year Plan exports would rise by 10 per cent over the already high 1950-51 level and 30 per cent

over a 1948-49. Compared with the later period cotton piece-goods, manganese ore, coal and coke, and coir exports were expected to double or even do better. Exports, however, reached the 1950-51 quantum only in 1954-55 and in value terms in 1955-56 (1951-52 as noted above was an exception for the value of exports).

The Second Five Year Plan began with a happier domestic situation with many export controls removed and little need for discrimination in export supplies. It was only with the exchange crisis in 1957-58, that the need for increasing exports was greatly felt. It was realized that imports could not be further appreciably curtiled without hampering development, and the prospects of aid to cover the entire gap between the export earnings and the payments for imports needed for maintenance and development at a satisfactory rate were remote. Export promotion committees were appointed, and according to their recommendations export duties were removed or reduced, restrictive export quotas largely eliminated and provision made for rebate or drawback of import duties on raw materials and components used in manufacture of export goods. Railway freight concessions were given for some items, import facilities provided and certain concessions given in direct taxes. Export Promotion Councils were set up for important export commodities and in some cases Commodity Boards were entrusted with the function of export promotion. Emphasis was laid on the need to diversify export trade by exporting new manufactures in engineering goods, chemicals, plastics etc. Certain instituional changes like the State Trading Corporation, bilateral trade treaties and rupee payment agreements were attempted. Their total effect during the Second Five Year Plan was negligible. The average value of exports in the period were about the same as in the earlier Plan period, including 1951-52. In terms of quantity, there was an increase of 10 per cent.

The Third Five Year Plan commenced with a recognition of the urgent need for export increase. On very conservative estimates, financing the imports needed for the fulfilment of a Rs. 10,000 crore overall investment programme required average additional export earnings of Rs. 150 crores a year and foreign aid of Rs. 3,200 crores in the five-year period (including PL 480 imports). Since actual requirements exceeded calculated needs and all sorts of emergencies calling for increased imports were likely to arise, the urgency for increased export promotion could not be gainsaid. As it was, the conflict with China that occured soon after upset the import requirement calculations. During this period, a Ministry of International Trade was set up and a Board of Trade was formed. A vigorous export incentive scheme was launched. For the first time, exports began to pick up.

The composition of exports has undergone only small changes during

the planning period, jute manufactures, cotton manufactures, and tea continued to account for 45-50 per cent of the total export earnings. Vegetable oils, oilcakes and oil-seeds, hides and skins, spices, cashew kernels, tobacco and raw cotton were responsible for another 1/5th of of exports. Jute exports and tea occasionally changed first places, but cotton exports almost always remained third. Two new groups of commodities emerged as important export commodities — ores and minerals and engineering goods. Iron ore exports were negligible in 1950-51. They amounted in the First Plan period to Rs. 21 crores and in the Second Plan to Rs. 62.6 crores. In 1963-64, they accounted for Rs. 36 crores of exports. The first group owes its significance to the increasing steel production in the world, and the foresight of the State in entering into new trade agreements with Japan. The second is symbolic of the type of potential export commodities in which future India will come to excel (Table VIII).

Imports: While exports have been mainly dependent on world demand and very imperfectly amenable to domestic policy measures, imports have been largely a matter of Government policy. The available export earnings and the foreign exchange that could be obtained in other ways have put a ceiling to the imports that could be obtained. Within this ceiling the demand for foodgrains imports had to be first accommodated. Though there was some talk of saving foreign exchange through reducing foodgrains imports by rationing and other measures to curtail food demand, so far the size of foodgrains imports has been largely dictated by the size of domestically available foodgrains and the need to contain foodgrains prices. Fortunately, in the latter part of our period this imperative need has not meant a large drain on valuable foreign exchange as additional food imports were largely covered through PL 480, which, whatever its other drawbacks, meant no immediate foreign payments nor implied a reduction in the quantum of other foreign aid. Imports other than food can be influenced by policy decisions, though maintenance imports will command some priority. In the First Plan, imports were only liberally controlled, but they remained at a comparatively low level, the maximum being Rs. 979 crores reached in 1951-52. The really great spurt in imports was in 1957-58 when it reached the record figure of Rs. 1,036 crores. Import controls had again to be tightly clamped. As time went by and scarcities began to be felt, more imports had to be allowed and imports reached the still higher level of Rs. 1,045 crores in 1960-61. Of the two sectors, imports on Government account showed bigger fluctuations, partly because foodgrains were brought from outside on Government account. In the first year of stringent import controls, 1958-59, Government imports exceeded private imports though for the Second Plan period as a whole they formed

TABLE VIII

India's Exports By Commodity Groups, 1948-49 to 1968-69

	1948-49	1949-50	1950-51	*1st Plan Annual Average*	*2nd Plan Annual Average*	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
Consumer Goods	120.9	164.1	245.9	206.7	232.1	228.4	255.8	250.8	289.0	260.5	364.7	395.6	396.8
Percentage to total	(26.4)	(32.5)	(40.9)	(34.0)	(38.2)	(33.7)	(37.7)	(32.7)	(35.5)	(32.3)	(31.6)	(33.2)	(29.2)
Tea	68.7	72.7	80.4	106.6	128.0	121.4	128.8	123.2	123.5	102.7	158.4*	179.1	154.9
Cotton piece-goods	36.2	59.2	118.0	59.8	57.6	48.4	46.2	49.7	64.2	63.3	75.6	79.4	88.0
Black pepper	2.7	14.5	20.4	12.8	5.1	8.1	5.9	1.9	6.7	10.8	12.7*	13.0	9.7
Tobacco (Mfrd. & Unmfrd)	8.3	12.0	18.5	15.0	15.2	15.0	18.9	21.7	25.8	21.7	22.5*	35.6	33.8
Oil cakes	0.1	0.1	—	1.4	10.1	17.3	36.6	32.9	39.8	34.6	50.0*	45.5	49.5
Cashew kernels	4.9	5.6	8.6	11.3	16.1	18.2	19.4	21.4	29.0	27.4	45.5*	43.0	60.9
Raw Materials or Intermediated Goods	203.7	204.0	217.2	259.9	213.6	242.1	254.3	283.8	284.8	296.3	444.3	418.4	461.3
Percentage to total	(44.4)	(40.3)	(36.1)	(42.7)	(35.1)	(35.8)	(37.5)	(37.0)	(35.0)	(36.8)	(38.5)	(35.1)	(33.9)
Jute manufacture	146.6	127.0	114.0	151.1	115.4	143.7	154.9	156.1	167.2	181.6	209.0	233.5	218.0
Hides and skins (tanned)	12.7	21.0	25.3	22.6	23.2	25.3	22.5	26.2	27.2	28.2	61.9	53.2	72.0
Hides and skins (raw)	5.6	7.0	9.6	6.9	8.5	8.3	10.7	9.6	9.0	9.6	16.1	7.4	5.0
Manganese ore	1.8	5.8	8.0	17.0	17.1	10.4	7.9	8.3	13.1	11.0	14.2	11.1	13.5
Iron ore	—	—	0.2	4.2	12.5	17.5	19.8	36.4	37.4	39.4	70.2	74.8	88.4
Other ores	—	2.0	1.5	6.5	7.0	8.6	4.1	6.4	7.6	9.1	12.2	13.2	29.7
Raw cotton	14.0	10.6	4.9	16.5	11.6	14.3	17.0	16.8	14.2	13.1	17.5	19.4	15.7
Cotton waste	5.1	8.2	12.4	9.3	5.2	4.0							
Vegetable oils	10.9	7.6	25.3	21.9	11.2	5.8	13.1	19.8	7.1	4.1	2.8	4.0	11.7
Oil-seeds	7.0	14.8	16.0	3.9	1.9	4.2	4.3	4.2	2.0	0.2	0.4	1.8	7.3
	134.1	138.0	138.2	142.0	162.1	206.4	168.0	232.3	239.4	248.8	343.9	378.8	501.9
Others													
Percentage to total	(29.2)	(27.2)	(23.0)	(23.3)	(26.7)	(30.5)	(24.8)	(30.3)	(29.5)	(30.9)	(29.9)	(31.7)	(36.9)
Total	458.7	506.1	601.3	608.5	607.8	676.9	678.1	766.9	813.2	805.6	1,152.9	1,192.8	1,360.0

**Economic Survey*, Government of India 1969-70 — Other Sources: (i) *Reserve Bank of India Bulletin*, March 1970, (ii) *Statistical Abstract of the Indian Union*, (iii) *Monthly Statistics of the Foreign Trade of India*, (iv) *India* 1968—Publication Division, and (v) *Pocket Book of Economic Information*, 1969.

two fifths of total imports. In the first year of the Third Plan imports sligtly declined but again picked up in the two later years. Import quantum declined only in 1958, but then showed an increase.

There is one interesting point in connection with the behaviour of Indian imports. Since India had stringent import control regulations and there were no rigid compulsions about imports except food, one would have expected some regularity in their behaviour in relation to the import capacity. One would not be prepared for sudden and unjustified use of reserves, nor quick changes in import policies except those following export receipt or aid changes. In the case of India, however, inability to use sterling balance withdrawal facilities or their use at a rate much greater than that provided for was common. Table IX illustrates this point.

In many cases it is the import policy changes that have led to these situations. After 1957-58, however, with the reduction of sterling balances to the minimum safety level, import control was compelled to be more consistent. But a heavy price had to be paid for this late realization; in spite of increase in import quantum both developmental and maintenance imports had to be sharply curtailed with adverse consequences on the rate of growth or the smooth running of the Indian economy.

The thirteen years of planning have been marked by significant changes in the composition of imports. Capital goods showed a three-fold increase in 1963-64 over 1950-51, and formed 42 per cent of the total imports as against 26 per cent at the start. In this group, iron and steel imports increased more than four-fold. Consumption goods retained their relative importance mainly due to increase in foodgrains and electrical goods. Many other developing countries show the same characteristics, but the Indian scene has also been marked by imports, as a result of the successful import substitution programme in raw jute. They declined from 33 per cent in 1950-51 to 17 per cent in 1963-64 and further to about 15 per cent by 1968-69. Mineral oils greatly increased in importance, and chemical imports increased to four-fold, but jute imports almost disappeared.

The above classification of imports does not fully indicate the nature of the transformation of the economy, and the efforts made by the country in this regard. Raw materials and intermediate goods may be imported for different end-uses, for increasing consumption or for increasing investment. Imports of consumption goods may be either for sustenance or nourishment or enjoyment. To bring this out better the Economic Commission for Asia and Far East classifies imports into five categories — (a) consumption goods: food; (b) consumption goods other than foods; (c) materials chiefly for consumption goods; (d) materials chiefly for capital goods, and (e) capital goods. Classifying

TABLE IX

Releases and Utilization of Sterling Balances for Current Purposes, 1947-1957

(Rupees in crores)

	Jan. 1-Aug. 14, 1947 (Undivided India)	*Aug. 15, 1947- June,* 1948	*Year ending June* 30								
			1949	1950	1951	1952	1953	1954	1955	1956	1957
Agreed releases for current purposes	80.0	70.7	—	66.7	66.7	46.7	46.7	46.7	46.7	46.7	46.7
Net use of reserves for current purposes	80.0	4.0	211.8	—28.6	—40.2	169.2	—41.9	—29.6	18.2	42.8	338.1
Excess sterling used over releases	—	—66.7	211.8	—95.3	—106.9	122.5	—88.6	—76.3	—28.5	—3.9	291.4

Indian imports into these categories it is found that with 1941-44 base as 100, while total imports in 1958-60 increased by 26 per cent, capital goods' imports increased substantially by 113 per cent. Materials for capital goods fared the next best — 86 per cent increase. A slight decrease was expreienced in materials for consumption goods — 7 per cent. Food imports declined by one-fifth and other consumption goods by one-fourth. The change in the pattern of imports will appear far more significant if imports in 1968-69 are compared with those of the First Plan period, (Table X).

Direction: Indian export trade shows few directional changes except by way of reversal of war-time trends. Germany and Japan, especially the latter, once more become important markets for Indian goods. Ore exports have increasingly helped Indian export trade with Japan. The U.S.S.R. has acquired new importance as a purchaser of Indian goods. The shares of the U.K. and the U.S. in our exports is more or less static. Pakistan bought 15.7 per cent of Indian exports in 1948-49, its share declined to 1 per cent in 1963-64 and to nil by 1968-69.

The direction of India's import trade greatly changed in the planning period. Partly this was the consequence of the change in the commodity pattern. The increase in the relative importance of machinery and iron and steel simultaneously implied a proportionately greater increase in the relative trade with the developed countries; success in import-substitution of agricultural raw materials meant a relative shrinkage in the imports from under-developed countries. Among the developed countries, changes in competitive strength were of great significance. Both Germany and Japan made miraculous recoveries, and their economies were fast expanding. They made gains on their pre-war shares in the world trade. The U.S. captured a large proportion of world trade in the reconstruction period, but has since been losing ground. The U.S. also belonged to the group of countries whose share was declining in world trade. In both these cases, as far as India is concerned, many factors pulled powerfully in the opposite direction. Imports of developmental goods were often financed by tied aid. Since in the more recent years U.S. aid has been tied, imports from the U.S. were kept up. The commodity aid under PL 480 also had the same effect. India derived most of its food and cotton imports from the U.S. — a developed country, in this manner. The availability of sterling balances largely for use in the sterling area facilitated imports from the U.K. for the first-half of the period.

As a result of all these factors, the import trade with the U.K., specially after the Second Plan, relatively diminished in importance. The U.S. greatly increased its share from 1961-62 level. Japan also regained its place in India's import trade. In addition, the U.S.S.R. became an

TABLE X

India's Imports By Commodity Groups, 1948-49 to 1968-69

(In Rs. crores.)

	1948-49	1949-50	1950-51	*1st Plan Annual Average*	*2nd Plan Annual Average*	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
Capital Goods	150.4	180.6	162.3	196.5	386.6	432.3	466.7	483.3	550.0	568.7	653.8	607.2	610.6
Percentage to total	(23.3)	(27.9)	(26.0)	(26.4)	(39.9)	(45.1)	(41.2)	(42.3)	(40.8)	(40.8)	(31.5)	(30.8)	(32.8)
Machinery	81.9	117.8	91.0	—	159.9	231.1	250.5	277.3	313.0	332.4	408.0	336.0	370.0
Metal (Iron and steel mfrs.)	12.9	18.4	19.0	34.6	123.2	102.0	89.0	89.6	105.0	97.8	97.9	106.2	86.2
Metals (Others)	22.3	19.2	27.8	21.4	39.6	49.2	55.1	55.6	58.5	68.6	85.7	88.7	89.0
Transport equipment	33.3	25.2	24.5	40.5	63.9	64.6	72.1	72.1	73.5	69.9	62.2	76.3	65.4
Raw materials	207.4	156.8	207.2	210.9	182.8	214.5	198.4	195.4	177.3	162.6	203.4	245.9	274.7
Percentage to total	(32.2)	(24.2)	(33.2)	(28.3)	(18.9)	(22.4)	(17.5)	(17.1)	(13.1)	(11.7)	(9.8)	(12.5)	(14.8)
Mineral oils, fuels etc.	35.7	53.6	55.1	73.2	82.4	95.9	88.0	104.5	68.7	68.4	63.3	74.9	84.2
Cotton (raw & waste)	64.2	63.2	100.8	76.5	48.7	62.7	56.9	49.0	58.1	46.2	56.5	83.5	90.2
Dyes and colours	15.7	11.1	14.6	17.2	12.2	14.5	12.1	8.0	9.2	6.6	8.9	7.7	8.9
Chemicals	20.6	7.7	9.2	17.2	33.7	35.1	38.1	32.0	34.0	35.8	54.1	78.0	82.7
Raw jute	71.2	21.2	27.5	26.0	5.8	6.3	3.3	1.9	7.3	5.6	20.6	1.8	9.3
Consumer Goods	150.2	179.9	125.6	160.9	207.7	199.5	224.5	251.5	394.6	418.4	718.0	639.0	453.5
Percentage of total	(23.3)	(27.8)	(20.2)	(21.6)	(21.4)	(20.8)	(19.8)	(22.0)	(29.3)	(30.0)	(38.4)	(32.4)	(24.4)
Electrical goods and appra.	11.5	14.1	9.7	13.7	54.1	63.0	64.8	83.5	91.2	87.1	105.9	85.6	81.1
Drugs and medicines	7.9	7.9	9.9	11.6	12.7	11.2	9.3	8.3	8.2	8.8	17.4	17.5	17.5
Rayon textiles (yarn inch)	13.8	13.6	15.2	14.1	13.3	12.8	7.0	3.5	—	—	—	—	—
Paper etc.	15.4	10.5	10.4	14.5	11.5	15.7	13.6	11.9	13.1	13.4	21.7	17.7	18.3
Foodgrains	101.5	133.8	80.4	107.1	116.2	96.8	129.8	144.3	282.1	309.1	651.0	518.2	236.6
Others	135.9	131.0	128.2	174.1	192.0	111.3	141.9	213.4	227.1	244.3	425.2	482.2	522.8
Percentage of total	(21.1)	(20.2)	(20.6)	(23.4)	(19.8)	(11.6)	(21.5)	(18.6)	(16.8)	(17.5)	(20.5)	(24.4)	(28.1)
Total	643.9	648.0	623.3	742.4	968.9	957.6	1,131.5	1,143.6	1,342.0	1,394.0	2,078.4	1,974.3	1,861.6
Total Imports Excluding Foodgrains	542.4	514.2	542.9	635.3	852.7	860.8	1,001.7	999.3	1,066.9	1,084.9	1,427.4	1,456.1	1,525.0

Sources: (i) *Reserve Bank of India Bulletin*, March 1979, (ii) *Monthly Statistics of Foreign Trade India.*

important purchasing centre. The most striking change, however, was that the import trade with Pakistan, declined from 14.7 per cent in 1948-49 to less than 1 per cent in 1963-64 and further to nil or negligible by 1968-69 (Table XI).

IV. Commercial Policies

As stated earlier one very important feature of the Indian trade prior to 1939 was the *laissez-faire* policies of the Indian Government. Some of these policies had to be changed in the inter-war period. The Second World War, independence and planning brought further transformation in this sphere. As a result, the need for comprehensive State policies is now taken for granted. It is, therefore, worthwhile to examine the more important steps in this transformation at some length.

Policy of Protection: As a result of the experience during the First World War of the grave limitations that the existing economic structure imposed on India's capacity to adjust to varying requirements, the Government of India realized the need for adopting a State policy for promoting industrialization. An Industrial Commission was, therefore, set up in 1916 and a Fiscal Commission in 1921. The latter was asked to examine the tariff policy of the Government and to make recommendations. The commission could not produce a unanimous report; the majority report advocating discriminating protection was, however, accepted. This policy was found gravely inadequate and halting. To establish a claim for protection, an industry had generally to satisfy three conditions: (a) that the industry possessed natural advantages such as abundant raw materials, cheap power, sufficient supply of labour or a large domestic market to establish a comparative advantage; (b) that the industry was such that it could not develop at all or could not develop as rapidly as was desirable in national interests without protection; and (c) that it would eventually be able to withstand foreign competition on its own. The quantum of protection was to be decided with reference to the cost of production at home (including a resonable profit margin) and the cost price of foreign competitors, and was expected to cover this gap.

Many important export industries securely established abroad depend on imported raw materials. They also sometimes depend on migrant labour. Unskilled labour supply was generally plentiful in India, but indigenous skilled labour supplies had to be built up by the struggling industries. For a country struggling to develop, new industries had to be started, but under this triple formulae it became difficult for new industries to ask for protection since they could hardly furnish any satisfactory cost data. Furthermore, the Indian Industry could not derive much benefit from the scheme of tariff protection enunciated by the

TABLE XI

Direction of India's Foreign Trade, 1948 to 64

(Rs. in crores)

	1948-49	1949-50	1950-51	*1st Plan Average*	*2nd Plan Average*	1961-62	1962-63	1963-64
(a) **Exports**								
United Kingdom	103.3	118.1	139.9	163.8	168.3	161.2	162.2	161.4
	(22.5)	(23.3)	(23.3)	(26.9)	(27.0)	(23.8)	(23.9)	(21.0)
United States of America	70.0	81.5	115.4	102.2	98.7	116.7	113.8	128.7
	(15.4)	(16.1)	(19.2)	(16.8)	(15.9)	(17.2)	(16.8)	(16.8)
Germany West	—	9.5	10.9	12.8	17.2	20.7	15.2	19.0
	(—)	(1.9)	(1.8)	(2.1)	(2.8)	(3.1)	(2.2)	(2.5)
Japan	4.6	5.9	10.3	23.5	30.3	40.3	33.4	58.6
	(1.0)	(1.2)	(1.7)	(3.9)	(4.9)	(6.0)	(4.9)	(7.6)
Pakistan*	46.3	15.8	13.6	8.5	7.0	9.5	9.4	7.2
	(10.1)	(3.1)	(2.3)	(1.4)	(1.1)	(1.4)	(1.4)	(0.9)
U.S.S.R.	5.4	3.4	1.3	2.8	23.4	32.0	38.0	52.2
	(1.0)	(0.7)	(0.2)	(0.4)	(3.8)	(4.7)	(5.8)	(6.8)
Total of above 6 countries	230.3	234.3	291.4	313.5	344.9	380.4	374.0	427.1
	(50.0)	(46.3)	(48.4)	(51.5)	(55.4)	(56.2)	(55.1)	(55.7)
India's Total Exports	458.7	506.1	601.3	68.5	622.6	676.9	678.1	766.9

(continued next page)

TABLE XI (*continued*)

	1948-49	1949-50	1950-51	*1st Plan Average*	*2nd Plan Average*	1961-62	1962-63	1963-64
(b) Imports								
United Kingdom	153.6	155.8	135.3	160.4	202.0	194.5	185.6	168.9
	(23.9)	(24.0)	(21.7)	(21.5)	(20.8)	(20.3)	(16.4)	(14.8)
United States of America	109.8	98.3	119.2	147.8	195.6	233.5	346.8	390.2
	(17.1)	(15.2)	(19.1)	(19.9)	(20.2)	(24.4)	(30.6)	(34.1)
Germany West	—	5.9	10.6	38.0	109.5	118.2	98.7	88.7
	(—)	(0.9)	(1.7)	(5.1)	(11.3)	(12.3)	(8.7)	(7.8)
Japan	6.4	21.4	10.1	22.1	48.0	58.6	64.9	62.6
	(1.0)	(3.3)	(1.6)	(3.0)	(5.0)	(6.1)	(5.7)	(5.5)
Pakistan*	22.7	12.6	4.6	3.3	8.8	13.9	16.6	9.3
	(3.5)	(1.9)	(0.7)	(0.4)	(0.9)	(1.5)	(1.5)	(0.8)
U.S.S.R.	3.8	16.7	0.2	2.4	17.6	39.9	58.6	64.0
	(0.6)	(2.5)	(—)	(0.3)	(1.8)	(4.2)	(5.1)	(5.6)
Total of above 6 countries	296.3	310.7	280.0	373.9	581.5	658.6	771.2	783.7
	(46.0)	(47.9)	(44.9)	(50.2)	(60.0)	(68.8)	(68.1)	(68.5)
India's Total Imports	643.9	648.0	623.3	744.4	968.9	957.6	1,131.5	1,143.6

(Figures in brackets give percentages to India's total exports or imports)

*The figures shown above are exclusive of land-frontier trade between India and Pakistan for the years 1948-49 to March 1957. Trade through land-frontier with Pakistan has also declined as follows.

(Rs. in crores)

	1948-49	1949-50	1950-51	*Average 1st Plan*
Exports to Pakistan	30.4	27.5	17.0	12.0
Imports from Pakistan	85.0	31.6	39.2	32.4

Tariff Commission because the commission itself had enunciated a strange rule: "Not only in our view are there strong objections as a rule to granting tariff protection to new industries but the grant of such protection is really necessary."

Protection is only one of the necessary conditions for the industrialization of a country, but it is not a sufficient one. The creation of a general atmosphere for industrialization is necesary and an all-round Government policy which will promote and invigorate this climate can alone be helpful. The Tariff Board appointed by the Government of India to look into the question of protection was an *ad hoc* body, and, therefore, there was hardly any scope for accumulation of experience and building up of an efficient technique, or for detailed supervision of the protected industries. The protected industries were only periodically accountable, that is, at the time when they asked for continuance of protection. The Government of India interpreted the formulae of the Indian Fiscal Commission more rigidly than the Tariff Board and refused protection in some cases such as glass and the worsted section of the woollen industry even when the Board recommended these industries for protection. In spite of these defects, between 1921-1939 thirteen industries received protection and several of them like the cotton textile, iron and steel, magnesium chloride, paper, sugar and match industries justified the grant of protection to them. The industries continued to progress even during depression*. It can be claimed that the policy of discriminating protection, within its limited scope, achieved a fairly large measure of success and that on balance the direct and indirect advantages to the community of protection to these major industries offset the burden on the consumers.

The Second World War saw the setting up of many new industries unhampered by any external competition. Protection to already protected industries was continued during the war. The new industries did not need any protective duties immediately, but in 1940 they were assured by the Commerce Members of the Viceroys Executive Council that if organized on business lines, they would be adequately protected in future. As soon as the war ended and a degree of outside competition was introduced, the future of many of them became uncertain. In November, 1945, the Government set up an Interim Tariff Board for two years to investigate the claims of the various war industries seeking protection or Governmental assistance. In 1947, the Board was reconstituted for a period of further three years.

The conditions laid down for protection were more liberal *viz.* that (a) the industry was established and conducted on sound business lines and that (b) (i) it was likely to develop sufficiently well, within a reasonable

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time, so as to carry on without protection or state aid, or that (ii) it was such that protection granted to it would be in national interests and the probable cost of doing so was not excessive. There were no conditions regarding local availability of raw materials, local markets or local labour except in so far as they were essential to establish a long-term comparative advantage. The Tariff Board was, by the nature of the case, appointed for a temporary period, but it was entrusted with wider powers and responsibility to ensure that the objectives of protection were fulfilled. For instance, the Board had to maintain a continuous watch over the progress of protected industries. It could recommend measures other than tariffs and make cost and price inquiries when asked by the Government. In the five years of its life, the Board conducted ninety inquiries (including five cases of internal price fixation) as against 51 conducted in the pre-war period. Also the Government announced its decisions on the Board's recommendations expeditiously, that is, generally within a period of two months instead of 3-24 months, as earlier.

With India becoming independent in August 1947, and becoming intent on securing rapid economic progress through a planned policy of industrialization, the whole concept of protection changed. It was no longer a question of considering the requests of private parties, who wanted to start or increase production in particular industries and who thought protection would be necessary and helpful. It was more a question of the nation deciding which industries it wanted to develop as a part of its programme for economic development and using the fiscal methods as one of the devices for achieving this aim.

The Second Fiscal commission set up in 1949, therefore, formulated very different criteria for the grant of protection,. The resolution setting up this commission in fact embodies this new outlook. It refers to the Industrial Policy Statement which mentions the tariff policy as being designed "to prevent unfair competition and promote the utilization of India's resources without imposing unjustifiable burden on the consumer". Further this time the whole subject of Government assistance and the obligations of the assisted or protected industries were included in the terms of reference. Industries were broadly divided into two categories — (a) those included in the Plan and (b) those not so mentioned. These two categories were treated very differently for purposes of protection. The planned industries were grouped into three main divisions — (a) defence industries and other strategic industries; (b) basic and key industries; and (c) others. If protection was necessary in the first case, it was to be given irrespective of consequences such as the cost to consumers. For the second category of industries, only the terms and conditions for grant of protection, the form and the quantum were to be laid down by the tariff authority, which was also to review from time to time whether the industries were complying with

the conditions. For the third group as well as industries outside the planning list, stringent conditions were laid down. The fundamental test prescribed was the likelihood, in light of all the facts, of the industry being able to develop its comparative advantages and eliminate disadvantages so as to carry on successfully within a resonable time without protection. In the alternative the industry asking for protection should be one to which it was desirable in national interests to grant protection or assistance, and the probable cost of such measures should not be excessive to the community having regard to direct and indirect advantages. In the case of industries included in the approved plan, the Tariff Board was entitled to consider relaxation in conditions.

For the purpose of implementing this new policy of protection, a Tariff Commission was set up under the Tariff Commission Act of 1951. It had two principal functions — (a) to examine the case for, and recommend, protection and/or Government assistance to an industry; and (b) to recommend price levels to be fixed for the controlled commodities. The second function has come to occupy considerable importance. The Tariff Commission Act laid down the general and broad principal to be adopted in deciding tariffs, these being: (a) the cost of production in India; (b) the approximate cost of production of similar products in other producing countries, (c) the cost of importing such items; (d) representative fair selling price of the product by the domestic manufacturers; (e) the quantities of commodities to be produced or required to be produced; and (f) the likely impact of such protective measures on the rest of the economy.

In the thirteen years of its life, the Tariff Commission has done useful and arduous work. It has recommended grant of protection to 57 industries in addition to 9 that were protected earlier. Of this total of 66, 42 have been deprotected by now and in 5 cases the scope of protection has been narrowed. In 28 cases, applications for protection were rejected. Regarding the method of protection, it has gone mainly by the advice of the Indian Fiscal Commission which had expressed a preference of import duties over import quotas or subsidies, though in specific instances it recognized the need for the latter two. It stated: "We recommend that for purpose of protection to domestic industries in normal cases, quantitative restrictions should be used sparingly."

The recommendations of the Indian Fiscal Commission were, however, based on certain assumptions regarding general economic conditions and Government policy. In their scheme of things no long-term detailed Government economic policies based on industrial licensing and rigid import control seem to have been envisaged. They thought of the planning authority as only laying down a list of industrial priorities. The Tariff Commission was to accept in full the need for protecting key and basic industries and confine itself to the question of the most effi-

cient and least burdensome method of helping them, but in the case of other industries it was also to examine and fill in the details in so far as they needed Government help. Acute foreign exchange scarcity was not visualized and therefore, the implications of detailed exchange allocations were not allowed for.

The circumstances have since changed. The quantitative import controls, which have now become an integral part of the situation, have deprived their recommendations of much relevance. It is the use of import controls which now decides the presence and extent of foreign competition in the Indian market. There is a wide disparity between the landed price (including import duty) of foreign goods and the similar price of a competing home-produced good; and the disparity is as much in the case of protected industries as elsewhere. The import licences in policy materially decides the level of protection that the domestic industries will enjoy. In so far as this is not accidental, it is largely dependent on the decisions taken by the industrial licensing authorities, and on the units of production already established in the country. The domestic production of the latter is taken into account in allowing imports; they, therefore, automatically get protection. Competing foreign goods are generally allowed to the extent necessary to fill in the gap between domes tic demand and domestic supplies. The role of Tariff Commission has thus become a minor one. Its quasi-judicial nature, its procedure of public inquiries and the need to submit detailed reports which are published, all represent a very valuable safeguard which is now of little use to the nation. In very few cases, the protection recommended by them and adopted by the Government represents the quantum really enjoyed by the industry. At most it only defines the minimum margin that the industry would be entitled to, if the foreign exchange situation improved and the imports could be liberalized. Till then, industries have to struggle to get the industrial and import licences, but their difficulty is not, generally speaking, foreign or even internal competition, but scarcity of raw materials or intermediate goods. It is, therefore, not surprising that many industries do not care to face the rigorous scrutiny and public glare consequent on asking for protection; they prefer to rely on the more effective, though less permanent, import control procedures.

Dovetailing of the procedures and safeguards visualized in the Tariff Commission's mode of inquiry with the need for a long-term rigorous import control, policy will make an important advance on the present administrative and somewhat *ad hoc* decisions. It may be necessary to set up a Fiscal Commission to look into this question and recommend the methods for bringing about this combination in the best possible manner.

Export Promotion: The only long-term solution to our present trade difficulties consistent with India's membership of the international economic organizations is to secure an appreciable increase in the present level of export as import reduction to the present level of import capacity seems unlikely. Since capital aid has reached almost the maximum, no further increase in its quantum is likely. The Third Plan estimated a foreign aid of Rs. 2,200 crores, against a public sector outlay of Rs. 7,500 crores.

The actual utilization amounted to Rs. 2,423 crores in a total public sector outlay of Rs. 8,577 crores. During the three annual Plans foreign aid utilized amounted to Rs. 2,426 crores.

The Fourth Plan assumes foreign aid only marginally above the level of the Third Plan and it is expected that by 1980-81 it will be possible to eliminate dependence on foreign aid. The balance on invisible account (excluding official donations), which showed a surplus during the First and Second Plans mainly on account of interest on sterling balances., and was expected to show a deficit by the middle of the Third Five Year Plan because of heavy interest payments on past loans, became deficit even by the first year of the Third Plan. Though there was some improvement on this account during the last three years of the Third Plan, the deficit on invisible account became substantial by 1968-69 at about Rs. 32 crores. Repayment of earlier short period loans is also becoming a significant liability.

Whatever way one may look at it, the need for a rapid increase in exports is imperative. Hitherto, the increase in our export has been halting. The great increase in our national income and industrial production as well as the rapid growth of world trade have had little effect on our export effort. As a proportion of world trade, (excluding the Communist bloc) Indian exports have diminished in importance from 2.6 per cent in 1948 to 1.3 per cent in 1958; it accounted for less than 1 per cent of world trade in 1968. The exports amounted to 5.2 per cent of the national income in 1948-49 and went upto 7.3 per cent in 1951-1952; its share in national income declined to 4.4 per cent in 1962-63, and further to little over 2 per cent by 1968-69.

The main reason for this has been two-fold. World trade in India's traditional export products has been increasing at a much slower pace then total world trade; and in new industrial products, where demand is likely to grow fast, India has yet some way to go to become competitive. The new industries cannot compete with foreign products even at home; they need heavy protection. It is much more difficult for them at this stage of development to make major dent in the foreign markets. Exports, therefore, have to be pushed up. In the earlier post-war years partly because of the accumulted sterling balances, India did not realize the need for consistent, vigorous and bold export promotion policy.

As an instance of thinking in this regard, one can take the Report of the sub-committee on Trade of the National Planning Committee which stated: "Even regarding imports of machinery which are likely to be heavy in the future, we are not convinced that it will cause a great strain on our balance of payments". It, therefore, thought that "the programme of expanding our export markets is, therefore, by no means as vital for this country as for the U.K. or U.S.A.". In fact, it was even prepared to stop unremunerative exports. Shortages at home, inflation, and lack of cost and quality consciousness were allowed to have their full impact on exports; in fact, export quotas were used to reduce exports. In the last decade or more, however, there have been major changes in export policies and a significant and conscious export drive has been put into operation. The foreign exchange crisis which became almost acute by the beginning of the Third Plan lent further urgency to examine the nature of export incentives and export subsidies. These efforts at export promotion though useful did not produce all the results expected of them and the aggravating foreign exchange crisis necessitated the devaluation of the rupee in June 1966.

The export promotion measures may be broadly divided into two parts; (a) those aimed at removing the disabilities which Indian export products have to suffer compared with other competitors because of import controls and other Government policies; and (b) measures which really aim at giving specially favourable conditions for export. It may also be useful to distinguish between general export promotion measures, whose advantages are accessible to all exporters, irrespective of their export product and concessions whose effects depend on the nature of the export product. The Government of India's import control measures have imposed a grave handicap on Indian export industries, because unlike their competitors they cannot get their import requirements easily. The domestic substiutes for these may be inferior, costly or not available at all. To put the exporters in a fair position, it is necessary that they should be given the import components of their exports at world prices. Since it is often difficult to take measures which will only improve the facilities for production earmarked for exports without also changing the rest, an import licensce for a value greater than the import component of the exports may be justified. Both because of revenue and protective measures, import duties on certain capial and intermediate goods have been heavy; excise duties have also been levied on intermediate goods like steel and cement. Arrangements for rebate or drawback of such duties as enter into the costs of exports have to be made as a part of a policy to put exports on an even keel. Exporters have to face various risks of change in foreign situation, such as exchange rate changes, very different from those which may have a bearing on domestic trade.

Special credit facilities for exports are also necessary. This situation has been provided for by the setting up of Export Risk Insurance Corporation, now transformed into the Export Credit and Guarantee Corporation. Import bills have been brought within the purview of the bill market scheme in order to increase credit facilities for exports. For certain engineering and capital goods, the Refinance Corporation of India Ltd., provides credit facilities for five years through banks.

While these did not attract much attention from abroad as being usual facilities offered to exporters almost all over the world, export incentives offered prior to devaluation in June 1966 through import entitlements did create some controversy. The scheme of import entitlements (which also included supply of controlled scarce materials like steel at concessional prices) was very complicated and varied from commodity to commodity. The entitlements were in each case broken up into special sub-groups and there was a ceiling to each, so that it became difficult to translate them into financial terms. Also the import entitlements in some cases were available not only for use of the exporting firms, but could also be sold to other approved exporter. More surprisingly, they occasionally included commodities which had little to do with the production of the specific export commodity and, therefore, became financial inducements only. In general, these entitlements were confined to exports in new markets or exports of non-traditional products, and amounted to twice the import content of exports or 75 per cent of the export value, whichever was lower. The import entitlement was also, in some cases, higher at 100 per cent of the export value. By and large, the entitlements were broadly so devised as to enable the exporters to cover the losses if any on their export sales, and were regarded as a type of differential export subsidies meant to make exports competitive similar to protective duties on the import side. They were at least taken in that light by the mercantile community. Viewed, thus, they were rather cumbersome.

It had been argued that a change in the exchange rate will be preferable to the scheme of import controls and differential export incentives and other export promotion measures that we had in this country. It was also stated that the adoption of this measure will enable us to get rid of various evils of bribery, corruption, favouritism and inefficiency, and will provide a more powerful urge to the adoption of the right import substituion and export promotion activities.

Import controls fulfil a three-fold purpose: (a) protecting industries against the full blast of ruthless outside competition; (b) restricting imports of non-essential goods whose production is not permitted to be expanded domestically as a measure of consumption control; and (c) conserving foreign exchange resources are distributed among various uses according to the planning priorities so as to lead to rapid economic

development. The third purpose is so comprehensive that it automatically covers the first two. Each of these objectives demands that the Government or some public body should discriminate among the import commodities according to some priorities, and no uniform rise in price which devaluation implies would be of help. However, after the Chinese aggression the domestic costs of prouction and also prices went up sharply. The process of rising prices was further aggravated by severe drought conditions that prevailed in this country during 1965-66. As a result the rupee became too much over-valued in the international market and called for a more drastic corrective step than the existing discriminatory import controls and export subsidies. Keeping this in view, the rupee was devalued in June 1966 by 37.5 per cent in terms of gold and by as much as 57.5 per cent in terms of foreign currencies. Devaluation was only expected to provide a general corrective to the imbalance in the domestic and the foreign value of the rupee. This was not, *per se*, expected to bring about specific changes in the import and export levels of specific commodities, it was again considered necessary to take recourse to enhanced tariff barriers including export duties, coupled with, wherever necessary, export duties.

Bilateral Trading: Other significant features of India's international trade during the last two decades have been trading agreements, purchase and sale agreements on rupee payments and State trading. It has been the experience of countries faced with severe foreign exchange shortages that a system of mutual discrimination among themselves helps their foreign trade and aids economic growth and that insistence on complete multilateralism hinders their progress. Limited multilaterialism or bilateral expansionism proves a beneficial step under these conditions. Later on when economic circumstances change, the countries concerned can once more pass on to full multilateralism with all its advantages. After independence, India has more or less always found herself hindered by exchange shortages, but somehow, apart from discriminatory measures to relieve the dollar shortage, it stuck to non-discrimination with few exceptions till the mid-Second Plan. It entered into several commercial agreements with other countries, and some of them even mentioned in detail the commodities which they were interested in purchasing from and selling to each other. They were, however, only goodwill agreements. While the trading list expressed a general willingness to issue the licence it did not imply any sale or purchase commitments, nor was any mechanism like the payments agreement set up which would induce mutual trade. Since 1957, however, the Government of India has entered into a number of trade agreements. By March 1964, nearly 24 such agreements were in force of which 13 were on rupee payment basis with East European countries. The list

has since been enlarged and by now it covers about 50 countries. Also about 50 per cent of India's export trade and 35 per cent of import trade is with these countries under bilateral arrangements. Rupee payment arrangements, however, cover about one-fifth of India's exports and about one-eighth of her imports.

For many reasons, it has been found easier to work such arrangements with the U.S.S.R. and Eastern European countries. The latter have planned economies, and prefer to be sure about their external purchases and sales. They do not have much faith in the world market mechanism and do not like to pay in convertible foreign exchange. On our part, because of our exchange scarcity and non-viability of some of our exports, we preferred sure makets and linking of sales to purchase. The communist group of countries especially the U.S.S.R. was in a position to supply developmental goods which we needed. Our trade with this group of countries expanded rapidly. This was partly a consequence of the rapid rate of eonomic growth in these countries, which because of some trade liberalization, ensued in greater increase in trade, but the institutional arangements greatly facilitated trade with them.

Table XII brings out the increase in our trade with East European countries. The import trade with these countries increased many-fold from Rs. 2.2 crores in 1952-53 to Rs. 301 crores in 1968-69 and export trade from 2.16 crores to 266.5 crores. The U.S.S.R. played a predominant role in this group. Its imports from India increased from

TABLE XII

India's Trade with East European Countries

(Rs. in lakhs)

Year	*Exports*	*Imports*	*Balance*
1952-53	216	220	— 4
1953-54	410	215	— 195
1954-55	429	808	— 379
1955-56	529	1,095	— 566
1956-57	2,089	3,217	— 1,128
1957-58	2,410	3,820	— 1,410
1958-59	3,415	3,076	+ 339
1959-60	4,903	3,398	+ 1,505
1960-61	4,924	3,762	+ 162
1961-62	6,349	8,762	— 2,413
1962-63	9,145	11,011	— 1,866
1963-64	10,902	12,377	— 1,475
1964-65	14,388	14,499	— 111
1965-66	15,658	15,668	— 10
1966-67	22,567	23,014	— 477
1957-58	22,594	22,220	+ 373
1968-69	26,651	30,104	— 3,543

0.85 crores in 1952-53 to Rs. 52 crores in 1963-64 and further to Rs. 148.3 crores in 1968-69; the exports rose from only 0.24 crores to Rs. 68 crores in 1963-64 and further to Rs. 185.5 crores in 1968-69.

An analysis of the trade balance with the East European countries shows that while the trade balance has been somewhat fluctuating, it has at no time been widely adverse in relation to the level of trade after 1957-58. In 1955-56, imports from these countries were twice the exports. After 1957-58, they were in rough equality. They were a little lower in the first three years and higher for the next three. Since on capital account, India has a favourable balance with this group, the balance on payments account would make a much better showing.

The pattern of exports and imports with the communist countries is very similar to that of India's general trade with developed countries. About three-fourths of the total import bill was spent on iron and steel, capital equipment and non-ferrous metals. Chemicals, railway stores, vehicles and air crafts were the other important imports. Tea, jute manufactures, hides and skins and vegetable oils accounted for half the exports. Ores, cashew nuts, spices, footwear and oilcakes have recently acquired some importance. India has thus succeeded through this arrangement in getting highly needed developmental goods, but diversification of exports has not been significantly helped.

The behaviour of Indian foreign trade with other bilateral trade countries is almost a reminder of the fact that bilateral trade can only help under certain conditions. Trade with this group has not been at all responsive to the introduction of this device. Leaving out China (Mainland), trade with which hardly lends itself to any economic analysis, even before the emergency, Pakistan and Burma were the two most important trading partners in this category. In both these cases, foreign trade greatly shrank, as a result of the political and economic relations with Pakistan and the unsettled political and economic conditions of Burma. With Pakistan, external trade almost came to a standstill after the Pakistani aggression of 1965. U.A.R. is the only country exports to which have shown substantial expansion (Table XIII).

State Trading: Another big institutional change that has been attempted is the setting up of the State Trading Corporation (S.T.C.) in 1956. Negotiation and fulfilment of long-term export agreements affecting a substantial part of domestic production can only be completed and executed by large producers' or traders' associations or organizations. If it is thought inadvisable to promote them or entrust them with this work, the only practicable alternative is the establishment of a trading corporation by the State which can handle imports or exports in bulk. New export lines or additional exports of traditional products on a substantial scale demand the creation of new production and transport

TABLE XIII

India's Trade With Underdeveloped Bilateral Partner Countries 1952-53 to 1968-69

(Rs. in Lakhs)

	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61
Underdeveloped Bilateral Countries*									
Exports to	7,149	4,690	4,994	5,351	4,626	4,211	3,490	5,199	4,861
	(12.2)	(8.7)	(8.3)	(8.4)	(7.3)	(7.1)	(6.1)	(8.4)	(7.7)
Imports from	8,447	7,401	10,766	7,423	5,028	4,914	7,342	5,586	5,062
	(13.4)	(12.5)	(15.7)	(9.8)	(4.6)	(3.9)	(7.1)	(6.4)	(5.3)
Pakistan exports to	3,111	801	975	830	792	713	629	720	951
Imports from	2,188	1,930	1,958	2,711	1,576	1,166	602	939	1,306
Burma Exports to	2,219	2,086	1,606	1,239	1,124	1,098	779	1,258	652
Imports from	2,647	1,755	5,736	958	940	1,353	4,293	1,572	1,239
U.A.R. Exports to	568	347	809	946	1,139	1,059	823	1,036	1,341
Imports from	1,512	2,766	1,969	2,310	832	812	670	1,377	1,223

Underdeveloped Bilateral Countries*	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
Exports to	4,444	4,267	4,055	4,375	4,906	4,828	5,221	7,078
	(6.6)	(6.3)	(5.3)	(5.4)	(6.1)	(4.2)	(4.4)	(5.2)
Imports from	4,499	4,537	4,230	8,164	7,611	9,722	8,081	10,380
	(4.7)	(4.0)	(3.7)	(6.1)	(5.5)	(4.7)	(4.1)	(5.6)
Pakistan Exports to	945	938	719	970	488	1	1	1
Imports from	1,386	1,665	936	1,657	566	136	211	1
Burma Exports to	524	501	637	629	358	372	382	1,194
Imports from	1,124	910	899	1,030	938	4,023	924	1,651
U.A.R. Exports to	1,286	1,301	1,257	1,424	2,706	2,499	2,153	2,182
Imports from	1,204	997	1,526	1,735	1,996	2,030	2,690	4,141

(Figures in brackets indicate percentage to India's total exports and imports)

*The group includes Pakistan, Burma, Afghanistan, Indonesia, China, U.A.R., Iran, Chile and North-Vietnam.

facilities, new credit arrangements, vigorous foreign propaganda and publicity, establishment of new market channels, study of foreign tastes and willingness and capacity to bear short-term losses. It is only a body with large resources acting in close collaboration with the Government that can fulfil these requirements. For promotional activities in export products, produced on a small scale also, the State Trading Corporation is also well-suited; it can take a long-term view, extend the necessery facilities to produces, and help in quality and schedule being properly observed. The S.T.C. can thus be effectively used either to mop up the uncertain fluctuating gap between the demand and supply price of scarce imports, or to arrange for their controlled distribution. By its purchase and sale policies, it can also play an important role in stabilizing prices of export and import products. Its commanding position enables it to give a right and vigorous lead to private traders, and act as a catalytic agent.

There is, however, an important limitation to the activities of the S.T.C. The world markets are volatile, and need much closer study and quicker adjustment than internal trade or production. A very keen eye on the world market changes has to be developed in order to suceed. The S.T.C. with its bureaucratic methods may find it difficult to operate particularly in areas where standardization has not proceeded far or where bulk handling is not possible. On the other hand, in staples and standardized goods the S.T.C. can make a much better success, especially if it can evoke the co-operation and willing support of private trade. The S.T.C. has made good progress over the last few years. Apart from significantly increasing its turnover it has also strived for and succeeded in diversifying exports by finding out new export commodities and market, For example, it has introduced shoes, sports goods, tea, coffee, woollen goods, and razor blades to communist countries and marine salt to Japan and Sri Lanka.

In order to make its operations more effective, in October 1963 a separate corporation *viz*, The Mineral and Metal Trading Corporation was set up to handle trade in minerals and metals particularly ores.

The S.T.C. has also entered into barter and linking arrangements as special instruments of export promotion. The link arrangements are made with selected firms of standing having connections with the foreign country concerned to establish suitable markets for Indian goods. These have also proved a success.

Barter deals are resorted to for disposal of commodities with no ready market. The device can enable exports of commodities which no financial incentive can get across. It is not always necessary to sell these commodities at less than world prices. Sometimes the anxiety of the other party to dispose of some goods which we need can be used to obtain world prices for them. In entering into such transactions, due

care has to be taken to ensure that the goods so exported are additional exports which could not have been sold in the normal way; that the commodities imported in turn are really needed according to our priorities, and that the commodity terms secured are ascertainable and not unfair. Occasionally, loading of imports may also be neecessary on tactical grounds, but it has to be done very selectively. If these safeguards are observed, the deals which the S.T.C. may conclude will add to our export promotion effort. Through such transactions, S.T.C. has often succeeded in selling manganese against steel, or sugar against fertilizers.

The S.T.C. has also helped private manufacturers in locating new markets and getting orders when their unaided efforts were of no avail. For instance, it helped the salt manufacturers in selling their products. Further, under the Export Aid to Small Industries Schemes the S.T.C. has succeeded in export promotion through proper assistance in securing the quality and schedule of articles offered for export by giving raw material and other facilities. The S.T.C., under direction from the Government of India, also operates buffer-stock schemes in jute, seedlac and lemon-grass oil which have proved beneficial to the growers.

The S.T.C. has played a relatively more important role in imports than in exports. The goods handled vary widely from machinery to chemical goods, fertilizers and consumption good like cloves and betelnuts. Its profit margin on these items has varied from ½ to 10 per cent depending on the nature of the commodity, the possibility of sale at a profit and the price of the domestically produced competing goods. For about 75 per cent of its turnover the maximum margin is 10 per cent, but scarce items such as camphor are sold at a higher margin. The profits are used to finance export losses.

The S.T.C. must be judged not by the size of the trade that it handles or entirely by what happens in this sector. Policy decisions can immediately increase or decrease its turnover. It is also expected to help in the promotion of private foreign trade. Its results must, therefore, be judged by its contribution to India's export expansion or prevention of its export decline. However, since changes in India's export trade are the result of several complex factor, it becomes difficult to evaluate the S.T.C.'s role in this direction.

The S.T.C. has rendered distinct services in some spheres of export trade. The most important, probably, is the trade with the East European countries. The expansion of iron ore exports also owes considerably to its efforts and foresight. This area of trade has since been transferred to the M.M.T.C. which in turn has drawn up ambitious plans for iron ore and mineral exports. While the expanding demand for iron ore and the comparative advantage in mining that India has are the basic favourable factors, the long-term sale agreements and alternative

transport arrangements that the M.M.T.C. has made to fulfil its commitments, have enabled these factors to be efficiently exploited. Manganese ore is the reverse example, where the comparative advantageous situation has been working against India, and the M.M.T.C. through link and barter agreements, has tried to minimize its adverse impact.

S.T.C.'s efforts in other directions through the 'Export Aid to Small Industries' or the Handloom Export Organization are yet to make a sizeable impact. From the view-point of affecting the export trade as a whole, it is still not in a very fortunate position as directly and indirectly it as yet handles only a small proportion of the total export trade. However, after gaining some more experience, it should be able to expand its activities in a big way and produce a sizeable effect on the size and complexion of India's exports.

General Agreement on Tariffs and Trade (G.A.T.T): As a part of the network of laying down codes of conduct regulating international economic relations and facilities for mutltilateral trade, an International Trade Charter was drawn up and signed by fifty-four nations in 1948. The signature only signified agreement regarding what transpired. Ratification by Governments concerned was to follow, but the necessary majority could not be mustered, so that the Havana Charter with its elaborate provisions regarding proper trade policies could not come into force. Anticipating the delay that the preparation and acceptance of an elaborate international Trade Charter was likely to mean, the Preparatory Committee of the U.N. Conference on Trade and Employment held in 1946, decided that at its second session in Geneva in 1947, members of the Preparatory Committee should negotiate for a substantial mutual reduction of tariffs and other trade barriers as contemplated under Article 17 of the proposed charter. The concessions received or granted were extended to all the member nations almost automatically, but provisions had to be made to ensure that no member country continued to enjoy the advantage of the extension of such reductions without offering equivalent concessions. The principle of mutuality and reciprocity was insisted upon. It was thus hoped to secure the advantages of the unconditional "Most-Favoured Nation" (M.F.N.) clause without any of its conspicuous disadvantages by combining some elements of the conditional clause. Agreements to reduce duties or bind them could be defeated in practice with other supplementary trade policies. The General Agreement on Tariffs and Trade, therefore, also contained the principle of M.F.N. treatment and other general commercial provisions similar to those of the Havana Charter. At the Geneva, Annecy and other subsequent negotiations India took enthusiastic part and agreed to bind a number of general duties and reduce many revenue duties.

Since agreements become binding for a long period, and it is difficult

to get release from their enforcement afterwards without undergoing complicated procedures and the threat of arousing ill will, nations like India with their economies in transition have to be quite careful in making such commitments. It has to visualize its revenue and protective needs a few years ahead and see that the bindings will not conflict with these. Due to many fortunate circumstances, India has had no occasion of this type.

There are two other requirements of the G.A.T.T. which can come in some conflict with the course of action needed for Indian economic development—the G.A.T.T. use of quotas, and its prescriptions on trade preferences and discrimination. Like its financial counterpart, the International Monetary Fund (I.M.F.), the G.A.T.T. is averse to the use of quantitative controls, which do not work in conformity with the price mechanism. Quotas for protective purposes are allowed only under special circumstances, *e.g.*, when it can be established that there is no other method of protecting the industry more consistent with the agreement. Strictly interpreted this makes resort to protective quotas exceptional, and in modern practice these happen to be the most effective way of sheltering domestic industry. India, having an adverse balance of payments, can resort to import quotas on balance of payment grounds. These have a protective effect and can be so administered as to optimize it. Quotas have to be administered in a non-discriminatory way, but bilateral arrangements are repermitted to the extent allowed by the I.M.F. The causes of the adverse balance of payments and alternative remedies have to be discussed periodically with the G.A.T.T., but development policies cannot be called into question on the ground that they lead to an adverse balance. Hitherto, at the G.A.T.T. consultations on these topics, tables have been turned on the developed countries.

Preferential duties, however, are likely to offend. G.A.T.T. rules allow the continuance of factors such as Commonwealth preferences, only as a legacy from the past and insist on the margins of preference being not further widened. An extension of preferences is only allowed under very special circumstances and with the consent of the organization. These include cases where the area of international trade is small but where the benefits accruing to the country resorting to it, substantially outweigh injuries to other parties.

A more vital question is, how far the G.A.T.T. provisions help underdeveloped countries like India in creating appropriate trade conditions for development. Since Article I, defining the objectives, specially mentions development, this is not an unfair test. Development is a many-sided process, and international economic relations can play only a limited role in bringing about this internal process of transfomration and structural change. Even in this limited part, aid can play the lion's role and trade can only help afterwards. However, the complaint

hitherto, has been that trade is not pulling its weight at all, in aiding the process of economic development of the under-developed countries. In the fifties, while the exports of the developed countries have been growing at the very satisfactory rate of 6.2 per cent per annum; the exports of the under-developed countries have only increased at 3.6 per cent. In spite of severe controls in many under-developed countries, their imports have increased much faster. The result has been that foreign reserves have been fast drawn upon in spite of liberal foreign aid, and developmental programmes have been greatly hampered. As any considerable step-up of foreign aid is difficult and the problem of re-payment has to be faced, a programme which will greatly increase exports from under-developed countries is called for. The situation has somewhat improved during the sixties when the rate of growth of exports from the under-developed countries increased to 6.1 per cent per annum, but even at this level the growth rate in exports is significantly behind that observed for the industrialized countries at 8.8 per cent per annum.

When both the Havana Charter and the G.A.T.T. instruments were drawn, the precise needs of development in the sphere of trade policies were not known. They, therefore, provided for such needs of developing countries on the trade front as were then visualized by the developed countries, and embodied in the then prevalent beliefs in the abolition or relaxation of trade restrictions with a few proved exceptions. The whole philosophy of the G.A.T.T. was based on the concept of equality and reciprocity. At negotiation rounds, the member countries were expected to offer one another equivalent tariff concessions. This presumed that countries were starting from a position of balance, and their tariff needs were more or less the same. The developing countries, experiencing a persistent pressure on their balance-of-payments and the need of protective tariffs were in no position to give any valuable tariff concessions. Nor in fact was this essential because their imports from developed countries were fast increasing, the only brake being their foreign receipts. If the developed countries could help augment them, they would automatically find an increase in their exports in this part of the world. At the insistence of India and other under-developed countries, the obstacles to increase in exports from the under-developed countries were investigated, and it was found that there were several trade practices such as tariffs, quotas, agricultural protectionism, internal taxes, and administrative regulations, in the developed countries which hindered the increase of exports from the developing countries. It was not possible to measure the restrictive effects of these measures but it was certain that their prevalence was acting as an inhibiting factor on the export promotion efforts of the developing countries. The latter had also a fear, based largely on the experience of the treatment of cotton

textile exports, that if they did succeed in pushing the exports of processed and manufactured products, the chances were that new restrictions might be levied on them. Textiles presented a special problem as they were a decling industry in developed countries. The G.A.T.T. had tried to deal with this problem through an International Cotton Textile Conference in 1961, where a one-year agreement for voluntary restriction of cotton textile exports was arrived at. In 1962, a five-year long-term textile agreement providing for liberalization was reached. For other commodities the developed countries had in 1963 agreed to a programme of action involving no new tariff or non-tariff restrictions, reducing duties on processed or semi-processed products by 50 per cent in three years, and eliminating inconsistent restrictions within a year. But nothing appreciable immediately followed.