

this book is fly

UNIVERSAL
LIBRARY

OU_150465

UNIVERSAL
LIBRARY

INDIA'S FOREIGN TRADE

During and After the Second World War

By

ROSHAN LAL VARSHNEY, M. COM., LL.B., PH.D.

Lecturer, Department of Commerce,

Lucknow University, Lucknow.



. KITAB MAHAL ALLAHABAD

FIRST EDITION, 1954

**PUBLISHED BY KITAB MAHAL, ALIHAHABAD (INDIA), PRINTED BY
P. N. BHARGAVA, AT THE BHARGAVA BHUSHAN PRESS, BANARAS.**

PREFACE

Foreign trade is one of the many indices by which a country's economic progress can be measured. An increase in a country's foreign trade does usually indicate its advance in economic efficiency. A nation's prosperity cannot be said to vary directly or at all exactly with the amount of its foreign trade, because the latter is determined by other factors besides productivity. But still the prosperity of a country and the contentment of its people depend mainly, if not entirely, upon the course of its trade and commerce. Naturally it will be proper and desirable to keep a finger on the pulse of foreign trade and to maintain the closest touch with its movement.

Our national economy has hitherto been somewhat distorted owing to the exaggerated importance being given to foreign trade. As to how this once prosperous land (called repository of gold) degenerated into a country of hungry millions, is a sad history of which foreign trade is one of the many chapters. With the passing of India under foreign domination, her economic life including foreign trade was manipulated so as to benefit the ruling nation. Her economy was tied to the apron-strings of Britain and she was forced to support her fiscal, financial or economic policies. The remarkable development of India's foreign trade after 1870 and particularly the active merchandise balance of trade which has been a normal feature of her foreign trade, have been regarded by many as symptoms of national privation rather than national prosperity. Britishers were interested in our raw materials and our markets for their manufactured goods. The exports of raw materials and imports of manufactured goods were systematically encouraged. Indian industries had to perish so that British industries could flourish. India was turned into a predominantly agricultural country. This transition was described by Shri Romesh Dutt as 'a painful episode in the history of British rule in India.'

The importance of foreign trade, however, cannot be underestimated. Foreign trade is not an end in itself but a means to an end. The course of industrial and economic development of India would witness increasing dependence on foreign trade. The experience of the U.K., the U.S.A., Germany and Japan bear testimony to the fact. Industrialization as a main factor of trade expansion is well illustrated by the fact that while industrial countries of the Continental Europe

contribute more than 28% of the export trade of the world, agricultural countries of the Continental Europe do not contribute even one-third of that figure. The consequent lesson for India is plain—her economic prosperity depends upon an immediate industrialization. This is more so after partition when India's foreign trade has to follow the pattern of industrialized countries, *i.e.*, imports of raw materials and exports of manufactured goods. India's foreign trade may not be so large as that of the U.S.A. or the U.K., but it is relatively as vital to her prosperity.

In relation to her size and population, India's contribution to the total trade of the world is relatively small (imports—2.6%, exports—3.6%): nor did it change greatly during the decade before the outbreak of the war. It may be compared to the position of the U.K. and the U.S.A. (28% and 23% of the total world trade respectively). Trade radiates from the industrial regions. Thus industrialization of India is a condition precedent to any increase in her contribution to the total world trade. The reciprocal relationship between national economic development and foreign trade was recognized as early as the days of Carey and List. The tariff policy of a country determines to a large extent the volume, composition and direction of her foreign trade. The traditional pre-war pattern of our foreign trade only reflected the lack of an appropriate tariff policy suited to the needs of the country. An appropriate tariff policy can largely further the expansion of our external trade on the desired lines by facilitating the imports of certain raw materials, capital goods and machinery necessary for the implementation of the programme of industrial development. Our aim will not necessarily be national self-sufficiency but an increase in national income and employment. The more fully effect is given to the policy of industrialization, the less likely is it that India will approach the position of self-sufficiency.

The Great Depression, which history will regard as the greatest* single economic disaster in the annals of the modern world, resulted in what seems the fatalistic progress of the measures hampering the free interchange of goods and breaking up the closely knit structure of international trade. These oppressive and restrictive measures contributed to estrangement and impoverishment by reducing the total volume of world trade. International trade was utterly distorted under the influence of World War, which involved unprecedented shortages of

shipping, scarcity of commodities and subordination of all commercial and economic considerations of convenience and profitability to military and security considerations. India's foreign trade was also affected by these factors and there was a change in its direction. India gained certain new markets for her exports (East and West Africa, Australia, etc.) and some old markets were completely eliminated.

Inconvertible currencies, distorted trade patterns, discriminatory trade practices and changed economic position of nations are evidence of post-war chaotic conditions. A large and growing volume of international trade based on national specialization and international division of labour will foster the higher standards of national well-being throughout the world. And whatever contributes to the realization of better life for the people of the world also helps to safeguard freedom and secure peace. With this motive attempts have been made, though not with complete success, to restore the pre-Great War pattern of multilateral trade. Problems of post-war commercial policy are more complex than those after the Great War. The then trade barriers were practically confined to non-discriminatory import duties. Readjustment of price structures and foreign exchanges to a greater extent was inevitable for achieving post-war economic equilibrium. Some progress has been made but much more is needed. International capital movements must be canalised into areas requiring reconstruction and development.

India is also interested in the multilateral trading world. Only multilateral trade exchanges would allow her the advantage of both selling and buying in the most favourable area. She must, therefore, co-operate in the restoration of multilateralism. India must, nevertheless, retain the right to carry into effect any policy of protection which she considers necessary in the interests of her own industrial development. At present, however, in common with the rest of the world (excepting the U.S.A.) India is having an import surplus necessitating the adoption of exchange restrictions and to a certain extent bilateralism. It will be neither desirable nor necessary to continue them beyond the transitional phase.

India's foreign trade will have to be planned so as to reflect the dynamics of a changing economy. The Government of India even during the war period felt the necessity of formulating plans and keeping them in readiness for implementation when peace returns, and appointed

a Reconstruction Committee thus giving evidence of their intention to take time by the forelock. But its findings and recommendations were as usual consigned to the carefully docketed Secretariat pigeon-hole. Naturally a study of India's foreign trade specially during and after the Second World War is rendered necessary.

A study of the effect of the Second World War on India's foreign trade is very necessary. The drastic reduction in imports in the war period made an import surplus during the post-war period inevitable. How far the import surplus in the post-partition period was desirable, and how far was it caused by fundamental disequilibrium in our economy need a close examination. India's balance of payments also offers a good field for study specially in view of the sterling balances and the need for foreign capital. How far devaluation was justified and what were its achievements, offer an interesting subject for study. The prospects of the restoration of multilateralism and India's place in the multilateral set-up present a complex problem. The future prospects of India's foreign trade with other countries and problems of India's foreign trade have been engaging the close attention of the mercantile community and the Government alike. What should be the essentials of a foreign trade policy for India is a subtle problem. All these problems have been discussed in this book which incorporates almost entirely my thesis entitled 'India's Foreign Trade during and after the Second World War' submitted for the Ph. D. (Commerce) degree of Lucknow University. The chapter on 'Growth of India's Foreign Trade up to 1939' has been added in the original thesis to make the book more comprehensive for the students.

My thanks are specially due to the Secretary, Ministry of Commerce, Government of India, for granting me an interview and supplying me with all relevant Government publications. I am deeply indebted to the various Chambers of Commerce in general, and the Federation of Indian Chambers of Commerce and Industry in particular, for sending me the necessary publications. I have also to thank all my teachers and colleagues who helped me by their valuable suggestions from time to time. I will be failing in my duty, if I do not thank my learned Guru, Prof. B. N. Chatterji without whose inspiration, guidance, and encouragement, it would have been difficult for me to complete the work.

Faculty of Commerce,
Lucknow University.

ROSHAN LAL VARSHNEY

CONTENTS

I.	GROWTH OF INDIA'S FOREIGN TRADE UP TO 1939. ..	1
	Ancient and the Hindu Period. 1; Muslim and Mughal Period. 3; European East India Companies and India's Foreign Trade. 5; 1858-1900. 6; India's gain from international trade. 9; 1900-1914. 9; War Period. 12; Inter-War Period. 15; Depression. 17; Composition. 21; Direction. 22	
II.	INDIA'S FOREIGN TRADE DURING THE SECOND WORLD WAR	27
	Automatic Imposition of Belligerency. 27 Chief Characteristics : 1. Increase in Value. 28 2. Decline in Quantum. 31 3. Trade on Government account. 34 4. Import and Export controls. 36 5. War time financing of foreign trade. 39 6. India and the U.K.C.C. 42 7. Composition. 43 8. Direction. 49 9. Change in status. 52	
III.	INDIA'S FOREIGN TRADE IN THE POST-WAR PERIOD	57
	General Developments. 57 Chief Characteristics : 1. Value of trade. 59 2. Volume of trade. 62a. Exports. 62 b. Imports. 64 3. The problem of adverse balance of trade. 66 Impacts of partition. 67 Large-scale Government imports. 68 Developments in trade policy. 69 Liberal import policy. 71 Changes in export policy. 72 Hard currency position. 75 Over-all import surplus. 77 4. Disequilibrium in India's internal and external economy. 78 a. Partition. 78 b. Inflation. 79 Effects on exports. 80 Effectson imports. 83 The nature of our adverse balance of trade. 84 5. Bilateral trade agreements. 85 6. Direction. 88a. Imports. 88 b. Exports. 91 7. Commodity composition. 93a. Imports. 95 b. Exports. 98 Changing pattern of India's foreign trade. 101 Imports of Machinery. 102	
IV.	INDIA'S FOREIGN TRADE WITH PRINCIPAL FOREIGN COUNTRIES	104
	A. Commonwealth Countries. 104 1. Indo-British Trade. 105 2. Indo-Pakistan trade. 109 3. Indo-Australian trade. 116	

4. Indo-Ceylon trade. 119 5. Indo-Canadian trade. 120 B. Foreign Countries. 123 1. Indo-U.S. trade. 123 2. Indo-Japanese trade. 128 3. Indo-European trade. 130 4. Indo-Burma trade. 137 5. India's trade with Far East countries. 138 6. India's trade with Middle East countries. 140 7. Indo-South American trade. 144

V. INDIA'S BALANCE OF PAYMENTS 146

i. India's Balance of Payments : 1. Pre-war balance of payments. 147 2. War-time balance of payments. 148 3. Post-war balance of payments. 152 Financing of International transactions. 158 The hard currency position. 159 4. Indo-Pakistan balance of payments. 162 *ii.* Factors affecting balance of payments : 1. Terms of trade. 163 2. The Dollar problem. 166 The nature of India's Dollar problem. 168 Dollar problem and the direction of India's trade. 170 The present international situation. 175 Suggestions. 177 3. Sterling balances. 179 Import policy in relation to sterling balances. 179 Judicious utilisation of sterling balances. 182 4. Foreign capital. 184 Sources of foreign capital : a. Private investors. 185 b. The International Bank for Reconstruction and Development. 186 c. Gifts and loans from foreign governments. 188 5. Development of auxiliary services. 189 6. Development tourist traffic. 190

VI. DEVALUATION AND INDIA'S FOREIGN TRADE .. 194

i. Devaluation of Sterling. 194 *ii.* Devaluation of the Rupee. 198 *iii.* Measures Adopted After Devaluation. 199 *iv.* India's Case for Devaluation Examined. 200 a. As a defensive measure 201 b. As a corrective of balance of payments. 203 c. Disparity between internal and external prices. 208 *v.* Economics of Pakistan's Non-devaluation. 210 *vi.* Effect of devaluation on Jute and Cotton Textile industries 214. *vii.* Efficacy of Devaluation. 218 a. Emergence of Overall balance. 219 b. Emergence of Dollar surplus. 224 *viii.* Suggestions : a. Necessity of Indo-Pakistan agreement. 227 b. A plea for revaluation of the Rupee. 228

VII. INDIA AND MULTILATERAL TRADE 232

1. Importance of the Multilateral Trading System. 232 India's position in the multilateral trading system. 234 2. Attempts made in the Post-war period. 236 3. The Havana Charter. 238 4. The General Agreement on Tariffs and Trade. 240 The Annecy and Torquay Conferences. 242 India and G.A.T.T. 243 5. Future Perspective. 245 6. Bilateralism or Multilateralism for India. 247 7. The Sterling Area. 250 India and the sterling area. 252 8. Imperial Preference. 254 India and Imperial Preference. 256 9. Objectives of India's Tariff Policy. 258 10. India and the ITO. 260 Case against the ITO. 261 Case for the ITO. 263

VIII. ORGANISATION AND OTHER PROBLEMS OF INDIA'S FOREIGN TRADE 268

1. Defective Organisation. 268 2. Development of Auxiliary Services. 268 a. Shipping. 269 b. Banking 271 c. Insurance. 272 3. Some Export Problems : a. Price problem. 273 b. Quality. 274 c. Better marketing methods. 275 d. Advertising and publicity. 276 e. Market research. 278 f. Export Credit Guarantee Scheme. 280 g. A Board of Trade for India. 281 4. State Trading. 281 a. Its Background in India. 282 b. Arguments for State trading examined. 283 c. Case against state trading. 285 d. Conclusion. 289 e. Emergency measure. 289 f. The recommendations of the state trading committee. 291

IX. ESSENTIALS OF A FOREIGN TRADE POLICY .. 293

1. Import Surplus Inevitable. 293 a. Food imports. 294 Food self-sufficiency. 294 Cotton and Jute self-sufficiency. 296 The way out. 297 b. Imports of raw cotton and raw jute : Raw cotton. 299 Raw jute. 302 c. Imports of machinery and other capital goods. 303 d. Import of other essential raw materials. 305 2. Continuance of Import and Export Controls necessary. 305 3. Import Policy : a. Short-term policy. 308 b. Long-term policy. 312 4. Export Policy : a. Short-term aspect. 313 b. Long-term aspect. 317 5. Export Duties and Import Duties. 319 6. Development of Re-ex-

port Trade. 321 7.Export Potentialities of Principal Export
Commodities. 323 a. Jute manufactures. 323 b. Cotton textiles.
325 c. Tea. 327 d. Cottage Industries' Products. 328

CONCLUSIONS	..	..	..	..	..	330
POST-SCRIPT	..	..	..	..	..	335
APPENDICES	..	..	..	..	..	1
INDEX	..	..	..	..	..	4

GROWTH OF INDIA'S FOREIGN TRADE UP TO 1939

The growth of India's foreign trade up to 1939 may be studied conveniently by dividing the whole period as follows : (1) Ancient and Hindu Period, (2) Muslim and the Mughal Period, (3) Early European Period up to First War of Indian Independence, (4) 1858-1900, (5) 1900-1914, (6) 1914-1918 and (7) the Inter-War Period.

Ancient and the Hindu Period

The antiquity of India's foreign trade,¹ even as far back as the earliest dawn of human history, has been established beyond doubt and is traceable to the Rigvedic period (1200 B.C.). The variety, extent and opulence of this trade was a just object of admiration and wonder to the rest of the world. Geography by Ptolemy (140 A.D.) and Periplus of Erythrian Sea (100 A.D.) give details of the nature of Indian trade. There are references in the Bible about Indo-Babylonian trade and Dutch East Indies ports bear Indian names. Dr. Lassen, the great German Orientalist held, "The Egyptians dyed cloth with indigo and wrapped their mummies in Indian muslin."² The most ancient Indian literature abounds in indications of a thriving sea-borne commerce. India had trade connections with China (Kosakaras), Java (Yavan Dwipa), Sumatra (Swaran Dwipa), Red Sea (Lohita Sagar), Babylon, Assyria, Elam, Judala, Egypt, Arabia, Persia, Burma, Ceylon, Japan and Greece. Colonization of Java by a band of Hindu navigators of Kalinga proves the existence of a national shipping and ship-building industry and the incentive of Hindus for seeking

¹ This fact was doubted prominently by Kennedy, Mrs. Rhys Davids and Moreland but their arguments have been well refuted by Prof. K. T. Shah in 'Trade, Tariff and Transport in India', pp. 1-4.

² Indigo was distinctly and exclusively an Indian produce and perhaps drew its name from the word 'India'.

trade relations. There was a Superintendent of Ships to examine the accounts relating to navigation and a Board to look after the entertainment of foreigners in the Mauryan period.

The exports and imports were regulated by very sound principles of national prosperity—"only after clothing and feeding your own people, then of your surplus abundance give to the foreigners and import free of toll useful articles and seeds not easily available while shutting out articles which are harmful". Thus Indians exported only superfluous articles but at the same time they were highly prized by the foreigners and were unobtainable from elsewhere. The ancient Indian trade was in rare and costly commodities of comparatively great value in small bulk.¹ Cotton manufactures were our principal exports. They had reached a high degree of excellence and every one from the Cape of Good Hope to China was clothed from head to foot in Indian cloth. Dyestuffs were also prominent (indigo being a monopoly). Ships did not form part of our exports but they certainly constituted invisible exports by providing transportation. Other important articles of export were silk and muslins, spices, cutlery, metal wares, sugar, perfumes and cosmetics, sandalwood and teak, ivory work, animals and animal skins. The chief articles of import were bullion, precious stones, woollen goods, wines, horses and minerals. Silk was one of the important items of export and 'was exchanged by weight with gold'. But silk industry, though it might have been highly developed in India, was an industry really native to China only. Hence this trade might have been in the nature of entrepot trade. So also about porcelain, spices and precious stones and metals. Her geographical position enabled India to serve as a link between the East and the West thus earning for Indian traders a handsome commission.

Main items of modern Indian exports, cotton, jute and tea were altogether absent from the Indian trade in the ancient period. Thus the nature of ancient Indian trade was markedly different from the present. India was principally

¹ For an exhaustive list see Prof. K. T. Shah's 'Trade, Tariff and Transport in India'.

an exporter of manufactured goods, supplying almost all the requirements of world manufactures and could legitimately be called the 'workshop of the world'. Her imports, though diverse including some manufactured goods, *e.g.*, silk and silk goods from China, must have been relatively of small importance. With the exception of silk, almost all raw materials and foodstuffs were found in India. Value of exports must have been more than imports and Pliny had to write that India was draining the West of its supply of gold coin and bullion.¹ The favourable balance of trade continued until recently but the present surplus was the tribute paid by India to her foreign masters while the ancient surplus balance was a tribute paid to India and resulted in an inflow of gold.

Muslim and Mughal Period

After the attack of Mohammed Ghazni in 712 A.D., India became a hunting-ground for the freebooters of the north-west. Naturally this period was full of constant warfare and general unstable political conditions and was unfavourable for trade development. South India was relatively free from the turmoil. The trade of Malabar with China and the West no doubt was flourishing all through the period. It was Allauddin Khilji who established an empire on a lasting basis. A strong stream of wealth from the commercial Emporia of Cambay, Diu and Surat continually poured in Gujrat. Besides there was a busy and heavy coastal trade. Marco Polo who travelled in India in 1271-1294 A.D. pointed out that the country still maintained its ancient reputation as being one of the chief markets of Asia. Ibn Batuta who visited the country in Tughlak reign, Nicolo De Conti (1420-1444 A.D.) and Athanasius Nikitin (1468 A.D.) have all made observations similar to those of Marco Polo.

The political instability of the country continued up to 1526 when Babur succeeded in establishing the Mughal Empire. And with the centralization of power and improvement of means of communications, trade again received

¹ There was "no year in which India did not drain the Roman Empire of 550 million sesterces giving back her own wares in exchange, which were sold at fully 100 times their prime cost". This would equal a million sterling or a crore and a half of rupees.

impetus. But many favourable factors for development of trade were sacrificed by Mughal kings for fear of water. Akbar encouraged the expansion of Portuguese activities to stimulate the export trade to get precious metals in return. But later he encouraged the Dutch and the British to maintain the balance of power. Jehangir also encouraged the Britishers. They opened up trade with Japan and China and the entrepot trade was also encouraged. The activities of the foreigners resulted in a widened market for Indian commodities and an increase in prices. But the share of Indians in India's trade was seriously curtailed. Shah-jehan's rule coincided with English Industrial Revolution and the export of cloth declined. Trade in indigo also slackened due to adulteration. The uncertainty and instability following a fratricidal war in 1657 resulted in a deterioration of India's trade, specially after the death of Aurangzeb in 1707.

On account of the unsettled political conditions and defective communications, the trade must have consisted mostly of valuable articles in the smallest possible bulk, and Gibbon's mordant aphorism "that the objects of oriental traffic were splendid and trifling" is as applicable to the 16th century as to the second. The nature of the articles of import and export did not change at all—cotton textiles, silk fabrics, indigo and opium continued to be important items of exports. Silk goods, porcelain, spices and pearls continued to be important items of entrepot trade. Nicolo Conti pointed out that most Indians carried their goods in their own ships though by 1700, the foreigners had considerably increased their share in carrying trade of India.

The volume of foreign trade is estimated to be 85,000 tons by Dr. Balkrishna and the value to be nearly Rs. 100 crores by Prof. K. T. Shah. From the prominence of manufactures in exports, it is clear that India stood out prominently as the cradle of numerous arts and handicrafts at that time as it had been from the remotest antiquity. As exports exceeded imports India became a sink of precious metals.¹ The low range of import duties imposed by the

¹"India was the repository organ for the circulation and distribution of moneys and commodities of the commercial system of the world; it was the sea wherein all the rivers of trade and industry flowed and thus profusely enriched its inhabitants". Balkrishna, 'Commercial Relations between India and England', p. 37.

Mughal Emperors proves their general desire to encourage foreign trade. There was no attempt to protect native industries and the tariff was for revenue only. Low duties on precious metals show that export trade was used as a means to obtain precious metals.

European East India Companies and India's Foreign Trade

After the discovery of the Cape of Good Hope in 1498 the Portuguese replaced the Arabs as masters of Indian commerce. Other European countries also followed the Portuguese to reap the huge profits of the Eastern trade. With the arrival of Europeans in the field of Indian trade and the grant of certain concessions to them by Mughal Emperors, the share of Indians was reduced considerably and they gradually lost it. The Europeans fought among themselves but the English Company ultimately survived due to the valuable concessions which it got in 1608 and 1634 from the Mughal Emperors. The operation of the forces of disintegration following the death of Aurangzeb in 1707 coupled with foreign invasions played havoc with Indian industries and internal production declined. Moreover, the English began to penetrate into Indian politics after the weakening of the Central authority and in 1757, by the battle of Plassey, they became sovereign power in Bengal. Thus from mere traders, they became rulers as well.

Though there was a reduction in the share of Indians in foreign trade, yet as a result of the zest of the Company's directors to build up personal fortunes, Indian trade received a considerable stimulus. New markets of Africa and America were created and old markets in Asia and the Continent were considerably increased. But it was not an unmixed good as the composition of trade changed against the interests of the country. After 1757, Indian foreign trade was a virtual monopoly of the English East India Company which proved a very useful and patriotic institution by providing raw materials to English industries and encouraging English shipping. During the whole of this period two tendencies were working : (i) the advancement of the alien rule in this country, and (ii) the industrial revolu-

tion in other countries. They had a marked effect on India's foreign trade. Foreigners were attracted mainly by Indian textiles and so the English Company began to concentrate on the textile trade. They monopolized the production too. They exported the best quality of Indian fabrics and our trade increased. But the development of Lancashire industry was hit hard. The Company was pressed to change its policy. The import duty on Indian textiles was increased more so when they were used for domestic consumption. In 1720, the use of Indian Calicoes was prohibited. The Indian exports suffered a good deal. This coincided with the French Revolution resulting in the reduction of the Continental demand. The export market was thus paralysed and Indian industry was badly affected. The domestic market was also flooded with bounty-fed exports of cheap machine-manufactured exports so as to deprive the industry of even the domestic market. To fill in the blank in exports created by a fall in the exports of manufactured goods and to feed the rising industries of Great Britain stimulated by industrial revolution, the export of raw materials and foodgrains from India was encouraged. The improvement of communications only accelerated the tendency. Special attempts were made to encourage the production and export of commercial crops. The nature of agriculture changed from subsistence farming to the growing of money crops—jute, cotton, tea, etc. There was an increase in the volume of Indian trade, no doubt, "but Indian trade was stimulated in a very unnatural way, its growth and development being treated as an 'end' rather than as a 'means' of the economic welfare of the country."¹ Development of India's trade was a necessary prelude to Industrial Revolution in England.

1858-1900

Even before 1858, India's trade was increasing both in value and volume. Imports increased from £ 6 million in 1835 to £ 31 million in 1858 and exports from £ 8 million to £ 28 million. This tendency was accelerated during this period due to many favourable factors :—(1) Improvement

¹ I. Durga Pd., 'Some Aspects of India's Foreign Trade', p. 152.

in the means of communications—(a) completion of through railway communications and improvement and addition of roads, (b) opening of Suez Canal in 1869 which brought Europe 3,000 miles nearer and (c) reduction in ocean freight due to increase in the number of ships and a reduction in the distance caused by Suez Canal; (2) India's progress to virtual free trade; (3) Import of foreign capital; (4) Establishment of peace and order within the country and (5) The introduction of a uniform currency system. There were unfavourable factors too—(1) frequent famines at home and (2) depreciation of rupee in terms of gold. Other countries also imposed certain restrictions. In spite of these, there was a considerable increase in the value and volume of India's foreign trade specially after 1870. The following table sets forth the rate of decennial progress of the total value of trade from 1869-70.

Percentage increase of the decades over the previous ones

1879-80 to 1888-89	..	..	46.1
1889-90 to 1898-99	..	..	29.9
1899-00 to 1908-09	..	..	44.7
1909-10 to 1918-19	..	..	49.3
1919-20 to 1928-29	..	..	51.1
1928-29 to 1938-39	..	..	-42.2
1938-39 to 1948-49	..	..	56.0

The expansion of the actual volume of trade was not, however, commensurate with the increase in value but was nevertheless real and quite substantial.

But there was a remarkable change in the nature of traded goods. Even as late as 1858, "India was chiefly known as a dealer in drugs, dyes and luxuries". But after 1858, India entered on her career as an exporter of food-grains, fibres and other staples of universal consumption—jute, wheat, oilseeds and tea. The exports of wheat increased due to abolition of export duty but there was no real surplus. The exports of oilseeds, jute and tea doubled in the period 1881-1892. The old historic products began to languish and were, within a short period, thrown into oblivion by the importance of newer staples. As regards imports, a wide range of manufactured goods and a large variety of cheap goods of everyday use began to be import-

ed and began to replace dearer and inferior home-made goods in the domestic market. Even cotton manufactures began to be imported and formed the largest share of total imports. Oils and minerals also became important. This change was deliberately forced upon the country. Steps were taken to encourage production and export of raw materials and foodstuffs by providing irrigation and transportation facilities. Movement of raw materials from the interior to the port towns and of manufactured goods from the port towns to the interior was encouraged by a well-planned railway system and rates policy. To encourage the import of manufactured goods in India, the policy of free trade was forced upon this country for the sake of English industry even when her finances were in a most hopeless plight.

The process of the decay of peasant industries had not been peculiar to India alone but had occurred in all areas affected by industrial revolution. This tendency was only aggravated by the policy of the alien rulers. Unlike other countries where the modern industries immediately replaced the old industries, in India there was a definite hiatus between the decay of indigenous industries and the rise of factory industries, and the gap was filled by the import of manufactures. The emergence of new industries organized on modern capitalistic lines in the last quarter of the 19th century, especially cotton textiles which developed not because of, but in spite of the tariff policy,¹ applied for the first time a brake to this trend towards progressive ruralization of the country. The proportion of manufactured goods in total imports was 65% in 1879, 57% in 1892 and 53% in 1907, and in total exports 8%, 16% and 22% respectively. Besides the cotton textile industry, all other modern industries were financed, controlled and managed by foreigners.

Due to the opening of the Suez Canal, our trade with France, Germany, Italy, Austria, Turkey, Persia, Egypt, and Russia increased and direct connections with these countries were opened. 88% of our imports and 60% of our exports passed through the Suez. The proportionate

¹ The advantage of a purely revenue duty on imports of cotton manufactures was destroyed by countervailing excise duties.

share of the U.K. in our exports declined even when the value of Indo-British trade increased but she retained the first place in our trade. Her share in our imports remained unaffected due to her exceptionally strong position in cotton textiles and iron and steel.

The continued export surplus in this period does not at any rate show any real gain to India as it constituted the payment for invisible imports and the interest on British capital borrowed and invested in India for railways and other industries.¹

India's Gain from International Trade

Since 1870, foreign trade became the centre of gravity of all State activity and its dynamics activated and moulded into shape India's internal economy. The phenomenal development of our agriculture and the great increase in the production of money crops are directly the result of expanding foreign markets for those commodities. Most of the amenities, railways, industries, medical facilities, etc., enjoyed by India today would not have been possible, but for the commercial contact with industrialized Europe. But on the whole, foreign trade has not served the real interests of the Indian nation. The development of our foreign trade was forced to follow wrong lines. While the people were being impoverished by a foreign administration, foreign trade figures mounted up presenting a false picture of prosperity. What is more important is the nature of articles exchanged. The gain from foreign trade would have been immensely greater under a national government. In fact, it was the U.K. which benefited most from our foreign trade. Almost all the plantations, modern industries and auxiliary services were owned by Britishers and the profits had to be remitted to England by an export surplus.

1900-1914

Towards the end of the century, India suffered from a series of devastating famines, low government finances,

¹“The British nation had spent millions of their own money in acquiring dominions, but in India an Empire had been acquired, wars had been waged, and the administration had been carried on, at the cost of Indian people, the British nation had not contributed a shilling. Empire was transferred from the Company to the Crown, but the Indian people paid the purchase money”. Ramesh Dutt, ‘India Under Early British Rule’, pp. 398-99.

and a decline in the gold value of the rupee. After 1900, there ushered in a period of unprecedented and world-wide prosperity. Harvests improved, the rupee stabilized and the general economic condition of the country improved. After 1902, there was an unbroken progress for six years mainly due to the favourable monsoons. In 1904-05, there was a partial failure of crops but due to flourishing jute crop, the continuity of progress was not broken. The year 1907-08 formed the crest of this long wave of prosperity when exports and imports went up by about 70% as compared with 1900. In 1908-09, the progress was checked due to (1) failure of monsoons in 1907 and (2) a severe world depression leading to a reduction in the foreign demand for Indian goods. The consequent import surplus coupled with world-wide monetary stringency depressed the newly established Indian exchange. Yet the Indian foreign trade survived all odds thus reassuring its vitality. The depression was short-lived. Conditions quickly returned to normal and the period up to 1913-14 was marked by a continuous increase of both imports and exports, the latter increasing at a higher rate due to an increase in foreign demand for our products. This increase was marked both in value and volume. The reasons for this increase were (1) stability of exchange, (2) free trade policy and (3) simultaneous existence of great prosperity in all other countries.

Years	Imports (Recorded value)	Exports (Recorded value)	Imports (Corrected value)	Exports (Corrected value) (crores of rupees)
1900-01	Quinquennial average 84.68	124.94	76.27	104.16
1901-02			81.52	129.56
1902-03			87.95	138.13
1903-04			92.53	180.14
1904-05	104.41	157.72	99.80	183.78
1905-06	112.11	161.84	103.08	169.10
1906-07	117.29	177.03	99.02	154.40
1907-08	136.65	177.48	107.50	148.45
1908-09	128.79	153.14	121.26	123.06
1909-10	122.65	187.98	113.51	172.01
1910-11	133.70	209.96	113.92	200.76
1911-12	144.05	227.99	117.72	202.24
1912-13	166.63	246.22	132.10	206.39
1913-14	191.31	249.01	150.35	196.62

Foodstuffs, tea, coffee, raw cotton, raw jute, oilseeds, and hides and skins remained the chief articles of export. Among the imports, sugar, textiles and machinery were important. The modern large-scale industries began to expand rapidly specially after the Swadeshi Movement of 1905. By 1913, the cotton, jute, coal, engineering and plantation industries had gained a firm footing and mill-made cotton yarn and piecegoods, jute goods and gunnies began to figure in India's exports. The proportionate share of manufactures in our imports continued to decline.

There was a steady and rapid development of our trade with non-Empire countries such as the Continental countries, the U.S.A., Japan and the Far East. Imports from these countries were suited to Indian requirements. Britain had to face competition in the Indian market, and Indian trade developed in multilateral channels. The share of the United Kingdom in our exports declined from 53% in 1866-1870 to 26% in 1909-1913. The share of Germany in our imports increased from 2.4% in 1900 to 6.9% in 1914 while the share of the U.K. declined from 69% to 64%.

Imports, Exports and Balance of Trade in 1913-14¹

				Imports	Exports	Balance of Trade
U.K.	..	..	..	117	58	-59
Other parts of the British Empire	..			11	36	+25
Total British Empire	..	..		128	94	-34
Europe	..	..	..	30	85	+55
U.S.A.	..	..	..	5	22	+17
Japan	..	..	..	5	23	+18
Other foreign countries	..	..	..	15	25	+10
Total foreign countries	..	..	..	55	155	+100
Grand Total	..	..	..	183	249	+66

India's export surplus with countries other than the U.K. used to finance her import surplus in relation to the

¹Ganguli, 'Reconstruction of India's Foreign Trade', p. 20.

U.K. besides liquidating the considerable amounts due to her for services rendered, and for the excess of debt service and dividends over new capital imports. Thus triangular trade became a necessity for India.

War Period (1914-19)

The last Great War gave a serious set-back to India's foreign trade and the position which it attained during previous years was lost during the war.

Years	Imports recorded value	Exports recorded value	Exports corrected value (pre-war)	Imports corrected value	Balance of trade
Pre-war average	151.67	224.23			72.56
1913-14 ..	191.31	249.01	244.20	183.25	58.70
1914-15 ..	144.93	182.17	194.85	137.23	37.24
1915-16 ..	138.17	199.48	186.95	104.75	61.31
1916-17 ..	160.25	247.36	202.65	88.02	87.11
1917-18 ..	164.35	244.90	186.75	71.28	80.55
1918-19 ..	170.26	256.57	159.55	63.07	86.31
War average ..	155.60	226.10	186.15	92.87	71.50

The values of both imports and exports in the war period compare favourably with the pre-war average and do not show any decline. But when price fluctuations are eliminated, the figures show a considerable shrinkage in the volume of India's foreign trade. As compared with 1913-1914, war-time average volume shows a fall of 25% in exports and of 50% in imports. The import prices increased far more rapidly than export prices which were kept under control due to the vested interests of the Allies, and the terms of trade moved more and more against us. Due to a greater decline in imports, India had a continuous export surplus. Officials and non-officials like Shriras and Dalal held it as an evidence of the prosperity of India's foreign trade during the war period. The export surplus

was only illusory as the nation as a whole was deprived of even prime necessities.¹

Many factors were responsible for this set-back in trade :

(A) Circumscribed area of commerce due to (i) cessation of commerce with enemy countries—the countries affected had a total value of trade amounting to £ 38 million in 1913-14 which collapsed to £ 1.3 million only in 1915-16 and to an annual average of £ 70,000 in the following three years: (ii) Virtual stoppage of trade with such Allies as Russia due to transport difficulties. It amounted to £ 3,000 only in 1918-19. (iii) Restricted trade with neutrals due to adoption of measures of contraband and blockade to stop these countries being used as an agency for supply of goods to enemy countries.

(B) Diminished scope of commerce caused by (i) Impoverishment of European belligerents and neutrals—they had nothing to export due to the occupation of their energies in war and they imported only war necessities. (ii) Trade restrictions—external and internal. Rigid controls over exports and imports, difficulties of financing, higher tariffs, exchange controls, etc, were some of the many measures adopted. Impoverishment of our import trade reacted adversely on our industries and thus eventually on our export trade which was already in a hopeless plight. America and Japan did their best to fill in the void in imports but the leeway to be made up for was far too considerable to be accomplished by the efforts of one or two countries. Indian import and export duties also restricted trade. Increase in export of munitions was only a partial and wholly inadequate compensation.

(C) Scarcity of tonnage was the most formidable difficulty. A shortage of tonnage was created by (i) withdrawal of enemy ships, (ii) withdrawal of Allies' ships for military needs and (iii) their destruction by submarine activities.

¹"It passes our comprehension why a straightforward course should be avoided, and shelter should be sought behind the blind alley of the balance of trade to prove the supposed prosperity which our trade enjoyed. It is a pity that hoary-headed mercantilist fallacy raises its head again and again, however, frequently it may have been rapped in the past. The retrograde tendency of our commerce during the period of war is true beyond any shadow of doubt and no amount of sophisticated arguments or statistical jugglery can disprove or conceal it". Dr. Parimal Ray, 'Development of India's Foreign Trade Since 1870', pp. 91-92.

60% of the British ships were busy with military work. Sometimes long voyages had to be taken for safety reasons. Lack of repairs led to deterioration in efficiency. An enormous increase in freights was thus natural.

(D) Currency and exchange difficulties made the financing of trade difficult.

All these conditions were not peculiar to India alone. But the impacts of all these factors was not the same on all countries. While India (with Russia and Australia) was struggling to maintain her foreign trade, many countries—Canada, the U.S.A., Japan and Argentina had a spell of abounding prosperity. Presumably their proximity to Western Europe stood them in good stead during the war while India's distance proved to be a handicap. Indian exports of foodstuffs were restricted. As regards munitions, India could not do much due to her dependence upon imports for most of the essential equipment and technical experts. No doubt, there was a definite industrial progress in India. In the earlier years of war, Indian industries received a temporary stimulus due to the elimination of competing imports and the growing and insistent demand for supply of munitions. Increase in import duties provided an indirect protection. The Government also adopted a sympathetic attitude. But India could not take advantage of the situation due to her dependence on the U.K. for the supply of equipment and technical personnel. The proportion of manufactured goods in exports increased from 23.6%, the pre-war average, to 32.1% during the war and in imports it declined from 76.6% to 73.4%. This progress was not negligible but when compared to Canada and Japan, India stood nowhere. The reason was the apathetic attitude of the Government before the war and the lack of fiscal freedom and national planning.

The direction of India's trade was considerably affected during the war. The share of the U.K. and the British Empire in our exports increased from 24% and 41% in 1914 to 28% and 52% in 1919 respectively due to artificial channelization of our trade to the U.K. and the British Empire. The export prices, therefore, could not increase proportionately to imports. The share of the Continental

Europe declined and Germany which took 10% of our exports before the war was eliminated giving a severe blow to Indian agriculture. Japan and the U.S.A. improved their share from 9% each in 1914 to 12% and 13% respectively in 1919 due to their proximity to India. The share of the U.K. and the Continental countries in our imports was reduced considerably. Germany contributing 6.4% of our imports in 1914 was eliminated. The U.K. contributed only 46% of our imports in 1919 as against 64% in 1914 due to her being busy with war production but she still remained our premier supplier. The U.S.A. and Japan concentrated on Indian markets and improved their share from 2.6% each in 1914 to 10% and 20% respectively in 1919. Japan made her inroads in textiles and the U.S.A. in metallurgical industries and thus offered competition to the U.K. which became a special feature in the post-war period.

Inter-War Period

With the armistice a period of unprecedented stress and strain ended. Our foreign trade could not remain unaffected and there was a recovery up to 1929 when depression set in.

Imports and Exports Before Depression

Year		Imports (Recorded value)	Exports (Recorded value)	Balance of trade	Imports	Exports
					(Corrected value)	
(1913-14 = 100)						
1919—20	..	221.70	336.00	+114.30	101	198
1920—21	..	347.56	267.76	— 79.80	142	172
1921—22	..	282.59	248.65	— 33.94	124	182
1922—23	..	246.19	316.07	+ 69.88	138	214
1923—24	..	237.18	363.37	+126.19	120	240
1924—25	..	253.37	400.24	+146.87	137	250
1925—26	..	236.00	386.82	+150.82	143	246
1926—27	..	240.82	311.05	+ 70.23	156	228
1927—28	..	261.53	330.26	+68.73	181	248
1928—29	..	263.40	339.15	+75.75	190	260

In the immediate post-war period, due to sheer optimism there was an increase in world production. But the optimism was rudely shaken and the aftermath of war proved in many respects worse than the war itself. The recovery of Europe was delayed by short-sighted diplomacy. The effect of the removal of war-time restrictions on trade was nullified by the wave of economic nationalism, serious dislocation of international exchange due to inflationary spiral and abandonment of gold standard. With the stabilization of currencies in 1925, though at a depreciated level, the conditions began to improve. As compared to 1913, world production of raw materials and foodstuffs (13%) increased more rapidly than world population (6%). There was a striking recovery in the quantum of world trade which continued up to 1929. Prices on the other hand declined considerably and the value of trade increased relatively much less.

In the immediate post-war year, India's exports recorded unprecedented level mainly due to (i) an increase in the world demand of our raw materials and (ii) the removal of war-time restrictions. The export surplus amounted to Rs. 114 crores. But in 1920-21, it was converted into an import surplus of Rs. 80 crores due to (i) an enormous increase in imports to satisfy the pent-up demand and (ii) a decline in exports caused by (a) continued embargo on exports of foodgrains, (b) decline in exports of raw cotton due to crisis in Japan, (c) reduction in effective demand of Central Europe and (d) overstocking of European and American markets with Indian produce due to higher exports in 1919-20, and (iii) adverse effects of exchange fluctuations. Vain attempts were made to stabilize the rupee at a high ratio when other countries stabilized their currencies at a lower level. In 1921-22, both imports and exports declined, and the import surplus declined to Rs. 34 crores. In the next two years, the imports continued to decline due to the Swadeshi Movement and the increase in tariffs, while exports recorded an increase thus leading to the resumption of an export surplus. After 1923-24, there was a steady recovery due to factors—both external and internal.

(A) *External Factors* : (i) Europe's return to economic and political normalcy (Europe took 57% of our exports

and contributed 78% of our imports), (ii) Stabilization of international currencies, (iii) Restoration of gold standard in the U.K., and (iv) Adjustment of import and export prices. By 1929, Europe had recovered completely and the pre-war equilibrium between Europe and the rest of the world had been established with the result that the physical volume of world trade reached the maximum in 1929.

(B) *Internal Factors.* (1) Good monsoons, (2) stability of rupee exchange, (3) budgetary stability reducing the customs uncertainty, (4) too slow adoption of protection policy to produce any perceptible adverse influence. Thus between 1924 and 1929 there was a steady recovery. The import trade was slow to recover the pre-war level due to (i) the Swedeshi Movement, (ii) growth of Indian industries chiefly cotton textiles and (iii) the Stores Purchase policy requiring the purchase of Indian goods as far as possible. But the progress was steady and unbroken. The export trade, however, revived much earlier and reached the peak in 1924-25. After 1924-25, the value of our exports began to fall due to a fall in world prices of agricultural staples but the volume remained steady. One of the factors responsible for the check in the expansion of Indian trade was the larger utilization of raw materials at home. Thus our export surplus was reduced again.

As compared to 1913-14, our import prices were higher by 90% while export prices were higher by 45% only. Thus India also suffered by an adverse shift in terms of trade between industrialized and raw materials and food-producing countries. She had to export more for purchasing the same amount of imports.

Depression

Until 1929, the world production and commercial activity increased rapidly. The progress was not uniform and there was no adjustment of production and trade to changing conditions. These maladjustments led to a severe economic depression. The immediate result of the catastrophic fall in prices was a disequilibrium in world trade resulting in a severe contraction in the volume. The volume has never reached 1929 mark again. In 1933, the value of world

trade as compared to 1929 was 51.7% only. The worst phase of depression came to an end in 1932 and early months of 1933 showed a considerable revival. But unfortunately the policy of economic nationalism gained a stronghold. A series of restrictive measures destructive of the very fabrics of international trade were adopted. Free trade gave place to regional economic units—the 'gold' block, the sterling block, etc. The movements for freer world trade had no appreciable success. From 1935 onwards there was an upward trend. The devaluation of gold currencies and the production regulation schemes adopted by primary producers led to a rise in prices. The war-mongers of Europe gave rise to armament production and recovery was stimulated.

Imports and Exports During and After the Depression
(in crores of Rupees)

Year	Imports	Exports	Total	Balance of trade
1914-15 to 1918-19 ..	159.25	225.83	385.08	66.58
1919-20 to 1923-24 ..	267.05	306.38	573.43	39.33
1924-25 to 1928-29 ..	251.02	353.51	604.53	102.49
1929-30 ..	249.71	318.99	568.70	69.28
1930-31 ..	173.06	226.50	399.56	53.44
1931-32 ..	130.64	161.20	291.84	30.56
1932-33 ..	135.01	136.07	271.08	1.06
1933-34 ..	117.28	150.23	267.51	32.95
1934-35 ..	134.59	155.50	290.09	20.91
1935-36 ..	136.78	164.59	301.37	27.81
1936-37 ..	127.72	202.49	330.21	74.67
1937-38 ..	173.33	189.77	363.10	16.44
1938-39 ..	152.51	169.97	322.48	17.46

India's foreign trade was severely hit during the depression period. The value of our total trade was reduced to less than half in 1932-33. The decline has been sudden and continuous both in exports and imports. The decline in the value of exports was due to (i) a steep fall in the

prices of agricultural products and (ii) a contraction of the foreign demand for India's staples due to depression. The value of imports declined due to (1) reduced purchasing power of the consumers in India, (2) tense political situation in the country and (3) expansion of domestic sugar and cotton textiles industries. Fall in exports was greater than in imports due to a greater fall in the prices of our exports consisting of agricultural products than in the prices of our imports consisting of manufactured goods. India had to suffer considerably due to this adverse shift in the terms of trade between agricultural and industrial countries.¹

Quantum of Imports and Exports. (1927-28 = 100)

Year	Quantum of		Price level of		Indices of imports received for a given quantity of exports
	Exports	Imports	Imports	Exports	
1927-28	100	100	100	100	100
1928-29	106.1	105.2	97.5	96.4	101.1
1929-30	108.0	103.4	90.2	93.2	96.8
1930-31	96.6	82.5	71.5	80.0	89.4
1931-32	82.5	70.6	59.2	71.7	82.6
1932-33	74.9	81.4	55.3	65.2	84.8
1933-34	86.2	72.7	53.5	63.5	84.3
1934-35	87.8	84.1	54.1	63.0	85.9
1935-36	89.4	91.3	56.9	62.1	91.6
1936-37	109.9	86.1	57.2	62.8	91.8
1937-38	103.1	95.7			
1938-39	102.2	88.7			

The quantum of exports declined from 108 in 1929-30 to 75 in 1932-33 while that of imports declined from 105 in 1928-29 to 71 in 1931-32. The greater fall in our import prices than export prices shows the enormous reduction in India's purchasing power. The fall in quantum of both imports and exports was less than the prices.

¹ The fall in agricultural prices was brought about by (i) a reduction in the demand for them, (ii) an increase in agricultural production, and (iii) an improvement in the technique of agriculture which aggravated the situation.

The export surplus showed an enormous decline. In 1932-33, it amounted to only Rs. 1 crore, the smallest figure on record. This was very significant to India because she was a debtor country with huge foreign obligations to discharge necessitating a unilateral transfer of large funds. The huge exports of gold due to the suspension of gold standard in the U.K. helped us to maintain an equilibrium in our balance of payments position. But for the gold exports our position would have been very precarious. The usually large export surplus ever since the establishment of the British rule was a great drain of Indian wealth which enriched the ruling country. An analysis of our balance of payments shows that there were certain items which would not have been there but for her constitutional position. Thus there had been no adequate return for our exports, *e. g.*, high interest paid on capital borrowed for Indian railways, high salaries and pensions, etc. The services rendered by foreigners was another source of drain.

The impacts of depression began to subside after 1934 and India's foreign trade showed signs of improvement. Our exports improved due to enhanced foreign demand for our raw materials. Agricultural prices also improved. The value of our exports increased from Rs. 136 crores in 1932-33 to Rs. 202 crores in 1936-37 presumably due to stock-piling and rearmament boom. The imports, however, did not increase due to an increase in domestic production and in 1935-36 declined by Rs. 9 crores, and our export surplus improved to Rs. 75 crores. In spite of this upward trend, the value of foreign trade in post-depression period was much lower than that in pre-depression period due to the growth of economic nationalism and the perpetuation of the restrictive measures adopted during depression. In 1937-38 and 1938-39, there was again a decline in our exports due to (i) a decline in the prices of agricultural products and (ii) a decline in the exports of raw cotton to Japan due to her occupation in war with China. There was an increase in the imports which might be due to time lag in the supply of orders placed earlier, resulting in a decline of our export surplus again to Rs. 17 crores only. Separation of Burma also affected our trade.

Composition

The inter-war period witnessed a change in the composition of India's foreign trade which indicates a significant trend of economic development which has only been slow and tentative.

Composition of India's Imports and Exports

Years	Imports			Exports		
	Food stuffs	Raw materials	Manufactured goods	Food stuffs	Raw materials	Manufactured goods
Pre-war quinquennium	15	7	77	29	48	24
War period	18	6	74	28	39	32
Post-war quinquennium	15	8	76	21	51	27
1928	14	11	75	21	53	26
1935	10	16	74	24	52	24
1937	12	21	67	26	51	23

Imports of raw materials and partly manufactured goods show an improvement to satisfy the growing needs of our industries while their exports show a decline due to greater utilization. Imports of manufactured goods declined due to increase in domestic production of certain consumer goods (sugar, cotton textiles, matches). Industrial raw materials (chemicals) and capital goods formed a growing proportion of imports. The Swadeshi Movement and the policy of discriminating protection, though half-heartedly applied helped in the development of many indigenous industries. The high import duties for revenue also helped a general development of minor industries in India. Iron and steel industry was supplying all our railway requirements except locomotives, wheels and other specialities. Import of mineral oils and vehicles increased due to the development of road transport. Cotton and cotton goods still remained the most important item of imports.

The exports of manufactured goods on the other hand increased considerably particularly of jute goods, oilseeds products, tanned hides and skins and many semi-processed

raw materials and simpler types of manufactured goods. Jute manufactures, raw cotton and tea constituted 46% of our exports, raw jute, oilseeds, grain pulse and flour, cotton manufactures and processed hides and skins another 30%, 11 more commodities accounted for 15% and 9% accounted for all other commodities.¹ It is significant to note that India's exports concentrated on a few commodities only and that with the exception of the commodities included under 'Food, Drink and Tabacco' and cotton manufactures, all other commodities exported by India were of the nature of intermediate goods demanded for their use in manufacturing or packaging other commodities and not for immediate consumption by the ultimate consumer. Thus the demand for our exports was linked up with the tempo of industrial production in the rest of the world. Even tea and tobacco needed blending before being sold to the ultimate consumer. Thus her exports were vulnerable.

Direction

India being one of the greatest exporters of raw materials and foodstuffs and one of the largest markets for manufactured goods, provided a very fruitful field for the most severe international competition both in imports and exports. This resulted in a decline in the share of the U.K. and the British Empire in India's foreign trade, a tendency which was assuming importance in the pre-war period but was arrested in the war-period, and even in years immediately succeeding the war, the U.K. improved her position. But after a few years, it became difficult for the U.K. to maintain it. The U.S.A. and Japan improved the position they had attained during the war. Germany also regained her prominence in the Indian market. Our trade with other European countries was also gradually increasing in the pre-depression period. The average share of the British Empire fell from 57.1% in the war-period to 52.3% in the post-war period and to 42.5% in 1929-30. Establishment of direct trade connections between India and different countries formerly connected through the U.K. may also explain part of the U.K.'s loss.

¹For relative importance of different imported and exported commodities see Chapter II.

Direction of India's Foreign Trade

			Pre-war Average	War Average	Post-war Average	1929-30
British Empire			52.3	57.1	52.3	42.5
U.K.			40.0	41.2	39.5	30.9
Japan			5.5	10.9	10.4	10.0
U.S.A.			5.8	9.9	10.4	10.1
Germany			8.5	0.8	4.0	7.6

India having a net import surplus in relation to the U.K. and a net export surplus in relation to other countries, depended upon the multilateral settlement and had to suffer the most due to its breakdown after the depression, the equilibrium in her balance of payments being maintained by heavy exports of gold. Attempts were made to direct trade into bilateral channels specially between debtors and creditors. The Empire Economic Conference held in Ottawa decided to marshal economic resources of the Empire in order to secure mutual advantages and adopted the principle of Imperial Preference. India also had to become a party to it.¹ This led to another agreement with Japan. India was not interested in bilateral adjustment of trade because she needed a huge export surplus to settle her financial obligations to the U.K., but bilateralism and Imperial Preference were forced upon India.

U.K.'s Share in India's Foreign Trade

				Exports	Imports
1920-21				22	61
1931-32				28	36
1932-33				28	37
1933-34				32	41
1934-35				32	41
1935-36				31	39
1936-37				32	38
1937-38				35	30
1938-39				34	31

¹The Ottawa Agreement did not satisfy the condition laid down by the Fiscal Commission, 1922 for the acceptance of the Imperial Preference.

Exports. From 28% in 1932-33, the share of the U.K. increased to 32.3% in 1933-34, the first year of the working of the Ottawa agreement, but in 1934-35 and 1935-36 there was a decline followed by a gradual increase to 34.9% in 1937-38. But the rate of expansion of Indian exports to other countries was higher throughout this period in spite of Imperial Preference and other restrictive measures. Moreover, even in the case of the U.K. the percentage increase in case of articles subject to preferential treatment (23.4%) is much lower than that in case of articles not subject to preferential treatment (60.4%).¹ Thus the expansion of Indian exports to the U.K. cannot be attributed to Imperial Preference. That perhaps explains the reason of fall in two intervening years. The latter increase which was common to all European countries, not to the U.K. alone, can be attributed to the expansionary effects of the upswing of the trade cycle and its coincidence with the stock-piling boom. The sudden disintegration of the system of multilateral trading made it difficult for European countries to pay for our export surplus. Therefore, they either tried to increase their exports to India or to reduce their imports from India. Thus Indian exports had begun to face retaliation due to India's joining the British preferential system. But Indian exports consisted of articles which they badly needed. Therefore, Indian exports did not suffer much. In case of Germany, India was able to maintain her exports through barter and compensatory business. To conclude, the dependence on the British Empire for the Indian exports had increased by 32% in the inter-war period, the dependence on the U.K. increasing even more—by 40%.

The significant fact to note, however, is the concentration of exports of different commodities to different geographical regions. The U.K. purchased almost all the exports of tea, tanned hides and skins, raw and woollen manufactures. Even in jute manufactures and raw cotton she was not an unimportant buyer. The chief market for oilseeds and jute was, however, the Continental Europe purchasing about 50%. Europe as a whole took almost all of our tea, oilseeds, oilcakes, tanned hides and skins and raw wool. India's

¹Dr. B. N. Ganguli, 'Reconstruction of India's Foreign Trade', pp. 58-59.

trade with Europe was half of the total trade of India. East and Far East, with Japan and Burma as leading buyers, was the next important region. Japan took 9.5% of our exports taking half of our raw cotton, iron and steel and metallic ores. Burma took 6% of our exports taking mostly consumers' goods including cotton textiles, tobacco, vegetable oil, coal and iron and steel. American market was important for jute manufactures, raw hides and skins, lac, vegetables, mica and manganese.

Imports. The U.K.'s share in total imports declined to 36% in 1931-32 as compared to post-war peak of 61% in 1920-21. In 1932-33, it increased to 37%. In 1933-35, the first two years of Ottawa agreement, it increased to 41%. But the improvement was arrested and a decline set in in 1935-36 to 39%, in 1936-37 to 38% and in 1937-38 to 35.4%. The improvement in 1933-35 was marked both in goods subject to preferential treatment and other goods. The reason which seems to have neutralized the effects of the preferential tariffs was the increasing competition offered by Japan, the U.S.A., and Germany which increased their shares considerably in spite of the tariff barriers. Japan was the principal competitor in cotton manufactures, and other piecegoods, iron manufactures, glass manufactures, etc. Due to the adaptability of her trade and industry, she was able to undersell Britain in spite of the tariff barriers. Her share in India's imports continuously increased, from 7.5% in 1925 to 9.2% in 1929, 11% in 1933, 15% in 1935 and 16.2% in 1936. Germany increased her exports to India due to private barter and compensation agreements, no less due to superiority of its wares. The abandonment of gold standard in 1931 gave the U.K. an advantage against the U.S.A. But the devaluation of the dollar in 1934 neutralized the advantage. As against this, the imports from British Empire other than the U.K. were of narrow and inelastic range due to their unsuitability to the requirements of tropical countries and contributed only about 9% of our total imports.

To conclude, the dependence on the British Empire as a source of imports declined considerably, the significance of the United Kingdom alone declined even more markedly.

The position of all countries, other than Japan, Germany and the U.S.A. remained almost stationary. The share of the last three named countries went up from 20% to 25% in the inter-war period. Even in the thirties, India's foreign trade had a wide range and had not lost its multilateral character in spite of the imperial preference. Indian exports had a wide market and India enjoyed an export surplus with most of the European countries which adopted all means to reduce it to the minimum. Similarly, Indian imports were derived from a wide area, and consumers had the benefit of competitive prices.

CHAPTER II

INDIA'S FOREIGN TRADE DURING THE SECOND WORLD WAR

Automatic Imposition of Belligerency

The outbreak of the second World War in 1939 automatically meant the imposition of belligerency on India by her alien Government, without even the formality of a consultation with the Indian legislature. Belligerency meant for India that she was to become the major source of supply to Allied powers, and her economy had to be adapted to subserving the needs of the Allied Nations. Conditions of full employment, Governmental expenditure on an unprecedented scale, diversion of productive capacity to war purposes and reduced imports imposed a severe strain on the economies of the principal belligerent and Empire countries. India could not remain unaffected by these developments. With the German invasion of Russia in June 1941 and the commencement of hostilities by Japan in December 1941 and the simultaneous entry of the U.S.A. in the conflict, the war assumed world dimensions and demanded further intensification of effort to marshal resources. Britain and Allies were considerably helped by the U.S.A. under Lease-Lend Act. India was brought into much closer proximity to the actual theatres of war by the entry of Japan and this hastened her transition to a war footing. Her contribution to war effort both in men and materials, was continued even after the end of war in Europe, when India was made a base for increased offensive against Japan. The initial effects of war on India were on the whole beneficial to the country, and the depression then prevailing in such major industries as jute and cotton textiles was transformed into prosperity. But due to the lack of public co-operation which is the *sine qua non* for increasing the industrial potential, reliance was placed on the money motive for increasing the output and on currency mechanism for financing the war effort. Hence scarcity and inflation proved to be the peculiar features of Indian economy, peculiar not so much for their existence as for their quantitative magnitude. Naturally the strain on

India's civilian economy increased to a very great extent. An Official Mission (Hydari Mission) was sent to the U.K. in 1945 to explore ways and means of reducing this strain. The relief was afforded in the form of additional imports from the U.K. and reduction in the demand of defence services on India's production.

The international trade, having been made an instrument of war, was utterly distorted and was governed by the following factors :—

- (i) military developments,
- (ii) availability of trade routes,
- (iii) extent of shipping tonnage available,
- (iv) extent to which countries involved devote their economic resources to the prosecution of the war,
- (v) the urgency of civilian requirements,
- (vi) blockades and counter-blockades instituted by belligerents, and
- (vii) the supply of foreign exchange.

The war severed the principal arteries of trade and led to new alignments canalising trade into blocs or groups. There was, however, a marked improvement in the trading opportunities of the Allied nations when their victory was assured. India's foreign trade during the war was also determined and affected by the above factors.

Chief Characteristics of India's Foreign Trade During the War

1. INCREASE IN VALUE

The table below shows the value of exports and imports, balance of trade and re-exports in war years as compared with the pre-war year.

(Figures relate to private merchandise only)
In crores of rupees

Year	Imports	Exports	Total	Balance of trade	Re-exports
1938—39	.. 152.37	169.21	321.58	+16.84	6.42
1939—40	.. 165.29	213.57	378.86	+48.28	9.65
1940—41	.. 156.97	198.70	355.67	+41.73	11.8
1941—42	.. 173.14	252.89	426.03	+79.75	15.3
1942—43	.. 110.44	194.97	305.41	+84.53	7.06
1943—44	.. 117.77	210.84	328.61	+93.07	10.06
1944—45	.. 203.57	227.73	431.30	+24.17	16.69

As compared with 1938-39, the pre-war year, the value of India's foreign trade substantially increased during the war period, that of exports of Indian merchandise by 46% and imports of foreign merchandise by 32%. The peak years of war period have been taken into account for this computation, which were 1941-42 and 1944-45 in the case of exports and imports respectively.

There was an initial fall in exports, but that was more than offset by subsequent developments. Exports to Allied countries rose considerably particularly after the entry of Japan into the war, when India had to play her part as an arsenal for the Eastern theatres of war. Exports of Indian merchandise increased from Rs. 163 crores in 1938-39 to Rs. 204 crores in 1939-40 due to heavy war demand. Thereafter there was a decline to Rs. 187 crores in 1940-41, due mainly to the loss of Continental markets¹; and then, again, an improvement to Rs. 238 crores in 1941-42 due to heavier war demand caused by the shifting of war in the Middle East; and then, again, a decline to Rs. 188 crores in 1942-43 due to the loss of Burma and the Far East, and also due to export restrictions imposed to minimise the drain on domestic resources. There was, however, progressive increase in the last two years of the war, the value improving to Rs. 200 crores in 1943-44 and to Rs. 211 crores in 1944-45 due to an all-round improvement in the situation, availability of sea routes and the shipping tonnage as also due to a rise in export prices.

Imports also improved in the first year of the war, increasing from Rs. 152 crores in 1938-39 to Rs. 165 crores in 1939-40. There was a decline in the following year to Rs. 157 crores due to the closure of European sources of supply; again an improvement to Rs. 173 crores in 1941-42 and again a decline to Rs. 110 crores in 1942-43 due

¹The enemy and enemy-occupied countries took 75% of our exports of raw cotton, 60 to 70% of iron and steel, metallic ores and coal, 50% of oilseeds, raw jute, and cotton manufactures, tobacco and vegetable oils, and a considerable proportion of raw hides and skins, lac, mica and manganese, oilcakes and spices. War meant an elimination of these markets and a reduction in exports to other countries particularly to the U.K. due to shipping shortage. The Meek-Gregory Mission was sent to the U.S.A. and Canada in 1941 to seek alternative markets to dispose of the surpluses thus created.

to stringent import restrictions and non-availability of supplies as also due to the closure of Japan and Burma. Like exports, there was a progressive recovery in imports also during the last two years of the war, the value increasing to Rs. 118 crores in 1943-44 and to Rs. 204 crores in 1944-45, the peak figure during the war period and the highest since 1930-31. This was due to liberalization of import restrictions, better availability of supplies in the U.S.A. and the U.K. and improvement in the shipping and foreign exchange situation.

Re-exports, however, increased during the war mainly because India had to act as a base of supply to the actual theatres of the war.

It is really a tribute to the strength and resiliency of the structure of our foreign trade that, amidst all the stresses and strains imposed by the war in all directions, this country had managed to maintain its trade more or less unimpaired.

The balance of trade in merchandise (private) in favour of India progressively increased until 1943-44, when it reached the peak of Rs. 93.07 crores, the highest for the last 20 years, showing an improvement of 454% over the pre-war level. But this improvement, though welcome on some other grounds, was an illusory one being achieved by the curtailment of imports. While the fall of exports was at once made up, the fall in imports proved a more serious affair, and led to acute shortages in several categories of essential goods. This decline in imports was also one of the reasons for causing and accentuating inflation.¹ A part of this decline, no doubt, was offset by increased domestic production, but there remained, indeed, a real and substantial shortage of these goods. That it was so, was proved in 1944-45 when, due to relaxation of imports, the balance of trade was reduced to Rs. 24.17 crores only, but even this lower figure compared favourably with the pre-war figure of Rs. 17 crores for 1938-39. However, it became clear

¹"The study of war inflation in India is thus mainly a study of the finance of export surplus and the accumulation of foreign exchange". Dr. A. K. Das Gupta, 'War and Post-war Inflation in India', p. 15.

that during the initial post-war period, unfavourable balance may become the rule rather than the exception.¹

The above figures suffer from two limitations:—

(1) Due to heavy price fluctuations, the value cannot be taken to be a safe guide. What is more important, is the volume or quantum of trade.

(2) Figures of trading on Government account for Defence purposes are excluded. This trade assumed greater importance as the war developed. That brings us to the second feature of our foreign trade during the war.

2. DECLINE IN QUANTUM

Quantum of trade can be known either by elimination of price fluctuations or by taking into account the shipping tonnage. The following table shows the aggregate value and the quantum of exports (Indian merchandise only) by sea.

(In crores of rupees)

Year	Recorded value	Revalued at 1927-28 prices	Index number 1927-28 = 100	Percentage increase over the preceding year.
1938—39 ..	162.8	295.5	101.2	
1939—40 ..	203.9	308.9	105.8	+ 4.5
1940—41 ..	186.9	260.3	89.2	-15.7
1941—42 ..	237.6	276.8	94.8	+ 6.3
1942—43 ..	187.9	184.8	63.3	-33.3
1943—44 ..	199.9	159.5	54.6	-13.7
1944—45 ..	211.1	156.3	53.5	- 2.0
1945—46 ..	240.4	181.2	62.1	+16.1

Compiled from 'Statistics Relating to India's War Effort'.

The following table shows quantum of imports and aggregate value of imports into British India by sea.

¹"That the highest and the lowest levels in favourable balance of trade should have taken place in the penultimate and the last fiscal year is, indeed, something remarkable and perhaps constitutes, as subsequent developments indicate, a forerunner of adverse balance of trade in the coming year." 'Commerce', August 25, 1945, p. 237.

(In crores of rupees)

Year	Aggregate value	Revaluation at 1927-28 prices	Index Number 1927-28 = 100	Index Number 1938-39 = 100	Percentage increase over the preceding year
1938-39 ..	152.4	226.0	88.7	100	
1939-40 .	165.3	230.5	90.5	102	+ 2.0
1940-41 .	157.0	183.8	72.2	81	-20.2
1941-42 .	173.1	167.6	65.8	74	- 8.9
1942-43 ..	110.4	84.9	33.3	38	-49.4
1943-44 ..	117.8	89.4	35.1	40	+ 5.4
1944-45 ..	203.6	160.4	63.0	71	+79.5
1945-46 ..	240.5	174.0	68.3	78	+ 8.4

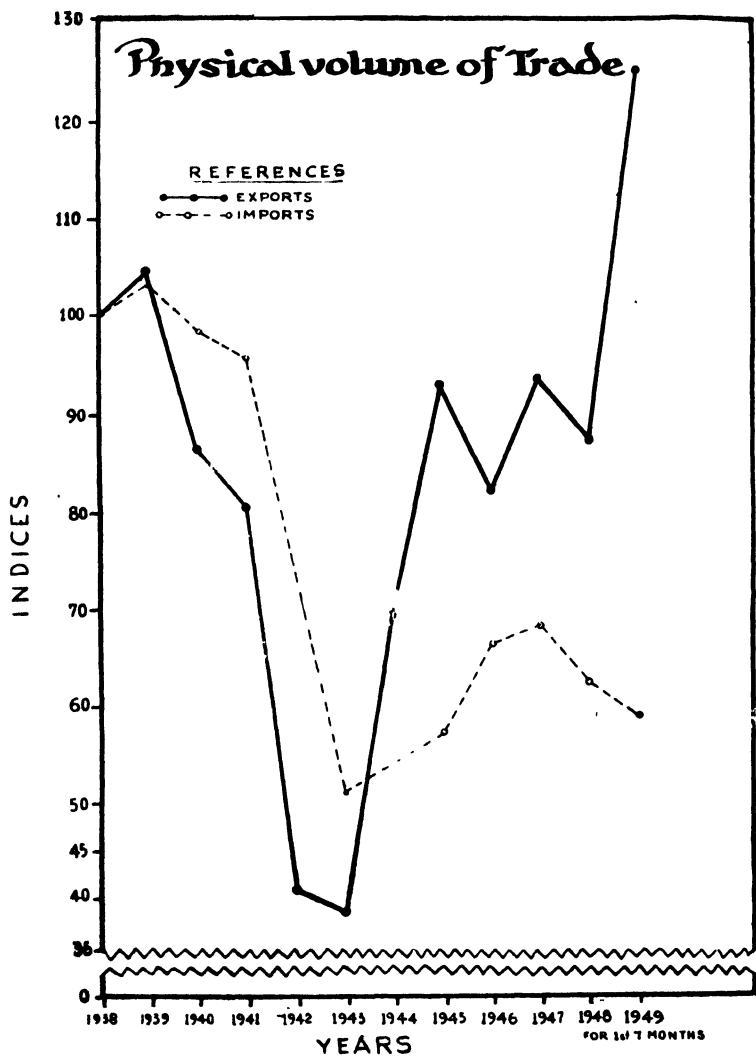
Compiled from 'Statistics Relating to India's War Effort.'

The quantum of exports after increasing in 1939-40 by 4.5% fell in 1940-41 by 15.7%. In 1941-42, it again increased by 6.3% after which it fell by 33.3% in 1942-43, and by 13.7% in 1943-44. It was only in 1945-46 that the exports improved in quantum. In 1944-45, the exports were 48% less in volume as compared with 1938-39. The quantum of imports after increasing in 1939-40 by 2% fell continuously; in 1940-41 by 20%, in 1941-42 by 8.9%, in 1942-43 by 49.4%, in 1943-44, after slightly improving by 5.4%, it rose by 79.5% in 1944-45 but the imports were still 71% in volume of the 1938-39 level. The same trend is evident from the tonnage of vessels used for foreign trade.¹ During the whole of the war period,

¹ The following table shows the tonnage of vessels used for foreign trade :—

Year	Entered with cargo	Index Number 1938-39 = 100	Cleared with cargo	Index Number 1938-39 = 100
1938-39 ..	9,431,269	100	9,656,874	100
1939-40 ..	9,231,889	98	9,058,683	94
1940-41 ..	6,130,689	65	6,505,490	67
1941-42 ..	5,251,034	56	6,600,295	69
1942-43 ..	3,345,616	36	3,394,858	35
1943-44 ..	3,719,320	40	2,688,965	28
1944-45 ..	6,225,720	66	3,601,636	38
1945-46 ..	6,442,240	69	3,737,845	39

Basis : 'Statistics Relating to India's War Effort', p. 22.



except in 1944-45, the quantum of imports fell much more rapidly than the quantum of exports. The greater shrinkage in imports can be explained by the preoccupation of other countries with the war production and their absolute inability to export to India. As regards exports, India was encouraged, rather forced to maintain the war effort.

The following figures substantiate the above statement :

Index of physical volume of trade in merchandise

1938 = 100

		Imports	Exports
1938	..	100.0	100.0
1939	..	104.7	103.2
1940	..	86.4	98.8
1941	..	80.6	95.7
1942	..	41.1	74.2
1943	..	38.9	51.2
1944	..	69.5	57.7
1945	..	93.0	57.1

Source : Federation's Reply to Fiscal Commission's Questionnaire, p. 40.

The following table shows India's Terms of Trade:—

1927-28 = 100

		Unit value of exports	Unit value of imports	Terms of trade
1939-40	..	66	72	92
1940-41	..	72	86	84
1941-42	..	84	104	81
1942-43	..	102	127	80
1943-44	..	127	134	95
1944-45	..	135	126	107

Source : 'Eastern Economist', July 1, 1949, p. 16.

For the years 1940-41 to 1942-43, the ratio of export to import prices shows a continuous decline reflecting that our exports were sold at controlled prices to special Government agencies. Terms of trade moved against us with the result that a greater quantity of exports had to be given in

exchange for a given quantity of imports. After 1942-43, terms of trade improved due to an increased demand for our exports and consequent increase in their prices.

3. TRADE ON GOVERNMENT ACCOUNT

It included (a) supply of goods to the British forces stationed in India and purchases made by the Government of India as agent of the H.M.G. and (b) imports from the U.S.A. under the Lend-Lease scheme and exports from India under the reverse Lend-Lease. Both these items assumed greater proportions as the war progressed.

(A) *Supply to the U.K. and her forces.*

No direct information is available. The Supply Department of the Government of India placed orders in India for supply to the British Government and the British forces in India. The value of such orders placed between September 1939 and March 1945 amounted to Rs. 830 crores.¹ A part of these goods was supplied to British forces in India. This constituted our invisible exports. The amount was recoverable from the H.M.G. The rest of these goods was either exported to the U.K. or to other countries through the U.K.C.C. The payment for these goods was partly included in the sterling payments made by the H.M.G. and was partly accounted for by the sterling purchased by the Reserve Bank in the open market. Normally the amount of sterling purchased by the Reserve Bank in the open market should be accounted for by the amount of surplus exports. The sterling purchases of the Reserve Bank in the open market between September, 1939 and March, 1945 amounted to Rs. 644 crores. The balance of trade in merchandise on private account during the same period was Rs. 365 crores. The difference is explained by (i) 'transactions on Government account for defence purposes' whose magnitude was considerable, (ii) balance of trade in treasure, and (iii) reinvestment of Indian earnings of foreign residents. The last item constitutes only a small fraction. The total net exports of gold and bullion amounted to Rs. 50 crores. The rest may be attributed to the transactions on Government account. Thus the export surplus unaccounted for may be estimated at Rs. 250 crores.

¹Statistics Relating to India's War Effort.

Recently, however, some figures have been released about imports and exports on Government account. The following table gives the relevant figures :—

India's visible balance of trade, 1939-45
(Rs. in Lakhs)

Year	Merchandise			Treasure			Total visible balance of trade
	Export P+G	Import P+G	Balance of trade	Export P+G	Import P+G	Balance	
1939—40 ..	215,95	168,97	46,98	40,79	6,64	34,15	81,13
1940—41 ..	200,44	161,29	39,15	18,55	3,24	15,31	54,46
1941—42 ..	254,46	174,75	79,71	12,21	4,34	7,87	87,58
1942—43 ..	195,17	116,71	78,46	10,80	63	10,17	88,63
1943—44 ..	211,09	132,73	78,36	5,72	3,67	2,05	80,41
1944—45 ..	228,98	231,94	- 2,96	5,18	24,46*	-19,28	-22,24
1945—46 ..	266,43	292,33	-25,71	7,42	8,41*	-99	-26,89

P=Private Account. G=Government Account.

*Due mainly to imports from U.S.A. of Lend-Lease silver on government account to the value of Rs. 18,25 lakhs and Rs. 7,77 lakhs during 1944-45 and 1945-46.

NOTE—During the war years certain exports and imports on government account, viz., defence stores, were not recorded in the published customs returns.

Source : Report of the Fiscal Commission, 1949-50, p. 130.

The export surplus on this basis does not come to the desired figure which can be explained by the exclusion of certain exports and imports. Naturally Rs. 250 crores will not be an over-estimate of export surplus on Government account.

(B) *Imports and Exports under the Lend-Lease scheme*

The scheme was forced in haste to help the European democracies which were facing German military and political pressure and it became eminently successful in pooling the resources of the Allies and their effective utilization against the common enemy.¹ Benefits of the Lend-Lease scheme were extended to India in 1942 to enable India to act as a major supply centre for the war against Japan. India

¹The total financial cost to the U.S. of its contribution to the Allied Victory over Germany and Japan amounted to more than \$280 billion up to June 30, 1945. And approximately 15% was recoverable from other countries.

also supplied essential goods for munition production to the U.S.A. under this scheme. Total Lend-Lease shipments to India up to June 30, 1945 amounted to \$20,33,385,000. Industrial and agricultural equipment was supplied to India by the U.S.A. to accelerate her war production programme. Locomotives, etc., were imported on a large scale to rehabilitate Indian railways. Reciprocal Aid amounting to \$516,713,000 was given to the U.S.A. under three heads:

- (i) To the U.S. forces in India who were provided with substantial amounts of supplies, facilities and services,
- (ii) to U.S. shipping arrivals in India,
- (iii) to the U.S. Government itself in the matter of raw materials and other commodities such as tea.

Thus we see that the Government was the biggest operator in the latter war years and the trade must have formed substantial proportion of the total trade.

4. IMPORT AND EXPORT CONTROLS

Private trading was subject to many restrictions.¹

(A) *Exchange Control*

With the outbreak of the war, the powers of the Government under Defence of India Ordinance to administer the regulations controlling dealings in coins, bullion, securities and foreign exchange were delegated to the Reserve Bank. All dealings were required to be transacted through authorized dealers. The purchase and sale of non-Empire currencies were largely restricted to genuine trade purposes. The policy of exchange control was to see that all foreign exchange transactions in India were done on the basis of the rates quoted by London Exchange Control combined with the current rupee rate for sterling. Although the general basis on which exchange control was operated was laid down in September 1939, constant changes in the political situation caused by the war and the increased necessity of conserving foreign exchange, led to continual modifications and changes in the original system, and the latitude

¹It may be pointed out here that India was not the only country to adopt restrictive trade policies. The entire foreign trade of most countries of the world was under governmental regulations and control for all the war years.

given to authorized dealers was curtailed. The exchange control was only relaxed in the last year of the war consequent upon the improvement of exchange situation.

Exchange control regulations were mainly directed to conserving foreign exchange by limiting remittances except for essential purposes. This conservation of foreign exchange was not at all necessary specially when India was having an export surplus. The Reserve Bank was required to fall in line with the policy followed by the Bank of England on all vital issues and it enjoyed a limited amount of freedom.

(B) *Export Control*

Export control was introduced shortly after the war broke out. The main objects were :

- (i) to enforce economic blockade against enemy countries and as such to forbid trading with alien countries;
- (ii) to ensure that supplies did not reach the enemy by indirect channels;
- (iii) to conserve supplies of all essential articles, whether for the requirements of this country or those of the Allied powers;
- (iv) to utilise most economically the limited shipping space; and
- (v) to see that (a) the foreign exchange proceeds of exports are returned to India and not retained abroad, and (b) the exports are financed in certain specified ways; so that the maximum exchange value is obtained.

Export control took mainly the following forms :—

- (i) prohibition of all exports to enemy countries;
- (ii) prohibition of trading with black-listed firms in neutral countries;
- (iii) prohibition of exports of certain articles except on Government account;
- (iv) export of certain articles permitted only under licence; and
- (v) export of certain articles permitted without licence or under Open General Licence to specified countries only.

- (vi) In cases where the ruling considerations were those relating to economic warfare rather than the supply problem, it was provided that no licences were required, if the articles were consigned to or destined for any port of the British Empire including mandated territories.
- (vii) Control of proceeds of exports from India to places outside the sterling area, was instituted by the Reserve Bank of India under Export Control Scheme, initially, for jute and rubber to the U.S.A., Belgium, Holland, and Switzerland only, but later extended to include all commodities shipped from India to nearly all countries in the world.

This system underwent many changes from time to time. Besides red-tape and discrimination, the two most perceptible defects, some other criticisms of the scheme are :

- (i) Issue of export licences only to established shippers created enormous difficulties as customs papers need not necessarily be issued in the name of the exporting firms. Very often concerns which lacked finances were given quotas, while concerns which had finances were not allowed to use them.
- (ii) Unjustified export control in cases of surplus commodities.
- (iii) Foreign government agencies continued to dominate the scene, *e.g.*, tea purchased by H.M.G.
- (iv) Lack of co-ordination between the issue of export licences and arrangement of priorities of movement.
- (v) Export and import controls were subject to so much detailed instructions that the Export and Import Trade Controllers were left with little initiative of their own. At times cheap and undesirable items were imported while industries were starved of their needs.

(C) *Import Control*

Import restrictions were introduced on May 20, 1940 as a natural sequel to the imperative necessity for conserv-

ing the foreign exchange. It was but expected after the imposition of export controls. The scheme originally covered 68 items among which the most important were sugar, raw cotton, motor vehicles and silk piecegoods. The list was later extended as the war exigencies demanded. Import control was only relaxed in 1945 when the supply of foreign exchange was much better. The following steps were taken :

- (i) prohibition of trading with enemy countries;
- (ii) importing from firms in the neutral countries under the control of the enemy prohibited;
- (iii) control of imports of certain specified commodities from the U.K. or the U.S.A., *e.g.*, tin and steel.

The procedure for obtaining export licences was much simpler than that of obtaining import licences and a much greater control was exercised on imports than on exports, which should not have been the policy in India. With an export surplus, India had no problem of foreign exchange conservation. A greater control on exports would have been better because it would have reduced inflation in the country and would have enabled India to better stand the impacts of war.

The Government was busy with keeping export markets supplied with Indian goods, at the expense of domestic economy on the pretext of providing increased markets for Indian exports. It was only after four years of war that the Government recognized the need of exercising greater control over the volume of exports in the interests of domestic consumption and the export of foodgrains was stopped and that of cloth curtailed.

Import control was rampant with all the defects of the export control; and in some cases goods were imported from abroad, even when Indian industries could have supplied them.

5. WAR-TIME FINANCING OF TRADE

During World War II, owing to export and import trade controls, foreign trade on private account was relatively less. The exchange banks could not, therefore, take a large part in the financing of our foreign trade. With the exten-

sion of the war to North Africa, Central Russia and Caucasus, there sprang up a large demand for Indian goods. These were purchased by the Supply Department of the Government of India directly from the producers or market and exported by the Government or the U.K.C.C. to Iran, Iraq, Egypt, East Africa, England and the U.S.A. The Supply Department gave the sellers liberal financial facilities which in some cases were supplemented by advances made by banks. These transactions did not give rise to bills of exchange and as such, throughout the period of the war, dealings in foreign exchange were comparatively limited.

The same was the position as regards import trade. Goods were largely imported on Government account from the U.S.A. and the Empire countries mainly for meeting war requirements. Imports from the U.S.A. were paid for by the Government of India out of the dollar allotments to India from the Empire Dollar Pool. The imports from the Empire countries were directly financed by the Government of India partly out of the proceeds of Indian exports to those countries and partly out of the sterling balances placed at the disposal of the Government of India by the British Government.

(A) *Export Finance*

Before getting a licence for export, the exporter had to declare the destination of the goods, the name of the consignee and to assure that necessary arrangements have been made with some approved or accredited Exchange Bank for the disposal of foreign exchange available from such exports. Goods were to be invoiced in sterling or in any of the approved currencies which were Belgium Franc, Swiss Franc, Dutch Guilders, Java Guilders and U.S. Dollars. But after 1940 only sterling and dollar remained approved currencies for the purpose. If the goods were invoiced in sterling, bills had to be drawn in sterling on some approved London Accepting House or Bank which had to give an assurance that sterling required for meeting the draft would be obtained from the sale of requisite foreign exchange. The exporter was paid in rupees out of the sale proceeds of the foreign exchange to the Reserve Bank.

But when goods were exported to non-sterling areas, goods were to be invoiced in sterling or some approved currency. The exporter had to approach some authorized dealer approved by the Reserve Bank who had to guarantee that he would sell the foreign exchange either to the Bank of England or to the Reserve Bank of India.

Exports to the U.S.A. and its dependencies were mostly financed directly through bills in foreign currency (of the country of destination) instead of through sterling bills in London. The percentage was normally above 75%. Bills drawn in sterling on London contributed 15%. Bills drawn or remittances received in Rupee accounted for 5%. Exports to other foreign countries were mostly financed by bills drawn in sterling on London accounting for 70%. Bills drawn in foreign currency were about 8% while finance through Bills drawn or remittances received in India was negligible. As regards the financing of trade with all foreign countries, bills drawn or remittances received in currency of the country of destination accounted for 50 to 55%, while bills drawn in sterling on London accounted for about 40%.

(B) *Import Finance*

Three forms were supplied to an authorized dealer in foreign exchange pertaining to foreign exchange required for (i) trade, (ii) general purposes-remittances, etc., and (iii) import of commodities for war purposes. The importer could ask for any of the forms required by him. If the authorized dealer was satisfied that exchange is required for genuine trade purposes, he gave an undertaking to supply requisite foreign exchange.

For imports from sterling area countries there was no particular difficulty. Arrangements were not necessary. Sterling was always available. But great difficulty had to be experienced in case of non-sterling currencies. Dollar, for example, was scarce because all dollars acquired by us from our exports to dollar and hard currency countries were credited to the Dollar Pool. Only small allocations were made. Dollar exchange for large amounts was not allowed to be sold without a reference to the Reserve Bank.

6. INDIA AND THE U.K.C.C.

The U.K.C.C. was started in April 1940. It had a capital of £ 3 millions. It had been given very wide powers to carry on general trading business as merchants and financiers in any part of the world. Its financial powers were virtually unlimited due to great borrowing power implied by its treasury backing. It owed its origin to the exigencies of the war and had the following functions :—

- (i) establishing trade links with countries with which the contact maintained through the medium of normal machinery of import and export trade ceased under the strain of war conditions;
- (ii) satisfying the import requirements of Allied and friendly countries from within the Empire sources; and
- (iii) disposal of commodity surpluses which accumulated in those countries owing to their normal export markets no longer being accessible.

In these operations the U.K.C.C. used the customary trade channels to the fullest possible extent. With its good backing and financial resources, the U.K.C.C. was able to spread its field of activities far and wide.

In India, it acquired extensive monopoly rights in import and export trade and supplanted Indian businessmen to a large extent. It acquired facilities for purchasing goods at the low controlled prices, which nowhere prevailed in this country during the war period. It patronized European brokers and shipping, banking and insurance interests and ignored the Indian interests. It purchased commodities at low prices from this country and sold them to the Allied nations at huge profits. Indians were deprived of these profits and this greatly outraged the moral sentiments of the Indian people. It was only natural that such activity of the U.K.C.C. should give rise to a vigorous agitation for its removal from the field of Indian commerce. While other Governments supported their export trade, the reverse had been the case with the Government of India. Either the Government should have acted or an Indian organization should have been allowed to operate. The fears of the busi-

ness community were not allayed by occasional statements of the Government of India. The U.K.C.C. exported largely on Government account and to say that only a minor fraction was exported through the U.K.C.C., was wrong. Similarly to say that it carried goods to Russia on a non-profit basis, did not serve the purpose. The Government of India failed to serve the Middle Eastern countries directly thereby preventing India from strengthening her trade links with these countries and thus lost a good opportunity.

7. COMPOSITION

Paradoxical though it may seem to be, war brings some compensation to economically backward countries by making them develop their resources. And naturally enough, Indian industries also received a fillip.

The organisation of an Eastern Group Supply Council in India in the earlier stages, the purchases made by the Chief Controller of Purchases (Munition) in India, the orders placed by the Supply Department, and the assurance given by the Government to protect the newly established essential war-time industries even in the post-war period directly helped Indian industries. The visits of the Roger and Grady Missions and the recommendations of the Chatfield Committee made significant contributions towards industrialization. Among the indirect conditions, the most important were the reduction in imports of manufactured goods which worked as a sort of indirect protection, and the setting up of a Board of Industrial and Scientific Research. Inflation was also welcome as a means of rapid industrialization. But there were obvious limitations to the intensive industrialization of this country. The most important handicap was the practically complete absence in India of the basic industries on which depends the possibility of increasing industrial output. The only exception was the Iron and Steel industry; otherwise India had neither the heavy engineering nor the chemical industries. Even the most needed transport equipment was not manufactured within the country. Lack of skilled labour was the vital deficiency in India's industrial potential. The possibilities of increasing output were, therefore, dependent on the

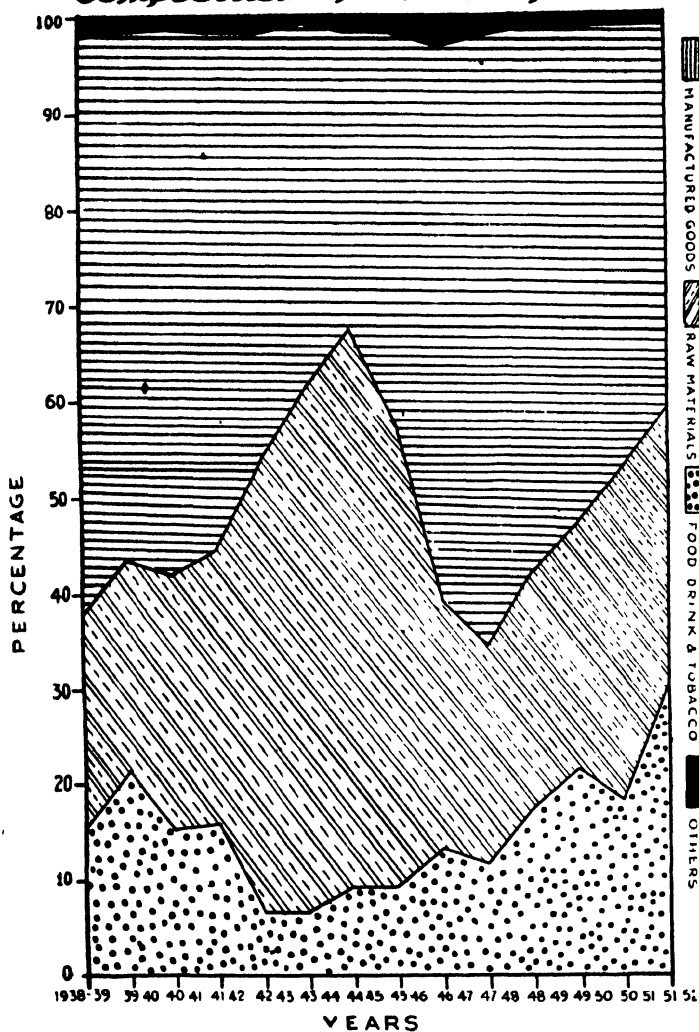
imports of machinery, machine tools, and spare parts from abroad. In this respect our position differed from that of Canada and Australia whose economies could be more easily geared to a war footing. But still there was a substantial increase in industrial production. The 'Capital Index of Industrial Activity' rose from 111.1 in 1938-39 to 120.7 in 1944-45. Many new industries including some basic industries were started and the established industries worked more than one shift. But when compared to other countries (Canada, Sweden and Switzerland 50% above pre-war level, Australia and Latin America 25%), India is far behind. They made big strides in all-round industrial production keeping heavy industries in the forefront.

India did not lack resources in money and materials. India's industrial potentialities are immense and with the basic equipment provided by the heavy engineering and heavy chemical industries, she could have met all the needs imposed on her by the war even without having to reduce the supplies of industrial goods available for civilian consumption. The Government of India cannot escape the responsibility for this situation resulting from the lukewarm industrial policy they had followed in pre-war decades. And they persisted in this policy even during the war. "Instead of regarding the establishment of heavy industries in India as a major war interest and facilitating the obtaining of machinery for this purpose from abroad, they persisted in their attitude of half-hearted sympathy, if not one of active indifference."¹ The response of the Indian industry to war was magnificent in all respects. While the Indian industrialist and labour rose to the occasion, the Government of India failed in its duty to make the most of the unparalleled chances of building up new industries. It may well be regarded as a misfortune of India.

The following table brings out the changes in the composition of India's exports and imports by three well-known categories :

¹Dr. V. K. R. V. Rao, 'War and Indian Economy', p. 96.

Composition of India's Imports.



REFERENCES

INDIA'S FOREIGN TRADE DURING THE SECOND WORLD WAR 45

(Value in crores of Rupees)

Year	Foodstuffs		Raw Materials		Manufactured goods	
	Value	% share	Value	% share	Value	% share
<i>Imports</i>						
1938—39	24.00	15.7	33.18	21.7	92.79	60.9
1939—40	35.29	21.4	36.13	21.9	91.81	55.5
1940—41	23.81	15.2	42.10	26.8	89.51	57.0
1941—42	27.84	16.0	50.05	28.8	93.68	54.1
1942—43	7.62	6.9	51.95	47.0	49.52	44.8
1943—44	8.13	6.9	63.94	54.3	45.12	38.3
1944—45	18.85	9.4	117.26	58.3	62.47	31.1
<i>Exports</i>						
1938—39	39.43	23.3	76.28	45.1	50.72	30.0
1939—40	40.66	19.0	91.53	42.9	79.08	37.0
1940—41	42.39	21.3	68.33	34.4	85.83	43.1
1941—42	60.44	23.9	73.04	28.9	115.08	45.5
1942—43	48.61	25.0	45.21	23.2	98.33	50.5
1943—44	48.14	22.9	53.73	25.5	105.89	50.2
1944—45	49.83	20.9	58.19	25.6	116.27	51.1

Compiled from 'Accounts Relating to the Foreign Sea-Borne Trade of India'.

There was a large shift during the war in favour of exports of manufactures as against raw materials. Of the total value of merchandise exported manufactures improved their position from 30% in 1938-39 to 51.1% in 1944-45 while raw materials declined from 45.1% to 25.6%. On the other hand, the trend was reversed in the case of imports. While the value of manufactures imported declined from 60.9% to 31.1% of the total value of imports, raw materials improved their position from 21.7% to 58.3%.

These trends are taken to be an indication of the extent of Indian industrialization during the war. The old trend seems to have reversed. But these figures must only be taken at a discount due to the abnormal conditions created by the war.

(i) The reduction in both the quantum and the percentage share of manufactured articles in the total imports, though considerable, was merely a reflection of the general scarcity of manufactured goods of all kinds. It was the direct result of the war-time scarcity of shipping tonnage, preoccupation of supplying countries with the war and the exchange and trade controls needed to conserve foreign exchange and to prevent goods reaching the enemy countries. Similarly, the main reason for the increase in the percentage share of raw materials in the total imports, is the large increase in the imports of petroleum, which obviously was not for industrial requirements but for war purposes.

(ii) Decline in exports of raw materials is explained by the loss of their important overseas markets (Japan for cotton and the Continent for jute and oilseeds) and their increased domestic consumption.

(iii) Increase in exports of manufactured goods signifies that India was used as a supplier of certain categories of manufactured goods to the war theatres in the Middle East and elsewhere coupled with the incapacity of other countries to supply them.

The trend was reversed with the reopening of the U.S.A. and the U.K. as the sources of supply. Hence the inference is not quite correct. But there is no denying the fact that the country has to some extent benefited by the war. But this had its weakness also. The capital equipment of the industries had to bear maximum strain during the war years by working extra shifts in the absence of proper maintenance and replacement. Thus it created a problem of huge arrears of maintenance and replacement to be faced in the immediate post-war years.

The changes in the value of principal commodities imported and exported during the war¹ will be clear from the following table :

¹A detailed study of the effect of war on India's raw materials has been made by Mr. N. V. Sovani in 'The International Position of India's Raw Materials'.

Foreign trade in principal commodities during the Second World War
(In crores of rupees)

			1938-39	1941-42	1942-43	1943-44	1944-45
<i>Imports</i>							
Grains, pulses and flour ..	..	..	13.76	15.02	.31	.31	8.09
Metals and Ores ..	..	..	6.68	4.70	3.78	4.47	6.52
Oils ..	..	..	15.62	21.78	27.76	36.48	80.70
Cotton, raw and waste ..	..	..	8.51	15.34	15.42	17.53	24.00
Wool raw ..	..	..	.62	2.77	29.5	4.02	2.10
Chemicals, drugs, etc. ..	..	..	5.62	8.76	6.39	6.86	10.14
Dyes & colours ..	..	..	4.06	6.96	5.43	8.30	7.92
Machinery ..	..	..	19.72	13.73	10.53	11.31	16.29
Cotton yarn and manufacture ..	..	..	14.15	6.80	1.36	1.33	1.54
<i>Exports</i>							
			1938-39	1941-42	1942-43	1943-44	1944-45
Grain, pulses and flour ..	..	..	7.80	10.41	6.93	2.31	1.23
Tea ..	..	..	23.29	39.58	31.91	37.85	37.34
Oils ..	..	..	1.06	2.64	1.37	.83	1.06
Seeds ..	..	..	15.10	10.43	10.52	11.15	10.53
Cotton, raw and waste ..	..	..	24.82	17.54	5.31	7.49	7.70
Jute raw ..	..	..	13.40	10.42	9.02	8.33	7.50
Hides and skins and leather ..	..	..	5.28	6.03	4.77	4.39	4.21
Metals ..	..	..	2.07	4.23	1.90	1.73	3.36
Cotton yarn and manufacture ..	..	..	7.57	35.96	46.19	42.62	37.60
Jute manufactures ..	..	..	26.26	53.90	36.41	49.47	60.43

Compiled from 'Annual Reviews of Trade of India.'

Imports of grain, pulse and flour which increased in the beginning, were almost eliminated in 1942-44 but substantially recovered in 1944-45. The imports of oils, raw cotton, raw wool, chemicals, drugs, medicines, dyes and colours increased considerably. Imports of cotton yarn

and manufactures were very greatly reduced because of the cessation of trade with Japan and the preoccupation of the United Kingdom with the war.

Old staples of India's export trade diminished in importance. Raw cotton ceased to be the principal item of India's exports. Exports of raw jute also declined. Both raw cotton and raw jute presented problems as domestic consumption could be increased only to a limited extent (unutilized installed capacities). The situation was further aggravated because their exports mainly consisted of specialised varieties and large quantities were exported to a limited number of countries.¹ This situation, however, coincided with the food problem resulting in the diversion of acreage from cotton and jute to food crops. There was some diversion of acreage from short staple cotton to that of superior varieties. Exports of oilseeds declined due to closure of the Continent as their market. But domestic consumption increased and they were put to diversified uses. Exports of oils, however, increased. Exports of hides and skins suffered due to increased domestic consumption as the leather industry received great fillip from Governmental purchases. Exports of cotton manufactures showed a tremendous rise and they continued to dominate India's export trade. With the exit of Japan, Germany and Italy, India came to command a large market in Australia, New Zealand, East Africa and large parts of Asia so much so that our exports in the year 1942-43 amounted to 819.2 million yards, accounting for more than 20% of the total exports in that year and thus formed the most important item among the export trade in that particular year. Food-grains were exported in the beginning, but due to domestic shortage their exports were stopped. Exports of tobacco benefited, but those of tea improved considerably. In 1942-43, there was substantial rise in exports of sugar owing to the termination of International Sugar Agreement. But they dwindled later on and in 1944-45 were reduced to 25% of the sugar exports in 1942-43.

¹The inferior and coloured varieties of raw jute which were unsuitable for use in Indian mills were exported. Similarly 70% of our short staple cotton was exported while 58% of the medium and long staple varieties was retained for use in Indian mills.

8. DIRECTION

The direction of India's foreign trade was determined by the following factors :—

- (i) Obvious distinction between the Allies and the enemy,
- (ii) the internal conditions prevailing in different European countries,
- (iii) the shipping position, and
- (iv) the operation of exchange control.

The following are some of the important changes in the direction of our foreign trade :—

(A) *Increase in the share of Empire countries*

With the increase in the tempo of the war since 1939, the various units of the Empire and Commonwealth were brought together into closer co-operation than was ever possible during the inter-war period. The creation of the Eastern Group Supply Council and its location in India was, perhaps, the most outstanding illustration of the integration of the Empire and India's efforts towards achieving the objects in view. The trade with Empire countries as a whole remained unhampered by exchange restrictions and trade control.

The share of the Empire in our trade increased in the beginning but later tended to decline. The following table gives the relevant figures :

(Value in crores of Rupees)

Year		Exports		Imports		Total		Export surplus
		Value	% share	Value	% share	Value	% share	
1939—40	..	119.54	56.0	93.10	56.3	212.64	56.0	26.44
1940—41	..	120.45	60.7	89.91	57.3	210.36	59.1	30.54
1941—42	..	153.80	60.8	105.57	61.0	259.37	60.9	48.23
1942—43	..	127.95	65.7	61.25	55.4	189.20	62.0	66.70
1943—44	..	130.60	61.9	56.74	48.2	187.34	57.0	73.86
1944—45	..	140.09	61.7	78.72	38.6	218.81	50.8	61.37

Compiled from 'Annual Reviews of Sea-Borne Trade of India.'

In exports the share of the Empire countries continued to grow at the expense of non-Empire countries throughout the war except in 1943-44. On the import side, the share of the Empire countries was not encouraging and it rather declined due to their reduced capacity to export on account of their being busy with munition production. Naturally our export surplus with Empire countries continued to increase except in 1944-45, when there was a precipitate decline in our overall export surplus too.

(B) *Decline in the U.K.'s share*

The following are the figures :—

(Value in crores of Rupees)

Year	Imports		Exports		Total		Export surplus
	Value	% share	Value	% share	Value	% share	
1939-40	41.61	25.2	75.35	35.3	116.96	30.9	33.74
1940-41	39.54	22.9	65.22	32.9	104.76	28.5	25.68
1941-42	36.62	21.1	76.97	30.4	113.60	26.7	40.35
1942-43	29.56	26.8	57.94	29.7	87.50	28.6	28.38
1943-44	29.56	25.1	61.42	29.1	90.98	27.7	31.86
1944-45	40.17	19.8	63.10	27.8	103.27	24.0	22.93

Compiled from the 'Annual Reviews of Trade of India.'

There was a deterioration in the position of the U.K. both in imports and exports. This was, however, due to the increased domestic consumption of the main items of our exports to England and the shipping shortage. Imports were reduced due to the incapacity of Britain to export. But she still remained our biggest single customer. Export surplus also continued to fluctuate and declined in 1944-45 when imports from the U.K. increased.

(C) *Considerable increase in the trade with the U.S.A.*

Our exports to the U.S.A. were only 8.5% in 1938-39, but they rose to 21.2% in 1944-45, and in imports her contribution rose even more from 6.4% to 25.7%. The relevant figures are as follows :—

Year		Imports		Exports		Total		Export surplus
		Value	% share	Value	% share	Value	% share	
1938—39	..	9.78	6.4	13.88	8.5	23.66	7.3	4.10
1939—40	..	14.88	9.0	27.18	12.7	42.06	11.1	12.30
1940—41	..	27.01	17.2	31.94	16.1	58.95	16.6	4.93
1941- 42	..	34.62	20.0	54.17	21.4	88.79	20.8	19.55
1942 -43	..	19.13	17.3	29.84	15.3	48.97	16.0	10.71
1943 44	..	18.57	15.8	49.06	25.2	67.63	20.5	30.49
1944 —45	..	52.33	25.7	56.56	24.9	108.89	25.3	4.23

Compiled from the 'Annual Reviews of Trade of India.'

The figures show an all-round improvement. During the war, the U.S.A. was not slow to take advantage of the opportunity to fill the void created by cessation of supplies from the Continental markets and later on of the inability of the U.K. to supply the necessary requirements. There was a sharp upswing of purchases of heavy goods and miscellaneous articles of all descriptions. In 1944-45, it topped the list of our suppliers. Exports to the U.S.A. increased mainly due to the supply of shellac, mica and manganese to the U.S.A. India's export surplus with the U.S.A. continued to increase and reached the peak of Rs. 30 crores in 1944-45 but declined to Rs. 6 crores next year due to a greater increase in imports of capital goods. The position will change if Government imports are included.

Canada. During the war period Indo-Canadian trade assumed greater importance. Indian exports to Canada in 1945 were almost $3\frac{1}{2}$ times those of 1939. But there was a greater increase in Canadian exports to India and in 1945 they were 62 times of those in 1939. Naturally the export surplus was turned into an import surplus.

(D) *Cessation of trade with Continental markets*

France, Italy, Netherlands, Belgium, Germany and Austria together contributed 14.7% of our total trade in 1938-39. This share fell to 8.7% in 1939-40 and to 2.4% in 1940-41 and they were completely eliminated from our trade in the following years.

(E) *Japan*

In the initial years of war, Japan seized the opportunity to consolidate her position in the Indian trade due to lack of competition. Her share in India's imports increased to 11.7% in 1939-40 and to 13.7% in 1940-41 as compared with 10.1% in 1938-39. Simultaneously with this increase, our exports to that country fell so that our import surplus with Japan had increased to Rs. 12.6 crores in 1940-41 from a mere Rs. 4.82 lakhs in 1938-39. After 1940-41, the trade with Japan ceased completely after her entry into the war.

(F) *Burma*

Indo-Burma trade ceased after her occupation by Japan in 1942-43. The following table gives the percentage share of Burma in our trade :

		Imports	Exports
1938-39	..	16	6.2
1939-40	..	19	6.0
1940-41	..	18.2	8.7
1941-42	..	17	4.9
1942-43	..	1.3	..

Source : 'Annual Reviews of Trade of India.'

(G) There has been a comparative decline of long-distance traffic and a concentration of our trade with the countries bordering the Indian ocean, the Middle East including Egypt. Iran improved considerably, chiefly in import trade, due to her exports of mineral oils to India. Trade with Ceylon showed considerable improvement chiefly on the export side due to her forced dependence on India. Egypt, Iran, Arabia, Iraq, Kenya, Zanzibar, Australia, Ceylon, etc., contributed 12.5% in 1938-39 to our imports but their share improved to 46.8% in 1943-44 and 45.3% in 1944-45. Their share in our exports improved from 8% in 1938-39 to about 20% in 1943-44 and 1944-45 mainly due to the elimination of competition from other sources in these markets.

9. CHANGE IN STATUS

Repatriation of virtually the entire amount of her external public debt by India within the space of a few years after the commencement of the war is a remarkable event in her

financial history. The huge accumulations of sterling balances at the credit of the Reserve Bank of India which were accelerated since July 1941, (at times they poured at nearly Rs. 2 crores a day) hastened the materialization of the scheme of sterling debt repatriation which was initiated in 1937-38 through purchases in the open market. The process continued ever since except during the periods when the exchange was against India. Very big acquisitions were made in May, June, July 1940 when the prices of sterling securities receded sharply in consequence of the Allied reverses on the Continent. It was thus only a continuation of a definite financial policy accepted in 1937-38, probably on realization of the drain it had caused for a century.

It would have been better if our sterling obligations could have been converted into rupee obligations. That was done at a later stage and that too in a wrong way—buying sterling stock in the open market in London and issuing rupee counterparts in India. That made prices in London high and depressed prices in India, and this was opposite to what should have been the correct policy. The policy failed and the Indian Government had to request the British Government to make the holders surrender their scrips at a rate ruling on the day the surrender was demanded. As a consequence of this wrong policy, the cost of repatriation scheme, so far as India sterling loans were concerned, was higher to India by a good few millions.

The total face value of the sterling debt repatriated since the inception of the scheme up to 1942-43 amounted to £309.41 million purchased at £307.58 million (Rs. 411.13 crores) which increased by 1949-50 to £328.79 million purchased at £327.40 million (Rs. 437.53 crores).

The ultimate outcome of these financial operations has been spectacular. The Government of India virtually repaid the whole of the pre-war sterling debt of £360 millions.¹ Sir Jeremy Raisman remarked in 1943-44 Budget Speech, "India has completed the transition from a debtor to a

¹Repatriation will not lessen materially the burden of interest. The only saving is in the cost of sterling transfers.

creditor country and extinguished within the brief space of about three years accumulations over decades of its public indebtedness to the United Kingdom".¹ A similar opportunity in the last war was not utilized for a similar purpose. This achievement was an important landmark in the international financial status of India and Sir Jeremy contributed much to make this landmark notable, and for this India is really grateful to him.

But one thing is to be noted. All this does not mean that India has turned a creditor nation just as the U.K. or the U.S.A. The 'Victory Service' propaganda sheets issued by the Bureau of Public Information, Government of India² began to speak of the emergence of India as a 'creditor nation' as being one of the outstanding results of the war. Some Indian economists (Dr. V. K. R. V. Rao³ and Dr. B. N. Ganguly⁴) expressed the same view. Even the national Planning Committee⁵ has accepted the view. The misconception seems to have been created by the Hon'ble the Finance Secretary in the Council of State, "Thus has India ceased to be a debtor country, and there can be little doubt that she will find her creditor position a distinct advantage in the post-war world, apart from the relief she has secured of the necessity of providing every year for meeting her public charges".⁶ The Finance Member's statement merely applied to the public indebtedness in the restricted field of Governmental indebtedness. Hence it is wrong to consider India as a creditor in the same sense as mature lenders like the U.S.A. and the U.K.

A country may be described to have a net creditor status or creditor status both on current and capital account, if on balance of all factors her foreign assets exceed her foreign liabilities and if her earnings from foreign investments both long-term and short-term exceed payments made by her on foreign debts owned by her, both short-term and long-term.

¹ p. 18

² March 10, 1945.

³ 'War & Indian Economy'.

⁴ 'Reconstruction of India's Foreign Trade', p. 109

⁵ 'Trade', p. 271.

⁶ Budget Speech, 1943-44, p. 57.

The Reserve Bank of India has recently completed a census of foreign assets and liabilities in regard to private foreign investments in India. The market value of the total private foreign investments on June 30, 1948, is estimated at Rs. 596 crores out of which long-term business investments account for Rs. 519 crores and the short-term liabilities of commercial banks for most of the remaining Rs. 77 crores. An estimate of Rs. 596 crores at current market prices would *prima facie* appear to be very much on the low side, even after liberal allowance is made for disinvestment during and since the war. It appears that foreign investors have not co-operated and have withheld information. Certain earlier estimates are reproduced below for purposes of comparison :

	Rupees in crores
'Economist' (1928-29)	.. 472
G.D. Birla (1929)	.. 1,333
Findlay Shirras (1929)	.. 666
'Financial Times' (1930)	.. 777
Kindersley (1935)	.. 584
'Statist' (1939)	.. 1,466
'Financial Times' (1943)	.. 821
Shenoy (1946)	.. 1,107

Thus the estimates have always varied widely and the validity of the Reserve Bank census is not beyond doubt. The total of foreign capital in India in 1946 at £500 millions or Rs. 6,667 millions valued at 1939 prices¹, may not be an over-estimate. Of our foreign assets, we had our sterling assets then estimated at Rs. 1,733 crores (£1,300 millions). So the whole question depended on (i) whether sterling balances are a long-term investment and (ii) whether they exceeded our foreign liabilities, as they actually did on the basis of 1939 prices. And hence the impression that India has emerged a creditor.

Now, of course, the issue has got no importance because of the following :—

¹In this connection it may be pointed out that Prof. B. R. Shenoy's method of calculating the present prices of foreign assets in India (*vide* 'Sterling Assets of the Reserve Bank of India', p. 68-70) is surely misleading. See also A. K. Das Gupta's 'War and Post-war Inflation in India'.

- (i) Our sterling balances have been reduced to about Rs. 700 crores only which is quite insufficient as a cover for the foreign liabilities.
- (ii) We are inviting foreign capital.
- (iii) We have also borrowed from the International Bank.

These facts conclusively prove that India is still a debtor.

CHAPTER III

INDIA'S FOREIGN TRADE IN THE POST-WAR PERIOD

General Developments

After about six years of war, the problems of the transition economy and long-term planning confronted the world. The main problem was the speeding up of production to the highest possible level in order to combat inflation and shortages and to increase exports for acquiring necessary foreign exchange to finance the much-needed imports. Side by side, attention was focussed on the supreme need for laying the foundations of a new world order on a sound structure of international economic co-operation. The Anglo-American Loan Agreement may be said to be the first big step towards the revival of multilateral trade. The International Monetary Fund and the International Bank for Reconstruction and Development came into existence on December 27, 1945. But the expectations of a sustained world recovery did not materialize and the progress was very slow. However, with the inauguration of the Economic Recovery Plan in 1948, the progress was much better in 1948 and after, though the progress achieved by different countries and by different sectors of economic life differed in degrees. While the economic recovery in the Continent was satisfactory, the Asian countries in general remained under-developed and thus hampered the process of post-war reconstruction and development.

The continued world shortage of essential commodities, specially foodstuffs and coal, and the limited supply of the currencies of certain countries to buy even the available goods, restricted the volume of international trade and prevented the resumption of the pre-war pattern of foreign commerce. Import controls were continued to conserve the limited supply of foreign exchange as also to protect newly developed economies. Export controls were utilized to prevent undue strain on internal supplies, to hold down

domestic prices and to obtain specific imports by diverting exports to the required country. Due to the shift in productive capacity brought about by the war as between the Western Hemisphere and the rest of the world, there was a virtual division of the world into hard currency areas and soft currency areas, and the latter sought to restrict to the minimum their purchases from the former. Bilateral agreements aiming at balanced trade between pairs of countries rather than the maximisation of the total trade, became very popular. Their overall effect was to reduce the volume of international trade. Any increase in its value may, therefore, be largely attributed to the rise in world prices.

Substantial progress was made in the sphere of international economic co-operation with the adoption of a Draft World Trade Charter at Havana in 1948 after two preparatory conferences at London and Geneva. Pending the final approval of the Charter, the General Agreement on Trade and Tariffs was brought into effect providing for immediate operation of some of the provisions of the Charter. India's own share in respect of international collaboration was that of cautious co-operation subject to the recognition of her claims for economic development. The Indian delegation at the International Trade Conferences practically took the leadership of and became the spokesmen for the under-developed countries and were successful in bringing about considerable modifications resulting in a more satisfactory Draft Charter.

In India, the grave transitional problems which the country had to face were greatly aggravated by frequent outbreaks of serious internal disturbances which ultimately led to partition dislocating the economic life of the country. However, the situation improved after 1948. The process of transition was painfully slow. There were great expectations of large-scale imports of capital goods, financed by sterling accumulations and dollar assets, but all to no effect. Industrial production declined due to labour troubles and lack of machinery to replace the over-worked industrial equipment. Unfortunately agricultural production also declined. Naturally inflationary tendencies continued and prices surpassed the 1944 war-time peak level. The food

position continued to cause grave anxiety, specially so after partition, and was kept under control by stringent rationing and imports from abroad. Lack of a definite policy on vital matters and uncertainty in general were mainly responsible for deterioration in economic situation after independence, and held up the development plans and the much-needed recovery in production. Lack of essential raw materials and capital goods coupled with shortage of technical personnel, hindered the production drive. The inflationary spiral gathered momentum after decontrol and prices showed an almost uninterrupted rise.

Chief Characteristics of India's Foreign Trade during the Post-war Period

Recent trade statistics of India are subject to certain important limitations in respect of coverage. The partition of the country and the declaration of Pakistan as a foreign territory from March 1948 have introduced changes in regard to their scope. While the statistical returns exclude the trade of Pakistan's ports from August 1947, they include the trade with Pakistan only from 1st March 1948. With partition, the significance of land-borne trade of India has increased considerably. In 1948-49, the total value of India's land-borne trade amounted to Rs. 115 crores, which was about 10% of India's total trade (sea-borne and land-borne). Similarly the value of imports of foodgrains in 1948-49 is placed at Rs. 131.30 crores which is almost double the figures recorded in the sea-borne trade accounts. Therefore, statistics relating to land-borne trade will also have to be taken into consideration. It may be noted here that before partition, the land-borne trade was increasing in volume in our trade with Middle Eastern countries. In 1943-44, 17% of India's exports to Iran and 26% of imports therefrom were obtained by land. Now, of course, the prospects are dim due to the creation of Pakistan.

1. VALUE OF TRADE

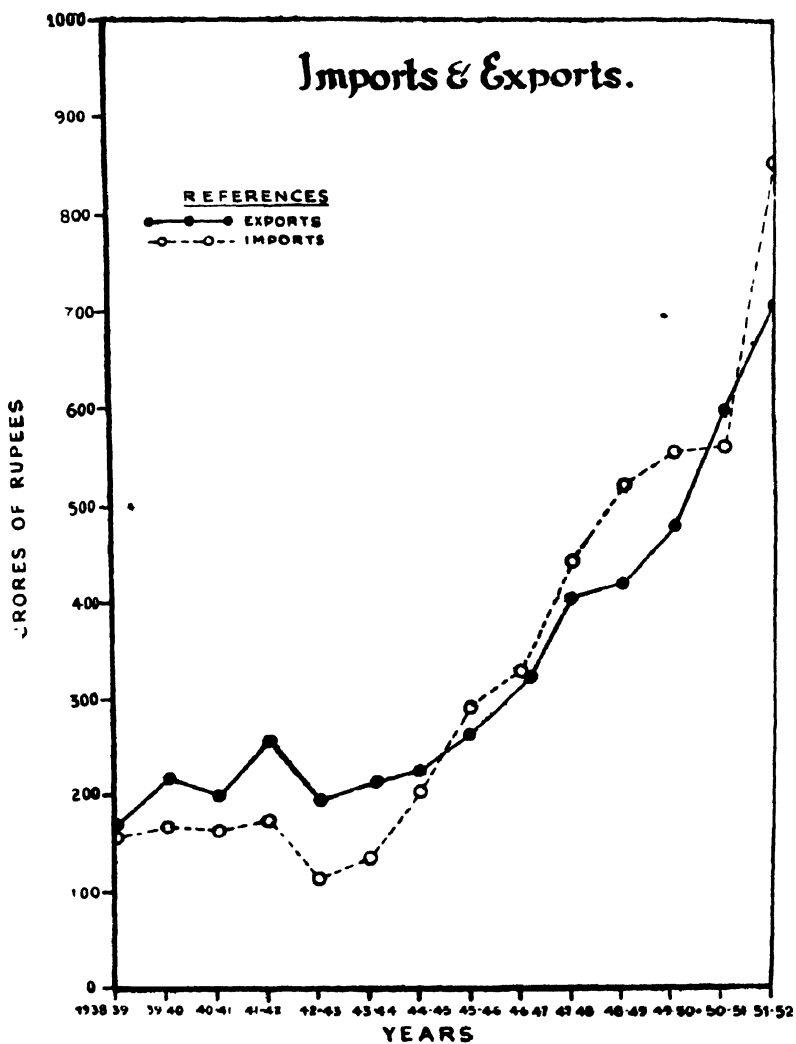
The following table shows the value of sea-borne foreign trade of India (Private and Government) in the post-war years :

Year	Merchan- dise imports	Index Number 1938-39 = 100	Merchan- dise exports	Index Number 1938-39 = 100	Balance in merchan- dise	Balance of trade in trea- sure	Total visible balance of trade
1938-39	155.55	100	169.83	100	+ 14.28	+ 11.38	+ 25.65
1945-46	292.15	187	266.39	156	- 25.76	- 7.26	- 33.02
1946-47	330.21	212	320.34	188	- 9.86	- 30.89	- 40.75
1947-48	445.88	286	408.24	240	- 37.64	- 21.06	- 58.70
1948-49	542.92	349	423.32	249	-119.60	- 7.8	-120.38
1949-50	560.51	359	485.20	286	- 75.31	- 7.72	- 83.03
1950-51	565.46	364	601.06	354	+ 35.60*		
1951-52	862.12	556	716.14	422	-145.98*		

Source: 'Reserve Bank of India Bulletin'. *Includes trade in treasure also.

It is significant to note that the size of foreign trade has not suffered and has shown increases on the pre-partition levels. The total value of sea-borne trade of India in 1948-49 was Rs. 966.24 crores as compared with Rs. 650.55 crores in 1946-47 showing an increase of 49%. As compared with 1938-39, the pre-war year, the total value of foreign trade shows an increase of Rs. 640.86 crores or an increase of about 197%. This increase is explained by several factors : (i) higher levels of both import and export prices, (ii) relaxation in trade restrictions, (iii) recovery of world trade and shipping generally, and (iv) the limited facilities provided by East Pakistan ports.

India's exports and imports had shown a steady upward trend ever since the end of the war and the trend was further accentuated after partition. The imports increased from Rs. 292.15 crores in 1945-46 to Rs. 542.92 crores in 1948-49 showing an increase of 86%. The exports increased comparatively much less from Rs. 320.34 crores to Rs. 423.32 crores during the same period. As compared with the pre-war position, imports showed an increase of Rs. 387.37 crores or 259% and exports of Rs. 253.49 crores or 149%. A comparison of the 1948-49 figures with those of 1946-47, the first comparable pre-partition year, will show an



increase in imports from Rs. 330.21 crores to Rs. 542.92 crores or an improvement of 167% and an increase in exports from Rs. 320.34 crores to Rs. 423.32 crores or an improvement of 132%.

The main causes for the enormous increase in the value of imports were :

- (i) pent-up demand of consumer goods and machinery for replacement and development after the end of the war,
- (ii) liberal import policy followed by the Government to secure for the country larger supplies of the above goods,
- (iii) partition of the country which led to substantial increase in India's imports under raw materials,
- (iv) food imports which increased after partition,
- (v) increase in the foreign prices of imported goods, and
- (vi) the Government's desire to use up the sterling balances.

The main reasons for the lower increase in the value of exports are :

- (i) restricted exports due to domestic shortage of essential articles,
- (ii) partition involving loss of our main export staples.

Thus the country had to face an adverse balance of trade after the war was over. The deficit increased from Rs. 25.76 crores in 1945-46 to Rs. 119.61 crores in 1948-49.

The fast increase in imports continued up to May 1949 when they amounted to Rs. 64.12 crores, the highest monthly total. The revision of import policy in May 1949 led to a declining trend in imports (September 1949—Rs. 28.62 crores) which was accelerated by the devaluation of Rupee. Exports were not satisfactory till September 1949 after which they continued to increase up to March 1950 due to the temporary stimulus offered by devaluation. Naturally there was an improvement in 1949-50 and our import surplus declined to Rs. 75.31 crores. There was a deterioration in the period April-June 1950 but it was arrested by the Korean war. Our exports increased from Rs. 485 crores in 1949-50 to Rs. 607 crores in 1950-51 and Rs. 716

crores in 1951-52 mainly due to the sharp rise in world demand for stockpiling and rearmament and the consequent rise in our export prices. On the other hand, the imports did not increase due to import control and the scarcity or prohibitive prices of imported goods, and there was an export surplus of Rs. 40 crores in 1950-51. Due to relaxation of import controls, and an increase in imports of food and raw cotton, our imports increased from Rs. 567 crores to Rs. 862 crores in 1951-52 leading to an import surplus of Rs. 146 crores in spite of an increase in exports.

It was only in 1948-49 that regular accounts of land-borne trade could be published. The following are the relevant figures after including the land-borne trade :

		<i>(Crores of Rupees)</i>			
		1948-49	1949-50	1950-51	1951-52
Exports (total)	..	453.71	509.29	595.60	733.45
Imports	..	671.37	602.57	607.73	967.23
Adverse Balance	..	271.66	93.18	12.13	233.78

Source : Department of Commercial Intelligence and Statistics.

Thus the adverse balance shows an enormous increase after the inclusion of land-borne trade. The steep decline in adverse balance of trade in 1949-50 and 1950-51 is explained by a virtual stoppage of Indo-Pakistan trade. In 1950-51, the surplus in sea-borne trade has been converted into a deficit after the inclusion of land-borne trade.

2. VOLUME OF TRADE

(A) Exports

The following table shows the relevant statistics.—

Export Quantity Index

Base 1938-39 = 100

Year	I class	II class	III class	General
1945-46 ..	85.4	41.8	95.6	67.0
1946-47 ..	83.7	41.7	92.5	65.7
1947-48 ..	92.3	46.9	90.4	69.9
1948-49 ..	95.7	30.6	106.4	67.1
1949-50 ..	105.4	32.6	127.8	76.2
1949-50 I Halt ..	89.2	28.2	98.8	62.2
1949-50 II Halt ..	122.1	37.7	156.8	90.5
1950-51 ..	105.2	24.4	129.8	73.8
1951-52 ..	110.1	19.3	94.7	59.7

Source : 'Reserve Bank of India Bulletin'.

The physical volume of our exports during the post-war period remained more or less constantly at a level two-third that of the pre-war year 1938-39. In 1945-46, the export quantity index stood at 67. In 1946-47, there was a slight fall to 65.7, caused by a fall in the quantum of seeds and cotton manufactures. In 1947-48, the fall was more than made up, being explained by a general increase, the exports of cotton manufactures remaining at a low level. In 1948-49, there was again a slight reversal from 69.9 to 67.1 caused by a fall in the exports of raw cotton, spices, raw jute and hides and skins. The falling tendency continued in the first half of 1949-50, the index standing at 62.2, mainly due to the low exports of raw jute and jute manufactures. After devaluation, there was a general rise and the index stood at 90.5 in the second half of 1949-50. "If due allowance is made for the disappearance of export surplus in respect of certain commodities and the exports of the Dominion to all other countries except Pakistan are concerned, it will be found that there has still been an increase in volume in spite of the fact that exports were made from a smaller area than before."¹ In 1950-51 and 1951-52, there was again a decline to 73.8 and 59.7 respectively.

The exports of food, drink and tobacco show a continuous rise. The main contributory cause was the rise in tea exports, exports of tobacco and spices not lagging behind.

The exports of raw materials stood at a low level of only 42% in 1945-46 and 1946-47. There was a slight rise to 47% in 1947-48. This decline was largely due to increased domestic consumption of many of our important raw materials. After partition, there was a reduction in the surplus available for export in respect of raw cotton, raw jute and hides and skins, etc., and the index stood at only 30.6 and 32.6 respectively in 1948-49 and 1949-50. Their exports continuously declined, the index being 19.3 in 1951-52.

Exports of manufactured goods continued to decline in the first three post-war years, the index standing at 95.6, 92.5 and 90.4 respectively in 1945-46, 1946-47 and 1947-48. This was due to the continuous decline in the exports

¹ 'Reserve Bank of India Bulletin', September 1949, p. 598.

of cotton textiles and the failure of jute manufactures to pick up appreciably in the first two years.

Thus while the exports have reached their pre-war level in respect of classes first and third, the exports under class two continued at a very low level. And this mainly explains the stagnation of the volume of exports at about 67% of the pre-war level. It will be futile to expect an increase in the exports of raw materials. The gap can, however, be filled by an increase in class III. Exports of jute manufactures are running at present at a level about 79% of the pre-war period. Their exports together with those of cotton manufactures can be increased by an increase in domestic production and lowering down the present high prices.

(B) *Imports*

The following figures give the relevant details :

Import Quantity Index
1938-39 = 100

Year				I class	II class	III class	General
1945	46	..	..	48.7	184.8	49.0	90.1
1946	47	..	..	138.6	116.9	72.0	98.9
1947	48	..	..	135.1	128.8	91.0	111.1
1948	49	..	..	145.9	142.8	105.0	124.5
1949	50	..	..	130.2	165.1	93.5	121.3
1949	50	I Half		145.6	180.5	123.1	143.9
1949	50	II Half	..	101.6	159.9	65.7	99.7
1950	51	..	..	90.5	144.2	87.2	103.3
1951	52	..	..	205.7	152.8	93.5	134.5

Source : 'Reserve Bank of India Bulletin', July 1950.

The physical volume of our imports during the post-war years has been continuously increasing from 91.1% in 1945-46 to 124.5% in 1948-49 and 134.5% in 1951-52. Due to import liberalizations made in July 1948, this tendency was accelerated in the latter half of 1948-49, and in the first half of 1949-50 when the index stood at 143.9. In

the second half, there was a fall to 99.7 due to severe import restrictions. The increase was largely accounted for by increases in imports of foodgrains and machinery.

Imports of food, drink, and tobacco show a considerable increase due to the shortage of foodgrains in the country, specially after partition. There was a fall in the second half of 1949-50 and 1950-51 due to lower food imports but the index increased to 205.7 in 1951-52.

The quantity index of raw materials stood at 184.8 in 1945-46 but due to the reduction of imports of mineral oils caused by the cessation of war, the index stood at 116.9 only 1946-47. After that there was a gradual rise to 165.1 in 1949-50 due to imports of raw materials for domestic industries specially after partition. This rising tendency continued up to the first half of 1949-50 when the index stood at 180.5. But thereafter there was a continuous decline to 144.2 in 1950-51 due to severe import restrictions in general.

The imports of manufactured goods which stood at 49.0% in 1945-46 increased gradually but the level of 105% could only be reached in 1948-49. In the first half of 1949-50, the index stood at 123.1% due to liberalization of imports but in the second half the level was reduced to only 65.7% due to severe import restrictions. In 1950-51 and 1951-52 there was a gradual increase. Despite heavy increases in imports of machinery, the import quantity index did not show any appreciable rise. This is accounted for by a fall of 15% in chemicals and drugs, of 19% in dyes and colours, of 21% in metals (iron and steel), of 25% in paper and of 77% in cotton textiles.

Thus the increase in the level of imports has been mainly caused by the increase in imports of foodgrains and raw materials specially after partition. The imports of manufactured goods are at the pre-war level but the increase in the imports of machinery has not been reflected due to a decrease in the imports of many kinds of manufactured goods. As for the future the imports of raw materials cannot be reduced. The imports of machinery will be reduced after some time and then there may be a reduction in the

imports of manufactured goods to even below the pre-war level thus offsetting the increase in raw materials. With the reduction in foodgrains imports due to the achievement of self-sufficiency, the imports of food, drink and tobacco may fall to the pre-war level. Imports in general may then fall to the pre-war level.

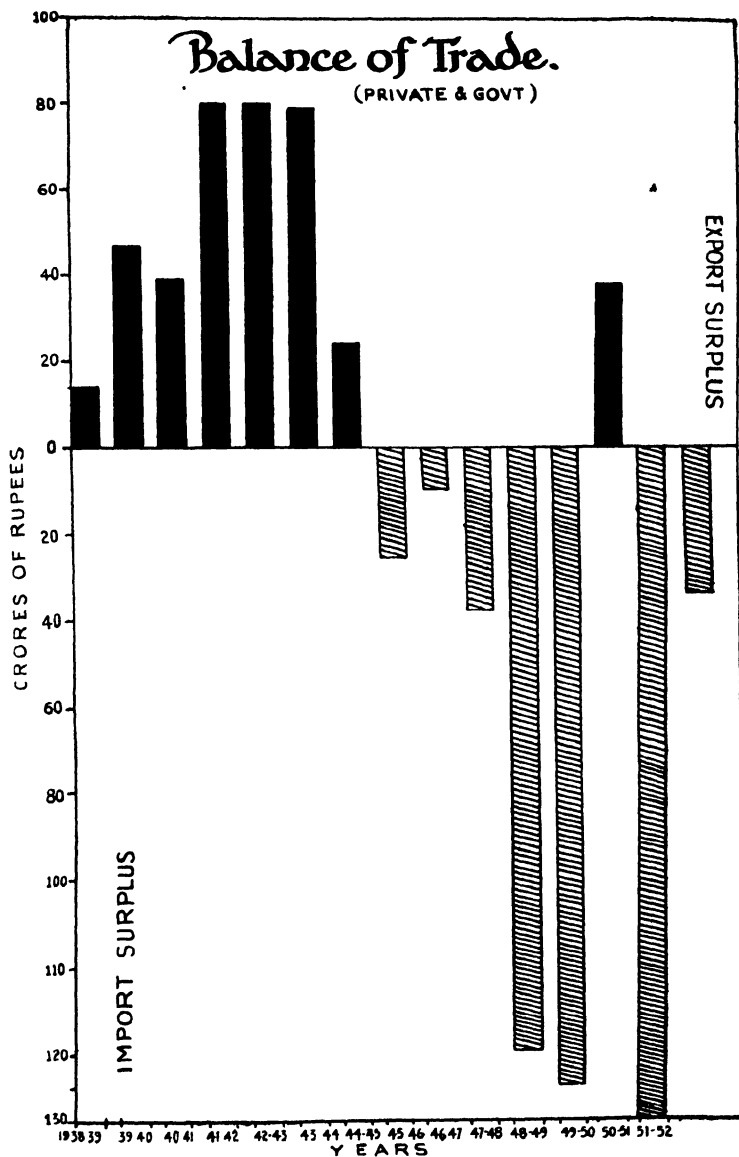
3. THE PROBLEM OF ADVERSE BALANCE OF TRADE

India has been facing an adverse balance of trade since the end of World War II. The value of exports during the post-war period went up to three times the pre-war figure in 1938-39 while the value of imports increased four-fold, the enormous increase in the price level of both the exported and imported commodities accounting for most of the rise in values.

The main causes of the adverse balance of trade are :

- (a) The backlog of war-time demand.
- (b) Import of capital goods for the rehabilitation of war shattered economy and further development.
- (c) increasing food imports—continued increase in population resulted in overall food shortage in the country.
- (d) Reduced capacity to export—Cotton, jute and oil-seeds constituted the bulk of India's exports. The disappearance of Germany and Japan (whose economies were complementary rather than competitive to our own) and country's overall food shortage led to a diversion of acreage from cash crops to food crops. This resulted in a decline in the volume of production of cash crops which coupled with the increased internal consumption severely reduced India's capacity to expand exports.

Naturally the adverse balance of trade did not give rise to any anxiety in 1946 and 1947, more so because India had to her credit the sterling balances to fall back upon. And there was actually a sort of dissatisfaction at the slow rate of their utilization. In fact, it was the adverse balance of trade that was aimed at in initial post-war years. This attitude was reasonable and proper in the circumstances



then prevailing. But it created a psychology of complacency and thus delayed the recognition of the vital difference that partition had made.

- (c) *Impact of partition.* Partition has deprived us of many of our staple exports. It is estimated that India's capacity to export has been reduced by about 75% in the case of raw jute, 65% in the case of raw wool, 60% in the case of raw cotton and waste, 50% in the case of raw hides, 15% in the case of raw skins and about 10% in the case of tea. The following table gives a comparison between exports in 1947 and 1948 in terms both of value and quantity :—

Value—crores of rupees. *Quantity*—000's of tons.

	1947		1948	
	Quantity	Value	Quantity	Value
Raw jute ¹	269.5	24.9	235.0	25.2
Raw cotton	207.4	33.9	94.9	16.8
Cotton waste	103.0	4.9	54.0	5.4
Hides and skins raw	26.0	7.8	17.0	5.9
" " " tanned	22.4	16.4	13.7	11.5
Tea	172.0	51.4	159.6	55.8

Source: 'Development of India's Export Trade', p. 3

The following table will make the position clear :—

Export commodities suffering by partition	Percentage of imports paid for 1948-49		
	1938-39	Total	After making allowances for payment to Pakistan for raw materials imports
Raw jute and manufactures	26	33	17
Raw cotton and cotton manufactures	23	10	5
Total	49		22

Compiled from 'Eastern Economist', June 10, 1949, p. 933.

On the other hand, India has been rendered a net importer of raw jute and raw cotton. (In 1948-49, their imports amounted to Rs. 71.24 crores and Rs. 64.48 crores respectively). With all the jute mills within its borders, the Union

¹Pakistan had no independent port.

was left with only a quarter of the jute acreage in undivided India. Similarly with 99% of the cotton mills of undivided India in the Union, it is dependent on Pakistan for a little less than a million bales of long and medium staple cotton. The deficiency in food has also been aggravated. With 82% of the population of undivided India, the Union produces only 75% of the total pre-partition yield of principal food-grains. The higher yield regions have also gone to the share of Pakistan. Practically all the units in the major industries have come to our share after partition and all of these industries supplied the requirements of the areas now forming part of Pakistan. It may be noted here that while the commodities India imports from Pakistan are all raw materials which have always been able to stand on their feet, the commodities India is in a position to export to Pakistan (cotton textiles, sugar, matches, etc.) are invariably processed materials which, until partition, were receiving some protection in the domestic markets from the import duties on foreign products. With Pakistan becoming a foreign country, the competitive advantage of Indian products there has, therefore, naturally suffered more than the competitive advantage of Pakistan products has, in the Indian Union.

The full adverse effects of partition came to be reflected only in 1948. The main aggravating factors were (i) large imports on Government account and (ii) unplanned trade policy and the failure to adjust it to the conditions after partition. Our dollar deficit caused no serious anxiety and could be minimised by reducing unnecessary imports. The position became more serious when our trade showed a deficit even with sterling area countries. The rapid dissipation of sterling releases took the Government and the public unawares and brought the grim realities of the problem of balance of payments in front.

Large-scale Government Imports

In respect of merchandise on private account we had a surplus in 1946, 1947 and 1948. But heavy imports on Government account especially of food and locomotives turned this into an import surplus.

Net Balances on Merchandise Account

(Rs. crores)

		1946	1947	1948	1949 I half
Overall	Private	55.4	23.1	81.3	- 63.3
	Government	-106.6	-104.1	-184.0*	-119.1†
Hard Currency Areas	Private	46.3	- 25.2	22.4	- 13.5
	Government	- 48.8	- 49.5	- 52.3	- 35.5

*Includes Rs. 60 crores paid for stores to the U.K. according to the terms of the Indo-U.K. Financial Agreement of July 1943.

†Includes Rs. 11.9 crores paid to the U.K. for military stores.

Source : Reserve Bank of India Bulletin.

It may be noted that in course of 1947, the net balance on private account in respect of hard currency areas deteriorated by as much as Rs. 71 crores and was responsible for the bulk of the overall deficit on both Private and Government account. Commercial imports increased in 1949 and huge Government imports aggravated the situation, more so on account of their uneven distribution. In 1948, they were evenly distributed in each half-year amounting to about Rs. 69 crores. But in the first half of 1949, there was a sudden spurt to about Rs. 107 crores mainly due to increased food imports necessitated by reimposition of food controls. Same was the case in respect of hard currency areas. In 1948, the Government expenditure amounted to \$157 millions, while it amounted to nearly \$107 millions in the first half of 1949.

Developments in Trade Policy

An Open General Licence was instituted in March 1945 as a result of the recommendations of the Hydari Mission. This was extended in operation from time to time. Imports from even the U.S.A. and other non-sterling areas were also liberalized. Some control was, however, necessitated to regulate the expenditure of certain currencies in short supply. During 1944 and 1945, a sum of \$20 million for each year had been earmarked from the dollar pool for India for reconstruction expenditure. Chiefly because supplies were not immediately available, India did not exhaust the 1944 grant even up to April 1946. Therefore, in October 1946, imports from hard currency areas were further liberalized. The general aim was to counter inflationary

tendencies. Full effects of these relaxations were felt only towards the end of 1946 when imports arrived in large quantities. But the goods received were mostly of a luxury and non-essential variety, essential goods being still in short supply in the leading manufacturing countries. In certain cases the volume of imports was even found to exceed the demand.

Decontrol of exports was much slower as it involved a greater consideration of policy; in view of the desire to conserve essential raw materials to be exchanged against food imports from other countries. Hence it was gradual and was applied only to such articles as were in excess of domestic needs, although there was also the awareness of the need to secure as great an expansion of exports as possible to provide for the increased import requirements of the country. The exports did not expand both on account of increased internal consumption and the continuance of restrictions on acreage under the leading cash crops to grow more food. India thus had a continued adverse balance of payments indicated by a rapid depletion of sterling balances (from Rs. 1,733 crores on April 5, 1946 to Rs. 1,602 crores on March 31, 1947). This frittering away of our exchange resources was not justified in the face of unavoidable food imports at exorbitant prices. Our hard currency deficit up to 1947 was financed from Sterling Area Dollar Pool, because apart from the general obligation on the part of members to economise in the use of hard currencies, there was till then no definite limit placed on the convertibility of sterling. Our hard currency reserves were reduced from Rs. 114 crores on March 31, 1946 to Rs. 92 crores on April 1, 1947 and to Rs. 77 crores on June 30, 1947.

Naturally, it was followed by a period of austerity. The O.G.L. VIII allowing imports of 92 articles from all countries, was cancelled with effect from April 1, 1947 on account of acute dollar shortage. From July 1, 1947, O.G.L. VII covering a list of imports from sterling area, was cancelled in view of the consequences of multilateral convertibility of sterling. Import control entered a new phase, being linked closely with the foreign exchange position. Under

the Interim Agreement, sterling balances were divided into two Accounts. No. 1 Account was convertible in any currency and was credited with all current earnings after July 15, 1947 and with a further sum of £65 million. The rest were credited to No. 2 Account to be made available for certain types of capital transactions. Naturally import licences for the period June—December, 1947, were issued without discriminating between dollar and non-dollar areas of supply. Multilateral convertibility of sterling was, however, suspended and in January 1948, the U.K. rigidly restricted the convertibility of our sterling balances. The revised import policy for January—June, 1948, involved a distinction between dollar and non-dollar sources of supply. This policy was more clearly conceived than the former ones. Imports were divided into three categories : (i) Articles licensed freely from dollar areas, (ii) articles freely licensed from non-dollar areas, and (iii) articles not to be licensed at all. While the first list was fairly short, the second list included many non-essential articles and articles manufactured in India itself. O.G.L. X was introduced in case of Pakistan imports. Thus imports were restricted to capital goods and essential consumer goods. Imports of capital goods were far below expectations. Export earnings increased due to larger exports and better prices. The result of this cautious policy was that only £3 million could be utilized out of the sterling releases of £83 million for July 1947 to June 1948. On the other hand, the \$40 million allocation from the Dollar Pool together with her hard currency earnings for January—June 1948 was not sufficient to meet India's requirements and she had to borrow \$44 million from the International Monetary Fund.

Liberal Import Policy

After decontrol in December 1947, there was an activation of latent inflationary forces. Therefore, it was thought that import restrictions had been pushed too far and it will be proper to integrate trade policy with a deflationary programme at home. Moreover, it was thought that if sterling utilization is restricted, it might be used by the U.K. as an argument against large sterling releases. The Sterling Balances Settlement of July 1948 provided for the release

of a sum of £80 million over a period of three years which together with the last unspent amount constituted roughly a sum of £160 million available for expenditure up to June 30, 1951. Thus emerged the policy of import liberalization embodied in O.G.L.s XI & XIV introduced in July 1948. The policy was further liberalized from time to time to continue up to June 30, 1949.

This liberal import policy coincided with an acute inflationary spiral in the country, which made the Indian market considerably more attractive to foreign sellers than other markets. Relaxation in import controls made it possible for importers to take advantage of the possibilities of making profit in the inflationary Indian market. This naturally resulted in an enormous increase in imports of foreign goods. The impact of the O.G.L. XI was felt even in the second half of 1948 (the value of private imports having risen by about Rs. 36 crores over the first half) but not so sharply as in the opening months of 1949. Compared to the corresponding period of 1948, the value of commercial imports during January—June, 1949, was higher by over Rs. 97 crores. The trend of rising imports was most outstanding in respect of imports from the sterling area and other soft currency areas. Between the first halves of 1948 and 1949, the commercial imports from the countries in these areas more than doubled in value. The imports from countries in the British Commonwealth amounted to Rs. 246 crores in 1948-49 as against Rs. 184 crores in 1947-48. The increase of Rs. 62 crores largely explains the increase in adverse balance on sea-borne trade accounts in 1948-49. There was an increase of more than Rs. 32 crores in imports from the U.K. alone. Most of the articles imported were produced in the country itself. Their import in such huge quantities can never be justified. Moreover, in some cases the imported quantities were more than those required in the country.

Changes in Export Policy

Emphasis was shifted from export control to export promotion. Export control, however, had to be retained owing to internal shortages of goods and also for developing and canalising exports in a manner most suitable to

subserve the exchange needs of the country. But it was liberalized and the procedure simplified. The main objectives of export policy were (i) to maximise hard currency earnings, (ii) to preserve the traditional markets without depriving the domestic market of necessary supplies, and (iii) to fulfil commitments under bilateral trade agreements. The following measures were taken for the implementation of this policy : (i) relaxation of war-time control on exports of non-essential commodities, (ii) in case of essential commodities fixing up of overall as well as destination quotas for certain commodities and countries, (iii) even within overall quotas permitting as much exports to the hard currency areas as possible and (iv) finally altering export duties according to the needs of the situation. Other measures taken to stimulate export trade included the participation in international fairs and organization of Indian exhibitions abroad, improving and widening the scope of commercial publications, strengthening of India's commercial representation abroad, exchange of trade delegations and missions and conclusion of bilateral trade agreements with different countries.

But there were certain difficulties in the way of expanding Indian exports. There was a general decline in India's production, both agricultural and industrial, the former due to diversion of acreage from cash crops to food crops and due to unfavourable weather; the latter due to the uncertainty of policy in general, labour strikes and shortage of raw materials. Increased domestic consumption as in the case of oilseeds, tea and coffee and a large number of consumer goods produced at home also stood in the way of increased exports. The indifferent quality of certain Indian goods also proved detrimental to our export trade. The main hindrance in the expansion of Indian exports was, however, the emergence of a buyer's market and the psychology of recession which tempted buyers to postpone orders in the expectation of an impending fall in prices. The policy, or rather a lack of it, in the matter of controls of essential goods unfortunately led to an unprecedented rise in domestic prices which was naturally reflected in export prices and Indian goods were priced out of export markets.

For example, at one time it was thought that our oilseeds and textiles could bear an export duty which was levied on them. But with the increase in prices that followed decontrol, it was difficult for them to compete in foreign markets. On insistent demand, the export duty on cotton textiles was reduced to 10% and that on castor seeds and castor oil removed. Duties on other oilseeds were removed in March 1949. But instead of the advantage going to foreign importers, the domestic exporters increased their prices. Similar was the case with raw jute and hessian. As a cumulative result of all these factors exports were considerably reduced.

The following table shows the value of the exports and imports of merchandise in each of the half years—January, 1948—June 1949 :

(In crores of Rupees)

Period	Exports	Percentage decline as compared to period A	Imports	Percentage increase as compared to period A
A. January—June, 1948 ..	246.9	..	224.6	..
B. July—December, 1948 ..	186.8	24.3	259.9	15.7
C. January—June, 1949 ..	192.8	21.9	363.1	61.7

Source : Reserve Bank of India Bulletin, November 1949.

The high level of exports in the first half of 1948 probably reflects to some extent the seasonal trends in export activity, but the magnitude of decline in the second half of the year as well as the failure to pick up appreciably in the first half of 1949 was significant. "The export drive policy to rehabilitate internal economy, which succeeded so well in the U.K. and other European countries, has not shown any fruitful results in India."¹ An Export Promotion Committee was then appointed to recommend measures for stepping up exports.

The enormous increase in imports unaccompanied by a proportionate increase in exports was responsible for the

¹'Reserve Bank of India Bulletin', September 1950.

huge adverse balance of trade amounting to Rs. 218 crores in 1948-49. The situation deteriorated further and in May 1949, imports amounted to Rs. 62.70 crores and the adverse balance to Rs. 33.15 crores. This led to heavy withdrawals from the Current Account of Sterling Balances with the result that India not only spent the original releases of £80 million but also overdrew to the extent of £42 million by April 1949, which even invited a protest from the British Chancellor.

One of the main contributory causes was the faulty Indo-Pakistan policy. In the very first year after partition, India had an adverse balance of trade with Pakistan. Normally, this should not have been so because if India depended on Pakistan's raw materials, India also supplied Pakistan with manufactured goods. But in some cases the exports of manufactured goods to Pakistan were not freely allowed. No rebate on excise duty on sugar exported from India was allowed in the case of Pakistan. Thus India lost Pakistan market for sugar. In case of cotton textiles, Pakistan doubled her import duty. Naturally our exports to Pakistan suffered.

Hard Currency Position

Hard currency imports were confined to most essential goods unobtainable from elsewhere. The controls were further tightened as a precautionary measure against any possible increase in hard currency deficits arising from the higher levels of food and other imports planned for 1949. Several bilateral trade agreements were concluded for diverting some of the more essential imports from hard currency areas to soft currency areas. Even after including food imports, imports from dollar and other hard currency areas in the first half of 1949 were less than those of 1948 due to severe import restrictions. Food imports from the U.S.A. and other hard currency areas constituted more than 50% of the total food imports.

The need for maximising hard currency earnings from exports was of paramount importance, and the measures therefor included chiefly liberalization of export controls in respect of jute goods, pepper, raw cotton, raw hides and

skins, etc., for export to hard currency areas only. But there were many factors militating against the expansion of Indian exports to the U.S.A. The development of synthetic products and the onset of U.S. business recession were the main causes. The trend of falling exports was least in evidence in respect of those to the sterling area and 'other areas' but it was so in case of hard currency areas. The following table will make the whole position clear.

(*Crores of Rupees*)

	Exports to sterling and other areas.	Exports to hard currency countries.
1948 I half	163	84
1948 II „	130	56
1949 I „	140	52

Source : Reserve Bank of India Bulletin.

In certain circles, this decline in exports was attributed to the high prices of Indian products. It is only partly true. Some of this decline was due to the diversion that took place from hard to soft currency areas, because the latter were able to offer higher prices (in terms of rupees) in view of the inflationary conditions prevailing in their own economies, as opposed to deflationary trend in the U.S.A.¹ The main reason, however, was the cessation of inflation in the U.S.A. after August 1948. This resulted in the decline of U.S. demand for our raw jute and manufactured jute. While they earned over Rs. 50 crores in hard currency during January—June 1948, they brought in less than Rs. 25 crores in the corresponding period of 1949. Thus high prices of our goods were not mainly responsible for the reduction in exports. The serious decline in India's hard currency earnings became obvious in the second half of 1948 and the Export Advisory Council appointed a Committee (Sri Ram Committee) to suggest measures for stimulation of exports to hard currency areas. All the recommendations were implemented in course of time.

Due to the decline in hard currency exports, the hard currency deficit in the period July 1948 to June 1949 amounted to \$213 million. It was financed by (a) releases

¹Reserve Bank of India Bulletin, July 1949.

from the Central Reserves of the sterling area—\$60 million, (b) balance carried over and the depletion of the balances of the India Supply Mission—\$13 million, (c) loan from the International Monetary Fund—\$56 million, and (d) overdrawing—\$84 million.

Overall Import Surplus

Thus by June 1949, our adverse balance of trade, both with sterling area and hard currency areas attained serious magnitudes necessitating an overdrawing both on sterling releases and the Central Reserves of the sterling area. This resulted in another reversal of import policy. The liberal O.G.L. XI was cancelled on May 4, 1949, and was replaced by O.G.L. XV containing a much shorter list. In July 1949, its scope was further restricted by excluding certain items. The reduction in export duties resulted in an improvement in exports. Naturally there was a reduction in the adverse balance of trade and in September it amounted to Rs. 3.81 crores only as against Rs. 33.15 crores in May 1949. But the dollar situation continued to cause anxiety. The dollar exports in the second quarter of 1949 amounted to only Rs. 15.58 crores as against Rs. 25.42 crores in the first. In June 1949, it was decided to suspend licensing of imports from the U.S.A. temporarily. Side by side, measures were taken to increase exports to hard currency areas, which included free exports of controlled goods and liberalization of quotas in case of jute goods, oils and oilseeds and cloth. In the third quarter of 1949, there was an improvement in dollar exports to Rs. 17.98 crores which was mainly accounted for by the resumption of business activity in the U.S.A.

Our problem was not peculiar. Britain had also the same problem of a widening dollar gap. A Conference of Finance Ministers of the Dominions convened by the British Chancellor to consider the problem agreed for a 25% cut in their dollar imports. The Sterling Balances Agreement concluded in July 1949 provided for (i) a release of £81 million for 1948-49, (ii) increase in the annual release to £50 million in 1949-50 and 1950-51, (iii) provision of sums sufficient for liabilities entered under O.G.L. XI, (iv) 25% cut on dollar imports, and (v) admission of India

as a full member of the sterling area with a right to draw \$140 million. The import policy was further restricted in August 1949 to implement the above Agreement.

4. DISEQUILIBRIUM IN INDIA'S INTERNAL AND EXTERNAL ECONOMY

The partition of the country in 1947 and the consequent dislocation coupled with an inflationary pressure specially after the policy of decontrol caused a temporary disequilibrium in India's economy.

(A) *Partition*

The effects of partition on India's foreign trade, discussed in detail at appropriate places, may be summarised here :

(1) The size of foreign trade has considerably increased both in value and volume because what was formerly internal trade, has now been included into foreign trade.

(2) Capacity to export to foreign countries has been considerably reduced due to the curtailment of surplus available for export in respect of important raw materials like raw cotton, raw jute and raw skins and hides leading to a reduction in the volume of their exports. On the other hand, the import requirements have considerably increased both in respect of foodgrains and raw materials, and their volume has considerably increased. Formerly we used to get these things from parts of India now forming the territory of Pakistan without making any payment of foreign exchange. Now, of course, we will have to incur a foreign exchange liability whether we import from Pakistan or elsewhere. Similarly goods consumed by these parts may now earn a considerable amount of foreign exchange.

(3) The export surplus with the U.K., Continent and Japan on the pre-war pattern is not likely to return due to the shortage of many of our pre-war exports. Export surplus with the U.S.A. has been converted into an import surplus due to the necessity of importing cotton and foodgrains. Pakistan naturally emerged as an important source of supply and an important customer for our exports.

(4) The tendency of the imports to return to the pre-war pattern (preponderance of manufactured goods) was checked

by partition necessitating the import of raw materials and foodgrains. The pre-war pattern of exports could not return due to the curtailment of surplus India had in her raw materials, and naturally dependence on the exports of manufactured goods had increased.

(5) The lack of a realistic policy towards Indo-Pakistan trade led to the emergence of a considerable amount of adverse balance with that country. Imports of raw materials were comparatively free but exports were restricted with the result that Pakistan market for some of our exports was completely lost. The flow of Indo-Pakistan trade was considerably interrupted. While India has set up plans for self-sufficiency in raw jute and raw cotton thus affecting her food production, and increasing her dependence on food imports, Pakistan is looking to other sources for supply of her imports thus affecting the market for some of the Indian exports.

(B) *Inflation*

In the post-war period there was a continuous increase in Indian prices, the wholesale index increasing to 293 in March 1946 as against 247 in March 1945, thus belying the expectations of a post-war depression. Between March 1946 and November 1947, the price level was on the whole stable. After November 1947, the price index increased at an alarming rate. The pent-up demand for consumer goods could not be postponed specially when the prices did not fall. The production, however, not only failed to respond but declined. The policy of decontrol, which proved to be a costly experiment, made the confusion worse confounded. The price index increased from 302 in November 1947 to 390 in July 1948. The rise was most marked in decontrolled items. Ordinarily this would have led to an increase in production. But there were certain difficulties which stood in the way of increasing production at lower costs—(i) shortage of raw materials and their high cost, (ii) labour unrest and the decline in labour productivity leading to high labour costs, (iii) depleted machinery, (iv) a general sense of frustration on the part of industrialists due to the uncertainty of policy in general and their reluctance

to expand production or introduce rationalization schemes which might have led to a reduction in costs, and (v) dislocation arising from widespread communal disturbances. The conditions of shortages were further accentuated by the transport difficulties and the adoption of a more restrictive import policy. The policy of recontrol, though at higher prices, and the various anti-inflationary measures led to stabilization in the period August to December 1948 and a slight decline afterwards.

The increase in prices was reflected in export prices as well. A much more plausible explanation is that India in the post-war period was in a very advantageous position as a supplier of much-needed raw materials. This position was exploited so as to obtain the maximum possible prices from the different competing countries, the soft currency countries with their higher degree of inflation exerting a greater upward pressure. Course of prices in each commodity was determined by the market for that commodity. Price control was not imposed because they were not needed for domestic consumption. In commodities such as raw jute, oilseeds, skins where there was no domestic price control, a speculative market developed and the rise in the prices depicts the strength of the speculative market.

In 1946, at the time of the declaration of the par value, the rupee was placed at its pre-war level and it was slightly overvalued. The continuous rise in prices made this overvaluation more pronounced.

Effect on Exports

High prices of Indian goods are generally held responsible for the stagnation in the volume of exports in the post-war period. An analysis of the relevant figures, however, makes it clear that this was not so. In some cases there was a decline, not due to high prices but due to the operation of other factors.

Except in 1946-47 exports of tea have been constantly increasing. In the first half of 1949-50, there was a slight fall. Our exports to the U.S.A. fell mainly due to the failure to refund the excise duty on exports promptly, and to some

extent due to the sale of the South Indian tea preferred by the U.S.A. under a Barter Agreement to Russia. Revival of competition from the Ceylon tea (preferred by the U.S.A. and Canada) was also partly responsible. On the other hand, South Indian tea was subject to multiple sales taxation, and the Government of India levied an export duty amounting to about 25%. Quality had also deteriorated due to the existence of an assured market. Exports, however, recovered even before devaluation.

Export Quantity Index

Base 1938-39 = 100

			1945-46	1946-47	1947-48	1948-49	1949-50 1st half
Tea	..	..	102	94	110	117	107
Spices	..	..	143	141	187	111	147
Tobacco	..	..	36	104	74	88	83
Hides & skins		..	41	68	62	41	49
Oils	..	..	45	91	251	224	139
Oilseeds	..	..	37	8	15	10	14
Raw cotton	..	..	33	40	49	21	18
Raw jute	..	..	49	44	38	31	19
Cotton manufactures	..		175	123	75	141	150
Jute manufactures	..		72	76	91	97	80

Source : Reserve Bank of India Bulletin, July 1950, p. 452

Spices maintained a level of about 140% in 1945-46 and 1946-47. The index increased to 187 in 1947-48 (best year for exports of this commodity), but there was a steep fall in 1948-49. This can be explained partly by increased offtake in the previous year and partly by an increase in prices due to speculation. Even before devaluation, they regained the level of 1946-47.

The exports of tobacco fell in 1947-48 due to the increased offtake in the previous year but again reached the index of 88 in 1948-49. Other factors were (i) the U.K. trade agreement with Rhodesia, (ii) the Marshall Aid scheme

which acted as a hindrance to our exports to the U.K. and (iii) the imposition of a 15% duty *ad valorem* on tobacco manufactures.

Exports of hides and skins could not be expected to recover the pre-war level due to the increased domestic consumption. Due to liberalization of export control in 1946, they improved to 68% in 1946-47 but again fell down to 62% in 1947-48. The precipitate fall in 1948-49 can be explained by partition and the consequent reduction in the surplus available for exports.

Exports of oils improved up to 1947-48 but fell slightly in 1948-49 due to the imposition of export duties. With the abolition of export duties prices further increased due to speculation. Domestic consumption of oilseeds also increased due to the establishment of many allied industries too. Export control, seems to have played a dominant role.

Exports of raw cotton increased in the first three post-war years due to the decline in internal consumption, but naturally they could not be expected to recover the pre-war level. After the war, the production of short staple cotton was reduced to one-third of the pre-war level. The precipitate fall in 1948-49 and 1949-50 can be explained by partition and the need to conserve cotton for internal consumption.

Exports of raw jute continued at a low level due to the decline in internal production and increase in internal consumption. There was a steep fall in 1948-49 and 1949-50 due to partition. Exports of jute manufactures continued to increase from 72% in 1945-46 to 97% in 1948-49 but could not regain their pre-war level due to shortage of raw jute. After partition, the supply position became still more acute and exports of jute manufactures again showed a fall in 1949-50. This fall was partly accounted for by the fall in exports to the U.S.A. where a business recession had set in, the U.S. demand being determined by business activity rather than the price.

The export quantity index of cotton manufactures stood at 175 in 1945-46 but declined to 123 in 1946-47 due to the reduction of war-time demand as also due to export

restrictions. In 1947-48, there was a steep fall to 75 only due to increased domestic consumption coupled with a decline in production. Internal prices became high after decontrol and, therefore, it was profitable to sell internally than to export, export prices being controlled. Competition from Japan also revived. But the Government of India imposed a heavy export duty of 25%. In 1948-49 and in the first half of 1949-50, there was a continuous increase due to the abolition of export duty, the index increasing to 85 (excluding exports to Pakistan).

The above analysis shows that the fall in exports was mainly the result of physical shortages in the country caused by an increase in internal consumption due to the pent-up demand and the increase in population unaccompanied by an increase in domestic production. And when physical shortages stand in the way of increasing exports as also in the case of business recession, lowering of prices becomes relatively a less important question. In some cases, however, there was appearing to be some price disadvantage but that could have been countered with the immediate adjustment of export duties. The Government of India, however, removed the export duties only when considerable harm had already been done. But this does not mean that there was nothing wrong with our prices. Specially after decontrol our prices had considerably increased. If the Government had stabilized the prices at the predecontrol level by a price stop, a profit stop and then a wage stop, and removed the uncertainty of industrial policy thus inducing the industrialists to increase production and adopt rationalization and modernization, our position would have been extremely favourable. By following a realistic policy towards Pakistan and a judicious import policy allowing for import of sufficient raw materials and foodgrains coupled with concentration on selected development plans financed out of borrowings only, Government would have succeeded even in lowering the prices.

Effect on Imports

The effects of over-valuation of the rupee could be countered and were countered by a judicious import control policy. The rise of prices after decontrol made the Indian market

considerably more attractive to foreign goods, and the import liberalizations made in July 1948 made the increase in the imports of foreign goods possible. The import quantity index of provisions and oilman's stores increased from 147 in 1948-49 to 272 in the first half of 1949-50, of chemicals and drugs from 118 in 1947-48 to 207 in 1948-49, of electrical goods from 120 in 1948-49 to 207 in the first half of 1949-50, of vehicles from 110 in 1946-47 to 195 and 202 in 1947-48 and 1948-49 respectively. The imports of provisions and oilman's stores, cutlery and hardware, cotton manufactures and yarn and textile fabrics other than cotton, silk and wool in April-September 1949 increased to Rs. 45 crores as compared to Rs. 20 crores only in April-September 1949. If such undesirable increases in imports had been avoided by a judicious import policy, most of our difficulties would not have been serious.

Acute scarcity of consumer goods in India due to falling production and unsatisfied demand, the urgent need of capital goods for development and reconstruction, the policy of the Government to keep down inflation by an overliberalization of imports coupled with price discrepancies due to the over-valuation of the rupee and the failure to increase exports due to partition were mainly responsible for disequilibrium in India's internal and external economy.

The Nature of Our Adverse Balance of Trade

As India's adverse balance of trade is largely the result of heavy imports of food, capital goods and other essential goods,¹ there is no fundamental weakness in her economy². It is desirable that food imports should cease, but to think that with the stoppage of food imports the problem will be automatically solved, is mere wishful thinking. It will be futile to suggest or to aim at stimulating exports in order to meet the deficit caused by abnormal factors at the cost

¹Luxury items amounted to only 3.2% in 1948-49. 'Reserve Bank of India Bulletin', July 1950, p. 444.

²"The unfavourable balance of trade in so far as it is the result of heavy expenditure on the import of capital and essential goods, represents the measure of her capital and industrial development and as such, augurs well for the future.' K. C. Neogy, Press interview, 'Hindustan Times', June 24, 1949.

of domestic economy. It can definitely be asserted that an adverse trade balance is likely to continue for another 10 years or so. "Its proportions at any time may be larger or smaller; price trends within the country and abroad, the vagaries of agricultural production and the fluctuation of industrial and other activity, and the general state of demand in the national and world markets may, over any particular period, influence its size in the same or several ways; and the pruning knife of import restrictions or the ministrations of an export drive can certainly be used with skill and vigour to control its more disturbing manifestations. But there still will be a hard core of unbalance which it is necessary squarely to face."¹ What is possible and desirable is to reduce it to manageable limits by a judicious import control policy. Lack of an import policy was mainly responsible for accentuating our adverse balance of trade. 'The import policy being linked with the foreign exchange position was subject to periodic revisions, improvisations and makeshifts. Inflationary situation, in fact, required increased imports of items of proved shortage. But the O.G.L. XI combined with extravagant food imports completely wrecked our balance of payments in six months.'² And even with all these imports inflationary pressure could not be controlled. Side by side it had adverse repercussions on many nascent indigenous industries.³ Pruning of imports now and then was a poor instrument for curbing the widening gap of trade deficit. The only proper solution would be to act with determination on a planned import policy consistent with the requirements of the country irrespective of the periodical foreign exchange position.

5. BILATERAL TRADE AGREEMENTS

After the end of war, the Government of India concluded bilateral trade agreements with the following countries : Switzerland, Hungary, Poland, Finland, Egypt,

¹'Eastern Economist', June 10, 1949, p. 933.

²Cf "Unless import control is tightened to exclude gold and consumers' goods and permit only the essential capital goods at reasonable prices, the accumulated foreign balances may be dissipated, and/or the terms of trade may easily deteriorate to the extent of creating a major economic crisis". Dr. B. N. Ganguli, 'Reconstruction of India's Foreign Trade', pp. 119-120.

³Refer to Federation's Memorandum on 'Import and Export Policy', pp. 18-23.

Czechoslovakia, Ceylon, Western Germany, Austria, Pakistan and Japan. Short-term barter trade agreements for reciprocal exchange of goods were also concluded with the U.S.S.R. and Argentina. Some of the agreements have now expired but most of them are still in force. The period of these agreements is one year but they are generally renewed.

These arrangements, however, have only a limited scope and are not intended to regulate India's foreign trade, of which a large sector today, as in the past, remains outside their ambit. Thus, there is no such trade agreement either with the U.K. or the U.S.A., although they have a predominant share in our foreign trade. Even in regard to countries with which bilateral agreements have been concluded, apart from certain specified commodities, there is no regulation of trade outside the control measures in operation in either of the contracting countries.

The main objects of the conclusion of these agreements were as follows :

- (i) to establish direct trade contacts with countries whose import trade in Indian goods in the past had been conducted through entrepot trade of other countries;
- (ii) to resume pre-war pattern of trade specially in the case of Germany and Japan;
- (iii) to secure essential and scarce goods not otherwise obtainable;
- (iv) to conserve hard currency resources by securing soft currency sources for the supply of essential commodities like foodgrains, raw materials and capital goods;
- (v) to find new markets for Indian goods; and
- (vi) lastly, to facilitate trade with countries whose trade is planned or completely State-controlled, *e.g.*, East European countries and Russia.

1 Critical Evaluation

(a) It was expected that as a result of these agreements essential imports from hard currency areas will be **supplemented**. The main countries which agreed to supply us with capital goods are Japan, Switzerland, Germany and Czechoslovakia. Japan agreed to supply us capital goods

such as electrical machinery and power-plant. Switzerland agreed to supply us mostly railway coaches, plant of building machine tools, heavy electrical equipments, watches, coal tar dyes, etc. Germany agreed to supply us mostly capital goods. Czechoslovakia agreed to supply us prime movers, diesel engines and agricultural machinery, etc. But the total imports under these Agreements are only a small fraction of our total requirements. Moreover, the quantities agreed to have not been supplied in full. The imports of these goods did not come up to the required levels in the year 1948-49. Consequently, our dependence on other sources has not been substantially reduced. As a solution of the dollar problem, they could supply only negligible relief.

(b) They were expected to reduce the overall trade deficit. But in the case of each individual country, values of listed imports are more than those of listed exports. Balance of trade is adverse to India in almost all the agreements that have been contracted so far.

Further our exports have fallen far short of the volume agreed to and the trend of trade is definitely adverse to India. Our capacity to export is limited due to varied reasons. Generally speaking, very little effort has been made by the Government of India to see that the target is reached either in respect of exports or in respect of imports. In respect of imports, no enquiry has been made as to whether prices and terms of delivery are competitive. Moreover, we have tied our hands against tightening of import control policy.

(c) Export drive has not been simultaneously stimulated. Items of exports included in these trade agreements follow a completely traditional pattern. India has contracted to export raw jute, jute manufactures, manganese ores, hides and skins, certain minerals, shellac, mica, groundnuts, tobacco and other commodities which already have a somewhat "assured market" in various countries including the hard currency areas. They should have been used as a strong bargaining counter to receive reciprocal supply of essential imports. Though to some extent it has been so with Yugoslavia and Egypt, not much advantage has been derived. We have to take non-essentials like watches and

textiles from Switzerland and bangles from Czechoslovakia. Only in cases of Finland and Egypt, we have deviated from our traditional pattern so as to include products of some new industries.

(d) They have doubtless enabled us to resume trade relationship with Western Germany, Japan and many other Continental countries which could not have been possible otherwise.

Hence, though they have served to renew old contacts and establish new ones, they have not achieved much success.¹ They have not been very helpful either in contributing to our export drive nor in getting capital goods. On the other hand, India has to take quite a few unessential items such as sheet and plate glass, bangles, leathers goods, etc.

6. DIRECTION

The distortion caused by the war in the direction of our foreign trade was slightly removed. Trade connections with many of the enemy countries were reopened, and the restrictions on trade all the world over were removed considerably. The direction of both our imports and exports was generally influenced by currency considerations.

(A) Imports

The table on page 89 shows the direction of imports.

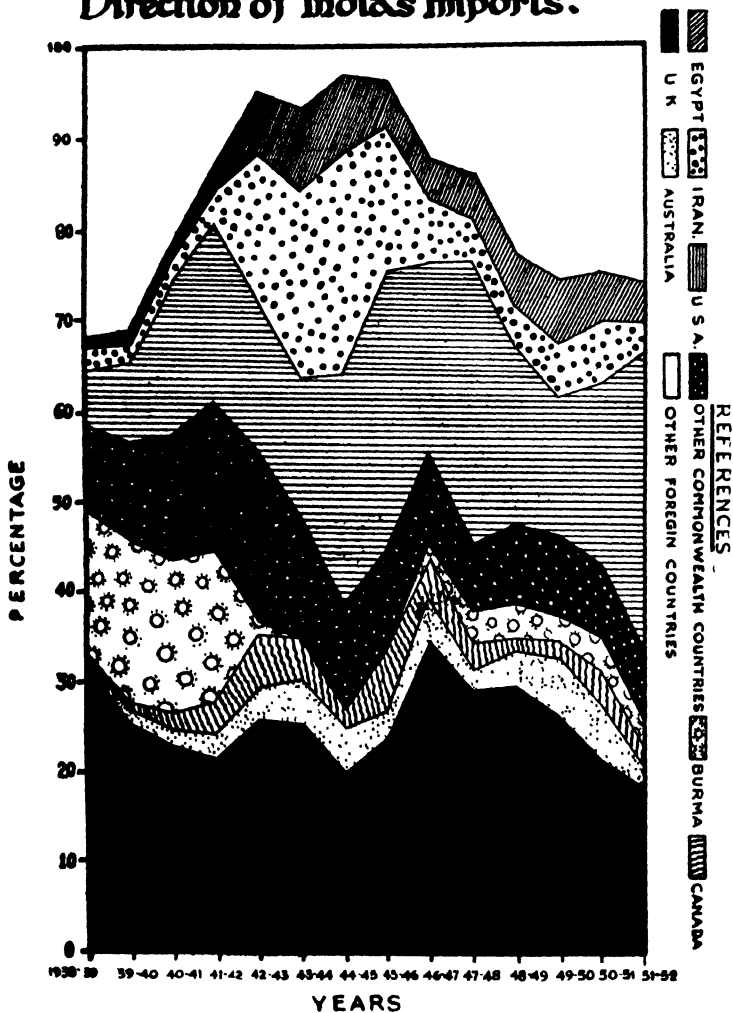
The main features are summarised below

(1) The dependence on the Commonwealth as a source of imports declined considerably during the war time but in 1946-47, there was a recovery to 55%, i.e., nearer pre-war level but in the following years, the share again fell to 46 to 47%. The pre-war level could not be reached in spite of the emergence of Pakistan as an independent unit of the Commonwealth.

(2) The significance of the U.K. alone has declined even more markedly. Her share has never exceeded 25% except in 1946-47 when it was about 37% as compared to more than 30% in pre-war years. But she remained the best customer and the most important supplier throughout this period.

¹Cf. Report of the Fiscal Commission, p. 141.

Direction of India's Imports.



			(Percentages)		(Value in crores of Rupees)		
			1937—38	1946—47	1948—49	1949—50	1951—52
			1938—39				
U.K.	..	..	49.2 (30.2)	105.9 (36.8)	152.1 (22.9)	149.3 (24.9)	157.9 (16.8)
U.S.A.	..	..	11.3 (7.9)	54.6 (19.0)	113.9 (17.1)	87.9 (14.7)	287.9 (30.6)
Pakistan	..	.	..	..	105.2 (15.8)	43.1 (7.2)	90.0 (9.6)
Egypt	..	..	2.6 (1.6)	14.1 (4.8)	36.2 (5.4)	39.5 (6.6)	40.5 (4.3)
Burma	..	..	25.2 (15.4)	4.7 (1.7)	35.0 (5.3)	12.9 (2.1)	23.3 (2.5)
Australia	..	.	2.0 (1.3)	10.8 (3.8)	34.0 (5.1)	34.0 (5.7)	17.6 (1.9)
Iran	..	.	3.1 (1.9)	23.6 (8.3)	20.1 (3.0)	32.5 (5.4)	29.1 (3.1)
Italy	..	.	2.6 (1.6)	8.2 (2.8)	18.2 (2.7)	14.0 (2.3)	17.7 (1.9)
Kenya Colony	..	..	4.8 (2.9)	8.0 (2.8)	10.8 (1.6)	15.0 (2.5)	18.6 (2.0)
Argentina	..	..	.. ..	1.2 (.4)	15.9 (2.4)	8.8 (1.5)	17.7 (1.9)
Canada	..	..	1.0 (.3)	7.2 (2.4)	10.1 (1.5)	12.0 (2.0)	18.7 (2.0)
Switzerland	..	.	1.7 (1.0)	4.5 (1.4)	8.7 (1.3)	7.5 (1.2)	9.9 (1.0)
Japan	..	.	18.8 (11.4)	.	6.4 (1.0)	21.4 (3.6)	24.6 (2.6)
Germany	..	.	14.1 (9.0)	.	2.2 (0.4)	5.4 (1.1)	28.2 (3.0)

Source : Annual Reviews of Trade of India and Reviews of Economic Conditions, etc.

(3) Pakistan emerged as an important source of supply contributing about 16% of our imports in 1948-49. It was only natural because their economies were closely inter-connected and the market contacts so close. The share,

however, declined in 1949-50 due to the virtual cessation of trade after devaluation.

(4) The U.S.A. has considerably improved her share as compared with the pre-war period when it was only 8%. In 1947-48 and 1951-52, she became our best supplier but her share, on the whole, was fluctuating due to the changes in import policy.

(5) Burma was one of our principal suppliers in the pre-war period supplying about 15% of our imports. She has not yet recovered, her share being only 5%.

(6) The increases in the shares of Australia (from 1.3% in 1937-39 to between 3 and 5%), Argentina (from nil to about 4%) and Canada (from .6% to between 1.5 and 3.5%) in post-war years as compared to the pre-war years, were due to the large imports of foodgrains from those countries.

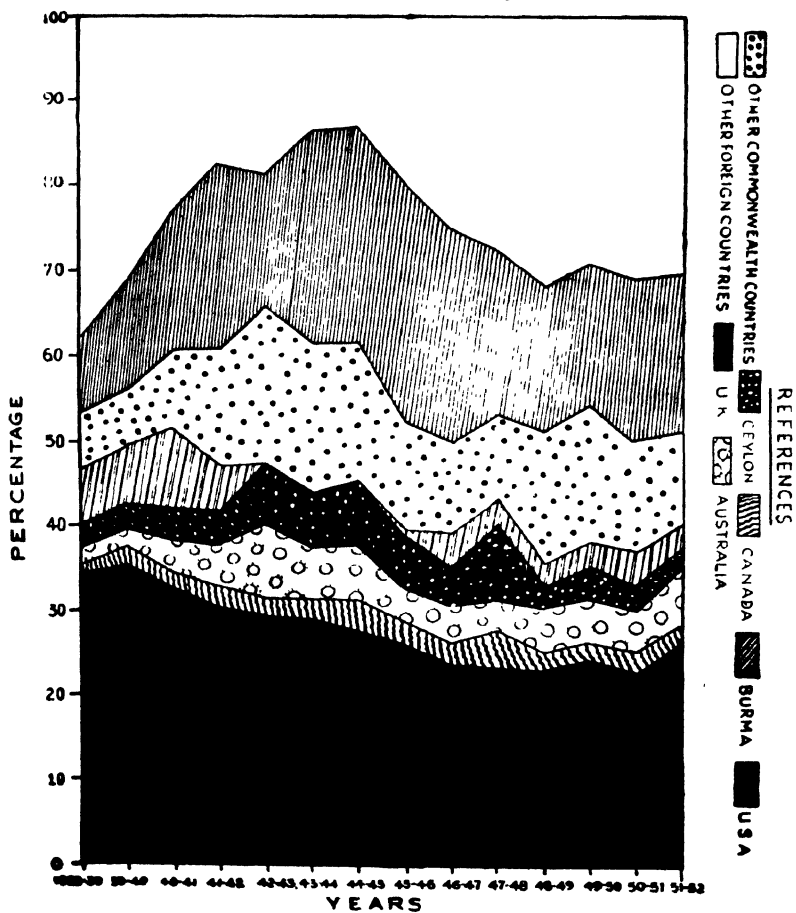
(7) The increases in the shares of Egypt (from 1.6% to near about 5%) and Kenya Colony (increase in the value of trade) were due to large imports of their raw cotton. The share of Iran increased considerably from 2% to more than 8% in 1946-47 but declined afterwards due to the decreasing imports of mineral oil from that country.

(8) The share of Germany and Japan though continuously increasing has not yet reached the pre-war level.

(9) The share of other countries remained constant more or less, but the value of imports increased considerably.

In the pre-war period the U.K. and the U.S.A. together contributed about 40% of our imports, Burma another 15% and Japan and Germany together 18%. Up to 1947-48, the share of the U.K. and the U.S.A. ranged between 50 to 55%. But in 1948-49, their share declined to 40%, though Pakistan emerged as a supplier of about 16%. Burma, Germany and Japan have not yet recovered their share and it has been taken by other countries. Among the suppliers, the difference between the U.K. and the U.S.A., on the one hand, and Pakistan, on the other, however, lay in the fact that while the U.K. and the U.S.A. supplied mostly capital goods, vehicles, instruments and other manufactured goods, Pakistan supplied almost entirely raw materials like raw jute, raw cotton, hides and skins, etc.

'Direction of India's Exports.



(B) *Exports*

The following table gives the relevant figures : —

		(Percentages)		Value in crores of Rupees			
		1937 - 38	1946 - 47	1948 - 49	1949 - 50	1951 - 52	
		1938 - 39					
U.K.	.	61.4 (34.1)	74.6 (25.0)	98.3 (21.8)	111.2 (22.8)	187.7 (25.3)	
Pakistan	.	.	.	74.0 (16.3)	39.8 (8.3)	43.0 (5.8)	
U.S. A.	..	16.5 (9.1)	67.8 (22.7)	70.6 (15.7)	77.6 (16.0)	129.9 (17.5)	
Australia *	.	3.1 (1.7)	14.2 (4.8)	20.6 (4.6)	26.0 (5.3)	46.6 (6.3)	
Argentina	..	2.8 (1.6)	6.3 (2.1)	16.8 (3.7)	7.7 (1.6)	17.5 (2.3)	
Burma	..	11.2 (6.3)	10.1 (3.4)	10.6 (2.3)	13.5 (2.9)	19.6 (2.6)	
Canada	.	2.2 (1.2)	8.2 (2.7)	8.4 (1.9)	10.8 (2.2)	16.2 (2.2)	
France	.	5.8 (3.2)	7.1 (2.4)	7.3 (1.6)	4.3 (1.0)	11.4 (1.5)	
Netherlands	.	4.2 (2.1)	2.9 (0.9)	7.3 (1.6)	7.0 (1.4)	7.9 (1.7)	
Egypt	.	1.4 (0.8)	2.6 (0.8)	6.7 (1.5)	7.9 (1.6)	6.5 (.9)	
Italy	..	4.0 (2.2)	1.8 (0.5)	6.6 (1.5)	5.2 (1.0)	8.0 (1.1)	
Belgium	.	5.2 (2.8)	6.0 (2.0)	5.9 (1.3)	8.5 (1.6)	8.4 (1.1)	
China	..	2.3 (1.3)	11.3 (3.8)	5.7 (1.3)	2.4 (0.5)	7.1 (1.0)	
Japan	..	16.7 (9.3)	.	4.6 (1.0)	6.1 (1.2)	14.3 (2.0)	
Germany	..	9.6 (5.2)	0.4	2.6 (.6)	8.6 (1.6)	9.4 (1.3)	
Ceylon	..	5.5 (3.1)	14.3 (4.8)	11.9 (2.6)	16.0 (3.0)	16.3 (2.2)	

Source : Annual Reviews of Trade of India and Reviews of Economic Conditions, etc.

The main features are summarised below

(1) The dependence on British Commonwealth increased considerably during the war time but after the war the Commonwealth has been fast losing ground but the pre-war share of a half of India's exports was more or less maintained. But if land-borne trade is included, the share of exports to the Commonwealth shows a slight increase due to the inclusion of Pakistan.

(2) The share of the U.K. is, however, gradually falling and was about 25% during the post-war period as compared to 34% before the war. She, however, retained her position as the best customer.

(3) Pakistan emerged as an important customer for our goods and relegated the U.S.A. from the second place in 1948-49. In 1949-50 and after, her share was reduced considerably due to the cessation of trade following devaluation.

(4) The importance of the U.S.A. as one of our customers has increased. She took more than 25% of our exports in 1945-46 as compared with only 9% in the pre-war period. Though the value of our exports to the U.S.A. was increasing, recently her share in our exports was falling. It was about 20% in 1947-48. The fall in 1948-49 and after, can be partly explained due to the emergence of Pakistan as a foreign country thus affecting the share of other countries in the total foreign trade, and partly due to the fall in exports.

(5) India has so far regained only a small portion of its pre-war markets in Europe especially in Germany and in Japan.

(6) Burma was the third best customer in 1937-39 but she was only sixth in 1948-49, and her share in our exports was only about half of the pre-war share.

(7) The share of Ceylon also shows a considerable fall. After devaluation, the share of Burma and Ceylon improved considerably.

(8) Australia (from 1.7% to between 4.5 and 6%) and Canada (from 1.2% to about 2.7%) have increased their importance as our customers considerably as also among suppliers. The share of Argentina has also improved.

In the pre-war period, the U.K. and the U.S.A. together took about 43% of our exports, Burma another 6%, and Germany and Japan together about 14%. In 1945-46, the U.K. and the U.S.A. took about 54% of our exports but their share gradually fell to about 38% in 1948-49. Pakistan emerged as a customer for another 16%. Burma, Germany and Japan could not recover, and their share has been replaced by increases in the shares of other countries. Unlike the import trade, while India's exports to Pakistan consisted mainly of manufactured goods like cotton textiles, manufactured tobacco, jute manufactures, etc., principal exports to the U.K. and the U.S.A. consisted besides jute manufactures, mainly of raw materials, *e.g.*, hides and skins raw jute, tobacco, tea, lac, mica, etc.

Looking at the continent-wise direction of our foreign trade, Europe was our most important customer taking 36% of our exports and supplying 42% of our imports, and the U.K. was our most conspicuous European customer. Next was America with its share of 24% in the imports and 27% in the exports, the U.S.A. being the most important country. Asia was the third with its share of 10% in the imports and 25% in the exports; Pakistan taking 11% of our exports and Pakistan, Burma and Iran each supplying 4% of our imports. Africa taking 6% of our exports and supplying 11% of our imports was the fourth, Egypt being the outstanding country. Oceania, of which Australia accounted for nearly the whole of the trade, claimed only 4% of the imports and 6% of the exports.

7. COMMODITY COMPOSITION

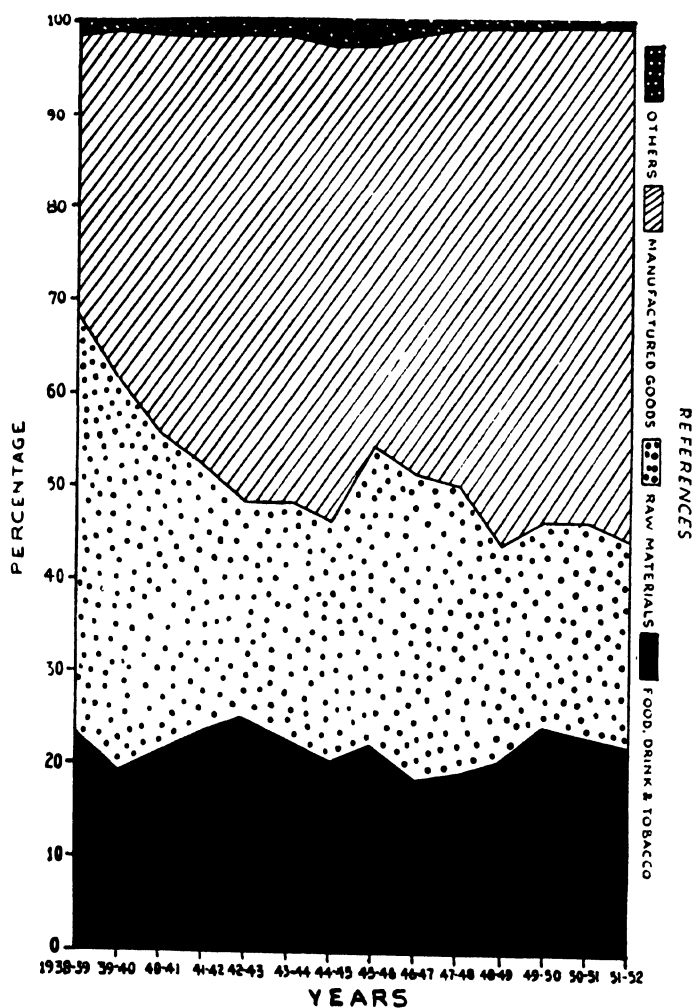
The following table shows the composition of our foreign trade :

India's Imports and Exports of Certain Commodity Groups
(Value in lakhs of Rupees)

			1938-39	1946-47	1947-48	1948-49 Private and Govt. (Land-borne & sea-borne)	1949-50
				Private only			
Imports							
Grain, pulse and flour	..	..	1,376	1,903	2,300	13,103	10,789
Oils -Vegetable, mineral and animal	.		1,562	3,255	3,697	3,811	5,921
Cotton, raw and waste	..		851	2,593	3,120	6,448	6,383
Raw jute	..	..	.	.	.	7,125	2,117
Wool, raw	..	.	62	204	244	318	303
Chemicals, drugs and medicines	..		562	1,392	2,004	2,909	1,644
Dyes & colours	..	.	403	1,166	1,804	1,566	.
Machinery	.	..	1,972	3,275	5,914	8,096	10,552
Vehicles	..	.	668	1,658	2,664	3,280	2,346
Cotton, yarns & manufactures	..		1,415	412	951	1,716	1,841
Metals	.	..	1,081	2,060	2,303	3,439	3,188
Exports							
Grain, pulse & flour	..	..	781	15	13	7	..
Tea	..	..	2,329	3,456	5,490	6,422	7,253
Oils -Vegetable, mineral and animal	..		106	504	1,240	1,479	1,283
Seeds	..		1,510	415	980	717	1,497
Cotton, raw and waste	..		2,482	2,804	3,987	1,915	1,989
Jute	.	..	1,340	1,912	2,583	2,443	1,577
Hides & skins, raw, tanned or dressed and leather	..	..	1,132	3,793	2,198	1,844	2,532
Metals	.	..	346	127	185	332	805
Cotton, yarns & manufactures	.		757	2,772	2,053	4,324	7,297
Jute manufactures	.	..	2,626	6,988	12,782	14,778	12,743

Source : Reserve Bank of India Report on Currency & Finance 1948-49, p. 84 and Directorate of Commercial and Industrial Statistics.

Composition of India's Exports.



The following table shows the changes in the composition of India's exports and imports (sea and air-borne) by three well-known categories :

(Value in crores of Rupees)

Year	Food, Drink & Tobacco		Raw Materials		Manufactured Goods	
	Value	% Share	Value	% Share	Value	% Share
Imports						
1938-39	24.00	15.7	33.18	21.7	92.79	60.8
1945-46	22.25	9.3	116.57	48.5	97.53	49.6
1946-47	38.74	13.4	74.96	26.0	167.58	58.1
1947-48	46.93	11.3	92.27	23.1	252.90	63.4
1948-49	112.94	20.8	127.65	23.6	297.75	54.8
1949-50	122.76	21.9	141.30	25.8	288.65	51.5
1950-51	105.67	18.8	198.33	35.1	258.25	45.7
1951-52	262.04	30.4	253.03	29.4	339.71	39.4
Exports						
1938-39	39.43	23.3	76.28	15.1	50.72	30.0
1945-46	58.44	22.1	84.85	32.1	114.68	43.4
1946-47	59.43	18.6	106.26	33.3	149.10	46.7
1947-48	76.98	19.1	126.26	31.3	196.64	48.8
1948-49	87.55	20.7	98.64	23.3	234.79	55.5
1949-50	115.88	24.6	104.26	22.1	242.61	52.9
1950-51	132.51	23.7	116.43	20.8	317.55	55.0
1951-52	157.88	22.0	148.88	20.8	494.88	56.5

Compiled from the Statistics issued by the Department of Commercial Intelligence and Statistics.

(A) Imports

Although there was a continuous increase in the value of imports and exports from year to year under the main groups as in the total, the pattern of trade has changed considerably

during the post-war years. As regards the imports during 1946-47 and 1947-48, there was an increase in the shares of food, drink and tobacco and manufactured goods specially the latter, and a fall in the share of raw materials. Thus imports showed a definite return to the pre-war pattern. But because the increase in imports of manufactured goods was mainly accounted for by increase in imports of machinery and other capital goods, it did not cause anxiety. Partition, however, checked this tendency of imports to return to the pre-war pattern by necessitating the import of more food-grains, raw cotton and raw jute. In 1948-49, there was an increase in the imports under food, drink and tobacco and raw materials and a decline under manufactured goods. The share of raw materials increased from 25.8% in 1949-50 to 35.1% in 1950-51, the share of manufactured articles declined from 51.5% to 45.7% and that of food, drink and tobacco from 21.9% to 18.8%. Imports of food, drink and tobacco increased to 30.4% in 1951-52.

The following table will make the changing pattern of imports (including land-borne) quite clear :

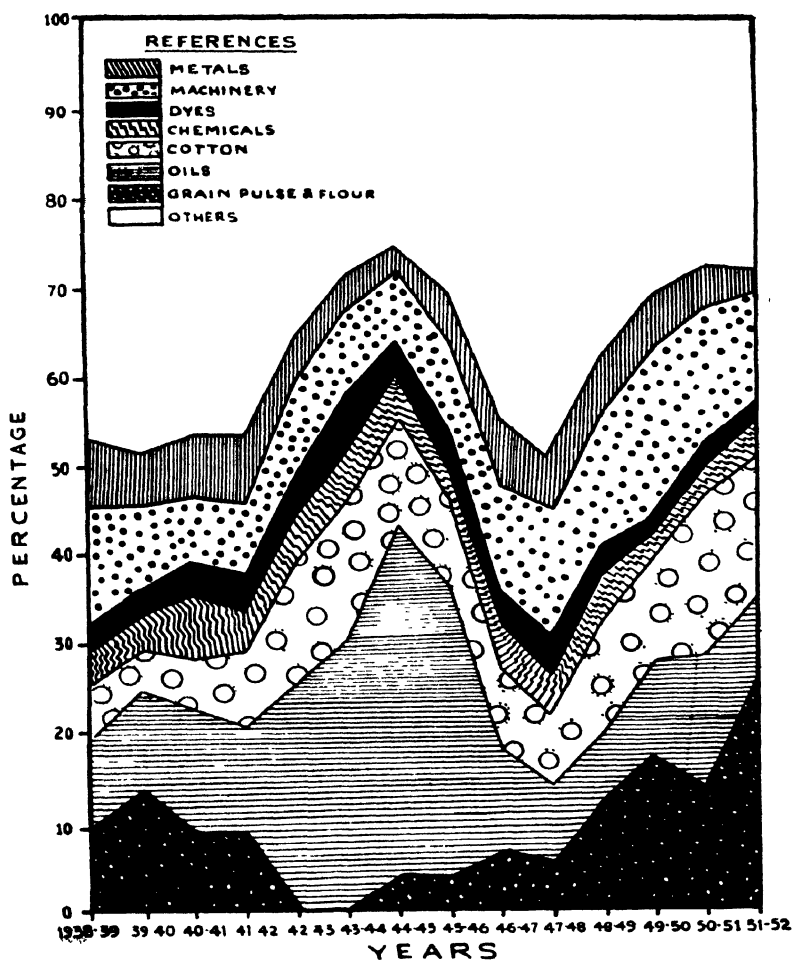
Composition of Import Trade
(in 1937-38 & 1938-39 and 1948-49)

		Average of 1937-38 and 1938-39		1948-49	
		Value (crores of Rs.)	Percentage	Value (crores of Rs.)	Percentage
Food, drink and tobacco	..	22.94	14.1	161.42	24.3
Raw materials, etc.	..	37.06	22.7	204.47	30.7
Articles manufactured	..	100.42	61.6	295.08	44.3
(i) Machinery	..	18.85	11.6	80.87	12.1
(ii) Others	..	81.57	61.6	214.21	32.2

Source : 'Review of Economic Conditions, etc., 1948-49', p. 181.

The outstanding change relates to the relatively large increase in the imports of raw materials. While they accounted for 22.7% of the total imports during the pre-war period, they amounted to 30.7% of the total imports in 1948-49.

Relative Importance of Principal Imported Articles.



This change can be accounted for largely by partition which has resulted in the loss of many of India's raw materials. The share of the group 'Food, drink and tobacco' in the total imports was 24.3% in 1948-49 as against 14.1% in the pre-war period. This is due to larger imports of foodgrains caused by increase of population and partly by partition. From an average of 61.6% in the pre-war years, the share of manufactured articles in the total imports declined to 44.3% in 1948-49. To some extent, this is due to the rigidity of import control, but it is also due, in a large measure, to the relative improvement in our industrial capacity after partition. To this extent our need for imports has declined and our capacity to export manufactured goods has increased. Within this group, the percentage share of machinery in total imports has remained stationary as compared with pre-war years, while that of other manufactured articles (mainly consumer goods) has declined by 17.8%.

The following table shows the relative importance of the imported commodities.

Percentage to total

Commodities		Pre-war 1938-39	Post-war 1946-47	Post-partition (including land-borne)	
				1948-49	1949-50
Machinery all kinds	..	12.9	9.1	11.8	17.8
Oils	..	10.3	9.1	5.7	10.0
Cotton manufactures	..	9.3	T	2.5	3.1
Grain, pulse and flour	..	9.0	24.3	20.4	16.8
Metals and ores ..	..	7.1	5.8	4.8	5.4
Raw cotton ..	..	5.6	7.2	9.5	10.8
Vehicles ..	..	4.4	4.6	4.8	4.0
Chemicals and drugs	..	3.7	3.9	4.2	2.7
Raw jute ..	..	T	T	10.4	3.6

T=less than 1%

Source : 'Reserve Bank of India Bulletin', July 1950, p 443.

The imports of machinery, grains, pulse and flour, and raw cotton have considerably increased their importance. Raw jute has come as a new item after partition accounting for 10.4% of the total imports in 1948-49. The share, however, declined in 1949-50 due to the cessation of Indo-Pakistan trade. The share of oils, metals and ores, vehicles, chemicals and drugs have remained more or less constant. The importance of cotton textiles as an import item has declined very steeply.

There was an even distribution during the pre-war year 1938-39 among various important items like machinery, oils, cotton manufactures, grain pulse and flour, metals and ores, and raw cotton all together covering about one-half of the total imports. In 1946-47 and 1947-48, grain, pulse and flour occupied about 25% of the imports, another 25% being contributed by oils, machinery and raw cotton arranged in descending order. But in 1948-49, the first year after partition, the pattern of imports changed slightly, raw jute coming into prominence, 50% of the total imports being occupied by grain, pulse and flour, machinery of all kinds, raw jute and raw cotton arranged in descending order. The cessation of Indo-Pakistan trade in 1949-50 brought oils into prominence, keeping back raw jute.

The above 8 items (cotton textiles included in pre-partition but excluded in post-partition) accounted for 60.3% of our total imports in 1938-39, for 64.5% in 1946-47, for 71.6% in 1948-49 and for 71.1% in 1949-50. This shows that the country is concentrating on a lesser number of imports and has avoided or reduced the necessity of importing many other items by developing domestic industries.

(E) *Exports*

The proportion of food, drink and tobacco to the total exports has remained more or less the same as before the war. Raw materials and manufactured goods have interchanged their position in an almost exact manner. Although the percentage of manufactured goods to the total exports shows an increasing trend, if we subtract jute manufactures, in 1947-48, the importance of other manufactures dropped from 25% to 16% mostly due to a fall in cotton manufactures

and processed hides and skins. Decline in raw materials is mainly in respect of the proportion of raw cotton, raw jute and oilseeds. There has been a small increase in respect of others, but that does not compensate the fall in the above. Partition only accelerated this trend. Hence it is clear that preponderance of manufactured goods in exports is not so much the result of an increase in industrialization as that of the curtailment of export surplus India had in her raw materials.

The following table will make the changing pattern of exports (including land-borne) quite clear :

	Average of 1937-38 and 1938-39		1948-49	
	Value (Rs. crores)	% to total	Value (Rs. crores)	% to total
Food, drink and tobacco ..	40.15	23.3	93.99	21.2
Raw materials, etc. ..	77.37	45.0	103.94	23.4
Manufactured articles ..	51.44	29.9	237.03	53.5

Source : 'Review of Economic Conditions, etc., 1948-49', p. 187.

The share of raw materials in the total exports has declined from 45% in the pre-war period to 23.4% in 1948-49. This decline is partly due to the progress of industrialization in India which has necessitated a larger domestic utilization of raw materials and partly due to India's raw material resources (jute, cotton, hides and skins and wool) having declined as a result of partition. The share of manufactured articles in total exports has increased from 29.9% in the pre-war period to 53.5% in 1948-49. This increase is largely due to the increase in our industrial capacity (both absolutely as compared with the pre-war period and relatively after partition) which has enabled us to increase our exports of jute manufactures, cotton manufactures, leather, paper, chemicals, etc. To some extent, this increase is also due to the general policy of encouraging the exports of manufactured articles rather than of raw materials which are used for making them.

The supply of many of our exports has been considerably affected as a result of the war and subsequent partition.

- (i) Export surplus in some of the foodgrains and pulses has completely disappeared.
- (ii) Export surpluses of raw jute, raw cotton, and raw hides and skins have been severely curtailed.
- (iii) Oilseeds and pig irons were increasingly consumed at home and hence their surplus also recorded a decline. This reduction in exports of oilseeds has been partly counter-balanced by the reduction of imports of soap and partly by increased exports of vegetable oil.
- (iv) Exports of cotton manufactures have increased considerably, but their production as also of jute manufactures now depends considerably on the availability of foreign raw materials.
- (v) Export surplus of tea has increased in spite of the increased domestic consumption due to greater production.

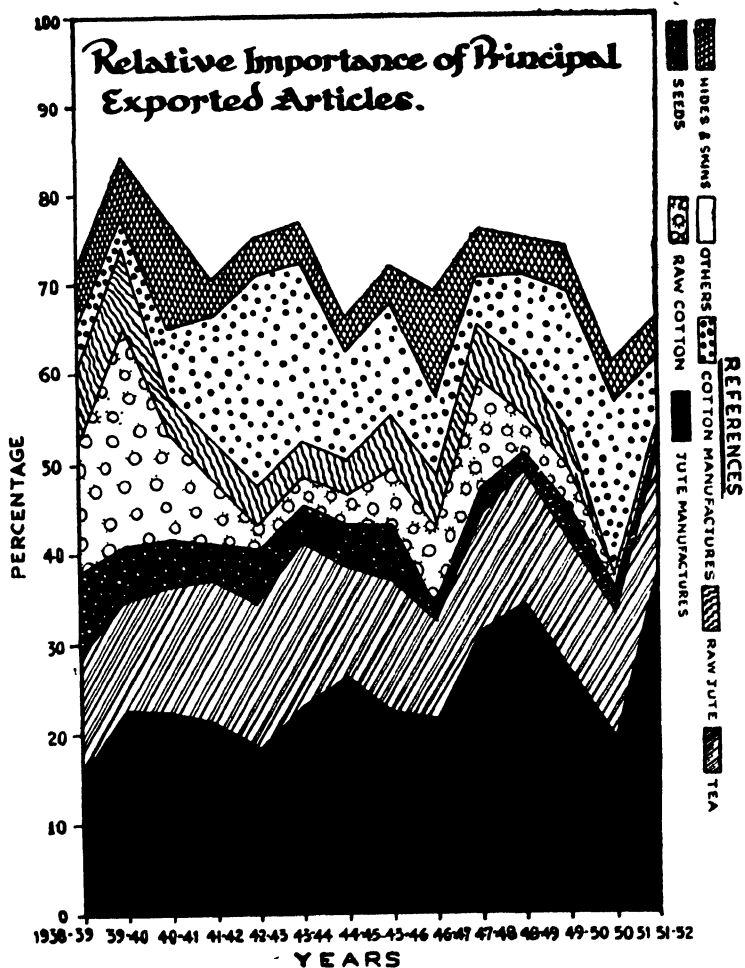
The following table shows the relative importance of the exported commodities :

Percentage to total

			Pre-war 1938—39	Post-war 1946—47	Post-partition including land-borne trade	
					1948—49	1949—50
Jute manufactures	..	..	16.1	23.5	32.5	26.2
Raw cotton	..	..	15.2	9.4	4.3	4.0
Tea	..	..	14.3	11.6	14.1	14.8
Seeds	..	..	9.3	1.4	1.7	3.0
Raw jute	..	..	8.2	6.4	5.2	3.2
Grain, pulse and flour	..	..	4.8	T	T	T
Cotton manufactures	..	..	4.4	9.3	9.5	15.1
Hides and skins (tanned)	..	..	3.2	6.3	2.7	3.0
Hides and skins (raw)	..	..	2.4	2.9	1.2	1.4
Tobacco	..	..	1.7	2.4	2.7	3.0
Oils	..	..	T	1.3	3.3	2.6
Spices	..	..	T	T	1.8	3.7

T = less than 1%.

Source : 'Reserve Bank of India Bulletin', July 1950, p. 442.



Jute manufactures have become our premier exports and increased their share to 32.5% in 1948-49, but it declined in 1949-50 due to lower production. Cotton manufactures have also shown a remarkable improvement. Tobacco, oils and spices have also improved their shares. Tea and hides and skins (tanned) are more or less constant. Raw cotton, seeds, raw jute, hides and skins have considerably declined. Grain, pulse and flour and raw wool have been almost eliminated.

Our exports became concentrated in a few commodities. Before the war, jute manufactures and tea accounted for 30% of total exports. This figure rose to 55% in 1948-49. Jute manufactures alone accounted for 40% and thus retained their primacy as the principal foreign exchange earner. Cotton manufactures, raw jute, and raw cotton accounted for another 20%. Thus in 1948-49, these five commodities accounted for 75% of our total exports while in the pre-war period, eight commodities constituted the same percentage. This leads to the conclusion that the country is placing increasing reliance on lesser number of items, and that she has failed to take advantage of the new lines of production which have developed during the war period.

Changing Pattern of India's Foreign Trade

The proportionate share of the imports of raw materials to total imports has increased considerably since pre-war years and the proportionate share of the exports of raw materials to total exports has declined. Although this change was perceptible during the 'thirties, it has been greatly accelerated by partition. On the one hand, we have lost many of our raw materials resources as a result of partition, and, on the other, our relatively improved industrial position now necessitates a larger domestic utilization of our raw materials, while, at the same time, increasing our need of specialized industrial raw materials. On the export side, we have lost heavily in raw jute, raw cotton, oilseeds, shellac, hides and skins, etc. On the import side, we are now importing larger quantities of all raw materials than in the pre-war years, (cotton, jute, motor spirit, sodium carbonate, artificial manure, caustic soda, etc.). This change

involving a relative decline in the exports of raw materials and a relative increase in their imports is likely to become a long-term feature of our foreign trade, and with the increase in population and increasing urbanization, this tendency will be accelerated in future.

There has been a relative decline in the imports of manufactured articles and a relative increase in their exports. This change is partly due to our policy of encouraging exports of manufactured articles and partly due to a relative improvement in our industrial position making it unnecessary to import some goods altogether or to import them in a larger quantity. This change is also likely to become a long-term feature of our foreign trade, although special care will be required to maintain our present foreign markets as normal trading conditions are restored.

The imports of foodgrains have increased considerably during the post-war period. They will continue as long as domestic food production is not sufficient for our needs.

Imports of Machinery

Imports of mill-work and machinery provide a sure index regarding the pace of industrialization, and more so in countries such as India where the manufacture of capital goods is still in an infant stage. Ever since the termination of the war, there has been a steady increase in the flow of capital goods into the country, with the result that this item has now begun to head the list of imported goods, naturally relegating food which until 1949 occupied the first place among India's imports. This change in the composition of trade is a welcome feature which indicates the country's bid for becoming an industrial country. Imports of machinery amounted to Rs. 32.75 crores in 1946-47, to Rs. 59.14 crores in 1947-48, to Rs. 80.96 crores in 1948-49 and to Rs. 105.52 crores in 1949-50. The average imports of machinery in 1946-47 stood at Rs. 2.5 crores per month, improving to Rs. 4.5 crores in 1947-48 and to Rs. 6.5 crores in 1948-49. For 1949-50, the rate of imports recorded an impressive rise to nearly Rs. 9 crores per month. Before World War II, the average imports of machinery per annum amounted to only about Rs. 20 crores. In other

words, the value of machinery imports has now increased more than five-fold as compared with that in the pre-war years.

The textile machinery occupied and still occupies the pride of place in machinery imports closely followed by electrical machinery and prime movers. During the 43 months beginning from April 1946 and ending with October 1949, imports of textile machinery were valued at Rs. 42.77 crores or about Rs. one crore per month at an average. Besides them, transport and railway equipment was also imported to replenish and rehabilitate the over-worked transport system.

The most important supplier of capital goods is the U.K. supplying about 60%. The U.S.A. has also increased her share considerably. Besides these two, Canada, Switzerland, Czechoslovakia, etc., are also important.

The increase in imports of machinery was but natural. During the war, industries in India were overworked with the result that they stood badly in need of renovation and equipment. In case these industries were prevented in their renovation programme by any rigorous import policy, industrial production in the country would have suffered considerably, further aggravating the inflationary spiral in the country. The liberal imports of machinery have enabled India's industries to embark on their renovation plans and also to increase their production potential. They have also facilitated the establishment of some key industries, which is expected to enhance the general industrial production in the coming years.

CHAPTER IV

INDIA'S FOREIGN TRADE WITH PRINCIPAL COUNTRIES

A. COMMONWEALTH COUNTRIES

The following table gives the relevant figures :

(Value in crores of Rupees)

Year	Exports		Imports		Total		Balance of trade
	Value	% share	Value	% share	Value	% share	
1938-39 ..	90.83	53.5	91.10	58.4	181.93	55.9	—27
1945-46 ..	139.12	52.2	128.80	44.1	267.92	47.8	+10.32
1946-47 ..	160.16	50.0	182.93	55.4	343.09	52.7	—22.77
1947-48 ..	217.00	53.2	204.94	45.5	421.94	49.4	+12.06
1948-49 ..	218.35	51.4	245.78	47.2	464.13	49.3	—27.43
1949-50 ..	251.59	54.7	258.62	46.2	510.21	49.4	—7.03
1950-51 ..	288.81	48.1	243.97	43.0	532.78	45.7	+14.84
1951-52 ..	370.05	50.8	288.13	33.4	658.18	41.7	+81.92

Compiled from 'Reserve Bank of India Bulletins'.

The share of the Commonwealth in the total trade shows a decrease as compared to its share in 1938-39. The share of the Commonwealth in import trade, however, declined much more than its share in exports, from 55.4% in 1946-47 to 43% in 1950-51. It may be noted here that, though there was a decline in percentage share, the value of both exports and imports increased considerably and in 1948-49, they were respectively 140% and 170% more than in 1938-39, and 57% and 91% more than in 1945-46. The import surplus with Commonwealth countries re-emerged after a continuous export surplus during the war years. The magnitude was, however, effected by changes in import and export policy, particularly the former. In 1949-50,

the import surplus was considerably reduced and was replaced by an export surplus in 1950-51 due to an increase in exports caused by devaluation and Korean war and the decline in imports caused by severe restrictions and non-availability of imports. On the whole, the Commonwealth contributed about 50% of our imports and took about 50% of our exports. It is, however, significant to note that the share of Commonwealth countries other than the U.K. has not been affected at all (remaining at 23%) though value of trade has increased considerably.

1. INDO-BRITISH TRADE

Indo-British trade relations dating back to 1650 are based on knowledge, traditions and long associations, and Britishers have got a firm footing in India's markets. Before the war (1938), Britain was our premier customer, her share in our total trade being more than 30%. In the past, our imports from the U.K. consisted mostly of manufactured goods and our exports to that country were mainly raw materials. The U.K. was apathetic to our industrial aspirations and due to her dominant position over India, she was successful in retarding India's industrialization. India is no more a subject nation. Moreover, Indian industrialization is no longer viewed with the same suspicion, and it is now generally recognized that a rise in the Indian standard of living will stimulate Indian demand for British goods. Though the traditional pattern of the Indo-British trade before 1939 is changing, the imports of many articles needed for India's growing industrialization have increased considerably. This development has falsified the gloomy predictions which were sometimes voiced in the 'thirties about the decline of British trade as a result of India's industrialization. In fact, India's total absorptive capacity for British goods has increased sharply as her own domestic industries have developed.

The existence of sterling balances and our membership of the sterling area will only operate to cement the existing trade relations. Besides, India's long association with Britain has left a legacy of business connections which can be utilized to advantage by both the countries. But the

nature of the Indo-British trade will have to be changed considerably. Mutual requirements of both the countries have to be fully appreciated. India has decided to industrialize and many development plans are on the anvil. She will need capital goods—both for agricultural and industrial development. The U.K. is a premier supplier of capital goods. Hence permanent trade relations can be established to the mutual advantage of both.

Post-war Trends

India and the U.K. continue to remain one another's major buyers and sellers in many fields. There are many goods in which India is Britain's only or major supplier. In the recent years, there has been a marked rise in the total value of Indo-British trade. In 1949, India was the third largest market for the U.K. exports taking 7% and fifth among sources of supply contributing 5%.

The following are the relevant figures :

(Value in crores of Rupees)

Year	Exports		Imports		Total		Balance of trade
	Value	% share	Value	% share	Value	% share	
1938—39 ..	58.37	34.3	48.72	31.3	107.09	32.9	+ 9.64
1945—46 ..	69.53	26.1	69.93	23.9	137.46	24.6	..
1946—47 ..	75.83	23.7	113.78	34.5	189.61	29.1	—37.95
1947—48 ..	117.09	28.7	129.07	28.9	246.16	28.8	—11.98
1948—49 ..	98.26	23.2	152.13	29.4	250.39	26.6	—53.87
1949—50 ..	113.89	24.1	149.32	26.7	263.21	25.6	—35.43
1950—51 ..	135.15	22.3	122.90	21.7	258.05	22.0	+ 12.25
1951—52 ..	187.74	26.3	157.85	18.4	345.59	22.0	+ 29.89

Compiled from 'Reserve Bank of India Bulletins'.

There was a decline in the U.K.'s share in our total trade. Our exports to the U.K. have increased constantly in value except in 1948-49 when they fell due to the adverse

effects of partition being reflected in that year. They are almost thrice of those in 1938-39. But there was a greater increase in our exports to other countries. Hence the U.K.'s share in our export trade declined to only 23.2% in 1948-49 and 24.1% in 1949-50 as against 34.3% in 1938-39. Imports, on the other hand, rose constantly in value and in 1948-49 were more than double of those in 1938-39. But the percentage share of the U.K. in our imports after rising from 23.9% in 1945-46 to 34.5% in 1946-47 could not be sustained and fell to about 20% in 1950-51 and 1951-52. But the U.K. still remained our single largest supplier and our best individual market. The pre-war tendency of import surplus also re-emerged after the end of war, but the magnitude changed from year to year due to the changes in the severity of import policy.

Principal Imports into India

In 1949, principal commodities imported from the U.K. were machinery and mill-work (£39 million), vehicles including locomotives, ships and aircrafts (£16 million), chemicals, drugs, dyes and colours (£10 million), cutlery, hardware, implements and instruments (£3 million), non-ferrous metals and manufactures (£3 million) and silk, artificial silk yarns and manufactures (£2.3 million) which together represented over 60% of the total imports from the U.K.

India has been the largest importer of British exports of machinery and other capital goods, receiving about 15% of the total. This only shows the importance of India as a market for British capital goods and of the U.K. as supplier of capital goods for India. The largest individual item was textile machinery. India has also taken a wide range of other machinery vital to the reconstruction and development of Indian industries. Imports of capital goods account for more than 40% of our total imports from the U.K. As the productive capacity of Britain increases, India may expect to receive more capital goods from the U.K. India took 18% of the total British exports of vehicles including locomotives, ships and aircrafts. India was the largest purchaser of British chemicals, drugs, dyes and colours and took 15% of the total. They are essential industrial

raw materials. India took 9% of the total British exports of cutlery, hardware, implements and instruments, 7% of the total British exports of silk, artificial silk yarns and manufactures, 6% of the total British exports of non-ferrous metals and manufactures. As India is deficient in these metals, she has to import them.

Indian Exports to the U.K.

In 1949, the principal commodities exported to the U.K. were tea (£42 million), raw jute (£6 million) and jute manufactures (£13 million), leather and manufactures (£10 million), and tobacco (£5.6 million) which together account for about 78% of the total Indian exports to the U.K. Other important articles were coir mats and matting (£2 million), raw cotton and waste (£1.4 million), shellac (£1.7 million), hides and skins (£1.8 million), flax, manganese, carpets and carpeting hemp and linseed.

India supplies 60% of the total tea imports of the U.K. and she absorbs two-thirds of India's tea exports. Ceylon is the principal competitor in the field. Tea dominates the list of India's exports to the U.K. accounting for 42% of total. India's tea exports will now increase due to de-rating of tea and the consequent increase in consumption.

In 1949, India supplied 19% of the total U.K. imports of tobacco. Recently there has been a considerable increase in the exports of tobacco. India is by far the U.K.'s biggest supplier of stripped unmanufactured tobacco (66% of the total).

Before partition, India was the sole supplier of raw jute and jute manufactures to the U.K. After partition, Pakistan became another important source of supply in respect of raw jute. India supplied about half of the U.K.'s requirements of raw jute in 1949. But the exports have now fallen due to the domestic shortage of raw jute. In case of an amicable settlement with Pakistan, our exports of raw jute to the U.K. will increase as Indian varieties of raw jute are preferred by the U.K. As regards jute manufactures, India still remains the sole supplier.

In respect of coir, mats and matting, groundnuts and linseed oil, shellac and flax, India supplies more than 90%

of U.K.'s total import requirements. Exports of raw cotton and waste and hides and skins have declined due to the curtailment of surplus available for exports after partition, but there has been a sharp rise in respect of leather and manufactures supplying 70% of total U.K. imports.

In recent years, our exports have practically followed the traditional pattern. Attempts must be made to develop new lines of exports to pay for the possible increase in our imports from the U.K. as her productive capacity increases. An amicable settlement with Pakistan may enable us to increase our exports of raw jute and jute manufactures, raw cotton and waste, raw skins and hides and of leather manufactures. There are good possibilities of increasing tea exports as well, provided prices are competitive to those of Ceylon and Indonesia. On the other hand, the U.K. should continue to supply us with our requirements lest she may begin to lose ground in her traditional market in the face of growing competition.

2. INDO-PAKISTAN TRADE

Indo-Pakistan trade is the direct outcome of the partition of this sub-continent into India and Pakistan. Hence it mainly reflects what was at one time internal trade between these areas. Despite partition, their economy is an integrated one. While India needs raw jute, raw cotton and raw hides for feeding her jute, cotton textiles and tanning industries, Pakistan has an excellent market in India for the disposal of these commodities. Then again, while Pakistan needs coal, sugar, textiles, vegetable oils and other minor but essential requirements, which India can supply, India has got in Pakistan an assured market for all of these commodities. The inter-dependence of the two countries is clearly indicated by the articles of trade passing between them. Cotton manufactures (29.3%), jute manufactures (7.6%), tobacco (8.6%), artificial silk (7.2%), mustard oil (6.4%), together constitute about 60% of our total exports to Pakistan. Other items are coal, oils and oil cakes, spices, tea, leather, raw and manufactured, metals and ores, machinery and mill-work. Raw jute (67.7%), raw cotton (15.7%) together constitute more than 80% of our total imports

from Pakistan. Other important items are seeds, raw hides and skins, fruits and vegetables, foodgrains, raw wool, salt and cement.

The share of Pakistan in Indian trade (17%) and its importance is comparatively far less than India's share in Pakistan trade. Pakistan's trade excluding India is reduced to a considerably low level while it is not the case with Indian trade.

Pakistan's Share in India's Trade in 1948-49

(Value in crores of rupees)

		Total	Pakistan's share	
		Trade	Value	Percentage
Total trade	..	1,131	195	17
Imports	..	677	118	18
Exports	..	454	77	17

India's Share in Pakistan's Trade in 1948-49

(Value in crores of rupees)

		Total	India's share	
		Trade	Value	Percentage
Total trade	..	311	182	59
Imports	..	140	75	54
Exports	..	171	107	63

Various Agreements

The need for Indo-Pakistan collaboration in the economic sphere has been emphasized since the very partition. In order to preserve the continuity of economic life in the two Dominions after partition, a general Standstill Agreement was signed providing for exemption of the Indo-Pakistan trade from customs duty. A serious departure from this Agreement took place when Pakistan treated India as a foreign territory by imposing an export duty on raw jute exported to India. India also retaliated and imposed customs duties on exports of raw and manufactured jute from India.

The declaration of Pakistan as a 'foreign country' for the purposes of trade with effect from March 1, 1948 called for an immediate adjustment of the Inter-Dominion trade

relations. The agreement signed on May 26, 1948 and valid up to June 30, 1949 provided for mutual supply of certain essential commodities which each Government undertook to make available to the other after having considered their mutual requirements. India agreed to restrict her exports of raw jute to 9 lakh bales as it competed with Pakistan's exports to other countries. It was also agreed that no Dominion will re-export articles imported from the other Dominion. India also undertook to supply steel to Pakistan in spite of the fact that she herself had to import steel from hard currency countries. But there was one difficulty. While Pakistan levied heavy imposts on exports of raw cotton and raw jute, India refused to grant rebates of Central excise duties on exports to Pakistan. India lost her cloth and sugar trade on this count. However, an Agreement on these points was reached in April 1949. The volume of trade was much below that contemplated at the time of the Agreement due to the imposition of tariffs by both the countries. Imports of raw jute and raw cotton amounted to 80% and 50% of the agreed quantities respectively. Pakistan's imports of India's manufactured goods (excluding coal and mustard oil) did not exceed 50 to 60% of the agreed quantities. Pakistan imposed export duties on raw cotton and raw jute and import duties on sugar and cotton textiles. India also imposed restrictions on some of her exports.

In July 1949, the Agreement was renewed for one year with certain modifications. India agreed to purchase from Pakistan 4.5 lakh bales of cotton, 27 lakh pieces of hides and skins, 40 lakh bales of raw jute, 15,000 tons of rape and mustard seed and 20 lakh bales of rock salt in return of 1.5 lakh bales of cotton cloth, 80,000 tons of iron and steel and other items. This Agreement provided for a relatively smaller volume of bilateral trade and a smaller deficit for India with Pakistan. India continued to purchase all her normal requirements. But Pakistan purchased only essential requirements (coal and mustard oil). A standard rate was imposed on Indian textiles which meant a duty higher than that imposed on British textiles.

The obvious result was the diversion of trade away from

natural channels. Consumption of Pakistan cotton and raw jute in Indian mills declined considerably. The reduction was due to increase in domestic production as also due to imports of cotton from other countries. Pakistan sought alternative markets for her raw cotton and raw jute specially in the U.K., Japan and the Continent.

Similar was the position about our manufactured goods. Pakistan areas before partition used to consume 500 million yards of cloth. But in 1948-49 the actual exports of cloth to Pakistan amounted to 174 million yards only. Pakistan, however, imported considerable quantities of cloth from the U.K. and Japan. This was partly due to the loss of competitive capacity of Indian textiles but mainly due to Pakistan's deliberate attempt to reduce their imports. She was able to exchange cloth and yarn for her exports of raw cotton to other countries. Similarly normal consumption of sugar by Pakistan areas was 2 to 2.5 lakh tons. But in 1948-49, she imported sugar from Cuba and Brazil, and Indian exports were insignificant.

These changes mainly show Pakistan's efforts to do with less and less of our manufactures and to tie us down to purchase her raw materials in a way that suits her best. In spite of India's efforts to step up her coal exports to Pakistan, Pakistan continued a policy of virtual boycott of Indian textiles.

After Devaluation

Devaluation further complicated the situation. It became unremunerative for India to purchase Pakistan jute and cotton, and she banned imports from Pakistan unless these commodities were imported at the maximum prices fixed by Indian Government. Pakistan, however, fixed minimum prices of these commodities. Cotton did not present a knotty problem, but jute created a difficult situation. Indian jute industry, however, managed to pull on for some time. Pakistan Government having failed to coerce India, deliberately withheld the supply of raw jute purchased by India before devaluation under different pretexts. Naturally, Government of India had to retaliate by stopping coal supplies to Pakistan, but made it quite clear that as soon as normal trade was

rendered possible the supplies of coal would be resumed and even the short supply made up. Shortage of coal had immediate repercussions in Pakistan. She had already been offered coal by South Africa and, therefore, took this opportunity to lift the ban on trade with South Africa. This action was welcomed in Pakistan as a step in the right direction. Raw jute constituted 70% of the total Indian imports and thus there was a virtual stoppage of Indo-Pakistan trade.

India's Share in Pakistan Trade

			Percentage		Variation
			1948-49	1949-50	
Imports	..	..	54	31	-43.4%
Exports	..	..	62	35	-62.3%
Total trade	..	..	55	34	-61.8%

India's Share in Pakistan Imports

			Percentage	
			1948-49	1949-50
Cotton textiles	..	..	43.6	14.9
Cotton twist and yarn	..	..	19.5	5.7
Leather manufactures	..	..	95.4	90.9
Cigarettes	..	..	..	†11.5
Vegetable oils	..	..	70.5	13.1
Chemicals	..	..	15.1	7.4

Source: 'Reserve Bank of India Bulletin, June 1950' p. 395.

The above tables show that India's share declined almost everywhere. India is meeting growing competition from several countries in Pakistan market. Monopoly in manufactured jute goods and coal is maintained, but as regards the latter attempts are being made to import coal from South Africa. Pakistan market for Indian sugar and matches has been practically lost.

While India is trying to achieve self-sufficiency in cotton and jute, Pakistan is seeking alternative markets for surplus crops. Thus the complementary economy of the old days has been distorted beyond recognition, and the pattern of Indo-Pakistan trade has been changing rapidly. But in spite of the enormous damage done to the trade with India,

India's share in the import and export trade of Pakistan was the highest of all her customers in 1949-50 as it was in 1948-49.

Necessity of Economic Collaboration

These unhappy developments have undermined the importance of close economic collaboration within the two countries. There was at one time a state of undeclared cold war. Estrangement in the political sphere has hitherto distorted the perspective in the economic sphere. Responsibility for failure to bring an amicable settlement rests squarely and equally on both the countries. Both stand to gain from any mutual agreement which will facilitate free flow of trade between what are complementary economies. It will be a misfortune for both the countries if the old ties of economic inter-dependence are sacrificed at the altar of political hypocrisy and greed involving economic loss to both.

As far as India is concerned, attempts are being made to attain self-sufficiency in jute, but it does not seem feasible in the near future. Then again, it will hinder our food self-sufficiency plans. In the meantime, our jute exports will suffer. A curtailment of jute exports will lead to development of jute substitutes. This will affect both India and Pakistan equally. But there is one more danger to India. If this trade deadlock is not solved, jute goods exports from India will decline. Continental countries will purchase raw jute from Pakistan and increase their production and fill the gap created by a decline in India's exports. This will be a permanent damage to Indian industry and Indian exports and specially so because the cost of production in these countries with latest equipment will be much lower. Without imports, India will face an acute cotton shortage. Foreign cotton is costlier. On the availability of cheap cotton depend our textile exports. Our production of coal is increasing and in the absence of any natural outlet coal stocks may accumulate. Long-run prospects are, however, not so bad as our requirements are expected to increase, and we can also develop export markets in the Far East. But it is always better to develop sure and certain markets.

As regards Pakistan, she is trying to develop alternative

markets for exports of raw jute and has also achieved substantial success, yet she cannot do without India unless, of course, she decides to reduce her jute acreage. Then, it will be more costly for her to obtain essential supplies from distant countries as compared to India. Moreover, as she has still to repay her debt to India, it will be in her own interest to maintain close trade relations with India.

In April 1950, an Interim Trade Agreement with Pakistan was concluded and successfully implemented. Pakistan supplied 40 lakh maunds of jute at specified dates and at a specified price. India agreed to supply 20,000 tons of jute manufactures. Sale proceeds of raw jute were utilized for financing certain imports in order to achieve balanced trade without Governmental interference. The total value of trade (Rs. 17 crores) was not very impressive. But this marked the beginning of the end of deadlock and demonstrated the possibilities of better prospects. The whole deal was essentially a refined form of barter covering a brief period and aiming at limited objectives. The Agreement, however, made no mention of cotton and coal. It only reflected belated but sensible recognition of two countries' close economic integrity.

A Trade Agreement was concluded between the Governments of India and Pakistan in February 1951 to remain in effect till June 30, 1952. Exchange transactions took place on the basis of the par value of the Pakistan rupee. Pakistan agreed to supply mainly raw jute, raw cotton and foodgrains in return for India's coal, steel, textiles and cement. The agreement was expected to restore the free flow of Indo-Pakistan trade distorted after devaluation, and thus enable both the countries to take the best advantage of the then international situation. The unconditional acceptance of the par value of the Pakistan rupee, though it was confined to trade transactions only, was followed by the decision of the IMF to accept the same. Thus there remained a disparity between Indian and Pakistan rupees. This disparity was neither justified nor desirable and tended to restrict the flow of Indo-Pakistan trade to the minimum. It could have been reduced to the minimum, if not eliminated altogether, by an appreciation of the Indian rupee.

The volume of trade was much below expectations. Pakistan increased import duties on cotton textiles, and charged a discriminating export duty on the raw jute exported to India on the pretext of building up alternative markets as India was approaching self-sufficiency in jute. But that has been forced on India by Pakistan herself. If after partition, Pakistan had entered into a long-term agreement with India giving her an assured supply of jute, India would not have gone in for large-scale jute growing. The result was that her export surplus with India declined considerably.

Another agreement has now been signed to continue up to June 30, 1953. Both countries have agreed that licences issued for imports from soft currency areas will be valid for India and Pakistan as the case may be. Trade between the two countries will not be confined to commodities mentioned in the schedules which did not include jute, cotton and coal.

In case of jute, Pakistan refused to withdraw the discriminatory duties of about Rs. 3/12/- per maund which made the Indian jute goods costlier by about Rs. 145 per ton. India's supply position is quite comfortable. Imports of cotton have been practically non-existent because American cotton is cheaper. Imports of hides and skins will definitely help Indian tanning industry. India has not bound herself to sell coal to Pakistan presumably because of Pakistan's uncompromising attitude in case of raw jute. Thus the total volume of trade continues to be restricted and the trade is being directed away from normal channels. The imports and exports to Pakistan amounted to Rs. 90 crores and Rs. 43 crores in 1951-52 and Rs. 44 crores and Rs. 30 crores in 1950-51 as against Rs. 118 crores and Rs. 77 crores in 1948-49.

3. INDO-AUSTRALIAN TRADE

During the war years, India rose from an obscure position to the third place in Australian foreign trade. Indian exports to Australia rose by 315% and her imports increased by 410%. It is true, to some extent, that the war-time increase in Indo-Australian trade was the result of exceptional circumstances. Shipping difficulties, the exit of European countries and Japan from the field, and Empire co-ordination

are responsible for the phenomenal rise on the export and import side of both the countries. It is in the mutual interests of both the countries that this gain should be capitalized. In the war, Australia witnessed a marked progress in industrial development and hence our trade with Australia will have a complementary character. While Australia needs many commodities produced in India, among which are certain basic raw materials, such as oil-seeds, jute, cotton yarn and manufactures, spices, etc., she is in a position to export some types of heavy and light machinery, woollen piecegoods, knitting yarn, tinned food-stuffs, tallow, stearine, gelatine, medicines and drugs and medicinal equipment. Future prospects for the development of Indo-Australian trade are brighter because (i) both are in the sterling bloc, (ii) both India and Australia are vitally interested in the problems of South East Asia, (iii) Australia has been one of the chief exporters of foodgrains to India, and (iv) Australia is nearer to India than any other country in the West.

Recent Trends

In the recent years, there has been a rapid rise in the volume of trade between the two countries both in respect of imports and exports. As compared with pre-war period, both imports and exports show phenomenal rise. India ranked third as Australia's supplier after the U.K. and the U.S.A. and was the fifth best customer.

The following table gives the relevant figures :

(Crores of Rupees)

		Imports	Exports	Balance
1938-39	..	2.03	3.06	+ 1.03
1945-46	..	7.57	10.56	+ 2.99
1946-47	..	10.82	10.12	.. .7
1947-48	..	15.69	24.37	+ 8.68
1948-49	..	22.57	20.65	— 1.92
1949-50	..	33.97	26.50	— 7.47
1950-51	.. ..	33.44	30.20	— 3.24
1951-52	..	17.60	46.62	+ 29.02

Principal Exports from India

Jute manufactures account for more than 60% of our total exports, and there is still an unsatisfied demand for them. There was a spectacular increase in the exports of cotton textiles during the war period due to the absence of competition. India will have to face strong competition with the revival of Japanese exports and also of the U.K. and the U.S.A. If she desires to retain and strengthen her hold on this market, India must supply goods at prices which are competitive and of a quality which will appeal to the Australian consumer. Necessary adjustments should be made after a study of the tastes of the Australian public.

Manganese, mica, oilseeds, vegetable oils and shellac do not present any problem. Australia is the second largest consumer of tea in the world. But the cost of Indian tea is very high. At present, Australia is subsidizing tea imports, but this is not possible for long. Hence, an effort should be made to bring down prices. Tobacco also offers very good prospects if prices are competitive to those of Rhodesia. Sports goods, sewing machines, mats and carpets and cottage industries' products can also be stepped up with a little propaganda.

India may think of making Australia a permanent market for her coal. If all the mines worked consistently at peak level, Australia's total annual production would be at least 2,000,000 tons short of her needs.

Principal Imports

India is deficient in foodgrains, milk and milk products. In recent years, foodgrains have accounted for 80% of the total imports from Australia. Some better breed cattle may also be imported to improve the cattle wealth and the dairy business. Australia is also in a position to offer us various kinds of machinery, agricultural, electrical, shipping, engineering, etc. Railway equipment and plant and equipment for production of chemicals can be made according to specifications desired by India. Australia's prospective exports of machine tools range widely from precision watchmaker's lathes to large wheels and shaft lathes.

Non-ferrous metals can also be imported into larger quantities.

4. INDO-CEYLON TRADE

Geographical proximity, cultural affinity and long business ties apart, the competitive economies of India and Ceylon demand that there should be a close co-operation between the two countries. India and Ceylon, for instance, hold between them practically a monopoly of the world's tea, and if they come to an agreement between themselves, they could dictate their own terms for the supply of tea. It was India which supplied Ceylon almost all her necessities during the war time when her former suppliers were busy with the war. In 1945, India was Ceylon's best supplier. But after the war, as soon as competition revived, Indian exports to Ceylon suffered. She was relegated to the fourth position.

Ceylon generally complains that her trade with India is only one-sided, resulting in an import surplus for Ceylon. This is so because most of the commodities exported by Ceylon are such as are also produced in and exported from India. Hence, chances of wiping out the normal import surplus are negligible. India should, however, try to reduce the gap, if not eliminate it altogether. Ceylon should also agree to supply India copra and oil in adequate quantities at reasonable prices.

With a view to consolidate and expand the existing economic relations, an agreement was concluded to be effective in the year 1950. With regard to certain specified goods, both the Governments agreed to grant import or export licences for the stipulated quantities.

		<i>Indo-Ceylon Trade</i>		
		Imports	Exports	Export Surplus (Rs. Crores)
1938-39	..	1.29	5.36	4.07
1945-46	..	3.74	17.42	13.68
1946-47	..	3.44	14.68	11.24
1947-48	..	2.80	11.96	9.16
1948-49	..	2.61	12.31	9.70
1949-50	..	2.94	16.83	13.89
1950-51	..	4.52	18.62	14.10
1951-52	..	5.55	16.34	10.81

Main Articles of Export from Ceylon

Copra and coconut oil, rubber (crepe and sheet), scrap iron, graphite, betel-nuts, cocoa beans, cinnamum leaf oil, citronella oil, unmanufactured tobacco, desiccated coconut, etc.

Indian Exports

Coal, fire clay and bricks, cotton waste, cotton piece-goods, cotton yarn, jute goods, oils, onions, chillies, seeds, spices, coffee, sports goods, tobacco, etc.

Devaluation gave our textiles a definite advantage in Ceylon and the declining tendency was checked. But it is necessary to ensure sufficient supplies at competitive prices if we want to retain and capture the Ceylon market permanently, or otherwise we shall be losing ground to Japan. Indian films can be easily exported. Export trade in cement, Indian films, sewing machines and toilet goods can also be profitably developed. Indian goods may satisfy the needs of a population with low-purchasing power as that of Ceylon. Ceylon is very close to India and it would invariably be a good investment if reliable representatives are sent out properly equipped with full range of samples against which to book orders. They could also study the market at first hand in order to be able to advise suitable alteration in quality and price to suit the particular needs of the market.

5. INDO-CANADIAN TRADE

Before the war, Canada was not important in India's trade, but in the war period their trade relations assumed greater importance. Indian exports to Canada in 1945 were almost $3\frac{1}{2}$ times those of 1939. Before 1941, balance of trade was favourable to India, the ratio of imports and exports being 1 : 2.5. By 1944, balance turned unfavourable to India, ratio of imports to exports being 7 : 1. India then ranked third in Canada's external trade. The value of Canadian exports to India in 1945 (\$ 307.5) million was 62 times of that in 1939 (\$ 5.2 million) while the value of Canadian imports from India was \$ 30.6 million as against \$ 9.8 million. There was a substantial decline in trade after 1945. In 1947, exports and imports from Canada amounted to \$ 42.3 million and \$ 42.9 million respectively. The main

reason was the cessation of hostilities and with it of the war-time Canadian exports. Naturally, trade also tended to be balanced. Dollar shortage was also a contributory cause. India's place in Canada's trade was shifted to sixth in 1948. But there was an improvement both in imports and exports after 1948, specially in imports and we are having an import surplus.

The following table gives the relevant figures

(Crores of Rupees)

				Imports	Exports	Balance
1938—39	..	..	..	.95	2.23	+1.28
1945—46	..	..	..	8.72	6.69	—2.03
1946—47	..	..	..	7.19	8.16	+ .97
1947—48	..	..	..	15.06	10.50	—4.56
1948—49	..	..	..	10.12	8.39	—1.73
1949—50	..	..	..	12.03	11.02	—1.01
1950—51	..	..	..	18.29	13.56	—4.73
1951—52	..	..	..	18.73	16.24	—2.49

Principal Items of India's Exports to Canada

Tea (India supplies 65% of the total imports of tea), jute and jute goods (together with tea constitute 82% of total exports), carpets and rugs, non-edible vegetable oils, nuts (in 1948, India was the largest supplier of peanut oil), spices, lac, mica, manganese and other ores, furs, hides and leather, sports goods, wool, cotton and cotton textiles.

Jute constitutes the major part of our exports to Canada also. In the absence of an assured supply of jute goods, Canada, having plentiful supply of paper, is substituting paper for jute. The demand for jute may be retained if agricultural and industrial production is maintained at a high level. Naturally India must maintain her exports of jute goods at the highest level. Tea exports can be maintained, but

here again Ceylon is our competitor. "Carpets and rugs have become synonymous with the name India." Wool has declined considerably as it is complained that wool "contains excessive extraneous matter." Coir products may sell still better if the quality is improved and fast colours are used. Exports of vegetable oils can now be further increased as due to devaluation we are in a better position to compete with Brazil which is the only other supplier. There has been a considerable increase in exports of nuts which needs efforts to maintain. Leather goods offer very good prospects if quality and price are favourable and the goods suit Canadian requirements. Cotton piecegoods also offer a very good market.

Canadians have raised their standard of living and are now fond of quality. Cheapness in itself is not enough. Exporters must be able and willing to supply goods in volume, at attractive prices and suited to the tastes and requirements of the dollar markets. Canadians have often complained of inferior and non-uniform quality of Indian goods. They have even questioned the business honesty and integrity of Indians. Indian goods should maintain a high standard to compete successfully.

Principal Imports from Canada

Wheat, locomotives and parts, automobiles, copper ingots, bars and billets, textile mill equipment, paper and tea chests are the principal commodities imported from Canada. There are good prospects of importing non-ferrous metals, non-metallic minerals, chemicals and allied products.

Future Prospects

Both the countries can profit by preserving war-time gains. Both Canada and India are on the path of industrial development. Their economic resources and physical structure are different. Both have something that the other needs but does not possess. Canada's war efforts have been magnificently successful. To-day she is in a position to export several varieties of capital goods and consumer goods needed by under-developed countries like India at prices comparing favourably with the U.K. and the U.S.A. India will profit by increased trade relations with Canada.

B. Foreign Countries

There has been a remarkable expansion of our trade with foreign countries and they have gained in their share of our foreign trade as compared to the pre-war period. The importance of foreign countries has increased more as sources of our imports than as customers for our exports. The value of trade has also shown remarkable increase both in respect of imports and exports. But as the increase in imports was more than that in exports, we had an import surplus with these countries as against the pre-war tendency of an export surplus. The magnitude of the import surplus depended upon the changes in the import policy.

1. INDO-U.S. TRADE

Indo-U.S. trade dates back to a time even earlier than the American civil war, and since then has continued to grow both in quantum and value except during depression. Before the war, India took 1% of the U.S. exports but supplied 3% of her imports. The U.S.A., on the other hand, took 10% of our exports and supplied 7% of our imports. Our trade with the U.S.A., as was the case with almost all tropical agricultural countries, was mainly one-sided and we had an export surplus with the U.S.A. The war gave an added stimulus to our trade with the U.S.A. chiefly due to the exit of Germany and Japan from the field of imports and the increased U.S. need of our strategic raw materials in the field of exports. In 1944-45, the U.S.A. was first among our suppliers and second among our customers (exclusive of transactions under the Lend-Lease schemes). In 1946, India ranked 17th as a market for U.S. exports and fourth as a source of U. S. imports as against 22nd and 9th respectively in 1938.

Recent Trends

Like the whole of the world, India's trade relations with the U.S.A. also underwent a fundamental change. For the first time since 1904, in 1947 our export surplus with the U.S.A. was converted into an import surplus. Due to heavy imports of capital goods from the U.S.A., our balance of trade was adverse in spite of an increase in exports.

The following table will make the position clear

(*Value in crores of Rupees*)

Year	Imports		Exports		Total		Balance
	Value	% share	Value	% share	Value	% share	
1938-39 ..	9.98	6.4	14.29	8.4	24.27	7.4	+4.31
1945-46 ..	92.02	31.5	73.55	27.6	165.57	29.7	-18.57
1946-47 ..	69.34	21.0	80.07	25.0	149.41	22.9	+10.73
1947-48 ..	137.71	30.9	79.85	19.6	217.56	25.2	-57.86
1948-49 ..	104.24	20.1	70.64	16.7	174.88	18.5	-33.60
1949-50 ..	87.92	15.7	79.36	16.8	167.28	16.2	- 8.56
1950 -51 ..	115.82	20.4	110.10	18.3	225.92	19.3	- 5.72
1951-52 ..	287.91	33.5	129.93	18.1	417.84	26.5	-157.98

Compiled from the 'Reserve Bank of India Bulletins'.

The value of imports from the U.S.A. and her percentage share in total imports and the total trade changed from year to year according to the changes in the severity of the import policy. The percentage share of the U.S.A. in imports fell from 31.5% in 1945-46 to 21.0% in 1946-47, again increased to 30.9% in 1947-48 and again fell to 20.1% in 1948-49 and to 15.7% in 1949-50. Exports, on the other hand, increased in 1946-47 to Rs. 80.07 crores from Rs. 73.55 crores in 1945-46 and practically maintained themselves in 1947-48 due to vigorous efforts made to increase hard currency earnings, but could not maintain themselves in 1948-49 and fell to Rs. 70.64 crores in face of the U.S. business recession. In 1949-50, they again increased due to devaluation. But the percentage share of the U.S.A. in exports, on the contrary, continued to decline from 27.6% in 1945-46 to 16.7% in 1948-49 indicating a greater increase in exports to soft currency areas. In 1950-51 and 1951-52, imports from the U.S.A. increased again due to the heavy imports of foodgrains and raw cotton specially in 1951-52 when the U.S.A. was our best supplier (33.5%). Exports also increased due to stock-piling and rearmament boom,

but the increase in exports was comparatively much less. Naturally there was a very heavy import surplus of Rs. 158 crores. On the whole, however, U.S. position in our trade was far better as compared with the pre-war period. She is our second best supplier and the second best market after the U.K. (best supplier in 1951-52). The export surplus has now been converted into an import surplus the magnitude of which depends upon the severity of the import policy from year to year.

Articles of Imports

Wheat (\$ 6 million, \$ 177 million), raw cotton (\$ 74 million, \$ 127 million), milo (\$ 22 million, \$ 27 million) constituted 50% and 72% of our imports from the U.S.A. in 1950 and 1951 respectively. Machinery (\$ 32 million), petroleum and products (\$ 11 million), vehicles (\$ 13 million) and chemicals, dyes and medicines (\$ 11.5 million) constituted another 32% in 1950. Thus the U.S.A. has emerged out as one of India's principal sources of essential imports—food, raw materials and capital goods alike the imports of which are likely to continue in the near future.

Principal Articles of Exports

Jute manufactures (\$ 90.5 million), pepper (\$ 34.2 million), tea (\$ 15.7 million), cashewnuts (\$ 19 million), hides and skins (\$ 16 million) and mica (\$ 17.5 million) accounted for 65% of our exports to the U.S.A. in 1951. India also supplies a large part of U.S. imports of raw cotton, spices, lac and shellac, manganese, carpets and carpet wool, drugs, herbs, leaves, roots, etc., and vegetable, dyeing and tanning materials.

American import statistics enumerate 45 main Indian commodities. 8 of these are bought exclusively from India since they are not available elsewhere. In another 14 cases, purchases from India constitute from 80 to 99 per cent of total American imports of the commodities. And in another 6 cases, India provides the United States with 50 to 62 per cent of its supplies. These three categories of more or less specifically Indian goods make up 16, 50 and 13 per cent respectively, and altogether no less than 79 per cent of the total American imports from India.

Jute, raw and manufactured, have always been our principal exports to the U.S.A. For raw jute Pakistan is now another source, but India is still the only supplier of manufactured jute. The U.S.A. was our largest market in this respect. Aggregate demand of jute and jute manufactures into the U.S.A. is governed by the same forces which regulate the size of American national income and the American imports in general¹. 'Their imports also vary with the physical volume of American industrial production and the general business activity. Price factor exercises a comparatively small influence on them.' In war-time, due to the shortage of jute imports in America, there was a tendency to go in for substitutes. This tendency has been considerably strengthened and since 1946 there has been an uninterrupted and progressive decline in burlap consumption in the U.S.A. (1946—1,000 million yards, 1947—896 million yards and 1949—789 million yards). Similar is the tendency with regard to mica and rubber. This requires special attention for fighting substitutes in an aggressive manner by educational campaigns demonstrating comparative advantages of jute sacks as against paper bags. A regular supply of jute manufactures to the U.S.A. should be assured to check this tendency.

Tea exports to the U.S.A. have suffered due to lack of quality and the importance gained in the war has been partially lost. After devaluation, there has been an increase in the exports of tea to the U.S.A. This can be capitalized by intensive propaganda in favour of Indian tea. Ceylon offers severe competition as her tea is preferred in the U.S.A. With Indonesia entering the market, there is every possibility of India losing its advantageous position in spices in the dollar areas. Prices should, therefore, be competitive.

There is already an unsatisfied demand for mica and manganese. Attempts have been made to replace mica by synthetic products but none so far has proved successful so far as high quality electrical equipment is concerned. The U.S.A. is the largest buyer of Indian mica accounting

¹ Indian Central Jute Committee's Brochure on U. S. Jute Market.

for two-third of the total exports. America requires short staple cotton for preparing worsted cloth. Our exports may be limited due to domestic shortage. But there may be an exchange of short staple cotton for long staple American cotton. There is a good demand for lac and shellac to be used in the manufacture of paints and varnishes. Propaganda coupled with improvement in quality is necessary to check the growth of substitutes. Products of arts and crafts have a greater potential future in America if only right products are selected and right selling methods adopted. Modern methods of sales promotion should be adopted.

There is a good demand for Indian silks. They want these things and have the capacity to pay for them. Indian silks and artistic fabrics of Benares, Surat, Bangalore and Kashmir can capture good markets. Silverware, woodware and ivoryware, embroideries and condiments, etc., floor carpets, druggets, namdahs and coir matting can be developed without any special effort. But they should be quality goods, not cheap and shoddy articles. In this way, old Indian art may be revived. At present they may only be a decorative super-structure to the bulk of India's raw materials, but if properly developed, they can prove to be the mainstay of India's trade.

Future Perspective

America has got vast economic potential which has borne incredible strain during the war. She has inspired hope and confidence in the war-torn world as she is the country to whom the world looks for supply of capital goods for economic reconstruction and development. There is no doubt that India can obtain from the U.S.A. plant and equipment of all types—industrial and agricultural. But there are some difficulties. The problem of dollar shortage remains as the real headache. Moreover, the U.S.A. has put more emphasis on Europe's recovery. India and other Asiatic countries aspiring for industrialization have not been able to get anything substantial except, of course, lip sympathy for their aspirations. Devaluation has only aggravated our difficulties in this respect, the U.S. capital goods having been

rendered too costly. An increase in European production will considerably ease the dollar problem and will enable us to have more U.S. capital goods.

2. INDO-JAPANESE TRADE

Before the war, our total trade with Japan amounted to about Rs. 40.32 crores (quinquennial average) and was next in importance only to the Indo-British trade. She contributed 13% of our imports and absorbed about 11% of our exports. Indian trade with Japan had to be terminated in 1941 as a result of Japan's entry into the war, and after the termination of the war, Japan could not resume its active part in international trade. With a view to revive trade connections, there was an exchange of trade delegations between India and Japan in 1947. The main obstacle to the successful reopening of trade relations with Japan was the necessity to pay for Japanese imports in dollars. This obstacle was largely overcome for the five Commonwealth countries (Australia, India, the U.K., New Zealand and South Africa) by the conclusion of a Trade Agreement, between them on the one hand and Japan on the other, under which an approximate balance of imports and exports was to be maintained to avoid dollar expenditure on either side. The Trade Agreement afforded greater elasticity for Japan's trade with sterling area which included many important suppliers of raw materials needed by Japan as well as traditional markets for her products.

The Agreement was not intended to restrict trade either in volume or in character. The subsequent Agreements provided for increased trade between the parties. Unlike the first Agreement which was in terms of dollars, the subsequent Agreements are in terms of sterling. This change was in the interest of both Japan and the South East Asian countries which are eager to revive trade relations with Japan.

Exports from sterling countries included cereals, cotton, wool, iron ore, rubber, salt and petroleum. Exports from Japan included a wide range of manufactured goods including textiles machinery, canned fish, lumber, metals, electrical products and chemicals. Under the Agreements, India imported from Japan, among others, diesel engines, iron and

steel manufactures, non-ferrous metals, rayon yarn, raw silk, etc., and exports included groundnuts, cotton, wool, tea, iron ore, manganese, mica, tobacco, etc.

The following table gives the recent trends of Indo-Japanese trade :

(Crores of Rupees)

				Exports	Imports	Total	Balance
1938—39	..	..	..	14.82	15.41	30.23	— .59
1947—48	..	..	..	.8	.6	1.4	+ .2
1948—49	..	..	..	4.59	6.38	10.97	— 1.79
1949—50	..	..	..	5.76	21.41	27.18	—15.65
1950—51	..	..	..	9.45	10.04	20.01	— .59
1951—52	..	..	..	14.28	24.61	38.89	—10.33

The trade is continuously improving and is capable of further increase. But the pattern of pre-war imports and exports has changed. Pre-war imports of consumer goods are likely to be reduced to the minimum. The pre-war exports of short staple cotton will decline considerably. As we will like to purchase capital goods as much as possible from the soft currency areas and Japan is in a position to supply them, our import surplus is likely to continue for some years.

India is particularly interested in Japan's recovery, as Japan on account of her geographical situation is in a much better position to meet the urgent needs of South-East Asia in respect of capital and consumption goods than either the U.K. or the U.S.A. The pattern of Japanese export trade is likely to be one of exchange of food and raw materials against Japanese consumer goods and machinery on a limited scale. The growing pace of industrialization in the East has prompted Japan to shift the emphasis from the export of consumer goods to capital goods. The preoccupation of Britain and others with rearmament has particularly provided Japan with an opportunity to do so. It is expected that Japanese costs will be reduced through rationalization and advances in scientific technique. She will, however,

need coal and iron ore and India can supply her with about a million tons of coal and .5 million tons of iron ore as well as iron and steel scrap, manganese and kyanite, etc. India can also get capital goods from Japan, specially textile machinery, hydro-electric and steam-generated power plant, as the U.K. and the U.S.A. cannot supply all her requirements. But the pattern of Indo-Japanese trade will have to be changed. The scope of trade between India and Japan would be confined to an exchange of raw materials from India for machinery, plant and equipment from Japan. India will not have cheap Japanese goods which thrived during the inter-war period at the cost of Indian industries. Many of these industries have now been fairly established in India itself but they cannot withstand Japanese competition as yet. Character of Indo-Japan trade should be only complementary. There will, however, be a conflict of interest in respect of cotton textiles.

3. INDO-EUROPEAN TRADE

India has had good and mutually advantageous trade relations with the Continental countries. In the quinquennium ended 1929-30, France, Belgium and Germany absorbed Rs. 56.47 crores or 17.2% of our total exports and supplied us with Rs. 26.41 crores or 11% of our total imports. The value of our trade with European countries was considerably reduced due to the depression and the attempts at Imperial co-ordination, and in the quinquennium ending 1939-40, these three countries absorbed Rs. 20.61 crores or 11.5% of our total exports and supplied us with Rs. 16.05 crores or 10.7% of our total imports. In 1938-39, the European countries as a whole, absorbed Rs. 32.19 crores worth of goods or 19% of our total exports. During the war, our trade with most of the Continental countries came to a standstill. After the war, Europe was completely shattered and was not in a position to revive her trade relations and naturally the trade was at a low level. With the Marshall Aid, European recovery was considerably hastened and this was reflected in the recovery of Indo-European trade.

The following table gives the relevant figures :

(In crores of Rupees)

			Imports	Exports	Balance
1938—39	..	..	28.29	32.19	+3.90
1945—46	..	..	6.44	16.96	+10.52
1946—47	..	..	21.68	31.78	+10.10
1947—48	..	..	37.70	52.67	+14.97
1948—49	..	..	65.20	47.03	—18.17
1949—50	..	..	68.95	54.07	—14.88
1950—51	..	..	76.86	66.05	+10.81

Thus the values of exports and imports in and after 1948-49 exceeded those in 1938-39. But the percentage share of Europe in our total trade had considerably declined in 1948-49 to 12.4% in imports and 11.3% in exports. The pre-war tendency of an export surplus with these countries was reversed to that of an import surplus due to a greater increase in imports than in exports. This was so because the domestic supply position of most of our pre-war exports to Europe was not satisfactory specially after partition.

The Government of India have generally adopted the policy of bilateral arrangements with European countries. So far, agreements have been concluded with Finland, Yugoslavia, Western Germany, Hungary, Switzerland, Poland, Czechoslovakia and Austria¹. The composition of trade is reflected in the articles agreed to be supplied under these agreements.

Main Articles of Export

Jute manufactures, raw jute, linseed, coffee, castor oil, linseed oil, tea, coir yarn, cotton and cotton waste, medicinal plants, cotton textiles, groundnuts, groundnut oil, manganese ore, mica, spices and pepper, hides and skins, tobacco, sandalwood, and shellac.

Main Articles of Import

Chemicals, machinery and metal products, printing paper, newsprint, diesel engines and compressors, tractors and implements, agricultural machinery, machine tools, non-ferrous

¹ Reserve Bank of India Report on Currency and Finance, 1950-51, pp. 222-223.

metals, railway sleepers, electrical equipment, etc., including some foodgrains.

Czechoslovakia undertook to provide technical personnel for the establishment of various industries in India. Some agreements carried an assurance that Indian ships will be allowed to carry a reasonable proportion of the trade.

A perusal of the above will make it clear that while our imports mainly consist of capital goods, our exports will mainly include traditional items, and the surplus available for export in these articles has been considerably reduced. Therefore the need for developing new lines of exports cannot be overemphasized. Tea and tobacco provide good scope.

As regards the direction of Indo-European trade, there has been a remarkable change. In 1938-39, Germany contributed about 46% of our total imports from the European countries, Belgium and Italy each contributed about 10% and Sweden, Netherlands, Switzerland and France each contributing about 5%. In 1948-49, Italy contributed 28%, Switzerland contributed 13%, Belgium 11%, Sweden 9%, Netherlands 8%, Norway 6%, U.S.S.R. 5%, and Germany contributed only 3% of our total imports from European countries. Thus while Germany lost heavily and failed to recover her pre-war share, as the process of reconstruction had only started, Italy considerably improved due to the supply of rayon and silk; Switzerland, Sweden and Norway improved their share due to their being saved from war destruction and damage. Belgium and Netherlands more than recovered their pre-war share. In 1949-50, while Germany and U.S.S.R. improved their shares of the total imports from the European countries to 8% and 18% respectively, the shares of Netherlands, Belgium, Switzerland, Italy and Norway declined. In 1950-51, Germany and France considerably improved their shares. On the whole, Germany has not yet recovered her position as our premier supplier from the Continent while Sweden, Switzerland, Netherlands, France, Italy and U.S.S.R. have improved their position as the sources of our imports.

As regards exports, in 1938-39, Germany absorbed 27% of our total exports to the European countries, France 19%,

Netherlands and Belgium 14% each, and Italy 8%. In 1948-49, France absorbed 16%, Netherlands 15%, Italy 14%, Belgium 12%, Russia 11%, and Germany, Sweden, Czechoslovakia about 5% each. Thus while Germany did not absorb her pre-war share, Italy improved her position and Russia, Sweden and Czechoslovakia became our new customers. In 1949-50, while Germany and Belgium improved their shares of our exports to 17% and 16% respectively, the shares of France and Russia declined to 8% and 6% respectively. There was a slight fall in the shares of Netherlands and Italy. In 1950-51, Italy recovered her share of 1948-49 but France failed to recover appreciably. On the whole, Germany has not yet recovered her share of our export trade but it is better than that of imports. France has also not recovered but Italy has improved her share. Russia could not sustain her importance as our customer. Thus we see that while Germany has not recovered her share in our total trade, Sweden, Switzerland and Italy have improved their shares appreciably.

Indo-Sweden Trade

Sweden is more important as our supplier than as our customer as she emerged from the war with unimpaired productive capacity, high production levels and capable of supplying capital goods and equipment. Imports from Sweden amounted to Rs. 6.05 crores in 1948-49 as against Rs. 1.36 crores in 1938-39. Paper and paste-board and machinery and mill-work account for more than 60% of the total imports. Our exports, on the other hand, increased from Rs. 57 lakhs in 1938-39 to Rs. 2.11 crores in 1948-49. Our exports mainly consist of traditional raw materials. The balance of trade continues to be adverse as before.

Indo-Switzerland Trade

Switzerland is also more important as our supplier than as our customer. Imports from Switzerland continuously increased and in 1947-48, they amounted to Rs. 9.34 crores (amounting to 2% of the total imports) as against only Rs. 1.36 crores (1%) in 1938-39. In 1948-49 and 1949-50, there was a fall due to import restrictions. Switzerland

specializes in the manufacture of scientific instruments and small precision machinery. It has been an important source of India's imports of clocks and watches, drugs and medicines, chemicals, dyeing and tanning substances, instruments, apparatus and appliances, railway coaches and machinery and mill-work. They form about 75% of our imports from Switzerland. There has been a gradual increase in our exports to the country. In 1949-50, they amounted to Rs. 2.47 crores and mainly consisted of raw materials. The pre-war tendency of an import surplus continues.

Indo-Russian Trade

Indo-Russian trade has never been important in the pre-war period. Due to shortage of foodgrains, we entered into a barter agreement for the supply of 200,000 tons of wheat and 20,000 tons of maize against 20,000 tons of raw jute and 7,000 tons of tea.

Indo-Italian Trade

In the post-war years there has been a considerable improvement in our trade with Italy. Our imports have continuously increased and in 1948-49 amounted to Rs. 18.28 crores (2.7% of our total imports including those from Pakistan) as against Rs. 2.69 crores in 1938-39 (1.5% of our total imports). Imports declined in 1949-50 due to severe import policy but improved in 1950-51. Our imports mostly consist of textiles, capital goods, rayon and silk and to some extent rice also. Our exports also showed a continuous increase and amounted to Rs. 9.53 crores in 1950-51 as against Rs. 2.64 crores in 1938-39. But as the increase in exports was much less than that in imports, we are having an import surplus with Italy. In 1949-50, there was a fall in exports due to a diversion of exports to hard currency areas (metallic minerals and raw jute), levy of export duty on cotton, and control on exports of oils and oilseeds. Jute, hides and manganese ore, lac, skins, etc., are other important export items from India.

Indo-French Trade

France is more important as our customer than as our supplier though in 1950-51, there has been such an improvement in imports from France (from Rs. 3.80 crores in 1949-50

to Rs. 10.98 crores) that our export surplus was converted into an import surplus of about Rs. 5 crores. Even before 1950-51, there was a gradual increase in imports. Our exports improved to Rs. 10.41 crores in 1947-48 as against Rs. 6.23 crores in 1938-39 but her percentage share declined from 3.2 in 1938-39 to 2.6 in 1947-48. The exports, however, fell in 1948-49 and 1949-50 but improved slightly in 1950-51. On the whole, there was a decline in the importance of France as a market for our exports. This is due to a fall in the exports of jute manufactures and oils and oilseeds. Attempts must, however, be made to increase our exports.

Indo-Belgium Trade

There has been a remarkable improvement of trade with Belgium both as regards imports and exports. Imports increased from Rs. 2.62 crores in 1938-39 to Rs. 7.15 crores in 1948-49 but declined in 1949-50 due to severe import restrictions. Exports increased from Rs. 4.48 crores in 1938-39 to Rs. 10.67 crores in 1947-48. But there has been a decline in the percentage share of Belgium both in imports and exports. Exports declined in 1948-49 but slightly made up in 1949-50. We are having an export surplus with this country.

Indo-Netherlands Trade

Netherlands has been more important as our customer than as our supplier, but she improved her contribution to our imports from Rs. 1.43 crores in 1938-39 to Rs. 5.46 crores and Rs. 4.83 crores in 1948-49 and 1949-50 respectively. Exports increased from Rs. 4.44 crores in 1938-39 to Rs. 7.24 crores in 1948-49 and Rs. 7.01 crores in 1949-50. But her percentage share in our exports declined from 2.1 in 1938-39 to 1.5 in 1948-49 (after including those to Pakistan). We continue to enjoy export surplus with this country.

Indo-German Trade

Germany was the most important Continental country contributing about 8% of our imports and absorbing 5% of our exports in 1938-39. In the pre-war period, Indo-German trade amounted to Rs. 22 crores (imports Rs. 13

crores and exports Rs. 9 crores) and we used to have an import surplus with Germany. During the war and even until 1948-49, we did not have any trade with Germany. In 1949-50, the total trade amounted to Rs. 15 crores only, imports and exports amounting respectively to Rs. 6 crores and Rs. 9 crores. Thus we had an export surplus because Germany had not fully recovered. As Germany progressed, imports increased to Rs. 10 crores in 1950-51 and to Rs. 28 crores in 1951-52, but exports failed to increase. Thus the import surplus re-emerged itself. But the share of Germany was much lower than in the pre-war period, both in respect of imports and exports. Our imports may be expected to increase with the completion of German recovery, but our position as regards most of our pre-war exports is unsatisfactory and, therefore, the need for developing new lines of exports.

Germany has earned a reputation of her own for achievements in the field of industry and scientific research. In manufacturing process, mechanical technique and industrial know-how, her contribution is outstanding. And so India stands to gain by establishing closer commercial contacts with Germany, and it is desirable to attain the pre-war proportions of Indo-German trade. It will be profitable at present to import German technical skill.

Future Perspective

The Continent mainly exports manufactured goods and imports large quantities of food and raw materials. The importance of Europe as a market for Indian exports and as a source of supply of capital goods and other essential imports specially when the U.K. and the U.S.A. did not fulfil her capital goods requirements, cannot be overemphasized. Both India and Europe were eager to revive their old connections, but the absence of free convertibility of sterling into many European currencies presented a difficulty in the free flow of trade. This difficulty has now been removed by the organization and successful functioning of the European Payments Union and the expansion of Indo-European trade has now been rendered easier. The operation of the European Payments Union (of which the sterling

area is an important member with a large quota of \$ 1060 million) has ensured the inter-convertibility of sterling and other important currencies, and India can take full advantage of these payments facilities.

Economic recovery in India and in Asia is closely linked with economic recovery of Europe, and, therefore, European countries can help these undeveloped countries by a flow of capital in the form of skill, technique, processes and capital goods to these areas, and the Colombo Plan provides an excellent opportunity to do so. On the other hand, these countries can supply primary products and semi-processed commodities to the countries of Western Europe. The development of under-developed countries will increase their effective demand for industrial products of European countries. Hence European countries must co-operate with the under-developed countries. India is also interested in the development of the sources of raw materials in Asia and Africa and of the sources of supply of capital goods in Western Europe. Countries of South East Asia, East Africa, and the Near and the Middle East are bound to have an active balance of trade with advanced industrialized countries. India is likely to have a fairly large active balance of trade with tropical countries of Asia and also of Africa. India can use this export surplus (with Asia and Africa) to finance a part of the import surplus with European countries which in turn will help the Western Europe to finance its import surplus with tropical countries¹.

4. INDO-BURMA TRADE

Before the separation of Burma in 1937, the economies of India and Burma had been moulded on complementary lines for about 100 years under the British aegis. A large volume of trade passed between these two countries before the war. In the pre-war period, Burma was the second best supplier and the third best customer.

¹V.K.R.V. Rao and B.N. Ganguli in their paper read at Brussels, published by 'Capital', June 1951.

(Crores of rupees)

		Imports	Exports	Balance
1938—39 ..	..	24.35	10.03	— 14.32
1946—47 ..	..	4.75	10.08	+ 5.33
1947—48 ..	..	26.46	12.79	— 13.67
1948—49 ..	..	35.00	10.56	— 24.44
1949—50 ..	..	12.86	13.93	+ 1.07
1950—51 ..	..	18.78	21.90	+ 3.12
1951—52 ..	..	23.34	19.55	— 3.89

The revival of Indo-Burma trade was only natural as she is our immediate neighbour, but it has not yet reached the prewar level both in value and volume as well as in the share of total trade. Exports have recovered more than imports and, therefore, the pre-war import surplus has been reduced. In 1948-49, she was fifth among our suppliers and sixth among our customers.

Rice imports which accounted for 45% of the pre-war imports have now been considerably reduced in quantum to one-third, but still they constitute 80% of the total imports. Productive capacity of Burma is now being restored and this source should be tapped for imports of rice. The Government of India have entered into a bilateral agreement for the supply of 3.5 lakh tons of rice annually for 5 years. She can also supply mineral oils, teak wood, lead, zinc and tin.

India supplies mainly manufactured consumer goods and supplied 60% of the total imports into Burma. Cotton textiles have recovered their pre-war volume, but steps should be taken to guard against competition from Japan.

5. INDIA'S TRADE WITH FAR EAST COUNTRIES

With India coming to play a more and more prominent role in international trade, she should look forward to increasing her trade with her neighbouring countries which offer a potential market for Indian goods, both economically and geographically. A first-hand knowledge of the commercial and trade possibilities in these countries will only be in keeping with the Government of India's policy of developing and promoting export trade. These countries are generally backward countries. They demand and need

consumer goods from industrially advanced countries. India is now in a position to cater to their needs. Moreover, many of these countries have among them many Indian businessmen. Japan is a serious competitor in these countries. They essentially constitute a price market. India can very well compete, nay capture these markets with greater effort on the part of exporters and a reduction in costs. Quality of goods is very important. What is more important is an assurance of continuity of supplies.

Indian exports can be developed in the following lines :

Hosiery and general merchandise, toilets, brassware and cutlery, spices, textiles, cement, books, papers and stationery, films, electrical goods, dry cells, medicines, herbs and drugs, oils and oilseeds, tobacco, tea and coffee, Banaspati, jute goods, leather goods, cycles, sewing machines, plastic, shellac and sports goods. India can import rice, coconut oil, betel-nuts, brass scrap, crepe soles, etc.

Cotton textiles were very popular in 1950 due to (i) abolition of export duty, (ii) dollar import cuts and (iii) devaluation. Devaluation presented a very good opportunity to capture these markets. There was a considerable increase in our exports of cotton textiles, but recently there has been a decline which needs sustained efforts to be arrested.

The countries of East Asia occupied an eminent position in the pre-war trade of the country both as sources of many essential imports such as rice, timber, and mineral oils and as markets for many Indian exports. During the post-war years, there has been a marked reduction in the total volume of trade, as can be seen from the comparatively lower values of imports and exports recorded during 1947-48 and 1948-49 despite the large rise in prices since 1938-39. The decline is particularly striking on the side of imports, the percentage share of which to India's total imports declined to 13 in 1948-49 as against 32 in the pre-war year. As compared with 1947-48, imports in 1948-49 showed a considerable improvement due to increased imports from Burma, Japan and Thailand. But exports declined and the net visible surplus was sharply reduced.

The Indian Trade Delegation to the South-East Asian countries recently reported that good markets exist in these countries not only for the traditional Indian exports, such as jute goods, but also for new lines in which India has become prominent, notably cotton piecegoods. But the need for maintaining a proper quality of goods exported cannot be overemphasized especially so in cotton piecegoods. Cement may be better packed in paper as the climate of these countries is moist. The proper method of encouraging the trade will be to conclude bilateral trade agreements. The ECAFE should play a vital role as an agency for mutual stimulation of trade between countries in Asia and the Far East. It is also proposed to set up a regional body of trade organizations in the South-East Asia with the same object.

6. INDIA'S TRADE WITH MIDDLE EAST COUNTRIES

The countries included in this group are Egypt, Palestine, Iran, Iraq, Syria-Lebanon, Turkey (Asiatic), Saudi Arabia, Afghanistan and Sudan. Before the war, these countries were mainly agricultural concentrating upon exports of a few staple agricultural commodities. They are generally self-sufficient in matters of food except coffee, tea and sugar. They possess unexploited resources of minerals particularly oil. The discovery and development of oil deposits in the Middle East has been the major factor in bringing it into the orbit of world trade. They imported manufactured consumer goods. Their trade was mainly concentrated with the U.K., but Japan and Germany had also made inroads, the former mainly due to the cheapness of her wares. There is a tendency in these countries now to industrialize, and even with their limited resources they have made phenomenal progress.

During the war, due to the elimination of other countries, India got an opportunity to cater for these markets, and established good trade connections specially in cotton textiles. India also got mineral oils which she needed most even in pre-war days, but more so during the war period as she could not get any mineral oil from Burma due to its occupation by Japan. Recently there has been a slight decline in our trade with the Middle East countries specially in

respect of exports. The following table gives the relevant figures :

India's Trade with the Middle East Countries
(Crores of Rupees)

		Imports	Exports	Balance
1938—39*	..	6.15	2.89	— 3.26
1945—46*	..	63.83	12.45	— 51.38
1946—47*	..	40.51	11.96	— 28.55
1947—48*	..	48.04	14.84	— 33.20
1948—49 ..	..	54.81	14.41	— 40.40
1949—50 ..	..	77.33	21.71	— 55.62

*Excluding Turkey, Syria and Palestine.

India's exports to the Middle East form about 3% of her total exports and imports therefrom constitute about 10% of her total imports. In spite of the relatively small quantities involved, the trade is qualitatively important, considering the essentiality of the commodities exchanged. Our balance of trade with these countries is normally adverse. In 1948-49, imports from these countries into India amounted to Rs. 54 crores but our exports were only Rs. 16 crores. This is due to the imports of essential raw materials like raw cotton and heavy mineral oils. Therefore the fostering and arriving at a more even balance of trade between the Middle East countries and India is undoubtedly of great importance from the immediate as well as the long-term points of view.

Iran and Egypt are the two important countries which account for about 95% of our total imports from the Middle East countries and for about 60 to 70% of our total exports to these countries.

Indo-Iranian Trade

The value of imports from Iran and her percentage share of the total imports continuously declined from Rs. 23.57 crores (8.3%) in 1946-47 to Rs. 22.47 crores (4.6%) in 1947-48 and to Rs. 20.09 crores (3.0%) in 1948-49. In 1949-50 and 1950-51, there was an increase to Rs. 32.48 crores and Rs. 36.81 crores respectively. Imports of mineral oils constitute

between 90 to 95% of our total imports from Iran. In the earlier years, imports of mineral oils were falling but after 1948-49 there was an increase in their imports as also an increase in their prices. Our exports to Iran have shown a gradual increase from Rs. 2.83 crores in 1946-47 to Rs. 5.96 crores in 1950-51. Tea and cotton piecegoods constitute principal exports.

Indo-Egyptian Trade

Our imports from Egypt continuously increased from Rs. 14.05 crores in 1946-47 to Rs. 23.04 crores in 1947-48, to Rs. 36.22 crores in 1948-49 and to Rs. 39.43 crores in 1949-50 due to increase in imports of raw cotton which alone account for about 90% of our total imports. Our exports have been practically constant at about Rs. 5 to 6 crores as exports of jute manufactures accounting for about 85% of our total exports could not be increased due to domestic lower production. And as exports could not be increased while imports increased, our import surplus with Egypt increased.

Before partition, a considerable portion of our trade to some of these countries (particularly Iran and Afghanistan) consisted of land-borne trade. But now a difficulty has been created, Pakistan coming in between. The prospects are not bright without an amicable settlement with Pakistan.

Principal Indian Exports

Cotton Textiles—Almost all the Middle East countries need cotton textiles. The solitary exception is Egypt which has developed her own textile industry to feed which she may require our cheap raw cotton. In the post-war years, Indian share has considerably declined while the U.K., the U.S.A. and Italy have increased theirs. The main cause was the increase in prices due to black-marketing in export quotas, withdrawal of export ceiling prices and the imposition of export duties. Removal of export duties and devaluation gave India some competitive advantage against the U.S.A., Japan and Italy and the exports increased. But continuity and adequacy of supply should be assured to ensure a permanent and stable market. Japan and Britain are likely to be the major competitors.

There is a good demand for jute and jute products. There is a general complaint of inadequacy of supply. Continuity and adequacy of supplies should be assured.

Recently consumption of tea has increased substantially. But competition is in the offing. Indonesian competition will be strong. Active propaganda and competitive prices will be essential. Packing should be attractive to create demand. Generally Indian tea is adulterated with inferior teas in these countries. This practice should be checked.

Spices and pepper are important items of import and only rank after cereals and grains in the import schedule of Iran.

These countries are rapidly becoming patent medicine-minded. Indian medicines have been often enquired of, and with a proper get-up and more modern sales methods, they are expected to do well.

Many of these countries have not got electricity. India can suitably export her lanterns. Before the war, Germany supplied all the requirements, but India may be expected to do well provided quality is improved and prices are competitive. Iran has a plan to electrify herself. The demand for electrical goods, including fans and motors, will probably increase, and India might, to some extent, supply Iran's requirements which are now met entirely by imports. In some cases, re-export trade can also be developed, *e.g.*, cycles and agricultural implements.

Edible oils are in general demand due to the high cost of ghee and exports of Banaspati may be profitably developed.

Toilet goods, boots, shoes and other leather manufactures, light machinery, unmanufactured tobacco, coir and coir matting, shellac, tyres and tubes, iron and steel, sports goods, cutlery, stationery, plastic-wares, glass and glassware and cinema films are other articles which can be profitably exported.

Principal Imports

Raw cotton from Sudan and Egypt; hides and skins from Egypt, Sudan, Iraq and Iran; dry fruits mainly dates; a small quantity of wheat from Syria and Iraq; Mineral oil from Iraq and Iran; minerals (asphalt, salt and phosphate

of lime) particularly from Iran and Saudi Arabia; and hemp and gum Arabic. Non-ferrous metals can also be imported.

Future Perspective

These countries with their close cultural affiliations and by virtue of their proximity to India, form the most natural and profitable outlets for Indian products. These markets were built up laboriously during the war with great trouble and at the cost of our own internal economy. The standard of living in these countries has risen enormously during recent years. Hence it was expected that they will provide profitable avenues for our exports. But the hopes have not been realized and they are gradually turning their attention to their pre-war sources. As cheap and plentiful goods from the Continent and the U.S.A. have flooded the Middle Eastern markets, they are losing interest in Indian goods. Hence a concerted drive is needed to check the rot from spreading any more.

There have been regular complaints regarding quality and of profiteering on the part of Indian exporters. These markets may be retained by supply of quality goods at attractive prices. "The competitive factors in favour of both the U.S. and the U.K. have been modern methods of salesmanship, *i.e.*, aesthetic get-up, of first samples and then supplies, excellence of packing, and a promptness in listening and making satisfactory settlements in regard to customers' complaints"¹. India has hitherto lagged far behind. These markets require serious fostering and the removal of mal-practices so often complained of; otherwise India will be completely ousted from these natural markets. India has to instil confidence in their businessmen for long-term commercial relations. Actual requirements of these countries have to be studied and products standardized. Bilateral agreements with these countries should be concluded.

7. INDO-SOUTH AMERICAN TRADE

Most important countries are Argentina (leader of this bloc), Brazil, Chile, Peru, Equador and Columbia. Formerly, they depended upon the export of raw materials and

¹ 'Indian Trade Journal', January 19, 1950, p. 182.

imported capital and manufactured consumer goods from other countries. Japan flooded these markets with cheap manufactures such as household hardware, enamelled ware, rubber goods, crockery, glassware and other cheaper kinds of goods. These countries are now determined to push on with industrialization, specially Argentina and Brazil, and they have made sufficient advance. In the pre-war period, India's trade with these countries was insignificant, being more competitive than complementary. Brazil and Uruguay both competed with India in raw hides and skins, while the former was its rival in coffee and to a lesser degree in raw cotton in the Continental market. But after partition, this is not so.

Government of India had recently concluded a Barter Agreement with Argentina for the supply of wheat (390,000 tons) in exchange of jute goods (30,000 tons). They can very easily spare for us foodstuffs and hides and skins. These countries have continuously sent trade enquiries for the following goods :

Tea, spices, hessians, desiccated coconut, medicinal drugs and herbs, cotton textiles, raw and manufactured jute, shellac, tobacco, mica, coirs and matting, etc., sandalwood soaps and toilets.

It must be noted that South America is mainly a price market. Cotton textiles and woollen manufactures can very well capture these markets, provided they are cheap and attractive. That was the reason of Japan's success. Indian tea and sports goods as well as coir matting offer very good prospects, mainly on account of their cheapness. Formerly, our trade with these countries was carried on through the U.K. and the U.S.A. It will be profitable now to establish direct trade relations. South American importers are willing and eager for it. Products of Indian arts and crafts, though they cannot develop a large market, can still provide a lucrative business. With judicious propaganda and supply of first class stuff, we can develop a market to the people of discriminating tastes. Indian cattle are very highly priced in these countries as they have the same climatic conditions, being situated in the tropics. Selected strains of certain breeds of Indian cattle may be profitably exported.

INDIA'S BALANCE OF PAYMENTS

The balance of payments has now become the corner-stone of economic thinking. Balance of payments of a country is the resultant of the balance (credit or debit) (a) on account of trade (exports and imports including bullion), (b) on account of payments for services traded across frontiers and (c) on account of borrowing or lending operations—both private and public involving payments of interests or dividends. The International Monetary Fund defines it as 'a systematic record of all economic transactions between residents of that country and residents of other countries'. A correct estimate of a country's balance of payments is (1) an indicator of the present and future economic activity, (2) an index of country's credit-worthiness and its capacity to pay, and (3) is useful in matters of international collaboration.

Under pre-war gold standard the balance of payments used to be adjusted through changes in price level brought about by movements of gold and capital or by Central Bank actions. But during recent years, the international structure of payments has undergone considerable changes on account of the following factors :

- (i) Changes in debtor-creditor relationship thus creating difficulties for the usually creditor countries in importing the minimum necessary requirements (U.K. and India).
- (ii) Discovery of synthetic substitutes thus creating a surplus in raw material exporting countries and depriving them of their usual imports of manufactured goods (U.S.A.).
- (iii) Attainment of economic self-sufficiency by the leading industrial countries resulting in a reduction in their imports (U.S.A.).
- (iv) Reduction in world trade due to world economic depression and the Second World War.

- (v) Exchange restrictions distorting and restricting the operation of the multilateral system of payments.
- (vi) Disparity in the pace of technical advance of different countries and their urge for the economic development.
- (vii) Chronic shortage of food in countries with a large population (India).

Thus the classical theory of the adjustment of balance of payments is not applicable in the existing conditions. Hence the need of regulating and controlling foreign trade with a view to avoid a chronic maladjustment in the balance of payments cannot be overemphasised.

A. India's Balance of Payments

1. PRE-WAR BALANCE OF PAYMENTS

During the pre-war period, India used to have a favourable balance of trade, but the balance of payments position was not very sound. A large export surplus had to be maintained (generally at the cost of domestic consumption) to pay the tribute levied by the Britishers (Home charges)¹. With the exception of the two years of disastrous currency experimenting, the trade of India steadily showed a balance in her favour and except in 1907-08 and the depression years (1932-36), it was sufficient to pay the 'home charges', the cost of services utilized and interest payments on capital imported. The net deficit on invisible account was of the order of Rs. 45 crores. India being an exporter of agricultural produce and raw materials, reflected closely the adverse terms of trade usual with such countries. As a debtor country, the net annual payment it had to make for services was not only quite high but it changed comparatively little from year to year. Gold movements played a very prominent part in balancing the country's external accounts from year to year, gold being imported in times of prosperity and exported in times of adversity. About Rs. 337.88 crores of gold was exported from India during the period 1931-32

¹There was a close conjunction between 'home charges' and export surplus. Refer to K. T. Shah, 'Trade, Tariffs and Transport', pp. 71-72.

to 1938-39 when her economy was hard hit due to depression. It may, however, be noted that India did not adopt any restrictive or regulative practices as adopted by other countries. Thus India's usual export surplus instead of enriching the country constituted a sort of political drain and was the most severe cause of progressive impoverishment. The following table gives the relevant figures :

(In crores of Rupees)

Years	Current Account					Capital Account			Errors & Omissions.
	Goods, services and gold					Known capital items			
	Merchan- dise	Interest & divi- dends	Other servi- ces	Gold	Total	Long- term	Short- term	Total	
1924-25	+117.66	-31.78	-33.37	-73.88	-21.37	-12.25	- 0.03	-12.28	+33.65
1932-33	- 5.47	-34.41	-16.16	+65.52	+ 9.48	- 6.50	- 8.15	-14.65	+ 5.17
1936-37	+56.73	-32.38	-18.31	+27.84	+33.88	..	..	-33.36	- 0.52
1937-38	- 0.02	-30.17	-18.13	+16.33	-31.99	..	..	+5.30	+26.69
1938-39	+ 7.2	-46.4		+23.3	-15.7	..	..	+3.6	-12.1

Source : 'Reserve Bank of India Bulletin', July 1949, p. 5.

2. WAR-TIME BALANCE OF PAYMENTS

No specific figures about the war-time balance of payments of India are available. Not to say of invisible exports and imports, full information about the visible balance of trade is also not available. During war period, figures were released only about the trade on private account. Even the figures released in 1948 about India's foreign trade (private and Government) do not give the full information¹. Full information is, however, available about the acquisition of sterling balances, *i.e.*, the purchases of sterling by the Reserve Bank in the open market since the outbreak of the war and the amount of sterling presented to it by the British Government and its disposal. This would seem to make good the absence of data regarding the balance of payments.

¹ See Chapter II, pp. 33-36

The following table shows the acquisition and disposal of sterling by the Reserve Bank of India.

Acquisition and Disposal of Sterling

Sources	Sep. 1939 to Mar. 1940	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46	Total Sept. 1939 to 45-46
<i>Acquisition—</i>								
(1) Balance held by Reserve Bank at the beginning of the year	64	142	144	284	511	945	1,363	64
(2) Sterling purchased by Reserve Bank.	86	76	99	127	145	142	138	813
(3) Sterling payments by the Secretary of State	16	43	199	310	365	357	342	1,632
(4) Other sterling credits	..	4	2	3	9	12	15	45
Total available for disposal	166	265	444	724	1,030	1,456	1,858	2,554
<i>Disposal—</i>								
(1) Sterling utilized for sterling debt repatriation	22	89	110	160	16	14	..	411
(2) Sterling commitments on Account of Government	2	32	48	48	67	74	73	344
(3) Sterling sales to public	..	..	2	5	2	5	61	75
Sterling holdings at the end of March by the Reserve Bank of India	142	144	284	511	945	1,163	1,724	1,724

Source : 'Reserve Bank's Report on Currency and Finance', 1945-46, p. 42.

The Growth of Sterling Balances

The term 'sterling balances' signifies the sterling assets of the Reserve Bank of India partly in the Issue Department as a cover against the issue of currency and partly in the Banking Department as 'Balances held abroad'. There were heavy accumulations of sterling balances during the

war years but the process continued even after the end of the war in August 1945. They reached the highest peak level of Rs. 1,733 crores on April 5, 1946. This amount would have been much more but for Exchange Control and the pegging of rupee at 1s. 6d. The sterling balances grew out of the following two main sources of supply.

1. *India's export surplus*—India's export surplus (merchandise on private account) amounted to about Rs. 400 crores between September 1939 and March 1946. Sterling purchased by the Reserve Bank during the same period amounted to Rs. 813 crores. The difference is mostly explained by export surplus in treasure and unaccounted export surplus on Government account¹.

2. *India's contribution to the Empire Dollar Pool*—It was a war-time innovation designed to conserve and ration the Empire's foreign exchange resources. The members of the sterling area including India, surrendered their right to hold foreign exchange in their own custody and agreed to impose restrictions on the expenditure of foreign exchange in order to ensure that the limited foreign exchange resources of the sterling area were utilized to the best advantage in the prosecution of the war. They were held in one pool in the custody of the Bank of England, and this pool came to be known as the Empire Dollar Pool. India's contribution to this pool consisted of (a) her original holding of dollar balances and securities at the commencement of the Empire Dollar Pool in 1940, (b) her export surplus, (c) military expenditure of the U.S. and Allied forces in India, and (d) personal expenditure of the U.S. army and other personnel in India. India's net contributions up to March 1946 amounted to Rs. 114 crores.

3. *War expenditure recoverable from the U.K. Government (Financial Settlement with the U.K.)*—With the progress of war, the expenditure of the U.K. in India increased at a terrific speed. Recourse was had to the Reserve Bank of India Act, Section 41 and Section 33 (2) which provide for the issue of rupees unlimitedly in exchange for sterling deposited

¹. Refer to Chapter II, pp. 33-36

to the credit of the Reserve Bank of India at the Bank of England, and thus financing the U.K.'s expenditure in India was made a very simple affair. The amount expended by India and debited to the H.M.G. under the Financial Settlement of 1940 was Rs. 1,736 crores. The sterling payments by the Secretary of State amounted to Rs. 1,632 crores which almost equals the difference between the amounts recoverable from the H.M.G. and the Home Charges which were payable in India¹. British Army expenses were paid by the H.M.G. in the form of sterling balances. This may explain the actual difference between the total payments made by the Secretary of State for India and the amounts actually recoverable after deducting the Home Charges.

Sterling balances to the extent of Rs. 411 crores were utilized for sterling debt repatriation. A lump sum of Rs. 20 crores was paid to the H.M.G. in settlement of non-effective charges. A portion of these sterling balances has been used up by the sale of gold by the Governments of the U.K. and the U.S.A. to meet their war expenditure in India.

Salient Features of War-time Balance of Payments

1. Huge accumulations of sterling balances signify a continuous favourable balance of payments. Besides heavy invisible items, reduction in imports and improvement in the prices of primary products and the consequent favourable terms of trade were the main contributory causes.

2. Repatriation of sterling debt and the emergence of India from a mature debtor to immature lender resulted in the elimination of home charges and a considerable reduction in the payment for services. Thus our balance of payments was strengthened with the removal of this continuous drain of about Rs. 45 crores annually.

3. Restricted imports during the war and the inflationary methods of war finance left a large volume of purchasing power in the hands of the masses. The overworked

¹ Since the beginning of the war up to 1942-43, they amounted to Rs. 140 crores, Shenoy, 'Sterling Assets of the Reserve Bank of India.'

equipment of the major industries demanded immediate replacement. Thus the demand for imports was almost insatiable. But the pile of sterling assets could act as a cushion for this resulting drain on India's post-war balance of payments, thus avoiding the necessity of exporting gold or capital or that of borrowing from abroad.

3. POST-WAR BALANCE OF PAYMENTS

The Reserve Bank of India has recently prepared some estimates of India's post-war balance of payments. The figures are not strictly comparable with each other but still these estimates present a rough picture of how India has been balancing its international accounts since the end of the war. The table on p. 154 gives the relevant figures.

Salient Features of Post-War Balance of Payments

Under the Current Account up to 1948, fairly close correspondence has been maintained between payments and receipts on account of merchandise. In 1946, imports of merchandise (including food imports by the Government) cost Rs. 388.7 crores as against Rs. 337.5 crores received from exports. In 1947, control on imports having been partly relaxed, the payments rose to Rs. 534.7 crores but, since receipts also went up to Rs. 453.7 crores, there was no serious deterioration in the balance of trade. The partition of the country, and the effect of reimposed import controls towards the latter half of 1947, caused the value of imports of merchandise to fall to Rs. 493.5 crores. Since the receipts were fairly well maintained at Rs. 427 crores, the net deficit on trade was reduced to a level below that of 1947. This close correspondence was possible due to (i) the changes in import control policy and (ii) the improvement in terms of trade from 1946 to the middle of 1948. The absolute increase in values between 1946 and 1947, and the relative increase (taking into consideration the partition of the country) in 1948, are partly a reflection of larger quantities of goods imported and exported. But the improvement in terms of trade suggests that there was no substantial increase in the volume of exports. It may, however, be noted that up to 1948 India had a favourable balance on private account.

In the same period, non-monetary gold movement played a very insignificant part. Service items, however, tended to determine the net position on Current Account. In 1946, India received payments from the U.K. for expenditure incurred on her behalf and hence a favourable balance. In 1947, the position changed sharply and though there appears to have been a slight improvement in the following year (perhaps due to partition), the pre-war feature of a regular deficit on account of service items came back in a somewhat less serious form, specially due to the interest accruing on the sterling assets of the Reserve Bank of India.

The deficit on Current Account in no one of the three years seems to have been excessive. It was only Rs. 29 crores in 1946. In 1947, the net position on Capital Account suggests a deficit of about Rs. 57 crores but the figure must be taken with caution in view of the large entry under Errors and Omissions. The disinvestment attributable to the deficit on Current Account may have been anywhere around Rs. 100 crores in 1947 mainly due to the stoppage of receipts from the U.K. on account of recoverable war expenditure and violent political upheavals dislocating greatly the economic life of the country. But since no definite limits had come to be placed on the rate of release of India's sterling balances till August 1947, the deficit large though it was, did not present any serious difficulties. Even in 1948, the deficit of Rs. 100 crores is not indicative of any serious position in the country's balance of payments.

The Capital Account shows the manner in which the deficits on Current Account have been financed. The foreign assets of the Banking system (including the Sterling Balances) fell by Rs. 56.9 crores in 1946, Rs. 107.5 crores in 1947 and Rs. 327.0 crores in 1948 (mainly accounted for by Amortization and other contractual repayments including the transfers to Pakistan). The outflow of private capital was much smaller in 1948 than in 1947, but the net payment on this account in 1948 might have been probably lower than the figures of Rs. 64.4 crores shown in the table, had data been available on the side of receipts also.

Post-War Balances of
(In crores

	1946			1947		
	Receipts	Pay-ments	Net	Receipts	Pay-ments	Net
A. Current Account--						
1. Merchandise	337.5	388.7	-51.2	453.7	534.7	-81.0
2. Gold (non-monetary)	0.9	1.7	-0.8	1.0	15.1	-14.1
3. Services	118.6	103.0	+15.6	63.6	118.0	-54.4
4. Unilateral Transfers	..	..	..	..	4.5	-4.5
5. Unclassified	..	..	..	..	..	..
B. Capital Account						
6. Change in the Assets of the Banking System	56.9	..	+56.9	107.5	..	+107.5
7. Change in the Liabilities of the Banking System	5.8	..	+5.8	4.7	..	+4.7
8. Identified Security Transactions	..	6.5	-6.5	10.6	12.3	-1.7
9. Contractual Transactions of the Govt.						
(a) Purchase of Dollars from the IMF	..	..	..	..	..	..
(b) Others	..	17.8	-17.8	20.3	9.9	+10.5
10. Private Capital Remittances	..	..	..	..	64.4	-64.4
11. Miscellaneous	..	9.3	-9.3	..	..	..
C. Errors and Omissions	7.1	..	+7.1	97.5	..	+97.5
	526.9	526.9	..	758.9	758.9	..

Source : 'Reserve Bank of India Bulletins.'

Payments 1946-1951
of Rupees)

1948			1949			1950			1951		
Receipts	Pay-ments	Net	Receipts	Pay-ments	Net	Receipts	Pay-ments	Net	Receipts	Pay-ments	Net
427.0	493.5	-66.5	426.0	640.1	-214.1	540.1	509.3	+30.8	730.5	870.2	-139.7
..	0.1	-0.1	..	..	..	..	..	..	..	..	..
85.8	148.3	-62.6	84.8	90.1	-5.3	84.6	92.9	-8.3	104.4	109.7	-5.3
15.7	5.8	+9.9	15.9	5.6	+10.3	15.9	5.4	+10.5	19.9	5.6	+14.3
26.9	7.4	+19.5	37.9	10.0	+27.9	37.5	9.0	+28.5	43.3	5.8	+37.2
337.8	..	+337.8	164.2	..	+164.2	..	21.0	-21.0	28.3	..	+28.3
12.0	..	+12.0	..	1.2	-1.2	..	8.7	-8.7	23.7	..	+23.7
8.0	..	+8.0	5.0	6.5	-1.5	4.3	1.7	+2.6	..	1.6	-1.6
22.8	..	+22.8	10.5	..	+10.5	..	..	..	..	..	..
.2	221.4	-221.2	19.2	2.3	+16.9	17.2	2.8	+14.4	71.0	2.3	+68.7
9.8	26.1	-16.3	5.5	26.5	-21.0	7.7	19.6	-11.9	13.6	15.4	-1.8
..	..	..	..	..	..	..	..	..	..	..	..
..	43.2	-43.2	13.3	..	+13.3	..	37.0	-37.0	..	23.8	-23.8
946.0	946.0	..	782.3	782.3	..	707.3	707.4	..	1,034.4	1,034.4	..

The position began to deteriorate during the latter half of the year 1948 due to a liberal import policy as also partly induced by a decline in the value of exports. This deterioration continued till June 1949. The position was aggravated by a high level of Government imports. There was also a slight reversal in the terms of trade in the third quarter of 1948. The deficit on Current Account in the periods July-December, 1948 and January-June, 1949 amounted to Rs. 142 crores and Rs. 178 crores respectively as against a surplus of Rs. 19 crores in the period January-July, 1948. To judge by the net position on Capital Account, a surplus of about Rs. 17 crores in the first half of 1948 was transformed into a deficit of over Rs. 85 crores in the second half and a still larger deficit of Rs. 143 crores in the following six months¹.

The gap in payments tended to close when the more stringent import policy adopted in May 1949 slowed down the rate of imports. The deficits of Rs. 94.7 crores and Rs. 70.4 crores respectively in the first and second quarters of 1949 excluding the extraordinary payments to the U.K. for stores, had already fallen to Rs. 23.9 crores in the third quarter. The improvements in payments was accelerated by the devaluation of the rupee and in the last quarter of 1949 there was, for the first time since the first half of 1948, a surplus amounting to Rs. 41.8 crores. The surplus continued during the first quarter of 1950 but it was reduced to only Rs. 29.8 crores. It was, however, completely eliminated in the second quarter of 1950. Between July 1948-June 1949, there was a net disinvestment of Rs. 236.7 crores. In July 1949-June 1950, the disinvestment amounted to Rs. 3.2 crores only. The period ended without our having drawn anything from the sterling releases amounting to £100 million which could be carried over to the next period for financing the increased imports. Thus India's payments position with the sterling area was once again moving in the direction of a fairly even balance. There was a surplus

¹ The figures in respect of the half years July-December 1948, and January-June 1949, exclude payments for the "extraordinary" item represented by the purchase of military stores by the Government of India according to the terms of the Indo-U. K. Financial Agreement of July, 1948.

of Rs. 65.9 crores in the Current Account in the period October 1949-September 1950 as against a deficit of Rs. 248.8 crores in October 1948-September 1949. This was brought about both by an improvement in exports and a curtailment in imports as well as a slight improvement in the net receipts from invisibles. In the Capital Account, there was a net investment of about Rs. 35 crores (due to errors and omissions does not precisely correspond to the Current Account surplus of Rs. 65.9 crores) as against a net disinvestment of Rs. 245 crores in the period October 1948-September 1949.

The year 1950 showed a Current Account surplus of Rs. 61.5 crores as compared to a deficit of Rs. 169.3 crores in 1949. This improvement of Rs. 231 crores was brought about by an increase of Rs. 114 crores in exports rendered possible by an increase in export prices, enhanced export duties and some increase in quantities exported, and a decline of Rs. 118 crores in imports caused by a reduction in food imports and the difficulty in securing adequate imports. As the prices of imports were appreciably higher than those in 1949, the value may be taken to underestimate the magnitude of reduction in the quantum imported in 1950. The improvement in payments position occurred mainly in the second half of 1950 and as such is an indication of the assistance derived from the present international situation. On the Capital Account, there was a net investment of Rs. 24.5 crores, the difference of Rs. 37 crores being explained by errors and omissions.

The improvement of Rs. 106 crores in the payments position with the sterling area explains the largest part of the improvement in the balance of payments. This was due to an increase of Rs. 63 crores in exports caused by the Korean war and an increase in the exports of cotton textiles, and a decline of Rs. 41 crores in imports due to severe import restrictions.

In 1951, however, there was again a deficit on Current Account which amounted to Rs. 93.5 crores. This was due to the heavy trade deficit of Rs. 139.7 crores as against a surplus of Rs. 28.12 crores in 1950 caused mainly by

unusually heavy imports of food, facilitated by the U.S. Food Loan, and industrial raw materials, in spite of an increase in exports by Rs. 143.4 crores and an improvement in terms of trade. There was, however, a surplus of Rs. 46.2 crores in invisibles. (This surplus is, however, misleading as the value of imports is C.I.F.). 'Errors and omissions' record another deficit of Rs. 23.8 crores, bringing the total deficit on Capital Account to Rs. 117.3 crores. There was a surplus of Rs. 65.5 crores with the sterling area as against Rs. 59.3 crores in 1950 and a deficit of Rs. 53.5 crores with Pakistan as against Rs. 2 crores.

The following table shows in nutshell the 'financing of international transactions' during 1946-51.

Financing of International Transactions 1946-51
(In crores of Rupees)

	1946	1947	1948	1949	1950	1951
A. Goods and Services (net)	-30.4	-147.5	-132.7	+179.6	+51.0	-107.8
B. Remittances and emigrants' funds	..	-4.5	+10.2	..	..	..
C. Private capital movements	..	-64.4	-16.4	-11.8	+1.4	+11.9
D. Special Official financing	-35.6	+7.5	-221.4	+14.6	+16.7	+11.7
UNRRA contributions	-6.0	-2.0	..	..	..	..
Amortization & other contractual repayments	-3.6	-3.1	-223.8	+7.6	+7.2	+6.9
Subscription to IMF and IBRD	-2.6	-9.1	..	+7.*	+9.5*	+4.8*
Rupee securities held on account of foreign institutions	-1.7	+10.6	+8.3	..	..	..
Repatriation of debt	-1.2	-9.2	-7.1	..	..	..
Burmese currency settlement	11.2	+20.3	+1.2	..	..	..
Other identified capital transactions of the Government.	-9.3	..	..	..	..	..
E. Total (A to D)	-66.0	-208.9	-360.3	-176.8	+6.91	-84.2
F. Errors and Omissions	+7.3	+97.5	-1.5	+13.3	-37.0	-23.8
G. Total requiring financing (E plus F)	-58.7	-111.4	-361.8	-163.4	+32.3	-108.0
H. Compensatory official financing—						
Loan to Siam	-4.0	-0.8	..	+4.6	..	..
U.S. wheat loan	..	..	..	..	..	+58.5
Purchase of dollars from the IMF.	..	..	+22.8	+10.5	..	..
Barter Deals of the Government	..	..	..	+10.9	..	..
Short-term balances :						
Due abroad to official and banking institutions	+5.8	+4.7	+12.0	-3.9	-9.2	+22.2
Foreign exchange assets	+56.9	+107.5	+327.0	+141.3	-23.2	+46.7
Repatriation of Indian Currency	..	..	..	..	..	-19.3
Monetary gold	..	..	..	..	..	..
Total compensatory financing	+58.7	+111.4	+361.8	+163.4	-32.3	-108.0

Source : 'Reserve Bank of India Bulletins'.

* Loans from IBRD.

The broad facts emerging from the above table are (1) that financial transactions involving private capital remittances have, on the whole, resulted in net payments mainly on account of repatriation of private British capital, (2) that the net effect of special official financing has been generally small except in 1948 when the Government of India acquired the Pensions Annuity, and (3) that the sterling balances and the facilities offered by the International Monetary Fund have been the two main sources of "Compensatory financing". In 1951, the U.S. Food Loan financed our heavy food imports.

The Hard Currency Position

Only Current Account has been prepared due to lack of a suitable data. The table on page 160 gives the relevant figures.

The following are the salient features :—

Up to 1948, the value of exports to the hard currency countries has been steadily going up, but the import control also played a very prominent part in balancing our hard currency accounts much more so perhaps than in the case of the overall balance of payments. In 1946, imports on private account were so low that, combined with imports on Government account, the figure was only slightly in excess of the value of the exports. But in 1947, due to the relaxation of controls, imports on private account shot up by nearly Rs. 102 crores resulting in a substantial rise in the net deficit on Current Account which was financed out of the Dollar Pool. But in 1948, our drawings from the Dollar Pool were restricted. Import controls were again tightened up, resulting a decline of over Rs. 26 crores in the value of private imports. Imports on Government Account, however, increased the deficit and \$ 68 million had to be purchased from the IMF to supplement the dollar allocation.

Due to business recession in the U.S.A. after August 1948, our exports to hard currency areas began to fall. The trend of falling exports was more marked in case of hard currency areas than in case of soft currency areas, while the trend of rising imports was most outstanding in respect of imports from the Sterling Area. Thus the deterioration in hard currency position was mainly due to a reduction in exports.

Current Transactions with Hard Currency Countries 1946-51

(In crores of Rupees)

Items	1946		1947		1948		1949		1950		1951	
	Receipts	Pay- ments Net	Receipts	Pay- ments Net	Receipts	Pay- ments Net	Receipts	Pay- ments Net	Receipts	Pay- ments Net	Receipts	Pay- ments Net
1. Merchandise	88.7	42.4 +46.3	119.1	144.3 -25.2	134.8	116.8 +18.0	119.0	109.2 +9.8	170.7	101.0 +69.7	203.8	134.8 +59.0
2. Non-monetary Gold	..	..	..	..	..	.1 - .1	..	..	..	..	..	..
3. Government Expenditure (merchandise & services)	.6	49.4 -48.8	..	49.5 -49.5	4.4	63.2 -58.8	6.7	66.9 -60.2	.2	41.3 -41.1	0.8	150.9 -150.1
4. Services												
(a) Foreign travel, transportation and insurance	..	2.8 -2.8	..	4.0 -4.0	4.4	3.0 +1.4	4.7	4.3 +.4	5.4	4.3 +1.1	7.2	4.4 2.8
(b) Investment income	..	2.5 -2.5	..	3.6 -3.6	..	4.4 -4.4	..	6.9 -6.9	.2	7.1 -6.9	0.3	6.3 -6.0
(c) Miscellaneous	2.4	1.1 +1.3	2.6	4.3 -1.7	0.5	2.0 -1.5	0.3	1.4 -1.1	1.0	1.6 -.6	1.2	1.4 -0.2
5. Unilateral Transfers	5.3	.9 +4.4	2.7	1.0 +1.6	2.4	0.7 +1.7	3.4	0.6 +2.8	4.4	0.7 +3.7	5.3	.0.3 +5.0
6. Unclassified	..	2.8 -2.8	.2	3.6 -3.4	3.1	2.1 +1.0	4.3	2.2 +2.1	4.8	1.6 +3.2	4.4	1.5 +2.9
Total Current Transactions	97.1	101.9 -4.8	124.6	210.4 -85.8	149.7	192.4 -42.7	138.5	179.5 -53.1	186.7	157.7 +29.0	223.0	299.4 -76.6

Source : 'Reserve Bank of India Bulletins.'

Heavy imports on Government Account were also a contributory cause. Between July 1948 and June 1949, the deficit amounted to \$213 million and India had to overdraw from the Central Reserves to the extent of \$ 84 million besides purchasing \$ 56 million from the IMF.

Due to severe import restrictions in the third quarter of 1949, the deficit in the Current Account was reduced to an annual rate of Rs. 37.6 crores. Exports, however, remained at a low level. After devaluation, exports rose steeply and coupled with reduced imports led to a surplus of Rs. 16.3 crores in the Current Account during the last quarter of 1949. In the first quarter of 1950, the surplus was reduced to Rs. 5.5 crores only. It was for the first time in the post-war period that there were no drawings from the Central Reserves in the period July 1949-June 1950. Due to the Korean war and the rearmament boom in the U.S.A., there emerged a surplus of Rs. 17.7 crores in the Current Account during the third quarter of 1950.

The hard currency deficit of Rs. 53 crores in 1949 was converted into a surplus of Rs. 29 crores in 1950. This improvement of Rs. 82 crores occurred mainly in the latter half of 1950, being caused by the non-availability of imports and an increase in the demand for our exports due to intensified stockpiling as also by an increase in export prices and export duties. In the first half, there was a deficit of Rs. 9 crores mainly caused by the heavy imports of raw cotton (Rs. 31 crores out of the total of Rs. 69 crores) and the change of currency areas (Belgium, Switzerland and Germany). The deficit re-emerged in 1951 due to the heavy imports of food and amounted to Rs. 76.7 crores.

The importance of 'Other Areas' on the payments side has increased considerably. The surplus of nearly Rs. 13 crores during January-June, 1948 was turned into a deficit of about Rs. 25 crores in the following six months which increased to Rs. 56 crores in the first half of 1949. Some of this increase can be explained by the transfer of some countries from 'hard currency areas' to 'other areas'. But the main reason has been the prominence of Egypt, Siam and Italy which accounted for over Rs. 35 crores of the payments during July-December, 1948 and nearly Rs. 50 crores of

the payments during January-June, 1949 as against less than Rs. 25 crores in the first half of 1948. This increase can be largely attributed to the imports of rice and cotton from Egypt, of rice from Siam and of rayon from Italy. Hard currency deficit would have been higher to this extent had not the greater imports of food been obtained from the 'other areas'. The deficit of Rs. 70 crores with 'other areas' in 1949 was reduced to Rs. 27 crores only in 1950. The improvement resulted less from a rise in exports (Rs. 6 crores) as from a fall in imports (of cotton from Egypt) and a reduction in Government expenditure. But it increased to Rs. 82.4 crores in 1951 due to an increase in the imports of cotton.

Indo-Pakistan Balance of Payments

The figures released have their own limitations mainly due to the lack of a suitable data :

1. Between July 1948 and June 1949, the total deficit on Current Account was Rs. 34 crores. This was financed by (1) capital flowing from India to Pakistan through the Banking system amounting to Rs. 14 crores, and (2) disinvestment on Capital Account amounting to Rs. 6.08 crores. The rest of the deficit is explained by Errors and Omissions and transactions financed by India notes.

2. Between July 1949 and December 1949, there was a virtual stoppage of Indo-Pakistan trade. Naturally, the total deficit on Current Account amounted to Rs. 8.5 crores. Disinvestment on Capital Account amounted to Rs. 3.5 crores. Errors and Omissions amounting to Rs. 5 crores may be explained by the continuance of barter trade on a limited scale.

3. In 1950, the Current Account was approximately balanced and the deficit amounted to Rs. 2 crores only. But in the two halves, the position was divergent. In the first half, there was a surplus of Rs. 2.8 crores, but in the second half, there was a deficit of Rs. 4.8 crores. This was due to the April Agreement which resulted in the flow of Indo-Pakistan trade. There was a net transfer of funds to Pakistan to the extent of Rs. 3.2 crores while the Current Account showed a deficit of Rs. 2 crores. This is explained by Errors and Omissions amounting to Rs. 5.2 crores.

4. In 1951, due to the resumption of trade relations with Pakistan, the deficit on Current Account amounted to Rs. 46.9 crores.

Indian imports from Pakistan are essential raw materials while her exports have lost their protective advantage. And Pakistan is debtor to India to the order of over Rs. 300 crores. When this debt falls due for repayment (after 1951), the existence of an adverse balance of payments with Pakistan may be of great assistance in facilitating the transfer.

II. Factors Affecting Balance of Payments

1. TERMS OF TRADE

The following table shows the terms of trade for India:—

Year	Import price Index	Export price Index	Net terms* of trade	Gross terms† of trade
1945—46 ..	239	234	98	133
1946—47 ..	269	271	101	151
1947—48 ..	305	361	118	159
1948—49 ..	346	395	114	186
1949—50 ..	330	389	118	159

Source : 'Reserve Bank of India Bulletin', July 1950.

*Export Price Index
Import Price Index $\times 100$

†Import Quantity Index
Export Quantity Index $\times 100$

During the post-war years, both import and export prices have been increasing by leaps and bounds as compared to the pre-war period. In 1945-46, export price index was more than twice that of 1938-39, and the increasing trend continued up to 1948-49 when the export price index stood at 395, *i.e.*, about four times the pre-war level. In 1949-50, there was a slight set-back. The general index of wholesale prices also shows more or less the same trend. The rise is shared by all the three classes of goods, but the rise is more pronounced in the case of manufactured goods in which class the export price index stood at 480 and 507 in 1947-48 and 1948-49 respectively. This rise was caused by an increase in the export price of jute manufactures. The raw materials index also stood at a high level of 367 and 414 respectively in 1947-48 and 1948-49 due to the rise in prices of raw jute

and oilseeds. The index of foodgrains was comparatively lower due to the low prices of tea.

The import price index reveals the same trend. In 1945-46, it was more than twice the pre-war level. In 1948-49, it was about $3\frac{1}{2}$ times the pre-war level. The trend was arrested in 1949-50 when there was a slight fall. The rise in import price index has been mainly caused by the high prices of imported foodgrains whose index has ranged between $3\frac{1}{2}$ to 6 times the pre-war level. The rise in the import prices of raw materials and manufactured goods has been much less especially in the case of machinery. Index of cotton continued at a high level, *i.e.*, 313 in 1947-48 and 450 in 1948-49. In 1949-50, the index of raw materials group showed a rise due to the high index of raw cotton while the general index as well as the two other group indices showed a fall.

The terms of trade were unfavourable to us in 1945-46 but they continued to improve in 1946-47 and 1947-48. This remarkable improvement in the terms of trade coupled with severe import control policy was mainly responsible for checking a serious deterioration in our trade position. With 1945-46 as the base year, the index number of export prices in 1947-48 was 154 while the index number of import prices was only 128. In fact, the declining tendency which set in in the volume of exports in the latter half of 1948 was not reflected in the value of exports due to the increase in export prices. The volume of exports also increased specially in respect of spices, oils, seeds and jute manufactures whose export prices were comparatively higher than the general export price index. The volume of imports continued to increase but the import prices of goods showing increases in volume either did not rise appreciably or even declined. The import quantity index in case of provision and oilman's stores, electrical goods and mainly machinery showed an increase in 1947-48 but the import price index showed a fall. The volume of raw materials also increased but the import price index did not rise appreciably. The volume of foodgrains imports in which case the import price index increased, declined in 1947-48. Higher volume of exports at higher prices and higher volume of imports at lower import prices in some cases and at the same prices in others helped us to maintain the balance of trade position.

The terms of trade reached their peak in our favour in May 1948 but since then they moved against us till the early months of 1949. This adverse shift in our terms of trade and the increase in the volume of imports also increased our balance of payments difficulties. The volume of exports declined specially in spices and raw materials where the export price indices were generally higher than the general price index. The volume of imports, on the other hand, continuously increased specially in the case of grain, pulse and flour and raw jute where the import price indices were considerably higher than the general import price index. It is significant to note that the import price index of machinery further declined while the imports of machinery considerably increased. A slight fall in the volume of exports and higher volume of imports accompanied by high import prices were responsible for the deterioration in our balance of trade position in 1948-49. Huge Government imports irrespective of cost also contributed to this deterioration.

The following table will make the position clear :

(Crores of Rupees)

Year	Imports			Exports			Balance of Trade	
	Total value	Volume Index	Price Index	Total value	Volume Index	Price Index	Private & Govt.	Private
1945-46 ..	292	90	239	266	67	234	-27	+21
1946-47 ..	330	99	269	320	66	271	-10	+33
1947-48 ..	446	111	305	408	70	361	-38	-3
1948-49 ..	543	125	346	423	67	395	-120	..
1949-50 ..	560	121	330	483	76	389	-77	..

The gross terms of trade have continued to be favourable throughout the period.

The table on page 166 shows the post-devaluation terms of trade.

The net terms of trade were the same in both the years 1949-50 and 1950-51. But periodical division shows a marked change. The terms of trade continued improving

up to September 1950, the rise in export prices continuing and the import prices having fallen. But after September, the terms of trade have shifted against us due to a higher rise in import prices than export prices. The gross terms of trade were unfavourable throughout the period after devaluation.

Base Year 1948-49 = 100

		Import Price Index	Export Price Index	Net Terms of Trade	Import Quantity Index	Export Quantity Index	Gross Terms of Trade
1949—50	..	98	103	105	94	105	90
1950—51	..	111	118	106	77	109	70
Jan.—March '50		106	109	103	53	121	44
April—June '50		110	114	104	84	81	103
July—Sept. '50		104	114	109	87	98	89
Oct.—Dec. '50		114	121	106	62	124	50
Jan.—March '51		125	126	101	78	137	55

2. THE DOLLAR PROBLEM

The dollar problem is a world-wide problem and not peculiar to India alone. The main factors which have given rise to this problem may be recapitulated here :

(i) A fall in the output of commodities due to war damage and other factors in most parts of the world resulting in a fall in exports.

(ii) The increased demand for goods for reconstruction, development and current consumption. Continental demand for overdue maintenance and renewals of the industry to preserve its structure could not be postponed. On the other hand, production in the Western Hemisphere particularly the U.S.A. increased considerably. In fact, the U.S.A. was the only country whose productive capacity was not overstrained by the war and could, therefore, supply food and machinery for rehabilitation with relatively little delay. Naturally, there was a phenomenal fillip in American exports giving rise to the demand for dollars. Thus dollar problem is a production and re-equipment problem.

(iii) An excess of demand for dollar goods from non-dollar countries over the demand of dollar countries for non-dollar goods. This is due to the attainment of a high degree of self-sufficiency by the U.S.A.

The basic reason for the chronic world shortage of dollars (since 1919, the U.S. balance of payments has always been surplus except in 1936-37) is to be found in the technical superiority of the U.S.A. in the production of many goods necessary to a high modern standard of living. The U.S.A. has large and fairly balanced natural resources, relatively modern and efficient capital equipment, a comparatively small population in relation to natural resources and capital equipment, but a large domestic market for the output of its own mass production industries. The demand of the rest of the world for American manufactured products is highly elastic with respect to income and price, whereas the U.S. demand for foreign products was until recently relatively inelastic. The U.S. tariff policy is generally blamed for the problem of dollar shortage, but reduction in the U.S. tariff will not be of any considerable help.

World War II has made the U.S.A. depend more and more on synthetic products. The tendency is particularly marked in respect of raw materials, thus affecting the demand for natural fibres produced in the non-dollar countries. But this process has been going on for at least three decades. And now the result is that the U.S.A. has developed an almost fantastic economic self-sufficiency which has been facilitated by U.S. richness in coal and iron. At present, it is estimated that the U.S.A. produces 94% of the amount it consumes, and it is expected that the U.S.A. will be producing $\frac{1}{3}$ of the world's total goods. Thus there is no reason why the U.S.A. should buy these goods from elsewhere. Naturally the countries are without the dollars to buy from America the many things which they so vitally need.

(iv) A fall in 'invisible' earnings. Many countries liquidated their foreign assets and others contracted new indebtedness. Earnings from shipping and insurance services were also affected.

(v) The development of industries in under-developed countries and their urge to further it. This presented a threat to the highly industrialized European countries which depend upon their exports of manufactures to obtain the means of paying for their essential imports.

By 1947, the economic relations of the U.S.A. with Europe were so distorted as to result in a dollar deficit of about \$ 8,000 million. This deficit was financed by the liquidation of gold and dollar reserves, flow of loans from the U.S.A. and Canada and borrowings from the IMF. With the help of the Marshall Aid Programme, the European countries specially Britain made a very good progress towards recovery, but their exports to the U.S.A. did not regain their pre-war level. (In 1948, they provided only 14% of the U.S. imports as against 25% in 1938.) This was so mainly due to the shortage of main pre-war exports in Europe but also due to their weak competitive capacity. After August 1948, there was a cessation of inflation in the U.S.A. and the overvaluation of the European currencies became more pronounced. The IMF advised the dollar deficit countries to change their exchange rates, and the decision of the U.K. to devalue sterling was the signal for a general realignment of currencies. Devaluation led to a considerable improvement in gold and dollar reserves of the devaluing countries. It may, however, be noted that devaluation happened to occur just when the American boom, which had been waning for many months, began to revive. Nine months after devaluation, war broke out in Korea initiating a new phase in world rearmament. It is impossible to extricate these two factors from the aftermath of devaluation.

The Nature of India's Dollar Problem

India's dollar problem was not much different from the world dollar problem. It was essentially a production and re-equipment problem. India's industrial equipment had been put to excessive use during the war period and the country was deprived of essential consumer goods. Naturally there was an increased demand for goods for reconstruction, development and current consumption. Formerly our main suppliers were the U.K., Japan, Germany, Belgium and

Czechoslovakia. Germany and other Continental countries were completely devastated, and the U.K. could not supply our entire demands. Naturally India had to look to the U.S.A. which was the only country which could supply these goods with comparatively little delay. Naturally there was an increase in imports from the dollar areas.

So long as our hard currency deficit was financed from the dollar pool, the problem was not serious. But when the U.K. limited the facility of converting sterling into dollars, India had to restrict imports from the hard currency areas and she achieved a fairly good equilibrium for some time. The problem was aggravated by the imports of food, a substantial portion of which could only be obtained from the hard currency countries. Naturally our hard currency deficit increased. Therefore, the need for increasing exports to the hard currency areas became more urgent.

But there were certain difficulties in increasing our exports. Raw jute and jute manufactures accounted for more than 70% of our exports to the U.S.A. After partition, the supplies of raw jute became uncertain and costly. Production, therefore, declined and the exports also suffered. Moreover, the production of sackings became more profitable as the soft currency areas to which it was exported, could pay more due to their higher degree of inflation. Therefore the production of hessian demanded by the U.S.A. declined much more. The export surplus available in respect of raw cotton and raw hides and skins was also reduced after partition. Moreover, in 1948, there was a pause in the U.S. inflation leading to a reduction in the demand for jute manufactures. The high prices of Indian goods also militated against the expansion of Indian exports. But sometimes too much emphasis is paid to this aspect. No doubt, there was some price disadvantage for Indian goods in the U.S.A. But it must be noted that most of our exports to the U.S.A. were accounted for by jute manufactures, raw jute, raw cotton, hides and skins, mica and manganese. The U.S. demand for jute manufactures varies with the business activity and, therefore, in face of business recession in the U.S.A., the consumption of jute manufactures in the U.S.A. could not be increased, whatever the price. The same was the

case with mica and manganese. The internal supply position of other exportable goods was not satisfactory.

Thus India's dollar problem mainly consisted of shifting the dollar imports to their pre-war sources. The scope of increasing exports to the U.S.A. is only limited.

Dollar Problem and the Direction of India's Trade

India could not remain unaffected by the insulation of currencies, and the territorial direction of her trade has been largely influenced by currency considerations especially dollar crisis.

Direction of Imports (Currency areas)

	(Percentage to total)			
	1938-39	1947-48	1948-49	1949-50
<i>Soft Currency Areas :</i>				
Sterling area	58.0	42.0	44.0	46.1
Other soft currency areas	13.0	17.2	26.0	28.1
TOTAL	71.0	59.2	70.0	74.2
<i>Hard Currency Areas :</i>				
Dollar countries	7.0	36.0	23.2	17.0
Non-dollar countries	20.0	2.0	4.0	8.0
TOTAL	27.0	38.0	27.2	25.0

In 1947-48, imports from the soft currency areas were only 59% of the total as against 71% in 1938-39. In the succeeding two years, however, the soft currency area as a whole had not only completely recovered its share but actually increased its contribution to India's imports. But the share of the sterling area proper had fallen far below the pre-war level, while that of the non-sterling soft currency area increased considerably. This was due partly to the changing pattern of the commodity composition of India's import trade, *i.e.*, increasing imports of food and raw materials from Egypt, Italy and Siam, and also partly due to the search for non-dollar sources of supply and the numerous bilateral trade agreements that have been effected in consequence. In 1947-48, the dollar areas contributed 36% of our total imports as compared to only 7% in 1938-39. But in the succeeding two years, their share went on declining due to the strict control on imports from the dollar areas. The share of

the non-dollar hard currency countries increased from 2% in 1947-48 to 4% and 8% respectively in 1948-49 and 1949-50 due to the reopening of trade with Japan and Western Germany¹, but as compared to the pre-war period (20%), it was still much less. A perusal of the above figures clearly reflects the attempts made in the post-war period to shift the demand for imports away from the hard currency areas so as to minimise the hard currency deficit.

Direction of Exports (Currency areas)

(Percentage to total)

	1938-39	1947-48	1948-49	1949-50
<i>Soft Currency Areas :</i>				
Sterling area	53.0	48.0	53.0	58.0
Other soft currency areas	18.0	19.5	17.0	15.0
TOTAL	71.0	67.5	70.0	73.0
<i>Hard Currency Areas :</i>				
Dollar countries	12.0	27.0	25.0	20.0
Non-dollar countries	17.0	4.0	4.0	7.0
TOTAL	29.0	31.0	29.0	27.0

The soft currency areas as a whole absorbed 71% of our exports in 1938-39 but in 1947-48, their share declined to 67.5% mainly due to a fall in the share of the sterling area proper. This was accounted for by a search for dollar markets for our exports. The dollar countries absorbed 27% of our exports in 1947-48 as compared to only 12% in 1938-39. In 1948-49, however, a business recession set in the U.S.A. causing a fall in our exports of jute manufactures, and the share of the dollar countries began to decline. The share of the dollar countries in 1949-50 was only 20% even when our exports to these areas increased due to devaluation. This shows that our exports before devaluation were going considerably more in the direction of the soft currency countries due to the higher prices prevailing there, and the demand for our exports in the hard currency areas was partly reduced by recession and partly held up in anticipation of devaluation. Thus, while dollar shortages have caused a search for dollar markets, price incentives have worked in the direction of stimulating exports to the soft currency

1. They are now no longer hard currency countries.

areas. The share of the non-dollar hard currency areas in our exports which was only 4% in 1947-48 and 1948-49 increased to 7% in 1949-50. But as compared to the pre-war period (17%), it was much less. And the chances of increasing the exports are not very bright. The surplus available for export in the case of our pre-war exports to these areas has been severely curtailed specially after partition. Thus partition has led to a fundamental change in our export trade. The pre-war export surplus with these areas is now likely to be converted into an import surplus.

Direction of Trade (Currency areas)
(Post-war percentage share)

	1947-48 (1)		1948-49 (2)		1949-50 (3)		Variation of (3) over (1) & (2)	
	Import	Export	Import	Export	Import	Export	Import	Export
<i>Soft Currency Areas—</i>								
Sterling area	42	48	44	42	46	49.6	+4	+1.6
Other soft currency areas	17	19.5	26	27	28	23.4	+11	+3.9
Total	59	67.5	70	69	74	73	+15	+5.5
<i>Hard Currency Areas—</i>								
Dollar area	36	27	23	25	17	20	-19	-7
Non-dollar area	2	4	4	4	8	7	+5	+3
Total	38	31	27	29	25	27	-13	-4

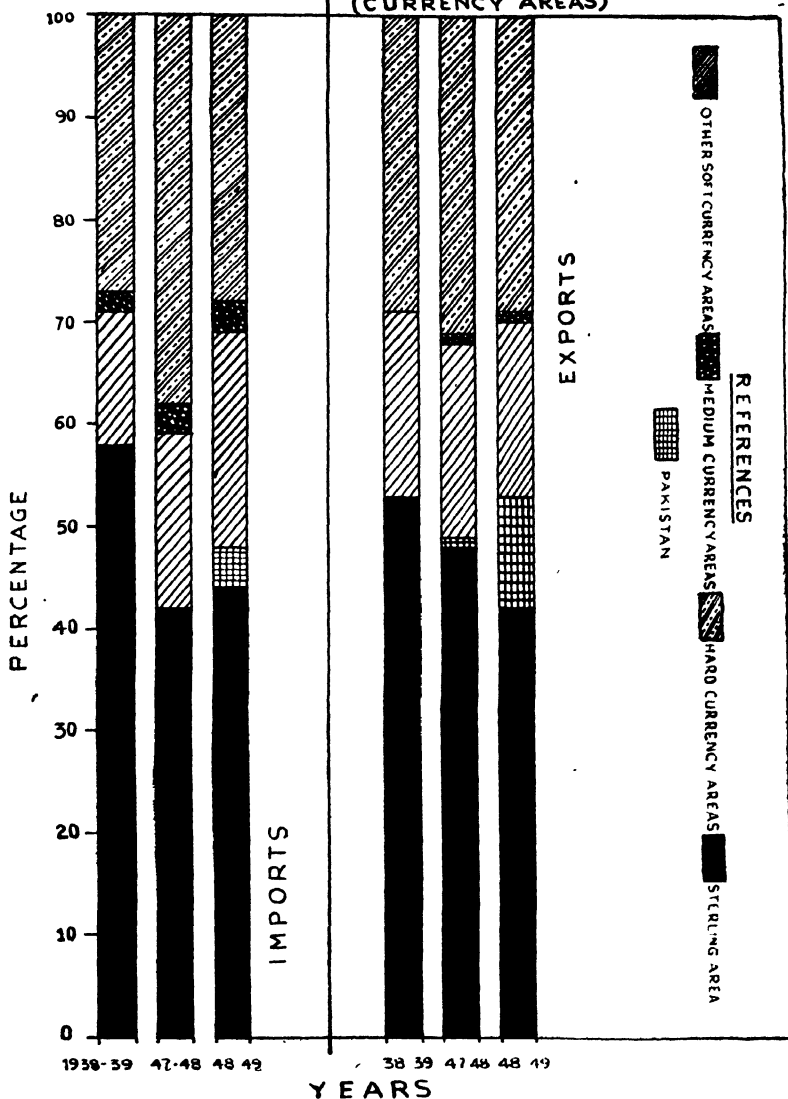
A study of the above table reveals the following features :

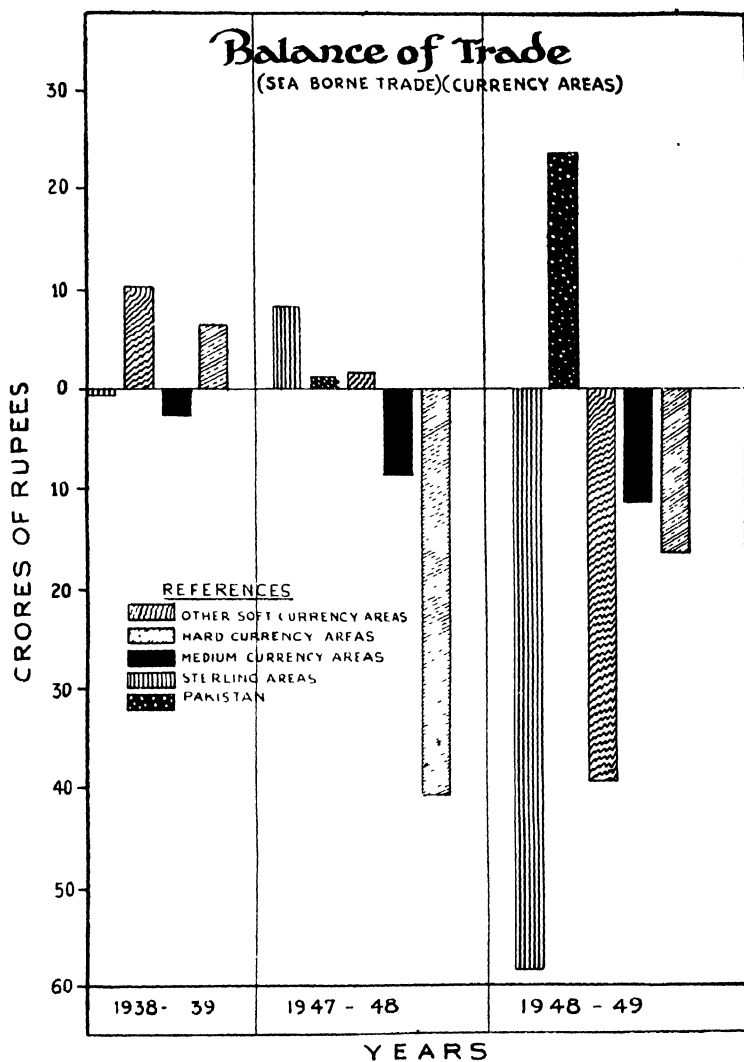
1. The sterling area continues to be our most important supplier as well as the most important customer. It supplies 46% of our imports as against 58% in 1938-39 and it absorbed 49.6% of our exports as compared to 53% in 1938-39. Thus the relative importance of the sterling area both in exports and imports declined.

2. Due to the changes created by the war and partition in India's economy, there has been a considerable expansion of trade with the non-sterling soft currency countries. The expansion of India's foreign trade with the soft currency countries of East Asia, East Africa, Near and Middle East has been most remarkable. They have been important suppliers of food and basic raw materials and are important

Direction of sea-borne Trade.

(CURRENCY AREAS)





customers of low income manufactured consumer goods which India can export in exchange. As a result of trade agreements concluded with this group of countries, India's export trade has been diversified to a considerable extent.

3. There has been an expansion of trade with the non-dollar hard currency countries like Western Germany, Japan and Argentina. But they have not yet assumed their pre-war importance both in imports and exports.

4. The importance of the dollar countries as sources of our imports and as customers for our exports increased considerably during the war and continued in the initial post-war years. But due to import restrictions, their share declined considerably. In spite of export promotion measures, exports could not be increased due to business recession and price disadvantage as a result of the increasing competition.

5. Trade with the medium currency countries of Western Europe like Switzerland and Sweden, and with the hard currency countries like Belgium was hampered by payments difficulties.

Balance of Trade (Private and Government)

Currency Areas

(Crores of rupees)

	1938—39	1947—48	1948—49	1949—50
<i>Soft Currency Areas—</i>				
Sterling area (including Pakistan)	-.26	+7.78	-39.28	-21.6
Other soft currency areas	+10.16	+1.92	-31.74	-42.3
Total ..	+9.90	+11.70	-77.02	-63.9
<i>Hard Currency Areas—</i>				
Dollar countries	+7.75	-48.34	-13.96	-8.9
Others	-5.33	-.93	-14.19	...
Total ..	+1.42	-49.27	-28.15	-8.9

Before the war, India's export surplus with the U.S.A. and the rest of the non-sterling area paid for her deficit with the sterling area. But after the war, we began to have an import surplus with the U.S.A. as anticipated in view of the necessity to import capital goods for re-equipment and reconstruction. Due to limited availability of goods, the dollar

releases made in 1944 and 1945 could not be utilized up to April 1946, and this led to a liberalization of imports from the hard currency areas. This naturally led to an import surplus in relation to the U.S.A. and other hard currency countries, but it did not create any problem as it could be financed out of the Dollar Pool.

After the Interim Sterling Balances Agreement of 1947, there was a difference in the incidence of India's membership of the Pool. Formerly India was bound in practice to abide by the convention for judging essentiality common to the whole of the sterling area, and her liberty to spend dollars was often substantially restricted. After August 1947, India was free to follow her own independent policy. The right to withdraw dollars and other hard currencies was limited to the amount in No. 1 Account. During 1947-48, a stringent import control policy was followed but the import licences for the period June-December 1947 were issued without discriminating between dollar and non-dollar areas of supply. Therefore, while there was a surplus in relation to the sterling and other soft currency areas, there was a huge deficit in relation to the hard currency areas. In 1948-49, imports from the hard currency areas were restricted but those from the soft currency areas were liberalized. This led to the conversion of the export surplus in relation to the sterling area and other soft currency areas into an import surplus of Rs. 39 crores and Rs. 38 crores respectively. There was, however, a sharp reduction of Rs. 34 crores in the import surplus with the dollar countries. The attempts to divert imports from the dollar countries to other areas led to an increase of Rs. 13 crores in the deficit with other hard currency areas. As a whole, the hard currency deficit was considerably reduced. But in the second half of 1948 and the first half of 1949, there was a tendency for hard currency exports to fall. Despite a fairly rigorous import control and attempts to divert imports from the hard currency areas to the soft currency areas, the hard currency deficit for the half-year ending June 1949 (Rs. 49.5 crores) was as large as the deficit in 1948 (Rs. 47.0 crores). Besides resorting to the IMF, India had to overdraw from the dollar reserves to the extent of \$ 84 million.

This overdrawing was regularised by the 1949 Sterling Balances Agreement under which India was readmitted as a full member of the sterling area, but India had to forego the right of borrowing from the IMF on her own account. It was also decided that the members of the sterling area should take measures to reduce their dollar purchases to 75% of their imports in 1948. These measures as well as the devaluation of the rupee and the larger dollar area demand for sterling products led to a hard currency surplus after devaluation. The reduction of imports from the hard currency areas might have led to an increase in imports from the soft currency areas but for equally severe control on imports from these areas. The exports to these areas, however, increased and there was a surplus with these areas as well. This tendency was reversed in April-June, 1950 but was arrested by the Korean war.

The Present International Situation

The Korean War and the U.S. programmes of stockpiling strategic commodities and industrial raw materials available in all the free countries of the world, with a view to preventing Russia and other Communist countries from buying them, increased the amount of dollars available to other countries. The diversion of American production to rearmament reduced the amount of American goods available for exports. The increase in the U.S. prices made American imports less attractive. The tendency to substitute American goods by European goods which set in after devaluation received added stimulus thereby reducing the demand for dollars. Naturally the dollar gap was considerably reduced. There was an increase in world production in 1951 leading to an increase in export surpluses or a reduction in import surpluses.

Early in 1951, there was a continuous retreat from the boom conditions generated by the Korean War in international trade. U.S. purchases for stock-piling fell rapidly. The result was a reappearance of the dollar problem for most countries. While U.S. imports declined sharply in 1951-52, exports recorded a continuous increase; there was no increase in the total of the U.S. Government grants, loans and private capital outflow. In consequence, the world import surplus from America could not be fully financed, and from the later

half of 1951 onwards many countries, especially those in the sterling area (because of their dependence on raw materials for dollar earnings and the decline in their prices), had to meet their dollar obligations by running down their gold and dollar reserves. Thus, in the place of an outflow of gold from the U.S.A. amounting to \$ 2,459 million during the period July 1950 to June 1951, there was a net inflow of gold into the U.S.A. of about \$1,000 million during the second half of 1951.

The rearmament led to a rapid increase in our exports. The improvement in raw material prices and in the prices of textile manufactures turned the terms of trade very much in India's favour. At the same time imports decreased both in quantity and in price owing to import restrictions and the cessation of trade with Pakistan until March 1951. Therefore, India had a surplus in her balance of payments and steps had to be taken to prevent the surplus from impinging adversely on an already inflationary domestic economy. Import restrictions were relaxed with a view to securing as much supplies as possible of essential goods tending to become scarce; imports, however, continued to be restricted to essential commodities only. Export quotas were reduced and destinational restrictions were tightened in respect of some commodities with a view to maintaining domestic production or providing for essential consumption. Export duties were continued in order to insulate the domestic price structure from imported inflation. By July 1951, the trend in export prices was reversed, imports continued to grow in value and volume specially in the case of food and raw cotton and a balance of payments deficit re-emerged. There was a reduction in domestic level of prices though at the cost of a more rapid utilization of the foreign exchange resources. Industrial and agricultural production increased appreciably. But to maintain production, some of the raw materials will have to be imported from the dollar areas, and our food requirements are now so large that a substantial portion has inevitably to be obtained from the dollar countries. Thus the dollar problem is likely to continue. The U.S. food loan and the Canadian aid under the Colombo Plan will help us to finance these imports.

The Prospects

The disequilibrium in the world's balance of payments continues even after devaluation, and the essential free convertibility between soft and hard currencies remains as remote as ever. Dollar gap is expected to continue though the magnitude may be reduced.¹ Marshall Aid has considerably assisted the British and European productive resources. But the task is not yet complete. Hence U.S. Aid will have to be continued in some form or the other specially to the backward countries. But more important than mere aid is trade with the U.S.A.² The achievement of self-sufficiency by the U.S.A. should not be allowed to remain a permanent drag on world's economy. Americans have tremendous buying power, and they should inevitably become a great importing nation like the U.K. and other leading creditor nations³ The deficit countries, on the other hand, should note that there is no short cut to prosperity. An increase in European production will only offer a permanent solution and efforts must be made to achieve that end through appropriate fiscal and monetary policies.

Suggestions

As long as the present distortions in international trade and the dollar gap continue, it will not be enough to achieve an overall balance of payments. It will also be necessary to strike a balance in respect of the principal currency areas

1 "In short, while Europe's dollar balance is likely to improve as a result of devaluation to some extent, this improvement is most unlikely to proceed so far as to eliminate the dollar shortage. The mere restoration of the normal pre-war relation between European and American prices cannot be sufficient to restore equilibrium in the post-war structure of international payments. To attempt to cure the dollar shortage by means of devaluation alone, a far higher degree of currency depreciation might be necessary than has hitherto been attempted, and it is highly doubtful whether the problem is capable of solution by means of devaluation at all." *Economic Survey of Europe for 1949*.

2 The chronic deficit in all other countries' balance of payments is a reflection of the chronic surplus in the American balance. "For the U.S., the solution of the payments problem involves an adjustment to a much smaller surplus in its international payments in goods and services, a surplus no larger than can be reasonably balanced by normal capital movements". *IMF Annual Report, 1949-50*.

3 "The self-sufficiency of the U.S. phenomenal as it is, and independent as it does make the American people of the rest of the world, need not stand as an insurmountable barrier on the world's road to economic recovery. But if it does, equilibrium in trade with dollar areas will be achieved by cutting down imports from the U.S.A. rather than by increasing exports to that country." *U.N. Economic Survey for Europe in 1949*.

half of 1951 onwards many countries, especially those in the sterling area (because of their dependence on raw materials for dollar earnings and the decline in their prices), had to meet their dollar obligations by running down their gold and dollar reserves. Thus, in the place of an outflow of gold from the U.S.A. amounting to \$ 2,459 million during the period July 1950 to June 1951, there was a net inflow of gold into the U.S.A. of about \$1,000 million during the second half of 1951.

The rearmament led to a rapid increase in our exports. The improvement in raw material prices and in the prices of textile manufactures turned the terms of trade very much in India's favour. At the same time imports decreased both in quantity and in price owing to import restrictions and the cessation of trade with Pakistan until March 1951. Therefore, India had a surplus in her balance of payments and steps had to be taken to prevent the surplus from impinging adversely on an already inflationary domestic economy. Import restrictions were relaxed with a view to securing as much supplies as possible of essential goods tending to become scarce; imports, however, continued to be restricted to essential commodities only. Export quotas were reduced and destinational restrictions were tightened in respect of some commodities with a view to maintaining domestic production or providing for essential consumption. Export duties were continued in order to insulate the domestic price structure from imported inflation. By July 1951, the trend in export prices was reversed, imports continued to grow in value and volume specially in the case of food and raw cotton and a balance of payments deficit re-emerged. There was a reduction in domestic level of prices though at the cost of a more rapid utilization of the foreign exchange resources. Industrial and agricultural production increased appreciably. But to maintain production, some of the raw materials will have to be imported from the dollar areas, and our food requirements are now so large that a substantial portion has inevitably to be obtained from the dollar countries. Thus the dollar problem is likely to continue. The U.S. food loan and the Canadian aid under the Colombo Plan will help us to finance these imports.

The Prospects

The disequilibrium in the world's balance of payments continues even after devaluation, and the essential free convertibility between soft and hard currencies remains as remote as ever. Dollar gap is expected to continue though the magnitude may be reduced.¹ Marshall Aid has considerably assisted the British and European productive resources. But the task is not yet complete. Hence U.S. Aid will have to be continued in some form or the other specially to the backward countries. But more important than mere aid is trade with the U.S.A.² The achievement of self-sufficiency by the U.S.A. should not be allowed to remain a permanent drag on world's economy. Americans have tremendous buying power, and they should inevitably become a great importing nation like the U.K. and other leading creditor nations³ The deficit countries, on the other hand, should note that there is no short cut to prosperity. An increase in European production will only offer a permanent solution and efforts must be made to achieve that end through appropriate fiscal and monetary policies.

Suggestions

As long as the present distortions in international trade and the dollar gap continue, it will not be enough to achieve an overall balance of payments. It will also be necessary to strike a balance in respect of the principal currency areas

1 "In short, while Europe's dollar balance is likely to improve as a result of devaluation to some extent, this improvement is most unlikely to proceed so far as to eliminate the dollar shortage. The mere restoration of the normal pre-war relation between European and American prices cannot be sufficient to restore equilibrium in the post-war structure of international payments. To attempt to cure the dollar shortage by means of devaluation alone, a far higher degree of currency depreciation might be necessary than has hitherto been attempted, and it is highly doubtful whether the problem is capable of solution by means of devaluation at all." *Economic Survey of Europe for 1949*.

2 The chronic deficit in all other countries' balance of payments is a reflection of the chronic surplus in the American balance. "For the U.S., the solution of the payments problem involves an adjustment to a much smaller surplus in its international payments in goods and services, a surplus no larger than can be reasonably balanced by normal capital movements". *IMF Annual Report, 1949-50*.

3 "The self-sufficiency of the U.S. phenomenal as it is, and independent as it does make the American people of the rest of the world, need not stand as an insurmountable barrier on the world's road to economic recovery. But if it does, equilibrium in trade with dollar areas will be achieved by cutting down imports from the U.S.A. rather than by increasing exports to that country." *U.N. Economic Survey for Europe in 1949*.

particularly in respect of the hard currency areas. The short-term problem of the balance of payments is thus complicated by this additional factor.

The IMF makes its resources available to member countries to help them to correct maladjustments in their balance of payments in an orderly manner. A member can borrow up to 125% of its subscription over a series of years but not more than 25% in any one year. Thus India can borrow up to \$ 500 million. But the loans from the IMF or the IBRD should be examined in relation to the repayment capacity. Loans can be paid *inter alia* by larger exports and India's export capacity is necessarily limited. Moreover, after devaluation, loans from the Fund cost 44% more in terms of rupees. At present, however, due to India's membership of the sterling area, she cannot borrow from the Fund on her own account.

Being a member of the sterling area, India conforms to the general policy in respect of dollar imports and exports agreed upon for the sterling area as a whole. At the Commonwealth Finance Ministers' Conference of September 1950, it was agreed that taking changes in the price levels into account the Central Reserves were still very short of their pre-war level and that, in the rapidly changing pattern of trading conditions, it was still necessary to economise in spending dollars. It was, however, decided that there should be no quantitative limitations on dollar purchases but that each member country should endeavour to secure the maximum economy possible. Naturally the need for an increase in exports and a reduction in imports is very urgent.

(1) *Augmenting Exports*—The Sri Ram Committee and the Export Promotion Committee investigated in detail the possibilities of increasing our exports to the U.S.A. There are two aspects of the problem which arise out of devaluation. Firstly, as a consequence of the 21 cent rupee, the American buyer has to pay less dollars than before for his imports from India and hence the possibilities of their buying more from us. Secondly, due to a fall in the dollar price, we earn less dollars for the same volume of exports to the dollar areas. Hence, to maintain the same dollar earnings, the increase in the volume of our dollar exports should

be sufficient to offset the extent of loss in the value of our rupees. To increase the total dollar earnings, the exports will have to be increased much more. The possibilities of increasing them have also increased which must be fully explored into. But the scope for expansion is not unlimited.

(2) *Reducing Imports*—Chances of reducing our imports from the U.S.A. other than food are slightly less. Food offers better possibility. The food problem has also been a dollar problem¹. This is natural because the U.S.A., Canada and Argentina between themselves account for over 80% of the wheat entering into the world's export trade. A reduction is possible with a reduction in overall food imports and partly by diversion from dollar areas to sterling areas. Hence the need for achieving self-sufficiency in food. With the recovery of Germany and Japan, our imports of capital goods may be diverted to these countries, and to that extent our dollar deficit will be reduced.

(3) As regards our deficit with 'other areas', it is possible that with the achievement of self-sufficiency in food, our requirements of rice from Siam may be reduced. The same cannot be said about raw cotton, and India would probably have to continue buying Egyptian cotton without much prospects of increasing her exports to Egypt because any such increase in exports will be at the expense of exports to the sterling area.

3. STERLING BALANCES

India's sterling balances have remained for long in the forefront of public discussion, partly because of their intrinsic importance as the primary cause of dangerous inflation of currency at home and involuntary lending abroad, and partly because of the unseemly manner in which the British press sought to prejudice the final settlement of this issue.

Import Policy in Relation to Sterling Releases

The amount of sterling balances shows a continuous fall, the rate of fall depending upon the import policy of the

¹In 1948, food imports from the hard currency areas cost India nearly \$ 100 million, which was a third of the total cost of food imports and two-third of the hard currency deficit incurred during the year.

particular period. The import policy was, in turn, determined by the amount of sterling agreed to be released for a particular period.

Before July 1947, India was free to utilise her sterling balances in any manner she liked within the sterling area or to convert them into dollars or any other currency at her own discretion. The import policy was quite liberal both in relation to the soft currency and the hard currency areas. The economic conditions then existing justified as large an import as possible of plant and machinery for the replacement and maintenance of the industrial units and also of other industrial goods required for increased production. But the policy lacked the exercise of a sufficient discretion. The liberalization was extended to a large number of commodities imported from all countries. Licences were issued generously. India could not import the desired goods from the dollar area due to limited availability. Imports from the sterling area, however, increased considerably. A large variety of undesirable goods were imported during 1946, and early 1947, even from the dollar area. This led to a rapid depletion of sterling balances from Rs. 1,733 crores on April 5, 1946 to Rs. 1,547 crores on July 15, 1947.

Naturally, it led to a tightening of import policy in relation to the sterling area, more so, in view of the multilateral convertibility of sterling. The import policy was linked up with the foreign exchange position, *i.e.*, to the extent of the current export earnings plus the sterling releases so as to conserve the foreign exchange resources. The imports of even a number of essential consumer goods were severely restricted. Licences were, however, issued liberally for plant and machinery and some of the industrial goods, but a number of industrial raw materials were also on the restricted list. Thus the restrictions were pushed too far. The sterling releases for use up to June 30, 1948 were practically untouched and the sterling balances declined by only Rs. 10 crores. Had sufficient imports of essential consumer goods and industrial raw materials been allowed, it could have been possible to expand production and check the latent pressure of inflation released after decontrol.

The Sterling Balances Agreement of July 1948 provided for the release of a sum of £80 million over a period of 3 years which together with the previous unspent balance of £80 million, constituted roughly a sum of £160 million available for use up to June 30, 1951. At that time there was a growing dissatisfaction at the rate at which sterling balances were being utilized, and India was faced with the awkward situation of reconciling her claims for larger releases. Import policy was, therefore, liberalised in July 1948. The inflationary conditions in the country required a larger supply of goods to be made available so as to reduce scarcity in the country. As the former sterling releases were practically unutilized, the Government of India's enthusiasm to utilise the sterling releases outran discretion, and they did not exercise proper judgment and realistic insight and the policy of liberalization was overdone. A large number of goods other than essential consumer goods and industrial raw materials, were freely imported. The Government of India failed to take due note of the fact that the rupee became slightly over-valued following the fixation of the par value in 1946 and that the effects of its overvaluation were held in check by a rigid import control policy. But they made themselves fully felt with the liberalization of imports which made it possible for the foreign exporters to profit in the inflationary Indian market. Naturally there was an enormous increase in imports with the result that not only did we exhaust our unspent balance but overdrew to the extent of £42 million up to April 1949. There was a rapid depletion in the sterling assets. If the object of the liberalization was to bring about disinflation in the country, a little more circumspection should have been used so as to encourage the imports of such essential consumer goods as were scarce and not all and sundry goods just because they were anxious to spend away, within the stipulated period, all the sterling releases. If the import policy had been administered in a planned and judicious manner, much of our subsequent difficulties would have been avoided.

As imports on such a large scale could not be allowed to continue, the import policy was tightened in May 1949 and again in August 1949. This led to a gradual fall in imports

and thus slowed down the rate of fall in the sterling balances. The devaluation of the rupee led to an increase in exports while imports were kept down, and the sterling balances again increased to Rs. 859 crores on March 31, 1950. This period again witnessed the same old process—import restrictions were pushed too far with the result that during the period ending June 30, 1950, we did not touch our sterling releases. The country was deprived of industrial raw materials and essential consumer goods leading to a decline in production in the major industries and the consequent inflationary trends. This could not be sustained for long, and the imports were liberalized while exports fell after the temporary stimulus of devaluation exhausted itself. Naturally, the sterling balances again declined. This declining tendency was again arrested due to the Korean War and the consequent increase in exports and a decline in imports due to higher prices and non-availability.

The above survey shows that our sterling balances have been frittered away by an injudicious and fluctuating import policy and the consequent indiscriminate import of goods. A stable import policy encouraging the planned imports of machinery, essential consumer goods and industrial raw materials would have led to a better utilization of sterling assets leading to an increased production and the consequent disinflationary effect.

Judicious Utilization of Sterling Balances

Section 33 of the Reserve Bank of India Act requires that 40% of the total note issue should be backed by gold coin and foreign securities. The total note issue may be taken to be Rs. 1,100 crores. The Bullion held by the Reserve Bank amounts to Rs. 40 crores (statutory valuation). Thus Rs. 400 crores of sterling balances will be needed for currency backing. Thus the amount available for disposal is about Rs. 400 crores.

The policy as regards future utilization may be summarised as follows: "The sterling assets should be released in accordance with the absorptive capacity of the Indian economy to pay only for capital goods, essential materials and specialized labour (technical)." The sterling assets

should be utilized wholly for Indian economic development, *i.e.*, for the import of capital goods and other requirements for building up the Indian economy. They should not be lightly frittered away on the import of unessential and luxury articles or on luxury-living in foreign countries. This will reduce *pro tanto* the capacity of this country to finance capital and developmental expenditure abroad. Mr. Sanmukham Chetty had rightly warned that these balances should not be looked upon as being available, on any large scale, for meeting our current consumption, except during the emergency period. Current imports should ordinarily be met by current exports. The sterling balances be regarded as a reserve of additional foreign exchange for the purpose of economic development of our country and for obtaining the capital equipment necessary for developing the agricultural and industrial productivity of the country. Of course, at times, when inflationary forces threaten to disrupt our economy, we should not hesitate to use the sterling balances for importing certain essential raw materials and consumer goods. The amount of sterling releases should be in accordance with the absorptive capacity of Indian economy. This will depend upon the availability of the specialized machinery, materials and other articles capable of being imported in exchange of sterling balances.

There should be no extravagance in the use of sterling balances. In the past, the Government of India did not submit to a voluntary check in the expenditure of foreign exchange, and huge quantities of sterling balances have been spent wildly.¹ A judicious utilization of sterling balances besides being in our self-interest, will help in maintaining the strength and stability of the sterling. The less we demand British goods, the better will it be for Britain as she can divert these goods to the dollar areas and thus strengthen her gold and dollar reserves. This is more important to enable the U.K. to reap in full the benefits of devaluation. To let the 'old banker of the sterling area play his traditional role', 'the clientele should get together to work out a voluntary and equitable restraint'.

¹See 'Manchester Guardian', August 18, 1949, p. 16.

The 1948 Sterling Balances Agreement was replaced by a long-term agreement providing for a release up to £35 million from our sterling balances in each of the six years beginning with July 1, 1951. Provision has been made for a measure of flexibility by stipulating that any part of the amount not drawn in a particular year will be carried forward and added to the releases for later periods. Further, the two Governments will consult together, if in any year the Government of India find it necessary to exceed the release of £35 million and to draw upon the releases for subsequent periods by more than £5 million. The Colombo Plan also provided for the utilization of Rs. 280 crores from sterling balances. Thus the sterling releases will be in the best interests of the country. Flexibility is also desirable as the financing of the Colombo Plan cannot be in terms of a rigid average. Expenditure in the earlier years for capital goods may be heavier than in the subsequent period when it would tail off. At the end of six years, the balances would fall to a figure which India would require for a normal foreign exchange and currency reserve.

4. FOREIGN CAPITAL

Even if the most conservative estimate is taken as the basis, India's minimum requirements of capital expenditure would be of the order of about Rs. 250 crores a year on the basis of the 1947 price level. At the present level of prices, this would rise to Rs. 330 crores. If shortages in food and industrial raw materials emerging after partition are taken into account, the share of Agriculture will have to be considerably increased.¹ There is a big gap between India's domestic savings and its minimum capital requirements. The need for foreign capital thus becomes apparent. India's development plans will entail heavy expenditure on capital goods and equipment, which will have to be imported from abroad and paid for in foreign currency particularly dollars. As sterling balances are not freely convertible into dollars, foreign loans provide the only resort. Moreover, foreign capital is accompanied by technical "know-how", including results of industrial research, facilities for the training of technicians, managers and administrators in modern

¹Report of the Fiscal Commission, p. 206.

methods. Foreign capital when spent on renewals or improvements of the plant, might produce an increased future output of foreign trade products, such as would either yield foreign exchange if exported, or save foreign exchange by economising imports. The resulting gain in foreign exchange in these instances would probably take a span of years to equal the capital sum repayable on maturity.

The six-year Colombo Plan for economic development in South and South East Asia whittled down many of our ambitious projects to realistic levels and estimated an expenditure of Rs. 1,840 crores in six years. (Rs. 1,500 crores in the 5 Year Plan). Rs. 1,030 crores are to be raised internally (which is very difficult), and sterling balances are to be drawn upon to the extent of Rs. 280 crores, leaving a gap of Rs. 530 crores to be raised externally. The Colombo Plan makes it possible for us to accept foreign assistance without in any way feeling nervous or suspicious that there will be political strings.

SOURCES OF FOREIGN CAPITAL

(A) *Private Investors*

Private investment should be considered as the most desirable means of providing foreign capital and there exists enough scope for it. A frank invitation was made to foreign investors to come and spread themselves in India on terms of equality and 'a fair field of enterprise'. The statement made by Mr. Eugene Black that the risks of investing in India are worth taking, should have inspired confidence. But still there was no response specially from the U.S.A. There was, however, some flow of capital from Britain and there are prospects of getting more.

The reasons for this poor response are not far to seek. The Division of Economic Stability and Development of the United Nations made a survey of factors limiting flow of capital and came to the conclusion that private foreign investment was shy of restrictive policies. The main obstacles are international political tension, internal strife and uncertainty, and exchange controls. Foreign capital had

been deterred from coming into this country by the uncertainties of the political and economic situation in the Far East and by conflicting ministerial pronouncements. American capitalists, to put it bluntly, are primarily interested in the safety of their capital and what they consider to be adequate returns on their investments. Moreover, there are enough lucrative avenues of employment in the U.S.A. itself despite heavy taxation. Considering that private foreign investments in India, as computed by the Reserve Bank, stand at no more than Rs. 519 crores currently, of which the British investments amount to Rs. 376 crores and American investments at about Rs. 30 crores, it is too much to hope for private investors coming in to bridge the gap in the Colombo Plan.

(B) *The International Bank for Reconstruction and Development*

It was established to assist in the reconstruction and development of territories of member countries by facilitating investment of capital for productive purposes. It promotes and supplements private foreign lending. The ITO and the IMF are long-term measures and can work effectively after more normal conditions have been restored, but IBRD may be regarded as properly having transitional as well as long-term functions.

The Bank is enjoined by its statutes to lend prudently and hence certain criteria have been laid down : (i) convincing proof that the loan cannot be obtained privately on reasonable terms, and there are reasonable prospects of repayment; (ii) projects are soundly conceived, well worked out from a technical standpoint, supplemented by an adequate internal finance and availability of good managerial and other skills; and (iii) the object of the loan is of sufficient importance to the economy of the country concerned to warrant incurring a foreign exchange liability to finance it.

Thus the Bank is prepared to accept greater risks than the private investors are willing or able to assume. But the risk is a calculated one and if the conditions enumerated in the report are duly satisfied, there should be no excessive danger of bad debts for the Bank.

India and the International Bank

Loans granted to India by the World Bank amount to \$ 109.8 million, which is made up of \$ 32.8 million for railway rehabilitation, \$ 7.5 million for the reclamation of Kans land and agricultural development, \$ 38 million for the Damodar Valley Corporation and \$ 31.5 million for the Indian Iron and Steel Company for the development of Iron and Steel industry. The period of amortization varies from 7 to 25 years, and the interest charged from 3½% to 4½%.

Total service charges will rise from a minimum of \$ 4.4 million in 1950-51 to a maximum of \$ 7 million in 1955-56. Interest charges on IMF borrowings amount to \$ 0.7 million in 1950, \$ 1.06 million in 1951, \$ 1.42 million in 1952, \$ 1.75 million in 1953 and onwards. Even if a modest provision of \$ 10 million is made for repayment annually towards the repayment of \$ 100 million from the IMF, our total commitments on account of the Bank and the Fund borrowings would rise from a minimum of about \$ 15 million in 1950 to \$ 19 million in 1956.

These fields are less attractive for private capital because of (i) large investment required and (ii) small and uncertain return on capital invested. Thus they were the most appropriate fields of investment by the Bank. The need for judiciously spending the proceeds cannot be overemphasized.¹ We can have more loans if needed. Mr. Eugene Black, the President of the Bank, estimated India to be a worthwhile risk; but he desired India to take care of her inflationary forces. Unlike the IMF, the amount of loan the Bank might grant to a particular country is not limited by its capital subscription. It depends upon the actual needs of the project. The real point, however, is whether India can afford these loans at present at a high rate of interest. Moreover, after devaluation their cost has increased and India will have to achieve dollar surplus to service them. Then, to start amortization within such a short period does not seem to be advisable.

¹"Despite its drawings on sterling balances of \$1,600 million and \$100 million from the IMF, supplemented by the first drawings on the World Bank, India has still not been able, except to cover current deficits, appreciably to raise its consumption standards, or to add to its existing capital." Mr. Gordon Gray's Report.

Until recently there was a general neglect of the needs of Asia and other undeveloped countries. The Colombo Plan has stressed that unless there is a flow of external capital on a much larger scale to the South and South-East Asia than hitherto, even the minimum economic development plans required to raise to any extent the living standards of the people in these areas cannot be carried out. The inauguration of the ERP relieved the Bank to some extent from its responsibilities in Europe and it paid some attention to backward countries, but the assistance given is not commensurate with their needs. Then again, all the loans were for specific projects and not 'for general development purposes'. Recently the International Bank has been placing a more liberal interpretation on the term 'project'. The Bank would now consider financing the demands which a country's financing a project out of its own resources might create. India should also review her future proposals for Bank assistance in the light of this shift in the ideas of the Bank. At present, however, there is no intention for borrowing from the Bank. But India's plan included in the Colombo Plan contains many items which may later prove suitable for further assistance from the Bank. The Bank's present rate of interest, however, would impose a severe strain on the economy of the poorer countries of Asia and, therefore, needs reduction.

(C) *Gifts and Loans from Foreign Governments*

We might expect substantial Government to Government finance from developed countries like the U.K., the U.S.A., Canada, etc. The U.S.A. is in a better position to extend the necessary financial assistance. But hitherto there has been no substantial aid to the Asian countries even after the recommendations of Mr. Gordon Gray which envisaged a provision of as much as \$ 1,600 to \$ 2,000 million per annum. If the dollars are made available to the rest of the world to finance a higher level of consumption than would otherwise obtain, the system may be counted upon to be a perpetual one. Where, however, the dollars are given to foreign countries to enable them to narrow the gap between their efficiency in production and that of the U.S.A., i.e., to finance capital formation abroad, the cancellation of U.S.

trade surpluses will tend to correct the fundamental disequilibrium in the international trade position.

Finance itself cannot help underdeveloped countries. The principal difficulty that IBRD has to face in the development field has not been the lack of money but lack of well-prepared and well-planned projects ready for immediate execution. This has been true in the case of India also. Technicians at the top level are needed for the execution of several projects, but with the Council for Technical Co-operation worked out by the Commonwealth Consultative Committee and the offer of technical assistance under President Truman's Point Four Programme that problem may be solved. President Truman's Point Four Programme contemplates the provision of \$ 34.5 million for technical assistance to countries of Asia and Far East (India \$ 1.2 million). So far India has received loans and grants from external sources to finance her 5 year plan as follows : (i) U.S. Food Loan—Rs. 90 crores, (ii) Commonwealth assistance under the Colombo Plan—Rs. 12 crores, (iii) Assistance under the Technical Co-operation Agreement, 1952—Rs. 43 crores (iv) Loans from IBRD—Rs. 9 crores and (v) Other aid—Rs. 2 crores, amounting in all to Rs. 156 crores.

While it is necessary to create and maintain conditions favourable to the inflow of all such foreign capital as desires to come to India, attention should be paid to the development of the domestic sources. Foreign capital can at best supplement the country's domestic resources.

5. DEVELOPMENT OF AUXILIARY SERVICES¹

India has to make heavy payments on this account. During 1948, the gross income of the foreign transportation and insurance companies from exports amounted to about Rs. 19 crores although a fraction may have accrued to companies of Indian origin². Development of Indian enterprise in this field will result in considerable reduction of these payments, if not in their complete elimination. This, in turn, will strengthen India's balance of payments.

¹See Chapter VIII.

²'Reserve Bank of India Bulletin', August 1950, p. 527.

6. DEVELOPMENT OF TOURIST TRAFFIC

India is at present spending nearly Rs. 4 to 5 crores a year on account of the foreign travel of its own nationals, but this is all one-way traffic at present. Hence the minimum target must be to obtain from foreign tourists as much foreign exchange as India has to spare for the travel of her own nationals abroad.

In the social life of Western countries, travel plays a very great part and is systematically encouraged. The tourist industry is essentially a luxury industry. Its clientele is of the well-to-do classes with big purses and advanced ideas of comfort and pleasure. Americans have plenty of money and leisure and hence comprise the stuff of which the elite of tourist traffic is made. By extending and accelerating the world's industrialization, the war has increased by millions the numbers who will possess the means and leisure to travel, and we most certainly ought to take full advantage of this increased traffic. The revolutionary new factor of air transport will facilitate tourism to the maximum extent.

Tourism has been found to be a lucrative source of income to the nation encouraging tourists. Switzerland is a classic example of a country which has been developing this as a national industry. Elaborate Government, semi-Government, and private organisations have been set up abroad to encourage tourist traffic. The tourist industry can produce considerable foreign exchange for, apart from its size, it does not need any great consequential expenditure on imports unlike any other manufacturing industry. It will also bring many other incidental advantages. It would help our export trade by encouraging business visitors. Tourists make personal purchases while on tour, and often keep up buying similar things afterwards. It would aid our transport services and thus increase employment. It may stimulate the investment of foreign capital. Last, but not the least important, it would help us to develop good international relations by making better known our way of life.

India is rich in tourist attractions—scenic grandeurs unmatched anywhere else in the world and ancient monuments

comparable in age and majesty to any elsewhere. It is really unfortunate that the rich potentialities of this country in this line have not yet been appreciated. The unique Taj, the great and admirable specimens of rock architecture like the Ellora and the Ajanta caves, their incomparable frescoes, the innumerable monuments, temples and mosques that lie scattered all over the country, the relics of a bygone age of splendour and pomp, the snow-capped mountains, the roaring rivers and silent valleys can and should always hold a great attraction for the tourists. And yet a well-organised tourist industry is absent in India.

The first effort in India in this direction was made in 1945 when a committee under the Chairmanship of Dr. John Sargent was appointed. But no substantial progress was made. Forced by the balance of payments position, the Government of India recognized the importance of tourist traffic as a dollar earner and is now doing everything possible to assist tourist agencies to attract American tourists to this country. 'Tourist industry is to be developed 'as a source of invisible national income and international goodwill'. Publicity arrangements are also being made. Efforts are being made for improving tourist facilities at key centres of attraction. Plans are under contemplation for establishing regional tourist offices at Delhi, Bombay, Calcutta and Madras.

But are we well equipped for developing this industry ? The Sargent Committee rightly emphasized that little propaganda was necessary to attract tourists from abroad, but what was more important was the reputation which India could earn as a country for tourists and which, again, depended on the comfort, hospitability and variety of environments which India could offer them. The tourists mainly come from the Western countries, particularly the U.S.A. and the U.K. Their views on standards of comfort, hygiene, drink and red-tape are almost diametrically opposite to ours. They specially do not believe in simple life and, more so, when they are travelling. The amenities obtainable at present are much below their standard. A correct appreciation of the problems involved and the changes necessary is essential.

Suggestions

A. *Transport Services*

The recent growth of civil aviation in this country has luckily solved, to some extent, the problem of a comfortable modern transport service. But it connects only the principal cities and a good number of places which are of tourist interest are in areas inaccessible even by railways. Hence both railway and road facilities should be improved. More air-conditioned coaches (thoroughly cleaned and kept in proper repairs) and modernization of dining cars and their meals are necessary.

B. *Catering*

There is a general need for improvement in hotels so far as amenities, furnishings, service and reception are concerned. At present, the comfortable hotels in the country are very few and not one of these compares in accommodation or comforts with the first class hotels of the West. The rest are definitely sub-standard and will not give a happy impression and yet they are all expensive. If the trip is going to be dull as well as expensive, many prospective visitors will go where life is more pleasant. There should be a definite standard of hygiene and a reasonable amount of value for money. Switzerland became the premier tourist country in the world mainly because of her excellent hotels. The same was the case with France and Italy. Even Agra does not possess sufficient hotel facilities of a high order. The new luxury hotel in the diplomatic colony of New Delhi is welcome and may attract a good number of tourists.

C. *Well-organized Corps of Guides*

This is very important to let the visitor have a background information about this country so that he may know what to see and the significance of the same. The present guides are ignorant and often illiterate and feed the foreigners on superstitions and fancy and do not give what is required of them. They lack manners and their one concern is to exact money out of a tourist even by harassing him. An efficient and competent guide helps and thus attracts tourist traffic. All India guide books and other suitable literature for the help of the tourists should be made easily available to them on their arrival in India.

D. The Establishment of a Central Organization

This organization will conduct propaganda and publicity and will maintain offices in important cities. This organization will also concern itself with the maintenance of all buildings of interest to tourists. The present Archaeological Department should be strengthened.

If properly developed, the income from tourist traffic will increase and strengthen our balance of payments.

DEVALUATION AND INDIA'S FOREIGN TRADE

(1) Devaluation of Sterling

A. Factors Leading to Sterling Devaluation

1. The U.K. always had an adverse balance of trade but achieved an equilibrium in her balance of payments through invisible exports. After the Second World War, she has been transformed from the world's greatest creditor into world's greatest debtor,¹ resulting in a fall in her invisible incomes.

2. Serious depletion of gold and dollar reserves—By the help of the Marshall Aid, the U.K. was able to improve her productive capacity and by the latter half of 1948, was successful in achieving a rough equilibrium in her external accounts. In the first quarter of 1949, there was a net addition of £14 million to her gold and dollar reserves. This tendency reversed itself in the second quarter of 1949 due to U.S. business recession. Britain was faced with the problem of a rapid exhaustion of gold and dollar reserves. Heavy withdrawals by other sterling area countries aggravated the situation. By the end of June 1949, the reserves had fallen to £ 406 million, nearly £100 million below the 'safety line' for the Marshall Aid period.

3. Some financial observers and politicians in London were of the view that it was the burden of unrequited exports to the sterling and other soft currency countries that broke the old sterling rate.

4. The prospective discontinuance of the Marshall Aid, after the middle of 1952.

5. Risk of the refusal by the IMF to lend any more dollars on the ground of sterling being a currency with fundamental disequilibrium.

¹ Arthur Bloomfield (British Balance of Payments) estimates the disinvestment between September 1, 1939 to June 30, 1945 at £3,950 million

The following table shows the sources of finance of the sterling area's gold and dollar deficit:

(January 1, 1946 to December 31, 1949)

		<i>Million dollars</i>
U.S. and Canadian lines of credit	..	4,858
Borrowings from the IMF	.. ..	423
South African gold loan	.. ..	322
E.R.P.	.. ..	1,877
Changes in reserves	.. ..	788
Total	..	8,268

6. The crisis was only aggravated by (i) cessation of U.S. purchase of colonial primary products, (ii) leakage of dollars through the sterling area system and (iii) postponement of foreign buying of British goods as a result of American propaganda for the devaluation of sterling. There was a speculative movement against sterling and the sterling was being quoted in the free exchange markets at a discount.

At the Commonwealth Finance Ministers' Conference, a 25% cut in dollar imports was agreed to, but there was no reference to devaluation. Even after the Washington Conference, Sir Stafford Cripps emphatically denied the possibility of devaluation. But those who were in the know of things¹ did not believe him. To them it was the question of time and extent of devaluation. At the same time, the IMF recommended devaluation of the overvalued currencies. Britain thought it proper to recognise the reality by devaluing the pound by 30.5%. Devaluation was not an act of free will but was forced upon Britain partly due to speculation on world-wide scale and partly due to their own

¹ The 'Economist' had predicted the devaluation of the pound much before (April 30). "There are so no signs that currency adjustments will become the fashionable fad of 1949, the *dux ex machina* that is, to solve all economic problems as capital investment plans were two years ago and disinflation was last year." But it also warned, "depreciation of currencies whether good or bad, is certainly no panacea and if too great expectations are put upon it, it will prove to be a broken reed". This was indeed a notable admission on the part of a careful, shrewd and well-informed financial authority like the 'Economist'. It again wrote (September 3), "The choice is not, therefore, between accepting American dictation and the continuance of an independent British line. It is between taking the steps necessary to make the British economy solvent now with America's active co-operation or taking them in six months' time in the middle of economic disaster and with America's perhaps contributing no more than a melancholy 'I told you so'".

reluctance to apply the unpleasant but the correct remedy of living within their means. Had the policy of welfare state been discontinued, devaluation could have been averted. Due to high costs, exports began to suffer and the sterling area's ultimate reserves began to be exhausted rapidly. The only alternative of breaking the price structure was by breaking down the external value. This is precisely what happened. To some it was not devaluation but revaluation.

The extent of devaluation was, however, surprising. The whole world including the Wall Street was amazed by this drastic cut¹. Whatever the position, it is certain that costs were not such as to justify a devaluation of the pound by anything like 30%. A strong dose of devaluation might be supported on two grounds—(i) the wider the margin, the greater would be the stimulation for dollar exports and (ii) cessation of dollar aid in 1952 required a still greater stimulation of exports. The main disadvantage of British producers was delay in delivery of supplies. This was accentuated by U.S. recession resulting in a greater export surplus in the U.S.A. This disadvantage could not be cured by devaluation, whatever the rate. Moreover, it is problematical how far productive capacity can be expanded so as to increase the net dollar earnings. Then, a forecast of the rate of exchange appropriate three years hence, can only be a mere guess-work as wage and price levels will tend to be adjusted to the devalued pound. The main reason, however, was to make it clear 'that this was the final step'. The international real value of the pound was calculated by numerous authorities outside the British Treasury. Colin Clark remarked that to maintain a zero balance of payments, a rate of \$ 2.75 to the pound would be satisfactory². The rate fixed was in consonance with free sterling dollar rate. (Switzerland— \$ 2.80 to £.)

¹ "No one outside expert circles had suspected that the rot had gone so far that a determined British Chancellor who had stoutly maintained that there was nothing seriously wrong with 4.03 rate, would meekly accept a figure as low as 2.80. The pound was sick, but the general public never expected that the monetary doctors would put its sinking vigour at so low a price". 'Eastern Economist', September 23, 1949, p. 484.

² 'Economic Journal', June 1949.

B. *Achievements of Devaluation*

The gold and dollar reserves which reached their post-war high point at nearly \$ 2,700 million in 1946, were halved to \$ 1,340 million immediately before devaluation. By September 1950, they had not only been restored to their original levels, but had even exceeded them and reached \$ 2,756 million. A net deficit of \$ 632 million in the second quarter of 1949 had been transformed into a net surplus of \$ 187 million in the third quarter of 1950. But this improvement was not entirely due to devaluation. No doubt, the new structure of exchange rates has improved the competitive position of Britain and other sterling area countries in the dollar markets and priced American goods out of export markets. But the increase in the export prices of sterling area raw materials due to higher level of business activity in the U.S.A. and the deliberate cut in dollar imports planned even before devaluation were the principal causes for the sudden improvement in dollar reserves. The Korean War and the consequent rearmament programme leading to stockpiling and the revival of U.S. business activity, resulted in an increase in the sterling area exports to the dollar area, and there was a handsome addition to the sterling area gold and dollar reserves.

This improvement was not permanent. In the latter half of 1951, the dollar reserves began to decline again at an alarming rate, the deficit being much larger than that in the quarters preceding devaluation in spite of the fact that there was no American trade recession or speculative flight from sterling as in 1949. Besides the usual dollar deficit, the U.K. had an import surplus even from the sterling area and the European countries. The decline was partly seasonal. But the basic factors behind this crisis were (1) the increase in import expenditure largely because of high prices and partly because of increased volume of purchases, and (2) the failure of export receipts to rise commensurately due mainly to the worsening of the terms of trade of the raw material producing members of the sterling area.

Britain's gold and dollar deficits are likely to continue and may even increase because no direct U.S. aid will be available and the rearmament will lead to less exportable sur-

plus and more imports of raw materials. The Commonwealth Finance Ministers' Conference (1952) recognized the need for taking positive measures to strengthen sterling rather than rely merely on reducing imports and that every country in the area must live within its means. Thus devaluation was only a makeshift arrangement, and there has been no improvement in the inherent strength of Britain's economy or that of the sterling area as a whole. In Britain, the main problem is a rigid and high cost economy which has still to adjust itself to post-war developments in international trade and competition.

2 DEVALUATION OF THE RUPEE

Consequent to the devaluation of the pound sterling, the Government of India also decided to devalue the Indian rupee to the same extent, thus maintaining the parity between the rupee and the pound. The devaluation of the rupee was necessitated by the altered conditions created by the sudden devaluation of the pound followed by the devaluation of many other currencies. Left to herself, India would have never thought of devaluation. The British Chancellor should have taken into confidence all the members of the sterling area whose interests were in his keeping as their banker¹. While the devaluation of sterling was fully discussed by the press and the public, the question of the devaluation of the rupee, along with sterling or independent of it, was never put under expert examination. India would have benefited much more had she taken an independent action.

The devaluation of the Rupee was a hasty step². India should have explored all possible avenues of consultation with Pakistan before taking a decision. The two countries, though politically separate, still make an integral whole. That would have saved India from the difficulties created out of Pakistan's non-devaluation. Both the Governments acted without consulting each other though, in terms of the Inter-Dominion Payments Agreement, they should

¹ Even the 'Economist' admits of Britain's unilateral decision. January 14, 1950, p. 90.

² "Devaluation of the rupee.....was as sudden and sharp, as it was wholly unwarranted by the facts of our foreign trade or considerations of our local economy." K.T. Shah in 'Devaluation, its Origin and Consequences' India, October 1949, p. 50.

not have acted like this. India made the first lapse by devaluing the rupee. The Government of India contended that by devaluing the rupee to the same extent as sterling, they maintained the previous sterling exchange rate. Thus it did not amount to any alteration between the Indian Rupee and the Pakistan Rupee but meant in effect the continuance of the parity. This contention is, however, baseless. At the time of the Agreement, no party thought of devaluation. Hence to maintain that the Pakistan Government was bound by Agreement to devalue its Rupee to the same extent as the Indian Rupee, is to deny the sovereign right of Pakistan to determine her exchange parity. Pakistan rightly complained of India's unilateral decision. The Finance Minister contended that the "Government of India had no opportunity for arranging a 'sort of leisurely consultation', and they duly informed Ceylon and Pakistan of their decision." What was the need for hurry? Even if events had compelled India to devalue her rupee, she could have waited a few days with no disadvantage. Even Canada and Belgium took time to decide. Devaluation was not co-ordinated and planned, and it only came as a surrender to British policy. Then, to maintain that Pakistan refused to devalue to spite India, is to add insult to injury. Even before devaluation, the Pakistan Rupee was being quoted at higher rates in foreign markets.

3. MEASURES ADOPTED AFTER DEVALUATION

(1) To check a rise in the prices following devaluation and to secure a fair distribution of the advantages of devaluation among the foreign importer, the domestic manufacturer and the exchequer, the Government of India imposed or increased certain export duties. It was also decided to maintain the old dollar prices of mica and manganese. Export duties were further increased to check a rise in prices due to the Korean War and the general rearmament drive.

(2) The O.G.L. X applicable to imports from Pakistan was suspended. The Pakistan Government also made certain changes in tariff on goods of Indian origin.

(3) The Government of India in consultation with jute

industry and on being assured by them that they would be able to carry on, decided not to purchase jute, except at prices found competitive and economic. They fixed the maximum raw jute prices at Rs. 35 per maund. The Government also decided to cancel forthwith the O.G.L. for export of raw jute. This had its repercussions in the raw jute market of East Bengal where prices were reported to have fallen from Rs. 30 to Rs. 15 per maund. The Pakistan Government did not wait for long and fixed the minimum price of loose jute at Rs. 23 per maund. Like raw jute, it was also decided not to buy Pakistan cotton at the new rate.

(4) Exports of coal on private account were totally prohibited. Pakistan's holding up of jute purchased before devaluation led to a temporary suspension of supplies of coal to Pakistan in December 1949.

(5) To prevent a shortage of cloth in the domestic market, a maximum limit was fixed for cloth exports. Provision was also made for import of foreign cotton, and exporters were allowed to increase prices by 5%. Refund of import duty was allowed on textiles actually exported.

(6) To meet the shortage of raw hides and skins, O.G.L. XVII was issued in November 1949 permitting their free importation from Afghanistan and Middle East countries.

(7) An Eight-Point Programme aiming broadly at holding the price line and conserving the country's resources in foreign exchange, was adopted to meet the situation arising out of devaluation.

(8) The recommendations of the Export Promotion Committee relating, among other things, to (i) export control, (ii) removal of such taxation as hampered exports, (iii) control of excessive speculation in export goods, and (iv) stepping up the production of export goods were generally accepted.

4. INDIA'S CASE FOR DEVALUATION EXAMINED

Devaluation is generally supported on the following grounds : (i) as a defensive measure, (ii) as a corrective of balance of payments, and (iii) disparity between internal and external price level.

A. *Defensive Measure*

The Government stressed the importance of the sterling area in India's foreign trade, and stated that by not devaluing the rupee, India would have lost whatever little export trade she had hitherto been having. The competitive capacity of an overvalued Indian rupee against other devalued currencies would have been almost nil. "There was thus no alternative for India but to follow other sterling area countries and devalue the rupee as a defensive measure. Indian piecegoods would have had to compete with Lancashire goods in the markets of sterling area. The same applied to Indian competition with Ceylon tea, groundnut and manganese from South Africa and Dundee jute goods."

Even a cursory examination of world tea statistics shows that the tea-importing countries could not have done without Indian tea, unless they chose to abstain from tea drinking. Out of the total world production of tea of 976.31 million lbs. in 1948, India's (including Pakistan's) share was 63.12% while the next biggest producer, Ceylon, accounted for only 30.60% followed by Indonesia's fractional share of 2.85%. Similarly out of the total world tea exports of 769.1 million lbs., India and Pakistan accounted for nearly 50%, while Ceylon's share was 38.46%. It is too facile to expect that the tea-consuming world could have afforded to remain without Indian tea due to its high price consequent to non-devaluation.

India holds a virtual monopoly in case of manganese. Moreover, there was already an unsatisfied demand for Indian manganese. An increase in the prices of mica and manganese so as to maintain the pre-devaluation dollar prices shows that there was no such danger. Dundee supplies only a small fraction of the total world demand for jute goods. Then, they must have in any case purchased jute from India or Pakistan. An increase in the export duty on jute and jute manufactures immediately after devaluation shows that there was no danger of competition. As regards the textiles, the chief competition was not from the U.K. but from Japan who is offering stiff competition even without devaluation. After devaluation, Indian export prices cannot be

maintained at the same level in view of higher cost of Pakistani or foreign cotton. Textile production will decline without imports of foreign cotton, and an export drive will create a serious shortage in the domestic markets. A general rise in our export prices after devaluation indicates that there was no danger to our exports. The 'Economist' rightly remarked, "It might be argued that if Indian export prices are too high the right course would be to devalue the rupee. But on export grounds alone this would at present be unwise, since there is an unsatisfied foreign demand for some of India's other products such as cotton goods, manganese and mica."¹

India's exports to the soft currency areas constituted 59% of the total in 1948-49 and not 75% as stressed by the Government. For most of the rest, India lost 30.5% of her export earnings. It will be very difficult even to maintain the then level of jute exports. In case of non-devaluation, India could have maintained her dollar earnings and lost only a fraction of her export trade which could have been subsidised by taxes on cheaper imports from the sterling area. Then again, her need for exports could have been substantially lowered, as her imports from the sterling area would have costed 30% lower. After devaluation, her non-sterling imports have become 44% more costly. These imports cannot be and should not have been reduced.

India's exports did not have any appreciable disadvantage due to high costs and even if they had any, it did not justify a devaluation of 30.5%.² There are sufficient grounds to believe that India could have successfully faced the situation created by the devaluation of sterling by a smaller rate of devaluation. After all, India's exports are not elastic. It is difficult to single out any commodity the supply of which can possibly be raised in case of an improved market in the U.S.A. It is for this reason that the Government of India decided to increase or impose new export duties on her main export items. The decision was a wise one, and acted as a defensive strategy to protect India's trade and balance of payments from the damage which would otherwise have been

¹ August 13, 1949, p. 326.

² See Chapter III, p. 57-103.

inflicted by the steep devaluation of her rupee. This will protect her dollar earnings specially because the net effect of these duties will be to offset the decline in dollar prices of her exports. The first increase in export duty on hessian amounted to 15% of the controlled price. The increases in export duties amount to an indirect admission by the Government that a devaluation by 10% to 15% would have been sufficient. Export duties after they have reached a certain level, are in themselves an evidence of an undervalued currency.

It is generally contended that by devaluation India has defended against the depreciation of the sterling balances. Facts are otherwise. Depreciation of India's sterling assets is an automatic sequel to the devaluation of the pound in terms of gold, and it extends to the whole of her sterling balances whether convertible or not. On the portion of sterling balances released for dollar conversion, depreciation is directly proportionate to the depreciation of the sterling in relation to the dollar. On the non-convertible portion, the extent of depreciation will be measured by the amount of rise in British prices. Protection against devaluation was allowed to certain other holders of sterling balances by the insertion of a gold clause which was absent in India's case.

B. *As a Corrective of Balance of Payments*

It must be pointed out at the outset that balance of payments should not be used as an overriding test of the strength of a country's currency. A temporary deficit in the balance of payments is not necessarily an indicator about the relative weakness of a currency, and exchange depreciation is not the right remedy for a temporary disequilibrium in the balance of payments. At the best, it gives only a temporary relief.

It is true that a continual adverse balance of payments is a dangerous symptom and a menace to economic stability. But it may be noted that if a country creates an import surplus within reasonable proportions by imports of capital goods and other essential means of production, her economic position is better than that of another country which has an export surplus without internal economic expansion.

India's position before 1948 can in no way be put on a different level. An excess of imports cannot be possible without an adequate supply of money. Recognized methods of credit restrictions might not have been successful in avoiding an import surplus altogether but they must have reduced it to reasonable proportions. After the end of the war, the control on imports should have become an essential part of the system of controls. But due to the lack of a planned import policy, India's imports increased tremendously after 1948 leading to a rapid depletion of her external reserves. Refractory imports and deficient exporting power may combine to cause an adverse balance which no rate of exchange can rectify. When it is due to a monetary disorder, it is directly remediable by exchange depreciation. India's case corresponds to the former rather than to the latter. In such cases, the gap in the balance of payments has to be partly financed and partly narrowed down, not by general control methods as devaluation, but by selective controls like import restrictions, exchange controls and fiscal measures. It is wrong to assume that India's exports will ever pay for imports in the near future, devaluation or no devaluation.

The Government of India rightly stated in their devaluation announcement, "Devaluation as a corrective to the balance of payment difficulties in regard to dollars has been urged for some time, the Government of India did not favour such a course as it was felt that, in view of the general conditions of the Indian economy, devaluation was not likely to solve India's problem of dollar shortage. India's imports are regulated by controls, and the deterrent effects of high prices resulting from devaluation is, therefore, neither necessary nor desirable. Since the supply of India's exports is inelastic, her aggregate export earnings are not likely to increase by reducing export prices through devaluation."

Devaluation may be intended to correct an adverse balance both by stimulating exports and by checking the demand for imports.

Reduction in Imports

While the cost of imports from devaluing countries does not change, imports from non-devaluing countries particularly

the U. S. A. and Pakistan will cost 44% more and those from Canada about 30% more. Naturally imports from the non-devaluing countries will be reduced to the minimum. Balance of payments will be adjusted but that will only be a temporary patchwork. The main disadvantage of devaluation is that it is a general rather than a selective control, cutting out both essential and non-essential imports. This is not desirable in the interest of India's future economy. Selective controls would have been most suitable for India's balance of payments problem¹. In 1947-48, India was able to achieve an overall equilibrium in her balance of payments². Moreover, after the revision of import policy in May and September 1949, only a few weeks before devaluation, India's imports in general and dollar imports in particular, had already been reduced to the minimum—capital goods, food and other essential raw materials. In September 1949, her adverse balance amounted only to about Rs. 4 crores. Imports into India were already subject to direct restrictions, so that a rise in the rupee prices of imported goods was not needed as a deterrent to the demand for them. Imports of capital goods are essential for the maintenance and development of India's economy both agricultural and industrial. So also the food imports. It was not so much because of the lower prices as the non-availability of these goods from elsewhere that India was importing them from the U.S.A. Diversion of these imports from the dollar area to the sterling area is rendered more difficult in view of the higher demand of imports from the sterling area countries as against their limited capacity. Substantial economy in dollar imports is not possible without either starvation or material injury to our industrial progress.

The devaluation of the rupee in terms of the dollar forces India to depend more and more for her requirements

1 cf. "I welcome devaluation because it imposes an automatic cut on dollar imports through the medium of higher prices and does not leave the situation to be handled by means of the uncertain devices of exchange control, import control and import licensing in India." Dr. B.N. Ganguli on Devaluation, p. 29.

2 cf. *ibid.*, p. 33, "There was the alternative of maintaining the status quo. . . . it would have been possible to follow this course of action by means of stringent exchange and trade control. We have done this for years now and have got nowhere and dissipated our external currency reserves on a tragic scale."

It may be pointed out that the rapid depletion of external reserves was due not to any inherent defect in import control but the unplanned uncertain import policy.

of capital goods and food on sterling and other soft currency countries which have devalued. But as all the countries will be giving priority to the U.S.A. in matters of export, India may not have much from the soft currency areas. Then again, due to the increased demand for their wares, the manufacturers in Britain and Australia will raise their prices, and there will be a general temptation to put up prices. Further, the high cost of imports from the dollar area may lead to a rise in the cost of production in the soft currency areas. Hence India must be prepared to pay higher prices for imports from the soft currency areas as well. Almost all the devaluing countries have taken measures to increase their export prices almost to the full extent of devaluation. Thus imports from the sterling area are expected to increase and also to become more costly, and there does not arise any question of reduction.

Increase in Exports

It may be pointed out at the outset that in so far as the adverse balance is caused by the pressure of re-equipment, stimulation of exports is not an appropriate remedy at all. Productive resources diverted to exports will be withdrawn from meeting needs at home which in itself is not desirable.

Devaluation necessarily gives a fillip to exports to those countries in relation to which the currency is devalued. Hence India's exports to the U.S.A. and other hard currency areas should necessarily receive a fillip. The export earnings in terms of rupees will increase. But the 'quantum' of exports must increase by 44% to maintain the old hard currency earnings. The extent of increase will depend on many factors. The principal factor is the elasticity of U.S. demand for India's goods. In the U.S.A., on the whole, industrial production, exports and imports tend to move together. General business conditions in the U.S.A. appear to be of much more importance to the problem of earning dollars by exports of raw materials to the U.S.A. than price changes brought about by devaluation¹.

The American market for hessian is acutely sensitive to changes in business psychology, and any turn in sentiment

¹ Economic Survey of Europe for 1949. See also 'Economic Munich', Phillip Cortney, p. 124.

which would seem to suggest a cautious inventories policy, reacts sharply on forward American purchases. The U.S. demand elasticity for raw skins with reference to average price is -0.43 , in other words demand is inelastic in respect to price.¹ Moreover, there was no evidence of an unsatisfied demand. In mica and manganese, there was already an unsatisfied demand and they did not need the help of devaluation. "Export of Indian mica cannot be increased substantially by a reduction in price."² Devaluation may increase India's tea exports to the U.S.A. But as the total exports are limited under International Tea Agreement, this increase will mean a reduction in her exports to other countries. Thus, in general, India's exports to the U.S.A. are inelastic in respect to price. The Government of India wisely safeguarded against a steep fall in dollar earnings by increasing export duties and, in some cases, maintaining the pre-devaluation dollar prices. On the other hand, benefits of devaluation will be limited by inelasticity of supplies in India itself (specially after partition).³ Production in India, both agricultural and industrial, is at present stagnant. When production does not respond to increased demand, devaluation is of doubtful utility in stimulating the volume of exports without diverting supplies from domestic markets or infringing our obligations under bilateral agreements. Moreover, after devaluation, production has been rendered costlier specially in jute and cotton textile industries due to the increased use of high priced imported raw materials. Above all these, the advantages arising out of devaluation have proved short-lived owing to the action of the non-devaluing countries which have adopted other import limiting devices.⁴

To the extent devaluation of the rupee has been accompanied by a similar action by as many as 28 countries, the benefit of devaluation to Indian exports to those countries has been practically neutralized. For instance, her main market for tea was the U.K. and the main competitor,

1 V. N. Murti, 'Reserve Bank of India Bulletin', October 1950, p. 694.

2 Report of the Consulate General of India in New York, November 1949

3 It is in this respect that devaluation of the rupee was not identical with that of the European currencies in general.

4 Annual Report of the International Monetary Fund.

Ceylon both of whom had devalued. Thus India gets no differential advantage. If devaluation is followed by a greater degree of inflation in other countries, she may be in a favourable position to that extent. But the range of competition is still likely to be limited. Tobacco and cigarettes, however, offer better prospects especially in Australia and England as the chief competitor was the U.S.A. But here again, limited production will present difficulties. Stimulation of production is more important. It is doubtful again whether India's exports to the sterling area will increase as the dollar area will be an attractive market.¹ Due to the imposition of export duties, her exports to the soft currency areas may fall, but earnings in rupees may be compensated by the increased prices.

Exports and imports to the dollar area are incapable of being changed considerably. Hence dollar deficit is likely to continue. To this may be added, losses due to convertible sterling depreciation and losses due to repayments of the IMF and the IBRD loans at high dollar values. Increase in imports from the sterling area unaccompanied by a proportionate increase in exports will tend to widen India's import surplus.

Thus devaluation was not the proper remedy of India's problem of balance of payments.

C. Disparity between Internal and External prices

Devaluation is supported on the ground that it seeks to restore the disparity in the price levels of different countries.² But for this reason a still greater devaluation of the rupee was needed—India's index standing at 376 as against the U.S. index of 182. A devaluation of 52% in relation to the dollar was demanded. The U.K. index stood at 208 and the disparity between the U.K. and U.S. prices did not justify a 30.5% devaluation of the pound. Then again, prices in

1 "The broad conclusion which arises from a study of our exports is that devaluation has certainly made our immediate problem very much worse, while future problem is certainly not certain to be better. In other words, this situation calls for adjustments in itself." *'Eastern Economist'*, September 23, 1949, p. 484.

2 Dr. B. N. Ganguly, 'Devaluation'. Mr. Churni Lal B. Mehta remarked, "I am satisfied at the extent of devaluation to 30%." It will bring about the necessary adjustment between the external and internal value of the rupee."

India and the U.K. were not at the same level, and the rupee also demanded a devaluation in relation to the sterling of about 42%. This was precisely the view held by Mr. C.H. Bhabha and others. But this was not done as devaluation was not deemed proper and desirable for India.

There has been a fundamental change in the Indian economy by the war and the subsequent partition, and thus the exchange rate of the rupee has assumed an entirely different complexion. India has to import in the near future large quantities of food, capital goods and technical services which are most sought after from the U.S.A. That was the reason India did not devalue in 1946 even when pressed by so many economists on this very ground. Moreover, internal prices have yet to be stabilized. Comparison can be made only when prices are stabilized. But it does not mean that there is nothing wrong with Indian prices. They are out of tune with international prices.¹ After the war and particularly after the advent of the National Government, there has been a spectacular rise in prices, and the overvaluation of the rupee became more pronounced.²

Index numbers of export and import prices in 1948 for certain countries were as follows :—

Index Numbers (Pre-war = 100)

		<i>Export prices</i>	<i>Import prices</i>
United Kingdom ..	..	247	289
Canada ..	..	212	216
Australia ..	..	299	271
New Zealand ..	..	207	229
Southern Rhodesia	..	177	272
India ..	..	384	326
Ceylon ..	..	308	434

Source : Commonwealth Economic Committee.

1 *cf.* "The foreign trade disequilibrium that we are having is not just a temporary phenomenon arising out of our immediate need for imports; it is fundamental and is inherent in the international price-and-cost disparities." A. K. Das Gupta, *War and Post-war Inflation in India*, p. 54.

2 Before this rise in prices, India was one of the stronger economies of the world and rupee was considered a fairly hard currency and was a substantial source of strength to sterling with which it was linked "Export Promotion Committee", p. 5.

A persual of the above figures makes it clear that,

- (i) index number of both export and import prices was the highest in India,
- (i) even then the terms of trade were favourable to us, our export prices being higher than import prices,
- (iii) it was so when the terms of trade were unfavourable for all countries other than India and Australia, the U.K. being one of them, her import prices being higher than her export prices.

If the general price level had continued at 1948 level, there would have been no trouble at all. But the prices were allowed to rise and no attempt was made to break the cost of production which was not so rigid as to need the help of devaluation. A reduction in costs and wages thus leading to a reduction in prices was the proper remedy. Why was it neglected? "The answer, of course, is that remedial action would be unpleasant, and unpleasant action cannot be undertaken on the eve of an election."¹

5. ECONOMICS OF PAKISTAN'S NON-DEVALUATION

Viewing in isolation, there was no intrinsic reason for devaluing the Pakistan rupee. The main reasons advanced by Pakistan in support of non-devaluation were :

1. Sound balance of payment position and absence of any real disequilibrium.
2. Inelasticity of Pakistan's export trade in basic raw materials.
3. Cheaper imports from devalued currency areas, which were expected to reduce cost of living and check inflation. Pakistan Government's press communique referred to the marked inflationary tendencies in East Pakistan.
4. Creation and maintenance of conditions favourable to Pakistan's industrial development.

It may be pointed out, however, that factual support was wanting to establish Pakistan's sound balance of payment position unless it is treated as merely balance of trade on private account. The other reasons were quite sound.

¹ 'Economist', October 1, 1949, p. 760.

But the devaluation by other countries changed the situation. Jute, cotton, tea, wool and hides and skins are the life-blood of Pakistan's economy, providing the bulk of foreign exchange resources and also contributing a considerable slice of revenues to the general exchequer in the shape of export duties. Above all, they are the main source of income of millions of primary producers. And the bulk of these exports goes to the devaluing countries. Moreover, in the context of India's devaluation, Pakistan's decision is not based on realities. Pakistan's economy is closely intertwined with India. Production of raw jute may be her monopoly, but its utilization is India's concern.

Pakistan was in the exceptionally fortunate position of being almost the only country not only in Asia and the Far East, but in the whole world (except, of course, America) enjoying a net export surplus in her foreign trade—due to the accident of her natural resources. Pakistan's strong position in jute and cotton and her self-sufficiency in food made her economy stable and sound. But the favourable balance of trade that Pakistan enjoyed arises mostly, if not exclusively, out of its trade with India. In 1948-49, Pakistan exports to countries excluding India were Rs. 81.37 crores as against imports from them valuing at Rs. 87.57 crores. Thus it had a deficit of Rs. 6.20 crores in trade with foreign countries excluding India. Her favourable balance of trade with India amounted to Rs. 24.70 crores.

Pakistan's trade in 1948-49

Country	Percentage share	
	<i>Exports</i>	<i>Imports</i>
India	61	45
Soft currency areas	26	38
Hard currency areas	13	8

Thus Pakistan raised the exchange value of her currency with countries taking 87% of her exports and supplying 92% of her imports.

Effects of Non-devaluation

An overall surplus of Rs. 30.95 crores in 1948-49 was turned into a deficit of Rs. 23.86 crores in 1949-50, a result for which Pakistan has to thank largely the 'no-devaluation'

decision. Both imports and exports declined, but whereas the former had only slightly fallen from Rs. 139.76 crores to Rs. 137.24 crores, exports were cut drastically by as much as about one-third from Rs. 170.71 crores to Rs. 113.38 crores. In 1948-49, Pakistan had deficits in trade with three out of eleven specified countries, but in 1949-50, she had deficits with double that number of countries. The most spectacular change from plus to minus was in the trade with India, in which case the earlier year's surplus of Rs. 31.31 crores turned into a deficit of Rs. 3.66 crores. As regards the trade with the U.S.A., the deterioration was from a nominal surplus of Rs. 85 lakhs to a relatively large deficit of Rs. 5.5 crores. As regards the trade with the U.K., the earlier year's deficit of Rs. 12.17 crores increased to Rs. 15.88 crores.¹ In the year ending March 1950, balances held outside Pakistan declined from Rs. 91.79 crores to Rs. 32.71 crores. The emergence of a deficit with India was the direct result of the virtual cessation of Indo-Pakistan trade. The jute market of Pakistan would have collapsed had India not supported it by making some purchases under the Interim Agreement.² Due to the Korean War, wool and cotton were sold at record prices. The export duty on cotton was raised to Rs. 300 per bale. The threatening surplus of wheat and tea was also disposed of. Jute, however, presented a problem. At least half of it must be sold to India if her economy is to be saved from collapse.

The general level of prices of imported goods has not gone down to the extent anticipated mainly due to the introduction of stringent import restrictions after devaluation. Inflationary trend in Eastern Pakistan has not been effectively checked. Imports of capital goods have also not been on any large scale specially so from the dollar areas. Moreover, for industrialization capital and trained personnel are also needed. Conditions in Pakistan are not favourable to attract foreign capital on a large scale.

¹ Reserve Bank of India Bulletin, June 1950.

² Objection was taken to this agreement by Mr. Dalmia and certain other industrialists as it delayed the devaluation of the Pakistan rupee. The jute correspondent of the 'Indian Finance' wrote: "The execution of Indian policy has been such that Pakistan markets were given support just at the time it was badly needed and the Pakistan Jute Board was able to carry out its plans."

Future Prospects

The present rate of Pakistan rupee can only be maintained by a strict regulation of imports. Thus Pakistan is faced with a dilemma. The foreign assets of the State Bank will be in considerable jeopardy if liberal imports are permitted. If, on the other hand, imports are restricted apart, from the effect of such a policy on inflation and morale of the people, the budget of the Pakistan Government which derives its income of about Rs. 35 crores a year from customs, will be greatly outbalanced. The heavy increases in export duties on manufactured jute goods from India conferred an advantage on manufacturers in the Continent, the U.K. and elsewhere. The foreign manufacturers made the most of the opportunity by importing raw jute from Pakistan. Thus there was a strong demand for Pakistan's raw jute.

The general anticipation not only in India but in Britain and the U.S.A. was that Pakistan is playing a losing game, and she will have to devalue her currency to the same extent as India has already done. The 'Economist' remarked on Pakistan's non-devaluation, "Since the two currencies are virtually devoid of effective exchange control, a situation has been created which obviously cannot endure for more than a very short time."¹ Pakistan rupee steadily grew firm on account of the larger demand for her raw materials and better terms of trade. India's unconditional acceptance of Pakistan's par value and its ratification by the IMI² further strengthened the Pakistan's rupee and she was in a position to maintain her parity for some time. But she is now faced again with raw jute surplus due to a bumper jute crop.

It would have been better, if India and Pakistan had consulted each other before taking any action which involved serious financial obligations affecting their economic stability. In the present context of their economy, devaluation, and more so to the extent of 30.5%, was not at all justified. May be, in the wake of all-round devaluation in the

¹ 'Economist' September 24, 1949, p. 681.

² It was difficult to agree with the position taken by the 'Economist' later on. (November 12, 1949, p. 1,082) "If the exchange rate between the two rupees were determined by economic considerations alone, the present official parity of Indian Rs. 144 = Pakistan Rs. 100 would probably not be an overstatement of Pakistan's economic strength."

sterling area, need would have been felt for some devaluation. In that case, a devaluation of 10 to 15% would have been sufficient. Thus we would have evolved a 'Rupee Area' of our own after including Burma and Ceylon. All these countries together would have been more or less self-sufficient. Their exports which mainly consist of raw materials or monopoly articles like jute, tea and manganese, could have found a ready market. They would have imported capital goods, food and technical assistance from the U.S.A., so badly needed by them, without paying anything extra. This decision, besides avoiding the present stalemate in jute, cotton, hides and skins, would have enabled these countries to reduce inflationary pressure by importing cheap foreign goods.

6. EFFECT OF DEVALUATION ON JUTE AND COTTON TEXTILE INDUSTRIES

A. *Devaluation and Jute*

Supply of raw jute—India's unilateral decision to devalue has created complications for her which are most marked in case of jute. India has to depend on Pakistan for the supply of raw jute. In 1948-49, we agreed to purchase 4 million bales from her. Pakistan jute costed 44% more after devaluation which India could not afford to pay as the price of raw jute constitutes 70% of the total manufacturing costs. Jute and jute goods are very important for us as they accounted for 40% of our total foreign exchange earnings and about 70% of our dollar earnings in 1948. In the absence of an adequate supply of raw jute, exports of jute and jute goods cannot be maintained.

Both India and Pakistan adopted measures to safeguard themselves. The Government of India and the jute industry agreed not to purchase jute from Pakistan if it was not available at the fixed maximum prices. The Government of Pakistan decided to meet India's challenge by fixing minimum prices. A Jute Board was constituted to arrange its disposal and the State Bank of Pakistan agreed to finance it. Thus a virtual cold war started between the two countries. There is no denying the fact that their way is surmounted with many difficulties. The following may be the possible effects.

In India, attempts are being made to achieve self-sufficiency, and it is generally held that it is not impossible. In 1948-49, production was 31.17 lakh bales. In 1951-52, it increased to 46.77 lakh bales. Even before devaluation, everything was not well with the jute industry which maintained working by planned curtailment of production and rationing of raw jute. Since partition, India has always been planning extension of jute area, and was successful in increasing the production from 1.7 million bales to 3.1 million bales. Further increase was not thought desirable as it conflicted with food self-sufficiency plans. After devaluation, it is cheaper to import rice than jute. Our annual requirements are estimated to be 60 lakh bales. There is a deficit of about 1.5 million bales only. With the admixture of mesta and hemp with jute, which has been attempted successfully in Italy and Germany, some of the deficit can be covered. If we are successful in our aim, we shall be saving valuable foreign exchange and reducing our adverse balance of trade. For the rest of the deficit, India will have to depend upon Pakistan. The alternative will be to restrict production, and this is not desirable in view of the loss of hard currency which it entails.

Pakistan is planning to reduce jute acreage under varieties which can only be exported to India. A move is also afoot to set up jute mills in Pakistan. Very serious attempts are being made in this direction. But it will take some time and the capacity to handle will only be 6,000 tons; thus it will not be able to impair India's long-term monopolistic buying power. Nevertheless, it must be pointed out that these mills will be equipped with the latest designs in plants and machinery ensuring efficiency in production. They will be better able to compete with India. Moreover, they will be able to import machinery at two-thirds the cost to India.

Pakistan has been fairly successful in finding an alternative market. To conserve her domestic supplies, India restricted her exports of raw jute. The U.K. and other Continental countries could not withhold their purchases for long, and had to import raw jute from Pakistan. The pre-war pattern of the jute industry suggested that even when Indian mills were working to capacity, mills in other coun-

tries could absorb more than 40 lakh bales. Pakistan exports, however, could not reach this figure because East Bengal did not produce the exportable varieties. But with the progress of rearmament, Pakistan was able to dispose of most of her jute crop. In 1951-52, there was a bumper crop both in India and Pakistan and it became difficult for Pakistan to dispose it of.

Exports of Jute

Exports of raw jute have been restricted. That will mean a loss of about Rs. 25 crores to our total foreign exchange earnings. An increase in exports of jute goods to the soft currency areas is out of question. Any increase in exports to the hard currency areas will depend upon the elasticity of their demand for jute. Elasticity may be calculated either in respect of prices or in respect of business activity. Sjt. V.K. Shastri of the Reserve Bank of India calculated a price elasticity of -0.598 in the inter-war period which in effect meant that a 10% reduction in prices will increase the demand barely by 6%. Mr. K. C. Basak of the Indian Central Jute Committee estimated the price elasticity at -0.7439 . Both these estimates show that a reduction in the price does not lead to a proportionate increase in sales. That is why the decline in dollar prices caused by devaluation was wisely reduced by increasing export duties on hessian. The U.S. demand for jute may at the most increase by 5% only. As against this, the elasticity with respect to industrial production and business activity is much nearer unity in both the cases.¹ That is why our jute exports in 1949 were less than those in 1948 as a business recession had set in in the U.S.A. in 1949. Thus devaluation was not needed as a stimulus to our jute exports to the hard currency areas.

Recently, however, with the re-emergence of American price boom and the general rearmament drive, the demand for hessian increased tremendously. The decline in jute production coupled with a heavy demand was responsible for an increase in prices to such an extent that U.S. prices for hessian became out of tune with the Indian controlled

¹ 'Economic Weekly', October 8, 1949.

prices. The Government of India increased the export duty on hessians to Rs. 1,500 per ton to avert a disruption of jute trade and industry. This increased demand could not continue for long and export duties were reduced. Production, however, must increase to keep the prices low enough. An increase in production can only be possible on sufficient supply of raw jute. The jute problem in all its aspects is virtually the product of the stalemate in the trade with Pakistan. If Indian industry does not go under full production, it would be impossible for India to hold on because Pakistan would supply raw jute to other countries which would compete with India by working two or even three shifts and producing sufficient goods to meet the demand. In fact, India's share in the total hessian imports into the U.S.A. has declined from 95.5% in 1949 to 82.5% in 1952, and the share of the Continental countries has increased from 4.5% to 17.5%. Without an adequate and cheap supply of raw jute, it may be a difficult task for India to recover her lost ground. A long-term agreement with Pakistan may prove helpful.

B. Devaluation and the Cotton Textile Industry

Supply of raw cotton—

Consumption of Cotton in Indian Mills

	(Lakhs of bales)					Percentage increase
	1947-48 season ending July		1948-49 season ending July			
	Consumption	" "	Consumption	" "		
Indian cotton	28.6	68	31.2	73	7	
Pakistan cotton	7.2	17	4.1	10	-41	
Egyptian cotton	3.0	7	3.9	9	29	
Other countries	3.2	..	3.3	..	..	
Total	42.1	..	42.5	..	..	

As the above table shows, even before devaluation the share of Pakistan cotton in the total cotton consumption was considerably reduced. In 1949-50, India agreed to purchase 4.5 lakh bales. This cotton was rendered 44% more costly to India and she decided not to purchase Pakistan cotton.

To retain an export target of 1,000 million yards, India needs 5 million bales of cotton. The efforts to increase

domestic production have met with success and in 1951-52, it amounted to 32 lakh bales. But of this 2.5 lakh bales will have to be exported as they are not generally utilized by Indian mills. Taking out 1.5 lakh bales for ex-mill consumption, 28 lakh bales are left for consumption by the mills. Thus about 2 million bales will have to be imported. For the cotton year ended August 1952, about 15 lakh bales of cotton were imported at a cost of Rs. 140 crores.

The world raw cotton position is, however, causing anxiety. According to the International Cotton Advisory Council, the total world consumption is increasing (31 million bales in 1950-51 as against 29 million bales in 1949-50). The situation has become more serious after the outbreak of the Korean War and the consequent race for strategic raw materials. Production in the U.S.A. is controlled by planned acreage, but it has increased in other countries. For India, the soft currency countries cannot supply much. Pakistan is finding no difficulty in disposing of her raw cotton, and the consumption of Pakistan cotton in Indian mills is practically nill. The U.S.A. is the main source for supplying cotton. Besides Egypt, bilateral agreements for the supply of raw cotton with Sudan, Kenya and East Africa may be useful.

Export of Cotton Textiles

Exports of cotton textiles offer good prospects in the neighbouring countries specially because Japan has not devalued. But the problem hinges upon increased production. Increased production is only possible by importing high cost cotton specially if quality is to be retained for foreign markets. This will partly offset the benefits of devaluation besides increasing the cost to the domestic consumer. The price of cloth has already increased due to the higher prices of imported raw cotton thus offsetting most of the competitive advantage offered by devaluation. Moreover, Japan is offering competition even without devaluation. Thus, here again, devaluation is of doubtful utility.

7. EFFICACY OF DEVALUATION

After devaluation, there were two perceptible changes in our foreign trade position : (i) the emergence of an overall

balance, and (ii) the emergence of an export surplus with the dollar areas. These are generally ascribed to devaluation. But this is really not so. For the developments in the country's economy that followed devaluation were influenced by other factors as well, and it is practically impossible to apportion the gains or losses as between devaluation and these other factors.

A. *Emergence of Overall Balance*

India's sea-borne and air-borne trade for the first full post-devaluation year shows an import surplus of Rs. 2 crores only as against an import surplus of Rs. 220.16 crores during the pre-devaluation year. Imports declined from Rs. 623.99 crores to Rs. 516.19 crores and exports increased from Rs. 403.83 to Rs. 514.19 crores.

(a) *Increase in exports—*

Exports of Indian Merchandise

(Sea-borne and air-borne)

Quarter				(Crores of rupees)	
	Overall			Dollar	Sterling area
1949 I ..	.	.	102.36	25.42	54.85
II .	.	.	88.85	15 58	50.01
III	.	.	97.65	17.98	59.50
IV .	.	.	137 86	33.34	73.95
1950 I .	.	.	146 07	31.79	71.34
II ..	.	.	96.44	23.01	54.21
III .	.	.	121.86	32.46	.

Source : Accounts Relating to the Foreign Sea and Air-borne Trade of India, 'Capital', August 10, 1950, p. 221.

The increase in exports can be explained by the following factors :

- (i) Indian exports as also sterling area exports to the dollar countries were considerably reduced due to the U.S. business recession in the early part of 1949 and the postponement of their normal purchases by importers in the hard currency areas in anticipation of devaluation. A part of the increase

reflects the deferred demand. Exports also increased due to the revival of business activity in the U.S.A.

- (ii) Export drive and export liberalization specially the reduction in export duties led to a considerable increase in exports even before devaluation. The implementation of the recommendations of the Export Promotion Committee also substantially helped in increasing exports.
- (iii) Impetus received by devaluation.
- (iv) Rise in Indian export prices after devaluation. During the 12 months following devaluation, the volume of our exports increased by about 14% as compared to the previous 12 months, and the prices of our exports were higher by about 11%.
- (v) International uncertainty and general rearmament drive.

An analysis of exports during the year after devaluation is given below :

Value in crores of rupees

Commodities	<i>Quantity in 1000* tons</i> <i>Cotton piecegoods in mlr. yds</i>							
	1948 - 49		1949 ---50		1948 - 49		1949 ---50	
	October	September	October	September	Quantity	Value	Quantity	Value
Raw Jute	152	18.34	72	9.68				
Jute manufactures	843	132.43	705	123.03				
Cotton piecegoods	344	31.88	991	82.82				
Cotton yarn	..	4.40	..	19.19				
Spices	30.4	10.85	29.5	20.42				
Tea	197	69.49	184	70.55				
Tobacco	27	9.64	46	15.60				
Mica	12	4.82	18	9.59				
Lac	21	7.43	28	9.18				
Hides and skins (raw)	17	5.93	15	7.23				
Manganese ore	511	3.32	758	6.81				
Groundnut seed	..	3.98	..	7.51				
Cotton raw	..	9.11	..	8.74				
Cotton waste	61	5.73	74	9.87				
Hides & skins (tanned)	15	12.78	26	22.58				

Source : 'Accounts relating to the Foreign Sea and Air-borne Trade of India'.

Exports of raw cotton and raw jute declined due to the conservation of resources for domestic needs. Exports of jute manufactures declined due to the decline in domestic production caused by the shortage of raw jute. The fall in the quantum of exports is much more as the value reflects the increases in export duty on all the above items. Tea and raw hides and skins practically maintained their value but the quantum of exports declined. The increase in exports of spices and groundnut seeds was mainly caused by an increase in export prices. The increase in the value of exports of mica and manganese reflects the decision to maintain their pre-devaluation dollar prices. Moreover, the exports also increased due to the general rearmament drive. Lac and tobacco did, in fact, benefit by devaluation, specially the latter as the U.S.A. did not devalue. Exports of hides and skins increased due to devaluation, but the increase cannot be maintained due to the shortage of raw hides and skins. Similarly the exports of cotton manufactures increased by Rs. 66 crores and mainly account for the increase in overall exports. Their export quantity index which stood at 150 in the first half of 1949-50 increased to 450 in the second half¹. This was caused by the exhaustion of the total export quota for the year 1950 by August 1950. Exports could not be maintained at this level, and naturally the Government had to curtail exports in the interests of domestic consumers.

As regards expanding production, devaluation has been more of a handicap than of help. It has made it difficult and costly for India to get its essential requirements of capital goods, stores and raw materials alike. Thus Indian industries, particularly textiles, will have to use more of high priced imported raw materials and this, in turn, will offset the price advantage created by devaluation. The high cost of living will also add to the cost of production and thus undermine the competitive capacity of the country in foreign markets.

It was not surprising, therefore, that exports suffered in the second quarter of 1950 when the temporary stimulus of devaluation spent itself. "This fall can hardly be considered as a seasonal one since India's exports as a whole have not

¹ Reserve Bank of India Bulletin.

shown of late any variation which can be regarded as being of a predominantly seasonal nature."

After July 1950, exports began to increase again. The value of India's export trade rose from Rs. 37 crores in July to Rs. 42.79 crores in August, Rs. 46.92 crores in September and to Rs. 58.19 crores in October, an all-time record for any single month. This improvement is to be attributed to the feverish purchases of goods at higher levels following the declaration of the Korean War in June. The phenomenon of a hectic rise in the prices of most commodities all over the world was also noticeable in India after the outbreak of the Korean War.

(b) *Decline in imports—*

Imports of Foreign Merchandise
(Sea-borne and air-borne)

Quarter				(In crores of rupees)		
				Overall	Dollar	Sterling
1949	I	.	..	170.46	34.16	79.58
	II	.	..	175.86	34.94	81.71
	III	..	..	146.55	26.51	71.41
	IV	..	..	137.49	27.17	56.73
1950	I	..	.	100.18	17.23	51.92
	II	..	..	135.13	36.34	56.96
	III	..	..	143.40	34.57	..

Source : Accounts Relating to Foreign Sea and Air-borne Trade of India. 'Capital' August 10, 1950, p. 221.

The reduction in imports is due to the following factors :

- (i) Cancellation of O.G.L. XI in May 1949 and cancellation of O.G.L. XV which replaced O.G.L. XI in August 1949. Imports from the U.K. for the period January-September 1950 were about Rs. 40 crores less than those for the corresponding part of 1949.
- (ii) Food imports for 1949 were completed before devaluation, and food imports for 1950 were compara-

¹ Reserve Bank of India Bulletin, September 1950, p. 524.

tively far less in the early months. Imports of food-grains in 1949-50 were Rs. 107.89 crores as against Rs. 131.03 crores in 1948-49.

- (iii) The virtual cessation of Indo-Pakistan trade resulted in a reduction in the imports of raw jute which amounted to Rs. 21.77 crores in 1949-50 as compared to Rs. 71.25 crores in 1948-49.

Import prices have already increased both in respect of imports from the dollar and the soft currency areas. As imports had already been cut to the bone, the position could not have sustained for long¹. Naturally liberalizations had to be made in January 1950 resulting in an increase in imports. The import policy was further liberalized in July 1950.

A resume of the above will make it clear that :

(a) Exports returned to the same level after the temporary stimulus given by devaluation ceased to be operative. (Quarter ending June 1950—Rs. 96.44 crores; quarter ending September 1949—Rs. 97.65 crores). As a matter of fact, the inelastic nature of most of our exports has been made clear. Even in the absence of devaluation, the export position of India would not have deteriorated very much, although it might not have been as favourable as it has proved to be in the event. Business trend turned quite independently of devaluation of the non-dollar currencies.

(b) Imports have again shown an upward trend and are likely to rise further as a result of import relaxations. Import control plays a prominent part and imports were on the downgrade even before devaluation. After devaluation, decline in imports has been caused more by a reduction of imports from the sterling area than of those from the dollar areas.

The natural outcome was the reappearance of the trade deficit after 5 months of export surplus, and the deficit in April-June, 1950 amounted to Rs. 36 crores, *i.e.*, an annual rate of Rs. 144 crores (which exceeds the deficit of Rs. 104 crores on sea-borne trade account in 1948-49).

¹ *cf.* "During the past year the preoccupation of the Government of India with the problem of redressing the country's adverse balance of trade was at the expense of securing vital raw materials for Indian industry". Tulsidas Kilachand, Address at the 10th Foundation Anniversary of the Surat Chamber of Commerce.

B. *Emergence of Dollar Surplus*

The dollar surplus during the period October 1949 to September 1950 was Rs. 9.53 crores. (Between November 1949 to March 1950 it amounted to Rs. 24.22 crores). Imports declined from Rs. 124.54 crores in the preceding year to Rs. 115.31 crores, and exports increased from Rs. 91.93 crores to Rs. 115.31 crores. In 1950, India made a net contribution of \$ 79 million to the Central Reserves. The following are the main reasons :

(a) Restriction of dollar imports to 75% of the 1948 level as a result of the decisions reached at the Commonwealth Finance Ministers' Conference held in July 1949. In the first six months of 1949-50, the average monthly dollar imports amounted to Rs. 10 crores but in the 5 months after devaluation, the average monthly imports amounted to Rs. 7 crores. This indicated a cut of more than 25%. Thus the export surplus was achieved by a strict self-denial as regards dollar imports, and food imports were almost entirely cut out. Government imports during July 1949-June 1950 amounted to less than Rs. 25 crores as compared with Rs. 71.1 crores in 1948-49.

(b) Complete suspension of licensing of dollar imports during June-September 1949.

(c) Due to devaluation, certain American goods were priced out of the Indian market and import licences were not utilized to the full extent.

(d) (i) Exports to the hard currency areas increased even before devaluation, and in the third quarter of 1950, the effect of the termination of the U.S. recession began to be visible. Exports would have been higher still but for the anticipation of devaluation.

(ii) Exports to the dollar areas naturally received a fillip due to devaluation and the consequent cut in dollar prices of our exports. Monthly average of exports to the dollar areas after devaluation amounted to Rs. 10.40 crores as against Rs. 7.66 crores before devaluation.

(e) Larger demand for strategic Indian materials for stockpiling.

(f) Increase in export prices and export duties.

The volume of hard currency exports was higher by 33.4% but the receipts from exports show an increase of 55.6% as the Indian export prices rose by 18.9%.¹

Exports to Hard Currency Countries.

Value in crores of rupees

Commodities	Quantity in 1000' of tons cotton piecegoods in million yards			
	1948 -49		1949 -50	
	October Quantity	September Value	October-- Quantity	September Value
Jute manufactures	356	56	343	64
Jute raw	24	3	11	1
Cotton raw and waste	..	3.5	..	11
Hides and skins raw	5.5	1.5	9.6	4
Hides and skins tanned	.2	.4	2	2.6
Tea	20	7	30	13
Spices	7	3	10	11
Lac	9	3	12	4
Manganese ore	313	2	595	5.5
Mica	6	3	13	7
Miscellaneous	..	15	..	17
Total	..	96	..	139

Source : L.K. Jha, "India's Foreign Trade".

Exports of raw jute have declined both in quantum and value due to the domestic shortage of raw jute. Exports of jute manufactures have declined in quantum but value has increased due to the increase in prices and export duties. Hides and skins, spices, tea and lac have increased both in quantum and value, but the increase in value is more than proportionate to the increase in volume indicating a rise in prices. The increase in exports of tea to the hard currency areas has resulted in a decline in tea exports to other countries. Exports of mica and manganese have increased in spite of the decision to maintain pre-devaluation dollar prices due to the general rearmament drive. Exports of raw cotton and

¹ Reserve Bank of India Bulletin, December 1950.

waste have increased both in value and quantity, but it is doubtful whether they can be maintained at this rate.

But here also, as in the overall position, the deficit re-appeared. Due to stricter imports in July-December 1949, liberal imports had to be allowed. The dollar imports in April-June 1950 reached the level of Rs. 36 crores which was even more than that of Rs. 25 crores in April-June 1949, the highest ever reached. On the other hand, exports declined after the temporary stimulus given by devaluation finished itself. The deficit in April-June 1950 amounted to Rs. 13 crores.

While the position of rupee earnings was somewhat satisfactory, the position of dollar earning was not satisfactory. Exports to the hard currency areas in October 1949-September 1950 amounted to Rs. 124.84 crores as against Rs. 91.93 crores in the preceding year. Dollar earnings at the new rate come to Rs. 86.70 crores only.

Trade of the U.S.A. with India

(Million dollars)

		<u>I half of 1949</u>	<u>I half of 1950</u>
U.S. Imports	..	128	122
U.S. Exports	..	177	128
Balance	..	+ 49	+ 6

Source : 'Direction of International Trade.'

Thus India's dollar earnings in the first half of 1950 were less than those in the first half of 1949.

After devaluation, the terms of trade have been moving in our favour both in relation to the hard currency and the soft currency areas.

Index of declared values in May 1950

1948-49 = 100

			Exports	Imports
Hard currency areas	..	..	135	118
Soft currency areas	..	..	110	109.5

Source : 'Eastern Economist', September 9, 1950.

Our export prices in case of the hard currency areas have increased to 135% and the theoretical margin for further increase without entirely neutralising the effects of devalua-

tion is 9%. (The figures do not include price increases after the Korean War). It shows that the U.S. demand for our exports is more or less inelastic. What after all is the use of devaluation, if the effect is destroyed by an increase in export prices? Our export prices in case of the soft currency areas have also increased, but the exports have maintained themselves. This also points out that our exports are more or less inelastic. Our exports to the soft currency areas have increased in cases where an alternative could be found in Japan or the U.S.A., for example the cotton textiles. Exports of cotton textiles have been restricted.

Thus a study of the trade statistics after devaluation suggests that devaluation was not the proper remedy for India. The disequilibrium in our balance of payments was not a fundamental one and was mainly due to partition combined with unplanned import policy and ineffective price control policy followed during the period preceding devaluation. The inflationary spiral in the latter half of 1948 coupled with the policy of liberal imports made the Indian market more attractive to foreign exporters and naturally the huge trade deficit. What is required in such cases is not devaluation which acts as a general control but selective controls like import restrictions, exchange controls and fiscal measures as Mr. Robert Triffin of the IMF pointed out¹.

8. SUGGESTIONS

A. *Necessity of an Indo-Pakistan Agreement*

India's unilateral decision to devalue has created trouble for India and Pakistan. There is a virtual cessation of Indo-Pakistan trade and their complementary economies have been disrupted. India is trying to achieve self-sufficiency in cotton and jute while Pakistan is trying to dispose her crops elsewhere. If Pakistan loses her Indian trade, or India her Pakistan trade, the damage would be incalculable. India's trade with Pakistan constitutes half of her total trade; her trade with us is less than a fifth of ours, but our stakes are high enough. India has suffered serious interruption to the normal working of her jute mills, which has not only reduced the foreign exchange receipts of the

¹ 'Foreign Economic Policy of the United States', p. 417.

country's biggest dollar earner, but has weakened the position of jute goods against competitors and substitutes in overseas markets. Pakistan is, on the other hand, facing a surplus raw jute crop at least half of which must be sold to India if Pakistan's economy is to be saved from disruption.¹ The need of raw material for India's cotton textile industry has meant the expenditure of valuable foreign exchange, while Pakistan's cotton and wheat have been taken away by others. But this has been possible only due to abnormal factors. In the long run if Pakistan's economy is to develop, India is an essential market for her raw materials.

The Interim Agreements have clearly shown that a free flow of trade is not possible without a common exchange ratio. And a common exchange ratio is not likely to be found at either end of the yawning gap².

B. *A Plea for Revaluation of the Rupee*

It has already been pointed out that devaluation was not desirable and necessary in the present context of our economy. Even if it was desirable, the extent of devaluation to 30.5% was wholly unwarranted. That this is so has been clearly demonstrated by the defensive measures taken by the Government of India in increasing export duties of some goods and in maintaining the pre-devaluation dollar prices of others. Our export prices have also been adjusted to higher levels. Hence it will be most desirable if the rupee is appreciated. This will facilitate the free flow of the Indo-Pakistan trade. There may be some disadvantages, but they will be more than offset by its advantages. The unconditional acceptance of the par value of the Pakistan rupee has demonstrated that India's decision to devalue was hasty and unwarranted, and Pakistan's decision not to devalue was not merely a political decision. It would

1 "Jute is a commodity liable to substitution by paper. And if the international status of jute is jeopardised by closures... or by the partial failure of production... the waiting game will clearly not have been worthwhile for either de murrion". 'Eastern Economist', October 28, 1949, p. 646.

2 "The recent signs of improvement in India's balance of trade may justify a small advance. Also the economies of the two countries being so closely interlinked (despite a recent tendency to put the accent on self-sufficiency and separate economies), a parity between the two rupees is highly desirable. But parity is not likely to be found at either end of the yawning gap." 'Economist', February 25, 1950, p. 436.

have been better if India would have appreciated the rupee when Pakistan was inclined to devalue partially on account of the collapse of the East Bengal Jute market. That would have avoided the Indo-Pakistan trade deadlock and the consequent losses besides saving India's prestige.

An appreciation of the Indian rupee will have the following advantages :

(i) It will have some deflationary effect. Cheaper imports from other countries will arrest the present inflationary spiral reinforced by devaluation. Cheaper imports of food will bring down the prices of foodgrains and thus the cost of living.¹ Cheaper imported essential raw materials will reduce the cost of production and bring down the general price level.

Unless the inflationary pressure is not merely checked, but reduced, it will react adversely on both the internal and the external equilibrium. Although India is not one of the countries engaged in a feverish rearmament drive, it is suffering no less than those countries from the inflationary effects of such a drive. Revaluation can effectively check this imported inflation. The U.N. Economic Commission for Europe strongly recommended the West European member countries to appreciate the value of their currencies with respect to dollar as one of the most important steps required to 'turn the mounting tide of inflation' and at least partially to meet the impact of the dangerously great increase in the world food and raw materials prices since the Korean War. The Commission does not rule out the necessity for reversing this step at a later date if a fundamental change in the situation should take place, and goes a step further to suggest that "it would be a mistake once more to establish fixed exchange rates in a fluctuating world economy."² Mere revaluation will not be enough, it must

¹ It is expected that India will be able to secure foodgrains at the current prices after revaluation.

² "Not indeed that exchange rates should vary from day to day, but the possibility of varying rates should be ever present, permitting the monetary authorities to adjust the rates in either direction and to whatever extent seems appropriate". The IMF, however, lays more emphasis on exchange 'stability'. But the maintenance of exchange stability presupposes a reasonable stability in basic economic conditions. Exchange stability ceases to be a virtue when fluctuations in economic activity of

be accompanied by a suitable credit policy and other fiscal measures.

(ii) Our exports are more or less inelastic. The effects of devaluation had to be narrowed down by the imposition of export duties. An appreciation of the rupee will, thus, not act as a setback to our exports. It will reduce our foreign exchange requirements by making our imports cheaper. The export duties imposed after devaluation will, of course, have to be adjusted. The inelasticity of our exports has only been reinforced by the present international situation.

Jute manufactures are our premier exports. Revaluation will ensure adequate supply of raw jute at reasonable prices. That will enable us to go into full production which will mean a reduction in costs. Due to increased supply of jute goods, their prices will be stabilized at lower levels. Moreover, our jute exports do not suffer from a price disadvantage as is clear from the extent of export duties that they can bear. What is more important is the general level of business activity in foreign countries.

A cheap and adequate supply of raw cotton both from the U.S.A. and Pakistan will enable us to increase our production of cotton textiles and thus to spare more for exports. That will enable us to assure the continuity of supply which is more important for retaining the markets recently gained. The cost of production will be lower and thus the competitive advantage in export markets will not suffer appreciably. In the absence of revaluation, U.S. and Pakistan cotton will be costly and the cost of production will be higher which will certainly offset the competitive advantage offered by devaluation. The recent imposition of a 25% *ad valorem* duty on the exports of cotton textiles shows that they are in a position to bear it. An appreciation of the rupee will, however, necessitate the abolition of this export duty.

Exports of tea which is mainly consumed by devaluing countries, will definitely suffer. An appreciation of the Indian rupee may, however, induce Ceylon, the foremost competitor, to appreciate her rupee. As regards hides and

foreign countries are transmitted to the domestic economy. In the absence of a more flexible policy, changes always tend to be in the downward direction. If the present inflation is permitted to proceed and no attempt is made to force down the present price and wage level, the countries will be compelled to devalue further.

skins, the supply of raw hides and skins from Pakistan may enable us to increase our exports rather than induce a decline. There may be some decline in the exports of oilseeds but that will be offset by increases in other respects. Otherwise exports of oilseeds are not desirable in themselves. Mica and manganese and other minor items do not suffer from any appreciable price disadvantage.

A reduction in the revenue from export duties must be presumed to follow revaluation, but against this must be set off the probable reduction in the cost of food subsidies and Government imports of capital goods and materials. Export duties have long been regarded as an unsound form of taxation, and can only be justified as an emergency measure.

An appreciation of the Indian rupee is in the interests of the sterling area as it will increase India's contribution to the Central Reserves.

(iii) It is, however, on the import side that the advantages of appreciation will be most discernible. It will lower the prices of imported food, machinery, stores and raw materials all of which form the major portion of India's imports. Our food imports are estimated at 5 million tons in 1952 and at an average of 3 million tons in the next few years. Our food imports both from the sterling area and the hard currency area will be cheaper to the extent of appreciation. That will be saving us Rs. 30 to 40 crores annually. Our imports of raw cotton and raw jute will also be saving us annually about Rs. 18 crores and Rs. 15 crores respectively. Taking the imports of machinery at about Rs. 100 crores annually, appreciation may save us about Rs. 20 to 25 crores. Moreover, due to the general rearmament drive, the U.K. may not be in a position to supply us with all our requirements of capital goods, and we may be required to import more and more from the U.S.A. An appreciation of the rupee will enable us to obtain them cheaply. In general, imports will be cheaper and there will be a net saving of about Rs. 80 to 90 crores annually.

Thus it will be extremely desirable for India to appreciate her rupee, specially after the recognition of the par value of the Pakistan rupee. Waiting will deprive us to a certain extent of its potential advantages.

INDIA AND MULTILATERAL TRADE

1. IMPORTANCE OF THE MULTILATERAL TRADING SYSTEM

International trade reflects the economic inter-dependence of nations and the importance of multilateral trade hardly needs emphasis. "The need for a world pattern of multilateral trade will remain as long as climate and geological deposits continue to vary from one area to another, as long as the factors of production are unevenly distributed over the face of the world."¹ The existence of the diversity of economic resources of different nations necessitates the existence of multilateral channels for their disposition. It is also necessary for securing a higher standard of living, "for only by international trade is the individual consumer able to purchase what is produced in the cheapest markets."² "It is certainly true now, as it was not 50 years ago, that a wide range of countries can produce, if they will, locomotives, complicated machinery, worsted, shoes, delicate instruments, of comparable quality. What is not true, however, is that they can produce them at anything like comparable real costs."³ Then again, it is an integral part of the policies for avoiding unemployment, under-employment and poverty. The momentum to the expansion and development of multilateral trade was supplied by two economic forces : (i) unequal economic development of different nations and (ii) investment of capital by richer countries in economically backward areas. If this investment had permanently diverted trade into bilateral channels, the expansion of production and employment would have been very limited. Equilib-

1 'The Network of World Trade', League of Nations, p. 10.

2 'Commercial Policy in the Post-war World', League of Nations, pp. 30-31.

"An increase in a country's international trade is a sign that it is availing itself of its opportunities to raise its standard of living through the mechanism of exchange. A decline in international trade is a sign of deliberate or imposed impoverishment". 'Economist', Volume 146, p. 4.

3 Jacob Viner, 'The Prospects for Foreign Trade in the Post-war World', Readings in the Theory of International Trade, p. 517.

rium in the balance of payments in this case would have required the creditor countries either to try to increase their imports from the debtor countries or to reduce their exports to them. The optimum capacity of the creditor countries to absorb primary goods would have been in any case limited. Multilateral trade opened up a world market for primary products and their prices were maintained in spite of expanding production. It is quite easy to see that but for multilateral trade commercial access to raw materials (and industrial development) would have been very largely problematical for Germany and other Continental countries with no colonies.

By the beginning of the twentieth century, such a system had come into effective operation though it was neither planned nor foreseen. Nationalism and industrialism seemed to march together. Wars inevitably change the character and disturb the course of international trade and this was what happened in 1914-19. Very limited progress was made after 1919 towards the restoration of the pre-war multilateral system by co-ordinated international action. Reduction of tariff levels as recommended by the World Economic Conference (1927), was not given effect to except during the temporary lull in the protectionist revival that occurred in 1927 and 1928. After 1929, even this little progress was retrograded. Open and concealed discriminatory practices again made their appearance. There was a powerful resurgence of nationalism. The world-wide settlements of payments broke down after 1929. This had serious repercussions. The technique of commercial policy recorded remarkable changes. Exchange and import controls as well as payments and clearing agreements were used as an instrument of bilateral adjustment of trade, and thus trade was restricted to bilateral channels. There was a severe contraction of world trade¹, and this seriously affected tropical debtor countries. The prices of primary products fell very low. This led to the formation of economic groups, and ultimately a system of bloc multilateralism emerged. The International Monetary and Economic Conference of 1938 and a long series of other gatherings, official and unofficial, reaffirmed the basic doc-

¹ cf. W. A. Sollchub, 'American Economic Review', Volume 22, p. 403.

trines but failed to achieve the objectives. Their recommendations were practically without effect.¹ It is, therefore, necessary and desirable that the volume of world trade be maintained and sudden changes in its composition and direction be avoided. If depressions are to be avoided and high level of economic activity to be maintained "a multi-lateral system of trade in which all are able to participate under conditions at once equitable and stable"² should be restored.³

India's Position in the Multilateral Trading System

(Distribution of Balance of Trade)

Countries	1913—14	1927—28	1938—39	1943—44	1948—49
United Kingdom	-59	-37	+2	+31	-54
Other countries of the Commonwealth	+25	+33	- 9	+36	+26
Total British Commonwealth	-34	- 4	..	+57	-28
Europe	+55	+10	+ 4	+ 2	- 6
U.S.A.	+17	+17	+ 4	+23	-33
Japan	+18	+11	..	..	- 6
Other foreign countries ..	+10	+15	+ 7	-14	-22
Total foreign countries ..	+100	+33	+15	+11	-67
Grand Total	+56	+79	+14	+78	-95

Source : Annual Reviews of Trade of India. Reserve Bank of India Bulletins.

1 Refer to 'Commercial Policy in the Inter-war Period', League to Nations.

2 'Economic Stability in the Post-war World', p. 242.

3 "If we consider the future in the light of past experience, four essential economic desiderata present themselves :

- (i) the need for adequate and concerted measure to correct the dislocations caused by the war and to enable economic activity to be revived generally;
- (ii) the need to maintain high and stable levels of employment;
- (iii) the need for securing higher living standards; and
- (iv) the need for a great expansion of multilateral trade as one of the most important means of providing both employment and higher living standards."

"Commercial Policy in the Post-war World", p. 25.

Through the development of multilateral trade, it was possible for India to absorb more of British goods and yet find an increasing outlet for her primary products in Europe and the U.S.A. Since 1875, India had an import surplus with Britain which amounted to Rs. 59 crores in 1913-14. This unfavourable balance with the U.K. was progressively reduced in the inter-war period, and in 1938-39, it was actually converted into a surplus. On the other hand, India's trade with other countries usually showed an export surplus. This export surplus with other countries used to finance our import surplus with the U.K. and also helped us to liquidate a considerable amount due year to year for services rendered and for the excess of debt service and dividends over new capital imports.

During the inter-war period, there was a heavy but gradual reduction in our export surplus with foreign countries from Rs. 100 crores in 1913-14 to Rs. 83 crores in 1927-28 and to Rs. 15 crores in 1938-39. The reduction in the import surplus with the U.K. can be explained by a reduction in imports of manufactured goods from the U.K. due to the gradual industrial development of Europe, America and latterly of Japan, which gave a strong competition to the U.K. in cotton textiles, which formed the bulk of her exports to India. Europe, specially Germany, and America supplied us with capital goods. Due to the depression of the 'thirties, the multilateral system broke down and international trade was distorted away from the usual channels. Foreign countries found it difficult to pay for their import surplus with India and naturally tried to reduce their purchases from and increase their sales to India. The depression also caused a reduction in their demand for our raw materials. India, in turn, was unable to pay for her import surplus with the U.K. Naturally it declined to Rs. 11 crores only in 1932-33. The Ottawa Agreement gave some stimulus to India's exports to the U.K. without inducing a commensurate increase in her imports, and helped India to achieve a balance in her trade with the U.K. in 1933-34. But the emergence of an export surplus in relation to the U.K. did not compensate for the reduction in the export surplus with foreign countries. Therefore, our

usual debt to the U.K. had to be financed by an actual export surplus. On the whole, in the inter-war period, India's import surplus with some countries used to be financed by an export surplus with other countries.

During the war, due to the complete breakdown of the multilateral system, and an increased demand for Indian products, she had an export surplus with all the countries. But with the restoration of peace, the pre-war trends began to return though the process is not yet complete. Our usual import surplus with the U.K. which was converted into an export surplus in 1938-39, reappeared in the post-war period. But it is difficult to say whether it is likely to be permanent, as at present we are having an import surplus with almost all the countries. On the other hand, after partition we are deprived of commodities which were usually exported to the U.K. It should, however, be noted that though India's import surplus with some countries will continue to be financed by an export surplus with others, the direction of import and export surpluses will change considerably. India is not likely to have a heavy export surplus with the Continental countries and the U.S.A. as in the past. Our import surplus with the U.K. and the U.S.A. will essentially be financed with our export surplus with comparatively nearer and undeveloped countries to which India expects to increase her exports.

2. ATTEMPTS MADE IN THE POST-WAR PERIOD

Commercial policy necessarily occupies an important place in the projected pattern of international relationships that is gradually being elaborated by the United Nations on the basis of the Atlantic Charter. Article 4 of the Atlantic Charter and Article 7 of the Mutual Aid Agreement evidenced the growing anxiety of the U.S.A. for rebuilding the multilateral trade. The former provided for equal access to raw materials. The latter was more specific and provided for agreed action for the expansion, employment, and elimination of discriminatory practices. The Bretten Woods Conference set up the IMF and the IBRD. But monetary and financial schemes alone cannot remove all the causes of the pre-war disintegration of world economy. The IMF and the IBRD can do no more than ensure that money

acts as the servant and not as the master of world trade. "To gather the full benefits of this plan it must be supplemented by a redirection of national commercial policies towards the same basic objectives."¹ The Bretten Woods Conference, to this end, adopted a resolution recommending further international measures which would "reduce obstacles to international trade and in other ways promote mutually advantageous commercial relations."

These recommendations were elaborated in the "Proposals for Expansion of World Trade and Employment" which were circulated on December 6, 1945 by the U.S. Government for consideration by the peoples of the world. These proposals were based on elementary and irrefutably sound economic principles, and suggested that the United Nations call an International Conference to create an International Trade Organization (ITO) as a part of the United Nations structure. Also, in December 1945, the U.S.A. invited 15 nations to meet to draft a tentative Charter of an ITO for consideration by the general conference. In February 1946, the U.N. Economic and Social Council adopted a resolution to call an international conference on trade and employment and establish a preparatory committee to prepare the agenda for such a conference. The representatives of 18 nations were appointed to the Preparatory Committee which met in London in October and November 1946. But only 17 countries participated (Russia abstaining) in the negotiations for the establishment of an ITO. The U.S.A. presented a suggested Charter for the ITO at this Conference. A Preliminary Draft Charter emerged from the London Conference. This formed the basis for discussion at the second Meeting of the Preparatory Committee which met in Geneva in April-August 1947. The Geneva Conference prepared another and supposedly a final draft of the Charter to be submitted for approval to a world conference in Havana in November 1947. The representatives of 53 countries signed the Final Act in March 1948 (Russia did not participate). This Act must now go to the several Legislative bodies of the signatory countries for approval. Although, the protracted discussion and compromises of the London,

¹ 'Bretten Woods and World Trade' by G. Heffding in 'Britain and Her Export Trade', p. 94.

Geneva and Havana Conferences made numerous changes in the provisions of the First Suggested Charter, the nature of the subject matter included changed very little.

India's role in the International Conferences

India had been closely connected with the various stages leading to the framing of the Draft Charter since the first session of the Preparatory Committee. She played a significant role in the modification of the original U.S. proposals so as to include clauses relating to the development of backward countries. She also secured recognition, within limits, of the right of backward countries to develop their resources through the method of tariff protection subject to the limitations contained in the Havana Charter. She, however, failed to secure recognition of the rights of member countries to employ quantitative restrictions. Hence it can be said that India's decision to participate in international conferences was fully justified by the result. The Indian delegation also took a leading part in Havana where they pleaded for a commercial policy that will meet the legitimate aspirations of comparatively underdeveloped countries. India was also represented on the Executive Board elected by the Proposed Organization (Interim Commission).

3. THE HAVANA CHARTER

It was signed on March 24, 1948 by 54 nations. It constitutes an important landmark in the history of international economic relations and seeks to prescribe a comprehensive code of behaviour in international trading relations and provides for the formation of an ITO as a new specialized agency of the United Nations to promote national and international action designed to achieve the following objectives :

- (1) to increase real income and effective demand, consumption and exchange of goods;
- (2) to foster and assist general economic and industrial development particularly of backward areas, and encourage the international flow of capital for productive investment;
- (3) to facilitate equal access to the markets, products and productive facilities;
- (4) to promote on a reciprocal and mutually advantageous basis the reduction of tariffs and other barriers

to trade and to eliminate discriminatory treatment in international commerce;

- (5) to enable countries to abstain from measures which would disrupt world commerce;
- (6) to facilitate the solution of problems relating to international trade.

The ITO is the natural and essential corollary of the other international organizations as the IMF¹ and the IBRD. While the IMF¹ is there to maintain and restore a semblance of order in the international monetary sphere, the ITO is there to regulate free and multilateral trade.

The Charter consists of nine chapters (106 articles) which set out the specific obligations and immunities of a member in respect of international trade and tariff and other associated matters (production and employment). It provides for, and facilitates, international investment for economic development and reconstruction, permitting at the same time such safeguards as may be necessary to ensure that foreign investment does not lead to interference with internal affairs or national policies. It recognises the need for Government assistance to economic development and reconstruction in the form of protective measures; and while discouraging universal use of such measures, permits their application, in certain cases, by negotiations with members affected, and, in others, with the prior approval of the ITO. The approval, however, is made automatic in respect of certain specified industries such as those which were established between January 1, 1939, and the date of the Charter, or those which are devoted to the processing of indigenous primary commodities.

The Charter further recognizes that special circumstances may justify new preferential agreements between two or more members. Such proposals need ITO's approval by a two-third majority (of the members present and voting). Approval, however, is made automatic if the proposed preferential agreement fulfils certain stated criteria or conditions, such as, contiguity of the contracting parties or their belonging to the same economic region, or the assurance of a sound and adequate market.

The Charter lays down a commercial policy covering questions of tariffs and preferences. It deals *inter alia* with the application of general most-favoured nation treatment, reduction of tariffs and elimination of preferences, as well as quantitative restrictions. The basic rule is that they are prohibited. But there are specific exceptions relating to (1) the preventing and relieving of critical shortages of foodstuffs, (2) internal control schemes to safeguard agriculture and fishery products and (3) balance of payments difficulties. Quantitative restrictions, when allowed, are to be used in all general cases in a non-discriminatory manner.

The ITO can only provide a forum for open discussions and can act as a guide for the safe conduct of trade and commerce by nations. It should command a sufficient volume of trade to be extremely influential in international economic affairs. If the ITO succeeds in accomplishing a sufficient part of its objectives, other nations may be induced, in time, to seek the benefits of its membership.

The Draft Charter on its enforcement will not immediately release international trade from its shackles and rigidities and thus will not lead to an automatic expansion of world trade on a substantial scale. It will only hasten its recovery. The fundamental economic problem of the world today is production. And unless the productive resources of the world are efficiently exploited, mere liberalization of trading conditions will not bring a substantial and lasting increase in world trade and employment.

4. THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

When the negotiations were being carried out for drafting a Charter for the ITO, attention was also paid to securing immediately a substantial reduction of tariffs and elimination of tariff preferences. Article 17 of the Havana Charter provided for negotiations directed to that effect. The Second Preparatory Committee (Geneva, 1947) considered ~~that~~ liberalization of tariff policies would be a factor of prime importance to the success of the ITO Charter. And the nations represented at this Committee will set an example of concrete achievement by themselves agreeing to certain

reduction of tariffs and preferences in advance. Following the lead given by the U.S. Government, negotiations for substantial reduction of tariffs and other trade barriers and elimination of preferences on a reciprocal and mutually advantageous basis, were initiated by 23 countries (including India) sharing among them approximately 70% of the export and import trade of the world. The needs of individual countries and their industries were taken into account, and the negotiations were conducted on a selective, product-by-product principle thus ensuring flexibility. The concessions included : (i) complete elimination of certain duties and preferences, (ii) the reduction of duty and preference, (iii) the binding of duties at the existing levels, and (iv) the binding of duty-free treatment. One hundred and twenty-three sets of bilateral treaties were completed. About two-thirds of the import trade of the countries concerned was covered by the tariff reductions or the binding of existing tariff rates.

A concession received or granted through negotiations with any participating country was to be immediately extended to the other participating countries also. Thus the Most-Favoured Nation Treatment became in effect multilateral. As the negotiations were carried out simultaneously, the participating countries were able to take account not only of the direct concessions offered but also of the benefits accruing indirectly as a result of parallel negotiations involving other countries. The results of the negotiations for tariff reduction were embodied in the General Agreement on Tariffs and Trade with necessary provisions for their effective implementation.

The GATT provides a positive assurance of the fact that the commitment in the Havana Charter to negotiate for a substantial reduction of tariffs and elimination of preferences can be fulfilled. While the Charter is general, the GATT is specific and incorporates only some of the commercial rules laid down in the more comprehensive Charter which are to be enforced in advance. When the Charter comes into force, it will supersede Article I and Part II of the GATT. A contracting party may withdraw from the GATT on or after January 1951 after giving six months' notice.

The Annecy and Torquay Conferences

The Annecy Conference was called to facilitate the extension of the GATT to members who could not take advantage of it at the Geneva Conference, and as a result, ten more countries acceded to the GATT which thus covered thirty-three countries, and the amount of world trade coming within the orbit of the arrangements came to some 80%. One hundred and forty-seven bilateral tariff arrangements were made between the new acceding countries and the original contracting parties involving tariff cuts on over 5,000 items. The biggest concessions had naturally to come from the U.S.A. while the U.K., as head of the sterling bloc, undertook not to increase duties on goods of which the imports from the twenty-three countries amounted to over £ 73 million in 1938. This scheme of concessions cut into Britain's Imperial Preference arrangements by making all the contracting parties equally eligible to the benefits of lower tariffs. The Annecy Agreement came into force with effect from the 20th May, 1950.

The Torquay Conference, rather the "third round" of tariff negotiations in the international campaign for freer world trade, was attended by six new countries. The 39 countries together with their overseas territories to which also the Agreement applies, account for nearly 80 per cent of the world imports and 85 per cent of the world exports. This Conference was the least successful and only 147 out of the expected 400 agreements could be concluded. To suppose that further great reductions in tariff rates would be possible, was wishful thinking. Much of the reductions offered at the previous two conferences came from the U.S.A. These amounted to an overall reduction in the average U.S. tariff from over 25% to under 15%, and she was unlikely to offer much more. Similarly, the other great trading nations, particularly the U.K. and the Commonwealth countries, were near, what they regarded as, their feasible limits. But it was for the first time that Western Germany, Australia, Peru, Phillipines and Uruguay entered the field of international bargaining.

The importance of the Annecy and Torquay negotiations is not, of course, to be compared with the Geneva

negotiations of 1947, but, in as much as they represent a widening of the sphere in which there is a reduction or binding of tariffs, they are a further step in the direction of freer trade.¹ The multilateral trading system had been greatly broadened and strengthened. It may be an exaggeration to describe them as "another landmark in international commercial relations",² but they certainly give a most hopeful sign that the theory of unhampered flow of international commerce is not an unattainable idea. They have brought some order into the jungle of trade restrictions by a substantial easing of the obstacles to trade. The volume of world trade is bound to increase, however modest such increase may be.

India and GATT

Some of the provisions of the Agreement were initially unacceptable to India. These were subsequently modified. As a result, certain deviations from the principles of most favoured nation treatment are now permissible so that India can maintain her present sanctions against South Africa, and India and Pakistan can grant concessions to each other without extending them to other countries. The Protocol of Provisional Application was signed on behalf of India on June 9, 1948. The Agreement was open to revision or termination after the end of December 1950, but has been extended for another three years.

Negotiations were conducted with 15 countries. They covered 12 items of export from India and 13 items of import into India.³ In offering concessions India adhered to 3 main principles :

- (1) Concessions are to be demonstrably in the interests of national economy, or at least not injurious to it.
- (2) They should not relate to products which are protected or which might claim protection during the next three years.
- (3) They should not result in excessive loss of revenue.

¹ The "New York Times" commenting on the Ancey Agreement remarked that they have confirmed the success of an entirely new technique of negotiating tariff reductions. This technique and framework of the principle of commercial policy within which the member nations agree to corporate emerges from the Ancey meetings as a proved method of international co-operation on a practical economic level, the like of which has never been seen before. Quoted in 'Eastern Economist', Vol. 13, p. 619.

² Hailed as such by the U.S. Press.

³ See for details 'Memorandum on the General Agreement on Tariffs and Trade', issued by the Ministry of Commerce, Government of India, July 1948.

The Government of India maintained that the value of concessions granted by India was less than the value of concessions obtained from other countries. As regards the concessions offered, there can be no objection as these items are direly needed by us for helping industrial development and also for maintaining a reasonable standard of living. As regards the concessions obtained, items include a large number of goods, *e.g.* jute, mica, shellac, tobacco, tea, etc., which other countries would in any case like to have. Moreover, exchange of concessions was discussed on the basis of undivided India (at the time of negotiations, India was not divided). Since partition, there have been some vital changes in India's foreign trade, *e.g.*, instead of being an exporter of raw jute and cotton, India has now become a net importer. Naturally she is not in a position to fully avail herself of the concessions obtained. Similar is the position with sports goods or carpets. Further, concessions enjoyed by us are also extended to other countries. Hence India would not be in a position to expand her export trade in items in which other countries are also interested. Hence the concessions obtained have not been of any appreciable significance.¹

The General Agreement has been in operation for a short period only. Imports and exports during this period have been affected by more important factors, *e.g.*, devaluation and the Korean War as also the continued trade and exchange controls. Therefore, it is not possible to assess the gains and losses. On balance, however, it may be pointed out that India has not been adversely affected on account of these reciprocal concessions. In the present conditions, India should continue to adhere to the GATT.

The quantum of Imperial Preference has also been reduced. At Annecy, negotiations were conducted with six more countries and at Torquay, with eight countries.

The existing principles for negotiating tariff reductions are, however, quite sound. The following points may, however, be noted :

- (a) In the matter of granting concessions, India should concentrate on capital goods, other machinery and equipment, and essential raw materials.

¹ Report of the Fiscal Commission, p. 303.

- (b) In the matter of receiving concessions, India should concentrate on (1) commodities competing with Indian goods in foreign markets, (2) commodities facing competition with possible substitutes, (3) manufactured goods, and (4) products of cottage and small-scale industries.
- (c) A close watch may be kept on the progress of GATT items, and the trade returns should contain the results of the same.
- (d) While negotiating fresh tariff reductions, representatives of trade and industry should be taken into confidence.

5. FUTURE PERSPECTIVE

The ITO has remained unratified till now. Only three countries out of 54 have so far ratified it. Even the U.S.A. has postponed her decision. The trading nations have felt more confidence in adhering to the provisional trade rules which take full account of the imperfections of the present international economic system, than in tying themselves to the idealistic rigidities of the ITO. The idea of national sovereignty is still a pet theory and is expected to continue to be so. No wonder that the GATT has gone from strength to strength. While the ITO will not consider the retention of quotas or raising of tariffs or admit preferences, the GATT provides for them.¹ The bases of the GATT are, therefore, tariff concessions to the limit that external economic conditions allow, and the mutuality of concessions. The position of the flexible GATT will be strengthened as the regime of the future, and the idealistic and ambitious ITO will slumber in the background.²

Role of the U.K. and the U.S.A.

The U.K. and the U.S.A. will have to take the lead. The U.S. tariff is the biggest single obstacle to an expansion

¹ The Chairman of the Annecy Conference, however, predicted a further increase in barriers to international trade under the escape clause of the GATT which allows a member to apply restrictions "to safeguard its external financial position and balance of payments". 'Pioneer', August 15, 1949.

² "Never since the proposed International Trade Organization began to take form in 1945, have the prospects for the immediate application of the ideas of free and multilateral trade for which it stands appeared as dim as they do today." 'Economist' on the Annecy Conference, August 27, 1949, p. 446.

of balanced world trade. Due to her present difficulties the U.K. is closing her Empire links and heading towards bilateralism.

The position of the U.S.A. now strikingly resembles that which she held at the end of the first war. She emerged economically much stronger and as the only source of capital. She failed to realize her responsibilities. Naturally, the world trade was dislocated. If the U.S.A. wants, as she does, to remove all barriers, she should advance loans for reconstruction as the U.K. did in the inter-war period, and suitably amend her tariff policy so as to allow the world to have the much-needed dollars. She cannot have limited imports with a large export surplus. Her problem is entirely different from that of the U.K.—while Britain has to export to pay for imports, the U.S.A. will have to purchase to maintain its exports at a high level.¹ Some of the world's export markets depended vitally upon U.S. purchases even in the pre-war period. The U.S.A. now realises her responsibility and has already made substantial contribution to world's recovery.² President Truman remarked, "As the world's greatest creditor nation, it is our special responsibility to welcome imports." But the attitude of the U.S. Congress is not helpful. They hold that American domestic industry is already hard hit due to currency devaluation and the cuts agreed at Annecy. This may be the reason why the U.S.A. opposed and succeeded in whittling down the U.K. proposal (Annecy Conference) for emergency action to establish international control and price stabilization for some of the major world trade commodities. This only meant putting into operation Chapter VI of the Charter. It may be noted that it was the U.S.A. which insisted on the inclusion of 'escape clauses' and again checked progress at Annecy as regards the International Commodity Agreement. The pessimism of the U.S. Congress still increased when President Truman

1 cf. Hawtrey, 'Standard of Living and Balance of Payments', pp. 78-79.

2 "With all our riches, we have persisted in playing the miser spending in normal years less than one per cent of our national income on consumers' goods of foreign manufacture. Instead of reaching out for the useful, appetizing and beautiful things which foreigners are so eager to supply, we put up tariff walls to protect ourselves against prosperity and abundance." Percy W. Bidwell, *Foreign Affairs*, 1945-46, p. 98.)

Also see Phillip Cortney, 'Economic Munich', p. 187.

announced his intention to seek further tariff cuts. It is expected that better sense will prevail.

It is primarily through the specialization implicit in international trade that the British people have raised their standard of living in the past. And Britain's future prosperity depends upon the re-establishment of a world-wide division of labour, with Britain importing food and raw materials and exporting manufactures. Since the war, Britain, like many other countries, particularly in Europe, has been forced to adopt bilateral trading. This is because of the lack of balance between production in America and production in other parts of the world and due to the lack of faith in the principle of multilateralism. Bilateralism has a restrictive and discriminatory effect. Its purpose is self-protection and has been used to secure the maximum trade possible under the existing circumstances. "To the extent that more and more countries put their own house in order and achieve a high and stable level of internal activity, bilateralism will merge into multilateralism."¹ It cannot grow simply out of good intentions but will develop when the transitional phase is over. Hence to accuse Britain of favouring bilateral agreements will be a distortion of facts. Moreover, in all the bilateral agreements, to which Britain is a party, the sterling side is nothing less than the whole sterling area. This important fact goes a very long way to mitigate the inevitable tinge of bilateralism.

Britain tried once in 1947 to restore convertibility of the sterling but failed miserably. The aim in Sir Stafford's words, has been "a world-wide system of multilateral trade within convertible currencies." Britain has always taken a leading part in negotiations for reducing tariff levels and has been following the trade rules laid down at the International Conferences. Britain has already relaxed import restrictions and intends to continue relaxations, so long as they do not entail the risk of using up the gold reserves.

6. BILATERALISM OR MULTILATERALISM FOR INDIA

India has been following a bilateral trade policy since June 1948. By December 1950, India concluded bilateral

¹ Prof. E. F. Schumacher in 'Eastern Economist', April 28, 1944, p. 652.

trade agreements with Pakistan, Ceylon, Egypt, Japan, Finland, Bizonia Germany, Hungary, Switzerland, Poland, Czechoslovakia and Austria. Apart from these, it has had barter deals with Russia and Argentina. Bilateral trade agreements are not conducive to the promotion of world trade to the maximum extent desired, but, in the present context, they were actually forced on India. Nations economically more powerful than India have pursued bilateral trade agreements without any regard to the ideals of multilateralism. India had, therefore, no other choice except to follow a similar path. Bilateral mutuality must be the cardinal principle on the basis of which India's foreign trade should be regulated. Only that way we can obtain the best of the present situation in the international sphere.¹ "The bilateral trade agreement has the unquestionable merit of eliminating entirely the strangulation on foreign trade which is caused by the payment effect."² As with the British bilateral agreements, they are only to be taken as temporary expedients to be done away with at the earliest opportunity that offers itself. That is the reason why our bilateral agreements are being concluded for a period of one year only.

From a long-term point of view, our best interest lies in non-discriminatory multilateral trade. Bilateral trade diverts trade into artificial channels and thus tends to diminish the total trade of the countries as well as the world. We should get our essential imports from the best and cheapest markets, and we should have a larger market for our exports. The market that is the best for selling our goods may not be the best to buy goods from. Markets for our manufactured goods will lie in undeveloped countries, but our requirements of machinery and other capital goods will have to be found elsewhere, *i.e.*, in the U.K. and the U.S.A. The Reconstruction Committee on Trade (1945) pointed out that India must avoid "undue dependence on a particular market for the disposal of a particular class or classes of goods and undue dependence on particular import markets."³

¹ "It would be foolish to cast your bread upon the waters of multilateralism if before the due season of its return you face starvation." 'Economist' quoted in 'E s'tern Economist', April 28, 1944, p. 653.

² Frisch Ragnar, 'American Economic Review', volume 37, p.539.

³ Second Report on Reconstruction Planning, p. 23.

Moreover, India cannot keep aloof from international developments and follow an isolationist policy by adhering to bilateral agreements.

The following are the main reasons that have prompted bilateral agreements :

- (i) controlled economy in certain countries and the difficulty of private trade in getting access to them,
- (ii) facilitating closer economic contacts with those countries,
- (iii) providing stimulus to Indian exports especially in new commodities and finally,
- (iv) diversifying exports and augmenting the total volume of trade with relatively soft currency areas, thus easing the dollar exchange.

Suggestions

The bilateral agreements should be planned and carefully prepared. They should be made as part of a dynamic commercial policy whose main object should be to ensure that India's foreign trade subserves her plans to develop the vast economic resources within the country.

1. These agreements should have fair reciprocity and benefits must be mutual. They should, as far as possible, provide for an equilibrium. Over-anxiousness should be avoided. That gives an upper hand to the foreigners.

2. Greater attention should be paid to the inclusion in the schedules of articles for which India aspires to develop an export trade. India has only few things to offer and they too generally have no competition. They should be so canalized as to bring much-needed capital goods and essential raw materials in return. We should make arrangements for exporting our cottage industries' products and their maximum offtake by different foreign countries. Commitments in fixing the quota targets of exports and imports should be made after full survey of our needs and capacity. Nonfulfilment of quota targets in bilateral agreements is generally assigned to the inexperience and lack of knowledge displayed by the persons who made these commitments. The Tariff Commission should be consulted and the business community should be taken into confidence.

3. Indian ships should be allowed to carry a reasonable proportion of the trade. Specific provisions should be laid down in these agreements. Some of the trade agreements do contain these provisions. Similarly, such provisions can be made in respect of banking and insurance services.

4. Our trade with neighbours should be developed. The markets of the Middle East and the Far Eastern countries are specially within India's sphere of influence. Hence we should enter into bilateral agreements with these countries. So far, we have entered into trade agreement with Egypt only.

5. Bilateral agreements may be concluded with the dollar areas so as to ensure a steady supply of the much-needed capital goods in return of the Indian raw produce.

6. Bilateral agreements may also be concluded with the food exporting countries of the sterling bloc. This may be useful in the event of International Wheat Agreement becoming non-operative.

7. THE STERLING AREA

The currency devaluations following the sterling have shown that the sterling area continues to be an important force in the world. But forces from within and without are striving for its dissolution. Some members have already left it, as the membership entailed certain restrictions which they did not want to impose. But they are not to be taken as signs of disintegration. That excepting a few members, nobody has withdrawn even after the drastic devaluation of sterling, shows that they still find it advantageous to remain its members. The sterling area at present is the largest multilateral trading area in the world and conducts about 25% of the world trade. The chief advantage to the members is that they need not keep the trade among themselves constantly in balance due to the freedom of payments within the area. Besides increasing the volume of their trade, they also economise in dollars by pooling of reserves. The commercial and financial ties binding the sterling area are more or less complementary in nature. The basic factors that bind the sterling area have, indeed, remained unaffected by changes caused by devaluation. It is still the force of common

interests, convenience and efficiency which provides the cement for the structure. The members form part of a preferential tariff system and have similar exchange control applied by each member with the non-sterling areas. Britain continues to be the largest market as well as the supplier for most of the members. The sterling area gives the much-needed exchange stability to its members by centralization in London of the essential banking operations for the whole area. On all important issues, the members take a joint action which is dictated primarily by regard for their own self-interest.

The continuance of the sterling area in the present context is both in the interests of Britain as well as the members for promoting mutual economic development and trade among themselves. But it is not favoured by the Government and the people of the U.S.A. who suspect it to be a mechanism capable of being used as an offensive weapon of trade discrimination against countries, which are outside the bloc, particularly the U.S.A. The idea is based on a misconception. Though there is a certain uniformity of policy, the members are not dictated by Britain. Dissolution of the Area will not increase members' imports from the U.S.A. They may even be smaller as, if some members can buy more American goods, others will be able to buy less. Moreover, the members will find it harder to buy from one another and may clamour for greater aid from the U.S.A. In fact, the sterling area is in accord with the U.S. policy of multilateral trade as it provides maximum exchange freedom to members and is, perhaps, the only example in the world of exchange freedom. Pending the establishment of a multilateral system, the sterling area is the next practicable regional arrangement.

Moreover, the meetings in which decisions on matters of vital importance affecting international commerce in general are taken, are not restricted to members alone. Even the U.S.A. and Canada participate. This only shows that the sterling area is not and should not be an isolated autarchic bloc. Hence this feature is immensely valuable and wholly desirable.

The sterling area is based on confidence in sterling, and it can endure only if the confidence in sterling is retained and

restored. The goal of ultimate convertibility should, therefore, be clearly defined and recognized. Pending its achievement, no opportunity should be lost of extending the area within which sterling is freely transferable. But the continuance of the sterling area should not, at any rate, result in the formation of regional blocs and the promotion of discriminatory trade. It should only act as a bridge between the present transitional difficulties and the future multilateral set-up.

India and the Sterling Area

There is a difference between the sterling area of the 'thirties and the sterling area after the war. Sterling was then an international currency. But after the war, the sterling suffered and hence the sterling area. Many old members opted out. A demand is generally made that India should also opt out of the sterling area. It is, however, not desirable. As the largest holders of sterling balances, we ourselves are interested in maintaining and strengthening the pound. We should co-operate with Britain in rehabilitating her economy by staying within the sterling area. We should drastically cut our imports not only from the dollar area but also from the sterling area both in our and Britain's interest. We should extend our co-operation to Britain purely on the basis of friendship and equality. Till at least all her sterling balances are repatriated, India will find it advantageous to stay within the sterling area. Even after the sterling balances are repatriated, India may find it advantageous to stay in the sterling area as the chances are that India's trade will continue to be mainly confined to the sterling area.

Moreover, sterling still continues to be one upon which large areas of the world are dependent as a medium of exchange in international commerce. London still possesses the entire mechanism of international finance and provides all the facilities of transport, insurance, etc., so that a large amount of the foreign trade of the sterling area countries as well as of several others continues to be financed through London. Thus it retains its importance in the financing of world trade on account of its years of experience and tradition that have gone to build up this mechanism. No doubt, exchange control has limited that free transferability and

convertibility of sterling, a quality without which sterling would never have become a world currency. Throughout the war, the sterling area was the largest unit, the most diverse and scattered group of nations, within which trade was really multilateral and currencies convertible, and it retains that character to this day. And attempts are gradually being made to expand the convertibility of sterling to make it ultimately convertible. But it is absolutely essential that the members must combine and co-operate in saving and earning more dollars. The greater the dollar shortage, the more it pays for the members to stand by each other. By withdrawing from the sterling area, they will only make their position worse because then they will have to balance their payments without any aid from the Central Pool. Moreover, their trade with the sterling area and with the U.K. in particular which was hitherto free from all restrictions, will be subject to the same restrictions as with non-members or the hard currency areas.

And for India, at least, it will not be advisable to withdraw from the sterling area as she is now getting more from the Dollar Pool than she contributes. In the three years 1948-1950, India made a net withdrawal of \$ 86 million, which certainly does not indicate that the restrictions imposed on the convertibility of India's sterling balances had operated in any unduly unfair manner. While in 1948 and 1949, India withdrew \$ 165 million (\$ 96 and \$ 69 million respectively), all other members of the sterling area taken together were responsible for a net withdrawal of only \$ 236 million. During 1948-1950, the rest of the sterling area made a net contribution of \$ 1297 million as compared with India's net withdrawal of \$ 86 million. In 1952, the net withdrawal mounted to \$ 112 million.

But for the continuance of the sterling area, it is essential that the members must be called upon to make sacrifices on an equitable basis, *i.e.*, economically stronger members must be prepared to make more sacrifices than those who are poor and have a lower standard of living. The principle should be 'to each according to his need and from each according to his ability.'

The 'Economist' pleaded for some formal machinery to supplement and reinforce the ties that bind the sterling

area, for consultations on vital matters and for reaching concerted decisions. The suggestion is really a commendable one, and its importance has increased due to the recent devaluation episode and the resentment shown by some members. Some progress has already been made and there are frequent meetings of the Commonwealth Finance Ministers. But these meetings should become more frequent and regular and must not depend on the happening of some crises as in the past (September 1947 after the suspension of the short-lived convertibility, and July 1949 after the decline of dollar reserves to a level below safety margin). There should be a permanent Secretariat. Such a Secretariat already exists in the form of two committees, (i) Sterling Area Statistical Committee, and (ii) Commonwealth Liaison Committee. But the present position needs sufficient improvements.

8. IMPERIAL PREFERENCE

In principle, Imperial Preference is only one of the many forms of tariff system designed as a means of commercial bargaining. In general, preferential tariffs are the results of political, geographical or other conditions which may make it necessary to enter into contractual obligations in respect of trade relations. In particular, under the principle of Imperial Preference, the Commonwealth countries reserve the right of granting to the U.K. or other members of the Commonwealth tariff rates which may not be claimed by other contracting parties by virtue of the Most Favoured Nation clause.

The desire to develop Inter-Imperial trade first arose from the colonies, and not from the U.K., as the open door policy of Great Britain was detrimental to their interests. Canada was the first to grant preferences for Empire goods in 1897. The policy did not find favour in the U.K. and even until 1919, the British tariff was for revenue only. Under the stress of trade depression, Britain had to discard her traditional free trade policy. The Import Duties Act of 1932 which built up an extensive protectionist system under which Britain could offer a wide range of preferences to the Dominions and the Colonies, provided the background for the Ottawa Conference of 1932. It may be pointed out here

that a reduction in British tariff duties was imperative to prevent an excessive increase in the domestic cost of living. This was skilfully used to secure valuable concessions for British goods in foreign markets. The British policy was highly inequitable, as the Dominion tariffs were essentially moderate determined by reasonable requirements of domestic industry and offered little scope for reduction. The object of Imperial Preference was to try and preserve and, if possible, to stimulate the trade between the constituent countries of the Empire in the midst of general cataclysm.¹ It was confined to certain countries and certain commodities only.

The U.S.A. has particularly been against Imperial Preference. Naturally, the Atlantic Charter and the Mutual Aid Agreement affirmed the principle of rigid adherence to the Most Favoured Nation Theory. The principle of elimination of tariff preferences was embodied in the U.S. proposals for the expansion of trade and employment and has also found place, after modification, in the Havana Charter. As per Article 16 of the Charter, preferences in force including Imperial Preference may continue, but no margin of preference shall be increased. Thus Imperial Preference has not been surrendered as a principle. The Charter also recognises that special circumstances, including the need for economic development or reconstruction, may justify new preferential arrangements between two or more countries in the interest of the programmes of economic development or reconstruction of one or more of them. The GATT also provides for the continuance of the "preference in force exclusively between two or more of the territories listed in Annex. A subject to the conditions set forth therein."

As regards the British attitude, Mr. Robert Morrison said in June 1946, "There could be no question of Imperial Preferences being given up as it were in the void. They would be examined as part of the wider commercial picture and in the bargaining which would take place any reductions suggested would have to be weighed against the advantages to the Commonwealth and Empire as well as to the world

¹ "The net effect of tariff adjustments made to give effect to the undertakings of Ottawa was more to restrict Empire foreign trade than to free Inter-Imperial Trade", Dr. B. K. Madan, 'India and Imperial Preference', p. 5.

of the countervailing reduction in trade barriers which were offered by other countries." Britain frankly admits that "she can by no means afford to cut the close economic connections which are both the most reliable markets for British exports and wholly indispensable sources of supplies of foodstuffs and other goods for the British consumer." It may be pointed out here that it was the trade between the U.K., and its dependencies that saved the export industries of the U.K. from complete collapse.

Preferences may serve to be useful in the present context but in the long run, a departure from multilateralism will not be profitable. The Commonwealth can hardly hope to become self-sufficient. The two reports on 'Britain and World Trade', one issued under the auspices of the Ministry of Information (1945), and the other issued by the P.F.P. (1947), have both condemned the departure from multilateralism which was accepted at Ottawa, as it artificially diverted trade by means of discriminating tariffs.¹ "It does not follow that the sea-anchor that saved the ship in the storm would be equally useful as a power unit for the vessel when the storm had blown over."² The basic fact stands that the productive capacity of the Commonwealth is in many important commodities (*e.g.*, rubber) far beyond the consuming capacity, while in others there is a permanent deficit (*e.g.*, tin, zinc and copper). Both in the interests of the Commonwealth as a whole and its constituent parts, a trading area much wider than itself is required.³

India and Imperial Preference

The policy found scant support in India. Even in 1903, the Government of India expressed that "from an economic stand point, India has something, not perhaps very much to offer to the Empire; she has very little to gain in return; and that she has a great deal to lose or to risk." The Indian Fiscal Commission also examined this question and admitted that any considerable application of a policy of preference

¹ See Sir Arthur Slater's admission, 'Economist', May 29, 1937.

² R. B. Buchanan in 'Britain and Her Export Trade', p. 133.

³ In 1938, after six years of Imperial Preference, Britain depended on countries outside the Empire to absorb half of its exports and to provide considerably more than half of its imports.

would cause distinct economic loss to India. The Commission, however, recommended that India should adopt this policy "as a test of loyalty to the Empire". Even at the Imperial Conference at London (1930), India refused to commit herself to any general scheme of preference, and stressed that she was not prepared to depart from her policy of discriminating protection.

The principle of Imperial Preference was introduced into the tariff policy of India on a substantial scale for the first time by the Ottawa Trade Agreement which provided for the grant of concessions to the imports of the U.K. origin covering as many as 106 articles. Similar concessions were also received by India on her exports to the U.K. on a wide range of articles. Whatever may be its defects, it is certain that it acted as an insurance against potential losses of our exports during the depression. The preferences that are being received by India on her exports to the U.K. and the preferences that are being granted to the imports of the U.K. origin are at present governed by the Indo-British Trade Agreement of 1939 subject to the modifications introduced by the GATT

So long as the Imperial Preference is continued, it will be in India's interest to co-operate with the system as our economy is closely linked with that of Britain. Then, Pakistan definitely will continue in the preferential system and hence it will not be desirable for us to opt out of it. The GATT has considerably reduced the preferences. When the country has attained freedom and yet has voluntarily opted to remain as a member of the Commonwealth and the political domination of Britain over India has ceased and thus also the economic exploitation of the country, the whole concept of Imperial Preference has got to be reviewed in a new perspective. The balance of payments problem demands greater cohesion of a convenient area like the Commonwealth or the sterling area, and the growth of multilateralism within the Commonwealth in the first instance might help restoring balance to the world trade. Notwithstanding special difficulties, the Commonwealth as a whole is maintaining its position as the world's largest trading area,

both as an exporting and importing unit contributing about 30% of the total world trade.

The continuance or otherwise of the preferences should be decided exclusively on a consideration of economic advantages and on the basis of mutual interests. It is, therefore, necessary to formulate comprehensive principles underlying the grant of preferences based on the following considerations :

1. No preference will be granted on any of the articles without the approval of the Parliament.
2. Preferences given in respect of any commodity should be judged separately on individual merits of the case, and the same should be negotiated on a reciprocal and mutually advantageous basis.
3. No preference allowed in any way will diminish the protection required by Indian industries.
4. Preferences should not involve any appreciable economic loss to India.
5. Preferences should not impair the bargaining power of India in her trade relations with other countries.
6. Preferences should be subject to periodical revision and modification in the interests of our trade expansion.

9. OBJECTIVES OF INDIA'S TARIFF POLICY

The main aim of our tariff policy should be the increasing of national wealth and income, the most urgent prerequisite of which is rapid and widespread industrialisation. The object should be maximum production, that is, the exploitation of the natural resources of the country to the best advantage. Our aim is not necessarily national self-sufficiency. Notwithstanding repeated favourable opportunities, as for example, the two world wars, India has practically made no progress in industrialization as compared to Australia and Canada.

Need for a Reorientation of Tariff Policy

(1) India has some initial natural advantages which make her potentially so strong that competent observers have declared her capable of producing anything needed for the wants of man.

(2) Excessive dependence on agriculture and the pressure of increasing population on the existing resources call for a fundamental change in the approach towards tariff problems so as to fill up the gaps in the present industrial structure.

(3) War-time industrialization needs preservation.

(4) The traditional pattern of our foreign trade has undergone a striking change which has to be maintained.

(5) Partition has deprived us of our main export staples and hence the need to replace them with manufactured goods. Efforts have, however, to be made to concentrate as much on agricultural self-sufficiency as on accelerating industrial progress.

(6) Benefits of devaluation can only be achieved by an increase in the quantum of exports which is possible only by exporting manufactured goods.

Objectives of Tariff Policy

(1) To achieve rapid industrialization, a policy of protection is necessary. Free trade and protection are not dogmas with universal and perpetual validity—the traditional doctrines of free trade have been worn threadbare. A study of economic history shows that the growth of stable economic internationalism depends upon healthy nationalism. Protection has played a prominent part in relieving the birth pangs of the modern industrialism. Almost every industrialized country has had to protect its industries against foreign competition for a temporary period so as to enable them to consolidate their position. Rationally applied, protection enables the most effective utilization of the natural resources, human skill and aptitudes. India, as a late comer in the race of industrial development, should take lessons from the experience of these advanced industrialised countries. List's ideas are almost entirely applicable to the conditions of our economy, the deficiencies of which are to be corrected by the establishment of manufactures. The old attitude of 'infant industry' should be replaced by the idea of 'an infant country'. Indian experience also bears testimony to the fact that nascent industries can grow to their full stature only through a policy of

protection. Although the policy of discriminating protection was inadequate to meet the requirements of the country, and was not applied whole-heartedly in a spirit of sympathy and understanding, it nevertheless assisted the growth of some industries.

(2) Formerly, protection was not visualized as an instrument of general economic development but was viewed as a means of enabling particular industries to withstand foreign competition when they applied for protection. There must be a fundamental shift in the entire outlook of protection in relation to a country's industrial development. The emphasis should be transferred from the negative idea of safeguards against foreign competition to the positive conception of the fullest utilization of our resources. Tariff protection should be looked upon primarily as a means to an end as one of the instruments to be employed for economic development of the country.

(3) Such industries should be selected for protection (a) which add to the national wealth and productive resources of the country, and (b) which not only meet our domestic requirements but may also leave a surplus for export.

10. INDIA AND THE ITO

The decision to join the ITO is fraught with far-reaching consequences to the country's industrial and agricultural development. The Charter has to be accepted or rejected as a whole. Hence it has to be examined whether on balance there is greater advantage or disadvantage in joining the ITO.¹ The public opinion is sharply divided on the issue. While the industrialists think that the ratification of the Havana Charter "may jeopardise the very foundation of national welfare", purporting to freeze, as it were, the present pattern of international trade, and consequently the existing inequalities among the nations, and that the provisions are more suitable for a highly industrialized country like the U.S.A. than for other countries which have to rely on reciprocal trade agreements to obtain their essential requirements

¹ "...the main object of India's post-war commercial policy should be the industrial expansion of the country and this should not be hampered by any international agreements which India may join." First report on the 'Progress of Reconstruction Planning', Government of India, p. 29.

in respect of raw materials and capital goods, the Government and the economists think that India stands to gain by ratifying the Charter.

Case against the ITO

India is in the stage of transformation from a primary agricultural country to an industrial economy, and it is at this stage that free trade gives place to a protectionist policy.¹ Chapter III of the Havana Charter deals with the question of economic development and reconstruction, particularly of the undeveloped countries, and the assistance needed in capital goods and technical skill. The clauses are very vague. Foreign investment is to be decided by bilateral negotiations. Article 13 provides for the use of protective tariffs but their scope is seriously limited. Underdeveloped countries will not be given a free hand in formulating them. In such cases, the ITO may grant exceptions to the general obligations of the Charter; but consent for relief from the obligations negotiated with members must be obtained only through re-negotiations with the members concerned, and in practice both these processes are apt to be attended with great deal of difficulty.² Members are required to avoid measures which would have the effect of creating balance of payments difficulties for other countries. Then, the ITO shall not concur in any measure likely to cause serious prejudice to the exports of a primary commodity on which the economy of another member country is largely dependent. Thus the freedom to apply suitable protective measures is limited. Many industries have been left unprovided for, *e.g.*, industries started before the war and highly developed industrial processes. The conditions laid down for excluded industries are very difficult to satisfy (Article 13, para 7). The ITO will satisfy itself and will then give a definite verdict, and thus the members will have

1 Free trade is the desiderata of economic policy both in the agricultural and the industrial country. While the aim of the former is to exchange the agricultural products with the manufactured and industrial goods, a highly industrialized country is interested in maintaining and expanding its economic activity by freely exchanging the goods with other countries of the world.

2 It would have been, however, more appropriate if the right of the industrially backward and under-developed countries to utilise protective measures such as quantitative restrictions were fully recognized in the Charter, subject, however, to a subsequent review by the ITO

to give away to the ITO their sovereignty in fiscal matters to a considerable extent.

Article 17 of Chapter IV provides for negotiations for substantial reduction of the general level of tariffs. This is mainly devised to benefit the industrialized countries. This clause ignores the case of low tariff countries and of tariffs for revenue. The general level of tariffs in India at present is very low, and a reorientation of her fiscal policy will definitely involve a gradual increase in tariffs, both revenue and protective.¹

Article 18 prohibits internal mixing regulations and provides for national treatment of foreign products in internal taxation. It will thus not be possible for India to prescribe further mixing regulations regarding, for example, the mixture of power alcohol with petrol for consumption in the country, or mixing of foreign tobacco in domestic supplies. Article 31 prohibits the functioning of pooling arrangements which acted as a sort of indirect protection (superphosphate and aluminium).

Article 20 generally prohibits quantitative restrictions. The provisions are very onerous for backward countries. Again, if and when permitted, quantitative restrictions, as may be permitted, have to be administered so as to avoid discrimination between other member countries. India needs them till she reaches a stage of sufficient industrialization. The right to use them should be equally available for nascent industries. An increase in import duties may not materially help Indian industries due to low quality and backward technical efficiency.

Articles 25 and 26 restrict the use of subsidies. It is generally recognized that bounties or subsidies under certain circumstances are preferable to tariffs in as much as they are more specific in their application and more amenable to control than tariffs. Subsidies are also deemed necessary in case of new industries, more particularly in the case of key industries and industries of strategic importance.

Article 46 deals with the prevention of restrictive business practices. India's growing shipping, banking and

¹ Note by Mr. B. M. Birla, Fiscal Commission, p. 293.

insurance services need Government assistance in case of foreign competition.

A resume of the above shows clearly some disadvantages involved in the Charter to under-developed countries like India. The Charter failed to show an adequate appreciation of the point of view of the under-developed countries. The right of industrially backward countries to resort to a legitimate use of tariffs, quantitative restrictions, subsidies, etc., solely for protective purposes, instead of being conceded to them unconditionally, has been hedged in by several conditions and limitations including the clauses requiring prior consent of the ITO. The Charter is more concerned with the removal of restrictions on world trade rather than with measures to develop the under-developed and undeveloped economies. Article 98 allows members to trade with non-members. Abstaining from the membership of the ITO, therefore, will not involve any basic handicap, but it will leave us free to formulate an independent commercial policy.

Case for the ITO

It is argued¹ that the ITO is not charged with any positive obligation in respect of developing undeveloped and under-developed economies. This should be welcome rather than opposed as it provides a safeguard against ITO's interference in national policies. It is reasonable that such assistance as may be given by the ITO should be at the specific request of the country concerned rather than be superimposed. If we do not want the interference of a body like the ITO in our economy, we cannot object to the ITO not being entrusted with any specific functions.

Though the Charter is, in certain respects, definitely disadvantageous to the interests of countries like India, due consideration should be given to the fact that the provisions have been evolved by compromises between 54 nations. The Charter could not have satisfied all the conflicting interests. While in India it is criticised as leaving no scope for economically under-developed countries to build up

¹ The Federation of Indian Chambers of Commerce and Industry, and Mr. B. M. Birla, Note of Dissent, Fiscal Commission, p. 295.

industries through tariffs and quotas, etc., American Big Business objects to the Charter as having been rendered entirely ineffective through the various "escape clauses". In fact, the Charter has been described in the U.S.A. as "so riddled with exceptions that it has been rendered almost valueless as a means of restoring multilateral and non-discriminatory trade."¹

The refusal to join the organization may give rise to the possibilities of retaliation against us. India has not much raw materials to export. The products of protected industries may have to be marketed in foreign countries and that will give a good scope for retaliation which may be severely felt in the present scramble for markets. Our markets will lie mostly in the nearer countries which may become members of the ITO following the lead of industrial countries. International trade is a two-way traffic, and certain measures cannot be adopted without there being the possibility of retaliation in one sphere or the other. If measures can be taken by India against more developed countries, they can also be taken by less developed countries like Pakistan, Burma and Ceylon against India. The ITO. provides a machinery for settling disputes of this nature by negotiations with the member nations concerned. This will not be possible if India remains outside the ITO. No doubt, international trade is not an end in itself, but to advocate an independent commercial policy of unilateral measures for promotion of industries, without taking note of the possibility of retaliation, can hardly be regarded as a realistic attitude. There is no virtue in exports and no vice in imports. All depends on what is imported and what is exported and in what manner. It will be increasingly difficult, if not impossible, for India to maintain herself in isolation from the rest of the world. Our schemes of expansion and economic development will largely depend on international co-operation and assistance in the supply of capital goods and technical personnel.

¹ Monthly Review of the Federal Reserve Bank of New York, June 1949.

"This document is the product and combined result of economic fallacies and lack of vision", Phillip Cortney, 'Economic Munich'.

See also Wilcox Clair, 'A Charter for World Trade.'

There are many "escape clauses" which provide real escapes from the obligations imposed by the Charter. They are the balance of payments provisions which authorize the use of quantitative restrictions. They are formally temporary in character, but are likely to be an almost permanent feature of international economic relations¹. So long as the root causes of disequilibrium in world trade such as war-time loss of invisible incomes, lag in productivity and the disparity in the international cost and price levels remain uncorrected, quantitative restrictions and discriminatory restrictions will continue. Article 40 provides that a member may reduce or withdraw a tariff concession granted to another member on a particular product if import of that product increases to such an extent and under such conditions as to cause or threaten serious injury to domestic producers. Article 13 provides for release from contractual obligations for the purposes of the economic development or reconstruction of any particular member country. It is for the under-developed countries themselves to make the best use of these exceptions through well-designed domestic measures and concerted action in the international sphere.

India has joined almost all other international organizations. If she wants to avail of the facilities provided by the IMF and the IBRD, it is only reasonable that she should join an organization like the ITO. She has already agreed to some of its provisions by subscribing to the GATT. If India and other industrially under-developed countries are able to play their part effectively in the ITO, they might succeed in preventing unduly narrow interpretation of the Charter clauses such as might restrict their economic development.

Much will, however, depend upon the attitude taken by the U.K. and the U.S.A., the two major leading nations. The future of the International Trade Organization is still uncertain. A growing volume of opinion in America is against ratification of the Charter. Its ratification by Britain depends largely on its ratification by the principal

¹ "The restoration of basic equilibrium in the international balance of payments is no mere passing problem of the transition from war to peace, but is a long-term, large-scale task." Sir Hubert Henderson, 'American Economic Review', June 1949, p. 698.

industrial countries. India should not stand out in isolation, but it will not be desirable to ratify the Charter unless it is ratified by Britain and the United States. She should wait and watch and should be in no hurry to communicate her acceptance of the Charter.

But the ITO itself should take a liberal view of the proposals for quantitative restrictions and other protective measures. In fact, most of the countries of the world, including those who sponsored the Charter, have taken advantage of these measures at one time or the other for developing their economies and establishing new industries. India's demand for the right to use protective measures freely, is not made with a view to limiting the volume of trade or for discriminatory purposes, but solely for expanding production and employment at home in order to raise the standard of living of the teeming millions of this country, an objective which is in consonance with the declared objectives of the Charter. Hence there should be no objection for the ITO in granting India's request. It should be noted that free trade cannot be applied indiscriminately unless the general level of economic development is the same in all the countries of the world. Substantial increase in world trade will be possible not through immediate removal of restrictions thereon, but only after industrialisation of agricultural countries and the resultant increase in their national income. In the inter-war period, the progress would have been better had full aid been afforded to the backward countries and need for protective tariff recognized.¹

A resume of the above will make it clear that the arguments in favour of joining the ITO are more reasonable. If all nations accept an international code of commercial policy, the world trade would flourish and prosper to the advantage of every nation participating in it. India would

¹ In searching for the cause of world-wide expansion of trade in the 19th century and its subsequent decline in the present century, often exaggerated importance was attached to the prevalence of free trade in the past. The blunt fact, however, was otherwise. The whole basis and background of international trade had undergone a change. In the past, it was based on agricultural countries and industrial countries. But the diffusion of industrial capital and industrial skill and the growth of economic nationalism cut across the traditional dichotomy between agricultural and industrial countries. The larger the obstacles placed in the way of such development, the greater was the desire and the need to impose restrictions on trade.

also benefit. The Fiscal Commission have rightly advised the Government of India to ratify the Charter provided the U.K. and the U.S.A. ratify it.

The ratification of the Charter will be in consonance with India's foreign policy of working for greater international prosperity, understanding and harmony. Participation in an International organization would, however, entail foregoing some parts of India's sovereignty without, of course, compromising her vital interests. "Each member will surrender some of its freedom to take action that might prove harmful to others and thus each will gain the assurance that others will not take action harmful to it."¹ It must be admitted "tariffs, though within the sovereign jurisdiction of the separate States, are not a matter of purely domestic interest."²

¹ W. L. Clayton, foreward to Wilcox Clair's 'A Charter for World Trade', p. x.

² 'Commercial Policy in the Inter-War Period', p. 150.

ORGANIZATION AND OTHER PROBLEMS OF INDIA'S FOREIGN TRADE

1. DEFECTIVE ORGANIZATION

As it is, our commercial organization both on import and export sides is crude and unorganized, and the exporters and importers are generally men of small means, who can neither undertake the task of improvement themselves nor, will be in a position to face the organized export offensives planned by the more advanced countries. Hence there is a great necessity for organizing our export and import machinery on a scientific basis. Educated and enterprising young men should be encouraged to take to trade and commerce. Emphasis should be placed on adequate finance.

Where it is properly organized, our export trade is the entrenched monopoly of foreign merchanting houses, predominantly British and helped by British banking, insurance and shipping concerns. If concentration of our export trade in a few items is a weakness, the concentration of trade in these items among a few exporters is still a greater weakness. The position has not been much altered as yet. In import trade, the position is not much different specially in regard to the items which are most vital for the economic reconstruction of the country. This is not desirable in the wider interests of the country. Attempts must be made to oust the non-national element from this most important sector of our economy. This predominance of non-Indian elements in our foreign trade, enabled them to change the entire pattern of our export trade in their own interest, much to the detriment of our country as a whole.

2. DEVELOPMENT OF AUXILIARY SERVICES

Auxiliary services comprise shipping, banking and insurance. Foreign element predominates in all of these

services, and hence it is desirable that India should develop her own services. During 1948, the gross income of foreign transportation and insurance companies from exports amounted to about Rs. 19 crores.¹ India is in a unique position to develop her services in banking, insurance and shipping and thus develop her invisible exports specially to her neighbouring countries which need these services.²

A. *Shipping*

India's shipping services have generally been rendered by foreigners specially Britishers who have now lost their monopolistic power. The U.S. shipping companies have also made their debut lately. The total tonnage to India's credit is .39 million out of a world total of 81 million tons, thus constituting less than ½%, while she contributes 4% to the total world trade. With its coastline extending over 4,000 miles, and with its enormous overseas trade exceeding a thousand crores of rupees, the merchant marine of India is disproportionately and distressingly small.

In ancient times, or even up to the 18th century, India had at least her fair share of the world's carrying trade in her own bottoms manned by her own seamen and built of her own timber in her own shipyard. With the advent of British rule in India and its hostile attitude, Indian shipping industry had to perish so that British shipping industry should flourish. The attempts made by Indians to start navigation and ship-building were unsuccessful due to strangling competition offered by the well-established British companies. These failures reflected a ceaseless struggle and sacrifice on the part of Indian people and a lack of response from the alien Government. "It is a tragic tale of broken promises, unredeemed assurances and neglected opportunities."³ Not only did the Government not encourage Indian shipping during the inter-war period, but actually helped the British companies by giving direct assistance. In spite of repeated

1 Reserve Bank of India Bulletin, August 1950, p. 527.

2 "The Government must do all that they can to increase our invisible earnings of foreign exchange by encouraging the use of the services of--(a) Indian shipping in our import and export trade;(b) Indian banking for transport and financing of our trade;(c) Indian insurance in underwriting the risks of our foreign trade.", Import Control Enquiry Committee.

3 Reconstruction Policy Sub-Committee on Shipping.

requests, the Government failed to prevent the unhealthy and ruinous competition (rate wars and deferred rebates). They followed more or less a policy of indifference. And it is really a matter of surprise that in the face of all these odds, Indian shipping succeeded in building a merchant marine of 1.3 lakh tons. "For a country of its size, the length of its coastline and its strategic position athwart one of the world's main sea routes, India possesses a distressingly small number of deep sea ships which at the outbreak of the war stood at no more than 30 with a total of less than 150,000 tons gross. The vulnerability of India's position has been revealed by the stress of war-time conditions, but by no circumstances more glaringly than by her inability to find adequate shipping from her own resources to provide for the transport of the food supplies required by her. The rectification of this state of affairs should be one of the immediate post-war objectives."¹ "A full-fledged mercantile marine, in addition to providing a vast field of employment, adds substantially to our national dividend, by providing a rich source of earning foreign exchange, not to speak of the utility and value of the mercantile marine as a naval auxiliary and second line of defence in times of war."²

The Reconstruction Policy Sub-committee appointed in 1945 recommended an expansion of Indian mercantile marine, excluding country craft, to 2 million tons in a period of five to seven years, so as to command 100% of India's coastal trade, 75% of trade between Ceylon and Burma, and 50% of India's distant trade. The Government fully endorsed the recommendations and sought to establish three shipping corporations in which it was prepared to take a major interest. But very little has been accomplished in this direction. A shipping policy has not yet been laid down. The only ship-building concern in the country is struggling hard under financial difficulties, and State aid has not yet been forthcoming in any tangible manner. The Government should encourage the shipping industry in all possible ways to achieve the target of 2 million tons. In co-operation with nearer countries (Pakistan, Burma and Ceylon), India should

¹ Policy Sub-committee on Shipping.

² M.A. Master, 'Commerce', March 18, 1950, p. 844.

adopt and evolve an integrated policy of co-ordinated development so that she might build up a navy commensurate with her requirements of trade and national defence and security.

The way of Indian shipping is not yet smooth. Indian shipping started regular lines only two years ago. The competition of British and other foreign companies with their strong reserves and new fleet thus putting the Eastern shipping in the throes of an almost life and death struggle, the mounting losses and the declining volume of cargo, high operational costs and top heavy management in spite of severe pruning, will make it difficult for the Indian shipping to stand on its legs, and it may be forced to beat a hasty retreat if State aid is not forthcoming in a proper and adequate manner. Any further indifference will seriously upset the strength of even the little fleet that this country has now got to its credit.

The Government have already taken steps to reserve the coastal trade to Indian shipping. The carriage of imports on Government Account should be earmarked for Indian shipping. In the future trade agreements, a provision must be made to ensure a fair share of Indian cargo to be carried by Indian ships. As far as possible, Indian importers should insist on F.O.B. contracts and the exporters on C.I.F. contracts. Mail subsidy should be granted to Indian ships alone, and they should be safeguarded from discriminatory freight war. Proper provision should be made for the training of Indian cadets. Left to herself, the industry—shipping and ship-building—may become a national liability rather than a national asset.

It is gratifying to note that India has been admitted to the full membership of the Indo-U.K. Continental Shipping Conference. Both the Scindia Steam Navigation Company and the Indian Steamship Company will be entitled to full membership rights. It is expected that now they will be able to secure their full share of the traffic that is to be had on this route.

B. Banking

Foreign exchange banks have a virtual monopoly of financing our foreign trade. They earn an enormous amount

of profit and remit it to their head offices. This constitutes an economic drain and should be stopped forthwith. These foreign exchange banks favour foreign import and export houses to the exclusion of Indians who have not got an adequate share in the organization of their foreign trade. We cannot rely on foreign exchange banks for the provision of our credit facilities. Many Indian banks did attempt to deal in foreign exchange, but failed due to the lack of a highly specialized knowledge of this business. The Imperial Bank has been permitted to deal in foreign exchange, but it appears that it has not yet taken up this business on a large scale. The United Commercial Bank is doing foreign exchange business on a fairly large scale. The Central Banking Enquiry Committee recommended the establishment of an All India Exchange Bank with State assistance. But so far nothing has been done. A State-aided and State-controlled Exchange Bank will be comparatively easy to start. The establishment of Indian banking and insurance houses will facilitate the development of India's exports in the comparatively unorganized markets of the Middle and the Far East. The Government of India should provide all facilities to such Indian banks as are engaged in foreign exchange business or have branches outside India.

C. *Insurance*

The relationship of trade, shipping and marine insurance is at once intimate and mutual, each helping the other and all prospering together. Now that India has been admitted to the full membership of the International Maritime Conference, the Indian shipping industry and marine insurance have an important role to play in India's sea-borne trade with other countries of the world. The fortunes of marine insurance business being closely linked with the shipping industry, Indian conditions were not very conducive to its growth. Indian insurance companies could not get a large amount of marine insurance business because foreign shipping companies insist on the risk being covered by a foreign insurance company. With the development of Indian shipping, our insurance companies may get an added stimulus in marine insurance business.

Marine insurance can make a significant contribution to the development of India's invisible exports specially to the nearer countries. A considerable sum is earned by foreign insurance companies from India's foreign trade¹. If the Government were to make efforts to place a major portion of the insurance business of exports and imports with Indian Insurance companies, it could easily mitigate the adverse balance of payments to the extent of Rs. 6 to 7 crores.

3. SOME EXPORT PROBLEMS

A. *Price Problem*

Prices must be commensurate with the quality of goods and sufficiently low to compete effectively with the products of other countries in the market. The present high prices of Indian goods militate against any further expansion of export trade. Indian prices are nearly four times what they were on the outbreak of war. The rise has been higher after the termination of the war and the advent of the National Government. Before the rise of prices in 1948, Indian rupee was considered to be a sufficiently hard currency. Had it been checked, our position would have been extremely favourable. With the appearance of a buyers' market, the problem assumes a very great importance. The first essential is the reduction in Governmental expenditure. Prices should be reduced step by step. "Price stop should precede wage stop but must coincide with profit stop."² The Indian manufacturers must realize that their primary markets lie in countries of low standard of living and, therefore, they should do everything in their power to reduce their cost of production, firstly by greater efficiency, and secondly, by resisting the temptation to support demands for higher prices of raw materials and stores. Investigations must be made as to the feasibility of carrying out schemes of rationalization of plant and machinery which would prove effective labour-saving devices and improve productivity of industrial undertakings and thereby reduce costs.

1 Shri B. N. Jalan, Chairman, General Assurance Society Ltd., estimates the total premium going out of India on account of insurance on exports and imports to be Rs. 16 crores.

2 ".....disinflationary measures are an essential prerequisite for the correction of disequilibrium in international accounts." Fiscal Commission Report, p. 140.

B. *Quality*

Care should be taken to export goods of uniform standard and quality with an assurance of continuity of supply. Recently there has been an unfortunate deterioration in the quality of our exports, and the reports of Indian Trade Commissioners are replete with complaints of malpractices and bad quality of goods supplied. In this connection, particular mention may be made of exports of coir goods, carpets and rugs, sports goods and a number of other products of medium-sized industries as well as handicrafts to Canada. "Despite warnings and appeals made from time to time almost all such goods as a result of malpractices and unfair and unethical methods employed by some exporters, enjoy today the worst possible reputation in the North American markets. This had done serious injury to trade with India". In the carpets and sport, goods trades particularly, some Canadian trade organizations actually passed resolutions calling upon their member firms to stop all imports from India unless Indian exporters agreed to inspection of goods on arrival before payment is made. Sometimes the shipments contained live and dead insects, stones and rodent excreta.

The retention and expansion of markets is only possible if they are supplied with quality goods. This is more so in case of consumer resistance and a buyers' market. Something direct and positive should be done to maintain the quality of India's exports and its reputation. At present, the Indian Standards Institute has been entrusted with this task. It has already prepared standards for a number of commodities and many more are under preparation. The enforcement of standards is not, however, a responsibility of the Institute nor indeed are these standards compulsory. They are in the nature of recommendations only. The standards should be properly enforced. Deterrent action against those found guilty should be taken. It is suggested in some quarters that it will be better if the trade associations lay down the standards for different goods and see that they are maintained by the manufacturers. Such a method would be preferable to enforcing standards by legislation and Governmental inspection. But the suggestion is of doubtful validity in view of the unhelpful attitude of these associations

in the past. In any case, the label 'made in India' should be synonymous with quality and value in the mind of the overseas consumer and should not be a hallmark of shoddiness.

C. Better Marketing Methods

(1) Delivery must be maintained to schedule. Once delivery is not according to schedule, the calculation of the importer is set at naught with consequent loss to him. It is better for the reputation of a firm to refuse an order than accept it and delay delivery.

(2) Goods supplied must strictly correspond to the samples. Failure to conform to the original samples shakes the confidence of the buyers and ruins the reputation of the exporters. Samples should not be used simply to bait orders.¹

(3) Packing must be such as to ensure safety of goods in transit and also facilitate handling at the ports. Packing should also appeal to the fashions and taste of the buyer and be pleasing to the eye. General presentation should receive careful attention, because it should be remembered that a large proportion of the population of the Asiatic countries is illiterate, and an appeal must be made to the eye through attractive and appropriate symbols. Failure to do this may result in a considerable loss. Goods should be suitably designed and prepared for the market.

(4) No substitutes should be sent without obtaining prior approval of the importers.

(5) Promptness in correspondence is by no means unimportant. Replies should be given even in cases of inability to comply with the orders. Maintaining sphinx-like silence will not do.

(6) The exporter should always plan for a large and steady expanding market rather than for short-term gains. Every shipment must be a forerunner of another and yet another.

¹ "Indian exporters must develop and maintain a high standard in their business dealings, and the goods exported by them must conform strictly to the specifications and samples agreed upon. . . . Complaints were heard in more than one country that the goods received from India were inferior and sometimes quite different from the samples or specifications originally approved." Report of the Trade Delegation to the Middle East, p. 40

Japan being in the export trade since a very long time, has known the value of business integrity. This is the secret of her success. Japanese statements about quality and quantity are neither questioned by customs authorities nor by customers.¹

D. Advertising and Publicity

Every market has to be cultivated much more so a foreign market. For certain goods a market has to be created, for certain others it has to be consolidated and for some others prejudices must be fought and removed before a market can be found. Publicity and propaganda are necessary for increased sales. Not only for goods that are readily exportable, but for even those the exports of which are restricted, it is desirable to advertise to enable the importers to know of the availability of such goods and the possibility of getting them from India at some future date. This is more important in view of the danger from modern industrial substitutes that are increasingly threatening some of our exports in the U.S.A. and other countries. India should promote her traditional export goods, pioneer fresh uses for them and fight back against substitutes.

Establishment of suitably organized permanent show-rooms displaying Indian manufactured articles, including cottage industries' products, will be highly desirable. They may remain in charge and as a part of the Trade Commissioners' Offices abroad. Reorganization, expansion and strengthening of the Indian Trade Commissioners and the Commercial Intelligence Service should receive particular attention. Trade Commissioners should be selected from businessmen of high integrity and reputation rather than from raw bureaucrats. Their services have to be regulated and reorientated so as to suit the changed circumstances of the present-day commerce. Persons not conversant with the language of the country of appointment, should not be appointed. Frequent transfers should be avoided. The reports of the Trade Commissioners should give specific and definite information about India's exports and prospects of their expansion. Their main function should be the nourishing and expansion of export trade. Closest liaison

¹ Supplement to the 'Indian Trade Journal', October 5, 1950, p. 4.

should be maintained between our Trade Commissioners abroad and the exporters in India.

The Indian Trade Journal has hardly changed since the time of Lord Curzon who planned it. Many of its pages are filled with reports of economic conditions of various countries sent by Commercial Attaches abroad which are six months or more antedated at the time of publication. This ridiculous state of affairs needs to be corrected promptly. There should be a co-ordination between various commercial publications to avoid multipublication of stale market reviews which are allowed to fill up pages after pages. The Indian Trade Journal should contain the same information as is to be found in the British Board of Trade Journal.

India has been recently participating in international trade exhibitions, notably those held in Canada, Italy, Brussels, New York, the U.K. and Belgium. The exhibits comprised both raw materials and manufactured goods. In London, the impression gained by the foreigners was that India may become Japan's natural successor as the world's chief supplier of cheap textiles. We can easily capitalize these impressions by making effective advertisement and publicity coupled with continuity of supply. India also organized a trade exhibition in Singapore. It was the first exposition of its kind and size to be ever staged outside the country. It provoked unprecedented interest in Indian merchandise. Such exhibitions should be encouraged. Recently a fair was organized in Delhi by the All-India Manufacturers' Organization. It may rightly be called India's first Trade Fair and also her first attempt at assessment and stock-taking of the country's industrial potential. The main aim was to provide an opportunity for an exchange of merchandise and technological ideas by manufacturers, producers, and retailers of industrial goods. Apart from India, the U.S.A., Britain, Australia, Germany, France, Canada, Czechoslovakia, Denmark, Sweden and Japan participated. In all, there were 254 exhibitors. It has been decided by the Government to make the fair an annual event and have taken over its organization on themselves.

Advertisement in foreign dailies and regular trade weeklies will also have a sustaining effect.

E. Market Research

Goods shipped to an overseas country must be goods suitable to meet the requirements and tastes of that market. These requirements are not static but dynamic, and hence an eye has to be kept over them so that the goods be adapted to meet the changing needs. This will involve what is known as market research. This is not an innovation. It was effectively used by many exporting countries in the inter-war period to provide themselves with factual information regarding the tastes and spending habits of the potential buyers on which to base their plans and policies. Without market research, it will be difficult to know the progress of competition in the same market. That was the secret behind the success of Germany and Japan. They made a careful scrutiny, adopted their methods to meet it and provided the market with adequate services. Similarly, Britain with one hand on the pulse of world export markets and the other on production, is trying to recapture and expand her position as an exporting country.

Market research involves considerable expenditure and is not an economical proposition for an individual except perhaps in the case of a big manufacturing concern. The obvious method would be for the cost of the investigation to be borne by the trade as a whole, and the results made available to all the members of that trade. That is what has been done in Britain. A number of well-known manufacturers have founded the British Export Trade Research Organization (BETRO). The BETRO is a non-profit-making association working in close collaboration with the Export Promotion Department (EPD) in order to avoid duplication of effort. The BETRO takes up where the EPD service ends.

An Export Trade Research Organization may be formed in India also under the aegis of the Federation of Chambers of Commerce and Industry to help in the work of market research. This organization should have representatives in all the major markets of the world, who will transmit information to be analysed and supplied to the parties interested. The Organization may be subsidized for the present, but in the long run it should be self-supporting and

non-profit-making. The membership subscription may be allowed as a trading expense for the members so that the service may be virtually free.

The Export Promotion Committee have discounted this suggestion on the ground that the market research of the type done by the BETRO is not really so important for India's export commodities as for the consumer goods which form a very important portion of the exports of the U.K. It also thinks that such an organization for the "purposes of scientific research into tastes" will not be suitable for India. It is, however, difficult to agree with the Committee.

(1) India may not be an exporter of consumer goods for the present but aspires to be one in the near future. It is rather essential for her to export these goods as India has lost most of her staple export commodities after partition.

(2) The organization, like the BETRO, need not be confined to the "express purpose of research into tastes." The organization may also carry on research relating to Capital and other producers' goods. The information supplied may relate to prices, substitutes, competing products originating from India and elsewhere.

To make the export drive successful it is sometimes suggested to create a special Export Promotion Directorate in the Ministry of Commerce. In Britain, there is a separate department. This department will have many useful functions to perform :

(a) It should watch and supervise the progress of exports.

(b) It should collect and disseminate information about our exportable commodities. It should guide the exporters and publicise their wares within and outside the country. It should have full information about the production and its variations from time to time in regard to all export commodities. It should note the variations in the demand for each such commodity and publish them so that it may reach the particular interests concerned. It will have to prepare a suitable Trade Directory of exporters and importers in India which may be circulated for the information of foreign buyers and sellers.

(c) It should see that grading and standardization is properly done and the quality of Indian exports is maintained and improved.

(d) It should maintain close contact with our Trade Commissioners abroad on matters pertaining to the development of India's export trade, and thus try to remove the difficulties that Indian exporters may have to face.

However, it may be pointed out that some of these functions are being performed by the Export Control Department. The Export Control Department should perform all of these functions besides seeing that the exports are directed to the desired channels and that the quotas are fairly distributed and properly utilised. Thus we may avoid the necessity of establishing a separate Export Promotion Department. Adequate staff should, however, be provided. After the abolition of the Export Control Department, these functions may be taken over by the Export Trade Research Organization.

F. Export Credit Guarantee Scheme

This is one of the methods of giving stimulus to exports. Some exporters may require funds to finance their exports. They may also like to have some protection against non-payment. India is a poor country, and its exporters require greater protection than their competitors in other advanced countries. The Britishers have their Export Credit Scheme, and the U.S.A., its Export and Import Bank. India may also have such a scheme. This will have many incidental advantages too. Many importers who might be willing to carry their business, may not have sufficient resources. They may not be able to get accommodation from the Exchange Banks. They may be helped by this scheme. Similarly, in cases of import of machinery and equipment, heavy capital expenditure may be needed which the importers may not be able to raise within a short period of 2 to 3 months, which is the usual currency of the bills. They may get instalment finance under this scheme.

The Export Credit Guarantee Department can issue policies of insurance to cover against risks of overseas trad-

ing by charging a moderate premium for this service. Thus the dangers of heavy capital loss will be completely eliminated. The Department can obtain reliable information about the financial standing of overseas buyers and relieve individual exporters from this great worry. Thus exports will tend to increase. The Export Promotion Committee, however, has discounted this suggestion also.

G. *A Board of Trade for India*

There is at present no department in India which co-ordinates different aspects of commercial policy. Hence the present Ministry of Commerce should be enlarged into a Board of Trade to discharge functions similar to those of the Boards of Trade in progressive countries, and specially of the U.K. The Tariff Commission, the Import and Export Control Departments, office of the Director General of Commercial Intelligence, office of the Economic Adviser, Shipping, etc., should form the nucleus of the proposed Board of Trade. This will deal with fundamental policies of trade, industry and taxation. The Export Promotion Committee has also stressed the lack of some such department having a co-ordinating function, though its recommendations confine themselves to export trade and policy only.

4. STATE TRADING

State trading, in the full sense of the term, means trade carried on by the Government just as in the case of the U.S.S.R., which has a controlled system of economy. Trading connotes buying for sale at a profit. Hence the element of profit to the state must be there. This will mean replacement of the existing private agencies by a State monopoly in foreign trade. But in the broader sense, we may include State trading or rather State sponsored trading undertaken as a short-term exigent measure causing a temporary dislocation in the private trade, but not a permanent replacement of it. Thus the direct purchase in bulk by the State of its own requirements or in fulfilment of its obligations in respect of rationed commodities, cannot be strictly called State trading, as the former does not involve any sale and the latter involves sale but at a loss, *i.e.*, their sale is subsidized. Yet they are

popularly deemed as State trading. In most countries, under the impact of emergency conditions arising out of the war and its aftermath, State trading in the liberal sense has assumed an increasing importance. State trading is generally resorted to when foreign trade is partially or wholly paralysed or when commodities have to be procured irrespective of the cost of procuring them. The U.S.S.R. nationalized foreign trade in 1918. Argentina set up the I.A.P.I. in 1946. The Project Board in Burma was started in 1948.

A. *Its Background in India*

The idea of State handling the foreign trade in India was first mooted during the war, and subsequently brought to the fore now and then in spite of a complete change in the original background against which it was projected. When the U.K.C.C. was operating in India much to the detriment of Indian trade and its interests, it was suggested that the Government of India should set up a similar Indian agency to safeguard India's export trade, and naturally with the winding up of the U.K.C.C., the idea receded in the background. The proposal was again brought up sometimes towards the end of 1947 and the early part of 1948 without the Government's coming to any definite conclusions. During the 1949 Budget debate, the Commerce Minister threw out a broad hint that the Government were taking steps to explore the possibilities of State trading in certain specified commodities and with certain specified countries. The mere mention of State trading threw the merchant community into a panic, and it was regarded by them as a challenge to the very existence of private enterprise in trade. They protested vehemently against what they called "a proposal involving the incursion of the State into the sphere of trade." The premature end of State trading in tin bore testimony to the contention of the merchant community that the experiment is foredoomed to failure. And the question of its adoption seemed to have suffered a natural fade out. But devaluation presented an opportunity for the Government to implement its idea of State trading, beginning with the assumption of control and responsibility for the coal trade with Pakistan. A State Trading Committee

was also appointed to go into the details. The Committee has recently submitted its report. An impartial examination of the question is thus rendered essential so that the Government may not be guided merely by ideological but unrealistic sentiments.

B. *Arguments for State Trading Examined*

State trading has the following advantages :

- (i) It affords complete protection against foreign competition and against world prices interfering and lowering the internal prices. It has got all the advantages of prohibitive tariffs but none of their disadvantages.
- (ii) Exports and imports can be regulated strictly to plan.
- (iii) It is no longer necessary to link the internal currency to the foreign currencies.

(a) *The Government has already undertaken what may be called State trading in a few instances—notably food-grains, steel, fertilisers, etc.* This was undertaken under the stress of emergency factors created by the war and its aftermath, and cannot justify its continuance as a normal economic mechanism. With the return of normal conditions, the need for its continuance will not arise. Then again, the way in which this experiment has so far fared will provide the criterion whether to continue it or not. If an appraisal is made by an impartial body on State trading that has been undertaken in India, it will reveal the inefficiency and impracticability of State trading in the present set-up.

(b) *State trading will facilitate the fulfilment of the obligations under bilateral agreements.* Even if they continue to stay as a permanent feature, bilateral agreements can be honoured through normal channels more efficiently than through a State Corporation, only if private trade is duly consulted and taken into confidence while making the agreements. A strict control may be maintained by periodical check-ups as to their progress, as was being done in the past in respect of trade agreements with the U.K. and Japan.

In other countries, normal trade channels are functioning without any disadvantage.

(c) *Devaluation makes State trading necessary.* But the fact is otherwise. It has rather increased the value and the need for private trading. Any interference with the present structure of trade will only cause dislocation in the present transitory period following devaluation. Private trade may only be regulated. Internal and external prices of export commodities can be better controlled by adjusting the export duties to the required extent. This will also enable the exchequer to have the surplus profits appropriated to itself.

(d) *State trading will facilitate the implementation of the recommendations of the Export Promotion Committee.* The participation of the State in export trade will not in any way help in stimulating exports. It may, on the contrary, prove a hindrance inasmuch as State trading involves imposition of unimaginative and rigid rules on conduct of business. The recommendations of the E.P.C. do not necessitate nor do they envisage direct participation by the State in the export trade to any extent or degree for their implementation. An Export Promotion Department or some such Department may be formed. The E.P.C. recommended against the formation of councils for individual commodities due to the lack of competent staff. The same applies to State trading with even greater force.

(e) *Importance of State trading for import of commodities in short supply abroad.* Until and unless the exporting country has got its own State trading machinery, the objective is not likely to be achieved because the private exporters in foreign countries will usually and naturally prefer their own established private customers in the importing countries. Moreover, bulk buying in such cases is likely to push up prices and involve wastage of foreign exchange as the seller will take advantage of the pressing demand. Private traders are in a better position than the State to make purchases by bargaining in a proper and scientific manner.

(f) *Active participation of State in foreign trade for import of commodities not in short supply abroad but in*

short supply in India. In such cases, if the Government steps in the market, it will be a signal for a rise in prices. In the past, by stressing the short supply position of some commodities, the Government have enabled the sellers to take advantage of the situation. State trading is necessarily costly as purchases are not made in the cheapest market. Private traders will attempt to obtain the maximum advantage of competition between various sellers.

(g) *State trading will eliminate the possible field for tax evasion.* This can be better achieved by greater vigilance on the part of Income Tax authorities, and this is easier because foreign trade is only a very small part of the total trade of India. State trading will eventually affect the finances of the State as it will have to bear the burden of losses also; while in the case of private trading, the State will continue to receive taxes on profits.

Thus the grounds generally adduced in favour of State trading are not convincing. Moreover, the present time is inopportune for such an undertaking. The State should not participate in foreign trade without adequate resources and administrative machinery, expert knowledge as also business experience. The present personnel of the Government administrative machinery has not the requisite business knowledge and experience for the successful operation of business. The administration of war-time controls has unfailingly demonstrated their inefficiency. When they are feeling an acute shortage of personnel even for running their administration, it is not the time for the Government to indulge in doubtful experiments. Many more urgent issues await the attention of the Government. It is not advisable to undertake any avoidable additional responsibility.

C. *Case against State Trading*

The question of State trading as a normal feature of our economy cannot be examined in the existing transitional conditions of India and the world when policies are still, to a large scale, undetermined. Nowhere in the world State trading has so far been undertaken as a normal feature of the economy.

(a) *Question of basic principle involved*—State trading cannot be successful unless there is an overall plan of regimented

closed economy. It would not be possible to build up a superstructure of State intervention in trade without altering the foundations of our political and economic life. Partial nationalisation of foreign trade in a mixed economy is bound to be a failure and may even seriously affect internal production and trade. Sir Sanmukham Chetty said, "State trading is a feature of a totalitarian economy, and therefore, not in keeping with the political and economic ideology of the country at present." Even in the U.K. where so many industries have been nationalized, foreign trade has been left for all practical purposes to private enterprise.

"State trading is the very negation of the basic idea of freedom and equality of opportunity, which is the sheet-anchor of the systems of private enterprise."¹ The killing of private enterprise may prove to be a disastrous experiment at the present moment. Stifling of competition is bound to breed inefficiency. Competition is the most effective regulator of efficient public service. The Government can create no fresh wealth apart from the wealth of those governed. It is wrong, in principle, for the Government to use its resources gathered from its people against the interests of those very people. Even the International Business Conference (1944) expressed itself in favour of re-establishing freedom of private enterprise.

(b) *Inherent disadvantages of the system*—State lacks the necessary incentive to that degree of initiative and efficiency upon which progress is built up in business undertakings. The experience of nationalized trade and industry is none too happy, either in India or in Britain. Further, a State organization is subject to unwarranted political interference which impairs its efficiency. Lack of personal interest and fear of public criticism hinder correct and quick decisions. The element of risk-taking, so very necessary in business, will be absent.

Consumers will have no choice and will have to take what has been purchased. A single bad deal of the State Corporation will put the whole country into disrepute. In private business, the reputation of only some is affected which is

¹ Memorandum by the Indian Merchants' Chamber before the State Trading Committee, p. 1

made good by others. While losses and gains are equally divided and diversified in private business, the State will have to bear the whole loss. Tax-payers have to pay for the mistakes committed in State trading, while only individuals suffer in case of private business men. They will bear the whole burden for their miscalculations, but the whole society suffers in case of State trading. Moreover, if a private undertaking is mismanaged or inefficiently run, it is voluntarily wound up or goes into bankruptcy. State concerns are sheltered against this, while there is no effective check over inefficiency.

(c) *Sellers' market replaced by buyers' market*—This question may be examined from two aspects—exports and imports.

Exports—Buyers now dictate their terms and competition is returning. Naturally, the changing demands of the foreign markets have to be studied, and a systematic effort is needed to capture and retain markets for which there is a scramble. Quick decisions have to be taken on day-to-day fluctuations, and policies have to be adjusted accordingly. Any Governmental agency would prove to be too wooden and inelastic for frequent adjustments and adaptations necessary for success in trade. Foreign trade is built up through innumerable private contacts. Close relations between exporters and overseas importers are needed. If we adopt State trading, we have to throw away the advantages of personal connections built up over decades and goodwill that has grown up.

Imports—High prices paid for imports under State trading may not be felt now, partly to the system of subsidies and partly to the rising prices. But when prices begin to fall, we shall feel the pinch of high prices. More so, exports of goods prepared from the imported raw materials will also suffer on this count.

(d) *Foreign and Indian experience*¹—State trading experiments in other countries have been made either as part of comprehensive plans for regimented economies or for supply and procurement of scarce commodities. The principal interest has been the achievement of the object, almost irrespective

¹ Refer to the Memorandum submitted by the Federation of Indian Chambers of Commerce and Industry, pp. 73-77.

of the cost involved. Naturally, the results obtained have been uneconomic.

Sir Purshottamdas has shown by facts and figures how three years of State trading has brought Argentina to the verge of bankruptcy. Moreover, it is reported to have seriously damaged the American market for Argentina linseed. Wheat obtained by Britain under State trading was costly, while considerably cheaper wheat could be obtained from elsewhere. Similarly, as regards the purchases made by the Raw Cotton Commission, prices of cotton have tended to be higher than world prices even when the organization is manned by experts having knowledge and experience of cotton. Joint Mica Mission set up by the U.S.A. during the war was discontinued after the war. Thus the foreign experience does not warrant any attempt at State trading in this country.

The same is the case with State trading in our country.

- (i) The Government of India purchased 60 million yards of Japanese cloth with a view to relieving cloth shortage in India; it was subsequently discovered that the price paid was too high and even after endless negotiations, the Government of India were unable to dispose of the stocks.
- (ii) That a subsidy has to be paid on imported foodgrains, leads to the conclusion that prices are high. Moreover, the quality is not consistent with the prices paid.
- (iii) State trading in tin has already been discontinued.
- (iv) The bungling in the procurement of imported steel supplies on Government account is too familiar to need a mention. This deal cost the country a fairly substantial sum. The Government have been purchasing Belgium steel at \$200 per ton while it was available in the U.S.A. at less than \$70 per ton.¹
- (v) State trading in cotton textiles with Pakistan lost us our Pakistan market. Had private trade been allowed, the full quota would have been taken.
- (vi) The import of fertilizers on Government account has also not been very economical. Direct deal with suppliers in Eastern Germany would have cost us much less.

¹ Memorandum submitted by the 'Bharat Chamber of Commerce' to the State Trading Committee.

(e) *Undesirable consequences* - About a lakh of traders are employed in export and import trade. If they are replaced by State trading, there will be a mass unemployment of these traders, and there will also be a loss of their skill and experience to the country as a whole. They have made a definite contribution both in the import and export trade of the country.

The proposition will require a finance of about Rs. 300 crores, which can only be raised by inflationary means at such a time. Besides creating dislocation in trade, State trading will also lead to a distrust in the minds of the overseas buyers and sellers who have through their past business connections with Indian business men established mutual confidence.

D. *Conclusion*

"State trading in any form or direction would be a step fraught with incalculable harm to the economic and social structure of the country, both from the immediate and the long-term point of view."¹ "State trading is costlier, inasmuch as its policy is not necessarily to buy in the cheapest market; it promotes bilateralism in foreign trade; it encourages and even requires for its execution the development of internal monopolies and the restriction of the field of private enterprise; and it provokes other countries to adopt similar practices, thereby setting in motion a vicious circle of growing retaliatory action."

E. *Emergency Measure*

State trading may be adopted only as an emergency and transient measure in the following cases :

"It may extend only to staple articles of import, such as foodgrains or of exports in the foreign trade of India where private enterprise of the normal trade channel cannot be expected to function satisfactorily, having regard to the exigencies of the situation, which demand State intervention in public interests."²

¹ Indian Merchant's Chamber, Reply to the State Trading Committee Questionnaire, p. 20.

² Mr. P. Pillai's reply to the State Trading Committee's Questionnaire.

(1) *Food*—So long as the Government are responsible for the allocation and rationing of foodgrains, they will have to retain the import trade of these commodities in their hands. Moreover, we are committed to the International Wheat Agreement to purchase on Government basis up to 1952. But that will only continue up to the period by which we are self-sufficient, and it will be unnecessary to carry it further. Food reserves may be made by imports on Government account.

(2) *Capital goods*—If we find difficulty in obtaining essential plant and machinery from abroad, the Government should assist in the procurement of these goods and even undertake to procure them by setting up a suitable organization in the countries from which these goods can be obtained. India Supply Mission in the U.S.A. and India Stores Department in London are organizations of the type but the work requires better organization and active assistance from experienced business men.

(3) *Encouraging export of cottage industries' products*—Initially private enterprise cannot be paying. The Government can make better administration of publicity and propaganda needed in this line through Indian Trade Commissioners. But care should be taken to see that the procurement agency is not large and expensive which will make these products too costly.

(4) *Purchasing goods for Government's own requirements such as railway equipment*—Strictly speaking this is not State trading.

(5) Export and import business where private enterprise has not achieved substantial results, *e.g.*, products of cottage industries and trade with undeveloped and under-developed countries and with new markets in Tibet, Bhutan, Indo-China, Indonesia, certain African countries, etc. Adoption of tender system prevalent during the war will be suitable.

(6) Trade with countries which have already adopted State trading as a normal feature of their trade, *e.g.*, Russia. We have to enter into barter agreements.

It should be particularly noted that the benefits of bulk purchase tend to disappear in a period of falling prices.

This argument has considerable force so far as export industries are concerned. Raw materials bought at a high price will place domestic exporters at a disadvantage when compared with the foreign competitors who had been able to buy their raw materials at a lower price.¹

The organization of even this limited sphere of State trading could be improved. In the past, the record has not been satisfactory. Co-operation and active guidance can be sought from experienced business men of proved integrity and honesty. Similarly, the officers appointed should themselves have business experience and skill. They may be asked to undertake apprenticeship with some reputed and approved firms.

F. The Recommendations of the State Trading Committee

The Committee feels that mere establishment of a State trading organization would not be a proper solution. The Committee has stressed the blunders committed under State trading. A detailed survey of the results of State trading in India and the present trends and future prospects in the demand and supply of the major commodities which enter into our foreign trade, has led the Committee to conclude that it is better to have the larger part of the normal import trade in private hands, and to observe the greatest caution in making inroads on the private sector in export trade as well. The Committee has been unable to make a clear demarcation of the categories of trade which should be taken over by the State. It adopts the line of least resistance by recommending (i) the continuance of State trading already undertaken by the Government in respect of imports of foodgrains, fertilizers, steel, East African cotton and also operations necessary for the implementation of barter agreements concluded by the Government, (ii) taking over of export trade in coal and short staple cotton, and (iii) pioneer the export of cottage industries. Provision is, however, made for withdrawal or extension if the national interests so dictate. In the case of cottage industries' products, when a proper market has been created, the State should curtail its activities and encourage private enterprise to enter the

¹ Sir Walter Fletcher, 'State Trading in England', 'Picture Post', July 9, 1949, p. 21.

field. Thus it lays down a scheme designed to meet the immediate requirements of the situation.

As regards the future, the Committee confines the scope of State trading to commodities where conditions of monopoly or semi-monopoly exist, that is to say, risk-free trading. The Committee fails to visualize that there will be no risk-free trading once the normal conditions of international commerce are restored unless, of course, the Government operates on monopolistic basis in which case the consumers will have to bear the whole burden. Moreover, when nation-building developmental projects are being put into cold storage for lack of finance, the starting of a State Trading Corporation is not justified even as an experiment.

CHAPTER IX

ESSENTIALS OF A FOREIGN TRADE POLICY

1. IMPORT SURPLUS INEVITABLE

During the post-war years, an adverse balance has become the normal feature of trade of almost all the countries of the world excepting, of course, the U.S.A. Naturally an emphasis is placed on "Export Drive" accompanied by rigorous import restrictions. This is the strangest paradox in international trade which can only be resolved by increased production.

India has also been facing an adverse balance of trade in the post-war period. This has not been caused by a reduction in exports but by an enormous increase in imports. Import policy was subject to frequent changes to keep in line with the foreign exchange position of the country. Emphasis was shifted from export control to export promotion. The recommendations of the Export Promotion Committee were generally implemented. Bilateral agreements were concluded to reduce the overall import surplus specially the dollar deficit, but besides reviving old contacts they did not achieve much. Devaluation was ultimately resorted to to attack the problem of adverse balance. The immediate effect was to achieve an overall balance but the import surplus reappeared after the stimulus given by devaluation spent itself. Thus it is clear that in the near future, an import surplus is inevitable. This is so because there are certain basic requirements which can be obtained only by imports.

A. *Food Imports**Magnitude of food imports*

Year		Quantity (000' tons)	Value (Crores of Rs.)
1945-46	.. ..	931	20
1946-47	.. ..	2,578	88
1947-48	.. ..	2,660	109
1948-49	.. ..	3,046	131
1949-50	.. ..	2,861	108
1950	.. ..	2,120	80
1951	.. ..	4,720	216
1952 (estimated)	.. ..	3,850	200

The Causes—The reasons for importing food may be summarised below :

(a) Even before the war, after the separation of Burma, we imported 1.5 to 2 million tons of foodgrains. The domestic production of food was also insufficient from the point of view of minimum dietetic requirements of the people.

(b) Partition of the country has also deprived us of Sind and West Punjab, the provinces which used to have a food surplus. This was another severe blow to India's food position after the separation of Burma, accounting for 8 lakh tons of food supply. We have lost due to partition 26% of area under rice and 25% of area under wheat. The loss of population is only 18%.

(c) Increasing population unaccompanied by an increase in food production. The increase in population is estimated to be 17 million, and extra requirements (at the rate of 12 ozs. per head per day) come to 2.1 million tons. Thus the total deficit comes to 4.4 million tons.

(d) In the pre-war days, the poorer sections of India's population could not afford to have a square meal. The purchasing power of our agricultural and industrial population has increased, and now they have begun to eat more. The increase, however, cannot be estimated.

Need and Possibility of Food Self-Sufficiency

The country's requirements are roughly estimated at 45 to 46 million tons. Production during the past 4 years

has not averaged more than 42 million tons. Attempts are, however, being made to increase domestic production. The following shows the progress made :

Year	Additional target			Actual increase			Percentage
1947—48	9.09	lakh	tons	6.86	lakh	tons	75
1948—49	8.86	..	..	7.71	..	..	87
1949—50	9.85	..	..	9.35	..	..	95

Thus there has been a slow but gradual rise in the production of foodgrains. The rise has taken place mostly in rice and wheat. The Planning Commission envisages an increase of 7.6 million tons in the production of foodgrains by 1956.

Side by side, imports are also being reduced. In 1949, 3.7 million tons of foodgrains were imported at an approximate cost of Rs. 144.66 crores. In 1950, the imports amounted to 2.1 million tons at the cost of Rs. 80 crores. But due to various unforeseen difficulties and also due to some diversion of acreage from food crops to cash crops, food imports in 1951 and 1952 amounted to 4.7 and 3.9 million tons respectively.

It is essential that the dependence of the country on imports of foodgrains be terminated as early as possible in view of the fact that they impose a burden on the Central finances by way of subsidies and constitute a serious drain on our foreign exchange resources, specially hard currency. But it will take not less than another 5 years to stop food imports altogether. The Planning Commission also recommends the continuance of food imports to the extent of 3 million tons annually for the next few years. Of course, their volume year by year will go on declining as our domestic production increases. Then, it is not advisable to increase acreage under food crops by diversion as production of cash crops is also necessary in the interests of country's economy and exports. The Export Promotion Committee has cautioned the Government against diversion of land from other crops to food crops. That cash crops are definitely more paying than food crops will be clear from the figures given on page 296.

		Rice	Wheat	Jute	Cotton	Groundnut
Yield per acre (lbs.)	..	802	741	1,087	97	770
Price per mound (Rs.)	..	16/8	15/3	26	64	20
Return per acre (Rs.)	..	164	139	349	103/8	200

Source : 'The Eastern Economist', October 21, 1949, p. 616.

Cotton and Jute Self-sufficiency—Due to the difficulties created by Pakistan, it is suggested that we should achieve self-sufficiency in raw cotton and raw jute as well. 'The problem of raw jute is more pressing as Pakistan is the only supplier. But a simultaneous self-sufficiency is neither possible nor practicable. It has been suggested that diversion of land from rice to jute would be more profitable.¹ But it does not seem to be a desirable proposition in the long-term interests of the country. "The prices paid on these imports (food) have been so high that, if the rise in prices of this item since 1939 were alone compared with the rise in prices of India's main export products, it would appear that the terms of trade have gone violently against India. So, in giving priority to the production of foodgrains over the production of our export products, we are usually making the best possible use of the available resources."² The present currency impasse and trade stagnation cannot last for ever, and both India and Pakistan will be forced by pressure of economic forces to reach some agreement for the revival of trade in their mutual interest. In the interests of a country with rapidly growing population, an expansion of foodgrain cultivation can provide a more stable economic basis than forced diversion to the areas under commercial crops which are more susceptible to variations in the level of economic activity and developments in international trade. The

¹ Report of the Export Promotion Committee, p. 6.

² "After examining all the pros and cons of the question, the Federation has come to the conclusion that production of cash crops is more valuable, both in terms of acre of land and unit of cost of production than cereals, and therefore, even if the growing of cash crops results in the diminution of production of foodgrains and thereby increases our import requirements, it should be tolerated as a lesser evil." The Federation of Indian Chambers of Commerce and Industry (1950).

"The production of raw materials should be increased to meet the growing needs of industry as well as the requirements of export, while maintaining a balance between food and cash crops." Policy Committee of the Government of India on Agriculture, Forest and Fisheries.

² Reserve Bank of India Bulletin, July 1949.

Korean War has given a new urgency to the problem of achieving food self-sufficiency. It is only during war that the weakness of a country dependent on overseas supplies for the essential commodities is revealed. Bengal famine is a glaring example. The tonnage available to us is very small. The strain on it will increase due to war and it will not be possible to secure shipping tonnage from other countries. But it does not mean that we should hinder the cultivation of jute or cotton. Nevertheless it will be desirable to reduce our overall dependence on imports in the matter of essential raw materials. But that should not be at the cost of wheat and rice.

The Way Out—How are their interests to be reconciled? An increase in the yield per acre provides an answer, which is of value both as an immediate and a permanent solution.

Crop Yield (Lbs. per acre)¹

				Rice	Wheat
India	..	..	..	988	811
China	..	..	..	2,433	989
Japan	..	..	..	3,070	1,350
U.S.A.	..	..	..	1,680	990
World yield	..	..	..	1,440	840

The above table shows the scope of increasing the yield per acre. The same is the position with almost all other agricultural crops in India. While other countries are trying to bring about a steady improvement in the unit yield, India has lagged behind. Russia in the course of less than 15 years raised the yield by 100% and more. In fact, the main problem of Indian agriculture is the yield problem, that is, low yield per acre.² The solution lies in continued and sustained efforts, particularly in research to augment the yield of the land. This is possible by using improved varieties of seed, by application of manure (composts and night soil) and protection from diseases. It is also a practicable proposition to combine the above with provision of better irrigation facilities, better implements, better

¹ Radha Kamal Mukerji, 'Food Supply', p. 14. Also see 'Fiscal Commission Report', p. 26.

² "India has more acres under cereals than any other country in the world, and more under cotton than any country except America", 'Economist', October 1950.

systems of cropping and prevention of soil erosion. The State will have to play a vital role in facilitating the distribution of good seeds, manures, implements and other agricultural requisites. An increase in agricultural production is truly a panacea for Indian ills. The following table shows the yield per acre of various crops of India in selected years :

Commodities				1933--34	1939-40	1942-43	1945-46
Rice	..	..	..	852	766	731	779
Wheat	..	..	..	607	671	674	624
Cotton	..	..	..	78	89	102	105
Groundnut		..	..	939	857	870	799
Linseed	..	..	..	272	241	260	216
Jute	..	..	..	1,263	1,094	992	1,139

A perusal of the above table makes it clear that except in the case of cotton, the yield is far below even the highest level reached in India. Even if it is not possible to achieve the world levels, it will go a long way in solving our problems if the maximum achieved in India are maintained in a short-term period. Our long-term aim should, however, be to achieve the highest yield possible. Import of fertilizers is rather essential. Mechanical farming on a large scale is now possible as the abolition of Zamindari provides an excellent opportunity for consolidation of scattered holdings. Facilities for irrigation are expected to increase immensely with the help of an IBRD loan for that purpose. Construction of pucca storehouses would eliminate wastage due to the defective methods of storage. Efforts must also be made to reduce wastage either due to insect pests, rats, etc., or defective methods in harvesting or on the threshing-floor.

The recent successions of disasters in different parts of the country, premature rains in Bihar, the heavy rains in Gujrat and Saurashtra and the failure of the northern monsoon has proved beyond doubt that food production in India continues to be the gamble in rains it has always been. We had a bumper crop in 1944 and a good crop in 1945. Since then the weather has been consistently unfavourable.

With four-fifths of the agricultural land unirrigated, this perhaps is to be expected. The large river valley projects do not offer any immediate prospects. The only alternative then is to concentrate on minor irrigation works like wells and tanks, the supply of better seeds and manure, large manufacture and better distribution of compost, and more intensive methods of cultivation.

Attempts, however, may be made to increase the acreage under food crops by increasing the area which is double cropped and by bringing fallow land under cultivation¹, but not by diverting land from non-food to food crops. An effort to increase the milk yield per milch cattle will not only be desirable, but also necessary in the interest of national health, as milk is one of the necessary and subsidiary foods. Side by side, attempts should be made to check the rapid increase of population by educating the masses in the need and utility of birth control and by the use of contraceptives. Sustained efforts to increase domestic production are needed. Mere declaration of intention and provision of grants will not do.

Conclusion—Upon food prices depends the general price level, and food prices cannot be held below unless there is enough food in the country. The case for self-sufficiency in food is urgent not only from the balance of payments standpoint but also from the standpoint of national stability and security. But food imports will have to be continued until we achieve self-sufficiency. Feeding of people is priority Number One.

B. *Import of Raw Cotton and Raw Jute* *Raw Cotton.*

In 1938-39, acreage under cotton was 23 million and our production 6.4 million bales. Out of this 3.2 million bales were consumed in our factories and the rest were exported. During the Second World War, the cotton acreage was diverted to food crops so as to increase food production and also to solve the problem of cotton surplus created by the loss of our main market, Japan. The area under cotton declined from 24 million acres in 1941-42 to 15 million acres in 1946-47 and the production, from 7.2

¹ Yield from such lands will be lower and the cost of production higher.

million bales to 4.2 million bales. But the area under improved varieties of cotton increased from 36% to 55% and their production from 53% to 73% of the total.

Then came the partition. The area under cotton was divided between India and Pakistan as 11.67 million and 3.36 million acres respectively. Thus the area going to Pakistan was not much significant. What mattered was that four-fifth of the total irrigated area under cotton went to Pakistan. Out of the total production of 42 lakh bales, Pakistan's share was only 16 lakh bales but out of a total of 30.8 lakh bales of improved varieties of cotton, India and Pakistan shared 17.5 and 13.3 lakh bales respectively. Pakistan got the best of everything, for the best cotton growing tracts and best markets for Indian cotton went over to Pakistan. Greatest beneficency of the Research work conducted by the Central Cotton Committee was Pakistan. India had also suffered in matters of diversion of acreage from cash crops to food crops, as it was confined to Indian Union tracts because the varieties produced here were meant mainly for export, the varieties produced by Pakistan tracts being required by Indian mills. Similarly in the case of raw jute, the reduction in acreage was confined to West Bengal and Assam as they produced mainly exportable varieties, while the East Bengal varieties were consumed by Indian mills.

In 1946-47, the total cotton consumed in Indian mills was 38.6 lakh bales out of which 7 lakh bales were imported. Out of the rest 9.8 lakh bales came from the Pakistan areas. In 1947-48, total production in Indian Union was 15 lakh bales only. However, the production of raw cotton has recently shown an upward trend. With the partition of the country, the consumption of Indian cotton began to increase with the result that the carry-over from the old crop had to be drawn heavily every year, and now there are practically no stocks.

Present Position—Our present requirements may be estimated to be 50 lakh bales, in view of the expected increase in the production of cloth to meet the increased demand for exports. Mill consumption in 1944-45 amounted to 49 lakh bales. Attempts have been made ever since partition to increase domestic production of cotton specially after devaluation,

Pakistan cotton having been rendered costly. The U.S. cotton also became costly, and there was the problem of dollar shortage. Other countries like Egypt and Sudan also increased their cotton prices. It was felt that self-sufficiency in cotton would reduce our requirements of foreign exchange. Then, raw cotton in itself is a valuable foreign exchange earner. There was a price disadvantage against cotton (vide page 296) and it was a less paying crop.¹ But black market prices which have been universal in cotton trade, were more than the official ceiling prices. Economic motive force of these prices led to an increase in cotton production from 17.7 lakh bales in 1948-49 to 29.7 lakh bales in 1949-50. To encourage the domestic production, in 1950 and again in 1951 additional price incentives were offered for cotton, and jute was decontrolled in 1951. "Under present conditions, when an increase in production in almost all lines seems desirable, this way of looking at the problem is hardly appropriate. An incentive offered in one line soon raises costs in other lines and tends to create demands for similar increases elsewhere. It is obvious that successive doses of price incentives in one line after another defeat the very purpose of these incentives and undermine the stability of the economy."² Production may not reach the defined levels in all the cases and the structure of production may be distorted if reliance is placed on price incentives. The areas which are particularly suited for the production of better types of cotton should be diverted to cotton and to a great extent it has already been completed.

The Indian Central Cotton Committee and the Planning Commission have planned to increase the cotton production in India to 42 lakh bales. Though it will not be possible to grow the foreign varieties of cotton in India and we will have to import them to the extent of 7 lakh bales, it is held that Pakistan varieties of cotton can be very easily grown in India. If production is increased to 42 lakh bales, Pakistan cotton can be easily dispensed with. But for this an area of about 18 million acres is needed, *i.e.*, an increase of about 4 million acres.

Prospects. If we want to achieve self-sufficiency in food,

1. Also see 'Indian Textile Journal', June 1950, p. 721.

2. Planning Commission, p. 32.

raw jute and Pakistan cotton, the total area under principal crops (rice, wheat, other foodgrains, sugarcane, oilseeds, raw cotton, raw jute and tobacco) required is 230 million acres or 7 million acres more than what these crops had in 1944-45. This can only be possible by reclaiming culturable waste lands and putting them under the plough. About 4 million acres of weed infested land and 2.2 million acres, new land are available for reclamation, but the cost of reclamation on this scale will be prohibitive and entirely beyond the ability of the State finance in the near future. The Central Tractor Organization has fixed the reclamation target for the next six years at 3 million acres. But the achievement of the target is rather doubtful as only 7 lakh acres of additional land has been brought under plough since the target for self-sufficiency was fixed. Jute will require heavily irrigated swampy land with ample running water facilities for retting, and this requirement cannot be satisfied by reclamation. Similarly cotton will require irrigated tracts of land if superior variety is to be produced. Thus mere reclamation of land will not solve the problem. Hence self-sufficiency is not a practicable idea for the present both as regards raw jute and raw cotton.

The Government should concentrate on increasing the yield per acre rather than the acreage. The yield is less than a third of the U.S.A. This will not only make India self-sufficient but also make Indian cotton cheaper. She can even become an important exporter again.

Raw Jute

After partition, raw jute also has become a problem for the Indian jute industry. Prices of raw jute have become uneconomic. In the absence of a free flow of raw jute from Pakistan, even before devaluation attempts were being made to increase domestic production. After devaluation, the urge for self-sufficiency became more pressing. A new system of cultivation of raw jute was introduced by the Government Research Institute, which resulted in lower cost of cultivation, better yield of crop and improved quality of raw material. The production of raw jute increased from 17 lakh bales in 1947-48 to 46.77 lakh bales in 1951-52. The cultivation of jute has extended even

outside the jute-growing provinces. The increase in jute acreage has been facilitated by the economic motive force of good prices—the black market prices. In the event of an Agreement with Pakistan, black market prices in jute will disappear and the interests of Indian jute growers may suffer. Pakistan jute is considered better by Indian mills. It would certainly be necessary to ensure that the Indian jute growers continue to get not merely a proper price, but even an attractive price for their jute so that the long-term raw jute policy of a sufficiently large Indian crop being always, available is not adversely affected. The situation may demand the grant of agricultural protection as envisaged by the Fiscal Commission.

The total requirements of jute in India may be estimated at 60 lakh bales for consumption by jute mills, 8 lakh bales for exports, and 2.5 lakh bales for internal consumption. The Indian Central Jute Committee and the Planning Commission have planned to increase the annual production to 54 lakh bales up to 1955-56. This can be supplemented by 5 to 10 lakh bales of mesta and other fibres. But this will require an increase in acreage which is only possible by diversion of land from rice. Moreover, the yield per acre in such land will be less and the jute will be more costly. Hence it will be better to import jute from Pakistan. Efforts may be made to increase the yield per acre.

C. Imports of Machinery and other Capital goods

Side by side with renovation and replacements, capital goods are also needed for development, both agricultural and industrial. Rehabilitation demand is likely to cease after the transitional period is over by which time abnormal replacements will be complete. No doubt, provision will have to be made for current repairs. Development demand, on the other hand, is likely to continue in view of the many capital and developmental projects in hand and expected. In the long run, however, the imports of capital goods can and should be considerably reduced. Dependence on foreign imports of machinery and equipment for basic industries has always been regarded as a serious lacuna in our industrial structure, and hence it is likely that we shall

start our own heavy industries.¹ Textile machinery industry has already been established in India. Similarly, as regards locomotives, we have already set up our works at Chittaranjan.

Imports of machinery should be viewed from two different aspects, (i) positive and (ii) negative. In so far as the imported machinery is utilised for the improvement of production in such industries as largely cater to the export needs of the country, its effects must be considered positive since this augments the exchange resources of the country. The negative aspect of the case is provided when the machinery imported is used for the development of industries, which have gradually a restrictive effect on imports of consumer and capital goods from abroad, resulting in a saving of the exchange resources. Judged from the above view-points, large-scale imports of machinery during the last few years have helped in the rehabilitation of old industries and also in the establishment of some basic and a few minor industries. The current rate of machinery imports cannot be said to be excessive. During the period April 1946 to March 1950, imports of machinery into India amounted to Rs. 283 crores. These figures are far below those anticipated, especially if it is remembered that the Planning and Development Member of the Government of India in 1944 (the late Sir Ardeshir Dalal) envisaged the import of capital goods to the extent of Rs. 1,000 crores during the first five years after the termination of the war. At present, due priority is given to the imports of machinery in general, and to the requirements of export industries in particular.

Since India is in the second stage of industrial development, there is doubtless a shift from the establishment of non-durable to semi-durable and durable industries. This process of industrial expansion is expected to gather momentum in the coming years. Steps have been taken to develop or establish many of these industries—machine tool industry, aircraft industry, fertilizer industry, manufacture of electrical equipments, locomotive industry, heavy chemicals industry, dyestuffs industry, etc. But they will all take some time to establish themselves fully, and in the meantime imports will be continued to meet the domestic requirements.

¹/. Fiscal Commission Report, Sjt. Mukhtar Singh's Supplementary Notes, p. 36

Once domestic production in these industries attains normalcy, considerable savings will be effected in India's foreign exchange requirements. The full fruits of the development of these key industries will only be discernible in the future.

D. *Import of Other Essential Raw Materials*

Imports of fertilizers, mineral oils, non-ferrous metals, chemicals and dyes, etc., and materials used in export industries (*e. g.* umbrella cloth and umbrella ribs) will continue as India is deficient in all of them. Fertilizers will have to be imported if the fertility of the deteriorating soil has to be restored. A fertilizer factory at Sindri (Bihar) has gone into production. Manufacture of petrol from coal is possible and before the war, considerable headway in this direction was made in the U.S.A. and Germany. The project for manufacturing a million tons of synthetic petrol will cost Rs. 55 crores. In the immediate future, petrol imports may not be replaced, but they can be considerably reduced in the long run.

Thus an import surplus is inevitable in the immediate future. But it need not frighten us. If it is based on goods of our choice, it will have the most stimulating effect on our economy. We have already got sterling balances to the extent of at least Rs. 400 crores to fall back upon. If exports are properly encouraged and imports are well planned so as to keep the import surplus within the manageable limits, we need not worry for at least another 10 years.

2. CONTINUANCE OF IMPORT AND EXPORT CONTROLS NECESSARY

Import and export controls will have to be continued as long as there is an import surplus. We have to take lessons from the U.K. where both the people and the Government are striving to achieve an equilibrium in external balance of payments with austerity living at home. The shining example of the U.K. in the darkest hours of its existence, should be a guide to this country in reshaping its whole policy relating to its import and export trade.

The decision of the Government to continue the import and export controls for another five years, is a step in the right direction. Under the present emergency conditions, a minimum of controls should be accepted as indispensable.

When every other country is planning on the basis of a controlled economy, it will be dangerous to allow existing controls to lapse in India. If the control on exports and imports were abolished altogether, some commodities in short supply might be exported in such large quantities as to cause hardship to the people in the country, and some imports might be so large that indigenous industries might be unable to stand the competition. Controls are necessary so long as there is cause for apprehension on either score. But the import and export controls should be so co-ordinated as to result in the maximum expansion of our foreign trade and thorough functioning of normal trade activities so that the aim of economic development of the country is achieved. Abolition of controls will mean national bankruptcy and will amount to cutting the nose to spite the face.

Better Administration—Ever since their inception, criticisms have been levelled not so much against the principles underlying the controls as against their administration and frequent modifications involved therein. The frequent changes in the Government policy in regard to export and import controls cause uncertainty to the parties concerned, encourage speculative activity and stand in the way of smooth implementation of the programme of trade and industry causing avoidable difficulties and losses. Controls have not been applied in a proper manner. There is a sense of acute dissatisfaction in the trading community not so much on account of the rigidity of the control policy as on account of the administrative vagaries and frequent unplanned changes in the policy. The following are some of the grievances :

1. Administrative delays in dealing with applications.
2. Absence of reasons for rejection and rejection on technical grounds.
3. Unnecessary formalities even in the case of free articles.
4. Corruption.
5. Discrimination.
6. Fixation of quotas.

Fixation of quotas—They appear to be fixed arbitrarily on the basis of past imports. Such a policy does not, however, allow for progressive industrialization. Sometimes licences have been given for such a minute percentage of the value for which they had been applied as to make such licences

virtually useless. Some discretion should be given so as to allow for an increase in value. Procedure in regard to the disposal of surplus quotas is defective. Quotas were issued in favour of specific countries rather than in favour of a currency area.

The provisions affording opportunity to new-comers were misused for favouritism. Absolute amateurs were often granted licences. Most of these licences were traded in and openly sold in the market at a premium. Lack of experience and absence of intention to have a permanent stake made some of them resort to malpractices much to the disadvantage of the country's and the established shippers' fair name. Recent imposition of fees for import licences is welcome. It is doubtful whether it will keep out the aspiring entrants, but it will at least discourage bogus applicants. It does not mean that new-comers should be totally excluded. Facilities should be provided for bona fide new-comers to enter the country's import and export trade so as to provide employment to the growing population of the country.

The revenue derived from the imposition of licence fees should be used to augment and strengthen the staff. The staff must be adequately trained and well conversant with the regulations and their interpretation. The principle of decentralization has been accepted by the Government. The offices of the Import Trade Controllers at the ports should also be expanded considerably to cope with the additional work.

The appointment of the Import Control Enquiry Committee and its recommendations suggesting modifications in all aspects of import control is a clear vindication of the more or less general condemnation, in no uncertain terms, of import control, as it has been practised all along. The recommendations of the Committee about extension of the licensing period, decentralization of the licensing procedure, increased facilities to new-comers, provision of freedom to import from any country in the soft currency area, freedom of convertibility of licences for hard currency countries into those for soft currency countries and restricted freedom of convertibility of licence for soft currency countries into those for hard currency countries, and, above all, steps

to improve the efficiency of the import control organization as a whole are such as to meet most of the demands of the interests concerned.

Suggestions

- (i) Expeditious and prompt disposal of applications.
- (ii) In case of omissions, the authorities should advise the parties as to what is to be done.
- (iii) Complaints and difficulties should be properly dealt with.
- (iv) Perfect reasons should be given for rejections.
- (v) Surplus quota should be utilized by increasing the monetary ceilings of the subsequent period.
- (vi) Simplification of the form of applications.
- (vii) Abuse of quotas should be strictly punished.
- (viii) Issue of bulletins at regular intervals giving particulars of changes in import and export policies.

Wisely and effectively worked, controls will produce the desired results; otherwise they will bring unexpected and untold misery to many.

3. IMPORT POLICY

A. Short Term Policy

The following should be our guiding principles :

1. Both quantitative and destinalional restrictions are inevitable. Destinalional control is necessary so long as the dollar deficit remains. Import trade cannot be "free from all controls." We cannot afford such a luxury at the present moment. Import control is to be conceived as an instrument of national planning, which may involve a national sacrifice of present consumption for the sake of a higher level of general welfare in the future. But that does not mean that more than necessary restrictions should be placed on importers. The Government has already been moving in for a liberalization but to ask it to go in for indiscriminate liberalization would be to invite economic disaster.

2. It is highly imperative to have a continuous, consistent and uniform import policy. The solution lies in the

adoption of a stable import policy and its expeditious and efficient implementation. The present policy of adjusting import policy to balance of payments position from time to time is not in the best interests of the country. What would have been the harm if an austerity policy, similar to that which was being followed before July 1948 had continued after making suitable changes? After all we had to revert to the same policy again but after doing irreparable loss to the country. Our sterling balances would have been saved for some more constructive purposes. Our import policy has been apt to go to extremes of restrictions or relaxations. Better results would be obtained if a target is fixed sufficiently in advance and all possible measures are taken to achieve the same. Our import requirements of raw cotton, raw jute, food, machinery, oils and chemicals, etc., which form the major part of our imports, can be calculated with reasonable certainty. Our approximate export earnings can also be estimated in the same way. The sterling releases are expected to be available with more flexibility. Foreign exchange budgeting for the next 5 to 6 years will, therefore, present no difficulty. And a stable import policy providing for an adequate volume of imports of the different commodities can be followed without any difficulty in regard to implementation. The practice of keeping monetary ceilings in respect of essential imports is not desirable. In the case of non-essential imports monetary ceilings will have to be continued. Adjustment of our import policy to the exchange position from time to time is the greatest weakness of our economic policy, and a small slip may take us back to the situation we faced before devaluation. It would be better to go on the basis of a cautious budget, even if this may mean that this country may have a certain amount of unspent foreign exchange, which could be better utilized for the Governmental plans of economic development.

3. The policy should be co-ordinated and integrated, and should not be lop-sided. A strict scrutiny of items imported is desirable. In the past, valuable foreign exchange was utilized in importing goods available in the country. The war-time restrictions on imports were, to a great extent, helpful in giving rise to a good many indigenous industries

and in sustaining many others. The present and future prospects of these industries were completely jeopardised by indiscriminate imports. Competitive foreign manufactures flooded the markets sweeping domestic products out of the market. On the other hand, the imports of essential raw materials were disallowed on the grounds of lack of foreign exchange resulting in famine prices for them.

Essential raw materials, when they are not readily available in the country, should be imported freely. This should be so specially in case of export industries. They should preferably be put on O.G.L. Discretion and judgment has to be exercised. Non-ferrous metals industry, for instance, is a basic industry recently established in the country but the raw materials come from the dollar areas. And if these imports are cut down, the industry is practically brought to a standstill. There should be a judicious balance between different imports. Undue priority of one over the other will surely have an unhealthy effect on the country's economy. Mere reduction of commercial imports is not desirable. A firm ceiling should be put on Government imports as well. Austerity must begin from the top. Moreover, the inflationary effect of a cut in Government imports will generally be less than the inflationary effect of a cut in commercial imports.

4. Imports of commodities in which India is self-sufficient should not be allowed, and only minimum imports be permitted of goods not produced sufficiently to meet the home demand. That will have two advantages—(i) conservation of foreign exchange, and (ii) a protective effect on the existing industries. As regards the latter, import control cannot be allowed to be a measure of protection except in the transitional phase. Import control does give, although it may not be so intended, a certain degree of protection to domestic industries, and it is up to them to make use of this opportunity to expand and improve their production. India's import surplus can only be corrected when imports are curtailed and indigenous industries are allowed and given time to stand on their legs. Article 11 of the GATT gives the fullest scope to the Government of India to restrict imports in any manner and of whatever commodities they

deem proper so long as restrictions were necessary to safeguard the balance of payments position.

5. Machinery and capital goods, as a rule, should be given priority but their imports should be carefully scrutinized. In recent years, imports of capital goods have considerably improved. Naturally, a question arises as to what has been the effect of these imports on our productive capacity. No doubt, they have solved the problem of replacements and re-equipment of our industries to a great extent, and they have helped in no small measure in country's production drive. But one thing strikes most. The heavy imports have not been accounted for by our major industries. The bulk of our imports consisted of electrical machinery, prime movers, boilers, machine tools and several other minor categories, which do not obviously increase our productive capacity, especially of export industries. Hence this mal-adjustment in machinery imports should be corrected. A better distribution of machinery imports in order to obtain a proportionate increase in production as early as possible, is necessary and has been overdue for some time. Imports of capital goods should be regulated by considerations of utility and the availability of raw materials for the plants in which the machinery is to be installed.

6. Consumer goods essential for the community but not manufactured within the country should be freely imported. Imports, of articles of luxury, *e. g.*, silk, spirits, wines, cigarettes, etc., should be reduced to the minimum. Liberal imports must be allowed in case of consumer goods essential for the community but short in the country, to moderate the rise in their prices.

7. Food imports will have to be continued until self-sufficiency is achieved. The Planning Commission has also recommended the continuance of food imports at about 3 million tons annually for the next few years. Negotiated price reductions will be very desirable. Suitable arrangements may be made for importing wheat from Pakistan, Australia, Argentina and the U.S.A., and rice from Burma, Thailand and Siam.

8. An amicable settlement of the Indo-Pakistan trade deadlock is necessary and desirable, "...these mutual trade

and economic differences are not by any means impossible of solution and, with forbearance and goodwill on both sides, should be composed without any insuperable difficulty.”¹

B. *Long Term Policy*

The objective of our long-term import policy should be to promote a pattern of import trade enabling India to obtain foreign resources for the development of her economy, both industrial and agricultural, on the desired lines.

On this basis the following principles may be suggested :

1. The imports of articles which are being manufactured in the country cheaply and adequately will naturally dwindle. Imports of articles which can be manufactured within the country cheaply and adequately after some initial protection, will have to be discouraged with a view to achieve self-sufficiency. In some cases, however, there may be some difficulty in implementing this principle due to our obligations under the GATT but within the limitations, attempts will have to be made to discourage imports in such cases.

2. It is desirable not to import foodgrains from abroad. This is necessary both in the interest of national security and national economy. We should not depend on others for our basic and elementary need. A 10 to 15% increase in domestic food production will have the desired effect and will eliminate payments deficit even after allowing for an increase in population. Provided efforts are made, this is not impossible.

3. Steady reduction in the imports of capital goods—We cannot entirely dispense with imported capital goods. For some of the capital goods, market in India is small. But there is no reason why we should not establish industries for the manufacture of plant and machinery. A beginning has already been made in the manufacture of locomotives and textile machinery. Such industries occupy a vital position in our national economy and we can ill afford to rely on foreign imports for them. That will not merely step up industrialization and national income in the country, but will also provide a final solution of our balance of payments problem.

¹ Sir Cowasjee Jehangir, Chairman, Bank of India Ltd.

4. Stepping up production of raw jute and raw cotton through improved cultivation methods so that our dependence on foreign imports be reduced.

5. Essential raw materials for basic and export industries should be freely imported and preferably be allowed duty free. Wherever possible and desirable, the question of augmenting indigenous supplies of industrial raw materials should be explored.

4. EXPORT POLICY

A. *Short Term Aspect*

Imports cannot be reduced beyond a certain limit. It is through increasing the exports that India can afford to maintain balance. But here again, there are serious limitations. There is some scope for expansion but not too much. The partition of the country, the development of synthetic substitutes for some of our products, the slow recovery of German and Japanese industry, and the growth of industries within India leading to an increased internal demand for raw materials—all these have affected adversely our ability to export. While every effort has to be made, within the limits set by these factors, to increase the volume of our exports, it will be wise not to expect too much in the immediate future. The Government has launched upon an export drive and is continuously liberalizing exports wherever possible. Here again, the shining example of the U.K. should serve as a guide. She has increased her exports to 62% above the pre-war level.

It is commonly accepted that international trade should be in respect of surplus. So long as world trade was on multilateral lines, this theory held good. But now it has become necessary and unavoidable to regulate foreign trade, both in regard to composition and direction, for the purpose of achieving a balance in trade account and also for securing raw materials, foodstuffs and essential capital requirements. To-day, England is exporting Scotch whisky and medium-powered motor cars to the U.S.A. not because there is any genuine exportable surplus but because England is in need of dollars and there is an unsatisfied demand for these goods

in the U.S.A. The result is that the home market in England is starved of these goods¹.

It is sometimes suggested that exports should be free from all controls. But this is not a reasonable attitude particularly in view of the following :

(a) Some of the commodities are still in short supply and cannot fulfil the total demand, external and internal. And necessarily the needs of both the external and internal markets have to be reconciled. Quantitative control in these cases is essential, *e.g.*, cloth if exported freely will create shortage in the internal market.

(b) Our export trade needs canalization in view of the fact that we have to obtain our essential imports from the hard currency areas. That has to be done in such a manner that subserves the basic requirements of our commercial policy. Exports are to be directed as much as possible towards the hard currency countries. Hence destinational quotas are needed, *e.g.*, in jute which is generally in demand from all countries.

(c) India's position in export markets of the world needs consolidation. There are some countries with which we have had extensive trade connections and which we cannot afford to snap in our anxiety to build up our trade with hard currency countries. It takes a good deal of patient effort to establish our position in foreign markets, and hence this should not be undone by a sudden stoppage or interruption of supplies.

(d) Our obligations under bilateral trade pacts also demand that export trade should be controlled.

But control of exports does not mean that there should be unnecessary restrictions. Then, restrictions should be removed whenever situation warrants their removal. The basic aim of our export policy should be not to check exports but to maximize them on desired lines. Reforms in the system of administration are very necessary.

¹ *cf.* "....basic principle of foreign trade is that the commodities which a country can produce and supply at competitive prices and which are demanded by importing countries in sizeable quantities should be encouraged, if foreign trade is to be built up." President of the All India Exporters' Association, Address to the Annual General Meeting, 1948.

1. Maximization of production is the condition precedent to a successful export drive and thus to a successful reconciliation of the external and internal needs. There has been a fall in exports chiefly because there is an increase in domestic consumption unaccompanied by an increase in production. Increased domestic consumption should be met by increased production, not by a curtailment of exports. If we retain domestic production for domestic consumption and cut exports, we shall also have to cut imports and, thus again, it will mean a reduction in domestic consumption. The only way to get out of the dilemma is an increase in production. Agricultural production should be increased by intensive and extensive cultivation within the limits of country's resources. Indian agriculture responded little to the incentive of high prices and a guaranteed internal market. The self-complacent attitude of the agriculturist needs be changed. To begin with, the volume of industrial production should at least reach the installed capacity which is now lying idle. There has been a fall in production as compared both to installed capacity and peak production, though recently there have been some signs of improvement. More attention should be paid to the improvement of the existing structure of production—agricultural and industrial—than on expanding it. In some cases, we may have to export even at the cost of domestic consumption, and at least luxury goods should be freely exported, *e.g.*, our toilet goods, etc., are in demand in the Middle Eastern countries, they should be freely exported. "The impact of a large demand often stimulates production which may prove sufficient both for internal and overseas consumption."¹ National interests demand some national discomfort and sacrifice.

2. While no substantial modification of destinational quotas may be possible, greater elasticity should be introduced. Some countries may be willing to take more than the quantities allotted while others are not able to utilize their quotas fully. Similarly, when a person who holds a quota for one country, may like to have it changed for another.

3. Quantitative limitations are inevitable but the procedure should be simplified, *i.e.*, free exports should be allowed

¹ Report of the Export Promotion Committee, p. 8.

until the quota is exhausted. Such a policy has worked with satisfaction in the case of Pakistan for many commodities. This principle should be extended to other countries and other commodities. Unhampered flow within the quota should be made possible. What is needed is merely to keep a statistical record.

4. There should be a classification, and our export potentialities should be assessed correctly on the basis of correct statistical data. That should be the basis of a correct export drive. The following classification was recommended by the Indian Merchants' Chamber :

- (i) Commodities which still command the market overseas and with further relaxations of controls, etc., can be expanded.
- (ii) Commodities which are capable of being introduced afresh.
- (iii) Commodities which though essential, can be exported up to a limit.
- (iv) Commodities for which new markets are available consequent upon the war-time displacements.
- (v) Commodities which must be exported even at the cost of self-denial to maintain the captured markets.
- (vi) Commodities which can be freely exported.
- (vii) Commodities which are essential for internal production and cannot be released for exports.

5. "There is no need to have export restrictions on any commodity simply because it happens to be partly or wholly of imported origin. Nor should there be any objection to the free exports of processed articles, the hard currency element in the price of which is not more than half."¹

6. Our export policy with Pakistan should be reorientated. The policy of restricting exports and relaxing imports followed in 1948 was mainly responsible for our huge adverse balance of trade in respect of Pakistan. Exports and imports are for mutual benefit of each other.²

7. Bilateral agreements should be availed of to increase our exports.

¹Report of the Export Promotion Committee, p.9.

²Report of the Export Promotion Committee, pp. 11-12.

B. *Long Term Aspect*

The following should be the guiding principles :

1. It is desirable to export the surplus goods only. Foreign markets should not ordinarily get precedence over internal needs. An export surplus based on crushing the national needs is not desirable. But a strict adherence to this principle may not be possible. Our domestic consumption is expected to increase with an increase in the standard of living and increase in population. Our import requirements are also expected to increase in view of the necessity to import raw materials on a large scale. That will, in turn, increase the necessity to export. Thus our industrial production will have to be adjusted to these needs. India may soon become a country dependent on exports for prosperity. The industries, which are purely export industries, *i.e.*, in cases where internal consumption is only a fraction of the overseas demand, will not present any problem (*e.g.*, jute goods, tea, mica and shellac). But there are other industries which mainly produce for domestic needs but also satisfy to a substantial extent the external demand (*e.g.*, cotton textiles). In such cases a balance will have to be maintained between the internal needs and the external needs. The solution in most of such cases will lie in an increase in production.

It must, however, be noted that surplus may change from time to time according to the stage of economic development of the country. If world trade is restored to a multilateral basis, the theory of comparative costs will have full application. Thus, while in pre-war days, India produced jute, cotton and oilseeds mainly for export, it will not be possible for her to export these goods to an appreciable extent. England produced fine textile goods, fine woollens and certain types of iron and steel goods mainly for export, but the importing countries may now take advantage of the transitional period and themselves establish those industries, and attain a better level of efficiency due to comparatively modern machines.

2. In the long run, exports should be sufficient to pay for our minimum imports. Consideration has also to be made of visible and invisible imports.

3. Exports should not be encouraged to an extent which may sap the country of its vitality, and may undermine the economic integrity of the nation. Thus, indiscriminate exports of minerals should not be permitted. Vigilance over the exports of minerals is necessary so that our reserves are not dissipated and only such minerals as are treated surplus in the country are exported.

4. The nature of the commodities exported should be commensurate with the nature of the economic development of the country. By partition, we have ceased to be an agricultural country predominantly exporting raw materials. The long-term interests of the country's foreign trade will lie in the export of manufactured goods in which it may have a comparative advantage. India's export trade can best be expanded by concentrating on comparatively cheaper grade manufactured goods in which countries like Japan specialised before the war. There is a considerable scope for the expansion of India's exports of light consumer goods in the Middle East and the Far East.

5. Our export trade will have to be directed to those markets in which it will have the least difficulty in maintaining its hold against competition from other countries. Therefore, the need of consolidating and developing our trade with the neighbouring countries of the Middle East and the Far East cannot be overemphasized.

6. Our trade will have to be diversified rather than based on lesser number of traditional exports. A greater diversification will alone prevent our export trade falling to low levels in case of a depression in one or two industries abroad, or more important still, this will result in a tangible addition to our national wealth. We should develop new lines of export trade specially in industries which have developed during the war period. In this context, it may be pointed out that within a comparatively short time of 5 to 6 years, Japan accomplished a diversification of her exports. Like Japan, India has also relied too long on a comparatively small group of export commodities and a small number of countries. "Diversification of exports and their distribution over a large number of neighbouring countries would be a major

step in the reorganization of its export trade and an important factor in its future stability.”¹

7. The volume of our export trade should be maintained. Higher values only will not do. Volume is a more permanent feature and it should adjust itself to value if an everlasting export trade is to be developed. This will mean that prices should be brought to a more reasonable level. In recent years, the volume of our export trade suffered grievously.

8. Political differences should not stand in matters relating to export trade. Trade is not to be used as a “method of showing political displeasure.”² Russia and the U.S.A., and Great Britain and Germany continue their trade relations in spite of political differences. “It is a fundamental fallacy to think that when one country exports to another, it is doing it a favour.”² After all, international trade is for the mutual benefit of all participants. Temporary suspension may even result in permanent losses. This principle has already been observed in India’s trade relations with Communist China.

9. A survey on the basis of classification detailed on page 316 may be of benefit in the long run.

5. EXPORT DUTIES AND IMPORT DUTIES

Export duties can be levied if (i) there is a complete or partial monopoly of any commodity and for which within a certain range of prices, no substitutes are easily available or (ii) the cost of production of any commodity is much lower than the cost of competing goods or (iii) to discourage the export of any commodity with a view to maintain its supply in the internal market, though the objective can be better obtained by imposing quantitative restrictions or by absolute prohibition. The export duties levied by the Government of India are without any of these justifications except in case of jute exports. During the war when there was a sellers’ market, all was well but the position is not the same with the emergence of a buyers’ market. The imposition, reduction and ultimate abolition

¹ Report of the Fiscal Commission, p. 147.

² Report of the Export Promotion Committee, p. 12.

of export duties in the case of cloth and oilseeds make this fact quite clear. Duties have been levied, changed, and abolished depending on the whims of the Government. There must be a well-defined policy. A judicious review from time to time is essential.

Export duties should not be levied as a revenue measure except to meet exceptional situation, *e. g.*, devaluation of the Rupee.¹ To rely on export duties for revenue purposes might result in injuring the export trade and is not fiscal or economic prudence.²

Similarly, imports should not be taken as a source of revenue, and import control should not be relaxed to collect a large amount of revenue. Mr. K.C. Neogy at one of the meetings of the Import Advisory Committee remarked, "A particular section of O.G.L. did include luxury articles and it was deliberately done, because it was perfectly sound public finance to allow import of certain non-essential commodities provided there was a demand for them. By the inclusion of this, the State could collect for the exchequer a large amount of revenue." That was his justification for the inclusion of certain luxury items in the scope of O.G.L. XI. This attitude was most reprehensible in view of the acute balance of payments difficulties.

Export subsidies have often been advocated as a measure of giving financial assistance to the export trade. Apart from the fact that we would not be able to afford export subsidies, such direct assistance may be construed as 'dumping' by foreign countries. A refund of income-tax on a percentage of profits made from exports may, however, be given. They should never be liable to sales tax. Freight rates may be reduced to encourage exports both to Pakistan and other foreign countries. Drawback must be allowed in the case of import duty paid on goods re-exported after processing and manufacture. This is a popular feature in coun-

1 The recent increases in export duties to intercept the difference between internal and external prices of certain commodities may be justified in the absence of any other alternative. But they should be removed at the earliest opportunity.

2 Refer to the Report of the Export Promotion Committee, pp. 16-17. It recommended the immediate abolition of export duty on cigarettes as this had affected the prospects of expanding our exports to Australia and had facilitated the growth of Pakistan Cigarette Industry.

tries whose export trade is the mainstay of their economy. This principle has already been accepted in the case of raw cotton and should be extended to suitable selected cases. Drawback is allowed to aluminium ingots, sheets and circles if they are re-exported in the same shape but not to aluminium utensils made in India out of these imported sheets and circles. If drawback were allowed to aluminium utensils, India could export to Pakistan, Malaya, Singapore, Ceylon, Aden and even to the Middle East countries utensils worth about a crore of rupees or so.

6. DEVELOPMENT OF RE-EXPORT TRADE

India can be made a centre of lucrative entrepot trade with the land-locked countries of Asia on account of its geographical situation. Central Asia as well as the South East Asian countries can provide a magnificent hinterland for the purpose. The Export Promotion Committee has also emphasized the point and the Government, too, have recognized its importance. Even in the ancient times, re-exports constituted an important element of our foreign trade.

Encouragement of re-export of goods with or without processing will result in an increase in foreign exchange resources of the country, because such exports will naturally take place at a price higher than the import price. And if such exports take place after processing, there would be an additional gain apart from providing employment to Indian industry and labour. If they are sent in our own bottoms, that will increase our invisible exports thus adding to our foreign exchange resources. It should be seen that the foreigners do not monopolize such profits.

The Government have removed many articles from export control, and have placed articles of imported origin which are re-exported under an Open General Licence. As exports take place, import licences will be given to replace the imported ingredients which have been exported. But more important is the problem to see that the raw materials which are needed solely for re-export and not for internal consumption, are not diverted to internal consumption where it will naturally have a high resale value. Effective steps are needed, and free foreign trade zones may be established.

In the U.K. and many other foreign countries, a drawback of the import duty is usually allowed when the goods imported into the country are re-exported either with or without processing. This may also be of considerable help in this country and will increase the competitive capacity of our exports. The Export Promotion Committee have detailed the following cases *inter alia* where such concession is desirable :

(i) Art silk processors who pay 65% import duty on their imported raw materials, (ii) Soap manufacturers, (iii) Pharmaceutical chemists, (iv) Piecegoods exporters using foreign cottons, and (v) Fishing pole manufacturers using Burmese bamboo.

Free Foreign Trade Zones

The idea is to provide segregated areas where foreign merchandise may be unladen and ware-housed without the application of customs laws. In these zones, foreign goods may be mixed with domestic merchandise and manipulated but, not manufactured or exhibited. Such merchandise may then be exported or brought into the customs territory on payment of proper duties. Customs guards and customs officers are provided in these zones for police and other duties to make the effective functioning of free trade zones possible. These ports may also add to public revenues as they have done in the U.S.A. Besides all the above mentioned cases, sub-standard products such as mica, shellac and manganese, etc., can be processed, reconditioned and standardized in these free trade zones.

The ports selected must satisfy a three-fold criteria for the establishment of foreign trade zones. Such zones may be located at points : (1) where there are cross-roads of traffic and lines of transportation with other countries engaged in international trade, (2) where there are ample banking facilities, and (3) where there are business men capable of influencing the establishment of market centres and buying habits. India's three major ports, Bombay, Madras and Calcutta are suitable for setting up such zones. Their establishment will give the much-needed fillip to our export trade. But it is essential for the industries to profit by such zones to be localized there. This will have to be examined in deciding the nature of the trade to be fostered as also

whether these ports will be a practicable proposition. In the immediate future, they do not offer any prospects. Establishment of a highly developed processing industry capable of earning quick profits by re-exporting in a finished form the goods imported in a semi-finished state into the free zones, is necessary. Nevertheless, such zones offer very good prospects after the establishment of a processing industry, and it will be desirable to convert the three major ports into Free Trade Zones. But the port facilities will have to be considerably improved.

7. EXPORT POTENTIALITIES OF PRINCIPAL EXPORT COMMODITIES

The question has been examined in detail by the Export Promotion Committee and their survey is very exhaustive indeed. Some suggestions are given below in regard to the three top foreign exchange earners and also on the potentialities of developing our exports in cottage industries' products.

A. *Jute Manufactures*

For the Jute mill industry, the exports will continue to be of crucial importance. During the war, due to the stoppage of and restricted jute supplies, the development of substitutes gained ground. Efforts were made to reduce dependence on jute. Its principal competitors have been cotton and paper. Since then consumption of paper has steadily increased, and it has even got an advantage over cotton. Retreat of cotton and burlap has been both absolute and relative. Recently there have been important developments of a general nature which the jute industry can do nothing to influence to its advantage—the spread of bulk handling on the one hand, and the increased resort to packing in consumer packages on the other. In the former, the use of jute is eliminated while in the latter, it is substituted by paper which is more convenient. Where, however, burlap is suitable, it is preferred because it is cheaper and very satisfactory specially in cases where a high resistance to ripping, when sagged, is required. Products packaged in burlap also stack better than those in cotton or paper. Burlap is preferred for packing and shipping bulky commo

dities, such as foodgrains and potatoes which do not require a closely woven container. Cotton fabrics, on the other hand, are closely woven and are more suitable for wrapping commodities such as refined sugar and flour.

This shift-over is mainly due to the uncertainties of India's export programme, which have persuaded many influential users to turn to substitutes, regular supplies of which could be depended upon. Nothing can be said as to what extent this inroad into burlap consumption made by cotton and paper is due to higher prices. The consumption of jute and jute manufactures is so closely related to the volume of production of certain agricultural products and the level of industrial activity that Indian jute would suffer more over short periods of time from a world-wide depression than from competition with other products.¹ But in longer periods, competition would assume importance. Hence, the need for keeping down the jute prices to a reasonable level, cannot be overemphasized if jute is to survive. It was the cheapness of jute that made it the premier packaging material of the world. And now this is not so. In fact, a yard of hessian now costs to the foreigners something less than a yard of cotton suiting. The following table showing the movement of comparative prices for bags shows that the price advantage in 1939 in favour of jute turned to disadvantage in the U.S.A. in 1949 :

	Cotton Bag	Paper	Burlap
1939	7.25 \$	6 \$	10.3 \$
1942-45 (Ceiling)	14.25 \$	8.7 \$	15.5 \$
December 1947	30.3 \$	10.1 \$	27.6 \$
May 1949	21.6 \$	9.1 \$	19.3 \$
December 1949	22.6 \$	7.75 \$	21.75 \$.

Source : 'Eastern Economist', March 10, 1950, p. 401.

The main reasons for the high prices lie in (i) the high price of raw jute due to partition, (ii) faulty policy of control and decontrol and (iii) speculative activity. "It is a common saying here that—next to horse racing, burlap trading is

¹ Messrs. Porter & Cooper of the U.S. Department of Agriculture quoted in N.V. Sovani's 'International Position of our Raw Materials.'

the greatest speculation in the world.”¹ Fortunately this has now been stopped.

Hence to maintain our position, it is essential that jute manufactures should be made available at reasonable and competitive prices, and in the maximum possible quantities.² Hence production should be fully restored. Closure will mean higher prices. Moreover, exports should be left free. An amicable settlement with Pakistan is, of course, essential.

Suggestions

1. Better publicity is needed.
2. Increasing burlap's durability and its salvage value, which would improve its price "second hand" and consequently reduce its net cost to the first user.
3. Their use should be made more hygienic by impregnating hessian at a suitable stage in the manufacturing process with an appropriate chemical solution, which may ensure protection for the fabrics from fungus, insect pests and other infestation or facilitate disinfection of fabric so treated.
4. Exports should be in the form of rolls of 200 yards rather than in bales. That will enable the use of continuous lengths.
5. Wider fabrics of 80"-160" will be better appreciated. This is already being done in Czechoslovakia and Belgium.

Fortunately, the Indian Jute Mills Association is research-conscious and has sufficient funds for purposes of this sort. It will provide a powerful stimulus for the progress of jute in an expanding world market of packing materials.

B. Cotton Textiles

Our exports of cotton textiles received a tremendous fillip during the war years due to the virtual elimination of competition. Up to 1947, exports went fairly smoothly,

1 Quoted by the Export Promotion Committee, p. 30.

2 "Continuing world scarcity and high prices of jute are stimulating the use of substitute materials. Paper has made serious inroads into jute markets in North America and its competition is being felt in other countries. There is wide-scale experimentation with long vegetable fibres for use as jute substitutes. Jute probably will continue in tight supply in the near future, but the long-term outlook will only be assured, if jute can resume its traditional attributes of relative cheapness and ready availability." Report on Jute issued by the U.N. Food and Agriculture Organization.

only limiting factor being our willingness to export. But then, due to the rise in domestic prices, our exports began to suffer. In June 1949, export duty was abolished and price control made applicable to all destinations. Since then, exports began to improve again. Devaluation made our goods so much so that our cloth was exported to even the U.K. and the U.S.A. This natural fillip combined with a 4% cut in internal prices gave a stimulus to our-textile exports. In 1949, India was fourth among textile-exporting countries, in 1950, she was first. But in 1952, she was relegated to the fourth position again. Production of cotton textiles is almost stagnant and incapable of being increased due to shortage of raw cotton. Naturally, the problem is how best to reconcile the conflicting claims of the internal market with those of the foreign markets or, how best the internal shortage can be met consistent with the need of foreign exchange to finance our imports. Naturally, exports will have to be controlled. Care should be taken to see that quotas are adhered to and no exports over the limit are allowed.

Cotton textiles must form the main plank of India's export drive as their production and exports are quite capable of large expansion. They have to be exported to the maximum possible level (1,000 million yards) to offset the loss of exports of agricultural commodities caused by partition. Cotton textiles in their new role can continue to illustrate one of the permanent effects of devaluation provided India strives hard to increase its production and retain its present competitive capacity. That is only possible if sufficient quantity of cotton is available at reasonable rates. In 1950, many mills had to close down due to the shortage of raw cotton. The seriousness of the problem would have been revealed had not the labour strike intervened to force a closure of Bombay mills for about two months. Labour troubles will have to be avoided. (The 1950 labour strike resulted in the loss of 203 million yards.)

The need for export price and quality control is essential because the prospects of the Indian cotton piecegoods in the world markets are none too certain. There have been serious complaints of "uneven weaving and colouring and

defective packing by Indian mills." "Indian piecegoods lately have shown defects which are likely to be prejudicial to the good name of India and prospects of Indian trade."¹ There have also been reports that cloth and yarn exported from India have not been up to standard specifications and that delivery commitments are not promptly fulfilled. "Moreover, the growth of self-sufficiency in textile manufacturing over large areas of the world has had the result of reducing the relative importance of international trade in textiles."² Although world demand for cotton textiles is falling slowly, and Indian exports are likely to face tough competition from Japan, and perhaps Britain, in all their pre-war markets very soon, the prospects need not be painted in too dark colours. World consumption of cotton textiles is still lower than the pre-war total. The most important task is now to retain and strengthen export markets already secured, and to maintain a steady flow of cotton piecegoods to all the overseas markets—specially those developed in war-time now showing a slackening tendency.

C. *Tea*

With the loss of raw cotton and raw jute, tea has become one of our principal items of exports. In 1949, even the pre-partition peak production of 593 million lbs. in 1946 was exceeded to 595 million lbs. The loss of about 45 million lbs. resulting from part of the Sylhet district going to Pakistan has been made good by increased production in India. This higher production has been duly reflected in increased exports. Exports to Canada and the U.S.A. have been encouraging particularly since devaluation. In 1949-50, they contributed Rs. 4.6 crores and Rs. 6.7 crores respectively. Export ceilings have now been fixed at 480 million lbs. as compared to 435.31 million lbs. in 1949-50 and 411 million lbs. in 1948-49. The tea industry is earning for India every year, both through a larger volume of exports and higher prices, an additional amount of foreign exchange. Aggregate earnings in 1950-51 and 1951-52 amounted to Rs. 78 crores and Rs. 93 crores as against Rs. 64 and Rs. 72 crores in 1948-49 and 1949-50 respectively.

¹ Sardar Hirdial Singh quoted in 'Capital', June 15, 1950, p. 1,008.

² United Nations World Economic Report, 1948. Also see 'Commerce', October 14, 1950, p. 656.

Since the war, world production of tea has been gradually approaching present world requirements.¹ Hence intensified propaganda both in America and outside is needed. Competition from Indonesia will present a pressing problem. Prices must be reduced if we are to successfully face the ensuing competition in the world markets. Quality should also be improved and standardized.

Devaluation has provided us with an opportunity to gain a stronghold in the U.S.A. and Canada. At present, Ceylon tea is preferred to Indian because it better suits the American water (less so in case of South India tea) and because their tea is blacker and better made. The quality of tea chests used for packing Indian tea is generally inferior to those used by Ceylon and Indonesia. The tea industry is greatly handicapped by the want of licences for adequate imports of the right quality of tea chests and tea machinery. Catering export markets needs the use of superior quality imported chests, and to this extent their imports should be allowed.

The speculation in tea export quotas has now become very common. The purchase of export quotas at high prices would surely result in an undesirable increase in the price of tea in the overseas markets. This should be banned forthwith. Tea for all time should remain the cheapest drink next to nature's own, namely, water.

D. Cottage Industries' Products

The development of their exports will have many advantages : (i) They will introduce the much-needed element of diversification in our export trade. (ii) They will augment our resources of foreign exchange particularly dollars, if attempts are made to explore the export possibilities of these articles by introducing them through proper channels in the foreign countries. (iii) They will give stimulus to the development of cottage industries. (iv) They can give employment to a good number of displaced refugees.

Suggestions

(a) *Proper publicity*—Indian Trade Commissioners should explore the possible lines of expanding the existing markets

¹ The Annual Report issued by Messrs. J. Thomas & Co. Ltd. estimates the total world demand for tea at 872 million lbs. and the total availability for export at 887 million lbs. thus leaving a surplus of 15 million lbs.

in these goods. The Government are also alive to the possibilities of promoting exports of the products of cottage industries, and it is proposed to open emporia in important cities both in Europe and America. Participation in exhibitions abroad, advertisement in an appealing way in foreign periodicals, colourful display of products for sale and distribution of samples on a generous scale may be some of the courses to be adopted.

(b) Their exports should be allowed duty free.

(c) When entering into bilateral agreements, a provision should be made regarding their exports.

(d) Regular supplies should be ensured. They should conform to some recognized standards which can only be possible after an extensive survey of the consumers' preference in the various export markets. Their production should be organized for export. "If the modern technique of salesmanship is applied to them and their production methods are adopted to yield a steady flow of standardized mass produced utilities having an artistic appeal it may add to our exports especially to hard currency areas."¹

(e) For a period of few years, a few high powered American or European sales executives should be employed, who will both organize sales and advise the domestic productive organizations as to the patterns likely to be in demand in the West.

The constitution of an Indian Cottage Industries Export Committee and its Sub-Committee in the U.S.A., is a step in the right direction.

¹ Report of the Export Promotion Committee, p. 51.

CONCLUSIONS

(1) The heavy export surplus achieved during the war period by a severe curtailment of imports and the inflationary methods of war finance led to the huge accumulations of sterling balances which became, available for use during the post-war period to finance the inevitable import surplus including imports of machinery for rehabilitation and replacement of over-strained industrial equipment.

(2) The back-log of war-time demand coupled with impacts of partition caused an enormous increase in imports without a similar increase in exports. The quantum of exports remained low due to a general decline in agricultural and industrial production, increased domestic consumption of raw materials and the loss due to partition; but the value of exports was maintained due to an increase in export prices.

(3) The full adverse effects of partition came to be reflected only in 1948 and our import surplus increased. The main aggravating factors were (i) large imports on Government Account and (ii) unplanned trade policy. Our trade showed a deficit even with the sterling area countries. The ineffective price control policy and the inflationary spiral in the latter half of 1948, coupled with a liberal import policy, made the Indian market more attractive to foreign exporters, and this accounted for the huge trade deficit.

(4) The imports from the hard currency countries were confined to essential goods only while measures were taken to increase exports to the hard currency areas. But in the latter half of 1948, with the cessation of U.S. inflation and an increase in our exports to the soft currency areas, our exports to the hard currency areas suffered. Bilateral trade agreements were concluded to conserve hard currency resources by securing soft currency sources for the supply of essential commodities and to find new markets for Indian goods. Besides renewing old contacts and establishing new ones, they have not achieved much success.

(5) Due to the revival of U.S. and U.K. competition in the Middle East and of Japan in the Far East, India began to lose ground in these markets gained during the war.

Hence vigorous efforts to retain them are needed. Imports of manufactured goods showed a definite return to the pre-war pattern (due to increased imports of machinery), but partition checked this tendency by necessitating imports of foodgrains and raw materials. The exports of raw materials, however, declined due to the curtailment of surplus in raw materials for exports.

(6) The classical theory of balance of payments is not applicable in the existing conditions. Hence the need of regulating and controlling foreign trade with a view to avoid a chronic maladjustment in the balance of payments cannot be overemphasized.

(7) Up to 1948, close correspondence was maintained between receipts and payments on account of merchandise, and the service items tended to determine the net position on Current Account. The position began to deteriorate in the latter half of 1948 due to the liberal import policy, heavy imports of food, the adverse movement in the terms of trade and a decline in the value of exports. There was a phenomenal disinvestment on Capital Account. Sterling balances and the facilities offered by the IMF have been the two main sources of compensatory financing. The gap in the payments tended to close with the adoption of a stringent import policy and the devaluation of the rupee. In the year following devaluation, there was a net investment on Capital Account and no drawings were made from the Central Reserves.

(8) India's balance of payments position is not likely to be an easy one in view of the inevitable import surplus and the heavy net payments for services and interest. Judicious utilization of sterling balances and the facilities offered by the IMF and the IBRD, and the development of auxiliary services and the tourist traffic may go a long way in improving the situation.

(9) While devaluation of the sterling was justified, the decision to devalue the rupee was hasty and unwarranted in the context of India's economy. The disequilibrium in our balance of payments was not a fundamental one. What is required in such cases is not devaluation which acts as a

general control but selective controls like import restrictions, exchange controls and fiscal measures.

(10) Exports returned to the same level after the temporary stimulus given by devaluation ceased to be operative. As a matter of fact, the inelastic nature of our exports has been made very clear. Import control plays a prominent part. The dollar surplus was achieved by a strict self-denial as regards dollar imports. Our exports to the dollar areas increased but our dollar earnings declined.

(11) An immediate settlement of the Indo-Pakistan trade deadlock is necessary and it will be extremely desirable to appreciate the Indian rupee so as to restore the parity of the two rupees.

(12) It is necessary and desirable that the volume of world trade be maintained, and thus the restoration of multilateralism is essential. Although India's import surplus with some countries will continue to be financed by export surplus with others, the direction of import and export surpluses will change considerably.

(13) The trading nations have felt more confidence in adhering to the provisional trade rules (GATT) which take full account of the imperfections of the present international economic system. The position of the flexible GATT will be strengthened, and the idealistic and ambitious ITO will slumber in the background. If the ITO is started and the U.K. and the U.S.A. join it, it will be desirable for India to join it. The ITO, however, should take a lenient view of the needs of under-developed countries.

(14) At present, India has, to a certain extent, adopted bilateralism but her long-term interests lie in the restoration of multilateralism. Bilateral agreements should, however, be better planned.

(15) As long as Imperial Preference and the Sterling Area systems continue, India should adhere to them. The system of Imperial Preference, however, is not in the interests of the Commonwealth itself.

(16) The organization of foreign trade, both exports and imports, must be scientific and must be manned by Indians. Educated and enterprising young men should be encouraged to take to trade and commerce.

(17) Development of auxiliary services will enable us to increase our invisible exports and thus our foreign exchange resources. The State will have to play an important role. Left to herself, the shipping industry may become a national liability rather than a national asset. The establishment of Indian banking and insurance houses will facilitate the development of India's exports in the comparatively unorganized markets of the Middle and the Far East.

(18) Prices must be commensurate with the quality of goods and sufficiently low to compete effectively with the products of other countries in the foreign markets. An assurance of the continuity of supply and the adoption of better marketing methods are essential.

(19) Reorganization, expansion and strengthening of the Indian Trade Commissioners, the establishment of an Export Trade Research Organization and the evolution of an Export Credit Guarantee Scheme should receive particular attention.

(20) State trading cannot be successful unless there is an overall plan of regimented closed economy. State lacks the necessary incentive to that degree of initiative and efficiency upon which progress in business is possible. It is costly. The adoption of State trading will have many undesirable consequences. When nation-building developmental projects are being put in cold storage for lack of finance, the starting of a State Trading Corporation (as suggested by the State Trading Committee) is not justified even as an experiment. State trading may, however, be adopted as an emergency measure but even for its organization, active co-operation and guidance should be sought from experienced business men of proved integrity and honesty.

(21) An import surplus is inevitable in the near future :

- (i) Food imports will continue as it is not possible to achieve self-sufficiency in a short period.
- (ii) Raw jute and raw cotton will have to be imported as it is better to concentrate on food self-sufficiency.
- (iii) Imports of machinery and other essential raw materials will have to be continued.

(22) It will be desirable to continue import and export controls so long as there is an import surplus, but they should be better administered.

(23) Both quantitative and destinational restrictions on imports are inevitable in the short-term period. The adoption of a stable, co-ordinate and integrated import policy and its expeditious and efficient implementation are necessary.

(24) As regards the long-term aspect of import policy, commodities which are or can be manufactured in the country cheaply and adequately should not be imported. Foodgrains should not be imported while imports of machinery, raw cotton and raw jute should be reduced to the minimum.

(25) Export control will have to be retained in the short term to regulate exports as regards their quantum and direction. Maximization of production is, however, essential. An export plan should be drawn and adhered to.

(26) Exports in the long term should be restricted to surplus only and should be sufficient to pay for minimum imports. They should be diversified and commensurate with the nature of our economic development.

(27) Export and import duties should not be levied as a rule for revenue purposes only unless they have an economic justification.

(28) The development of lucrative re-export trade is desirable and possible on account of India's good geographical situation. The possibilities of introducing drawbacks and that of converting Calcutta, Bombay and Madras into Free Trade Zones should be explored into.

POST-SCRIPT

The foreign trade figures for 1952-53 reveal a reduction in the import surplus from Rs. 147 crores in 1951-52 to Rs. 76 crores only. Both imports and exports declined but the decline in imports is greater than that in exports. Exports declined by Rs. 159 crores (from Rs. 716 crores to Rs. 557 crores) only as against a decline of Rs. 230 crores in imports (from Rs. 863 crores to Rs. 633 crores). The year July 1952 to June 1953 closed with a Current Account Surplus. The sterling balances of the Reserve Bank of India increased by £25 million during 1952-53, and there was no need to draw upon the release of £35 million available for the year. India contributed 9 million to the Central Reserves between January-June, 1953 as against a withdrawal of 128 million in 1952.

The reduction in foreign trade deficit had been achieved mainly through the decline in imports. The most conspicuous decreases are shown by foodgrains and cotton. Imports of foodgrains declined by Rs. 76 crores (from Rs. 228 crores to Rs. 152 crores), and this more than offset the reduction in import surplus. Similarly, cotton imports amounted to Rs. 77 crores in 1952-53 as against Rs. 137 crores in 1951-52, accounting for a saving of Rs. 60 crores. In none of these cases is the fall wholly explained by price decline, the quantity index for imports standing at 89 in 1952-53 as against 119 in 1951-52. This saving of Rs. 136 crores in the imports of foodgrains and cotton has been mainly caused by an increase in domestic production. There has been a reduction in the imports of raw jute as well which is partly accounted for by an increase in domestic production and partly by a fall in exports of jute manufactures. Most of the other important items of imports have also declined. Machinery (Rs. 16 crores), Vehicles (Rs. 6 crores), Chemicals (Rs. 11 crores), Cutlery and Hardware (Rs. 6 crores) and Dyes and Colours (Rs. 9 crores) account in all for a decline of about Rs. 48 crores. This decline has been caused by the restricted import policy followed during 1952. The restricted imports of 1952, however, have not caused any serious dislocation. There is no raw material crisis for want of imports, like the one

which followed the Korean War. In fact, there is a definite improvement in industrial production.

Exports have also declined specially in respect of tea and jute which show a distressing fall. The exports of jute manufactures have declined from Rs. 270 crores to Rs. 130 crores. Some decline in the value was expected with the reduction in the export duties. But there has been a steep fall in the price of jute manufactures as well. Side by side, there is a decline of $12\frac{1}{2}\%$ in the quantities exported (7 lakh tons in 1952-53 as compared to 8 lakh tons in 1951-52). Tea exports show a fall of Rs. 13 crores (from Rs. 93 crores to Rs. 80 crores). This fall has been caused more through a decline in price than in quantity. But the price fall is milder in the case of tea than in the case of jute. Exports of cotton textiles have improved from 423 million yards in 1951-52 to 614 million yards in 1952-53 (by 45%). The value of exports, however, increased from Rs. 58 crores to Rs. 69 crores (by 20%) only and thus does not show a corresponding increase. This indicates a decline in the export prices of cotton textiles as well. Cotton Textiles (Rs. 11 crores), Metallic Ores and Scrap iron (Rs. 18 crores), Cotton raw and waste (Rs. 8 crores), Oils (Rs. 2 crores), and Fruits and Vegetables (Rs. 3 crores) account in all for an increase of Rs. 42 crores. But this increase does not compensate for the steep fall in jute manufactures and tea. Spices, Hides and Skins and Leather, and Tobacco show a decline of Rs. 8 crores, Rs. 6 crores and Rs. 4 crores respectively. A number of minor items have also contributed to increase our export earnings indicating an increasing trend towards diversification of our exports.

On the whole, the fall in exports was mainly due to the falling trend in export prices which more than offset the increase in quantities exported in cotton textiles, manganese vegetable oil, etc. Import prices have not declined in equal proportions. The net effect has been that while the restrictions on imports involved a substantial reduction of volume of imports such as in foodgrains and raw cotton, the decline in export receipts has been accompanied by an increase in the quantities exported. Thus there has been a deterioration in India's terms of trade.

As regards the future prospects of our exports, the fall in jute manufactures presents a serious problem. The share of countries other than India in the imports of hessian in the U.S.A. has increased to 25%. Pakistan has also made an impressive entry in the jute market. Thus there is a grave danger to India's almost monopolistic position in this commodity. A few years ago, jute had the threat of increasing competition from substitutes like paper and cotton. But now Indian jute has to compete against foreign jute in the U.S. markets. Restricted working of mills and restricted production, and the consequent higher prices and higher export duties seem to have done a permanent damage to our jute industry. Fortunately, the jute export duty has been abolished in some special cases and reduced to a level of mild revenue duty in others. Intending purchasers might not postpone their purchases any more and our exports might increase. The ultimate solution of the problem, however, lies in the reduction of production costs so as to restore the competitive strength of Indian jute goods.

The domestic production of cloth has increased. The purchasing power of the domestic consumer has gone down, and the expectation of a progressive fall in cloth prices has stiffened consumer resistance. Thus there is now no problem of restricting exports. In the external markets, however, competition specially from Japan and the U.K. has intensified. The prospects of a long-term agreement between Pakistan and Japan and the abolition of preference by Burma present more threats to Indian textiles. But the two competitors are relatively more disadvantageously placed in the matter of supply of raw cotton. Moreover, the recent abolition of export duty is expected to give India a definite advantage, and attempts should be made to increase our exports to the maximum. Side by side, quality control and a study of tastes will go a long way in consolidating India's position in foreign markets. At the recent meeting of the Export Advisory Council, the Commerce Minister pointed out that the South East Asian Market is being mishandled by poor salesmanship, bad packing and the failure to honour commitments in point of quality. Even then the complacent attitude of the Government is surprising. It is a serious

anti-national practice and must be dealt with accordingly. This does not undermine the importance of competitive prices which alone can offer a permanent solution.

Total imports of tea in the U.S.A. increased by 18% in 1952. Indian exports of tea to the U.S.A., however, increased by 31%. The Central Tea Board has been actively promoting tea sales in the U.S.A. in co-operation with the Tea Council. This method has decidedly proved to be more effective than that of the International Tea Market Expansion Board, and must be extended to other countries.

The imports, on the other hand, may have to be encouraged for helping the developmental activity under the 5-year-plan and/or for the control of inflationary pressures or due to an increased demand for foodgrains or industrial raw materials. The decline in exports and the prospects of a business recession in the U.S.A. would enjoin caution in the relaxation of import controls. Considerable liberalizations have been recently made in respect of imports of consumer goods and industrial raw materials. It would be better to proceed cautiously and import only those goods which would increase productivity in India. We should in no case import goods which can be or are being manufactured in the country.

The International Scene :

Recently there has been an improvement in the dollar reserves of the Western Europe, and the dollar deficit has been reduced to manageable limits. 75% of the increase in dollar reserves is contributed by Great Britain. This improvement is mainly due to a diversion of imports from the U.S.A. to other sources. There was a spectacular recovery in world trade in 1951 when the volume of world trade exceeded that of the pre-war peak year of 1929 by about one-fourth. The IMF pointed out, "This balance was more gradually built up and more securely based than the similar one struck once before, in the last half of 1950 just after the outbreak of the Korean War." Yet in the Fund's opinion, the end of the dollar shortage is by no means in sight, some of the reasons being temporary, e.g., U.S. purchases under Defence Programme. Dollar problem cannot be considered beaten until all the artificial restrictions on dollar imports

into other countries have been removed. The fund has strongly advocated substantial modifications in the U.S. Commercial policy such as tariff reductions, the simplification of tariff classifications and customs procedures, liberalization of agricultural quotas and of shipping policy, repeal of Buy American legislation, etc., for strengthening the payments position of the non-dollar world. But even the adoption by the U.S.A. of complete free trade would not by itself provide more than a partial solution of the dollar problem. Non-dollar world should reduce its dependence on the dollar world for essential imports and raw materials. These steps, with the expansion of American foreign investment, the stabilization of World Commodity prices and the gradual but steady progress by sterling and other currencies towards convertibility could lead to the complete elimination of the dollar problem as the perennial headache of the Western World, provided always that America maintains a healthy and expanding economy and that other countries do not allow the ever present danger of inflation to get out of hand. The U.S.A. should particularly invest in the under-developed countries of Asia and the Middle East as they have been able to receive only \$187 million out of \$1,560 million loans granted by the IBRD up to June 30, 1953, though for this the World Bank is not entirely to blame.

Recently there have been frequent rumours and discussions about sterling convertibility. Though sterling area reserves are higher, it is still no time to think of sterling convertibility for many years to come. Undue haste may lead to the repetition of the 1947 episode. Though determined efforts to achieve it deserve utmost encouragement, convertibility is not an end in itself. The IMF has also endorsed the British and European plea that the recent progress towards convertibility and in other lines cannot go further unless the U.S.A. maintains high prosperity and maintains imports more freely. Moreover, at the first indication of a business recession in the U.S.A., the sterling area countries should stop any further progress towards liberalization of trade and exchange. The convertibility plan will have to be postponed until the adverse spell has passed. Dollar imports will have to be cut. But this time it will be easier as compared to 1949 when alternative

sources of supplies were hardly present. It will be better to plan a long-term plan of intensified investment within the Commonwealth specially to concentrate on the production of dollar saving goods. It is expected that these matters will be discussed in detail at the next Commonwealth Finance Ministers' Conference to be held in January 1954.

The term of the GATT was extended up to June 30, 1955 at its eighth meeting held at Geneva. Japan has been elected as an associate member of the GATT. The GATT also granted Britain a general waiver to increase tariffs on certain non-Commonwealth agricultural products. The Geneva conference further decided that the constitution of the GATT should be fully revised at a preliminary meeting in October 1954. India should take this opportunity to examine the benefits of the GATT so that a final decision about India's membership may be made before June 30, 1955.

With the return of West Germany and Japan into the competitive field, the pressure for tariff reductions is not very strong now. Majority of the countries are still handicapped by balance of payments difficulties. The IMF attaches equal importance to both the removal of restrictions and the building of exchange reserves, and therefore, it is compelled to acquiesce in the continuance of exchange restrictions. The GATT also approves measures designed to protect national domestic economy and it is extremely hard to draw the line between where the legitimate purpose ends and unfair discrimination begins. Thus the prospects of freer world trade are not very bright.

APPENDIX I

CHANGES IN THE RELATIVE IMPORTANCE OF EXPORTED COMMODITIES PERCENTAGE TO TOTAL

Commodities				Pre-war 1938-39	Post-war 1946-47	Post-Partition (including Land- Borne Trade) 1948-49 | 1949-50	
Jute Manufactures	..	..	..	16.1	23.5	32.5	26.2
Raw Cotton	..	..	..	15.2	9.4	4.3	4.0
Tea	..	..	..	14.3	11.6	14.1	14.8
Seeds	..	..	..	9.3	1.4	1.7	3.0
Raw Jute	..	..	..	8.2	6.4	5.4	3.2
Grain, Pulse and Flour	..	..	..	4.8	T	T	T
Cotton Manufactures	..	..	..	4.4	9.3	9.5	15.1
Hides and Skins (Tanned)	..	..	..	3.2	6.3	2.8	3.8
„ (Raw)	..	..	..	2.4	2.9	1.2	1.4
Metals (Iron and Steel)	..	..	..	1.9	T	T	T
Raw Wool	..	..	..	1.8	1.3	T	T
Tobacco	..	..	..	1.7	2.4	2.7	3.0
Gums, Resins and Lac	..	..	..	T	4.0	2.1	3.8
Fruits and Vegetables	..	..	..	T	2.4	1.7	1.5
Woollen Manufactures	..	..	..	T	1.8	T	T
Oils	..	..	..	T	1.3	3.3	2.6
Spices	..	..	..	T	T	1.8	3.7
Non-metallic Ores	..	..	..	T	T	1.3	1.5
Other Textiles	..	..	..	T	T	1.3	T
Number of Commodities	..	..	..	(12) 83.3%	(14) 84%	(15) 85.7%	(14) 85.6%
Rest	..	..	..	16.7%	16.0%	14.3%	14.4%
Total	..	..	..	100	100	100	100

T. Less than 1%.

Source : Reserve Bank of India Bulletin.

APPENDIX II

CHANGES IN THE RELATIVE IMPORTANCE OF IMPORTED COMMODITIES
PERCENTAGE TO TOTAL

Commodities		Pre-War 1938—39	Post-War 1964—47	Post-Partition (including Land- Borne Trade)	
				1948-49	1949-50
Machinery (all kinds) ..	..	12.9	9.1	11.8	17.8
Oils	..	10.3	9.1	5.7	10.0
Cotton Manufactures ..	..	9.3	T	2.5	3.1
Grain, Pulse and Flour ..	..	9.0	24.8	20.4	16.8
Metals and Ores ..	..	7.1	5.8	4.8	5.4
Raw Cotton	..	5.6	7.2	9.5	10.8
Vehicles	..	4.4	4.6	4.8	4.0
Chemicals and Drugs ..	..	3.7	3.9	4.2	2.7
Cutlery and Hardware ..	..	3.8	T	T	2.7
Dyes and Colours ..	..	2.6	3.3	T	1.9
Other Textiles	..	2.3	3.8	T	2.7
Electrical goods ..	..	2.2	T	T	2.2
Spices	..	1.7	T	T	T
Other Non-metallic Ores ..	..	1.2	T	T	T
Instruments	..	T	3.3	T	T
Paper and Paste-board ..	..	T	2.8	T	T
Raw Jute	..	T	T	10.4	3.6
Number of Commodities ..	..	(15) 78.7%	(11) 77.7%	(9) 74.1%	(13) 83.7%
Rest	..	21.3%	22.3%	25.9%	16.3%
Total ..	..	100	100	100	100

T. Less than 1%.

APPENDIX III

VII. FOREIGN SEA AND AIR-BORNE TRADE

(Lakhs of Rupees).

	April-March		1950-51		April-March		1950-51
	1952-53	1951-52			1952-53	1951-52	
I. BALANCE OF TRADE							
Total Trade*	1,189.73	1,578.40	1,173.41				
Imports*	632.95	862.84	566.57				
Exports (including re-exports)	556.78	715.56	606.84				
Balance of Trade	-76.17	-147.28	+40.27				
II. COMPOSITION OF TRADE							
Principal Imports							
1. Grain, Pulse and Flour*	152.10	228.12	80.41				
2. Machinery	87.87	104.31	93.00				
3. Oils	81.78	79.48	59.54				
4. Cotton, raw and waste	76.67	137.13	100.77				
5. Vehicles	28.18	34.41	24.50				
6. Chemicals	24.87	35.94	19.37				
7. Iron and Steel and Manufactures	23.71	21.97	19.00				
8. Non-ferrous Metals and manufactures	19.37	20.65	27.84				
9. Cutlery, Hardware, Implements and Instruments (non-electrical)	14.26	19.70	14.46				
10. Electrical Goods and Apparatus (Other than Machinery)	13.81	10.36	9.67				
11. Dyes and Colours	10.42	19.28	14.60				
Principal Exports							
1. Jute Yarns and Manufactures	129.96	269.96	10.51				
2. Tea	80.30	93.36	79.87				
3. Cotton Yarns and Manufactures	69.32	58.10	136.71				
4. Metallic Ores and Scrap Iron or Steel	36.99	18.55	9.69				
5. Cotton, raw and waste	28.94	21.02	17.36				
6. Oils	25.09	22.76	25.72				
7. Spices	20.48	27.89	24.93				
8. Hides and Skins and Leather	20.35	25.69	25.77				
9. Fruits and Vegetables	16.31	13.41	10.95				
10. Tobacco	13.46	16.93	15.21				
III. DIRECTION OF TRADE							
Principal Sellers							
1. U.S.A.	..	..	..	181.37	288.70	117.87	
2. U.K.	..	..	..	138.58	158.13	131.40	
3. Canada	..	..	..	29.31	18.81	21.01	
4. Burma	..	..	..	26.43	23.34	18.80	
5. West Germany	..	..	..	22.28	28.27	10.29	
6. Kenya Colony	..	..	..	20.57	18.60	18.52	
7. Bahrain Islands	..	..	..	18.47	10.92	6.96	
8. Japan	..	..	..	15.82	24.65	10.11	
9. Egypt	..	..	..	15.12	40.49	32.87	
10. Saudi Arabia	..	..	..	14.73	10.04	86.83	
11. China	..	..	..	13.03	15.89	67.76	
12. France	..	..	..	12.87	10.72	10.07	
13. Australia	..	..	..	12.73	17.61	33.45	
14. Singapore	..	..	..	12.57	17.86	15.85	
15. Thailand	..	..	..	7.72	11.64	8.15	
Principal Buyers							
1. U.K.	..	..	..	121.76	187.82	135.16	
2. U.S.A.	..	..	..	111.04	130.11	110.14	
3. Japan	..	..	..	31.07	14.27	9.76	
4. Burma	..	..	..	22.03	19.55	22.00	
5. Ceylon	..	..	..	19.28	16.50	19.25	
6. Australia	..	..	..	16.95	46.62	29.26	
7. Singapore	..	..	..	15.44	11.89	30.56	
8. Pakistan	..	..	..	13.67	19.00	13.41	
9. Canada	..	..	..	12.82	16.24	13.65	
10. West Germany	..	..	..	12.35	8.66	8.87	
11. Italy	..	..	..	10.47	6.93	12.51	
12. Netherlands	..	..	..	10.04	7.73	9.55	

* Excludes certain consignments of foodgrains awaiting adjustments.

Source : Accounts relating to the Foreign Sea and Air-borne Trade and Navigation of India.

APPENDIX IV

BEST YEARS OF EXPORTS

(Based on exports from 1924-25 to-date)

	Unit	Quantum of Exports	Best year of Export	Exports in 1948-49
<i>Food and Drink, etc.—</i>				
Tea	In millions of lbs.	405.7	1944-45	405.9
Tobacco	„	75.3	1946-47	55.8
Spices	In '000 of cwts.	657.8	1947-48	458.0
<i>Raw Material—</i>				
Coal	In '000 of tons	2008.9	1939-40	1132.0
Mica	In '000 of cwts.	293.9	1937-38	339.9
Lac	„	833.9	1936-37	490.06
Hides & Skins Raw	In '000 of tons	43.8	1935-36	12.2
Manganese Ore ..	„	1001.0	1937-38	308.8
<i>Oils—</i>				
Groundnut	In '000 of gallons	8702.6	1940-41	8900.8
Linseed	„	3317.5	1947-48	2280.5
Castor	„	5638.2	1947-48	3009.1
<i>Seeds—</i>				
(i) Groundnut seed	In '000 of tons	835.1	1938-39	38.2
(ii) Linseed	„	318.3	1938-39	25.0
(iii) Castor	„	68.7	1934-35	..
Cotton Raw	„	762.1	1939-40	76.0
Jute Raw	„	820.5	1936-37	212.7
<i>Manufactured Articles—</i>				
Hides & Skins, Tanned	In '000 of tons	31.9	1939-40	14.5
Iron and Steel manufactures	„	96.3	„	12.0
Jute manufactures ..	„	1083.3	„	925.6
Cotton Piecegoods ..	In million of yds	819.1	1942-43	340.8

APPENDIX V

INDEX NUMBER OF QUANTITIES OF EXPORTS

Important Commodities by Groups

(Base: 1938-39=100)

	QUANTITY						
	1945-46	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52
Class I Food, Drink & Tobacco	85.4	83.7	92.3	95.7	103.4	106.2	110.1
1. Fruits and vegetables	72.9	90.3	89.1	96.9	103.7	126.0	147.3
2. Spices	142.8	140.8	186.7	110.5	132.6	113.6	135.9
3. Tea	102.4	94.0	110.4	116.7	124.9	122.3	121.1
4 Tobacco	36.4	104.0	74.4	88.0	95.0	117.0	157.5
Class II Raw Materials ..	41.8	41.7	46.9	30.6	27.8	24.5	19.3
1. Non-metallic products ..	74.8	114.8	155.5	205.9	181.2	232.7	259.4
2. Gums and Resins ..	113.5	134.7	106.6	121.3	114.0	165.0	177.1
3. Hides and Skins ..	40.6	68.3	61.6	41.2	47.8	49.4	42.0
4. Metallic Ores	58.5	105.7	117.1	68.3	..	..	..
5. Oils	44.5	90.6	251.3	223.8	152.2	362.6	290.9
6. Seeds	37.3	7.8	14.6	9.5	19.9	16.6	6.2
7. Cotton Raw and Waste	32.7	40.4	49.1	21.3	19.2	10.0	7.9
8. Jute Raw and Waste ..	49.0	44.4	38.4	30.8	18.5	nil	nil
9. Other Textile Materials..	35.3	56.2	71.7	81.0	40.5	22.7	37.5
Class III Manufactured Articles	95.6	92.5	90.4	106.4	116.5	129.8	94.7
1. Cotton Yarns and Manufactures	175.2	122.5	74.7	140.7	278.6	444.6	129.4
2. Jute	72.3	76.1	91.2	96.6	79.2	65.7	80.2
3. Woollen Manufactures	109.0	187.4	114.9	99.3	..	..	..
General Index	67.0	65.7	69.9	67.1	70.5	73.8	59.7

Source : Reserve Bank of India Bulletin, September 1949, p. 599.

APPENDIX VI

Index Number of Quantities of Exports. Important Commodities by Groups (Base: 1938-39 = 100)

		QUANTITY						
		1945-46	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52
I. FOOD, DRINK & TOBACCO								
	..	49	139	135	146	130	90	206
1. Grain, Pulse and Flour	..	71	164	144	155	137	95	225
2. Provisions & Oilman's Stores	..	40	77	149	147	192	87	184
3. Spices ..	..	40	92	93	111	55	81	86
..	..	185	117	129	143	165	144	153
II. RAW MATERIALS	..	238	123	133	128	164	154	202
1. Oils ..	..	89	103	117	168	165	220	216
2. Cotton ..	..	..	..	..	100*	32*	50*	62*
3. Raw Jute	..	49	72	91	105	94	87	93
III. MANUFACTURED ARTICLES	..	88	99	118	207	85	74	159
1. Chemicals and drugs	..	47	131	215	101	109	80	96
2. Cutlery and hardware	..	98	98	130	106	82	94	129
3. Dyes and colours	..	119	81	127	120	148	72	52
4. Electrical goods	..	65	118	248	339	543	389	440
5. Machinery	..	48	27	47	58	78	90	86
6. Metals Iron and steel	..	115	215	153	197	167	195	93
7. Metals other than Iron and steel	..	9	72	47	124	75	105	80
8. Paper, etc.	..	37	110	195	202	109	71	89
9. Vehicles	..	5	7	17	21	23	2	5
10. Cotton yarn and Manufactures	..	70	91	62	93	93	17	41
11. Woollen yarn and Manufactures	..	15	49	68	95	105	76	81
12. Other Textiles	..	49	81	87	81	97	58	56
13. Miscellaneous	..	90	99	111	125	121	103	134
General ..	..							

*1948-49—100.

APPENDIX VII
CURRENCY ADJUSTMENTS

Country			Monetary Unit	Value of Monetary Unit in U.S. Cents		Percentage of Devaluation
				Old	New	
Australia	..	..	Pound	322.40	224.00	30.5
Belgium Luxembourg	..		Franc	2.28	2.00	12.3
Burma	..	..	Rupee	30.23	21.00	30.5
Canada	..	..	Dollar	100.00	90.91	9.1
Ceylon	..	..	Rupee	30.23	21.00	30.5
Denmark	..	..	Krone	20.84	14.48	30.5
Egypt ..	..	..	Pound	413.30	287.16	30.5
Finland	..	..	Markka	0.6250	0.4348	30.4
France	..	..	Franc	0.303	.286	22.1
Western Germany		..	Mark	30.00	23.81	20.6
India ..	..	..	Rupee	30.23	21.00	30.5
Iraq ..	..	..	Dinar	403.00	280.00	30.5
Italy ..	..	..	Lira	0.1739	0.1576	9.0
New Zealand	..	..	Pound	399.96	277.89	30.5
Norway	..	..	Krone	20.15	14.00	30.5
Sweden	..	..	Krona	27.82	19.32	30.5
United Kingdom		..	Pound	403.00	280.00	30.5

APPENDIX VIII
INDO-PAKISTAN TRADE AGREEMENT (MAY 1948)
REQUIREMENTS OF PAKISTAN

S.No.	Commodity	Pakistan's stated annual requirements	Quantity agreed to by India
1.	Coal	34,00,000 tons	22,01,000 tons
2.	Cloth and Yarn	4,00,000 bales	4,00,000 bales
3.	Steel, pig iron and scrap	3,13,720 tons	80,000 tons
4.	Paper and board	20,780 tons	7,500 tons
5.	Chemicals and Pharmaceuticals		
	Sulphuric acid	2,000 tons	..
	Aluminium sulphate	2,000 "	..
	Hydrochloric Acid	270 "	270 tons
	Nitric Acid	200 "	200 "
	Magnesium Sulphate	800 "	800 "
	Ferrous Sulphate	400 "	..
6.	Copper wire	1,000 "	Nil
7.	Asbestos cement sheets	5,000,000 sq.ft. (5,000 tons)	2,500 tons
8.	Paints, enamels and varnishes	2,500 tons	2,500 tons
9.	Railway stores	39.3 lakh rupees	..
10.	Tyres and tubes	1,300,000 tons	..
11.	Leather and footwear		
	Upper leather	60,00,000 sq. ft.	
	Sole leather	75,00,000 lbs.	
	Lining leather	4,00,000 lbs.	
	Leather shoes	6,00,000 nos.	
	Canvas for 3,00,000 shoes		
12.	Hardwood	5,00,000 c.ft. (10,000 tons)	Nil
13.	Jute manufactures	50,000 tons	50,000 tons
14.	Myrabollams	2,000 "	2,000 "
15.	Woollen and worsted goods	11,00,000 lbs.	11,00,000 lbs.
16.	Mustard oil	50,000 tons	20,000 tons
17.	Groundnut oil	30,000 "	5,000 "
18.	Copra Oil	6,000 "	Nil.
19.	Seed potatoes	..	..
20.	Soap, Toilet	2,000 tons	2,000 tons
21.	Tobacco (flue-cured)	7,00,000 lbs.	7,00,000 lbs.
22.	Tea Chests	3,00,000 pieces	..

REQUIREMENTS OF INDIA

S.No.	Commodity	India's stated annual requirements	Quantity agreed to by Pakistan
1.	Raw jute ..	.. 1,000,000 tons or 5,500,000 bales	5,000,000 bales
2.	Raw cotton ..	.. 900,000 ..	650,000 ..
3.	Foodgrains		
	(a) Rice ..	.. 100,000 tons	175,000 tons
	(b) Wheat ..	.. 200,000 tons	
4.	Gypsum ..	.. 1,000 tons per day	1,000 tons per day
5.	Resin	.. 4,000 ..	Nil
6.	Raw hides and skins		
	(a) Cow hides ..	.. 2,000,000 pcs.	1,000,000 pcs.
	(b) Buff hides ..	.. 500,000 pcs.	200,000 pcs.
	(c) Skins ..	.. 1,500,000 pcs.	1,500,000 pcs.
7.	Rock salt ..	.. 2,000,000 mds.	2,00,000 mds.
8.	Soda Ash ..	.. 10,000 tons	
9.	Potassium Nitrate ..	.. 5,000 ..	5,000 tons
10.	Cattle	.. 1,050 heads	550 heads

Source : 'Indian Information', July 1, 1948, p. 22.

APPENDIX IX **INDIA'S DOLLAR EARNING COMMODITIES** (Amount of Dollars earned in Lakhs of Rupees)

Commodities	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52
Fruits and Vegetables	5,32	2,99	4,64	4,96	7,20	6,76
Spices	1,14	1,85	1,42	8,38	15,45	13,14
Tea	6,56	6,97	5,96	11,51	12,24	10,61
Other non-metallic mining and quarry products and the like	1,57	2,73	3,95	5,09	7,08	6,74
Gums, resin and lac	7,70	5,42	4,80	3,70	6,28	5,99
Hides and Skins, raw or un-dressed	5,04	4,22	1,75	2,67	4,26	4,39
Metallic Ores and Scrap iron or steel for re-manufactures	1,60	1,76	74	4,78	4,30	9,51
Oils—vegetable, mineral and animal	84	86	44	35	2,05	3,14
Seeds (including nuts for oil)	11	54	33	76	3,66	1,31
Cotton, raw and waste	4,52	2,29	97	3,59	3,91	5,58
Wool, raw and waste	2,50	1,25	52	1,47	2,85	1,18
Chemicals, drugs and medicines	33	12	8	31	97	1,46
Hides and skins, tanned or dressed and leather	3,01	1,40	72	1,22	4,11	2,30
Cotton yarns and manufactures	Nil	Nil	1	8	5,58	3,38
Jute yarns and manufactures	31,84	57,83	54,35	47,66	49,22	87,36
Woollen yarns and manufactures	1,91	92	53	61	69	1,37
Jute raw	2,54	4,45	3,99	1,46	5	Nil
(Total including all other commodities)	80,51	97,97	88,17	101,06	134,31	169,16

(Statement placed before the House of the People on August 21, 1953)

SELECT BIBLIOGRAPHY

(A) BOOKS

1. Abrams, Mark .. Britain and Her Export Trade.
2. Agrawal, A.N. .. Position and Prospects of India's Foreign Trade.
3. Allen and Unwin .. Readings in the Theory of International Trade.
4. Anstey, Vera .. Trade of Indian Ocean.
5. Baljit Singh .. Our Economic Conditions.
6. Balkrishna, Dr. R. .. Commercial relations between India and England.
7. Balogh, T. .. The Dollar Crisis.
8. Basu, Dr. S. K. .. Devaluation and Dollar Problem.
9. Benham, F. .. Great Britain under Protection.
10. Bhatt, B.M. .. Equal Access to Raw Materials.
11. Bloomfield, Arthur .. Britain's Balance of Payments.
12. Boggs, T.H. .. International Trade Balance in Theory and Practice.
13. Brown, A.J. .. Industrialization and Trade.
14. Clark, Colin .. Economics of 1950.
15. Coyajee, J. C. .. Characteristics of Ancient Indian Trade.
16. Condillife, J. B. .. Reconstruction of World Trade.
17. Cortney, Phillip .. Economic Munich.
18. Das Gupta, A. K. .. War and Post-War Inflation in India.
19. Dey, Dr. H.L. .. Economic Problems of Modern India.
20. Dillard, Dudley .. Economics of John Maynard Keynes.
21. Durga Parshad .. Some Aspects of Indian Foreign Trade.
22. Ganguli, Dr. B.N. .. Devaluation.
23. ditto .. Reconstruction of India's Foreign Trade.
24. George, Helm .. International Monetary Co-operation.
25. Ghate, B.G. .. Asia's Trade.
26. Ghosh, D. .. Devaluation.
27. Giplin, A.C. .. India's Sterling Balances.
28. Harrod, R. F. .. A Page of British Folly.
29. Hawtrey, R.G. .. Brettenwoods for Better or Worse.
30. ditto .. Balance of Payments and Standard of Living.
31. Jain, Dr. L.C. .. Indian Economy during the War.
32. Jain, P.C. .. India Builds Her War Economy.
33. ditto .. Industrial Problems of India.
34. Joshi, R.M. .. India's Export Trade.
35. Kale, V. G. .. Economics of Protection in India.
36. Killough and Killough .. Economics of International Trade.
37. Krishna, V. S. .. Brettenwoods and After
38. Lanka Sundaram, Dr. .. Nationalism and Self-sufficiency.
39. Sundaram, Dr. Lanka .. India in World Politics.
40. League of Nations .. Commercial Policy in the Inter War Period.
41. ditto .. Commercial Policy in the Post-War World.
42. ditto .. Observations on the 'Present Prospects of Commercial Policy.'
43. Lethbridge, Roper .. Indian Offer of Imperial Preference.
44. Lloyds Bank Ltd. .. Post-War Markets in India.
45. Loknathan, Dr. P.S. .. India's Post War Reconstruction and its International Aspect.
46. Madan, Dr. B.K. .. India and Imperial Preference.
47. Meyer .. Britain's Colonies in World Trade.
48. Morgan, Carlyle .. Brettenwoods.
49. Muranjan, S.K. .. From Hyper Inflation to Devaluation.
50. Panandikar, Dr. S.G. .. Economic Consequences of War on India.

- | | | | |
|-----|------------------------|----|---|
| 51. | Paniker, K. M. | .. | The Basis of Indo-British Treaty. |
| 52. | Rao, Dr. V. K. R. V. | .. | India and International Currency Plans. |
| 53. | ditto | .. | Planning Economic Transition from War to Peace in India. |
| 54. | ditto | .. | Post-War Rupee |
| 55. | ditto | .. | War and Indian Economy. |
| 56. | Ray, Dr. Parimal | .. | India's Foreign Trade since 1870. |
| 57. | Shenoy, B.R. | .. | Sterling Assets of the Reserve Bank of India. |
| 58. | Sovani, N.V. | .. | International Position of Our Raw Materials. |
| 59. | ditto | .. | Economic Relations of India with South East and the Far East. |
| 60. | Subramaniam, S. | .. | Statistical Summary of Social and Economic Trends in India. |
| 61. | Tiwari, Dr. R. D. | .. | Modern Commercial Policy. |
| 62. | ditto | .. | Our Economic Resources. |
| 63. | Towle, L. W. | .. | International Trade and Commercial Policy |
| 64. | United Nations | .. | General Agreement on Tariffs and Trade. (4 Volumes.) |
| 65. | Vakil and Maluste | .. | Commercial Relations between India and England. |
| 66. | Vakil, C. N. | .. | Financial Burden of War on India. |
| 67. | ditto | .. | Our Sterling Balances. |
| 68. | Vakil and Munshi | .. | Industrial Policy of India. |
| 69. | Visvesvaraya | .. | Planned Economy for India. |
| 70. | Wadia and Merchant | .. | Our Economic Problem. |
| 71. | Wallace and Administer | .. | International Control of Raw Materials. |
| 72. | Williams | .. | Post-War Monetary Plans. |

(B) JOURNALS AND PERIODICALS

1. Accounts Relating to Foreign Sea and Air-Borne Trade of India.
2. American Economic Review.
3. Annual Review of Trade of India.
4. Capital.
5. Commerce.
6. Eastern Economist.
7. Economist.
8. Economic Journal.
9. Economic Review.
10. Economic Weekly.
11. Economica.
12. Foreign Affairs.
13. India.
14. Indian Journal of Commerce.
15. India and World Affairs.
16. Indian Finance.
17. Indian Trade Bulletin.
18. Indian Trade Journal.
19. International Affairs.
20. Monthly Abstract of Statistics.
21. Monthly Survey of Business Conditions in India.
22. Quarterly Journal of Economics.
23. Reserve Bank of India Bulletin.
24. Records and Statistics.
25. The Journal of Indian Institute of Bankers.
26. Weekly Bulletin of Statistics.

(C) REPORTS

1. Cotton Piecegoods in India.
2. Self-Sufficiency in Food.
3. Report of the Delegation of the All-India Manufacturers' Organization.

4. Report of the Export Promotion Committee.
5. Report of the Fiscal Commission, 1922.
6. Report of the Fiscal Commission, 1949-50.
7. Report of the Indian Delegation to Brettenwoods.
8. Reports of the Indian Trade Commissioners.
9. Report of the Indian Trade Delegation to Germany.
10. Report of the Indian Trade Delegation to the Middle East.
11. Report of the Indian Trade Mission to Japan.
12. The Reviews of the Economic Conditions of India with Special Reference to Foreign Trade in 1947-48 and in 1948-49.
13. After Partition.
14. The Second Year.

(D) MISCELLANEOUS

1. Oxford Pamphlets on Indian Affairs.
2. Replies of the various Chambers of Commerce to the Questionnaires issued by the State Trading Committee, the Fiscal Commission and the Import Control Enquiry Committee.
3. India's Leading Commercial Problems published by the All India Commerce Conference.
4. Publications of the U.S. Department of Commerce.
5. Various Memoranda submitted by the Federation of Chambers of Commerce and Industry.

ERRATA

Pages

- | | | |
|-----|--|--|
| 4 | Second line in reference | .. Read 'all' in place of 'al'. |
| 10 | The basis for calculating the corrected values in the table is the year 1900-01. | |
| 12 | The basis for calculating the corrected values in the table is the year 1913-14. | |
| 19 | Column 4 of the table | .. Read 'Exports' in place of 'Imports' |
| | Column 5 of the table | .. Read 'Imports' in place of 'Exports' |
| | Third line from the bottom | .. Read 'export' in place of 'import' and vice versa |
| 23 | The figures in both the tables indicate percentage shares. | |
| *91 | The figures in brackets indicate percentage shares. | |
| 93 | The figures in brackets indicate percentage shares. | |
| 110 | Fifth line from the bottom | .. Read 'jute' in place of 'ute'. |
| 251 | Fourteenth line from the bottom | .. Delete 'the' after multilateral. |
| 326 | Sixth line | .. Add 'cheaper' after goods. |
-

INDEX

- Acreage, diversion of, 48, 66, 295, 296, 299-300.
Adverse balance of trade, problem of, 59-66, 84-85, 164-165, 293.
Advertising, 276-277.
Africa, India's trade with, 93.
Agricultural products, price of, 19, 20, 229, 233.
America, India's trade with, 93.
 South, India's trade with, 144-145.
Argentina, India's trade with, 86, 89, 90, 91, 93, 145, 173, 288.
Asia, 93, 188.
 South East, India's trade with, 128, 129, 137, 139-40, 172.
Australia, India's trade with, 48, 52, 89, 90, 91, 93, 116-19.
Austria, India's trade with, 8, 51, 86, 131.
Auxiliary services, development of, 268-73.
 Shipping, 268-70, 272 (See shipping and ship-building)
 Banking, 268, 271-72.
 Insurance, 272-73.
Balance of payments, 146-47.
 India's, in the pre-war period, 20, 23, 147-48.
 in the war period, 148-52.
 in the post-war period, 70, 152-58, 165, 176.
 financing of international transactions, 158-59.
 Problem of India's, 68, 85, 177-78, 227, 245, 265, 273, 312.
 Devaluation as a corrective of, 203-08.
 Indo-Pakistan, 162-63.
Barter, 24, 25, 86, 115, 134, 145, 158, 248, 291.
Belgium, India's trade with, 51, 91, 130, 132, 133, 135, 173.
 BETRO, 278-79.
Bilateralism, 23, 58, 233, 241, 246, 247.
 in India, 23, 73, 85-88, 111, 119, 128, 131, 138, 140, 144, 247-50, 271.
Birla, B.M., 262-63.
Birla, G.D. 55
Black, Eugene, 185, 187.
Board of Trade for India, 281.
British Commonwealth, India's trade with, 14, 22, 24, 25, 49, 50, 72, 88, 92, 104-05, 257-58.
Bullion, Imports and Exports of, 2, 4, 5, 20, 23, 147-48.
Burma, Separation of, 294.
 India's trade with, 1, 25, 52, 89-90, 91-93, 137-138.
Canada, India's Trade with, 51, 89, 91, 93, 120-22, 274, 328.
Capital goods, Imports of, 21, 58, 84, 122, 127, 129, 136, 183, 290, 303-05, 311, 312.
Capital movements, 153, 154-55, 158, 159, 162, 168, 175, 185-86, 232-238.
Ceylon, India's trade with, 1, 52, 86, 91, 92, 119-20.
Chemicals and Drugs, Imports of, 21, 47, 65, 84, 97-98.

- China, India's trade with, 1, 2, 3, 4, 91.
- Clark, Colin, 196.
- Coal, Exports of, 109, 111, 112-13, 118, 200, 282, 291.
- Colombo plan, 137, 176, 184, 185, 188, 189.
- Cottage industries' products, Exports of, 127, 249, 291, 328-29.
- Cotton raw, Exports of, 11, 22, 47-58, 63, 66-67, 81-82, 94, 100-01, 127.
Imports of, 47, 67-68, 94, 96, 98, 109, 127, 142, 164, 200, 217-18, 230-31, 299-302.
Self-sufficiency in, 227, 296, 298, 301, 302, 313.
- Cotton textiles, Exports of, 2, 4, 6, 11, 22, 47-48, 63-64, 67, 81, 82-83, 94, 100, 101, 109, 118, 120, 139, 140, 142, 201-202, 217-18, 221, 230, 325-327.
Imports of, 8, 11, 21, 47, 65, 94, 97-98.
- Czechoslovakia, India's trade with, 86, 88, 103, 131, 132, 133.
- Dasgupta, A.K., 209.
- Depression, the Great, 17-18.
- Effect on India's Foreign trade, 18-20, 130, 147-48, 257.
- Devaluation, 16, 18, 168, 177, 194.
Of the pound, 168, 194-98, 250, 254.
Of the rupee, 115, 198-200, 213-14, 259, 284.
Case examined, 201-210.
and Jute and Cotton textile industries, 214-18.
Effects of, 112-14, 178, 218-27.
Suggestions, 228-231.
- Disequilibrium,
In balance of payments, 194, 203, 227.
In India's Internal and External Economy, 78-85.
- Dollar problem, 166-68, 175-77, 188-89, 195.
India's, 69, 71, 75-77, 159-61, 168-75, 176, 178-79, 208, 308.
- Drawbacks, 200, 320-21, 322.
- Dyes and colours, 2, 7, 47, 65, 94.
- 'Eastern Economist', 85, 196, 208, 228.
- EFACE, 140.
- Economic Nationalism, 16, 18, 20, 146, 266.
- Economic Recovery Plan (See Marshall Plan).
- 'Economist', 55, 195, 202, 213, 228, 232, 245, 248, 253-54, 297.
- Egypt, India's trade with, 1, 8, 52, 85, 87, 89, 90, 91, 93, 141, 142, 170, 179, 218.
- Empire Dollar Pool, 69, 70, 71, 77, 150, 159, 161, 174-75, 178, 194, 197, 224, 253.
- Europe, India's trade with, 11, 15, 22, 24, 26, 29, 51, 86, 88, 92, 130-37, 236.
- European Payment Union, 136.
- Exchange control, 36-37, 49, 147, 150, 233.
- Exchange rate, stability of, 229-30, 283.
- Export Credit Guarantee Scheme, 280-81.
- Export drive, 57, 74, 87, 173, 220, 249, 293, 326

- Need for, 70, 76, 84, 169, 178-79, 313, 317.
 Difficulties in, 66-67, 73, 74, 76, 80-83, 99-100, 169-70, 207, 313.
 Export duties, 13, 73, 74, 176, 199, 202-03, 213, 230-31, 319-20.
 Export policy, 70, 71-74, 75, 99-104, 313-19.
 Export prices, 19, 33, 73, 83, 163-66, 176, 209-10, 220.
 Export Promotion Committee, (EPC), 74, 200, 209, 279, 281, 284, 295, 296, 320, 321, 322.
 Export Promotion Department, 278-80, 284.
 Exports, Concentration of India's, 22, 48, 98, 101, 173, 249, 318-19, 328
 Inelastic nature of India's, 202, 204, 207, 223, 227, 230.
 Exports subsidies, 262, 263, 320.
 Export surplus, 3, 4, 9, 11, 12-13, 16-17, 20, 30, 35, 37, 60, 147-48, 150.
 Export Trade Research Organisation, 278-80.
 Far East, India's trade with the, 11, 25, 29, 114, 137, 138-40, 250, 272, 318
 Financing of trade, 39-41.
 Fiscal Commission, of 1922, 256-57. of 1949, 267, 273, 303, 318-19.
 Foodgrains, Exports of, 6, 7, 8, 11, 16, 100.
 Imports of, 59, 61, 65, 66, 79, 84, 86, 102, 117, 125, 138, 145, 158, 164, 165, 169, 172, 179, 222-23, 231, 250, 288, 290, 291, 294, 299, 311, 312.
 Food, Drink and Tobacco, Exports of, 21, 45, 62, 63, 64, 95, 98, 99.
 Imports of, 21, 45, 64, 65, 66, 95, 96, 97.
 Food Problem, 48, 59, 66, 68, 147, 179.
 Food self-sufficiency, 79, 179, 215, 294-99.
 Foreign Capital, 7, 9, 55, 56, 184-89.
 Foreign Exchange, assets, 37, 70, 71, 72, 75, 76, 77-78, 85, 150, 270, 309, 321.
 Conservation of, 36, 37, 38, 39, 57, 86, 88, 150, 310.
 France, India's trade with, 8, 51, 91, 130, 132, 133, 134, 135.
 Free Foreign Trade Zones, 321-23.
 Free Trade, 7, 8, 10, 259, 261, 266-67.
 Ganguli, B.N. 54, 85, 137, 205, 208.
 General Agreement on Tariffs and Trade, 238, 240, 245, 255, 257.
 India and, 243-45, 265, 310, 312.
 Germany, India's trade with, 8, 11, 15, 22, 23, 24, 25, 26, 51, 86, 88, 89, 90, 130, 131, 132, 133, 135-36, 171, 173.
 Government Account, Trade on, 34-36, 40, 43, 68-69, 156, 159, 271, 290, 310.
 Gold Movements, Non-monetary, 153, 154-55, 160.
 Grain, pulse and flour, Exports of, 22, 47, 94, 100, 101.
 Imports of, 47, 94, 97, 98.
 Gray, Gordon, 187, 188.
 Hard-currency areas, India's trade with, 58, 69, 73, 75-77, 86, 159-61, 170-75, 179, 202, 205, 224-27, 314.
 Havana Charter, 58, 238-40, 241, 246, 255, 260-267.
 Hides and Skins, Exports of, 11, 22, 29, 47, 48, 63, 67, 81, 82, 94, 99, 100, 101, 207, 221, 231.
 Imports of 109, 111, 143, 145, 200, 231.

- Home Charges, 147, 151.
 Hydari Mission, 28, 69.
 Imperial Preference, 23, 242, 254-256.
 India and, 23, 24, 25, 26, 130, 244, 256-58.
 Import Control Enquiry Committee, 269, 307-308.
 Import Duties, 4-5, 13, 14, 21, 262, 320.
 Import Policy, 2, 61, 65, 69-72, 77, 83-84, 152, 156, 164, 174, 179-82, 204, 205, 222, 223, 224, 308-13.
 Import prices, 12, 17, 19, 33, 60, 61, 66, 87, 163-66, 209-10, 223, 296.
 Import surplus, 10, 16, 31, 60, 61, 62, 75, 77-78, 85, 152, 156, 203-204, 206, 208, 215, 293, 305, 310.
 India's Foreign Trade, in Ancient and Hindu Period, 1-3.
 in Muslim and Mughal Period, 3-5.
 European East India Companies and, 5-6.
 in 1858-1900, 6-9.
 in 1914-1919, 12-15.
 in the inter-war period, 15-26.
 Antiquity of, 1.
 Composition of, 2, 3, 4, 6, 7-8, 11, 21-22, 43-48, 93-103, 259, 318
 Direction of, 1, 4, 5, 8, 11, 14-15, 22-26, 49-52, 88-93, 104-05, 170-75.
 Organisation of, 4, 5, 42, 268, 272.
 Value of, 6, 10, 12, 15, 18, 28-31, 59-62, 164-65.
 Volume of, 4, 7, 10, 12, 15, 19, 31-34, 62-66, 80-84, 319.
 Indian Trade Journal, 227.
 Inflation, 27, 30, 39, 43, 57, 58, 69, 71, 72, 76, 79-84, 85, 151, 176, 180-82, 183, 187, 227, 229.
 International Bank for Reconstruction and Development (IBRD), 57, 158, 186-88, 189-208, 236.
 International Monetary Fund (IMF), 57, 115, 168, 177, 178, 194, 195, 213, 236, 239.
 India and, 71, 75, 154-55, 158-59, 161, 174, 175, 187, 208.
 International Trade, 18, 28, 57-58, 177, 232-33, 235, 237, 240.
 India's gain from, 9.
 International Trade Conferences, 58, 237-38, 240-41, 242-43.
 International Trade Organisation, (ITO) 237-40, 245.
 India and, 260-67.
 Invisible exports, 2, 34, 151, 153, 154-55, 158, 160, 167, 189, 190, 194, 250, 273, 321.
 Imports, 9, 147, 153, 154-55.
 Iran, India's trade with, 8, 40, 52, 59, 89, 90, 93, 141-42.
 Iraq, India's trade with, 40, 52, 140, 143.
 Italy, India's trade with, 8, 51, 89, 91, 132, 133, 134, 170.
 Japan, India's trade with, 1, 4, 11, 15, 22, 23, 25, 26, 52, 66, 86, 88, 89, 90, 91, 92, 93, 128-30, 171, 173.
 Jute manufactures, Exports of, 11, 21, 22, 47, 63, 64, 67, 76, 81, 82, 94, 99, 100, 101, 114, 116, 126, 163, 169, 201, 213, 216-17, 221, 225, 228, 230, 323-25.

- Jute raw, exports of, 7, 11, 22, 29, 46, 47, 48, 63, 66, 67, 76, 81, 82, 84, 99, 100, 101, 216, 221, 225.
 Imports of, 67-68, 94, 96, 97, 98, 109, 111, 112, 113, 116, 165, 200, 214-16, 217, 230-31, 302-303.
 Self-sufficiency in, 113, 114, 215, 227, 296-98, 302.
 Kenya Colony, India's trade with, 89, 90, 218.
 Korlan War, 61, 157, 161, 168, 175, 182, 222.
 Lack, Exports of, 29, 121, 125, 127, 221.
 Land-borne Trade, 59, 62, 92, 142.
 Latin America, India's trade with, 44, 144-45.
 Land-Lease Scheme, 27, 35-36.
 Machinery, Imports of, 11, 47, 65, 94, 97, 98, 102-03, 107, 118, 125, 130, 164, 165, 231, 303-305, 311.
 Manganese, Exports of, 25, 29, 108, 118, 121, 125, 126, 129, 199-201, 207, 322.
 Manufactured goods, Exports of, 8, 14, 21, 45, 46, 62, 63, 64, 79, 95, 98, 102, 173, 248, 278-80, 319.
 Imports of, 8, 14, 21, 45, 46, 62, 64, 65, 66, 78, 95, 96, 97, 102.
 Marketing methods, 275-76.
 Market Research, 278-80.
 Marshall Plan, 57, 81, 130, 168, 177, 188, 194, 195.
 Meek-Gregory Mission, 29.
 Metals and Ores, Exports of, 29, 47, 94, 129.
 Imports of, 47, 65, 94, 97, 98, 107, 119, 129.
 Mica, Exports of, 25, 29, 118, 121, 125, 126, 129, 199, 201, 207, 322.
 Middle East, India's trade with the, 1, 8, 43, 52, 59, 137, 140-44, 172, 250, 272, 275, 318.
 Most Favoured Nation Treatment, 241, 243, 254, 255.
 Multilateralism, 57, 147, 232-234, 236-38, 245, 247, 248, 250-51, 256, 264, 317.
 India and 11-12, 23, 26, 234-36, 248-49.
 National Planning Committee, 54.
 Neogy, K.C., 84, 320.
 Netherlands, India's trade with, 51, 91, 132, 133, 135.
 Oceania, India's trade with, 93.
 Oils, Exports of, 47, 48, 81, 82, 94, 100, 101, 143, 164,
 Imports of, 8, 47, 65, 94, 97, 98, 141.
 Oil seeds, Exports of, 7, 11, 21, 22, 29, 46, 47, 48, 63, 66, 74, 80, 81, 94, 99, 100, 101, 164, 231.
 Other areas, India's trade with, 161-62.
 Ottawa Agreement, 24, 25, 235, 254, 257.
 Pakistan, India's trade with, 62, 63, 68, 71, 75, 78, 83, 86, 91, 92, 93, 98, 109-16, 162-63, 176, 211-12, 214-18, 223, 227-28, 243, 282, 316.
 Need for settlement with, 109, 114-15, 142, 217, 227-28, 311-12, 325.
 Non-devaluation decision of 198-99, 210-14.
 Partition, Effects of, 58, 59, 61, 67-68, 78-79, 84, 96, 97, 100, 109, 152, 215, 227, 259, 294, 300, 313.

- Planning Commission, 295, 301, 303, 311.
 Point Four Programme, 189.
 Poland, India's trade with, 85, 131.
 Population, Increase in, 66, 68, 83, 102, 147, 259, 294, 299.
 Post-war planning, 57, 61, 66, 84, 127, 152, 166, 167.
 Preferential agreements, 239, 240-43, 245, 255.
 Price problem, 58, 59, 73, 79-80, 83, 180, 208-10.
 and exports, 73-74, 76, 80, 126, 139, 142, 144, 145, 169, 273, 326.
 Protection, 17, 43, 57, 68, 239, 259-60, 261, 266, 283, 303, 310-11, 312.
 Discriminating, 21, 257.
 Publicity, 276-77, 290, 328-29.
 Quality, Problem of, 73, 122, 126, 127, 144, 274-75, 280, 326.
 Quotas, 73, 142, 176, 238, 240, 245, 249, 261-62, 265, 266, 306-307, 308, 314, 315-16.
 Destinational, 73, 308, 314, 315.
 Railway Rates Policy, 8, 320.
 Raisman, Jermey, 53, 54.
 Rao, V.K.R.V., 44, 54, 137.
 Raw materials Exports of, 6, 8, 21, 45, 46, 62, 63, 64, 78, 80, 95, 98, 99, 101-102, 165.
 Imports of, 21, 45, 46, 61, 64, 65, 78, 95, 96, 101-102, 176, 231, 305, 313.
 Re-export trade, 2, 4, 28, 30, 111, 321-323.
 Reserve Bank of India, 34, 36, 37, 38, 40, 53, 55, 148-49, 150-51.
 Sterling purchases by, 34, 53, 148-49, 182.
 Retaliation, 24, 264, 289.
 Revaluation of the rupee, 228-231.
 Rupee Ratio, 7, 10, 16, 17, 80, 83, 84, 115, 150, 181, 209.
 Russia, India's trade with, 8, 86, 132, 133, 134, 290.
 Selective controls, 204, 205, 227.
 Shah, K. T., 1, 4, 198.
 Shellac, Exports of 108, 118, 125, 127, 322.
 Shenoy, B.R., 55, 151.
 Shipping and ship-building, 1-2, 4, 132, 250, 262-63, 269-71, 321.
 Shipping tonnage, Scarcity of, 13-14, 29, 30, 32, 37, 49, 60, 297.
 Soft Currency Areas, India's trade with, 58, 72, 75, 76, 80, 86, 170-75, 202, 206, 226-27.
 Spices, Exports of, 2, 63, 81, 100, 101, 125, 165.
 Shriram Committee, 76, 178.
 State Trading, 86, 249, 280-92.
 State Trading Committee, 282-83, 291-92.
 Status, Change in India's 52-56.
 Sterling Area, 194, 195, 197-8, 247, 250-52.
 India and, 174-75, 178, 250-54.
 India's trade with, 41, 68, 72, 76, 128, 156, 157, 158, 159, 170-74, 208, 219, 222, 231, .
 Central Reserves of the, (See Empire Dollar Pool).

- Sterling balances, 40, 53, 55, 56, 58, 61, 66, 70, 71-72, 75, 77-78, 85, 149-52, 153, 159, 174-175, 179-184, 203-208, 252, 305, 309.
 releases, 68, 71, 75, 77, 156, 183, 184, 309.
 Sterling, Convertibility of, 70-71, 136-37, 177, 180, 247, 251-53.
 Sterling Debt Repatriation, 52, 53, 151, 158, 159.
 Sweden, India's trade with, 132, 133, 173.
 Switzerland, India's trade with, 38, 85, 87, 88, 89, 103, 131, 132, 133, 134, 173.
 Synthetic products, 76, 126, 146, 167, 313.
 Tariff Commission, 249, 281.
 Tariff Policy, 8, 14, 16, 257, 258-60, 262.
 Tariffs 25, 111, 233, 238-43, 262, 267.
 Tea, Exports of, 7, 11, 22, 24, 47, 48, 80-81, 94, 100, 101, 109, 118, 126, 143, 201, 207, 230, 327-28.
 Technical Cooperation Agreement, 189.
 Terms of Trade, 12, 17, 19, 33, 34, 85, 147, 151, 152, 156, 158, 163-66, 176, 197, 210, 226, 296.
 Tobacco, Exports of, 29, 48, 63, 81, 100, 101, 108, 109, 132, 208, 221.
 Trade Control, 13, 16, 18, 20, 36, 57-58, 60, 88, 147, 148, 238-39, 241-43, 245, 256, 266.
 Export Control, 37-38, 39, 70, 72, 73, 82, 83, 111, 305-08, .
 Import Control, 38-39, 70, 71, 72, 97, 134, 151, 152, 157, 159, 161, 175, 176, 204, 205, 207, 223, 233, 305-08, 314, 320.
 Trade Delegations, 73, 128, 140.
 Trade Policy, 69-75 (Also see import policy and export policy).
 Under developed countries, Development of, 137, 147, 168, 188-89, 238, 261, 263, 266.
 Unilateral transfers, 20, 154 -55, 160, 177.
 United Kingdom, 54, 74, 246-47, 313-14.
 India's trade with, 8-9, 11, 14, 15, 22, 23, 24, 25, 50, 72, 78, 86, 88, 89, 91, 92, 93, 103, 105-06, 183, 235, 257.
 United Kingdom Commercial Corporation, 34, 40, 42-43, 282.
 United States, 54, 166-67, 245-46, 251.
 Business Activity in, 197, 206-07, 216, 220, 230.
 Business Recession, 76, 124, 159, 169, 194, 216, 219.
 Food loan, 158, 159, 176, 189.
 India's trade with, 11, 15, 22, 23, 25, 26, 50-51, 76, 77, 86, 89, 90, 91, 92, 93, 103, 123-28, 169-70, 178-79, 216-17, 218, 226, 324, 328.
 Tariffs, 167, 242, 245, 246.
 Vehicles, Imports of, 21, 84, 94, 97, 98, 107, 122, 125.
 World Trade, Quantum of, 16, 17-18, 58, 146, 233, 240, 243, 266.
-

