INDIA'S FOREIGN TRADE
Retrospective and Prospective

Dr. H. Lajipathi Rai
M. Com., Ph.D.
Reader
Department of Commerce
Sri Krishnadevaraya University
Anantapur (Andhra Pradesh)

Dr. T. Subbi Reddy
M. Com., Ph.D.
Professor
Department of Commerce
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PREFACE

The book concerns itself with India's foreign trade both retrospectictive and prospective. Foreign trade is a vital sector of a nation's economy and contributes substantially to the economic welfare of the people and the development of resources. Probably no country can produce all the goods that it needs. Therefore, there is need to trade with others. The book highlights the direction of India's foreign trade and the recent developments thereto. The book will carry more research value than its usefulness as a text book. It deals with trends in foreign trade of India for which data are presented since 1835. No existing publication on foreign trade of India contains the data as such depicted in the present book. The book also incorporates the latest data on India's foreign trade.

A crucial aspect of the trade of a country is its composition. This is crystalised along with trends in India's exports from engineering and small scale and agricultural sectors. This book also deals with dynamic components of India's foreign trade viz., textile exports, consultancy exports, exports of gems and jewellery and tourism.

A detailed presentation of various incentives offered to exporters and the recent export-import policies has been a distinct feature of the present study. The critical areas vis-a-vis weaklinks in India's foreign trade are identified. An analytical view is expressed. Overall critical appraisal of India's foreign trade is done in the last chapter of the book. Future projections are also given.

Foreign trade is a comparatively new subject. In India, its teaching has been initiated all the more recently. A number of Indian universities and Institutes of Management have introduced it as a basic subject in Commerce, Applied Economics, and Business Management Courses. I, therefore, earnestly hope that this work would positively fulfil the purpose for which it is meant.

I gratefully acknowledge my obligation to numerous authors whose work has been consulted in the course of the study. I am also deeply indebted to Professor M.K. Ganju of MBA Department Nagarjuna University, not only for his encouraging interest in the work but for stimulating discussions and valuable suggestions.

I also record my cordial thanks to the staff of the IIFT, New Delhi, the DGCI & S, Calcutta and the various export promotion councils for supplying valuable assistance and timely data for the work.

It is indeed a matter of gratitude to thank Uppal Publishing House, New Delhi for having published this work within the shortest possible time.

I welcome constructive criticism and suggestions from our learned readers so as to enhance the utility of this work in subsequent editions. This will enable us to improve upon shortcomings, if any, at an early date.

9th January, 1989
Sri Krishnadevaraya University
Anantapur (Andhra Pradesh)

Dr. H. Lajipathi Rai
Dr. T. Subbi Reddy

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CHAPTER 1

India's Foreign Trade : Pre-Independence Era

Introduction

Foreign trade is a vital sector of a country's national economy and contributes substantially to the economic welfare of the people and the development of resources. Economies of scale and international specialisation and also the fruits of scientific and technical progress in the world become more easily available[1] through the foreign trade. In the context of planned economic development of developing nations, an appropriate trade policy has become utmost necessary and significant. Today no country in the world is self-sufficient in the sense that it does not possess facilities for economical production of all the goods and services that are consumed by its people.

Thus, it is obvious that no country in the world can exist without any sort of trade relations. In fact, no country can hope to become self-sufficient by producing all types of goods since factor endowments and availability of technical skills vary between countries. Therefore, there is need to trade with others.[2] Most less developed countries (LDCs) certainly do not produce all the goods they need for their development. They may need more goods than they can produce to feed a rapidly growing population. If these LDCs want to develop industries and to increase the productivity of agriculture, they have to

1. Agarwal, A.N., *Indian Economy : Problems of Development and Planning* (New Delhi : Vikas Publishing House Pvt. Ltd , 1975), p. 577.
2. Morton & Tulloch, *Trade and Developing Countries*, The Overseas Development Institute, 1978, pp. 16-17.

import capital goods and raw materials or new types of seeds and fertilisers from the relatively advanced countries. Thus, international trade acts as a necessary link between the LDCs and Advanced Countries (ADCs).

Exports can be a leading sector in growth or a lagging one.[3] This means that increased earnings from higher marketability of a country's commodities in the international market would stimulate the indigeonus industrial activity in the country. This in turn brings many distinct benefits viz., greater utilisation of resources, larger employment opportunities, more foreign exchange, etc. Bo Soder Stern stated that trade would make a country as a whole better off.[4] It is largely held that foreign trade would make an impressive contribution to a country's development.[5] Trade is considered to be not simply a device for achieving productive efficiency, it is also an engine of growth.[6] Hla Myint argues that an important element of international trade has been the 'productive effect' of trade. When trade is introduced into a primitive economy, it acts as a dynamic force widening the extent of the market and the scope for division of labour.[7]

For hundred of years, international trade has served as a vehicle for extension of improved techniques of production to an ever-increasing number of users.[8] It has served as medium for cross-fertilisation of different cultures and a connecting link between the activities of people all over the world. The economy of every country is synchronised with the economy of every other country to a greater or lesser degree through an

3. Kindleberger, Charless, P., *International Economics* (Bombay : D.B. Taraporevald Sons & Co , Pvt. Ltd., 1976), p. 20.
4. Bo Soder, *International Economics* (London : Macmillan, 1974), p. 1.
5. Meier, Gerald M., *Development Through Trade*, (London : Oxford University Press, 1980), p. 214.
6. *Ibid.*, p. 215.
7. Robert Heller, H., *International Trade : Theory and Empirical Evidence*, (New Delhi : Prentice-Hall of India Pvt. Ltd., 1973), p. 233.
8. Vaish, M.C., Money, *Banking and International Trade*, (Gaziabad ; Vikas Publishing Pvt. Ltd., 1978), p. 594.

interdependence that has evolved gradually as the countries have themselves developed over the years.[9]

The classical economists argued for free trade mainly on the ground that it opened the floodgates of substantial gains from international division of labour which depend upon the size of the market for the products. The total advantages of international trade comprise of (i) the more direct gains to consumers who enjoy a higher level of total satisfaction partly owing to more favourable terms of trade and partly owing to more efficient use of country's abundant resources ; and (ii) the indirect gains that accrue in the form of increased international understanding, exchange of ideas and cultures which promote world peace.

The direct gains from international trade follow from the fact that international exchange of goods and services benefits a country by enabling her to specialise in the production of those goods for which she is best suited in view of her factor endowments.

In short, international trade enables countries to exploit to their mutual advantage, the substantial advantage of international division of labour and specialisation. By pushing forward specialisation and by extending the scope of division of labour, international trade lowers the prices of goods and services all over the world. Consequently, it stimulates consumption and demand which cause further specialisation and technological progress a reality. By ensuring free competition, international trade reduces the danger of monopolistic exploitation of consumers because goods are produced at the lowest per unit cost.

International trade safeguards the economic interests of all the countries. During the First World War and the inter-war period, many nations were denied the access to world markets. Consequently, the problem of procurring strategic raw materials became so acute that it was almost impossible for countries such as Japan, Germany and Italy to import raw materials from

9. *Ibid.*, p. 595.

the raw materials producing countries which were mostly the colonies of Great Britain and France. Consequently, these countries raised a great hue and cry for the fair international redistribution of the new materials.

History of India's Foreign Trade

A country's prosperity and well being is judged by the standards of living of its people, its national and per capita income, its trade, industry and agriculture among other things. Those countries which can produce enough to provide food, clothing and shelter for their people cannot be termed as poor. If some go still a step further and begin to produce and afford luxuries more than sufficient for their domestic needs, they must be termed as extremely prosperous people. India, of many centuries ago, was in such a prosperous state. The archaeological excavations carried out during the 1920s and the 1930s at Mohen-jo-daro and Harappa (both in Gujarat) clearly indicate that well before 1500 B.C. Indians were carrying on trade with far-off lands in West Asia and beyond.[10] The products made by its people not only satisfied domestic consumption but provided a surplus which could be exported to different countries of the world. In short, there was a time in Indian history when Indian products were sought after as quality goods in world markets.[11] As is acknowledged by many historians, India used to have a trade surplus with the rest of the world, because of the superiority of Indian industry. This surplus was paid to India in the form of gold. The Roman historian Pliny lamented that a river of gold was flowing from the Roman Empire to India.[12]

We may also note that most of the explorations by the Europeans in the fifteenth and sixteenth centuries were inspired by a keen desire to acquire the direct control of the lucrative

10. Narottam Shah, India's Foreign Trade : 1949-71, *Commerce*, Annual Number, 1971.
11. *Loc cit.*
12. *Loc cit.*

trade with India which was then controlled by the Arabs. The Europeans wanted to bypass the West Asian areas dominated by the hostile Arabs and Turks and establish a direct sea trade route to India The discovery of America was only a by-product of this search and at least in the earlier years, the hero of Europe was not Columbus, the discoverer of America, but Vasco-De-Gama, the discoverer of the direct sea route to India via the Cape of Good Hope.[13]

Fabulous were the profits realised by the Portuguese, the Dutch and the British in their early trade with India.[14] These profits were reckoned not in terms of tens of per cent but hundreds of per cent. Merchants and pirates from the maritime countries of north-west Europe swooped on India and neighbouring countries and snatched away the command of India's foreign trade from the Arabs.

British Period

The British used their political power and reversed the pattern of Indian trade. They pursued a dual trade policy. While British manufacturers were freely imported into India without any restriction, every effort was made to discourage exports of industrial goods from India to England and other countries.[15] Previously this trade involved heavy import of Indian textiles into England. In the peak year of 1,700, England imported 9,51,109 pieces of calices and 1,16,455 pieces of Bengal silks.[16] Such imports year after year tended to ruin the weavers of England. As a result, the export of such goods, besides, cotton textiles, and woollen goods, iron, pottery, glass and paper decreased heavily and gradually.[17] Eventually, India became an importer of these items.

It appears, during this period, India was in a way herself an important instrument for exploiting and ruining Indian

13. *Loc cit.*
14. *Loc cit*
15. Agarwal, A.N., *Op. cit.*, p. 541.
16. Agarwal, A.N., *Op. cit.*, p. 541.
17. Agarwal, A.N., *Op. cit.*, p. 541.

economy. The Indian economy was made to serve the interest of the British economy. Indian exports increasingly came to consist of agricultural raw materials and food and its imports that of manufactured goods from U.K. Even then India's trade was in surplus. But the surpluses instead of being utilised for the development of the country, were used in making payments to the British for their salaries, pensions, interest on loans, etc. Thus, India's foreign trade became an important instrument in the hands of foreign rulers for exploiting and ruining the Indian economy.

According to V.V. Bhatt, this drain amounted to two to three per cent of India's national income. It is rightly opined that had this much amount been invested for the country's development, India would have attained a growth rate almost equal to that of the U.S. and the U.K. during the 19th century.[18]

India had always maintained surplus trade. This is crystal clear in the Table 1. The surplus in the trade would have been still higher had U.K. not exploited the Indian economy. With the opening of the Suez Canal in 1869, the modern period of India's foreign trade began and that trade slowly increased from about Rs. 1,070 million by the end of 1869, to Rs. 3,759 million at the end of 1913. During the First World War, the volume of foreign trade naturally declined. Immediately after the war, due to Japanese competition, India experienced an unfavourable balance of trade. Since 1923, Indian foreign trade again showed a rising trend and reached the peak figure of export surplus of Rs. 1,024 million in 1928-29. During the Great Depression of the 1930s, there was a sharp fall in agricultural prices and India, being an exporter of agricultural raw materials, suffered much. During the years of Depression (1929-35), Indian exports considerably dwindled as a result of which the total volume of her foreign trade shrank drastically. In 1933-34, the volume of Indian foreign trade again increased mainly due to the general recovery of world trade.

18. *Ibid.*, p. 578.

Noticeable changes took place in the volume, composition and direction of foreign trade during the World War II. The trend towards liberal import policy continued from 1946 to 1948 which caused an appreciable increase in imports.[19] By 1948-49, the total volume of imports went upto Rs. 3,747 millions, while the total exports amounted to Rs. 3,306 millions. Thus the import surplus was as large as Rs. 441 millions (see Table 1).

Commodity Composition

The "big-bulge" between imports and exports was not only the result of government's liberal import policy, but was also due to the impact of partition.[20] Before partition, India used to export raw jute but after independence, raw jute completely faded out of the export picture and became an important item of import. Faced with an acute food shortage, India had to import a large amount of food grains. Thus, during the period after independence and before the commencement of our First Five Year Plan (August 1947 to March 1951), India faced a paradoxical situation (Table 2). Inspite of being a predominantly agicultural country, and appreciable amount of her foreign exchange resources was utilised for the import of such primary requirements as wheat, rice, raw-cotton and jute.

Turning to the export commodity composition of India's foreign trade (Table 3), we find that the 1939-40, *foodstuffs* and raw materials like tea, raw cotton, oil seeds, spices, tobacco, hides and skins, etc., accounted for exports worth Rs. 396.5 million. The manufactures accounted for Rs. 760 million. But even this is slightly misleading figure because out of Rs. 760 million about Rs 650 million were accounted for by jute yarn and manufactures, cotton yarn and manufactures of leather. Modern manufactures of the chemical industries or the engineering industries were conspicuous by their absence.

19. Alak Ghosh, *Indian Economy : Its Nature and Problems*, Calcutta ; The World Press Pvt. Ltd., 1971), p. 608.

20. *Loc. cit.*

TABLE 1

India's Foreign Trade 1834-35 to 1948-49

Years	Imports	Exports	Balance of trade
Annual average			
1834-35 – 1838-39	73.40	113.20	39.80
1839-40 — 1843-44	104.40	142.40	38.00
1844-45 – 1848-49	122.00	169.80	47.60
1849-54	158.60	200.20	41.60
1855-59	268.40	258-40	10.00
1860-64	410.60	431-80	21.20
1865-69	493.20	576.80	83.60
1870-74	413.00	579.40	165.40
1875-79	482 40	631.20	168.80
1880-84	618.00	804.00	186.00
1884-85 – 1888-89	615.10	886.40	271.30
1889-90 – 1893-94	707.80	1,049.90	342.10
1894-95 — 1898-99	736.70	1,075.30	338.60
1899-1900 – 1903-4	846.80	1,249.20	402.40
1904-05 — 1908-9	1,198.50	1,654.40	455.90
1909-10 – 1913-14	1,516.70	2,242.30	725.60
1914-15 — 1918-19	1,592.50	2,258.30	665.80
1919-20 – 1923-24	2,670.50	3,063.80	393.80
1924-25 – 1928-29	2,510.20	3,535.10	1,024.90
1929-30 — 1933-34	1,611.40	1,986 00	374.60
1934-35 – 1938-39	1,516.80	1,724.40	207.60
1939-40 – 1943-44	1,505.60	2,152.50	646 90
1944-45 – 1948-49	3,747.70	3,306.00	441.70

Note : (1) Exports include re-exports.

(2) Data upto 1946-47 pertains to undivided India.

Source : Ministry of Commerce and Industry. *Review of Trade of India* (Various issues) Govt. of India Publication, New Delhi.

India's imports before independence and partition of the country were very much different from what they are now.[21] For instance, India did not import so much of food-grains from foreign countries before partition, though she was deficient in rice even then. It was partition (which gave some of our cotton, wheat producing areas to Pakistan) which made India dependent on foreign countries for food. Secondly, India exported raw cotton and raw jute before partition of the country but after independence it has become a heavy importer of these raw materials. Thirdly, India did not import so much of raw materials and machinery as there was not much of industrialisation. Imports consisted mainly of manufactured articles.

Direction of Trade

The direction of trade also reveals the same colonial character. The trading partners of India before independence were many and extended beyond neighbouring countries, including West Asia. But many such countries as were outside the British empire, were gradually eliminated from the trade-partnership with India. As a result, a major part of India's trade came to be transacted with countries of the British Empire.[22] Thus on the eve of the World War II, out of the total exports of Rs. 1,792 million, as much as Rs. 947 million worth of exports or more than half were sent to countries of the British Empire. Britain a lone accounted for Rs. 513 million, that is about one-third of the total exports of India (Table 4). The same pattern was seen in respect of the imports also. Of the total imports of Rs. 1,630 million (Table 5), Rs. 920 million worth of imports came from the countries of the British Empire. Britain alone supplied Rs. 492 million worth of goods or about one third of the total imports. Other major trading partners of India were Japan, Germany and the U.S. The trade with the Soviet Union, China or other neighbouring countries was negligible.

21. Sundaram, K.P.M., *Indian Economy*, (New Delhi : S. Chand & Co., 1980), p. 379.

22. Agarwal, A.N., *Op. cit.*, p. 577.

TABLE 2

Commodity Composition of India's Imports : 1935-36 to 1951-52

	1935-36	1939-40	1947-48	1951-52	Percentage to total in	
					1935-36	1951-52
I. Food, drink and tobacco	132.2	352.9	554.0	2,620.5	9.9	30.3
1. Grains, pulses and flour	16.2	218.0	314.2	2,281.2	1.2	26.4
2. Provisions and oilmans stores	32.2	26.3	65.2	108.1	2.3	1.3
3. Fruits and vegetables	13.3	12.1	39.1	99.8	1.0	1.1
4. Spices	16.1	25.4	36.4	83.0	1.2	1.0
5. Tobacco	6.1	11.7	45.8	19.9	0.5	0.2
6. Liquors	19.8	17.4	21.0	16.8	1.5	0.2
7. Others	29.5	41.7	32.3	11.7	2.2	0.1

(*Contd.*)