Chapter II

A BRIEF ANALYSIS OF INDIA'S TRADE PERFORMANCE IN PRE-LIBERALISATION ERA

2.1 INTRODUCTION

Before the British rule in India, its foreign trade was in a prosperous state. In terms of volume of trade and the items of goods entering into trading list, it was better placed compared to other countries of similar status. India's image in the world as a core trade partner that India maintained for centuries had been shattered during the British rule. At the time of independence, India was left with massive poverty, rampant unemployment and unfavourable trade balance. To overcome those unfortunate conditions economic planning was adopted in the beginning of 1950s. Since first five year plan tried to improve its adverse balance of payment situations. This part of the dissertation discusses India's trade performance during the independent period and the panning period up to 1990, i.e. just before the advent of new economic policy introduced in 1991 July. Government trade policies during the pre independent period (starting from 1757) and the post independent period, especially up to 1990 have been elaborately analysed. A review of India's trade pattern during the period under study has been made extensively.

2.2 GOVERNMENT POLICY OF TRADE BEFORE INDEPENDENCE

In order to meet the unilateral transfer of payments to Britain in the form of salaries and pensions of British officer (civil and military), interest on sterling loans and dividends on British capital, which was invested in India, before the Second World War, India was forced to export more and import less. The nature of India's international trade was changed during the Second World War. India began to export large quantities of goods to Britain but in return Britain did not permit her to export to India adequate quantities of goods due to engagement of Britain in War. The feature of India's foreign trade was to export more and import less helped the growth of a favourable balance of trade. Britain was the main customer of Indian goods and the trade balance with Britain was so favourable that even after paying off the sterling debt, India was able to build huge sterling balance amounting Rs.1733 crore in April 1946 [Datt and Sundharam (2005)], In India the growth of consumer goods industries was facilitated as War afforded a natural shed of protection. A vacuum was also created in the Middle East and Far East countries and as a result India was able to develop market in these countries for her manufactures and import raw materials, which were requited to her growing consumer goods industries.

Trade Policy after Independence

The policy of more than four decades of planning was characterised by -

(1) The passive export regime of the 1950s (especially the period of 1956-62)

(2) Export subsidisation regime (1962-66).

(3) An abortive attempt at liberalisation (1966-68).

(4) More restrictive regime (1968-75).

(5) The subsequent regime with selective relaxation of controls (1975-85).

(6) More systematic approach toward liberalisation (1985-91)

(7) The paradigm shift and adoption of a comprehensive structural adjustment programme with more liberalised trade regime (July 1991, onwards)

These trade regimes are grouped into three broad phases, namely,

(a) The pre-liberalisation phase (1950-1965)

(b) The first liberalisation and the transition phase (1966-1990)

(c) The second liberalisation and the recovery phase (1991 onwards).

The 1950s sluggish export performance attracted considerable debate and it was explained in terms of "export pessimism" thesis and certain constraints. Prebisch (1959) and Singer (1950) propounded the export pessimism thesis, with some analogous explanation in Nurkse (1954). They provide the theoretical and generalised argument in favour of developing countries poor performance of exports. The Prebisch-Singer thesis states that steady and long run deterioration of the terms of trade occurs due to low income and price elasticities of demand for primary commodities. As a result of low elasticity of demand, the increased supplies lead to a reduction in the prices of primary commodities relative to the prices of manufactured goods imported by the developing countries. India exported mainly primary commodities and imported manufactured goods, which was required by the development strategy of second plan.

The "export pessimism" thesis was theoretically found but practically unfound with quite substantial growth in world trade. According to Bhagwati (1988, 1990) the growth of world trade was not rapid during the 1950s and 1960s; it was even faster than that of world income. During 1953-63, the world trade grew at an annual average rate of 6.5 percent while the world output increased at the rate 4.3 percent per annum.

In the late 1950s or early 1960s the Prebisch–Singer (and Nurkse) thesis came into vogue and accordingly it was used as the course of post-facto justification for the failure of India's exports to complete in the world market [Krueger (1961) and Cairn Cross (1962) are the leading critics of export pessimist thesis]. According to Bhagwati and Desai (1970) export pessimism was an export rationalisation of inward looking development strategy of the second plan. Inward looking development strategy is also known as import-substitution development strategies. These policies seek to promote rapid industrialisation and therefore development by erecting high barriers to foreign goods to encourage local production. Ideally, this approach to development applies the infant industry argument for protection to one or more targeted industries in developing countries. During the 1950s and 1960s and also including the early 1970s many countries switched to outward oriented trade policy framework so as to exploit the growing trade opportunities. These policies involve government targeting of sector in which the country has potential comparative advantage. Thus, if a country is well endowed with low-skilled labour, the government would encourage the development of labour intensive industries in the hope of promoting exports of these products. This type of strategy included government policies such as keeping relatively open markets so that internal prices reflect world prices, marinating an undervalued exchange rate so that export prices remain competitive in world market, and imposing only minimal government interference on factor markets so that wages and rents reflect true scarcity. However, India persisted with its import substitution policies and missed on the growing trade opportunities.

During 1950s, the poor export performance was mainly due to the lack of good quality product, lack of trade policy framework conducive to trade and the domestic demands pressures (Singh 1964, Bhagwati and Desai 1970). Singh's (1964) analysis was further extended by Bhagwati and Desai (1970) and concluded that the stagnation of export earnings during the 1950s (except for a few items like iron ore) is to be largely attributed to domestic policies and as a result India's share in traditional exports were falling which led to an inadequate expansion of new products in the absence of any export promotion measures. Moreover, the self-sufficiency measure of trade policy laid an increasing and single sided stress on import substitution rather than export promotion during the 1950s.

The evidence from statistical data of domestic policy bias in favour of production of the domestic rather than the export market which is provided by the estimate of purchasing power parity effective exchange rules (PPP-EER) for imports and exports, as constructed by Bhagwati and Srinivasan (1975) for 1950 to 1971, Wolf (1982) for 1971-72 to 1979-80 and Balusubramanyam and Basu (1990) for 1981-86. The excess of PPP-EER for imports over exports indicates the excess of number of rupees earned by producing import substitutes over that earned by producing export goods. During the subsequent period of 1950s ratio of EER for exports was more than unity, which indicate a policy induced anti export bias. This provides a statistical evidence for policy discrimination against exports and in favour of production for domestic market anti export bias.

The deterioration in trade balance and balance of payments give rise to import intensive industrialisation with stagnant exports in 1950s, which led to a policy shift in favour of export subsidisation and accordingly the institution of additional export promotion scheme so as to redress the anti-export policy bias during the subsequent period of the 1960s.

First Liberalisation and the Transition Phase (1966-90)

The second half of the 1960s witnessed still more significant policy development market by the devaluation of Rupee on June 6, 1966 (by 57.6 percent from Rupees 4.76 to 7.50 percent US dollars.) Various policy reforms namely the removal of a number of cash subsidy schemes for exports, abolition of import entitlement schemes and the reduction in import duties was accompanied with the devaluation so as to streamline the existing complex network of export incentive. Besides the countervailing export duties were imposed on a number of traditional export goods in which India was deemed to have a monopoly power with a view to offset the effects of devaluation on traditional exports of low price elasticities of demand in the international market. The attempt to reforms and liberalise the economic system was first introduced by the devaluation package of June 1966.

The effects of rupee devaluation not totally but partially offset by impositions of countervailing duties on import entitlement and other subsides on various non-traditional exports. The net effective devaluation was estimated by Bhagwati and Srinivasan (1975) and argued, "*The total net devaluation on the (visible) trade account therefore may be approximated as amounting to 21.6 for export and 42.3 for imports. For the entire current account (including invisible) the estimates are: 22.3 percent for receipts and 44.8 percent for payment*" (Bhagwati and Srinivasan 1975).

The commodity wise account of the estimates of net devaluation for exports was provided by Nayyar (1976) and finds that the de-facto devaluation for most traditional exports are reduced due to imposition of export duties to a range of 15 percent to 25 percent as against the de-jure devaluation of 57.6 percent. The removal of export subsidies causes the contraction in the effects of gross devaluation and imposition of import tariff in-built in the reform package was further accentuated by the rising domestic inflation which gave rise to two consecutive droughts (1965, 1960). As a result of droughts there was recession in agro based industries due to shortage of raw materials and resulted in a price rise with adverse effects on traditional exports. The external sectors were under substantial pressure of suspension and aid (1965). As a result of severe shortage of foreign exchange there was a rise in premium on import entitlements (abolished in 1966) and in many cases it reached as high as 100 percent.

The liberalisation reforms of 1966 were short lived and could not sustain due to these circumstantial setbacks along with the reduced net effective devaluation. The removal of export subsidies and the reduction of import tariff (duties) could not be resisted and were soon reintroduced in a formulated manner along with the subsequent addition of some more schemes which gave emphasis on the promotion of non traditional exports. These schemes included the (i) Cash assistance schemes (August, 1966), (ii) Import replenishment schemes (August, 1966), (iii) Duty drawback schemes and (iv) Preferential import licensing scheme (April 1468). To measure the degree of effective export incentives Bhagwati and Srinivasan (1975) estimate the range of effective equivalent export subsides resulting from various schemes. These estimates indicate that devaluation of the export incentives averaged around 50 percent to 90 percent on an advalorem basis for non traditional export groups including engineering goods, chemicals, plastic sports goods, paper products and processed food.

During 1960s all these incentive schemes helped to diversify the export structure in favour of non-traditional items and encouraged the growth of real exports of break way from the stagnation of the 1950s. In the 1960s the real exports recorded 3.3 percent growth rate. In the commodity-wise analysis of India's export in the 1960s, Nayyar (1976) finds that the exports of engineering goods grew very rapidly. India's performance was quite well, compared with other developing countries, for a period of nearly 5 to 10 years many of the engineering firms were characterised by foreign collaboration agreements with restrictive clauses for export. Unfettered exports could have better performance in the absence of these collaboration agreements. Frankena (1972) finds that discrimination against exports by foreign collaborators was a significant export barrier by analysing various restrictions on exports by foreign investors.

The traditional exports are largely ignored by substitution schemes and focused on the non-traditional exports and within the non-traditional export group, mainly on a more narrow range of engineering good, plastic, chemicals, sports goods, paper products and processed foods. According to Nayyar (1976) on a small range of non-traditional manufacture exports, subsidisation was concentrated, so that new and dynamic exports were not developed. The benefits of various subsidisation in terms of departure from stagnation in the 1950s were quite disappropriate to the heavy cost which involved the diversification of domestic resources with heavy opportunity cost.

Krueger (1970) estimated and analysed the domestic resource cost of various subsidisation programmes for thirty four firms, Staelin (1974) for thirty- two sectors and Bhagwati and Srinivasan (1975) for sixty- five sectors. The general conclusion of their studies is that the subsidisation and export incentives schemes involved substantial costs in terms of use of domestic resources. Bhagwati and Srinivasan (1975) argued that export promotion policies were not efficiently designed and implemented with little economic rationale. The cost of export incentives and subsidies paid to the exporters was not only high, but was also quite disproportionate to their foreign exchange earnings. The rate of cash subsidies paid to the exporters as a percentage of f.o.b value of the exports. These were characterised by the little relation to the estimated rates required to bridge the gap between export prices and domestic costs. The domestic costs were less than the f.o.b prices and the subsidies were provided on such goods in many cases.

In the late 1970s there arose new thinking and debate on the need for experimentation with market forces and change in inward-oriented policy regime. The Government of India instituted three consecutive committees to review and suggest measures to reform the existing trade policy frame work. These committees included the Alexander Committee (1978), the Dagli committee (1979) and the Tandon committee (1980).

The recommendation of Alexander committee were: (i) modification in the methods of computing cash assistance, (ii) amalgamation of cash assistance with duty drawback for the products with the combined rule was less than 25 percent and (iii) the simplification of import licensing system as well as the reduction in the role of licensing system. The removal of anomalies embedded in the administration of subsidies was recommended by Dagli committee (1979). Tandon committee (1980) gave emphasis of the efficiency aspect of exports.

With the simplification of the licensing system and relaxation of some quantitative controls on imports the efforts for domestic deregulation continued in a slow but steady manner. Many import items of intermediate goods required for domestic production were shifted from restricted list to the easily importable Open General License (OGL) list. Some of the forward steps toward market oriented economy were initiated. Higher tariff rates were associated with some of the items which were shifted from restricted to OGL list. To examine the trade policy framework, two more consecutive committees namely the Hussian committee (1984) and the Narasimham Committee (1985) were instituted by the Government of India. A phased reduction of effective protection and harmonisation between trade and other economic policies was recommended by Hussian Committee (1984) where as Narasimham committee recommended not encouraging that import substitution activities which do not save foreign exchange.

2.3 A REVIEW OF INDIA'S TRADE DURING PRE AND POST INDEPENDENT INDIA UP TO 1990s.

2.3.1 FOREIGN TRADE DURING 1757-1857

Long before 1500 B.C. Indians were carrying out business in fabrics (woven fabrics), metal artisans work, stones etc. with West Asia and beyond. This statement was established by the archeological excavations during 1920-30 at Mahenjodaro and Harappa as well as at Rangpur in Gujarat.

It was still after the Europeans came to India in recent centuries. In the 15^{th} and 16^{th} centuries, most of the explorations were inspired by a severe desire to acquire direct control of the profitable trade with India which was then controlled by the Arabs. Vasco da gama discovered the sea-route to India via Cape of Good Hope. The Dutch, the Portuguese and the British were earned profit in their early trade with India.

The chief article of export in the whole world including England was textiles.15,000 pieces of Calicoes were annually exported from Hoogly (India) to England between 1658-1664 which rose to 91,000 pieces between 1673-78.Alternatively, England imported 0.95 million of Calicos and 0.11 pieces of Bengal Silk from India in the year 1700. Besides, India exported other articles, which includes indigo, cotton yarn, opium, marble, precious stones, iron and steel, and rice. The imported items mainly consisted of articles of luxury meant for the rich.

The most part of India came under British control in the later part of 18th century. At the same time, Industrial Revolution takes place in England. British productive powers stimulated with great speed with the new method of manufacture and tremendous development in transport, mining and banking sector. As a result, India returns from an enterprising commercial nation to a docile country that gently supplies new materials to her rulers and readily purchasing articles, which she herself could have manufactured. As a result, India deteriorated and England improved from an agricultural country to industrial and commercial country. These two opposite trends are rapid and highly connected. British control and prosperity causes India's deterioration.

According to Palme Dutt, "*The value of goods exported from India fell from Rs. 1.30 crore to below Rs.10 lakh- a decline of 12/13 of the trade while the value of English piece goods imported into India rose by 16 times from Rs.2.6 lakh to Rs.40 lakh. By 1950, India which had for centuries, exported cotton goods to the world was importing one forth of all British exports- the same process could be traced in respect of silk goods, woolen goods, iron, pottery, glass and paper.*"

At that time, the value of trade was not large. It was just Rs.2.5 crore in 1813 and even so as 1834, directly after the close of the company's operations, it amounted to not more than Rs.14.3 crore. In 1857, it was Rs.54.2 crore.

The composition of foreign trade was totally changed during this period. India's chief exports were indigo, salt-petre and manufactures of fine quality, cotton and silk piece goods at the beginning of the 19th century. India's main export goods were raw-cotton, raw silk, raw wools, grains, sugar, indigo and jute and her main import items were cotton, silk, and woolen goods, machinery and metal manufactures.

Because of her political domination of India and being the great carrier of the world, the U.K. placed a monopoly of all the European trade with India. Half of the entire trade of India was with Great Britain. The other countries were China, Ceylon, Persia and other Asiatic regions.

At that time exports always exceeded imports except for the year 1856-67 due to Indian Mutiny, India had an adverse balance of trade. The export surplus was Rs.2 crore in 1834-35, which increased to Rs. 5.5 crore in 1855.

2.3.2 FOREIGN TRADE DURING 1857-1914

The most striking feature of this period was the steady growth both in volume and value of trade. There was not uniform expansion of trade. At the time of American Civil War, the exports of raw cotton were greatly increased. Due to frequent famines at different parts of India the trade development was comparatively slow between 1873 and the end of the century. There was also violent fluctuation in the exchange value of the rupee. Further there was more rapid expansion during the first 14 years of the 20th century when the value of foreign trade more than doubled from Rs.213.27 crore in 1900 to Rs.440.31 crore in 1913-1914.

At that time, with the decline of the indigenous industries, India was obliged to imports consumer goods. There were also the imports of capital for construction of railways, irrigation works and private investments in Plantation, Commerce and Industrial Enterprises like jute manufacture. The government had to pay Home Charge' to England. As a result, it was necessary to create surplus to agricultural product, which was the only source for earning foreign exchange. So, at that time, the main exports goods were agricultural commodities like raw materials and foodstuffs. Cotton textile once which was the largest export items of India's export now turned the largest share of India's imports and their value having risen from Rs.9.6 crore in 1859-60 to about Rs.49 crore for the quinquennium 1909-10 to 1913-1914.

Exports indicated a general up-trend despite the yearly fluctuations depending upon the foreign demand for the Indian agricultural produce and climatic condition in the country. During 1864-65, there was abnormal demand for raw cotton in Lancashire. As a result, speculations increase in case of export of raw cotton. But at the end of the Civil War these exports fell off to a low level and recovered again as a result of discovery of new market on the continent and Japan. After the Crimean War, the exports of raw jute began on a large scale but cut off due to supply of Russian flux and hemp. Exports of indigo and opium suffered a severe decline.

The export of food - grains rose from Rs 3.6 crore to Rs.22.2 crore during this period. Total quantity of food-grains exported from the country increased from a little under 0.65 millions tons in 1967-68 to an annual average of 4.4 million tons in the quinqunnium 1909-1910 to 1913-1914.

The bulk of India's foreign trade consisted of exports to or imports from England, the share of other countries were negligible. In 1875-76 the U.K.'s share in India's foreign trade was 62 percent, which was continuously declined thereafter, and in 1913-14 it was 41 percent. If we take imports and exports separately, we find that in 1875-76, more than 83 percent of the total imports came from the U.K., which was declined to 64.2 percent in 1913-14. In exports, the share of the U.K declined from 48 percent in1875-76 to 23.5 in 1913-14.

A feature of India's trade during this period was that the increase in exports was more marked than the increase in imports and that with expanding trade, the gap between exports and imports also kept widening. It was only Rs.20 crore in 1865 but rose to Rs.57 crore by 1913-14.

2.3.3 FOREIGN TRADE DURING 1914-1919

Due to First World War, India's foreign trade was adversely affected. Calculated at 1913-14 prices, the overall average value of India's foreign trade was reduced to 60 percent by 1918. Both the exports and imports were adversely affected but the decline in imports was more serious. Decline of exports was fluctuating. In the early years of the war it suffered but in 1916-17 it recovered and again decline in the last two years of the war. It is evident from fact that the value of imports calculated in 1913-14prices declined from Rs.183.25 crore in 1913-14 to Rs. 63 crore in 1918-19 while exports came down from Rs.244.20 crore to Rs.159.55 crore in the same period. This is shown in Table 2.1 and Figure 1.

Table 2.1 India's Foreign Trade in Merchandise Excluding Import and Export Of Bullion:

Year	Imports At 1913-14 prices (Rs. crore)	Exports At 1913-14 prices (Rs. crore)	Balance of Trade (Rs. crore)
1913-14	183.25	244.2	60.95
1914-15	137.23	194.95	57.72
1915-16	104.75	186.95	82.2
1916-17	88.02	202.65	114.63
1917-18	71.28	186.75	115.47
1918-19	63.07	159.55	96.48

Source: Review of the trade of India 1927-28.

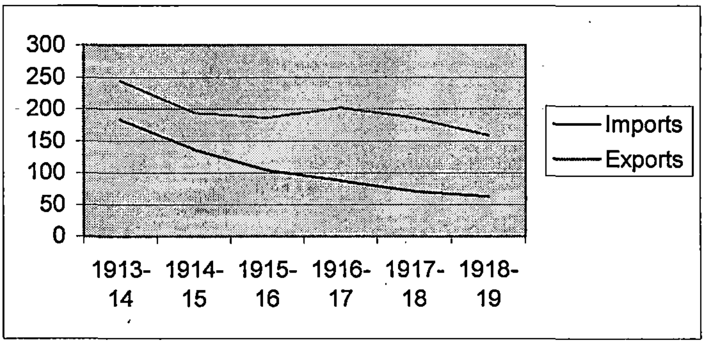

Fig. 1: India's Balance of Trade during 1913-14 to 1918-19

During the war, India's chief exports were cotton, jute, oil seeds, hides and skins, jute and cotton manufactures, food grains, tea, tobacco, and ammunition and imports were cotton, raw twist yarn and piece goods, sugar, petroleum, chemicals and drugs, silk-raw and manufactured, Iron and steel, machinery, railway plant and hardware. Group wise, the percentage share of manufactured articles in our imports decline from 73 percent before the war and their share of exports increased from 23 percent to 31 percent. Share of raw material fell from 46 percent to 38 percent of export. The percentage share of various commodities in exports and imports are shown in Table 2.2.

Table 2.2: Percentage Share of Various Commodities in Exports and Imports.

Commodity	Imports		Exports	
	1909-10 to 1913-14	1914-15 to 1918-19	1909-10 to 1913-14	1914-15 to 1918-19
1. Food, Drink and Tobacco	14	16	28	27
2. Raw materials	6	5	46	38
3. Articles, wholly or mainly manufactured.	73	68	23	31

Source: Calculated on the basis of data given in Fiscal Commission 1921-22 Report, p: 18.

Due to artificial canalisation of foreign trade of India, the share of the U.K. increased from 53 percent to 57 percent during the war (Merchandise only). Due to pre occupation with the war effort, the share of the U.K. in India's imports slightly declined but she still retained our principal supplier- supplying more than 56.5 percent of our imports. The share of exports increased from 25.1 percent to 31 percent during the same period. The next two countries were the U.S.A. and Japan. The share of the U.S.A increased from 6 percent to 10 percent while the share of Japan rose from 5.5 percent before to 11 percent during the war.

Table 2.3: Percentage Share of the Principal Countries in the Total Trade in Merchandise only

Countries	Average of five years 1909-10 to 1913-1914			Average of five years 1913-14 to 1918-19		
	Imports	Exports including re- exports	Total	Imports	Exports including re- exports	Total
1. The British Empire including the U.K.	69.8	41.9	52.9	65.4	51.7	57.1
2. Japan	2.5	7.5	5.5	10.4	11.2	10.9
3. U.S.A	3.1	7.5	5.8	7.0	11.9	9.9
4. Java	6.4	1.3	3.3	7.8	1.1	3.8
5. France	1.5	6.6	4.6	1.8	4.5	3.2
6. Germany	6.4	10.0	8.6	0.7	0.9	0.8
7. Italy	1.6	3.2	2.3	1.2	3.9	2.8
8. Austria - Hungary	2.2	3.5	2.9	0.2	0.4	0.3

Source: Indian Fiscal Commission, 1921-22, Report, p.212

There was a favorable balance of trade as a result of persistence demand on the part of the Allies for goods of national importance and with the decline of imports of sugar, salt, kerosene and 101 necessary commodities. During the pre war years merchandise exports exceeded imports, on an average, by 51 percent whereas, the exceeded, on an average, by only 52 percent during the war. Thus there was only marginal favorable turn except for the years 1916-18 when the export surplus was substantial.

Table 2.4: India's Balance of Trade in Merchandise Excluding Bullion

Year	**Amount**
1913-14	+57.70 crore
1914-15	+37.24 crore
1915-16	+61.31 crore
1916-17	+87.11 crore
1917-18	+80.55 crore
1918-19	+86.61 crore
Average of War Years	+70.50 crore

Source: Review of the Trade of India, 1927-28, p-1

2.3.4 FOREIGN TRADE DURING THE INTER-WAR PERIOD

At the end of the war, there was a gradual removal of many wartime restrictions on exports and there was also normal trade relation with the enemy countries. In western countries there was brisk demand for Indian Goods. India's foreign trade value rises from Rs.377.15 crore for the quinqunnium 1914-15 to 1918-19 to Rs. 566.68 crore in 1919-20 and Rs. 595 crore in 1920-21, which led to a boom in India's foreign trade. But this was a temporary phase and soon the tided turned. That is prices began to fall, exports fell and exchange landed downward. After 1922-23, there was a gradual recovery especially on the export side, because of the progressive stabilisation of the European currencies and a general improvement in their credit position. Both the value and volume of export reach their peak in 1924-25 as a result of plentiful harvest and high export prices. Due to fall in world prices of agricultural commodities our value of export began to fall after 1924-25. As a result of Great Depression, India's imports fell from Rs. 240 crore in the quinqunnium 1925-26 to 1929-30 to Rs.134 crore in 1930-31 to 1934-35. Exports declined from Rs.327 crore to Rs.161 crore during the same period.

At the end of 1932 the worst phase of the Depression came and at the beginning of 1933 there was a considerable revival of business activity. The inter war period was one of great stress and strain. Other countries adopted suitable commercial and currency policies to protect them. India's political status was so that it first protect the 'mother' country's (i.e. England) interest. As a result, India's share in world exports declined from 3.7 in 1928 to 2.9 in 1938.

Table 2.5: Value of India's Imports and Exports, 1914-15 to 1939-40.

Quinqunnial Average	Value in crore	
Year	Import	Export
1914-15 to 1918-19	159.25	217.89
1920-21 to 1924-25	261.78	300.81
1925-26 to 1929-30	240.29	327.27
1930-31 to 1934-35	134.28	161.33
1935-36 to1939-40	150.21	180.86

Source : Indian Fiscal Commission, 1949-50 p-41

According to Ganguly, "*Experience shows that when other countries in a relatively early stage of economic development make industrial progress, imports of raw materials and partly manufactured goods increase while exports of crude materials and foodstuffs decrease in relative importance. At the same time, there is a decrease in the relative significance of manufactured imports and an increase in the relative importance of manufactured exports. When industrial development is stimulated by the tariff protection, such a shift in the composition of the import trade becomes more pronounced.*" These tendencies were broadly reflected in the composition of the inter war period of trade.

The overall share of consumer goods in our imports declined from 54 percent in 1925-26 to 33 percent in 1938-39 but the overall share of raw materials increased from 15.6 percent to 28.4 percent and share of capital goods from 23.2 percent to 26 percent. Exports were consisted of raw materials, which belonged half of the share, and the rest belonged in about equal portions to the food and manufactures groups. There were appreciable changes in the shares of the three groups of exports. In the food groups main items were food grains, pulses and flour. In the raw materials group, raw cotton was the largest item. Cotton and jute were two most important exports in the category of manufactures. Other Important items were leather and dressed hides and skins. Due to increase in competition and rise of substitute, exports of raw and manufactured silk, cotton twist and yarn, and Indigo suffered a decline.

In the direction of trade, there was a steady change in the inter war period. The share of common wealth in imports fell from nearly 23 percent to 54 percent but other countries rose from 35 percent to 45 percent during 1924-25 to 1935-40. Even during the depression, Japan increased its share; Germany also made an equal gain. But the United States of America (U.S.A.), which had earlier increased its share from 5.7 percent to 9.3 percent, suffered a decline. Java lost heavily in sugar.

In the inter war period there was also significant changes in India's balance of trade due to fluctuations in exports receipts. In 1924-25, India's exports were Rs.400 crore. But during 1930-31 to 1932-33, the quantum index of exports heaving declined and their value came down to Rs.132 crore in 1932-33. In 1936-37, there was a recovery to Rs. 202 crore, was followed by a heavy decline due to recession. The size of the export surplus was thus varying but from 1928-29 onward, it started declining till it touched the rock bottom of a bare of Rs. 3 crore in 1932-33 and Rs. 5 cores in 1935-36.

Table 2.6: Balance of Trade

Period	Amount of Surplus (in rupees)
1914-15 to1918-19	+58.64 crore
1920-21 to 1924-25	+39.03 crore
1925-26 to 1929-30	+88.98 crore
1930-31 to 1934 to 35	+27.05 crore
1935-36 to 1939-40	+30.65 crore

Source: Indian Fiscal Commission, 1949-50,p-41.

2.3.5 INDIA'S FOREIGN TRADE DURING THE WORLD WAR II

With the outbreak of the war in September 1939 and its extension in scope and intensity, a number of factors affecting the volume, value, composition and direction of India's foreign trade were brought into play.

Due to war there was a decline in the volume of trade. On account of the pre occupation of the exporting countries with the war effort, restricting of shipping space, increasing incidence of freight and war-risk insurance and the cutting off of the large supplies of imported goods from some of the enemy countries, the machinery import controls the volume of imports was reduced to the minimum. Due to the loss of the continental markets and an acute shortage of shipping space of the quantum of exports also declined and these hampered export even to the U.K. Imposition of export restriction in Indian and the loss of Burma and Far Eastern market, the volume of exports accounted to decline. In 1944-45 the quantum of exports stood at 53 percent of that in 1938-39.The quantum of imports was reduced to only 40 percent in 1943-48 but increased to 71 percent in 1944-45 as a result of heavy imports in the year. It is worthwhile noting that the quantum of imports fell much more rapidly than the quantum of export during the whole period of the war excepting 1944-45.

The value of foreign trade increased during the whole period of the war. The total value of merchandise trade rose from Rs. 385 crore to Rs. 459 crore. On the whole, the recorded value of imports and exports in 1944-45 showed an increase of 34 percent and 35 percent respectively over that of 1938-39.

There were no significant changes in the composition of trade. On the export side the proportion of raw materials declines and the proportion of manufactured articles rose. On the import side, the proportion of raw materials increased and manufactured articles declined. Exports of manufactures increased from 30 percent to 47 percent and raw materials declined from 45 percent to 28 percent. In case of imports the trend was opposite. The share of manufactures declined from 61 percent to 41 percent but raw materials increased from 22 percent to 48 percent in 1945-46.

Throughout the period commodity wise exports of tea and jute manufactures continued to increase. In the fore war period exports of raw jute and oil seeds were showing increase but due to the German occupation of the central European countries where India had a good market declined substantially. Exports of short stable cotton declined because of stoppage of supplies to Japan. Exports of cotton cloth and yarn increased due to the withdrawal of British and Japanese supplies from Middle East countries and Africa. As a result of protection, there was a continuous decline in the imports of cotton yarn and manufactures, sugar, cement, matches and other consumer goods. On the other hand, imports of mineral oil, chemicals, dyes and colour increased throughout the war period.

Table 2.7: Changes in Composition, Percent Changes.

Import	**1938-39**	**1945-46**
1. Food, Drink and Tobacco	15	9
2. Raw- materials	22	48
3. Manufactured, wholly or mainly	61	41
4. Postal articles not specified	2	2

Exports	**1938-39**	**1945-46**
1. Food, Drink and Tobacco	14	23
2. Raw- materials	45	28
3. Manufactured, wholly or mainly	30	47
4. Postal articles not specified	1	2

Source: Evidence of the National Steamship Owners Association, Bombay, before the Fiscal Commission, 1949-50, vol. III.

The direction of trade also changed in the wartime. Several countries fell, one after another, under German occupation and were lost as market to India. As a result of relative decline in long distance traffic, acute shipping shortage and insecurity of many sea-lanes and also a corresponding improvement in our trade relation with nearby counties like Egypt, Iran, Saudi Arabia, Iraq, Kenya, Australia etc. their share in our import improved from 12.5 percent in 1938-39 to 45 percent in 1944-45 and in our export from 8 percent to 20 percent. The share of the U.S. also increased from 8.4 percent to 21.2 percent in exports and from 6.4 percent to 25.7 percent in imports. Although England's share both in import and export declined, yet the overall share of British Empire remained unaltered by the wartime trade. India's exports to their area increased from 50.4 percent in 1935-40 to 64.3 percent in 1940-45 and imports fell from 53.8 percent to 51.5 percent during the same time.

Table 2.8: Direction of Trade, Percentage Share.

Year	Exports to Commonwealth	Other Countries	Imports from Commonwealth	Other Countries
1935-40	50.4	49.6	53.8	46.2
1940-45	64.3	35.7	51.5	48.5

Source: Fiscal Commission Report, 1949-50, vol. I, p: 42

India's balance of trade was traditionally favourable, war only made it more so. England, engaged as it was in a life and death struggle with Germany, was no more in a position to meet India's needs. And so were the Allied countries. Their exports to India declined. The Allied powers needed almost everything that India could produce and export to help their war effort. So, at the end of the war, our trade balance began to grow. India had not only liquidated her external debt amounting $ 320 million but also accumulated a large sterling balance worth Rs.1733 crore by April 1946.

2.3.6 FOREIGN TRADE DURING 1951-1966:

The launching of the first five year plan brought in its wake, important change both in foreign trade and trade policy. Foreign trade was no longer a conduit pipe for ciphoning the surplus from India to Britain; rather it served as a pipeline for the inflow of capital resources from abroad and reflected the impact of development plants on the economic structure of the country. That is why it shows important changes in regard to its volume, value, composition, direction and balance.

The first (1st) significant change was with regard to the volume of trade. During 1950-51 to 1965-66 the quantum index of import rose from 100 to 202 and exports increased from 100 to 118. This increase in the volume of trade was a reflection of the tempo of the economic and industrial development in the country.

The value of trade during this period increased. India's total visible trade amounted to Rs. 125 crore in 1950-51 but in 1965-66 it rose to Rs. 2214.17 crore, i.e. an amount increase of about 77 percent. In absolute term this increase is impressive but in relative term, it was insignificant. India's share in world trade came to 2.2 percent in 1951 but in 1966 it declined to a mere 0.8 percent. The expansion in India's trade was disappointing. In 1951-52, imports, as a percent of Gross National Product (GNP), stood at 13.7 but declined to 9.2 in 1965-66 while exports fell from 11 to 5.3 during the same period. Table 2.9 and Figure 2 show the foreign trade of India during 1950-51, 1955-56, 1960-61 and 1965-66.

Table 2.9: Foreign Trade of India.

Year	Imports	Exports including re- exports	Total value of Foreign Trade	Balance of trade
1950-51	650.21	600.64	1250.85	-49.57
1955-56	678.84	544.32	1275.16	-82.52
1960-61	1139.69	660.22	1799.91	-479.47
1965-66	1408.53	805.64	2214.17	-602.89

Source: India, 1970 p: 366.

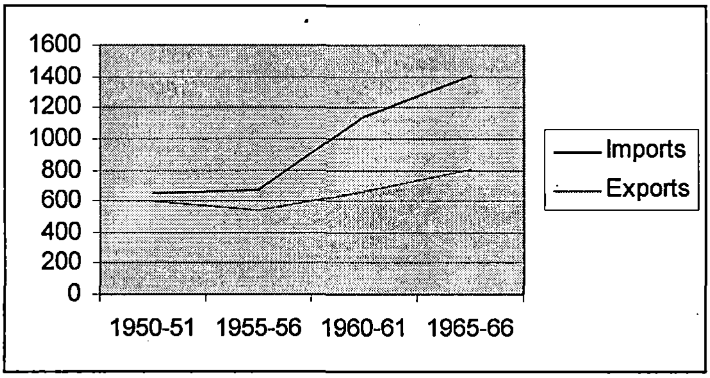

Fig. 2: India's Balance of Trade during 1950-51 to 1965-66

As was to be expected, the plans led to the stepping up of the total foreign trade of the country, imports increasing substantially but both imports and exports undergoing important changes in composition.

Table 2:10 Structure of Imports

Commodity	As a percentage of the total		
	1st plan	2nd plan	3rd plan
Capital Goods	28.8	42.2	47.8
Raw Materials	27.5	17.7	17.0
Consumer Goods	24.0	19.8	15.4
Food Grains	16.3	14.9	19.8

Source: Reserve Bank of India Bulletin (various issues).

The above table shows that during the first 15 years the import pattern changed rapidly in favour of capital goods. On the other hand, the share of raw materials and consumer goods declined. This changing pattern was an index of the growing industrialisation of the country. The share of capital goods declined from 28.8 percent in the first plan to 47.8 percent in the third plan and the share of consumer goods declined from 24 percent to 15.4 percent due to the lightening up of import licensing and increased production of these goods within the country. As a result of decline of import of raw jute and to some extent, also of raw cotton the import of raw materials was declined. As a percentage of total agricultural imports, the import of raw jute fell from 12.9 percent in 1951-52 to 1.2 percent in 1965-66 and the import of raw cotton declined from 26.3 percent to 9.6 percent during the same period. The imports of agricultural machinery and fertilizers increased by nearly 100 percent in between 1956-57 to 1960-61 and by 171 percent in between 1961-62 to 1965-66.

Table 2.11: Composition of Exports:

Commodity	(As percentage of the total)		
	1950-51	1960-61	1965-66
Agricultural product	24.6	31.8	31.9
Agro-based manufactures	49.9	36.9	37.4
Mineral Products	3.1	6.2	8.0
Machinery	0.9	2.4	4.9

Source: Monthly Statistics of Foreign Trade 1968.

A significant feature of the export trade was that four categories of sixteen commodities accounted for 78.5 percent of the exports in 1950-51 and in 1965-66 it was 82.2 percent.

Another feature was that proportion of agro-based manufactures such as jute manufactures, cotton manufacture, leather goods, coir product and agricultural product remain fluctuating around 70 percent in 1950-51, it was little higher at 74.5 percent and it was little less at 69.3 percent in 1965-66. Coffee and oil cakes did not enter the export trade in 1950-51 in any substantial quantity but they had become important articles of export in 1965-66. Similarly, export of tea, cotton, and jute manufactures, which constitute 60 percent of the total export in between 1948-50, it declined to 44 percent in the third plan.

Another feature of export composition was the first time emergence of several new articles such as oil cakes, fruits and vegetables, iron ore, iron and steel, handicrafts and engineering goods. In 1950-51, exports of fish preparation constituted only 1.9 percent of India's export but in 1965-66 it was 4.2 percent. The export of fruits and vegetables rose from 0.2 percent to 1.6 percent. Export of clothing, footwear and scientific instrument rose from 0.8 percent in 1950-51 to 2.7 percent in 1965-66.

Another group of exports consisting of iron ore, manganese ore and mica recorded substantial increase, their percentage share rising from 4.1 percent to 8 percent during 1951-52 to 1965- 66.

The welcomest development was the emergence of engineering exports. This group included metal manufactures, electrical and other machinery items, transport equipment and other engineering goods. During the first three plans, there was a significant change in the direction of the trade. On the export side, the U.K's share fell sharply from 26.8 percent to 18.1 percent during 1941-52 to 1965-66 and Australia declined from 6.6 percent to 1.8 percent during the same period of time. The share of trade of Japan rose from 2.2 percent to 7.2 percent during the same period. The share of the United States of Soviet Russia (U.S.S.R.) being 1 percent in 1951-52 and 11.6 percent in 1965-66, emerged as the third largest purchaser of Indian goods. The export of East European countries rose from 1.2 percent to 19.5 percent of the total. There was an unsatisfactory trade relation of India with South East Asia, the Middle East, East Africa and other developing countries.

There was similar change in the direction of imports as well. The U.K's share fell from 18.5 percent to 10.7 percent during 1951-52 to 1965-66. There was similar decline in the share of Middle East countries and Africa but the U.S.A and East European countries went up to 37.7 percent and 11.3 percent respectively.

Table 2.12 Balance of Trade: India's Export.

Period	Total Value	Annual Average
First Plan	Rs.3029 crore	606 crore
Second Plan	Rs. 3046 crore	609 crore
Third Plan	Rs.3812 crore	762 crore

Source: Commerce, 1 March 1969, p- 6

From the above table it can be seen that during the first two plans India's export was stagnant but in the third plan it rose by 25 percent. The first plan stated that "*in period of relatively easy foreign exchange supplies, the need for export promotion will be less evident*" while the second plan hoped that "*increased production at home will be reflected in larger export earning*". During the third plan exports were given high priority and various measures initiated to export them. India's share of world export during 1955 to 1966 declined from 1.4 percent to 0.8 percent.

Table 2.13: India's Import

(in crore of rupees)

Period	Total Value	Annual Average
1. First Plan	3617	723
2. Second Plan	4882	976
3.Third Plan	6209	1242

Source: Commerce, 1 March 1969, p: 6

During the first plan, the developmental and investment activities were still in doldrums. Consequently, the value if imports fell from Rs.650 crore in 1950-51 to Rs.610 crore in 1953-54. The year 1953-54 remained the lowest level of India's foreign trade. Thereafter, there was a steady rise. As a result, import increased from Rs.3617 crore in the first plan to Rs. 4882 crore in the second plan, Rs. 6209 crore in the third plan. That is imports rose by 34 percent during the second plan over the first plan and by 27 percent during the third plan over the second plan.

During the second plan the heavy imports were due to a) large scale imports of capital goods to develop heavy and basic industries, b) the necessity of making "minimum maintenance imports" for a developing economy and c) the failure of agricultural production to rise to meet the growing demand for food and raw-materials which necessitated large imports of those articles. During second and third plan, massive investment outlays resulted in more than a doubling of India's imports, implying an annual growth rate of 7.9 percent. During the same period, exports increased at an annual rate of about 3.1 percent. Imports were running ahead of exports, so the ratio of exports to the imports showed a declining trend. On an average, exports financed 83.7 percent of the imports during the first plan, 62.4 percent during the second and 61.5 percent during the third. As a result, India's export deficit rose from Rs. 82.52 crore in 1955-56 to Rs. 584.50 crore in 1965-66.

Table. 2.14: India's Trade Deficit

(in crore of rupees)

Period	Total Amount	Annual Average
1. First Plan	588	117
2. Second Plan	1836	367
3.Third Plan	2396	479

Source: Commerce, 1 March 1969

2.3.7 DEVALUATION OF 1966 AND THE PERIOD UP TO 1979

Since 1951 there was adverse balance of trade and as a result there was adverse balance of payment, acute shortage of foreign exchange. Extensive borrowing by India from foreign countries and international institutions like International Monetary Fund (IMF) to overcome balance of payment problems- all these factors induce India to devaluate the rupee by 36.5 percent in June 1966. Devaluation was resorted to essentially a] to reduce the volume of imports, b] to boost exports and c] to create a favourable balance of trade and balance of payments. During a year of drought devaluation was announced, the following year again happened to be a bad weather year and was the year when the government announced its policy of liberalising imports in case of 59 industries, so the immediate effects of devaluation was further aggravation of the trade deficit. After devaluation, exports increased during 1966-67 and 1967-68, but on account of relative inelasticity of imports, the import bill literally soared - Rs. 1,992 crore in 1966-67 and Rs. 2,043 crore in 1967-68. As a result, the balance of payment decreased during 1966-67 and 1967-68. However, foodgrains imports declined during 1968-69, with a better crop. Moreover, as a result of devaluation exports stimulated. Consequently, balance of trade, which was unfavourable to the tune of Rs. 788 crore during 1967-68 declined significantly during the next three years. During 1972-73, for the first time since independence, India was able to have a favourable balance of trade, due to the policies of import restriction and reduction in food grain imports coupled with vigorous measures of export promotion. But the impact of the healthy development was soon lost in 1973-74 because of several international factors, which pushed up the prices of petroleum product, steel and non-ferrous metals, fertilizers and newsprint.

Although the spurt in the prices of exports helped to boost them up to a level of Rs. 2523 crore, the kick given to imports was much stronger and they reached a high level of Rs. 2955 crore. As a result, trade balance deficit appeared of the order of Rs. 432 crore in 1973-74.The whole trade deficit was of much lower in the fourth plan than the period of second plan, third plan, and the annual plan.

Table: 2.15: Trade Balance During Annual Plans, the Fourth Plan:

Year Annual Plans	**Exports**	**Imports**	**(Rs. crore)**
1966-67	1089	1992	-906
67-68	1255	2043	-788
68-69	1367	1740	-373
Annual Average	1236	1925	-689
Fourth Plan			
1969-70	1413	1582	-169
70-71	1535	1634	-99
71-72	1608	1824	-216
72-73	1971	1867	+104
73-74	2523	2955	-432
Annual Average	1810	1972	-162

Source: Reserve Bank of India Bulletin, Dec 1981.

In October 1973, there started oil price hike, which seriously affected the pattern of trade throughout the world, and so India was no exception. During the fifth plan period the value of imports reaches very high levels- due to sharp increase in the cost of India's major imports, viz, petroleum, fertilizers and food grains. Simultaneously, there was a significant improvement in India's export during the fifth plan period. The rise was so fast that by 1976-77, exports at Rs. 5146 crore exceeded imports by Rs. 72 crore. Since 1951 for the second time balance of trade surplus emerged. Export of fish and fish preparations, coffee, tea, groundnuts, cotton fabrics and readymade garments and handicrafts recorded substantial increase in this period.

During 1977-78 and in the next two years, the Janata Government followed a policy of haphazard import liberalisation at a time when export boom had almost petered out- the result was the re-emergence of the trade deficit from 1977-78 onward.

Table: 2.16: Trade Balance During the Fifth Plan:

Year	Import	Export	Balance of Trade
1974-75	4,519	3,329	-1,196
1975-76	5,265	4,043	-1,222
1976-77	5,074	5,146	+72
1977-78	6,025	5,404	-621
1978-79	6,814	5,726	-1,088
Annual Average	5540	4,730	-810

Source: Reserve Bank of India Bulletin, Dec 1981.

2.3.8 FOREIGN TRADE DURING 1980 - 1990

Trade deficit stared widening with the last year of fifth plan (1978-79). Due to further increase in prices of petroleum products by Oil and Petroleum Exporting Countries (OPEC) the import bill shot up from Rs. 6814 crore to over Rs. 8908 crore in 1979-80 and further to Rs. 12,524 crore in 1980-81 and to Rs. 13,608 crore in 1981-82. Exports also continued to rise but the value of exports fell much short of imports. The result was unprecedented trade deficits - from nearly Rs 2450 crore in 1979-80 to Rs. 5,813 crore in 1980-81. This deficit forced the government to approach the International Monitory Fund (IMF) in November 1981 for a huge loan.

Table: 2.17: Trade Balance during Sixth and Seventh Plan:

Year	Import	Export	Trade Balance
Sixth Plan			
1980-81	12,524	6711	-5,813
1981-82	13,608	7,806	-5,802
1982-83	14,356	8,908	-5,448
1983-84	15,763	9,872	-5,891
1984-85	18,680	11,959	-6,721
Annual Average	14,986	9,051	-5,935
Seventh Plan			
1985-86	21,164	11,578	-9,586
1986-87	22,689	13,315	-9,354
1987-88	25,692	16,396	-9,296
1988- 89	34,202	60,647	-13,555
1989-90	40,642	28,229	-12,413
Annual Average	28,874	18,033	-16,841

Source: Economic Survey (1991-92) and RBI Bulletin, March 1993.

The same situation continued in 1983-84 and the trade deficit further rose to about Rs. 5891 crore. As we examine the import, export data, we can see that even if imports of Petroleum, Oil and Lubricant (POL) declined from Rs. 5267 crore in 1980-81 to Rs. 4830 crore in 1983-84, partly because international prices of oil showed a downward trend and partly because of domestic production of crude oil was jacked up by Oil and Natural Gas Commission (ONGC), the trade deficit in 1983-84 was Rs. 5,891 crore. This is explained by the fact as a result of the policy of import liberalisation the decline in POL imports were more than counter balance by a hike in non- POL imports. Further deterioration in the trade balance showed in 1984-85 and trade deficit was Rs. 6721 crore. During the sixth plan, the annual average imports were Rs. 14,986 crore while exports were Rs. 9051 crore. So, a huge annual average trade deficit was witnessed during the sixth plan amounted Rs. 5,935 crore.

Seventh plan period data revealed that due to indiscriminate liberalisation, the average annual imports shot up to Rs. 28,874 crore, but exports averaged Rs. 18,033 crore. Thus, there emerged an unprecedented annual average trade deficit of the order of Rs. 10,841 crore. In 1947-48, the main items of imports in India (in order of importance) were machinery of all kinds, oils (vegetable, mineral and animal), grains, pulses and flour, cotton, raw and waste, vehicles (excluding locomotives), cutlery, hardware, implements and instruments, chemicals, drugs and medicines, dyes and colours, other yarns and textile fabrics, paper, paper board and stationery and metals other than iron and steel and manufactured. These imports together constituted more than 70 percent of all imports.

The initiation of the planning process in the country in 1951-52, and more specifically the beginning of the second five-year in 1956-57 brought about a considerable change in the composition of imports. The second plan (based on the Mahalonobis Model) introduced a programme of industrialisation with heavy emphasis on the development of capital goods and basic industries. So, it became necessary to import capital equipment in large quantities. After some years, spare parts, materials and machinery had to be imported in substantial quantities to keep the equipment in working order. Thus, maintenance imports entered into the import structure of the country in a big way.

Now, imports have been classified into two groups: a) Bulk Imports and b) Non- bulk Imports. Bulk imports are further sub-divided into three components – (i) Petroleum, crude and products, (ii) Bulk composition goods which compromise of cereals and pulses, edible oils and sugar, (iii) Other bulk items comprising of fertilizers, non-ferrous metals, paper and paper boards, rubber, pulp and waste paper, metallic ores, iron and steel.

Non- bulk imports are classified into three components – (i) Capital goods which include metals, machine tools, electrical and non-electrical machinery, transport equipment and project goods, (ii) Mainly export related items consist of pearls, precious and semi-precious stones, organic and inorganic chemicals, textiles, yarn and fabrics, cashew nuts, (iii) Other include artificial resins and plastics materials, professional and scientific instruments, coal and coke, chemicals, medicinal and pharmaceutical products, non-metallic mineral manufactures etc.

Due to both internal and external factor, there was a rise in trend of imports. During the 70s, as a result of the sharp hike in oil prices by the Organisation of Petroleum and Exporting Countries (OPEC) first during 1973-74 and then again in 1979-80, the POL imports rose sharply not only during the 70s, but also during the 80s. In 1979-80, the economy also suffered a major drought.

During the eighties, there were some factors, which produced a cumulative effect in pushing up imports. Important among them were: a higher outflow of foreign exchange consequent upon the hike in POL prices as a part of the legacy of the preceding decade, severe shortages on account of the unprecedented drought of 1987, the growing pressure of demand accompanied with the stepping up of the real growth of the economy and the policy of liberalisation adopted by the government.

Imports rose from Rs. 1,634 crore to Rs. 12,549 crore during 1970-71 to 1980-81. That is the annual growth rate was as high as 19.2 percent during the decade. During the eighties, specifically of 1984-85, when the Prime Minister was Rajiv Gandhi and he followed the policy of liberalisation, imports in 1990-91 zoomed forward to Rs. 43.190 crore. During 1980-81 to 1990-91, the annual rate of growth of imports was as high as 13.1 percent.

Basic raw materials, intermediates and foodstuffs, which were the main items of bulk imports, were linked to the growth and stability of the economy grew at an annual average growth rate of 23.2 percent during the seventies. As a result, their share in total imports went up from 50.5 percent in 1970-71 to 69.6 percent in 1980-81.However, during the eighties as well as during the nineties their rate of growth significantly declined.

Among the non-POL bulk items, consumption goods comprising cereals preparations, edible oils, pulses and sugar declined at an annual growth rate of 8 percent during the seventh plan. However, during 1985-86 to 1990-91, the imports of iron and steel recorded a much higher rate of 14.4 percent.

During the sixth plan, the growth rate of bulk items was 10.2 percent, which decreased to 7.2 percent during the seventh plan. As a result, in 1984-85 the share of bulk items in total imports fell to 58.6 percent. Among the non- bulk items the share of capital goods imports was 15.2 percent in 1980-81 and it was 17.7 percent during 1990-91.

During the first plan period, the imports of consumer goods and food grains accounted for 40 percent of India's imports. But the imports of these have gradually declined over the years - 35 percent during the second and third plan period, 27 percent during the fourth plan and 24 percent during the fifth plan and only 2.5 percent during the seventh plan, but declined significantly to 0.7 percent during 1990-91.

From 1957 onward, imports of food grains were considerable and these were arranged through PL 480 Aid from the USA. From the dawn of fourth plan, India's imports were increasing. Due to drought conditions and inability of domestic supplies to meet fully domestic demand, imports of food grain increased. Only during the fourth plan imports of food grains declined to 10 percent.

Table: 2. 18: Structures of Indian Imports.

	1970-71	1980-81	1990-91
I. Bulk Import	82	8,739	19,464
A. Petroleum, Crude and Products.	137	5,267	10,816
B. Bulk Consumption goods.	326	901	966
a) Cereals and pulses	213	100	1301
b) Edible Oils.	39	704	326
C. Other Bulk Items.	362	2,571	7,650
a) Fertilizers.	100	818	1,766
b) Non- ferrous metals	119	477	1,102
c) Paper and paper board	456	1,891	-------
d) Metallic ores	11	116	1,528
e) Iron and Steel	147	852	2,113
II. Non- Bulk Imports.	809	3,472	23,729
C. Capital goods	404	1,916	10,471
a)Machinery except electrical and electronic	258	1,089	3,768
b) Electrical and electronic goods	70	266	1,702
c) Transport equipment	472	1,670	2,571
d) Project goods	------	-----	2,556
D. Mainly Export related items.	193	1,158	6,603
a) Pearl, Precious and semi precious stones	25	417	3,738
b) Organic and inorganic chemicals.	131	673	2,289
c) Textiles, yarn and manufactures	8	59	443
d) Cashew nuts	29	9	139
e) Others	212	404	6,655
Total	1,634	12,549	43,193

Source: Complied and computed from RBI, Report on Currency and Finance. (1998-99)

Table: 2.19: Average Annual imports of Principal Commodities:

Items	1966-67 to 1968-69	1969-70 to 1973-74	1974-75 to 1979-80	1980-81 to 1984-85	1985-86 to 1989-90
1. Food grains	400	196	548	374	516
2. Machinery (including locomotives)	518	484	1078	2515	6415
3. Mineral oils	90	226	2063	5264	4498
4. Metals (ferrous and non ferrous)	185	309	647	1448	2450
5. Chemicals- drugs and medicines.	126	113	254	660	1868
6. Fertilizers	121	96	439	698	1114
7. Pearls and precious stones	-	-	244	730	2405

Source: RBI Bulletins and RBI Report on Currency and Finance, 1997-98.

India's exports are broadly classified into four categories: a) Agriculture and allied products which include coffee, tea, oil cakes, rice fish and fish preparations, meat and meat preparations, vegetable oils, fruits, vegetables and pulses, b) Ores and minerals include manganese ore, mica and iron ore, c) Manufactured goods include textiles and ready made garments, jute manufactures, leather and foot wear, handicrafts including pearls and precious stones, chemicals, engineering goods and iron steel and d) Mineral fuels and lubricants.

Tea and Coffee: Tea and coffee are India's main export items. In certain year, tea had the first position in our exports. During the first plan period, the average annual export of tea was Rs. 106 crore. In 1960-61, tea export further picked up to touch Rs. 195 crore. But they decline later. During 1991-92, tea export earned Rs. 1132 crore.

Cotton Yarn and Manufactures: During the first plan period, the average annual exports of cotton yarn and manufactures touched Rs. 81 crore, but they declined to Rs. 55 crore during the third plan. Due to high cost in Indian textile industry, India found if difficult to capture the international market. Infact, the causes of the high cost were rising labour costs and use of old worn out machinery. In the pre devaluation period exports of cotton textiles had increased due to their competitiveness in the international market. During 1970-71 and 1990-91 export of cotton (yarn and manufactures) improved from Rs. 75 crore to Rs. 2100 crore.

Ready-made garments: The export of ready-made garments was just Rs. 9 crore in 1970-71. They jumped to Rs. 196 crore in 1974-75. During 1990-91, they were Rs. 4012 crore. This indicated the increasing importance of this item in our exports.

Leather and leather manufactures: Raw hides and skins is one of the traditional items of Indian export. In the exports of these items, the proportion for leather and leather manufactures to raw hides and skins is on the increase. This is really a healthy development. In 1970-71, India earned Rs. 72 crore from this item. In 1979-80, it was Rs. 486 crore and in 1990-91, it touched Rs. 2566 crore.

Iron ore: During 1970-71, exports of iron ore rose to Rs. 117 crore and it touched Rs. 1649 cror in 1990-91.This is an unhealthy development.

Handicrafts: In the 1970s the exports of Indian handicraft assumed great importance. In 1970-71, they were in low level of Rs. 70 crore. But they increased to Rs. 894 crore in 1980-81 and Rs. 1881 crore in 1984-85 and further to Rs. 6167 crore in 1990-91. Among the handicrafts, the most important item was pearls and precious stones. It averaged Rs. 3177 crore during 1985-86 to 1989-90.

Machinery, transport and metal manufactures: The exports in the category also included iron and steel, electronic goods and computer software. Even up to 1980-81, exports of this group were a meagre Rs. 827 crore but these exports started picking up and by 1990-91, they were of the order of Rs. 3,872 crore.

Table 2.20: Classification of Indian Exports

(Rs. crore)

	1970-71	**1980-81**	**1990-91**
1. Agriculture and allied products	487	2057	6317
2. Ores and minerals	164	414	1497
3. Manufactured goods	772	3747	23,736
4. Petroleum products	13	28	948
5. Others	100	466	55
Total	1535	6711	35,553

Source: Govt. of India, Economic Survey, 1971-72 and 1996-97.

Table 2: 21: Annual Exports of Principal Commodities

Items	1970-71	1980-81	1984-86	1990-91
1. Coffee	25	214	265	252
2. Tea	148	426	626	1070
3. Fruits and vegetables	18	116	206	335
4. Cotton yarn and manufacture	75	277	574	2100
5. Leather and leather manufacture	72	337	770	2566
6. Iron ore	117	303	579	1049
7. Tobacco	33	141	170	263
8. Engineering Goods	130	727	954	3877
9. Cashew Kernel	52	140	225	447
10. Ready- made garments	9	378	1067	4012
11. Handicraft	70	894	1881	6167
12. Fish and fish preparation	31	213	409	966
13. Rice	5	224	196	462
14. Chemical and allied Products	-	-	-	3,558

Source: India's Balance of Payments, 1948-49 to 1961-62: RBI Report on Currency and Finance. (1998-99)

In order to study the regional direction of India's foreign trade, it would be appropriate to classify the world into four broad groupings: viz: American Europe, Asia, Oceania and Africa.

Since independence, direction of India's imports had changed remarkably. The following table shows the change in the direction of India's import since 1960-61.

Table: 2.22 : Direction of India's Imports

Country /Block	1960-61	1970-71	1980-81	1990-91
A. Block				
a) OECD	875 (78)	1042 (64)	5740 (45.7)	23,310 (54)
b) OPEC	22 (4.6)	126 (7.7)	3488 (28)	7041 (16.3)
c) Eastern Europe	38 (3.4)	220(13.5)	1296 (10.3)	3377 (7.8)
d) Developing Countries	132 (12)	239 (14.6)	1966 (15.7)	7965 (18.4)
e) Others	25 (2)	8 (0.5)	(60 (0.5)	1500 (3.5)
B. Countries.				
U.S.A	328 (29)	453 (28)	1619 (13)	5245 (12)
U.K	217 (19)	127 (8)	731 (6)	2894(7)
Japan	61 (5.4)	83 (5)	746 (6)	3245 (7)
Germany	123 (11)	108 (6.6)	694 (5.5)	3473 (8)
Iran	30 (2.6)	92	1339 (10.6)	1018
Saudi Arabia	14 (1.3)	24	540	2899 (6.7)
USSR	16 (1.4)	106 (6.5)	1014 (8)	2548 (6)
France	21 (1.9)	21	280	1304(3)
Australia	18(1.6)	37	170	1464(3.4)
Belgium	15 (1.4)	12	296	2718 (6.3)
Kuwait	6 (0.3)	8	33 (2.7)	363 (0.8)
Other Countries	288 (25)	454 (28)	4785 (28)	14,967 (35)
Total	1122(100)	12,549 (100)	43,193 (100)	12,2678(100)

Source: 1. Government of India, India Reference Annual, 1982.
2. Govt. of India economic Survey, 1992-93.

NOTE: Figures in the brackets are percentage in total.

The above table shows the direction of India's imports. If we study block wise, then it can be seen that the share of Organisation for Economic Co-operation and Development (OECD) countries in India's imports was higher but this share gradually declined from78 percent in 1960-61 to 54 percent in 1990-91. The share of OPEC in India's total imports increased from 4.6 percent to 16.3 percent during 1960-61 to 1990-91. In 1960-61, the share of Eastern European countries of India's import was 34 percent. It rose to 13.5 percent in 1970-77 and since then gradually declined and in 1990-91 it was 7.8 percent. The share of developing countries in India's imports gradually rose. It was 14.6 percent in 1970-71, 15.7 percent in 1980-81 and 18.4 percent in 1990-91. The share of other countries also rose from 2 percent in 1960-61to 18.4 percent in 1990-91.

The share of the U.K. in India's imports was 19 percent in 1960-61 being the highest among all the countries, gradually declined to 8 percent in 1970-71 and in 1990-91, it was only 7 percent. The share of the U.S.A. in India's imports gradually increased initially from 1950-51 to 1960-61 and since then the share gradually declined. It was 29 percent in 1960-61, 28 percent in 1970-71, 13 percent in 1980-81 and 12 percent in 1990-91. So, it is found that from 1970-71 the direction of trade recorded a continuous change. India's dependence for imports from the USA and the UK gradually declined whereas there was an expansion of trading relation of India with other countries, like USSR, Japan, Germany, Belgium etc.

During 1960-61 India's trading relations with socialist countries particularly with USSR was expanded. The share of USSR in Indian imports was only 1.4 percent in 1960-61, which rose to 8 percent in 1980-81 but declined to 6 percent in 1990-91.

Since the adoption of planning in India, direction of India's exports has also recorded a remarkable change. The following table shows the direction of India's export since 1960-61.

Table 2.23: Direction of India's Exports:

Country	1960-61	1970-71	1980-81	1990-91
1. OECD	425(66)	769(50)	3126(46.6)	17428(53.5)
a) EEC/ EU	232(36)	282(8.4)	1447(21.6)	8951(27.5)
Belgium	5(0.8)	20(1.3)	145(2.2)	1259(3.9)
France	9(1.4)	18	147	766
Germany	20(3.1)	32	385(5.7)	2549(7.8)
U.K.	173(27)	170(11)	395(5.9)	2128(6.5)
b) North America	120(18.7)	235(15)	806(12)	5077(15.6)
Canada	18(2.7)	28(15)	62(1)	281(0.9)
USA	103(16)	207(13.5)	743(11)	4797(147)
2. OPEC	24(4.1)	99(6)	745(11)	183(7.6)
Iran	5(0.8)	27	123	141
Saudi Arabia	3(0.5)	15	165	419
3. Eastern Europe	45(7)	323	1426	5819
USSR	22(4.5)	210(13.9)	1226(18.3)	5255(16.1)
4. Developing Countries	95(15)	305(20)	1286(11.2)	5465(17)
Asia	45(7)	166	900	4665
Africa	40(6.3)	129	350	668
5. Others	51(8)	4	68	2010
Total	642	1535	6711	32,553

Source: Government of India, Economic Survey, 1997-98.

NOTE: Figures in the brackets are percentage in total.
OECD: Organisation for Economic Co-operation and Development.
OPEC: Organisation of Petroleum Exporting Countries.
EEC: European Economic Community.

Above table reveals the direction of India's exports since 1960-61. It is found that among five blocks, the share of OECD countries in India's exports was all along higher but its share gradually declined from 66 percent in 1960-61 to 53.5 percent in 1990-91.The shares of OPEC countries marginally increased from 4.1 percent in 1960-61 to 7.6 percent in 1990-91. The most remarkable change in the direction of exports is noticed in respect of Eastern Europe whose share in India's exports has increased remarkably from 7.0 percent in 1960-61 to 22.1 percent in 1980-81 and then slowly declined to 17.9 percent in 1990-91. The share of developing countries in India's exports maintained a steady level, i.e. from 14.8 percent in 1960-61 to 17 percent in 1990-91.

The share of the U.K. in India's total exports, which was as high as 23.3 percent in 1950-51 gradually rose to 26.9 percent in 1960-61 and occupied first place in this respect. But since then the share of the U.K. declined sharply to11.1 percent in 1970-71 and then to 6.5 percent in 1990-91. The share of the USA in India's exports remained all along steady and accordingly the share increased from 17.4 percent in 1960-61 to 18.6 percent in 1987-88 and then slightly declined to 14.7 percent in 1990-91. It is found that since 1970-71, the direction of India's exports recorded a considerable change with the diversification of exports markets for Indian goods among various countries of Eastern Europe, OPEC and other developing countries.

With the development of trading relations with socialist countries the share of USSR in India's exports increased from 4.5 percent in 1960-61 to 18.3 percent in 1980-81 and then 18.4

percent in 1985-86 and thus occupied first place in these two years. But since then its share of India's exports declined and reached the level of 16.1 percent in 1990-91.

In the three annual plans the total deficit in balance of trade amounted 2755.5 crore. The unfavourable event happened in this period was that the surplus in invisible account also transformed itself into a deficit.

The period of fourth plan was characterised by continuous increase in imports due to increase in prices in international market. The prices of petroleum product, fertilizers, iron steel, non-ferrous metals and various types of capital equipment increased unevenly. The value of imports increased from Rs.158.3 crore in 1969-70 to Rs. 2729.3 crore in 1973-74. The value of exports was also pushed by the international prices. The value of exports was Rs. 140.3 crore in 1969-70 and Rs. 2350.7 crore in 1973-74. The deficit in balance of trade during the Fourth Plan was Rs. 1563.9 crore.

The position of balance of trade in the first two years of fifth plan was not satisfactory. The year 1974-75 recorded a deficit of Rs. 977.2 crore, which was mainly due to increase in prices of petroleum products. In the entire fifth plan the deficit of balance of trade was Rs. 3177.6 crore.

In the sixth plan, the trade deficit averaged 3.4 percent of Gross Domestic Product (GDP) in 1985-86 but declined to 3.2 percent of GDP in 1986-87 due to better export performance and deceleration in the growth rate of imports.

The total deficit in the seventh plan was to the tune of Rs.2,00,00 crore which was 1.6 percent of GDP. In 1990-91, total deficit was registered at Rs. 11,721 crore.

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