Chapter I

THE ROLE OF FOREIGN TRADE IN INDIA'S ECONOMIC DEVELOPMENT

INTRODUCTION

All countries have not been endowed by nature with the same productive facilities. There are differences between them in climatic conditions and natural resources as also in the supply of labour and capital. Due to these differences, each country finds it advantageous to specialise in the production of some specific commodities. Such specialisation would not be economically feasible, but for the possibility of exchange of surplus production through international trade. In fact, in the absence of international trade, there would be no surplus available for export. International trade takes place when buyers find foreign markets cheaper to buy from and sellers find them more profitable to dispose of their products than the domestic market.

The role of foreign trade in economic development is considerable. The classical and neo-classical economists
attached so much importance to international trade in a country's development that they regarded it as an 'engine of growth'. There is also the opposite view according to which historically foreign trade has led to international inequalities whereby rich countries have become richer at the expense of the poor countries. It is therefore, contended that even if underdeveloped countries are required to sacrifice the gains accruing from international specialisation they can attain a higher degree of development by following policies of import substitution and accelerated industrialization and concentrate on production for domestic consumption.

Foreign trade is specially crucial for underdeveloped countries. It provides the urge to develop the knowledge and experience that make progress possible and take measures to accomplish it. Haberler says:

"My overall conclusion is that international trade has made a tremendous contribution to the development of less developed countries in the 19th and 20th centuries and can be expected to make an equally big contribution in the future..., and that substantial free trade with marginal insubstantial corrections and deviations, is the best policy from the point of view of economic development." 1

It may be either domestic (home) buying or selling or foreign (international). Broadly speaking, "selling" abroad is "export", and "buying" abroad is "import".

'Import' and 'export' mean respectively bring into, and taking out of a country by sea, land, air, etc.

To determine why it is necessary for a country to enter into foreign trade, an example may be taken from India's present day economic planning.

Immediately after independence, the Government of India set up a Planning Commission to prepare a plan for a "most effective and balanced utilisation of the country's resources". The central objective of planning was defined as initiating "a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life." R.C. Arora says:

"Economic planning has to be viewed as an integral part of a wider process aiming not merely at the development of resources in a narrow technical sense, but they also aim at the development of human facilities and the building up of an institutional frame-work adequate from the needs and aspirations of the people".1

In the Five Year Plans, in brief, has been crystallized to a very great extent India's aspiration of economic

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independence. Through planned development it is desired to put the Indian nation on such an economic footing in the shortest possible time as to enable the common man in India to enjoy adequately if not fully his political independence at the earliest.

To bring about such an economic revolution, huge financial resources are required for the setting up of the basic and heavy industries, for increasing and for making machinery building capacity, essential raw materials and intermediate products available. In an underdeveloped country like India, all such items had to be imported. For imported goods one has to pay in foreign exchange.¹

Since India did not have the means to implement her huge development schemes as envisaged in her first two Five Year Plans, she had to delve into her reserves of foreign exchange available in the form of setting balances. These have mostly been utilised for buying goods and services to meet the needs of her developmental projects. As a result of these spendings India's reserves of sterling balances have almost been exhausted during the first two Five Year Plans. Being an under-developed country, India had to take recourse to borrowing and to approach the governments of friendly foreign countries for aid in the shape of money, material and men (technical know-how and show-how).²

¹ Ibid., p. 2.
² Ibid., p. 2.
During the Fifth Five Year Plan, there was an increase in imports. This was due to a sharp increase in the cost of India's main imports, such as, petroleum, food products and fertilisers. The slackening of the commodity boom and the recession in advanced countries slowed down the rate of growth of Indian exports. India's exports, however, registered an increase of 27.2 per cent during 1976-1977 over the previous year because of substantial increase in exports of some items such as engineering goods, fish and fish products, coffee, groundnuts, cotton fabrics and handicrafts as well as iron and steel.

The Sixth Five Year Plan (1980-81 to 1984-85) was prepared when the country was faced with serious deficits of balance of payments. Hence the Plan adopted a cautious approach in regard to imports. It sought to contain the growth of imports to 7.9 per cent per annum. The Planning Commission cautioned as follows: "It will be counterproductive to pursue a policy of indiscriminate import substitution. The emphasis to be on efficient import substitution which improves both our balance of payment as well as national income."¹

For securing the requisite amount of foreign exchange there is no way out but to sell goods in foreign market, i.e., export. Export is therefore the cry of the day in India.

India has either to export or perish.

Nations buy in foreign markets their requirements of goods which are not available in the home market and the need for which is imperative. Imports in the present-day world are an inevitable feature of the economic life of every country.

Every country enters the field of foreign trade in order to fulfil its need of foreign exchange. No country in the present day world desirous of progress can remain isolated. However, there are other reasons also which compel nation to carry on foreign trade.

Because of geographical diversity in the distribution of factors of production, people of one country have to obtain their requirements of goods which are not produced in their country from far distance lands. The small cost of production of an item sometimes results in its import. When a country finds that producing an article indigenously will be uneconomical as compared with its import from another country which is at a distinct advantage in producing it either because of natural resources or specialized knowledge it prefers to import rather than produce it locally. 1

Disparity in the levels of technical and scientific development between various countries is another reason for

1 Arora, R.S., op.cit., p.3.
most countries to buy abroad. Countries whose general level of technical and scientific development is low or which are not well developed in a particular technical or scientific sphere have to import specialized goods for their people or to meet their developmental or defence needs.

The theory of opportunity costs, again, explains the need for foreign trade. According to this theory, more efficient industries within a country oust the inefficient ones, and as a result, products of efficient industries become products for export and those of inefficient industries products for imports.

Imports and exports thus are essential features, of the economic life of every nation.

India's pattern of trade before independence was traditionally that of a colonial and agricultural country. Bulk of her foreign trade was confined to Britain and other Commonwealth countries. While exports were confined to a few primary commodities, imports were restricted and consisted mainly of manufactured articles. Though, on the surface there was a favourable balance of trade, it concealed a low level of industrial production and economic development.¹

After her independence, a serious move towards self-sustained growth was made by India by launching Five Year Plans.

¹ INDIA, Ministry of Information and Broadcasting; 1984, p. 386.
The objective that the Planners have been setting before them to develop the Indian economy are as follows:

- Increasing national income;
- Providing additional employment;
- Achieving a higher rate of resource mobilisation by raising the ratio of saving and investment in the national income;
- Providing stability to the price level;
- Achieving a viable balance of payments;
- Reducing inequalities in the distribution of income and wealth;
- Reducing regional inequalities;
- Promoting agricultural growth;
- Encouraging industrialisation; and
- Maintaining external balance of payments.

To achieve these objectives, planners have evolved certain strategies. The basic strategy of the Plans has been to accelerate the rate of growth with particular emphasis upon the development potential of the agricultural sector so as to raise the supply elasticity of essential agricultural goods and raw material for industries so that the pace especially of heavy industries could be accelerated.

Another strategy of India's development plans has been that of a self-sustained growth, but the planners have been placing greater emphasis on certain sectors and lesser emphasis on others. But, on the whole, efforts have been made to raise a united, integrated and balanced structure of the economy in which the different sectors work jointly to ensure the growth of one another.
Pattern of the Five Year Plans

The strategy adopted for planned development has got translated into different sectors of the economy. (Table I).

The First Plan assigned top priority to schemes of agricultural development including development of irrigation, transport and communications, and social services. From the Second Plan onwards industry has been attracting the Planners most. In almost all the plans, with the exception of the Fourth Plan, industry has been getting about one-fourth of the total allocation in the succeeding Plans. The outlay provided for this Sector for Sixth Plan comes to only 22.7 per cent of the total outlay -- more than three per cent below the level of Fifth Plan allocation.

An essential condition for the success of industrial development programme is the expansion of the power resources in the country. Realisation of this need finds expression in the pattern of allocation of resources. While the First Plan spent 7.6 per cent of its total expenditure on the programme of power development, this proportion has been continuously increasing -- going up to 19.8 per cent in the Sixth Plan. Transport and communications received the highest share of expenditure during the Second Plan -- about 27.0 per cent. In the subsequent plans, however, the proportion of expenditure allocated in this sector has been gradually declining, although its share has been continuously increasing.
Table 1

PATTERNS OF THE FIVE YEAR PLANS

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Sectors</th>
<th>I Plan</th>
<th>II Plan</th>
<th>III Plan</th>
<th>Annual Plans</th>
<th>IV Plan</th>
<th>V Plan</th>
<th>VI Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agriculture and Allied sectors, Irrigation and Flood Control</td>
<td>37.0</td>
<td>20.9</td>
<td>20.5</td>
<td>23.8</td>
<td>23.3</td>
<td>20.8</td>
<td>23.3</td>
</tr>
<tr>
<td>2</td>
<td>Power</td>
<td>1.6</td>
<td>4.7</td>
<td>14.6</td>
<td>18.3</td>
<td>18.6</td>
<td>17.8</td>
<td>19.9</td>
</tr>
<tr>
<td>3</td>
<td>Industry</td>
<td>4.9</td>
<td>24.1</td>
<td>22.9</td>
<td>24.7</td>
<td>19.7</td>
<td>22.9</td>
<td>22.7</td>
</tr>
<tr>
<td>4</td>
<td>Transport and Communication</td>
<td>24.4</td>
<td>27.0</td>
<td>24.6</td>
<td>18.5</td>
<td>19.5</td>
<td>17.6</td>
<td>15.9</td>
</tr>
<tr>
<td>5</td>
<td>Social Services</td>
<td>24.1</td>
<td>18.3</td>
<td>17.4</td>
<td>14.7</td>
<td>18.9</td>
<td>17.9</td>
<td>18.3</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Including 0.90 per cent on Science and Technology.

A discouraging feature of the different Plans has been the drastic cut made in the items on social services from 24.1 per cent in the First Plan to 18.3 per cent in Second Plan, 17.4 per cent in the Third Plan and 14.7 per cent in the Annual Plans. Allocations under this head were increased to 18.9 per cent in the Fourth Plan, and 17.9 per cent in the Fifth Plan. The same pattern has been followed in Sixth Plan. Reduced expenditure on social services has had an adverse impact on economic development especially on education and health programmes.

Outlay for Seventh Plan

The approach for Seventh Plan (1985-1990) recommends a total amount of Rs. 1,80,000 crore for the Centre, the States and the Union Territories. The amount approved includes an allocation of Rs. 95,734 crore for the Centre, Rs. 80,498 crore for the States and Rs. 3,758 crores for the Union Territories. Within these limits, the allocation for different sectors were also approved at the meeting of the Planning Commission held on June 11, 1985.

The Plan lays greatest emphasis on irrigation, power and transport. Irrigation and Flood Control have been allocated over Rs. 16,000 crore as against Rs. 10,981 crore spent during the Sixth Plan. The allocation for power has been stepped up by 75 per cent, while on railways it will be more

2 Ibid.
than 85 per cent. Industry and minerals to which Rs. 16,527 crore was allocated during the Sixth Plan, will face the maximum resource crunch. The amount on science and technology is being doubled from the actual expenditure of Rs. 1,040 crore during the Sixth Plan period. Health and education will also have a 100 per cent increase in allocation.

The Plan aims at a minium of 4 per cent annual growth in agriculture and 7 per cent in industry to give an overall growth rate of 5.2 per cent annually over the next five years.

The Planning Commission is yet to fix the size of the amount in the private sector which was earlier envisaged to be around Rs. 1,40,000 crore.

With the impressive industrial development since 1947, India's foreign trade has undergone a complete change and is no longer confined to a few countries and in a few commodities. She now has trading links with practically all the countries of the world. The number of commodities included in India's foreign trade, for export or imports is now nearly 6,666. The country's exports cover a wide range of items of agricultural and industrial sectors and various handicrafts, handloom products and cottage craft articles. Project exports which include consultancy, civil construction and turn-key contracts have also made a significant progress in recent years.

Similarly, there has been a substantial increase in imports on account of the developmental needs of the economy. The
composition of imports has naturally undergone a great change. Bulk of the imports now consist of sophisticated machines, scarce raw materials, lubricants, oils and fertilizers which are essential for the country's industrial and agricultural development. In the last few years, the country has been having a large adverse balance of trade on account of having imports necessary for the development as well as because of a steep hike in world prices of major imports, particularly petroleum and petroleum products, fertilizers etc.

The total turn-over of India's foreign trade (imports plus exports including re-exports) is steadily rising and it more than doubled in five years from a level of Rs. 11,428 crores in 1977-78 to Rs. 23,194 crores in 1982-83. The trade turnover on provisional basis further increased to Rs. 24,743 crore in 1983-84. The value of imports and exports, the total value of foreign trade and balance of trade for selected years since 1950-51 are given in Table .

Balance of trade means — over a given period, say a year -- a country owes sums to various countries for goods she has imported for them, but sums are also owing to her for goods she has exported to other countries. When the value of exports of a country exceeds the value of imports she is to have a favourable balance of trade; when the value of imports of a country exceeds the value of her exports, the country is said to have an adverse balance of trade.
Table 2

Trends in India's Foreign Trade Between 1950-51 to 1984-85.

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports including pre-exports</th>
<th>Total value of foreign trade</th>
<th>Balance of trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>650.21</td>
<td>600.64</td>
<td>1,250.85</td>
<td>- 49.57</td>
</tr>
<tr>
<td>1960-61</td>
<td>1,139.69</td>
<td>660.22</td>
<td>1,799.91</td>
<td>- 479.47</td>
</tr>
<tr>
<td>1970-71</td>
<td>1,634.20</td>
<td>1,535.16</td>
<td>3,169.36</td>
<td>- 99.04</td>
</tr>
<tr>
<td>1971-72</td>
<td>1,824.54</td>
<td>1,608.82</td>
<td>3,433.36</td>
<td>- 215.72</td>
</tr>
<tr>
<td>1972-73</td>
<td>1,867.44</td>
<td>1,970.23</td>
<td>3,838.27</td>
<td>+ 103.39</td>
</tr>
<tr>
<td>1973-74</td>
<td>2,955.37</td>
<td>2,523.40</td>
<td>5,478.77</td>
<td>- 431.97</td>
</tr>
<tr>
<td>1974-75</td>
<td>4,518.78</td>
<td>3,326.83</td>
<td>7,847.61</td>
<td>- 1,189.95</td>
</tr>
<tr>
<td>1975-76</td>
<td>5,284.78</td>
<td>4,036.26</td>
<td>9,321.04</td>
<td>- 1,228.52</td>
</tr>
<tr>
<td>1976-77</td>
<td>5,073.79</td>
<td>5,142.71</td>
<td>10,216.50</td>
<td>+ 68.92</td>
</tr>
<tr>
<td>1977-78</td>
<td>6,020.23</td>
<td>5,407.87</td>
<td>11,428.10</td>
<td>- 612.36</td>
</tr>
<tr>
<td>1978-79</td>
<td>6,310.64</td>
<td>5,726.07</td>
<td>12,036.71</td>
<td>- 1,084.57</td>
</tr>
<tr>
<td>1979-80</td>
<td>9,142.58</td>
<td>6,412.43</td>
<td>15,551.01</td>
<td>- 2,724.15</td>
</tr>
<tr>
<td>1980-81</td>
<td>12,549.15</td>
<td>6,710.10</td>
<td>19,259.25</td>
<td>- 5,838.45</td>
</tr>
<tr>
<td>1981-82</td>
<td>13,607.56</td>
<td>7,805.90</td>
<td>21,413.46</td>
<td>- 5,801.66</td>
</tr>
<tr>
<td>1982-83</td>
<td>14,359.99</td>
<td>8,834.21</td>
<td>23,194.20</td>
<td>- 5,525.68</td>
</tr>
<tr>
<td>1983-84</td>
<td>15,587.77</td>
<td>9,726.80</td>
<td>25,314.57</td>
<td>- 5,860.97</td>
</tr>
</tbody>
</table>

* Figures are provisional and up to date till June 1984.

India generally has adverse balance of trade owing to increases in imports needed to meet the requirements of development accompanied by a relatively slow growth of exports in the background of large domestic market with rising demand. There have been periods when India's foreign trade witnessed modest surpluses. In 1972-73, as a result of an appreciable increase in exports, the balance of trade turned into a favourable one for the first time during the preceding 26 years. It was favourable once again in 1976-77 when India's trade was in surplus to the extent of Rs. 63.92 crore due to a faster growth in the exports and a slight fall in imports. The subsequent years have been marked by rising trade deficit. India's external trade and balance of payment situation have been under severe strain since 1977-80. During this period, there has been a small increase in India's foreign trade deficit, chiefly on account of disproportionate rise in import bill in the wake of steep hike in world prices of major imports, particularly those of petroleum and petroleum products. The deficit of foreign trade stood at Rs. 1,085 crore in 1979-80 and was Rs. 5,838 crore in 1980-81. The growth of exports during 1980-81 was hampered by the poor performance of Indian economy in 1979-80 and the first half of 1980-81 as a result of droughts, by low production levels, lack of infrastructural facilities for export production and domestic inflation.\(^1\)

\(^1\) Ibid., p. 388.

\(^2\) Ibid., p. 389.
The resultant domestic shortage also necessitated higher imports of essential commodities which inflated the import bill. The international environment was also not conducive to the growth of exports following a worldwide recession, prevalence of fluctuating exchange rates and new tariff, non-tariff and other protectionist measures adopted by developed countries. However, as a result of various measures taken by the Government of India in the direction of export production and export marketing, 1980-82 and 1982-83 showed distinct improvement in the performance of India's foreign trade.

The year 1982-83 witnessed an acceleration in the rate of growth of the imports which arrested the trend of rapid growth in trade deficit, experienced during the period between 1977-78 and 1980-81. It is significant that the annual growth in the value of exports moved up from 4.6 per cent in 1980-81 to 16.3 per cent in 1982-83 whereas the annual growth in the imports bill dropped from 37.3 per cent in 1980-81 to 8.4 per cent in 1980-82 and 5.5 per cent in 1982-83. As a result, the balance of trade deficit somewhat declined from Rs. 5,938 crore in 1980-81 to Rs. 5,802 crore in 1981-82 and Rs. 5,526 crore in 1982-83.¹

The provisional figures of India's foreign trade for 1983-84 as per March 1984 Press Note place exports at Rs. 9,396.15 crore and imports at Rs. 15,347.31 crore as compared

¹ Ibid., p. 389.
with corresponding provisional exports and imports of Rs. 637.68 crore and Rs. 14,047.28 crore respectively during 1982-83. Thus according to provisional estimates, exports, during 1983-84 registered a rise of 8.8 per cent whereas imports grew at a higher rate of 9.3 per cent, as a result of which the deficit in India's foreign trade increased by about Rs. 541 crore in 1983-84. However, it is important to note that up to the first 10 months of 1983-84 the balance of trade deficit continued to be lower than it was in the corresponding period of 1982-83, and during this period exports were up by 12.7 per cent whereas imports increased by about 25 per cent. Apart from the continued adverse position of India in international trade, the higher trade deficit at the end of 1983-84 is attributable to the stoppage of export shipment during the port and dock workers' strike (from 16th May, 1984 to 10th April, 1985 and a significant increase in imports during the three months' period from December 1983 to February 1984 to meet the growing needs of domestic economy. During the first eleven months of 1983-84 India's overall exports registered a growth rate of more than 12 per cent according to provisional estimates. On account of the port and dock strike in the later half of March, the growth rate was 8.8 per cent at the end of 1983-84. While it is difficult to estimate the loss in exports on account of strike, it is likely that exports worth Rs. 550 to Rs. 660 crore were not shipped in the later half of March 1984. Had it
Foreign trade plays a crucial role in the economic development of countries like India which aim at rapid economic growth within a short span of time. The importance of foreign trade sector in these economies is determined to a large extent, by the factor endowment position and the nature of development plans formulated.

Planning in India is aimed at efficient exploitation of the limited resources of the country for a rapid rise in the standards of living of the people. In this framework of planning and development effort, promotion of export industries and export trade is of vital significance for financing the foreign exchange component of the plans, and the servicing of the huge external debt. Further, the transformation and modernisation of the economy require increasing inflow of essential imports such as capital equipment and raw material, at least in the initial stages of development. Foreign trade, thus plays an important role in the development strategy of the Indian economy.

**Trends in Foreign Trade**

In 1947-48, the first year of independence India’s exports amounted to Rs. 400 crore, more than 50 per cent of

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1 Ibid., p. 389
which was accounted for by jute manufactures and tea. From 1947-48 to 1950-51, the value of exports, on an average, came to Rs. 500 crores. The value of imports during this period came to Rs. 600 crores, being 20 per cent higher than that of the exports.1

During the period of the First Five Year Plan, the annual average imports amounted to Rs. 724 crores and exports to Rs. 607 crores. Thus, till the end of First Plan period the exports could finance more than 80 per cent of the imports.

The Second Five Year Plan, which initiated a massive programme of industrialisation, gave further fillip to imports. Between 1956-57 and 1960-61, the value of imports came to Rs. 977 crores, on an average while the average annual value of exports stood only at Rs. 624 crores. The increase in the value of imports was 35 per cent, while in the value of exports it was only 3 per cent over the corresponding First Plan averages. As a result, during this period, exports could pay for only 62 per cent of imports. During the Second Plan period, the economy also faced a severe foreign exchange crisis.2

Imports rose even faster during the Third Plan period. Increase in the pace of industrialisation and development programmes resulted in an increase in imports of all kinds and of capital goods. There was also an increase in maintenance

2 Ibid., pp. 391 and 392.
imports, imports of raw materials and intermediate products and foodgrains with export still consisting mostly of agricultural commodities and related manufactures. During this period, exports could pay for only 61 per cent of imports, with the former averaging Rs. 762 crores and the latter Rs. 1,242 crores.

During the decade of 1951-60, world exports, in terms of value, increased at a compound growth rate of 5.8 per cent per annum, while Indian exports increased at a compound growth rate of only 0.2 per cent per annum. As a result, India's share in world exports declined rapidly from 2.1 per cent in 1950 to 1.2 per cent in 1960. In the following decade of 1961-70, there was an increase in the growth rate of India's exports to 3.4 per cent per annum, from 0.2 per cent in the earlier decade. But world exports increased at a compound growth rate of 8.9 per cent per annum, i.e., more than double the rate of growth of Indian exports. India's share of world exports during this period showed a further decline from 1.2 per cent in 1960 to 0.72 per cent in 1970.1

In 1970, the Government of India passed the Export Policy Regulation, stressing the need to pursue a vigorous export policy. During the period from 1970 to 1978, exports from India increased significantly at a compound growth rate of 16.9 per cent per annum. However, during the same period

1 Ibid., p.392
world export increased rate of 19.2 per cent per annum.

Thus it is evident that India's exports have not been increasing as fast as world exports. During the entire period under consideration, i.e., 1950-1978, export from India increased at a compound growth rate of 5.4 per cent per annum, while world exports increased at a compound growth rate of 10.3 per cent per annum. As a result of these differential rates of growth, India's share of world exports declined drastically from 2.1 per cent in 1950 to 0.55 per cent in 1978.¹

During the 'eighties, world exports are expected to increase at a rate of 5.7 per cent per annum in real term. Hence, if India's share of world trade were to be increased from the present 0.6 per cent to 0.89 per cent by 1990-91, with the export of manufactures accounting for 69 per cent of the total exports at 10 per cent is considered necessary and attainable during the 1980s by the Torder Committee on Export Strategy for the Eighties for India. Further, in order to achieve one per cent share of world trade, the growth rate of India's exports during the decade will have to be 11.2 per cent per annum. The share of exports in India's Gross National Product is thereby expected to rise from 7.4 per cent to 11.68 per cent. ²

² Ibid., p. 396.
Problems on the trade front, viz., export stagnation, deterioration in the term of trade, instability of export prices and exports earnings, combined with rapidly rising imports create severe balance of payments difficulties for developing countries like India. It is in this context that import substitution and export diversification are adopted as the twin techniques to overcome the balance of payments problems and to achieve the goal of rapid economic development.

In fact, a number of economists have advocated industrialisation via import substitution for the developing countries in general. Nurkse has pointed out that during the nineteenth century trade acted as an "engine of growth",¹ because of a vigorous increase in the demand for primary products. However, he opines that during the twentieth century trade could not play the role of an engine of growth because of the relative lag in the industrial countries' demand for primary products. Under the altered conditions, Nurkse advocates industrialization catering to the domestic markets, i.e., import substitution, to promote the growth of developing countries.

Gunner Myrdal expresses the view that in the changed international situation of the twentieth century there is no longer any stimulus from export markets. He advocates industrialisation based on import substitution as an essential condition for economic development. The course of development

¹ Ibid., p. 397.
of the developed countries also indicates that when exports fail to provide the necessary momentum for growth, import substitution comes into operation to sustain and reinforce the growth process.

**Import Substitution Policy**

The main aim of developing countries like India is to achieve rapid economic and social growth. Many of them, therefore, have adopted programmes for rapid industrialisation. An important feature of their industrialisation policies is reliance on import substitution and high rates of protective tariffs which is known as the 'import substitution industrialization (ISI) strategy'. Rural Prebisch was a strong advocate of the policy of ISI in the 1950s. Under this policy, industries are established to produce goods that were previously imported. These industries mainly cater to the domestic market and they are protected against foreign competition through tariffs and other restrictions in imports.

In his study of industrial growth, Chenery has showed how in many countries, industrialisation based on import substitution has contributed to a significant growth in output. Hirschman also attributes much of the rapid economic development of the developing countries to industrialisation based or import substitution. Schoepers points out that in many cases, import substitution has created an industrial base, "to proceed with confidence to the next stage of the pattern of development."¹

¹ Ibid., p. 398.
He attributes the rapid industrialisation of South Africa to the Policy of import substitution.

In short, the policy of import substitution was expected to solve many of the problems faced by the developing countries. It was supposed to act as the leading and transforming their economies so as to enable them to reach the levels of the advanced countries.

**Rationale For Import Substitution Policy in India**

Albert O. Herschman has identified four motive forces behind ISI -- balance of payment difficulties, wars, gradual growth in income and deliberate development policy. The first and the last of these motives involve deliberate policies on the part of the Government to promote the growth of the industrial sector.

Soon after achieving independence in 1947, India adopted economic planning for efficient allocation of its limited resources. The object was to achieve a rapid increase in the standards of living of the people and to lay the foundations for sustained economic growth within a democratie socialistic framework. At that time, per capita consumption and income levels were very low. The economy also lacked a viable industrial base. Transport and communication facilities and other social overheads were not sufficiently developed. The First Plan (1951-56) was just the beginning of planning. It was mainly aimed at building the infrastructure.
From the Second Plan (1956-61) onwards, there was a major shift in the policy of the Government of India with emphasis placed on industrialisation. The aim of industrialisation was to bring about changes in the structure of the economy, namely, reducing reliance on agriculture and allied projects and increasing the role of mining and factory establishments. The relative share of industries and minerals was increased from 4 per cent in the First Plan and 20 per cent in the Second Plan. A continued emphasis on industrialisation was expected to bring about structural changes in the economy, contributing to rapid economic development.

Industrialisation was necessarily started via import substitution, i.e., development of domestic industries, which to replace imports by shielding them from foreign competition by means of tariffs and other devices. However, during the period of the Second Plan, in 1957, India faced a severe foreign exchange crisis. As a result since the middle of the Second Plan period, import substitution policy has became an important technique to overcome the balance of payment problems.¹

Thus, import substitution policy in India was originally directed towards promoting industrialisation and later came to be used as an instrument to overcome balance of payments problems. This was similar to the situation which obtained in Ghana which country adopted policies aimed at industrialisation and import substitution even before it started facing

¹ Ibid., p. 399.
From the Third Plan period onwards, achievement of self-sufficiency and self-reliance gained prominence as important objectives of the import substitution policy. Thus the three objectives, viz., rapid industrialisation, overcoming balance of payment problems and achieving self-sufficiency and self-reliance seem to have been combined in the strategy of ISI in the Indian economy, each becoming more prominent than the others, depending on the circumstances prevailing in the economy.

Process of Import Substitution

The term "import substitution", used very widely in the literature on economic development and international trade, refers, in general to the replacement of imports by domestic production. The process of imports substitution may involve changes in the dependence of an economy on a commodity or the inputs that go into the domestic production of the commodity.

In the first case, a direct encouragement to the indigenous production of the end product can be given when the imports of the end-product are curtailed while imports of the inputs required for the domestic production of the final product is to be increased.

In the second case, the import of the inputs is controlled

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1 Ibid., p. 400.
and while imports of the final product is allowed. The purpose here is to control the imports of the inputs for the sector.

In the third case, both the imports of the inputs and the final product may be controlled, giving encouragement to domestic production of both.

In the last case, import dependence of the economy on the commodity and the independence of the commodity and its inputs may both be rising.¹

In all the four cases, the policy under consideration will have important direct and indirect impact on the balance of payments position and on the growth of the other sector's plan for import substitution and that of the entire economy.

Foreign trade, particularly export trade, has been playing a role of critical importance in the formulation and successful implementation of the Five Year Plans in the country.

Export strategy has to be envisaged in an integrated manner so that all policies relevant to the export sector become mutually consistent. Aspect of the export economy which form part of the integrated strategy for exports include investment, choice of industries, fiscal and monetary policies, import policy for exports, tea policy, infrastructural facilities such as shipping, power, communications, transport, information system, advice on the technology, production, choice of techniques, publicity and marketing. Emphasis will have to be

¹ Ibid., p. 392.
laid on the need for providing stability to the export policy and its various constituents for a reasonably long period in order to enable the exporters to plan their production and marketing activities in a well-organised and effective way.¹

In a developing country like India, export strategy has to be identified as an integrated framework converting all the various facets of planning and development, because the pattern of growth of the export-oriented industries is dependent on the overall growth and production trends of the economy. Expansion and diversification of export trade are essential preconditions for economic development, as exports have a vital role to play in the achievement of basic objectives of economic development. Export earnings enable developing economies to pay for critical and essential imports such as certain types of machinery, metals, petroleum, fertilizers and new science and technological know-how, which are essential for expanding overall production and keeping pace with the modern world.

Export earnings are also essential for serving and repayment of foreign debts. Exports have a salutary impact on economic development of the country through the beneficial effect of competition which implies a constant updating of technology and production techniques.²

Export trade can play a more important role in expanding production and generating employment opportunities in the

¹ Ibid., p. 392.
² Ibid., p. 394.
small-scale and cottage industries in the rural and backward areas. Diversification of export trade by shifting emphasis from traditional commodities to non-traditional items, from raw materials and low value added items to processed and higher value added items; from capital intensive goods, to labour intensive goods, and from conventional and developed markets to new and growing markets would add stability and dynamism to India's exports.

Developments in the export trade following devaluation in 1966 ushered in an era of new uncertainty and produced great strains. It was very difficult to establish markets abroad for new export items which had to compete more intensively with the overseas rivals. As a result, reducing costs, differentiating products and promoting sales in buyers' markets were the new challenges to be met.

Concerted efforts were made by the Government to meet these challenges. The annual average of export earning, which was Rs. 762 crore during 1961-66 increased to Rs. 1,217 crores during 1966-69.¹ Production of the five export items, viz., tea, jute, cotton textiles, hides and skins and animal and vegetable oils which constituted about 61 to 62 per cent of India's total exports in 1950-51, declined substantially to about 85 per cent in 1968-69.

There was also a gradual shift from low value added items

¹ Ibid., p. 394.
to higher value added items within the same product categories. Exports of semi-manufactured and manufactured leather and leather products were encouraged in place of raw hides and skins. Similarly, exports of steel pipes and tubes were preferred to those of steel. The share of non-traditional products, viz., engineering and chemical goods and iron and steel (processed and manufactured) reached a level of about 16 per cent in total exports in 1968-69 from the negligible level of the period 1950-51 to 1956-57. Along with structural changes in the composition of the commodity pattern of exports, there were also changes in the direction of export trade. Traditional markets including U.K. remained no longer India's principal exports markets. U.K.'s share in India's total exports declined from about 29 per cent in 1958-59 to 15 per cent in 1968-69. There was a very large increase in the export trade with Soviet Russia and other East European countries, which increased to around 20 per cent in 1968-69 from 5 per cent in 1958-59. The share of ECAFE (now ESCAP) countries also increased from 18 per cent in 1958-59 to 25 per cent in 1968-69.

Export promotion efforts received the attention of the Government of India in 1962 when the country was in a difficult foreign exchange position. Export policy and promotion measures formed part of a conscious effort to influence the volume, commodity and country pattern of export trade. Since

1 Ibid., p. 399.
then, export programmes have been an integral part of the country's development process.\textsuperscript{1}

The government has taken several measures to promote the country's exports. These include: institutional, organisational, fiscal and other measures meant to promote exports, directly or indirectly or both. In general, these measures are intended to impart dynamism to the country's efforts to expand and diversify India's export trade and to provide an orientation to the economy for exports. These measures also aim at increasing and diversifying export commodities so as to secure the maximum benefits possible for the domestic economy as well as diversification of the export markets.\textsuperscript{2}

Specific areas of export trade are identified by the Government and export organisations for applying the policy of export promotion in a more meaningful and result oriented manner. The export promotion efforts are coordinated in such a way that they are applied industry-wise, productionwise as well as at the level of individual exporter so as to influence the supplies of export products by making them available at internationally competitive price and quality standards. The areas which deserve to be considered by the government for export promotion can broadly be classified into three categories: (i) export production, (ii) export assistance, and (iii) export infrastructure and services.\textsuperscript{3}

\begin{itemize}
\item \textsuperscript{1} Ibid., p. 399.
\item \textsuperscript{2} Ibid., p. 399.
\item \textsuperscript{3} Ibid., p. 400.
\end{itemize}
(1) Export Production

Exports are mainly a function of production. It has been realised that in the long run exports could be increased by increasing the rate of growth of agricultural and industrial production by providing the required raw materials, components and supporting infrastructural facilities adequately to generate and sustain exportable surplus. Efforts are being made to inculcate cost and quality consciousness. A great deal of research and development is necessary to diversifying the use of the available natural resources. Adequate investment also becomes necessary in various industries, both in public and private sectors.

Some of the major products for special emphasis to generate export surplus in the Indian context are: (a) handi-crafts, (b) gems and jewellery, (c) agricultural and horticultural products, (d) leather and leather manufactures, (e) light engineering goods, (f) electronic goods, and (g) project exports and consultancy services. Similarly, a number of new items such as rice-bran oil, mango kernel, slaughter-house waste, new processed fruits, vegetables, and meat and meat products have been discovered as having a tremendous potential for export. To boost export production, certain specific facilities have also been given from time to time, like capacity expansion, increase in the size of the plants, and the scale of operation, quality control, etc.¹

¹ Ibid., p. 401.
The establishment of the Export House is recognised as an instrument of export promotion. Export trading is a skillful art in itself and it requires wide infrastructural network of facilities such as information on market potential, managing, production as per the specifications of demand, providing the necessary imported and domestic inputs to facilitate quality production, promotion and marketing, and credit. Every individual manufacturer-exporter cannot undertake export trading in as effective a manner as a specialised trading organisations can do. Further, development of infrastructure by every exporter might result in duplication of efforts. Through the collective and effective services of the export House there is scope for other product group benefiting from the experience of a particular product group in the field of imports and exports.

(ii) Export Assistance

Export assistance includes both monetary and fiscal measures meant for assisting the exporters. There are different types of exporters and there are also different types of export assistance -- cash assistance, draw back of excise duties, etc.

Export credit and finance have an important role in promoting exports. Facilities available to exporters in the form of export credit can be broadly divided into (a) credit facilities, viz., loans and advances, and (b) quasi-credit facilities such as guarantees etc., and miscellaneous facilities.¹ "Credit

¹ Ibid., p. 403.
facilities offered to exporters by the banks and other financial institutions are in the form of pre-shipment credit (packaging credit), short-term post-shipment credit, or long-term post-shipment credit on deferred payment basis.

The primary objective of the export Credit and Guarantee Corporation (ECGC) is to support and strengthen the export promotion. The following are the two main functions of the ECGC: (i) It issues insurance policies to Indian exporters against the risk of non-receipt of payment due to commercial and political risks arising from exports on credit terms, and (ii) it issues guarantees to banks underwriting a major part of the loss that may arise in advances they make or other support they extend to exporters in connection with export operations.

Pattern of Export Trade

Exports which had been more or less stagnant during the decade 1951-60, averaging a little over Rs. 600 crore per annum, started showing some improvement between 1961 and 1966. They showed a continued rise during the post-devaluation years, though the rate of increase varied from year to year depending on the domestic and international situation. From Rs. 1,093.78 crore in the devaluation year 1966-67, exports after a decade were valued at Rs. 5,142.71 crore in 1976-77. This upward trend continued and by 1982-83 Indian exports touched a figure of
Rs. 8,834.21 crore. The provisional estimate of exports during 1983-84 was Rs. 9,396.15 crore which were likely to reach in the range of Rs. 9,700 to Rs. 9,700 crore on receipt of complete returns. It is worth noting that upto June 1984 the exports and imports for 1983-84 stood undated to Rs. 9,726.80 crore and Rs. 15,587.77 crore, registering a growth rate of 10.7 per cent and 8.5 per cent respectively over the final figures of exports and imports during 1982-83.

The exports have not only gone up, but they have also shown an increasing diversification over the years. The increase has been spread over a number of commodities such as capital goods and other engineering items, chemicals and chemical products, leather and leather manufacatures, garments, silk, rayon and woollen textiles, gems and jewellery, handi-crafts, processed food and marine products, etc. Emphasis has also been laid on the export of traditional items like plantation produce, agricultural items, ores and minerals, cotton and jute manufactures.

A number of items registered a remarkable progress in exports between 1971-72 and 1981-82. During this decade, exports of engineering goods went up from Rs. 122 crore to Rs. 939 crore, those of leather and leather products (including footwear) increased from Rs. 102 crore to Rs. 406 crore, as regards pearls, precious and semi-precious stones, the increase

1 India, 1984, Ministry of Information and Broadcasting, New Delhi, p. 390.
was from Rs. 52 crore to Rs. 761 crore; export of readymade garment rose from Rs. 14 crore to Rs. 364 crore, fish and fish preparations from Rs. 41 crore to Rs. 280 crore; and hand-made carpets from Rs. 12 crore to Rs. 181 crore.\(^1\)

Although major trading exports like those of tea, jute, manufactures and cotton fabrics have tended to increase in terms of value, these have been subject to considerable fluctuation during the period depending on the demand and supply position in the international market.

In recent years the international trade and economic situation has become increasingly difficult for the exports of many commodities and manufactures. The persistent recession in the industrialised countries coupled with high level of unemployment, has led to increase in protectionism in the world economy which has had serious repercussions on the export prospects of developing countries like India. The past few years have witnessed a marked deceleration in the growth of world trade. In sharp contrast to the phenomenal expansion in international trade during the quarter century, 1950 to 1975, the volume of world trade increased at an average rate of 5 per cent per annum from 1975 to 1979, by 105 per cent in 1980, it remained stagnant in 1981 and declined in 1982 and by 13.2 per cent. In this context it is worth noting that India's export earnings increased by 16.3 per cent in 1981-82 and by 13.2 per cent in 1982-83.\(^1\) This is

\(^1\) Ibid., p. 390.
creditable insofar as it has made the best of a difficult international economic situation. Table 3 shows the exports of selected commodities.

Trends in India's principal exports reveal that the commodity groups which registered a significant increase in export earnings during 1982-83, as compared with 1981-82, include coffee, oil-cakes, marine products, raw cotton, fruits and vegetables, and jems and jewellery. Exports of iron ore and tobacco also showed some increases. Exports of crude oil were substantial. These were of Rs. 1,023 crore in 1982-83 and emerged as an important source of foreign exchange earnings. On the other hand, exports of a number of manufactured goods as textiles (including readymade garments), machinery and transport equipment, chemicals and allied products, leather and leather manufactures and handmade carpets witnessed a decline during 1982-83 because of recessionary conditions in the world economy and protectionist policies pursued by industrialised countries. Some traditional items, like tea, rice, jute manufactures, spices and cashew kernel also suffered a set-back due to sluggish demand and severe competition in overseas markets. However, in case of items such as tea and rice, supply constraints in respect of exportable varieties were also partly responsible for the decline in exports during 1982-83.

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1 Ibid., p. 391.
2 Ibid., p. 391.
Table 3

TRENDS IN INDIA'S EXPORT (COMMODITYWISE) BETWEEN 1950-51 AND 1984-85

(Rs. in crores)

<table>
<thead>
<tr>
<th>Commodities - Major Traditional Items</th>
<th>1950-51 Absolute terms</th>
<th>Relative terms</th>
<th>1960-61 Absolute terms</th>
<th>Relative terms</th>
<th>1970-71 Absolute terms</th>
<th>Relative terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jute manufactures</td>
<td>112.20</td>
<td>18.68</td>
<td>212.90</td>
<td>32.24</td>
<td>190.48</td>
<td>12.40</td>
</tr>
<tr>
<td>Tea</td>
<td>126.90</td>
<td>21.12</td>
<td>197.72</td>
<td>29.94</td>
<td>224.30</td>
<td>14.61</td>
</tr>
<tr>
<td>Coffee</td>
<td>1.30</td>
<td>0.21</td>
<td>7.23</td>
<td>1.09</td>
<td>25.16</td>
<td>1.63</td>
</tr>
<tr>
<td>Spices</td>
<td>41.10</td>
<td>6.84</td>
<td>16.65</td>
<td>2.51</td>
<td>39.05</td>
<td>2.54</td>
</tr>
<tr>
<td>Cotton textiles</td>
<td>115.80</td>
<td>19.27</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Manganese ore</td>
<td>N.A.</td>
<td>N.A.</td>
<td>22.12</td>
<td>3.34</td>
<td>14.08</td>
<td>0.91</td>
</tr>
<tr>
<td>Tobacco</td>
<td>14.10</td>
<td>2.34</td>
<td>24.80</td>
<td>3.75</td>
<td>32.72</td>
<td>2.12</td>
</tr>
<tr>
<td>Mica</td>
<td>N.A.</td>
<td>N.A.</td>
<td>16.04</td>
<td>2.42</td>
<td>15.63</td>
<td>1.01</td>
</tr>
<tr>
<td>Major Non-Traditional Items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering Goods</td>
<td>3.72</td>
<td>0.61</td>
<td>13.40</td>
<td>2.02</td>
<td>130.40</td>
<td>8.52</td>
</tr>
<tr>
<td>Iron ore</td>
<td>9.09</td>
<td>1.51</td>
<td>26.80</td>
<td>4.05</td>
<td>117.32</td>
<td>7.60</td>
</tr>
<tr>
<td>Readymade garments</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Leather &amp; Leather products</td>
<td>34.78</td>
<td>5.79</td>
<td>39.32</td>
<td>5.95</td>
<td>72.20</td>
<td>4.72</td>
</tr>
<tr>
<td>Chemicals and Allie Products</td>
<td>N.A.</td>
<td>N.A.</td>
<td>5.44</td>
<td>0.81</td>
<td>29.40</td>
<td>1.99</td>
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<tr>
<td>Fish and Fish Preparations</td>
<td>2.46</td>
<td>0.40</td>
<td>7.33</td>
<td>1.10</td>
<td>31.30</td>
<td>2.04</td>
</tr>
<tr>
<td>Gems and Jewellery</td>
<td>139.60</td>
<td>23.23</td>
<td>70.47</td>
<td>10.68</td>
<td>558.31</td>
<td>36.37</td>
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<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Traditional</td>
<td>410.90</td>
<td>68.43</td>
<td>494.36</td>
<td>75.34</td>
<td>541.32</td>
<td>35.26</td>
</tr>
<tr>
<td>Total non-traditional</td>
<td>50.19</td>
<td>8.34</td>
<td>92.29</td>
<td>13.98</td>
<td>435.53</td>
<td>28.37</td>
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</table>

Total                                      600.64  100.00  660.22  100.00  1535.16  100.00

(Contd.)
<table>
<thead>
<tr>
<th>Commodity</th>
<th>1980-81 Absolute Terms</th>
<th>1980-81 Relative Terms</th>
<th>1984-85 Absolute Terms</th>
<th>1984-85 Relative Terms</th>
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<tbody>
<tr>
<td><strong>Major traditional items</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Jute manufactures</td>
<td>329.95</td>
<td>4.91</td>
<td>341.12</td>
<td>2.95</td>
</tr>
<tr>
<td>Tea</td>
<td>376.08</td>
<td>5.46</td>
<td>707.91</td>
<td>6.12</td>
</tr>
<tr>
<td>Coffee</td>
<td>214.24</td>
<td>3.18</td>
<td>198.14</td>
<td>1.71</td>
</tr>
<tr>
<td>Spices</td>
<td>111.04</td>
<td>1.65</td>
<td>174.16</td>
<td>1.57</td>
</tr>
<tr>
<td>Cotton Textiles</td>
<td>N.A.</td>
<td>N.A.</td>
<td>412.90</td>
<td>3.57</td>
</tr>
<tr>
<td>Manganese ore</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Tobacco</td>
<td>124.41</td>
<td>1.85</td>
<td>148.62</td>
<td>1.28</td>
</tr>
<tr>
<td>Mica</td>
<td>N.A.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Major non-traditional items</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering goods</td>
<td>315.05</td>
<td>12.13</td>
<td>738.44</td>
<td>6.39</td>
</tr>
<tr>
<td>Iron ore</td>
<td>303.33</td>
<td>4.51</td>
<td>447.28</td>
<td>3.87</td>
</tr>
<tr>
<td>Readymade garments</td>
<td>514.94</td>
<td>7.66</td>
<td>557.81</td>
<td>4.82</td>
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<tr>
<td>Leather and leather products</td>
<td>372.20</td>
<td>5.61</td>
<td>456.63</td>
<td>3.95</td>
</tr>
<tr>
<td>Chemicals and Allied Products</td>
<td>225.64</td>
<td>3.35</td>
<td>370.62</td>
<td>3.26</td>
</tr>
<tr>
<td>Fish and fish products</td>
<td>212.89</td>
<td>3.16</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Gems and jewellery</td>
<td>618.37</td>
<td>9.20</td>
<td>1303.11</td>
<td>11.27</td>
</tr>
<tr>
<td>Others</td>
<td>2502.35</td>
<td>37.25</td>
<td>5697.87</td>
<td>49.30</td>
</tr>
<tr>
<td>Total traditional items</td>
<td>1146.30</td>
<td>17.00</td>
<td>1982.84</td>
<td>17.20</td>
</tr>
<tr>
<td>Total non-traditional items</td>
<td>3067.45</td>
<td>45.67</td>
<td>3874.08</td>
<td>33.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>6716.10</td>
<td>100.00</td>
</tr>
</tbody>
</table>

N.A. = Not available
* = Provisionally revised

Source: Compiled by the author from the following:
2. Economic Survey, Govt. of India's Various Issues, especially of 1984-85.
5. Draft of the Fifth Five Year Plan.
India's exports consist of both traditional and non-traditional items. If one go through a glance on the statistics relating to traditional as well as non-traditional items one arrives at the definite conclusion that the relative share of the traditional items in the country's total export has been declining down right from 1960-61. In 1960-61 the relative share of traditional item in country's total exports was as high as 76 per cent whereas in 1984-85 it came down to 17 per cent, showing a decline of nearly 58.14 per cent over the period whereas the share of the non-traditional items in the country's total exports went up from 14 per cent in 1960-61 to 33.5 per cent in 1984-85.

In 1950-51, tea was the largest export item with a share of 21 per cent whereas the share of this item in India's total exports came down to a little more than 6 per cent (15.66) in 1984-85. Cotton textiles which constituted the second biggest item of India's total exports in 1950-51 accounting for more than 19 per cent came down to the low level of a little over 4 per cent in 1984-85 (15.7). Jute manufactures were occupying third place in India's exports in 1950-51 with the relative share of nearly 19 per cent but these went down considerably to nearly 3 per cent in 1984-85. The exports of spices which came next to jute manufacture and formed
nearly 7 per cent of the country's total exports in 1950-51 accounted for only about 2 per cent of exports in 1984-85. Exports of tobacco which had a relative share of more than 2 per cent of India exports in 1950-51 declined to 1.3 per cent of the country's exports in 1984-85.

The shares of non-traditional items in India's exports were very low, i.e., 8.34 per cent in 1950-51. Among them the biggest share was that of a single item, leather and leather products, with a nearly 6 per cent. Iron ore constituted a relative share of 1.5 per cent. Engineering goods were at a very low ebb. In 1984-85, gems and jewellery emerged as the largest export item under the classification of non-traditional items with a share of more than 11 per cent. The second biggest item which emerged on the scene was engineering goods with a relative share of more than 6 per cent. Another item which also came up as one of the important non-traditional item was ready-made garments constituting nearly 5 per cent, followed by chemicals and allied products with a share of nearly 4 per cent. The remaining two important non-traditional items, namely iron ore and fish and fish preparation gained momentum in exports. Their share rose to 3.9 per cent and 3.2 per cent respectively in 1984-85 as compared with 1.5 per cent and 0.4 per cent respectively in 1950-51.
All this shows that though in absolute term there has been a continuous increase in the total exports of both traditional and non-traditional items, in relative terms, traditional items are losing ground whereas non-traditional items are on the increase in the field of exports and a more rational policy is needed since increase in the relative share of non-traditional items should not be at the cost of traditional items. This is because traditional items are as important as non-traditional item in the matter of exports.
On current indications, exports seemed to have done very well during 1983-84 in respect of gems and readymade garments, tea, sugar, cashew kernels, spices, cotton raw, handmade carpets, crude oil and other minerals, fuel and lubricant products.

Gems and Jewellery

The gems and jewellery exports now constitute a major growth sector in India's exports. Exports of these items are estimated to have reached Rs. 1,324 crores during 1983-84 or approximately 14 per cent of country's total exports during the year. For the last few years, the world diamond trade has been faced with a recession which has had a greater impact on the demand for large sized diamonds than for small sized. The demand from U.S. and other consumer markets seems to be inclined in favour of Indian cut and polished diamonds. To feed the raw material requirements of this export-oriented industry, certain facilities have been made available to it, in the matter of procurement of materials. Most of the processing of rough semi-precious stones in India is done at Jaipur and Cambay in addition to Tiruchirapalli.

Handicrafts

Indian handicrafts are becoming steadily popular in the international market. They constitute an important cottage industry of the country and provide employment to nearly 25
lakh artisans. There is a large number of handicrafts which comprise a wide range of artistic products. Woollen carpets and druggets, art metalware, hand printed textiles and scarves, woodwares, zari, ivory products, etc., are the principal items of handicrafts which are exported. Woollen carpets and druggets, however, occupy the most important position among the export items, accounting for almost 45-60 per cent of the total exports of handicrafts from the country. Indian carpets had to face severe competition from countries like China, Pakistan, Korea and Taiwan in the international market. A Carpet Export Promotion Council was set up in 1982 exclusively for the promotion of carpet exports.

The Sixth Plan provides an allocation of Rs. 56.40 crore for the development of handicrafts. Major programmes for development include (a) training in carpet weaving, art metalwares, cane and bamboo and hand printed textiles, (b) schemes for marketing assistance, (c) design research and technical development, (d) exhibitions and publicity, (e) survey and studies, and (f) export of handicrafts.

Textiles

The textiles sector plays a very important role in India’s national export effort. The items in this category cover a wide range of products. These include readymade garments, cotton textiles and made-ups, handloom products, silk, wool and

1 Ibid., p. 392.
woollen products, man-made textiles and coir products. With a view to increasing exports of these items, the Government have taken a number of steps.

A Central Advisory Council on Textile Industry was constituted on 29 November 1983 to advise the Government on matters of policy, programmes and measures for the orderly growth and development of the industry. The Exports of textiles are subject to quantitative restrictions imposed by a number of industrialised countries. This has restricted the scope for increase in their exports. There was an extension of the Multi Fibre Agreement (MFA) on 22 December 1981 for a period of more than 4 years. It was expected to prove beneficial for developing countries including India, as some of the restrictive clauses have been removed and higher growth rates provided. India has already concluded textile agreements under the aegies of MFA with U.S.A., European Economic Community, Canada, Australia and Finland for a 4 year period with effect from 1st January 1983. In November 1983 a new bilateral textile agreement was concluded with Sweden which will ensure better access to the Swedish market.

**Project Exports**

From a modest beginning in 1973 project exports expanded rapidly in the aftermath of the oil boom when oil producing countries of West Asia embarked on massive developmental
construction. Apart from providing a whole range of consultancy and technical services, Indian firms have attained a certain degree of competence in the fields of both civil construction and industrial turn-key projects. In order to sustain and give a fillip to project exports, a separate export promotion council, viz., Overseas Construction Council of India, has been set up to deal with overseas construction and civil engineering projects.

Foreign trade is trade between two countries or two different markets. It is therefore desirable that the foreign markets are simultaneously cultivated to serve as cushion not only to meet the situation arising out of recession in the domestic market but also in situations where higher capacities as such have been created to meet the future demands.

Export of non-traditional items, especially engineering goods, very much depend upon the image of a country. Today Japanese, German, British and American goods can be sold easily but Indian engineering goods face difficulties. It takes time to convince customers of capacities and capabilities of a country to meet their exact requirements.

The easiest way to do so is to penetrate the world markets in a big way with complex sophisticated capital goods which can build India's image as an industrial nation, paving thereby way for exports of their less sophisticated goods.
Development in India's Trade Policy

The export-import policy of the country has, in the recent years been increasingly export-oriented and production-oriented. Several liberal provisions have been incorporated in the framework of the policy with regard to import of raw materials, components, capital goods and upgradation of technology with a further simplification and streamlining of procedures. The import and export policy for 1984-85 was formulated to improve export performance keeping in view the global economic environment, and the needs of the domestic economy. The policy seeks to provide a further impetus to production for export to make all possible savings in imports, strengthen and develop the production base through continuous access to all necessary inputs including capital goods, facilitate technological upgradation and modernisation in production, assist the small scale sector in export production and to further simplify and streamline procedures.

In April 1985 the export-import policy was announced, for the first time, for a period of three years ending March 1988 with the objective of imparting continuity and stability to the policy. This medium term policy was calculated to minimise year to year uncertainties and thereby help the industrial sector to plan its economic activity with a broader perspective. The present policy incorporates a number of recommendations of the Committee on Trade Policies, which was
set up in July 1984 and which presented its report at the end of 1984. Some of the major recommendations of the Committee have been incorporated in the current import-export policy. These include the announcement of import-export policy for a period of three years, of the category of automatic licences, introduction of the import-export pass-book scheme for manufacturer-exporters and canalisation of imports through enterprises not charged with manufacturing the concerned items. The committee's recommendations favouring a greater role for tariffs in regulating imports have also been included in the Government's Long Term Fiscal Policy.

In order to meet the requirements of machinery for modernisation of export production, 201 items of industrial machinery have been included in the list of capital goods.\(^1\)

Import of 53 items has been decanalised because the Government concluded that the basic objectives of canalisation (namely, purchase in bulk for securing better terms of trade, development of long term sources of supply, etc.) were not being achieved in these cases. The procedure for supply of imported inputs to actual users by the canalising agencies has also been streamlined so as to eliminate avoidable delays. In the general principal a manufacturing company should not be the canalising agency for the product it produces. All types has now canalised through the State Trading Corporation and

and import of certain iron and steel items through the Minerals
and Metals Trading Corporation of India.

The policy has several features aimed at improving export
performance. A new scheme known as 'Import-Export Pass Book
Scheme' has been introduced for manufacture exports to provide
duty free access to imported inputs for export production.
The scheme has become operational in January 1986. The scope
of duty free exemption scheme for import of raw materials
required for finished products as well as for intermediate
products has been further enlarged.

Special facilities for capital goods, raw materials, etc.,
shall now be available only to those non-resident Indians who
are returning to India for permanent settlement for setting
up industries or investment in industries in India.

Export Promotion:

Export promotion is a national task. In order to promote
exports, the Government has initiated several institutional,
infra-structural and fiscal measures. The objective of the
Government is to promote exports to the maximum extent but in
such a manner that the economy of the country is not affected
by unregulated export of items essentially needed within the
country. Export control is, therefore, exercised in respect
of a limited number of items whose supply position requires
that their export should be encouraged in the larger interest
of the country.  

The Cash Compensatory Scheme (CCS) is an important instrument of export promotion. CCS is allowed on a selective basis primarily with the objective of compensating the exporters for the elements of unrefunded taxes and duties paid on the inputs required for the manufacture of goods exported. The Duty Drawback Scheme by which exporters are allowed reimbursement of customs and central exercise duties paid on raw material, components and packaging material used in the manufacture or packaging of export products, has been further modified so as to facilitate quicker settlement of duty drawback claims.

In order to step up export production, the large Export House and companies covered under PERA (Foreign Exchange Regulation Act) have been allowed to set up capacities outside the list of industries included in the Appendix of the Industrial policy of 2 February 1973. Several steps have been initiated to provide requisite transport facilities for exports. The Internal Container Depots (ICDs) have been set up at Bangalore, Coimbatore and Guntur. A specialised Export Import Bank (EXIM) has been set up to facilitate export finance. The Trade Development Authority and the Trade Fair Authority of India are engaged in the exhibition of Indian products through participation in international fairs in different parts of the world.

1 India - 1984, op.cit., p. 396.
In addition to the two Free Trade Zones (FTZ) at Kandla (Gujarat) and Santa Cruz (Bombay) four more free trade zones have been set up at Falta (West Bengal), NOIDA (Uttar Pradesh), Madras and Cochin. The total number of units working in the Kandala Free Trade Zone (KFTZ) in 1983-84 was 93 as against 83 in 1982-83. The number of employees in this zone increased from 6,500 in 1982-83 to 7,500 in 1983-84. The number of industrial units working in Santa Cruz Electronic Export Processing Zone (SEEPZ) has also gone up to 48 in 1983-84 from 45 units in 1982-83. The total exports from SEEPZ and KFTZ during 1983-84 were valued at Rs. 88.62 crore and Rs. 107.30 crore respectively. The Government has also introduced a cent per cent export oriented scheme from 31 December 1980, in order to have local advantage in production and all the facilities of a free trade zone. Response to the scheme is quite encouraging. As on 31 March 1984, 45 units have commenced production and exports effected by these units to sell 25 per cent of their output in the domestic market against valid import licence.1

Attached and Subordinate Offices

The export promotion offices at Bombay, Calcutta, Madras, Cochin, Nagpur, and Pune are also functioning, each of them under the administrative control of a regional Joint Chief Controller of Imports and Exports/Deputy Chief Controller of

1 Ibid., p. 398.
Imports and Exports.  

South Asian Region - The South Asian neighbours of India include Afghanistan, Nepal, Sri Lanka, Maldives and Bhutan. India's balance of the trade with the countries of this region has continued to remain adverse. Various delegations both from the private sector and at the official level have been exchanged visits with a view to identifying areas of natural interest and for removing constraints in the promotion of exports of these countries.

West Asia and North Africa - India has trade agreement with 11 countries of this region. These are the Arab Republic of Egypt, Algeria, Iraq, Jordan, Kuwait, Libya, Morocco, the People's Democratic Republic of Yemen, Syria and Tunisia. India also has joint commissions with some of these countries with a view to devising measures for improving and diversifying trade flows with these countries of the region.

Africa (South of the Sahara Desert) - India has taken measures designed to increase trade, joint ventures and bilateral cooperation with African countries south of the Sahara Desert also.

The countries of this area with which India has trade agreements include Ethiopia, Ghana, Kenya, Liberia, Senegal, Uganda, Zimbabwe, Zambia, Nigeria and Cameroon. A plan for

1 Ibid., p. 400.
2 Ibid., p. 398.
technological cooperation has been prepared in consultation with National Research Development Corporation for selected African countries. The plan has been prepared in response to a feeling in most of those countries that the Indian technology is most suited to their needs and environment.

**East Europe** - The East European region continues to hold a prominent place in India's foreign trade, accounting for about 24.6 per cent of India's total exports (excluding crude oil) and 12.7 per cent of total imports during 1982-83. India has trade agreements with all the countries of East Europe. The trade protocol for 1984 with the U.S.S.R. anticipated a total trade turnover of about Rs. 3,840 crore as against the 1983 trade protocol projection of Rs. 3,626 crore.

**West Europe** - India has trade agreements with most of the West European countries. The most important of these is Indo-EEC Agreement for Commercial and Economic Cooperation. A new agreement with the EEC (which replaced the old one signed in 1978)\(^1\) was signed in June 1981. The new agreement is for a duration of 5 years and is designed to promote closer trade and economic relation between the Community and India. It seeks to include India in its trade promotional efforts through the India-EEC Trade Promotion Programme. Some of the activities covered by the programme are India's participation in trade fairs held in European countries, buyer-seller meets, exchange

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\(^1\) Ibid., p. 402.
of delegations, workshops in different export oriented industries in India and Europe and specialised training for Indians in different industries.

**North America** - The United States is one of the leading trade partners of India with a sizeable two way trade. Major items of India's exports to USA are crude petroleum, diamonds, readymade garments, cashew, marine products, leather and leather products, carpets and rugs, chemicals and allied products, jute fabrics etc. Over the years there has been significant diversification in the trade between the two countries and India now exports non-traditional items including manufactured goods with high value added contents.

Canada is a growing market for Indian products, particularly non-traditional items. India's principal exports to Canada are textiles and clothing, engineering goods, chemicals, leather and leather products, jute carpets and rugs, tea, precious stones/jewellery, spices, coffee, fruits and vegetables and handicrafts. A feature of India's exports to Canada is that finished and semi-finished products are gradually replacing the traditional raw materials.¹

**South America** - The South American region comprising Latin America and the Caribbean countries accounts for about six per cent of the country's international trade. India continues

¹ Ibid., p. 402.
to be an insignificant trading partner of the countries of this region. Argentina, Venezuela, Mexico, Brazil, Trinidad and Tobago, the Antilles, Guyana, Peru and Uruguay have so far been India's most important export markets in this region. Brazil, Mexico and Argentina have been important source of oil supply. Sizeable imports of vegetable oil and crude oils have been made in recent years from Brazil and Mexico respectively. Balancing of trade with the South American region has not yet been very easy because of distance, lack of adequate shipping and air cargo facilities. However, efforts are being made to improve the situation.

**Joint Venture Abroad**

India has set up joint venture abroad as a part of its overall strategy of increasingly participating in the development process of the third world. At the end of December 1983, there were 235 joint venture proposals out of which 154 joint ventures had reached the stage of production. Among the 154 joint ventures that have become operational, 94 are in the manufacturing sector, the maximum being in the field of light engineering, followed by textiles. Other industries in which they have been set up include chemicals and pharmaceuticals, palm oil refining, iron and steel products, paper, glass, etc. In the non-manufacturing sector, the largest number are for trading and marketing, followed by hotels and restaurants. Regionwise the largest number of
joint venture are located in the neighbouring countries of South and South East Asia (82) followed by Africa (26).

Public Sector Agencies

State participation in foreign trade plays a vital role in the planned economic development of a country. In the centrally planned economies like those of the USSR, China and other East and Central Europe countries, both exports and imports are the complete monopoly of the state. The state also plays an important role in the countries of Western Europe, the United States, Canada, Australia, New Zealand and a large number of newly independent developing Afro-Asian countries.

In India the idea of establishing state trading agencies to handle foreign trade was first mooted during the Second World War. It has remained a live issue for a long time, although the background against which it was projecte has been continually changing. It was only in 1949 that actual steps were taken to examine the necessity for setting up a state trading organisation in India. The then Minister of Commerce made the following statement on the floor of the Parliament:

_We propose to keep the position under constant review and if we consider that in any particular respect the regulatory powers and fiscal powers are providing inadequate or the state is likely to benefit in a large measure by changing the pattern of trade, we will not hesitate._

1 Ibid., p. 402.
to supplement by more positive action on our part. In addition, we propose to examine and consider whether it is necessary to set up a State Trading Organisation, in order, firstly to facilitate the development of trade with hanius and secondly to assist Government in solving different lies and problems for to be inadequate.

With this end in view, the State Trading Corporation of India was set up on May 8, 1956 which has now branched off into several subsidiaries and also into a separate Corporation, viz., Minerals and Metals Trading Corporation of India Limited, established in October 1953.¹

The Export Policy Resolution of 1970 says that the role of public sector in the development and extension of our foreign trade would be extended progressively and substantially.

With this end in view, the Government of India has been giving greater and greater responsibility to public sector agencies by adding a number of items to the list of canalised export and import items. Upto 1968-69, import of only 11 items and export of only 20 items were canalised through the public sector agencies. In 1904, the number increased to 210 for imports and 28 for exports. The volume of trade of canalised export items increased from 14 per cent in 1971-72 to 25 per cent in 1972-73. Similarly, the canalised exports have increased to about 70 per cent

For increasing state participation in the country's

¹ Committee on Public Undertakings, 40th Report (4th Lok Sabha).
export and import trade a number of public sector agencies have been set up. A discussion of these agencies is being given in the following paragraphs:

**State Trading Corporation**

The State Trading Corporation of India (STC) was registered in 1956 under the Indian Companies Act. Its main objective is to enlarge the scope of India's exports and to arrange for India's essential imports. It also provides a number of services to the small scale sector to enable it to enter the export market. The STC achieved a turnover of Rs. 1,832.1 crore in 1982-83. This consisted of exports worth Rs. 630.5 crore, imports worth Rs. 188.2 crore and domestic sales worth Rs. 13.4 crore.

Among the public sector agencies created by the Government of India for increasing state participation in India's foreign trade, State Trading Corporation has been playing an important and effective role in the achievement of the Government's objectives. Apart from the rapid strides made in the enlargement of its turnover year after year, the Corporation is also getting itself entrenched more and more in the various fields of imports as well as exports of the country. The Corporation's performance in the last few years has created considerable interest in the public sector.

The Project and Equipment Corporation (PEC), a subsidiary
of State Trading Corporation, was created to give impetus to the export of engineering equipment and projects from India. It specialises in the export of railway rolling stock, heavy equipment and the execution of turn-key projects and identifies technological competence of manufacturers of goods and of other agencies for services, ensuring the fulfilment of contractual obligations in respect of quality and delivery schedules.

Minerals and Metal Trading Corporation

The Minerals and Metal Trading Corporation (MMTC) occupies a prominent place in India's foreign trade in minerals and metals.

The exports of MMTC comprise iron ore, manganese ore, coal and chrome ore and the imports, mainly of fertilizers, aluminium and stainless steel.

The Corporation has also been entrusted with the task of importing rough diamonds from producing countries and other markets for sale to Indian diamond exporters against their REP (Registered Exporter Policy) and advance import licencees. The corporation has also made a modest entry into the international market for cut and polished diamonds.

The Mica Trading Corporation of India (MITCO) was set up on June 1, 1974 and is a subsidiary of the MMTC looking after the export of processed mica including mica scrap and
waste. More than 80 per cent of the purchases of mica by MITCO are made from economically weaker sections. To increase the exports of value added mica products, instead of processed mica only, MITCO has taken up a number of projects such as mica capacitor unit, micronised mica power plant, mica paper units, mica paper and mica splittings and insulated products.

Tea Trading Corporation of India

The Tea Trading Corporation of India (TTCCI) was established in 1971 to create a stable export market for India tea, particularly in their valued added forms, namely, packaged tea, tea bags, instant tea, etc. Other activities of the Corporation include marketing of teas for domestic consumption, management of the tea gardens, warehousing of tea and provision of other facilities beneficial to the tea industry.

Export Credit and Guarantee Corporation

The Export Credit and Guarantee Corporation Ltd. was originally set up in 1957 as Export Insurance Corporation. Later, on 15 January 1964, it was transformed into the present Export Credit and Guarantee Corporation Ltd. The primary objective of the Corporation is to promote exports from India by providing export credit insurances guarantee facilities to Indian exporters and commercial bankers.
Trade Fair Authority of India

In order to give a new orientation to country's state policy through fairs and exhibitions, the Trade Fair Authority of India (TFAI) has been set up as a Government company under the Companies Act, 1956. It took over the functions of the erstwhile Directorate of Exhibitions and Commercial Publicity, the Trade Fair Organisation and the Indian Council of Trade Fair Exhibitions. The Authority started functioning in March 1977. The main functions of the TFAI are participation in international trade fairs, holding exclusive Indian exhibitions abroad, organisation of exhibitions, fairs and specialised displays in India, provision of assistance to Indian parties for direct participation in international fairs, organisation of commercial publicity through mass media, etc.

An India International Trade Fair was held in November 1983 in New Delhi. Thirty small countries (in whose pavilions 297 foreign companies were represented) participated at the national level, besides 10 foreign companies which participated directly.

Performance of Developing Countries in Recent Years

Exports of oil importing developing countries have grown faster than the world trade in general since 1974 (in volume terms). With less protectionism they would have done this to a
larger degree. In 1984, exports of non-oil developing countries were in 12 per cent higher than in 1983, more than the increase of 9.9 per cent registered by the industrialised countries.

Imports of merchandise other than fuel by the developed countries from the developing countries, have expanded. In fact a doubling in the growth of imports of manufactures from the developing countries have more than made up the slower growth in imports of foods and raw materials other than fuel. This has been basically due to a shift in the relative advantage enjoyed by different countries and the emergence of developing countries as important and competitive suppliers of many products.

In 1983 imports of manufactures by the industrialised countries from developing countries registered an overall increase of 6 to 7 per cent. This expansion in the trade in manufactured goods was spearheaded by a small number of developing countries, which were able to widen their markets even in the 1973-75 recessionary period by vigorous export production, and by diversification into new more skill-intensive products. They began with clothing, textiles, footwear and other labour intensive products. Later they added higher products to their exports and they started exporting heavy engineering products. As a result the share of the developed countries in the import of manufactured goods increased to 13
per cent in 1980 as against 7 per cent in 1970.¹

In 1984, exports of manufactures from developing countries increased by 14 per cent as against 12 per cent from industrialised countries.

**Terms of Trade**

Table No. 4 gives the terms of trade to developed and developing countries. The table shows that developing countries had adverse terms of trade till 1972. Thereafter there was a significant improvement due to a sharp rise in commodity prices and the oil price hike. The terms of trade of developing countries have shown much greater improvement due to many oil price hikes. On the other hand, commodity prices kept fluctuating, reaching a peak in 1974 and a trough in 1976, again reaching a peak in 1981, followed by a fall thereafter. In addition, oil prices have also stabilised now. With 1980 as base while the terms of trade of developed countries improved to 101 in 1983, those of developing countries declined to 98. For oil importing countries, they declined to as low as 91.²

As a result of the deterioration of their terms of trade, while their exports have grown at a steady pace, their exports earnings have not increased proportionately. The terms of trade

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² Varshney, R.L., Foreign Trade Review, December, 1985, p. 158.
### Table 4

**TERMS OF TRADE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Developed countries</th>
<th>Developing countries</th>
<th>Petroleum exporting countries</th>
<th>Other developing countries</th>
<th>Export price indices of primary commodities (1980 = 100)</th>
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<tbody>
<tr>
<td>1960</td>
<td>117</td>
<td>51</td>
<td>22</td>
<td>120</td>
<td>27.9</td>
</tr>
<tr>
<td>1970</td>
<td>122</td>
<td>42</td>
<td>19</td>
<td>125</td>
<td>33.3</td>
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<tr>
<td>1972</td>
<td>123</td>
<td>42</td>
<td>21</td>
<td>119</td>
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<td>1974</td>
<td>108</td>
<td>80</td>
<td>61</td>
<td>131</td>
<td>72.8</td>
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<td>1975</td>
<td>109</td>
<td>79</td>
<td>60</td>
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<td>1</td>
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</tr>
<tr>
<td>1977</td>
<td>106</td>
<td>80</td>
<td>63</td>
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<td>81.0</td>
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<td>1978</td>
<td>108</td>
<td>75</td>
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<td>1980</td>
<td>100</td>
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<tr>
<td>1981</td>
<td>98</td>
<td>107</td>
<td>117</td>
<td>92</td>
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<tr>
<td>1982</td>
<td>100</td>
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<td>103</td>
<td>91</td>
<td>74.8</td>
</tr>
</tbody>
</table>
of developing countries may deteriorate further as commodity prices continue to fall. As pointed out by The Economist, due to computerised stock controls, companies need not carry expensive piles of raw materials. Thus the demand for commodities appears to be weakening. Large price increases of the seventies have accentuated the saving and substitution process. At the same time, supplies of energy and raw materials from new sources have increased, exerting further downwards pressure on prices.

**Growing Importance of Multinationals**

New forms of trade, such as sub-contracting or counter trade have now become more important. In 1976, the share of the exports of developing countries marketed by the multinationals exceeded 70 per cent for a wide range of commodities, while in the case of manufactures it ranged from 10 per cent to 70 per cent, depending on the economic condition of the developing country concerned. Thus, intra-firm trade acquired great importance in the 1970s, to the extent that some analyses indicate that nearly 50 per cent of the total world trade is accounted for by intra-firm trade.

**Prospects**

The developed countries as major partners in world trade should recognise that interdependence of countries has been

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increasing and that they share a common interest in the survival of the multilateral trading system. As the largest traders of the world, it is for the developed countries to make the first move to remove the protectionist measures adopted by them and restore the smooth functioning of the world trading system according to the GATT principles. But the million dollar question is: Will they make the move? With the continued high unemployment rates (11 per cent at present), this appears doubtful. The massage of the Jenkins Bill by the US Senate is a pointer in that direction.¹

Much will depend upon whether the industrialised economies witness a sustained recovery and whether the development countries get the necessary resources under Official Development Assistance and from international institutions on concessional terms.

Reduced rate of inflation and likely stability in oil prices may perhaps bring some relief to the development countries by reducing their import prices. But increased capital flows at concessional terms by themselves would not be enough. They should be provided better access to the markets in developed countries to improve their export earnings and purchasing power. Of course, it must be emphasised that the developing countries have to ensure that the resources obtained by them have to be effectively and efficiently utilised.

¹ Ibid., p. 78.
The State Trading Corporation of India plays an important role in implementing the Government's foreign trade policy and programmes. Its activities encompass exports and imports as well as domestic trade in selected items.

As the Corporation's trading activities have been diversified over the years, the following subsidiaries have been formed to look after the specific area of trading operations: (1) Handicrafts and Handloom Export Corporation Ltd., (2) Cashew Corporation of India Ltd., (3) Project and Equipment Corporation of India, and (4) State Chemicals and Pharmaceuticals Corporation of India Ltd.

It exports during the past years were, amongst canalised items, cement and caster oil, which led to a spurt both in terms of volume and value.

Other major items of export are coffee, processed foods, footwear, textiles, plywood, chilled meat, live sheep, alcohol and molasses and semi-processed leather. Bulking of exports, promotion of joint marketing groups, marketing assistance through its world wide network of foreign offices and financial/technical assistance for export production, are some of the strategies followed for export promotion.

The Corporation continues to import scarce and essential raw materials for the industry. Major items of imports are: newsprint, raw wool, edible oils (palm, soyabean, rape-seed, sunflower, etc.), tallow, rayon, grade wood, pulp, carprolactum, synthetic rubber, etc.
The Corporation undertakes forward purchases and maintains buffer stocks of essential import items such as newsprint and edible oils to ensure regular supplies to the industry.

Conclusion

India's exports made a significant advance after World War II. There was a nearly continuous and extra-ordinary rapid growth in the country's world trade till 1980. The value of India's exports increased from $61 billion in 1950 to $128 billion in 1960, to $315 billion in 1970 to $1,989 billion in 1980. The country's exports increased by 3,161 per cent over a period of 30 years, showing an annual compound growth rate of 12.32 per cent. The annual growth rate of exports was highest at 20.4 per cent in 1970-71 as against 6.4 per cent in 1950-60 and 9.3 per cent in 1960-70. In 1984-85 the total exports amounted to Rs. 11,555 crores against an import of Rs. 17,092 crores leaving a trade deficit of Rs. 5,537 crores.¹