Our analysis of problems of foreign trade affecting the developing countries leads to the conclusion that these problems have to be attended to in their relationships with problems of the economy as a whole. In relation to one country, for instance, a foreign trade policy becomes meaningful only when it formulated with reference to policies pursued in other fields of economic activity. General economic policy, on the other hand, will be wholly unrealistic unless due note is taken of the facts of trade in the world as a whole. An integrated policy has therefore to be evolved in the sphere of foreign trade. We have emphasised the importance of integration in the Chapters on import and export policies. In this chapter we shall attempt an analysis of issues involved in the integration of import and export policies with each other and with the general economic policy.

FOREIGN TRADE AND DEVELOPMENT STRATEGY

Our thesis is based on the assumption that foreign trade can make an effective contribution to the economic growth of under-developed nations.1

1. The arguments in favour of this assumption have been discussed in Chapter II, Part I. See Gerald W. Meier, International Trade and Development (Pp. 156 - 159) for a fine statement of these arguments to prove that the classical economists themselves regarded trade from the point of view of its capacity to further growth.
This assumption has sometimes been disputed and it is pointed out that there are instances of high rates of growth in exports accompanied by economic stagnation on the one hand and of little trade accompanied by high growth rates on the other. We have already disposed of this argument. Some of the oil-rich countries are regarded as belonging to the first category mentioned above. They do not invalidate our argument as they are, after all, in the same position as the underdeveloped countries in general when demand for their export products was rising. They have been christened "export economies" and their continued existence under conditions of economic stagnation in certain parts of the world only reaffirms the fact that foreign trade by itself does not ensure economic growth. As regards the second category, namely countries with fast economic growth but little trade it should be emphasised that such cases are very exceptional. The U.S.A. for instance has a large volume of foreign trade to her credit though in terms of her national income the proportion is small. This leads us to another inference namely the absence of a definite relationship between income and trade. In short, foreign trade is essential to a growing country as it facilitates the exchange of goods with less growth potential for goods with more growth potential. But the economic and even non-economic

circumstances of a country decide the exact role that foreign trade should play in it. This means that each country can be a class by itself. Moreover foreign trade is only one of the factors that can further economic growth. The presence of certain other factors is therefore necessary to contribute effectiveness to the growth - promoting effects of foreign trade.

The nature of the foreign trade problem facing the developing countries has already been analysed in detail. Firstly imports are rising fast. Secondly exports are not rising fast and there are indications that future prospects may be worse. Thirdly foreign aid which played some part in the development of backward nations till a few years ago is now playing the vanishing role. Fourthly regional cooperation among the developing nations - a sort of self-help - seems to be a distant possibility due to various factors. In fact, while the developing countries continue to compete fiercely among themselves, regional economic groupings of advanced nations have become an additional problem to almost all of them. These constitute the external obstacles to the process of development of the backward nations.

A point which deserves emphasis here is that the developed nations of the present did not face such obstacles during the period of their development. In fact external factors were favourable to them in every respect. The pattern of development adopted by them is not therefore generally
applicable to the developing nations. As suggested earlier, the example of the U.S.S.R. has greater application to conditions in the developing countries as the U.S.S.R. developed her economy under severely adverse external factors. In the case of the developing countries, therefore, the pattern of development adopted should try to overcome external obstacles.

"The development strategy to be adopted under unfavourable external conditions should aim at rendering the underdeveloped economy as invulnerable to external influences as possible, and at maximising its long-range rate of growth with a given capacity to import."  

While the external obstacles to development are serious enough, underdevelopment itself is a bundle of domestic obstacles to growth. The developing country has to tackle, all at once, the accumulated economic problems of several decades. This latter fact is generally responsible for the comparative neglect of the external factors in national economic plans. External factors however, soon make themselves felt and a stage is reached when they effectively block progress. It is at this stage that the developing country takes desperate measures to secure the frontier. External aid, necessary as it is, often serves only to make

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5. "Economic underdevelopment may be defined as an accumulation of barriers to growth". Ignacy Sachs. Ibid. P. 3.
the developing countries complacent with regard to external factors. This is fully borne out by the experience of several countries including India. What follows is that import and export plans should be prepared as precisely as possible within the framework of the general plan. "In any given circumstances there is an optimum pattern of production and trade which maximises income over time and it is up to the economic planner to determine it, or at least to approximate it, keeping in view the inevitable mutual dependence between domestic production and external trade".

We have already discussed, in the relevant chapters, the lines on which import policy and export policy should be formulated. We have also emphasised the need for integrating the two policies with each other and with the plan. In practice, however, imports are not properly planned with the result that goods which are not of urgent importance continue to be imported. Even import substitution is not properly planned and leads in many cases to the production of less important goods. Thus imports tend to increase further. In the sphere of exports, on the other hand, desperate measures doomed to failure pass for policy measures. An analysis of this situation provides important clues to the formulation of foreign trade policy.

The first factor to be noted in this connection is that the plans of developing economies often reveal a lack of

clarity with regard to the objectives aimed at and the means of achieving the same. A general tendency is to regard the developed nations of the present as models and to copy their methods. This leads to the idea that the starting of a few industries, including a few heavy industries would initiate the economic development of the country. In this process little regard is shown to the means by which the capital goods required for industrialisation could be obtained. Thus, while on the one hand the import requirements of industry continue to rise the means of getting them becomes a problem. A more effective method of development, from this point of view, will be to concentrate attention on resource development with particular emphasis on sectors which have potentialities from the point of view of growth. These sectors may be agricultural or mineral and not necessarily industrial. In fact writers on economic development have done considerable harm by giving currency to the idea that there exists a relationship between agricultural and economic backwardness. This is disproved by the fact that certain agricultural countries like Australia and Newzealand enjoy high incomes and are reckoned as developed nations.

The fact that agricultural development constituted the basis of the growth of several developed nations of the present is also overlooked. In the case of countries with mineral deposits efforts should be concentrated, in the first stage of development,

on developing the mineral resources. In all these cases the method suggested amounts to the strengthening of the foreign exchange position even while the growth process is furthered. This does not mean that the country concerned should avoid industrialization. Consistent with our earlier conclusion that industry is essential for development we plead for a policy of first things first. It should, of course, be added that various factors including the size of the country and its resource position decide what should come first and what next.

A second conclusion which follows from our analysis of the problem is that there should be strict controls over imports and exports during a period of development. Planned production and planned trade imply controls, but it is necessary to emphasize the importance of efficient implementation of controls so that no loophole is permitted to remain unplugged. This is particularly important in free enterprise economies wherein actual imports and exports are handled by profit-seeking individuals and groups. The fact that incomes are unequally distributed also plays a part in defeating schemes of export promotion and in giving wrong twists to schemes of import substitution. The so-called "vinculated transactions" under which import licenses are granted on the basis of export performance has, in fact, created a situation under which the state

9. Iron ore production, for instance, requires huge investment of capital and know-how in mining, transport and port facilities etc. that it should be regarded as a product of industry.

patronises practices which defeat the plan itself. The remedy for such situations clearly lies in the thorough planning of foreign trade and the exercise of firm control over all foreign transactions.

We may now sum up the integrated foreign trade policy that emerges from our thesis. Firstly, in planning production import requirements and export possibilities should be given due consideration. As foreign exchange is bound to become a problem in the course of the process of development steps should be taken to keep the situation under control. A first step is to take steps to maintain the existing export position by diversifying markets. A second step will be to promote efficiency in production with a view to diminish costs. Simultaneously steps should be taken to produce within the country all those essential goods which can be produced without large investments. The aim behind these measures is to conserve exchange for purposes of development. Secondly, it is essential that, at the very outset, the goods which offer export possibilities should be identified and investments concentrated on their production. This ensures a regular supply of foreign exchange and smoothens the process of development. The unplanned expansion of a number of industries including heavy industries with long-gestation periods, on the other hand, leads to steady increases in imports and by creating inflationary conditions within the country it also affects the prospects of existing goods entering the list of exports. Thirdly strict economic discipline is a sine-qua-non. This implies strict controls over consumption and investments on the mix hand and on imports and exports on the other. These have, in fact, become the common
DEVALUATION OF THE RUPEE:

Recent Indian experience is eloquent proof of the proposition that an integrated foreign trade policy is of the highest importance to a developing economy. A few months before the third plan was scheduled to end officially the plan had already collapsed and the country faced the situation wherein the fourth five year plan could not even be thought of. As we saw earlier highly adverse external economic conditions had precipitated this situation. A few weeks later the momentous decision was taken to devalue the Rupee. Under normal circumstances there need be no objection to currency devaluation provided the situation warrants it. In India's case, however, the devaluation dropped like a bolt from the blue as, for long, and even a few weeks before, the Government had stubbornly resisted suggestions for devaluation. Clearly it was a desperate measure as distinct from the "defensive" devaluation of 1949. It marked a confession of foreign trade policy being a failure. A brief analysis of the circumstances leading to the devaluation will therefore be helpful as reinforcement to our own conclusions.

The steep increase in imports and the virtual stagnation in exports during the first decade of planning had started the process of erosion in the exchange value of the Rupee. Thanks to the inflationary pressure which was aggravated by the nature
of the planning adopted in India the price level had steadily
gone up, the index number of wholesale prices rising from 82 in
1955 (1958 = 100) to 159 in 1966. As against this 80 per cent
increase, the price index rose by only 5 points in the U.S.A.,
19 points in the U.K., 8 points in Japan, 13 points in Canada,
23 points in France and 26 points in Pakistan during the same
period. The artificially blostered Rupee naturally led to resis­
tance to Indian goods in foreign markets. A number of incentive
measures, already referred to, were taken to prop up exports but
these only served to divert attention from the real problems,
namely cost and productivity. Import needs, however, increased
steadily and a black market in foreign exchange prospered. Further,
the domestic market with its high prices was more attractive and
there was not much of investment in export industries. Several
methods including import cuts and a scheme of bonus import licenses
to attract foreign exchange to India were tried to save the
situation, but without much success. The suspension of foreign
aid took matters to a head and in May 1966 the exchange reserve
was as low as Rs.182 crores. The exchange value of the Rupee in
terms of the U.S. Dollar fell to Rs.7.10 in June 1966 as against
Rs.7.69 in December 1965 in foreign markets. The devaluation thus
marked the legal recognition of a fact though there is still a
controversy regarding the part played by certain governments and
world agencies in that decision.

The main expectation from devaluation is that exports
will go up and imports will be discouraged and there will be larger
investments in both export and import substituting industries.
Thus "devaluation, in effect, is a generalised tariff on imports and a generalised subsidy on exports". Exports, however, have not registered any considerable increase since devaluation. One inference which may be drawn from this is that prices are still high. It is, of course, argued that the beneficial results of devaluation will take time to manifest themselves. Theoretically this argument has substance but developments in India since devaluation do not point to bright prospects for the future. For instance export duties were imposed on a dozen export goods immediately after devaluation and several export promotion schemes were abolished on the assumption that devaluation by itself was a sufficient incentive. But this policy had to be reversed and it has since become clear that a general devaluation may not provide Indian export goods the competitive ability that they lack. As for imports the devaluation was followed by import liberalisation with the aim of utilising idle capacity in industry for export purposes. Thus imports were immediately increased in order to reduce them in the future. As Prof. Vakil points out there is no guarantee that this will lead to an increase in exports. It is just expected that those who receive import licences will export their products. In fact the subsidies given to

13. C.N. Vakil. Ibid. According to the Fourth Five Year Plan, A Draft outline: "As a result of devaluation, exports are likely to go up. However, it will take some more months for all the measures which Government are taking in the post-devaluation period to stabilise and become effective". (P. 97).
exporters of certain items like engineering goods have curbed their efforts to economize in costs and have led to demands from other exporters for similar incentives. Devaluation is thus unlikely to lead to appreciable results.

POLICY UNDER THE FOURTH PLAN: The draft outline of the Fourth plan, released two months after devaluation, retained the export and import figures worked out earlier. Imports during the plan period are expected to be Rs.12,049 crores (Rs.7,650 crores of pre-devaluation rupees), of which Rs.8190 crores are for maintenance imports and the rest for new projects. PL-480 assistance is not included in these figures. Exports, on the other hand, are expected to be Rs.8030 crores. The plan also provides for Rs.2284 crores under debt servicing charges. Thus the total requirement is Rs.14333 crores and the deficit Rs.6300 crores. This is to be covered by foreign aid and other capital inflows. These represent the magnitude of the problem on hand.

The plan draft prescribes not less than 8 sets of measures to promote exports. All these are couched in general terms and there is no mention of how and though what measures the particular aims are to be attained. The only exception is the suggestion for the establishment of export units working with up-to-date technology. Similar statements of a general nature are found also with regard to imports. Yet the plan draft

15. Ibid. P. 99.
provides evidence that the lessons of the past have been utilised in its preparation. The section entitled “Principal tasks of the Fourth Plan” clearly recognises the importance of an integrated trade policy.16. The distribution of schemes suggested in the plan is also consistent with these aims. If implemented efficiently the plan will succeed in rectifying many of the defects in planning pointed out earlier.

FOREIGN TRADE AND SELF-RELIANCE: The aim of Indian planning is to establish a “self-reliant economy”. Self-reliance is by no means the same as self-sufficiency, as we have emphasised in this thesis. “An economy is self-reliant when it can sustain a desired rate of increase in per capita income without taking recourse to aid. The determination of the desired rate of increase in per capita income is a political matter, although a particular decision would necessarily take into account the economic circumstances”.17. Foreign aid is thus a stepping stone, but it is most important that there should not be undue reliance on it. India learnt this lesson in 1965. The really important lesson is that no effort should be spared to develop the economy by steadily increasing savings and investment. In 1965-66 savings in India amounted to about 9 per cent and the marginal saving rate about 16 per cent. It has been calculated that in order to achieve self-reliance with 3 per cent growth the investment should be 17 per

16. Ibid. P. 16 - 17.
cent of national income. This may be regarded as the crux
of the problem of development in India. The contribution that
foreign trade can make to a solution of the problem is evident.
All efforts to restrain consumption thus acquire central impor-
tance in foreign trade policy. This alone will lead to an
energetic drive for import substitution and export promotion.

SUMMING UP:

The integrated foreign trade policy for India,
emerging from our study may now be summed up. In India, the
part that foreign trade can play in economic development was
overlooked during the early years of planning. This was neglect
of a serious nature and it lies behind the troubles that the
country faced in subsequent years. It took fifteen years, the
collapse of a plan and a desperate measure like devaluation to
drive home the point that foreign trade should be thoroughly
planned and integrated with the general plan.

What should be the foreign trade strategy in the case
of India? In Chapter III we discussed the basic economic problem
which had to be tackled through planning. This problem was
triple-faced, the faces being food, jute and cotton. But the
problem remains unsolved. Food imports have been a great drain
of foreign exchange and have also pushed up the general price
level and created inflationary conditions. Concentration on
food production will therefore lead to a saving of foreign
exchange and reduce cost of production in industry. The same results may be expected by increasing the production of jute and cotton. As these two industries and agriculture in general contribute over half the national income of India an integrated plan of agricultural development will solve several problems simultaneously. We have pointed out that there is vast scope for exports of spices, vegetables and fruits etc. as well. This, again, is the only way to save the cotton textile and jute industries.

A policy of import substitution-cum-export promotion is implied in the above-mentioned suggestion. Scope for the same exists in several other fields. The exploitation of India's forest resources and minerals will also require immediate attention.

In the case of industry there should be better planning. We have pointed out that several industries which should have waited have come up and added to the import bill. Their contribution to exports has been negligible, but they have created wants within the country. A strict system of industrial licensing should therefore be enforced.

Cost and productivity are still the main problems concerning exports. As these problems touch various aspects of the economy an immediate way-out lies in starting exclusive export units. This principle can be applied to as many industries as possible.
Firm control over exports and imports exercised by the state is absolutely essential in a country situated as India is. If exports do not take place as per plan the state should step in and see that exports are effected.

Lastly, we have pointed out that in India the theoretical principle that consumption should be put down may not be valid in all cases. We have argued that in several cases a well developed domestic market will act as a base. Tea has been quoted as an example. Cotton textiles can be another example. A country with a population of 500 millions and vast natural resources should not be viewed on the same lines as small European countries. A policy of export promotion with measured increases in domestic consumption might prove beneficial in the case of certain commodities. In fact, there is room for speculation on what the role of foreign trade will be in India thirty years hence. It is probable that it will be similar to the role of trade in large countries like the U.S.A. and the U.S.S.R.