CHAPTER I

INTRODUCTION.

The world in general has now arrived at a stage where the importance of ensuring a smooth flow of trade among nations is recognised. This is comparatively a recent development and there still exist pockets of opinion which regard maximum self-sufficiency and minimum foreign trade as desirable aims of policy. But self-sufficiency is definitely an impractical ideal, even granting that it did exist at sometime in the distant past. In the modern world there is not one country which does not import from and export to other countries. This applies to countries following such diverse socio-economic systems as the U.S.A. on the one hand and the U.S.S.R. and China on the other. In fact, despite their theoretical fads the communist countries have been forced to become active participants in world trade. Similarly all the wealth of the U.S.A. has not enabled her to keep away from trade with other countries. The advantages of trade have thus been realised and there is increasing world action to facilitate the flow of trade among nations.

A study of the process of economic development in a number of countries shows that trade played an important part in it and continues to be an important factor in maintaining the tempo of development. The U.K. is the outstanding example
among countries which achieved economic growth with trade playing a prominent part in that process. It is debatable whether trade initiated growth in the U.K. A realistic assessment will be that a number of circumstances, social, political and economic initiated the transformation of British society towards the close of the middle ages and the development of trade and the mobilisation of capital were just the consequences of these developments. But these two latter developments, of whom the second was largely a result of the first, facilitated the greater transformation known as the industrial revolution. It is in this sense that trade became an engine of growth in the U.K. It is again debatable whether these changes would have taken place had not Britain established a network of colonies in the various continents of the world which ensured regular supplies of raw materials and outlets for finished goods. Colonial exploitation through trade played some part also in the development of France, Germany, Japan and a few other countries. The U.S.A. and the U.S.S.R. owed their development primarily to other factors, but in both cases trade as also aid played a part at some stage in the process of development.

The developing countries of the present thus find that trade is an indispensable factor in economic development. The basic task facing them is to break the economic stagnation of nearly two centuries so that their resources could be systematically exploited and better living conditions made
available to the people. This is a problem of colossal dimensions as these countries generally have large and steadily rising populations. There is thus a strong case for rapid development which, in turn, necessitates simultaneous development in the various sectors of life, both economic and non-economic.

Foreign trade acquires importance in this process as the means by which the developing nations may secure adequate supplies of capital and other producers' goods necessary to achieve development. Economic conditions in the developing nations being what they are, these goods have to be obtained for a long time to come from the developed nations. The economic plans of the developing nations will, in fact, pave the way for a change in the structure of world trade. There will be a fall in the dependence of the developing nations on the developed nations for consumer goods and a rise in their dependence for capital goods. If this development works itself out smoothly it may be expected that world trade will soon assume a new structure based on a stricter application of the principle of comparative advantage.

The situation is however, complicated by certain factors.

There is, firstly, the fact that a large number over seventy of nations is now engaged in developing their economies, while the number of countries in a position to supply capital goods is hardly a dozen. This inevitably leads to competition for the possession of capital goods and to a system of priorities in distribution wherein non-economic factors play an important
part. The developing countries are thus forced to practise import saving to the maximum possible extent and also make attempts at import substitution. The needs of development thus lead to a change in the character of imports and they further act as spurs to development through measures of import substitution. In short import policy has to be characterised by the import of highly essential goods on the one hand and the avoidance of less essential goods. The latter inevitably leads to import substituting lines of production. Export have, however, to be maintained at the highest possible level during a period of development. This implies not only increased production but also restrained consumption. In other words even import substitution should lead to larger exports and positive steps should be taken to push exports in order to meet the mounting bill on imports of developmental goods. One difficulty which arises in this connection is that the process of development increases incomes and creates new needs and expectations of a higher life among the people. If increases in consumption are not restrained savings will be affected and there will be less to export, which in turn means less capacity to import. On the other hand too much of control over consumption is likely to affect the incentive for hard work which is an essential factor in development. A balance has therefore, to be struck as between increases in consumption, investment and exports. A more serious complication arises from the fact that the demand for the exports of the developing countries is declining. Economic aid from developed countries which has played some part in the development of backward countries during the past few years has always been
meagre and in recent years it is actually declining. The developing countries have to take account of all these factors in formulating their foreign trade policies. In Chapter II we analyse these problems and attempt to indicate the outlines of policy to be followed. It is emphasised that the policy evolved should be closely integrated with other policies forming part of the plan of development. In the subsequent chapters we analyse the different aspects of this process of integration with particular reference to Indian conditions. The thesis as a whole is an attempt to evolve an integrated foreign trade policy for India in the context of her developmental efforts.

The analysis of the problem as attempted in Chapter II is, in fact, of too general a character to be applicable in its entirety to any individual country. The term "developing countries" is itself too general and comprises nations of various sizes and populations with great diversity in the nature of economic problems faced though basically they have common problems. It is therefore, necessary to consider the problems of each country as part of the general problem of developing nations. Our thesis being primarily concerned with India we take up, in Chapter III, a study of the evolution of foreign trade policy in the period before the introduction of economic planning. During this period India's economy had become stagnant and foreign trade had become an engine of exploitation. The characteristics which India's foreign trade acquired during this period still remain substantially in tact and, under existing circumstances, economic policy has to confine itself to the
introduction of gradual changes in the structure of trade. While this will remain the basic influence on trade policy for some time the decade preceding the introduction of planning saw two major developments, namely the second world war and the partition of India, leading to changes of far-reaching importance in the sphere of foreign trade. The dislocations caused by these two factors considerably influenced trade policy in the first five year plan. In fact the two sets of factors, the basic and the immediate, noted above, had both to be given due weight in formulating the plan though the former pulled in the direction of maintaining the status-quo and the latter in the direction of changes in policy.

In Chapter IV we take up an inquiry into the factors which should guide import policy during a period of development. The promotion of import capacity constitutes the central problem of development. During a period of development the demand for all kinds of goods increases and imports have a tendency to rise fast. This tendency has to be arrested, but this is by no means easy during the early stages of development. The industrialisation attempted during this stage leads to an increase in imports, not only of capital goods but also of spares and components of equipments and of raw materials. The demand for the latter category of goods in fact tends to increase progressively. This situation produces, in conjunction with the inability to achieve a quick-enough expansion of exports, great strain on the payments position. The latter in turn creates obstacles to development. It thus becomes necessary to plan imports keeping in view two considerations.
Firstly the developmental efforts should proceed unobstructed. Secondly there should not be undue hardship to the people in so far as basic requirements of life are concerned. This once again reiterates austerity in consumption and strict control over imports. Under existing economic conditions in the developing countries, however, such a strict approach to imports is difficult and it becomes necessary to import several categories of consumer goods including articles of food. This, indeed, is a reflection of the under-developed state of the economy and import policy itself should be so devised and implemented that this state of affairs is changed. As a first step, therefore, import policy should strike a balance between imports of capital goods and other equipments which further the process of development on the one hand and indispensable consumer goods on the other.

Import policy should not, however, be merely negative in outlook and confined to the imposition of restrictions on imports. It should become an instrument of economic growth by leading to positive efforts at import substitution and also to export promotion in turn. This necessitates the thorough integration of import policy with the plan of development. In fact efforts at import substitution are assumed in the very objective of planning which is nothing but the systematic utilisation of available resources. The plan of development, should, therefore, be so formulated that nothing which could be produced within the country is imported. Import policy, properly
integrated with the plan, thus serves not only to release foreign exchange for indispensable imports and lighten the problem of payments but also promotes economic growth and opens up opportunities for larger exports.

In part II of Chapter IV we examine the question whether India's import policy satisfies the criteria laid down by us. A study of India's imports and import policy during the past fifteen years shows that though the character of imports has changed, import dependence has actually increased in respect of goods on which import dependence should have been much less by this time. Foodgrains, raw cotton and raw jute are instances in point. This shows that agriculture which is the very basis of the Indian economy has not been strengthened, with the result that large quantities of food have to be imported. Large imports of fertilisers is also proof of failure on the agricultural front. In the sphere of industry too there has been unplanned expansion leading to increasing imports of such requirements as non-ferrous metals, machine spares and components, etc. There has been a lack of effort to utilise materials available within the country. An energetic policy of import substitution has therefore, to be pursued. There should be an attempt to identify the spheres of critical shortages and systematic efforts should be made to meet them through internal resources. The schemes thus evolved should be integrated with the plan. Our conclusion is that in India agricultural development has not been
pursued with the requisite vigour. Larger food production is essential to reduce imports and to bring down the cost of living which, at present, is high and serves to make Indian goods costly in the world market. Concentration on agricultural development will therefore lead to a speeding up of growth under Indian conditions. It is also argued that, with some boldness on the part of the planners, it should be possible to effect an immediate cut in food imports through the efficient distribution of foodgrains already available within the country, systematic efforts to change food habits and a short-term plan of increasing food production through local resources with particular emphasis on the production of subsidiary foods. We make this suggestion on the basis of the argument of Raj, Dantwala and others that sufficient food is already produced within the country to ensure 13 ounces per day per person. It is our argument that, with a little austerity, the problem of food imports need not be as serious as it now is. Simultaneously, however, long-term policies for agricultural development should be pursued with full vigour with self-sufficiency as the goal in foodgrains, raw cotton and raw jute and in quite a few other products.

In the case of industry we find that the great increase in imports of spares and components, non-ferrous metals, technical know-how and even capital equipments could be brought down through such measures and adaptation, substitution and conservation. The adoption of these methods by the advanced countries has largely been responsible for the sagging exports of the developing nations.
It is our view that the developing nations should themselves adopt these methods. Inducements should be provided for the adoption of these measures on the same lines as export inducements. Above all, a sense of technology should pervade the country. The examples of countries like the U.K., the U.S.A. and Japan are relevant in this connection. These countries learnt foreign technology through both fair and foul methods, but did not depend on foreigners for the supply of equipments for long periods. We thus emphasise the need for self-reliance to the maximum possible extent.

In chapter V we take up the threads from chapter II and attempt an analysis of export policy. The export problem of developing countries has both a short-term aspect and a long-term aspect and a solution has to be found in both cases through national as well as international action. The literature on the subject is prolific and the problem has been analysed in all its aspects. The causes of the malady have been diagnosed and remedies, temporary and permanent, have been prescribed. We take note of these suggestions and examine the practical feasibility of some of them like bi-lateral agreements, commodity agreements, devaluation and regional cooperation. Some of these methods could be beneficial in pushing up exports, but the chances of their becoming so appear limited in the context of changing conditions of trade in the world. International help to the developing nations thus assumes importance as a method of tiding over payments difficulties, but even in this respect
the tendencies are far from reassuring. A realistic assessment of the situation thus leads to the conclusion that there is little hope of any substantial improvement in exports in the absence of structural changes. The basic problem from this point of view is that the developing countries generally have foreign trade structures which have proved themselves inconsistent with the requirements of development. The transformation of this structure should therefore be taken up as an emergency measure. This need not sound unrealistic in the light of the fact that the developing countries have initiated measures through their plans to transform whole economies, the emphasis in many of them being on the development of capital goods production. Mrs. Joan Robinson has described exports themselves as potentially the equivalent of a capital goods industry. This approach can be translated into practice through export planning wherein the most appropriate composition and direction of exports are identified and investments concentrated mainly on dynamic export products. This implies that production programmes in the plan should be devised, at least partly, from the point of view of export possibilities. The problem is, once again, one of integration and various supporting measures are required to achieve success.

A review of India's export policy and performance during the past fifteen years reveals the tough nature of the problem confronted by developing economies in general. In the early fifties India did have an opportunity to strengthen her exports to some extent, but in the absence of a positive policy the chance
was wasted. This position continued down to the closing stages of the first five year plan and when India became awake to the importance of exports she found herself already overtaken by world factors. Thus while efforts have been made to push up exports the results obtained have not been appreciable and a host of international factors have emerged to block India's efforts. The recent devaluation of the Rupee resulted from this situation, but it has since become clear that much more is required to push up exports.

Experience gained during the third plan period when exports increased by about 20 per cent points to directions for future policy. Firstly, it is now evident that, with energetic efforts, it is possible to achieve higher exports even under the existing trade structure. Planned increase in trade with the U.S.S.R. and the East European countries was the major factor in the recent increase in exports. A well-devised policy of market diversification leading to the tapping of markets in Latin America, the ECAFE region and the middle east has therefore to be pursued. It is, indeed, a peculiar feature that India's exports to countries lying close to her are much lower than what they should be. Secondly certain "new" commodities including light engineering goods, steel and steel products, iron ore etc have proved to be dynamic exports. The so-called "traditional" products, on the other hand, do not seem to be capable of much expansion. A planned transformation
of the commodity structure of exports is thus called for and the sooner this is achieved the better for India's developmental efforts. Three factors are to be noted in this connection. Firstly it will be too much to expect the advanced countries to go out of their way and encourage exports from the developing countries at the cost of their own development. Secondly the various developing countries are progressing on more or less parallel lines and what India with the lead she already has in industry may hope for is based on maintaining this lead by developing her economy at a faster rate. Thirdly, it will be bad planning to place undue faith in the future of exports to the east European countries. We are thus led to the point that the future lies with the identification and development of dynamic exports. This would actually be a direct push to development too. The requirements of iron ore exports, for instance, has led to the development of ports and railways and have opened up possibilities of further development. The integration of export policy with development and approaching production itself from the point of view of exports should, in our view, constitute essential elements in future export policy.

In chapter VI we argue the case for an extension of the role of the state in the sphere of foreign trade. Such an extension is required because of the magnitude of the problems involved and it is in tune with the general trend of economic policy in developing countries. Experience of state trading in India only strengthens the case.
In the last chapter entitled An Integrated Foreign Trade Policy we attempt a synthesis of conclusions derived from the earlier chapters and consider the role of foreign trade in development strategy. A foreign trade plan should constitute an indispensable ingredient in every national economic plan. Once this is done it becomes easy to realise that exports are the essential means to secure growth-promoting goods through imports. This will lead to the ordering of the plan itself in such a way that equal importance is given to export promotion and import substitution on the one hand and to various supporting measures on the other. These, after all, constitute an integrated approach to development. A point which we emphasise in this connection is that each developing country should aim at deriving the maximum benefit out of its available resources. While rapid economic development is desirable it does not necessarily follow that this means rapid industrialisation. This mistake appears to be largely responsible for the exchange problems of several countries. Hasty attempts at import substitutions of the wrong types and even hastier attempts to export the products of import substituting efforts, together with a general neglect of resources which could easily be developed have, in fact, given wrong twists to the plans of several developing countries. Our study shows that India can increase her export-earnings several fold through agricultural and allied products whose production involve small investments. Agriculture should thus secure priority in development and yield the surplus required for development in other spheres. At this
process unfolds itself other sectors of the economy also develop and the spheres of comparative advantages for purposes of trade are identified. The transition to this stage should, however, be marked by strict economic discipline enforced by the state.