Chapter No.1

INTRODUCTION
1. The Problem and its Setting.

Indian shipping an empirical study has come a long way during the past quarter of a century from a nation of a small sized merchant fleet catering almost entirely to one of the leading maritime powers of the world, the second largest in the east after Japan. We see that within 30 years of the independent shipping industry has shown rapid expansion due to which accounts for 2% of the global tonnage and 16th position among the maritime nations of the world. We find that this expansion could become possible due to imaginative, initiative and enterprise of Indian shipowners and the guidance and assistance given by the Government of India, inspite of the foreign exchange difficulties. Other responsible factors contributed in this development of Indian shipping as a) availability of ships from abroad on deferred payment terms, b) availability of foreign credit and other assistance, c) grant of loans by the Government of India and Shipping Development Fund Committee, d) establishment of Hindustan Shipyard Ltd., Vishakhapatnam in the public sector, e) State participation in the shipping industry and f) raising of the statutory limit of the foreign agencies participation in the shipping industry from 25 to 40%. Here we have to investigate desirability and undesirability of these factors in relation to the growth of shipping industry.
In contrast to expansion in India's foreign trade the shipping development lack far behind. Indian ships cover 20% of the country's overseas trade and 80% being carried by foreign flag ships. For that there is outflow of foreign exchange in payments of the prices for acquiring foreign ships and freight charges, thus reduction in earnings of foreign exchange and higher price of our products in foreign markets. Due to this reason India unable to sell its products in the tough competitive foreign markets. So, for any long term strategy for exports in the content of a maritime country like India, we find that Ocean transportation must play a supporting role of vital significance which should be well placed with two aspects as size and type of our merchantile fleet and freight policies of our ship operations, we have.

A significant issue is the impact of diversification and expansion of India's foreign trade on shipping industry. There are acute differences among traders and shippers as to whether India should develop its own shipping industry at heavy price to pay or should utilise foreign shipping services at lower costs. The main cause of the reverse movement of shipping to trade is due to lack of proper planning and following defective policies formulated and suggested by corrupted bureaucrats of the Govt. The net result is that India is paying a huge amount of its own money to foreign shipping companies.
Most of the discussion about the shipping has been studies in commercial terms, very few studies have been made about the exact role of shipping in foreign trade of India in economic terms. In this work an attempt will be made to examine not only shipping sector but also foreign trade and tried to correlate them.

It is in this setting that we are making an attempt in this thesis to examine the effect of secular change in India's foreign trade on shipping industry's development. Not withstanding all its weakness, the shipping concept still commands serious attention in analysing the progress of foreign trade. Firstly, because the shipping has vital quantitative significance for developing country like India. Secondly it serves an indicator of the economic position of the country among trading countries of the world.

We are interested in studying and analysing the shipping industry because it materially effect the prospect of our own foreign trade. A slightly increase in freight rate may mean a rise in price of export goods. A reduction in freight cost implies that a lesser amount of money is invested as a transport cost which in turn pulls down the price of the exported goods making it less competitive in foreign market. The shipping can also render valuable help in increasing our understanding of the issues involved in the structural change in India's foreign trade.
In our analysis we will try to find out the role that the shipping played in the foreign trade of India. In other words, we will answer the question whether Indian shipping has increased or decreased its relative share in the foreign trade of India. For this it is essential to go through various aspects of shipping like shipbuilding industry, ancillary industry, port's development etc.

2. **Objective and Methodology of the Study**

Our objective is to find out correlation between Indian shipping and trade development. More precisely we suggest and test the hypothesis that the rather insatisfactory performance of Indian shipping in the field of its foreign trade expansion to the world market, can be largely attributed to a number of internal constraints on their production marketing and finance.

India is one of those countries that has not fared well in the international markets and whose share in world exports has been steadily going down. This has been attributed both to the slow rise in world market for Indian exports of traditional goods like jute, tea and textiles and to the domestic shortage of commodities completed with faulty export policy of the government. Accordingly considerable attention has been given in recent years, in India to the diversification of exports through introduction of goods, mainly manufactured items for which World demand is
high and has been growing steadily. But the high cost of transportation is also simultaneously effecting badly which ultimately increases the price of the product. A study that seeks to isolate identify and analyse the factors working as obstructions to this desired flow of trade may, therefore, be considered significantly from the point of view of developing countries in general and for India in particular. To the extent that India's experience in this respect is any guide, this study will also be helpful to the similarly placed countries. The methodology of this study is primarily empirical in nature. Despite many difficulties inherent in the concept of shipping growth and its measurement, a empirical study of the changes in Indian shipping after independence can prove useful in highlighting the causes of downward in the shipping sector of India during prescribed period. It can also help in tracing the effect of these changes in the foreign trade sector.

We have used simple statistical/mathematical techniques in order to find out the relationship and relevance of various dates that operate in the shipping and trade sectors. The comparative statistical analysis of long term movements in the shipping is most relevant to the foreign trade of India.

3. Coverage and Limitation of the Study

The study has its period of reference the years from 1950-51 to 1980-81. This is a period for which comparable foreign
trade and shipping statistics for India are adequately available. There are two main reasons for selecting this period. First the period is long enough to help us, in reaching broad conclusions; secondly, enough data is available for this period. For India its importance lies in the fact that after independence that development of Indian shipping and foreign trade assumed new dimensions and with that some attention also began to be given to the expansion of India's exports of manufactured goods which are now popular particularly in developing countries. The study is mainly based on data published by different organisations of the Government of India and private institutes. Some of the sources consulted for the data in this study is presented in Bibliography. For the Statistics regarding foreign trade of India were collected from Monthly Statistics of Foreign Trade of India (DUCIS Calcutta), RBI, Report on Currency and Finance. The Shipping statistics were collected from publications of Ministry of Transport and Shipping Research Division, New Delhi. Secondary sources such as books, reports and articles from various journals have also been used extensively.

4. Plan of the Study

The dissertation is divided into 8 chapters. In first chapter, the problems of Indian shipping and foreign trade during
the period from 1950-51 to 1980-81 are introduced briefly and the objective, methodology employed, coverage and limitations in the study are outlined. In the second chapter the analysis of various trade and growth theories related to developed and developing countries are made to find out whether developing country like India should follow the models developed by economists of West or it should choose its own path of foreign trade development for economic growth suitable to its own economy. Chapter third relates to the development of India's foreign trade during period selected for analysis. The trend can be summarised as the slow growth in the value of trade and the traditional pattern of trade. In the fourth chapter an attempt has been made to find out the role of transport in economic development of India. An broad historical analysis has been made on the development of Indian shipping in the fifth chapter to find out what was its past trend, present condition and reasons for its deterioration. The sixth chapter related to the development of merchant shipbuilding industry, to see what type of ships India should acquire or manufacture of its own, matching not only international trade but also of international standard. It became necessary to go through port development also as to see port facilities to keep pace with changing maritime trade, as its various issues have been analysed in the seventh chapter. Various problems of India's foreign trade and shipping have been discussed in the eighth chapter. In the last chapter conclusions are drawn from the earlier discussion and attempt has been made to suggest a few remedies for the improvement.