The Changing Pattern of Our Foreign Trade

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The pattern of India's foreign trade has changed considerably under the impact of World War II and new trends have developed in the post-war period. Rapid advance in her position from a debtor country to a creditor one has influenced the composition as well as direction of her foreign trade.

India always used to have an export surplus to enable her to pay for loans and interest thereon, services and other obligations. The trend has now completely changed as will be evident from the following figures:

(In Crores of Rupees)

<table>
<thead>
<tr>
<th>Year</th>
<th>India</th>
<th>Burma</th>
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<tbody>
<tr>
<td>1933-34</td>
<td>155</td>
<td>132</td>
</tr>
<tr>
<td>1934-35</td>
<td>160</td>
<td>134</td>
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The deterioration of our balance of trade has gone so far that control on imports especially on those from hard currency areas may soon have to be tightened further, as hinted by the Finance Minister in one of his speeches while in Bombay.

The large passive balance India used to have with U. K. was progressively reduced during the inter-war period till in 1936-37 it was converted into an active balance. Many attributed this change to the Ottawa pact which gave India a better field in the London market. But the position has now changed and once again we are having a passive balance with U. K. Exports to U. K. rose from 28% of our total exports in 1932-33 to 34%, in 1937-38. It has fallen to 22%, in the nine months April-December, 1918. Imports from U. K. on the other-hand stood, during the same period, at about 30% of our total imports, almost equal to her share in our total imports in 1937-38. Formerly our passive balance with her used to be covered by our active balances with the other European countries. But lately, we have been running a passive balance with almost all of them. Imports of steel from Belgium, of capital equipment from Bizonia and of textile machineries from Italy are likely to increase our debit balances with the Continent. As all these items are of prime necessity to us, their import should not be tagged on to release of sterling. We should rather finance such imports from loans of the respective foreign currencies from the International Monetary Fund, if necessary. As our exports to these countries before the last war consisted mainly of raw material, which are still of great value to them, current deficit in our trade balances with them should not create a big problem of payment for us in the future. In any case, in regard to these countries, the problem that is more likely to arise is that of the availability of the goods that we need, rather than that of finding the necessary foreign exchange.

The problem is much bigger in the case of U.S.A. and not only because of its magnitude. Since 1942-43, we have been running up an adverse balance against her in sharp contrast to the uniformly favourable balance we were having in the pre-war years. Our dollar deficits, despite heavy restriction on dollar imports, have already reached 23 crores during April-December 1948. This, though, is a considerable improvement over the last year during the first nine months of which the deficit was about 34 crores. The improvement has been due entirely to a reduction in imports. After squandering quantities of dollars on ink pencils, pens, caustic soda, ladies handbags and posh motor cars, the Government has come to a better realisation of the value of dollars.

In the composition of our foreign trade, the war has accelerated some of the trends which were already operating during the inter-war period. There has been a continuous and uninterrupted fall in the import of finished goods over the last two decades. From 274 crores of rupees in 1920-21, imports of finished goods came down to 92 crores in 1936-37. The
war has given rise to many industries and developed many infant ones and thus cut out some familiar old times from our list of imports. The imports of machinery, on the other hand, increased sharply. They were as follows:

April to December, 1946 Rs. 23.51 Crores
... 1947 Rs. 39.31 Crores
... 1948 Rs. 56.62 Crores

Imports of metals, however, went down unexpectedly during last year and the previous year's imports have not been maintained. Unless due to the vagaries of Import control, this should be looked into, in the light of the needs of our metal refining and metal manufacturing concerns. Metallic ores and strap iron or steel for re-manufacture imported during April-December 1947, were valued at Rs. 50 lakhs; compared to Rs. 76 lakhs for the period April-December, 1948.

The most important change brought about by the war is the increase in food imports, which rank now next, only to imports of machinery. We may still have to depend on imported food until our target of self-sufficiency by 1951 materialises. Until then, suggestions to cut down food imports to decrease our deficit in the balance of payment may not be admissible but the scope for economy in the prices paid for food imports may, nevertheless, be stressed. Relations with the far eastern countries should be more closely integrated to allow import of food on favourable terms. No agreement has yet been made for world rice,—the chances for one may profitably be explored! Burma, on whom we usually depend for rice import, is experiencing difficulties, both political as well financial, in her export of rice. An institution like the Export-Import Bank of America should be set up by us to give help to Burma and other south-east Asian countries, if necessary, from the lease of our sterling balances. The recent Asian Conference has paved the way for similar arrangements with Indonesia.

Coming to exports, jute and cotton manufacture had gained good markets in the Middle East and in East Africa, in both of which Indian exporters enjoyed a virtual monopoly during the war. With the rapid rehabilitation of the textile industry in Japan, they have now to face competition which may give keener in the near future. Periodical surveys should be made of these markets with a view to maintain the status our exports gained during all these years. Disappearance of sellers' markets in them calls for a revision both of export control and export duties, wherever they ere levied.

The Government policy of decontrolling exports has, in many cases, resulted in increase in prices and thus curtailing the export. A recent instance was that of hides and skins, the prices of which firmed up materially after relaxation of control. This item has already shown a decline in our export schedule after partition. During April-October 1947, hides and skins worth 9,13 lakhs were exported from Undivided India whereas after partition, in the corresponding period in 1948, the exports amounted to Rs. 7,65 lakhs only. We now seem to have virtually lost export market for raw cotton. With the development of Japanese textile industry, raw cotton may have a good market in Japan but Indian Union has now been reduced to a net importer—and attempts are now being made to discourage the cultivation of short staple varieties which form the bulk of our imports. In future, it may not figure as importantly in our export schedule as it did last year.

To conserve our scarce mineral resources, export of manganese ore, a valuable dollar earner, has been controlled. With the cessation of exports of manganese from U.S.S.R. to U.S.A., India can now become an important supplier of this ore. As our output exceeds the requirements of our steel industry, the position should be reviewed and more facilities should be given for export unless strategic considerations stand in the way.

Recently export of oil (vegetable) has shown a remarkable increase. During April-December 1948 our export in oil was Rs. 645 lakhs as against Rs. 483 lakhs in the corresponding period in 1947. But as our foreign buyers, especially America, want to develop their own oil crushing industries, it may become increasingly difficult to maintain the improvement. During the last few months, as soon as quotas were released orders for oil seeds poured into India, the seeds went out and the internal price of oil tended to rise. By the time our oil reached foreign shores, import of our seeds already brought down the prices there. Hence our oil exports generally had the worst of both worlds. If our oil crushing industry is to be assured a chance of development, this hindrance must be removed by suitable arrangements with oil importing countries.

Exports of tea have recorded a fall, specially to hard currency areas. From April to December 1948, the export of tea from North India's gardens amounted to 253.47 million pounds as against
282.13 million pounds in the corresponding period in 1947. The recent deal with Russia to export 10,000 tons of tea against import of 1000,000 tons of wheat will clear a part of the arrivals in Calcutta which are expected to be mostly from the Far East. The arrival of goods to hard currency areas is disappointing. America and Canada imported during April-October 9.9 million and 5.13 million pounds as against 17.87 million and 8.3 million pounds respectively in the corresponding period in 1947.

There is good scope, according to our Trade Commission in Berlin, for export of tobacco specially of the better type. Europeans are reported to prefer Indian tobacco of good quality to American tobacco. Markets in the continental countries have been neglected by the Indian exporters. To facilitate our import of capital goods from the European countries, proper impetus should be given to tobacco export. At the same time, some control on the quality of goods should be imposed. Export of inferior quality will spoil the market for Indian tobacco.

Why have our exports in general not responded adequately to the export drive of the Government of India? The explanation partly lies in the inflationary prices prevailing in India. The sellers' market is gone. No amount of Open General Licences will be able to increase our exports, if the present level of prices continues. Our oil seeds have been facing serious competition in world markets, so also hides and skins. The recent increase in the value of exports does not correspond to the increase in their quantum. This gives occasion for reasonable doubt if even the present position in exports can be maintained, raising in turn the inevitable question, does the rupee exchange rate help the export drive policy? The position is getting worse and before any serious injury is done to our export trade, the problem of the rupee rate should be reviewed. Much water has flowed down the Ganges since the Government pronouncement on exchange rate in 1946. A fresh approach is now obviously indicated.