It is arguable whether the balance payments is the most important factor limiting India's economic development, but it will probably at least be agreed that it is a major limiting factor. Shortage of foreign exchange is certainly holding up production quite seriously at present and there is a danger that it will continue to restrict output and the rate of growth during the Third Plan and, looking further ahead, in the Fourth and the Fifth.

The Present Situation

Many factories are to-day lying partially idle through lack of imported supplies. A glance at Table 1 shows unused capacity over a wide field, even on a single shift basis, and rather few industries working multiple shifts. One-third of the industries covered appear to be working at only 60% of capacity or less. (The data refer to the year 1959-60, but it seems unlikely that there has since been any general improvement; output has increased, but so has capacity. The figures may sometimes overstate capacity for statistical reasons; on the other hand the table relates production to capacity at the beginning of the year so that the percentages of capacity utilised would often be still lower if account were taken of new capacity installed during the year.)

There are, of course, many reasons other than shortage of foreign exchange for this state of affairs. New factories inevitably have teething troubles: short runs and breakdowns interrupt production even in established factories: capacity may have been installed in excess of current needs where demand is expected to increase; demand may sometimes have been over-estimated; and so on. But a substantial part of the unused capacity undoubtedly reflects shortage of imported materials, components, spare parts and replacements. This is true, for example, of a good many industries using steel, non-ferrous metals, wood pulp, rubber, and intermediates for cer-

### Table 1: Utilization of Manufacturing Capacity

<table>
<thead>
<tr>
<th>Production during 1959-60 as per cent of installed capacity at beginning of year in 121 industries.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis of capacity figures: 2 or 3 1 shift  Total shifts</td>
</tr>
<tr>
<td>Over 150</td>
</tr>
<tr>
<td>100, not over 150</td>
</tr>
<tr>
<td>90</td>
</tr>
<tr>
<td>80</td>
</tr>
<tr>
<td>70</td>
</tr>
<tr>
<td>60</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>40</td>
</tr>
<tr>
<td>30</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

1 it is assumed that plants work 300 days in the year, or 330 in some of the three-shift industries.

2 Including some industries on continuous operations, with allowance for shutdowns for normal repairs and maintenance.

Source: Monthly Statistics of the Production of Selected Industries of India.
tain chemicals and drugs; factories in many fields are held up for lack of vital bottleneck items; some firms in many fields are held up for lack of certain chemicals and drugs; factories get the imports required for full production.

It seems likely that, say, a further Rs 100 crores per annum could usefully be imported to meet industry's requirements, given the present level of demand for industrial goods, and that this might increase industrial production by perhaps 15-20 per cent, or by several times the value of the increase in imports. Shortages of home produced goods and services, such as coal, power and transport, might limit production in certain fields, but these too could sometimes be overcome by imports, at least after a time, were foreign exchange available. Imported oil, for example, might be substituted for coal in coastal regions, and at the same time save transport, while generating plants to be run on oil or water power might be imported to relieve the power shortage.

Industrial production might be further increased if still more foreign exchange were available for imports of materials, etc; for effective demand might then be allowed to increase with less fear of inflation, since some extra supplies would be forthcoming to meet the extra demand.

Increased imports of fertilisers could likewise increase the value of agricultural output by a multiple of the foreign exchange cost. A still further substantial increase in national production and employment might be possible if large scale public works were undertaken using under-employed labour and indigenous materials, and if the extra demand of the workers employed could be met by increased imports. (Mr Andrew Shonfield recently suggested that such imports, at least of foodgrains and perhaps of eolton, might be obtained from U S as a free gift. I)

In these various ways, shortage of foreign exchange is a serious bottleneck holding up production and preventing anything like the full use of the nation's industrial capacity, land and labour. Increased aid or exports could make possible an increase in production several times as great in value and, by raising income, raise savings and investment and thus the rate of economic development. The Third Plan

Shortage of foreign exchange will continue during the Third Plan and there is a serious danger that it will make impossible the rate of development that is hoped for and that is absolutely essential. Even if foreign aid is forthcoming on the large scale envisaged in the Draft Outline (more than twice that received in the Second Plan), this may not be enough; for the import needs seem to have been substantially under-estimated, as they were in the Second Plan.

The allowance for "development" imports! implies a very rapid increase in the output of capital goods in India, and any estimate of requirements probably tends to under-state the ancillary and unforeseen types of equipment that have to be imported. The growing tendency for aid to be tied to exports from the aid-giving country, especially the United States, will increase the cost. There is no guarantee that the prices of capital goods generally will not rise in the aid-giving countries, as they have done in the past.

The allowance for "maintenance" imports (including capital goods for replacement) looks very low. The average for the Third Plan is put at little more than Rs. 700 crores per annum. (Rs 3570 crores over the five years. Third Five Year Plan—A Draft Outline, p 53.) This is probably no more, and perhaps less, than the present rate of importation which is severely restricted and, as we have seen, quite insufficient for the proper maintenance of the economy. Import needs, moreover, seem likely to grow despite the large increase planned in import-saving production, if, as is contemplated, industrial output is to grow by about two-thirds over the next five years and national income by something approaching one-third (See Draft Outline pp .31 and 228).

There is also the special problem of getting aid for "maintenance" imports; aid-giving countries usually prefer to finance imports of capital goods for "projects** that will create monuments to their generosity, though there are welcome signs that this attitude is changing. India is probably in rather an unusual position among under-developed countries in that the foreign aid required to supplement he, domestic savings tends to exceed her needs for imported capital goods for new investment; for she is an important producer of capital goods. Part of the aid is thus required for maintenance imports.

There is not necessarily anything improvident about taking aid for such imports. It can help to increase investment just as much as aid to finance new capital goods. A large part of the Marshall Aid given by the U S to Europe was in fact used to finance imports other than of capital goods.

(Even if more aid were made free to spend on either maintenance or development imports, there would remain a problem of how much to switch to the former to 'feed' existing unused capacity. For some of this would produce relatively in inessential goods—a legacy of unduly liberal licensing of capacity for such goods in the past.)

India enters the Third Plan, faced with all these difficulties and uncertainties, with 'no cushion against unforeseen contingencies as there was at the start of the Second
Plan. The reserves cannot be drawn upon to any significant extent—they are little more than Rs. 150 crores compared with nearly Rs. 750 crores five years ago—and there are few remaining inessential imports to be cut.

For all these reasons, it seems unlikely that the Plan can be achieved unless aid, or India’s exports, or both, are very substantially increased above the levels contemplated in the Draft Outline. If more aid is not received—and I think it should certainly be asked for—exports would probably have to be increased by nearly one-half during the next five years. Even this would leave a very difficult position during the earlier years, because exports cannot be increased overnight and some of the more important import-saving investments will bear fruit only in the later years of the Plan.

The Fourth and Fifth Plans

Even if more aid, including aid for “maintenance imports”, can be obtained in the Third Plan, this should not in any way weaken the export drive. It will still be necessary to aim at an increase approaching one-half in exports during the next five years to provide a base for the further massive increase that will be needed during the Fourth Plan if India is to achieve independence of foreign aid, and yet maintain rapid growth, in the Fifth. This would probably involve exports at the beginning of the Fifth Plan of as much as Rs. 1500 crores per annum, more than twice the present rate of under Rs. 650 crores.

Such a very large increase may come as a shock to some readers and it requires some justification. I cannot give a detailed proof; this would require much further study, and I hope that others will attempt such a calculation. But I believe that an increase of the order mentioned can be shown to be plausible and indeed the minimum required. In brief, exports two-thirds higher are needed merely to pay for present imports; it seems inevitable that more imports will be needed in ten years to maintain the much higher activity it is hoped to achieve; heavy repayments of capital and interest will fall due on loans already received and that will be received during the next ten years.

A rather fuller justification will now be attempted. (Table 2 will help readers to understand some of the figures mentioned.)

“Maintenance” imports* at present seem to be around Rs. 700-750 crores per annum and should be nearer to Rs. 850 crores to allow industrial capacity to be more fully used. If it is hoped to raise national income by over three-quarters, and to treble industrial production, by the beginning of the Fifth Plan—this would be merely a continuation of the growth rates implied in the Third Plant, and an acceleration is really needed—it is hard to see how maintenance imports could be kept below, say, Rs. 1000 crores at the very least, despite a rapid development of import-saving activities. This would mean that the increase in maintenance imports (Rs. 250-300 crores) was only about 2½ per cent of the increase in national income.

I should have put down a larger increase, had it not been for the view implied in the Draft Outline.

* Excluding food imported under P.L. 480.

† Draft Outline pp 31 and 228. The rates of growth are over 5 per cent per annum in national income and about 10½ per cent in industrial production; these have been compounded over the eleven years 1960-61 to 1971-72.

Table 2 : Trade and National Income

<table>
<thead>
<tr>
<th>Year</th>
<th>National income (current prices), Rs., crores</th>
<th>Imports, Rs. crores</th>
<th>% of 1</th>
<th>National income (c.i.f.), Rs. crores</th>
<th>Exports, Rs. crores</th>
<th>% of 1</th>
<th>Per cent per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52</td>
<td>9,970</td>
<td>962.9</td>
<td>9.7</td>
<td>9,700</td>
<td>840.0</td>
<td>6.1</td>
<td>730.1</td>
</tr>
<tr>
<td>1952-53</td>
<td>9,820</td>
<td>635.0</td>
<td>6.4</td>
<td>9,680</td>
<td>601.9</td>
<td>6.1</td>
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<tr>
<td>1953-54</td>
<td>10,480</td>
<td>591.8</td>
<td>5.6</td>
<td>10,310</td>
<td>539.7</td>
<td>5.1</td>
<td>539.7</td>
</tr>
<tr>
<td>1954-55</td>
<td>9,610</td>
<td>668.3</td>
<td>7.1</td>
<td>9,380</td>
<td>596.6</td>
<td>6.2</td>
<td>596.6</td>
</tr>
<tr>
<td>1955-56</td>
<td>9,960</td>
<td>761.4</td>
<td>7.6</td>
<td>9,690</td>
<td>640.2</td>
<td>6.4</td>
<td>640.2</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Plan</td>
<td>9,972</td>
<td>728.6</td>
<td>7.3</td>
<td>9,621</td>
<td>621.7</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>1956-57</td>
<td>11,310</td>
<td>1099.5</td>
<td>9.7</td>
<td>11,310</td>
<td>635.2</td>
<td>5.6</td>
<td></td>
</tr>
<tr>
<td>1957-58</td>
<td>11,400</td>
<td>1233.6</td>
<td>10.8</td>
<td>11,400</td>
<td>594.1</td>
<td>5.2</td>
<td></td>
</tr>
<tr>
<td>1958-59</td>
<td>12,470</td>
<td>1029.6</td>
<td>8.25</td>
<td>12,470</td>
<td>575.9</td>
<td>4.6</td>
<td></td>
</tr>
<tr>
<td>1959-60</td>
<td>13,000†</td>
<td>923.7</td>
<td>7.1†</td>
<td>13,000†</td>
<td>623.3†</td>
<td>4.8†</td>
<td></td>
</tr>
<tr>
<td>1960-61</td>
<td>13,700†</td>
<td>1080.1†</td>
<td>7.9†</td>
<td>13,700†</td>
<td>640.1†</td>
<td>4.7†</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd Plan</td>
<td>12,376†</td>
<td>1073.3†</td>
<td>8.7†</td>
<td>12,376†</td>
<td>613.7†</td>
<td>5.0†</td>
<td></td>
</tr>
</tbody>
</table>

* Balance of payments basis (E.C.D.)
† Estimated

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“Development” imports in the Second Plan seem to have averaged Rs. 300-400 crores per annum and are expected to exceed Rs. 400 crores per annum in the Third Plan; they may well have to be nearer Rs. 450 crores for reasons mentioned earlier. It is hard to believe that they could be less than, say, Rs. 400 crores per annum at the beginning of the Fifth Plan if, a, is hoped, investment is to be raised to over 2½ times the present level (11% to 16% of a national income more than three-quarters higher, and a still higher investment ratio is really required). Merely to prevent any increase in the need for development imports will be difficult. Apart from the very large rise required in the output of capital goods as a whole, there is the problem of special types of equipment. At the stage of development that India will have reached there seem bound to be many types that she will still be unable to produce, especially as many new things will be developed in the world during the next decade. At Rs. 400 crores, development imports would be only 10 per cent of India’s net investment (though a larger fraction of the capital goods required for net investment).

With maintenance imports at Rs. 1000 crores and development imports at Rs. 400 crores, total imports would be Rs. 1400 crores. This would be little more than 5½ per cent of the national income. The lowness of this figure may be appreciated when it is realised that in the United States a large country with every diversified resources, in the van of technological progress, and with a long history of economic development behind high tariffs—imports (c.i.f.) are over 4 per cent of the national income1 (and were usually 5½ per cent or more until the 1930s). The corresponding figure for the U.S.S.R. may well have to be of the order of 4 per cent. Apart from China, there is virtually no other country with an import ratio anything like so low. If India’s national income were valued at U.S. prices, the ratio of imports to national income assumed for the beginning of the Fifth Plan would be well under 4 per cent.

Import Saving

Although I have allowed for an increase in total imports above the 1960-61 level, and thus assumed no absolute import-saving, there would have to be massive import-saving in a relative sense. Imports would have to fall from nearly 8 per cent to little more than 5½ per cent of the national income. The increase in imports would be under 3 per cent of the rise in national income. The rate of increase assumed in the quantity of imports (under 2½ per cent per annum) is little more than half that required by the U. S. throughout the half century ending in 1929 (over 4 per cent per annum) although the planned rate of increase in India’s real national income is much higher than that achieved by the U. S. during this period.

In addition to imports, the service of public external debt (including interest and repayments) may well be as much as Rs. 200-250 crores per annum, even if the bulk of the loans received during the next 10 years are on easy terms, and especially if repayments due in the Third Plan are postponed or covered by new borrowing, as was contemplated in the Draft Outline (p 55). On the other hand, net invisible earnings (excluding interest on the public external debt) together with net inflow of private capital may provide, say, Rs. 100-150 crores.4 Exports would then have to be about Rs 1500 crores.

It may be argued that there is no need to aim at such a high figure since foreign aid is likely to continue in the Fifth Plan. But it would seem to be rather a dangerous gamble to count on this. Political conditions can change greatly in ten years. Mr Kennedy, for example, will no longer be President of the United States and there will be many other claimants for whatever aid is available, including many countries whose ability to use aid profitably will be much greater than it is today.

Even if it is assumed that substantial aid will be available to India in the Fifth Plan, this will not necessarily change the export target that should be aimed at. For if internal savings have by then been stepped up to a level that can give a satisfactory rate of growth without foreign assistance, India will presumably not wish to accept, let alone be unfortunate if balance of payments difficulties made this necessary. If, on the other hand, internal savings are still inadequate, it will not be difficult to create a balance of payments deficit, if necessary, by stepping up the rate of investment, so that a balance of payments case for aid can still be made and the aid can be absorbed.

It is possible that there will be important discoveries of oil or other natural resources that can be used to replace imports. But it would be imprudent to count on discoveries that would have a revolutionary effect on the balance of payments until they have actually been made. In any case, such resources would take time to develop. I have, moreover, already allowed for very large scale import-saving. And a completely autarkic policy of import-saving at any cost—of producing anything that it is physically possible to produce in India—would undoubtedly slow down the rate of growth.

This is not to say that investment in import-saving should not have some preference—and perhaps quite a substantial one—over investment in production for export. I think it should, because, for example, of the greater dependence of exports on circumstances outside India’s control and of the tendency for a pushing of exports to worsen the terms of trade. Rut the preference for import-saving should not be absolute. For example, an investment in production for export that required only, say, a 10 per cent export subsidy should normally, I suppose, be preferred to an investment in import-saving that required protection equivalent to, say, a 50 per cent import duty, after allowing a reasonable time for infant industries to grow up in either case.

1 Draft Outline, page 51. Development imports are at present running temporarily at a lower figure.

2 Draft Outline, page 6 and 43.

3 11 per cent in 1959. The more usually quoted figures for imports as a percentage of the gross national product is lower (3.2 per cent).

4 These items at present yield under Rs 100 crores, net, excluding also official donations. Earnings from transportation and especially tourism are expected to exceed Rs. 1400 crores. This would be little more than 5½ per cent of the national income. The lowness of this figure may be appreciated when it is realised that a, is hoped, investment is to be raised to over 2½ times the present level (11% to 16% of a national income more than three-quarters higher, and a still higher investment ratio is really required). Merely to prevent any increase in the need for development imports will be difficult. Apart from the very large rise required in the output of capital goods as a whole, there is the problem of special types of equipment. At the stage of development that India will have reached there seem bound to be many types that she will still be unable to produce, especially as many new things will be developed in the world during the next decade. At Rs. 400 crores, development imports would be only 10 per cent of India’s net investment (though a larger fraction of the capital goods required for net investment).

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For all these reasons, I feel that a target of around Rs 1500 crores per annum for exports at the beginning of the Fifth Plan is by no means too high. It would mean, very roughly, an increase of one-half during the next five years and a further increase of one-half during the following five years. There is no point, of course, in arguing about the precise figure, for in any case it will probably be agreed that the increase required is very large indeed; but I shall use the figure of Rs 1500 crores for purposes of illustration.

The Magnitude of the Export Task

The rate of increase required would be a difficult task for any country. But it is not impossible. It has been achieved over the past decade by quite a number of countries (in addition to those exporting oil), such as Yugoslavia, Israel, Japan and a good many nations in Western Europe. But how practicable is the task for India?

From the point of view of reserving a sufficient proportion of the nation's investment and additional output for exports, the ask does not seem unmanageable. Exports would have to rise by 8 per cent per annum compared with an increase of 5-6 per cent in the national income. Less than 8 per cent of the increase in output would have to be devoted to exports. The proportion of the national output exported would merely have to be restored to the level achieved half-a-dozen years ago.

These figures, of course, refer to output as a whole, and there will for a time he difficult problems in particular fields where home demand will have to be restrained to make room for exports. But the pattern of output can be changed considerably over a period so that, looking ten years ahead, the problem should not be too difficult, provided an appropriate pattern of investment is adopted.

When, however, one considers the problem of selling the goods abroad, the task appears much more difficult, for India's exports would have to increase faster than world trade seems likely to expand. The latter has risen in terms of quantity by about one-third in each of the last two five-year periods (and may perhaps grow more slowly in future); exports of under-developed countries taken as a whole have grown considerably less quickly.

Now, while world trade has been expanding quite rapidly, India's exports have been stagnant during the last ten years (at least in value, though there has been some upward trend in quantity). This is partly because her share in the world market for certain products has been falling (sometimes mainly for external reasons, sometimes in the main because Indian domestic consumption has been catching up with production). In jute manufactures for example, Pakistan has entered the world export market, and Thailand has entered that for lac. In tea, East Africa and Ceylon have been increasing their share of the U. K. market at India's expense. India's share in the world market for man­ganese ore has fallen; new competitors have been entering the field. In groundnut oil, where once she had a substantial share, her exports have now virtually dried up.

Probably the more important reason, however, why India's exports have fared so much worse than world exports as a whole is that they depend rather heavily on items where world trade is expanding only slowly, if at all. Nearly one-half of India's exports still consists of the three traditional staples—tea, cotton textiles and jute manufactures. World trade in these items taken together seems unlikely to expand very rapidly in future, barring a striking increase in imports by the Soviet bloc; and the scope for increasing India's share is limited because it is already high in tea and jute manufactures, while an attempt to expand markedly her quite substantial share in cotton textiles would be likely to provoke restrictive measures abroad. Exports of the three staples must be vigorously promoted; they are far too important to be neglected. Rut, while quite a sizeable increase is by no means impossible, it is clear that, to achieve the total exports required, there will have to be a really striking increase in the other items; they may well have to be trebled or more.

Now among these there are some very promising exports even outside the field of the newer manufactures. There could be rapid increases in the earnings from, for example, iron ore, coffee, fish, vegetable oils and, in the field of invisible exports, tourism. These are items which world trade should expand rapidly, or where India's share is small and could be raised substantially, or both. There is also a good number of other quite promising items.

But, even on optimistic assumptions about all these and other commodities, it would seem impossible to reach anything like the level of exports required without a very substantial contribution indeed from the newer manufactures. Exports of these must be increased many times over to several hundred crores per annum. Their present share of only about 5 per cent of exports must be raised to a much more important fraction.

Taking account also of the rapid expansion needed in the other promising items, it is clear that an almost revolutionary change will be required in the structure of India's export trade. When this has become more heavily weighted in favour of products where world trade is growing fast, a rapid expansion of her exports will become less difficult.

I must confess that India's export task looks extremely formidable but I do not think it need be a matter for despair, for cutting down or drastically altering the fundamental nature of the Plan, or for giving up hope of achieving rapid growth without foreign aid within a decade. In products where India's share of the market has declined, it is by no means inevitable that this must continue or that part at least of her previous share cannot be regained, provided really vigorous measures are taken to increase production, to free supplies for export, to make them competitive, and to market them. We have seen that there are a good many exports which could be rapidly increased. In the case of the newer manufactures, it is sometimes argued that the world market will not expand very rapidly in future because of the simultaneous industrialization of a large number of under-developed countries. But, even if this is true—which is doubtful—it might still be possible for India to carve out the rather small share she needs—perhaps about 2 per cent of the world export market for the relevant products as a whole—a smaller share than that of such small countries as Sweden, Switzerland, the Netherlands or Belgium.

India, too, though poorer than the great majority of under-developed countries per head of population is more advanced industrially than...
most. She should thus be able, by keeping one step ahead, to sell them manufactured products that they cannot yet produce. The trading skill of Indians and the numerous Indian traders abroad should be of assistance, as should be the selling organisations and experience built up by textile exporting firms over a long period.

It is possible, too, that more and more international firms selling all over the world will, if permitted to do so, choose India as one of their bases for production and export (as some are already doing). For, among the low-wage countries, India’s claims are high. She has one of the largest home markets; the general political outlook is more secure than in many other countries (although the extent of Government control may prove a deterrent); she has a good supply of educated personnel and of industrial facilities generally.

But, while there is no need for despair, the task is certainly a very difficult one indeed. What has to be done if there is to be a chance of success?

II CONDITIONS OF SUCCESS

1 The Role of Government

The first and fundamental requirement is a recognition of the vital need for a rapid and massive increase in exports if India’s economic development is not to be seriously jeopardised, and acceptance of this fact as a major basis of economic policy.

While most of the actual exporting will have to be done by private business, the role of Government will be crucial. Some difficult decisions must first be made on general policy, involving much more drastic measures than have hitherto been taken. But these will be fruitless without really effective machinery, which can cut through conflicting departmental interests, to translate them rapidly into concrete measures, including schemes for each product, and then to take quick decisions on their day-to-day implementation and interpretation (for potential customers abroad, in a highly competitive world, will not wait for long while Indian officials make up their mind).

I am no expert on public administration and I do not know how all this can be done in the Indian context but I can think of some occasions when Britain was faced with similarly urgent problems.

There was, for example, the wartime crisis when U-boats were sinking merchant ships at a rapid rate and Britain was threatened with starvation or at least with a complete dislocation of the war effort at home and overseas. Mr. Churchill formed a small but top-level Battle of the Atlantic Committee over which he presided and which met very frequently to take decisions, to check that decisions taken previously had been implemented and to review their effectiveness.

Then there was the Battle of Britain crisis of 1940 when Lord Beaverbrook was given the task of getting as many fighter aircraft ready for service as he could in the shortest possible time. He was very successful, although his efforts dislocated war production for some time thereafter.

India’s export problem is a longer term one, and the drive for exports must not be allowed to dislocate the economy generally, so perhaps another example will be more relevant. When the Conservative Government returned to power in 1951 they were faced with the need to redeem an election pledge to build 300,000 houses a year as soon as possible; the current rate was only 200,000. Whether this was a wise use of Britain’s limited resources is beside the point. Mr. Churchill appointed Mr. Harold Macmillan, to achieve this task and he in turn recruited a business man of considerable experience and determination to assist him. The target was achieved far more quickly than most people had thought possible and the success added considerably to Mr. Macmillan’s reputation. An important condition was the ability of Mr Macmillan and his officers, with the full hacking of the Prime Minister and the Cabinet, to prevail over other Ministries when their interests conflicted with his.

2 Emphasis on Economic Efficiency

If India is to compete in World markets without prohibitive subsidies, it is essential to go all out for maximum economic efficiency, and low costs, even if this conflicts with other considerations.

Where economies of scale are important, it is vital to concentrate on large plants even if this means less regional dispersion of industry, and more concentration of economic power; competition is usually good for efficiency but the deliberate creation of several undertakings where one could produce far more cheaply is unlikely to achieve the desired result. It may be tempting to give preference to smaller firms because they employ more labour; but they may be unable to compete in world markets. Larger enterprises, even if they employ fewer people directly, may, by gaining foreign exchange which can be spent on scarce materials, make possible more employment in industry as a whole.

The need for exports may also conflict with the desire for fair play. For example, foreign exchange must be granted quite liberally to would-be exporters for travel and sales promotion abroad, even though this may lead to some abuse. And in so far as reliance is placed on the State Trading Corporation or other Government agencies to sell goods abroad, emoluments will have to be paid that can attract from the private sector the best experts in the various branches of trading, even if these are out of line with governmental salary scales. It will also be difficult for State traders to compete with private traders abroad if they are inhibited by the rules to which other officials, for good reasons, are subject, so that they can be called to account for each individual decision rather than for their performance as a whole.

3 Restraints on Home Demand

Consumption of exportable goods will have to be restrained where supplies are inadequate to meet both home and export demand — and even where supplies could be increased sufficiently through higher investment, if the products are not essential and the resources can be more usefully employed elsewhere. Restraint may be necessary, at least temporarily, on the consumption of such products as vegetable oils, tea, the better grades of coffee, leather and a fairly wide range of manufactures. This will seldom involve an absolute reduction in consumption or even in per capita consumption; a slowing down in the rate of growth will normally suffice. Restraints on home demand will normally mean that prices are
higher than they otherwise would have been (though not necessarily higher absolutely). This may result from higher excise duties or from the charging of higher prices by producers who have to sell abroad at a loss.

There is a natural reluctance to restrain consumption, and especially when the goods are produced in India. But the belief that such goods must always be cheap and plentiful reveals a strange asymmetry of thought towards imports and exports respectively. If, say, 90-95 per cent of the country’s needs of an article are produced in India, and the remaining 5-10 per cent imported, there will normally be little hesitation in cutting the imports drastically to save foreign exchange and making do with rather smaller supplies, even if this means considerably higher prices and profit margins. It thus seems a little strange that there should be opposition to a moderate slowing down in the growth of consumption of goods produced in India that could be exported and earn foreign exchange, especially if this is done by excise taxes which accrue to the Government.

It must be remembered that restraints on consumption will be recouped several times over in terms of production of other goods, since the extra exports will make possible the import of vital bottleneck items. In general, the public must be convinced that, without such restraints, an adequate rate of development will be impossible and that would be a much more serious matter.

4 Adequate Production for Export

The scope for restraining home demand is, however, limited, especially when the product meets a really essential need of the mass of the people or is a material, component or piece of equipment vital for the country’s economic development. It is thus essential, particularly in these cases, that output of exportable goods 19 adequately expanded. It must not lag behind home demand, as has happened too often in the past. This means ensuring sufficient investment in the industries concerned, that they have adequate supplies of materials, fertilisers, etc., and that any other necessary measures are taken (for example, a modification of the legislation on cowslaughter could increase supplies of hides and leather for export).

Since resources will remain scarce, and especially imported equipment and materials, an essential corollary is the need for severe limitation of investment in production that is not absolutely essential, and that will not yield substantial net earnings or savings of foreign exchange, and especially when continuing net foreign expenditure would be involved. Only in this way can room be found for the more vital export projects. This means that many other schemes, though desirable in themselves, will have to be postponed till conditions are more favourable, and especially when they would benefit only the higher income groups.

Care must also be taken in the allocation of investment resources between activities than can earn or save foreign exchange. The calculations involved are difficult. Profitability in a narrow financial sense is not a sufficient criterion since, among other things, the value to the nation of extra exports or import-substitutes is considerably greater than it appears to be at existing rates of exchange. It is certainly necessary to work out the initial foreign exchange cost of the investment, the continuing annual foreign exchange costs and the continuing annual earning or -saving of foreign exchange. The net annual earning or saving of foreign exchange as a proportion of the initial cost will not yet, however, provide a satisfactory criterion for choosing between investments because the use of scarce domestic goods and services must also be allowed for.

Indirect effects must be taken into account as well. For instance, in deciding whether to buy additional aircraft abroad for use on internal services, credit must be taken for the extra foreign tourists who would come to the country (assuming that inadequate air transport within India is limiting their number), and not only for the fares they would pay to Indian Airlines Corporation but for their other expenditure in India as well. Though such calculations are difficult, they should be seriously attempted and perhaps done more carefully than hitherto. This might suggest ways in which a re-allocation of investment would assist the balance of payments. (For example, investment in more ships, which can recoup their foreign exchange cost in a fairly short time, might turn out to be better than investment at the margin in some other export or import-saving activities.)

5 Making Exports Competitive

Even if sufficient supplies are made available for export, they cannot be sold unless prices are competitive. Measures to reduce costs will take time to bear fruit. In the meantime, if India is to achieve the large and rapid expansion in exports that is necessary, it seems essential that a good many exports should be sold below the domestic price and some below cost of production. This will be necessary over a fairly wide range of manufactures and for a rather small number of primary commodities, sugar being an outstanding example.

To make the best use of the nation’s resources, preference should normally be given to products requiring a smaller rather than a larger rate of subsidy. (On this criterion sugar looks a bad bet, at least as a continuing export in the long run unless costs can be very substantially reduced, either through a geographical re-distribution of Indian production or in other ways. But in the shorter run India clearly cannot afford not to sell the substantial surpluses that have arisen.)

Direct or indirect export subsidies will arouse some antagonism abroad. The rules of GATT are somewhat strict on this matter (and surprisingly more strict than on import restrictions) but India has reserved her position. Trouble may, however, arise with producers both in rival exporting countries and in the importing nations.

India can, however, make a good case for at least temporary subsidies. The urgent need for increased export earnings is apparent. It can also be reasonably claimed that the “infant industry” argument for protection of import-competing industries applies, mutatis mutandis, to infant export industries, of which there are many in India. Moreover, many Governments subsidise exports in various ways; and the sale by industrial firms of exports at prices lower than those charged at home is a very common phenomenon.
With some commodities, that do not need a subsidy, stable prices are as important as low ones. When prices fluctuate so widely as, for example, those of jute goods, buyers abroad will switch to substitutes with more stable prices; and every sharp rise in price will encourage substitutions and economies which will not be wholly reversed when prices fall again. Measures to reduce fluctuations in such prices are thus necessary.

6 Investments in Selling

The selling of vast additional amounts of exports, especially of the new manufactures, is bound to be an expensive business, in terms both of rupees and, more particularly, of foreign currencies. Such expenditure must be regarded as essential investment designed to earn foreign exchange and must not be skimmed any more than investment in, say, steel works to save foreign exchange. Expenditure of foreign currency both public and private, that can properly be attributed to export promotion probably does not exceed a very few crores. Even a large proportionate increase, say a doubling, though apparently difficult to afford in present circumstances, would be small in relation to the extra exports it might yield.

More Government money will have to be spent on, for example, trade fairs and missions; on trade representatives abroad (who will have to supply much more detailed and expert market information than has hitherto been available, for use both by Government and by business); and perhaps on export credit guarantees (the terms must be fully competitive with those offered by competitors abroad and this may require Government subsidisation of the Export Risks Insurance Corporation).

Foreign exchange must also be granted quite liberally to business firms, including those not yet well established, and to Government agencies engaged in export trade, not only for travel abroad but also for advertising, for building up stocks abroad and for the other needs of marketing; some firms or industries may need offices, showrooms or even foreign subsidiaries. Nor can India afford not to grant credits as long as those offered by other exporting nations, even if this sometimes involves waiting several years for the foreign exchange; this will still be a well worth while investment.

7 The Role of the Advanced Nations

The advanced, aid-giving nations can do much to help or to obstruct India’s export drive. They must be convinced that, without a massive increase in exports, India can never achieve independence of foreign aid, while maintaining rapid growth and at the same time repay the larger loans she is receiving. The slogan at the moment must be “aid and trade” if it is ever to be “trade not aid”. In particular, the advanced nations must be convinced of the need for much more competition from the new Indian manufactures, not only in third markets but even in their own home markets. If restrictions are imposed on goods produced with “cheap” or “sweated” labour, as with cotton textiles, India’s chances of achieving the exports she needs will be considerably reduced.

Merely to refrain from imposing such restrictions will not be enough. More positive action to encourage imports from India (and other under-developed countries) is required. The analogy of the Marshall Plan is relevant. The U. S., while giving massive aid to Europe, embarked in effect on an import drive to help sales of European goods to the U. S. (while tolerating severe discriminatory restrictions against her own exports to Europe). For example, U. S. officials abroad actively sought out European products that might be saleable in the U. S.; American tourists were allowed to bring back as much as $500 Worth of goods purchased abroad without paying duty; local purchases by American military forces in Europe were encouraged in various ways. (These measures have now, quite rightly, been reversed, as Europe’s balance of payments has become much stronger.) The advanced nations could also help by persuading firms with interests in factories in India to waive agreements limiting exports from these factories.

(To be concluded)