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A study on changing foreign trade pattern of India before pre liberalization era

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Abstract

India's foreign trade was based on the needs of the British colonial powers prior to independence in 1947. India being an agrarian economy used to supply raw materials and agricultural commodities to Britain and other industrial countries and imported manufactured goods. The paper discusses the trends of foreign trade in India from pre plan period up to liberalization in 1991. The study is based on secondary data of annual reports collected from various government sites, journals and newspapers. The paper highlights the changes in exports and Imports and examined the factors responsible for Balance of Trade.

Keywords: foreign trade, devaluation, balance of trade, exports, imports

Introduction

The home Production of any country reflects on the exports and imports of an economy. The manufacturing in turn depends on the availability of factors of production. This leads to comparative advantage of the economy. India being a poor country has always faced the problem of scares capital resources but there has never been problem from land and labor. Therefore, India is better off in production of Labor intensive commodities. As a result, India started to gain foreign trade from 1900-1914 with the rise in Exports of crops like cotton, jute, Tea etc. Then, the world faced the era of First World War and India too had its serious impact ^[1]. Immediately after post war period, with the rise in world demand for raw material and removal of war time restrictions, Indian exports stretched its hands. This rise in exports demanded for more imports even. The foreign market continued to expand till it was hit by great depression of 1930s. This depression was mainly due to decline in consumer purchasing power, fall in commodity prices and unfair trade practices adopted by colonial government ^[2]. But this depression also did not continue for long and during the Second World War India achieved a huge rise in exports surplus. The export surplus was not all alone but demanded for larger imports even. There was a huge pressure on food and raw materials at the time of the partition of the country the export surpluses went down with the decrease in raw cotton and raw jute production. At this time even India was able to balance its foreign trade by exporting primary goods like spices, mica and vegetable oil ^[3]. However, volume of exports in 1946-47 was still only about 2/3rd of pre- war level ^[1].

Prior to independence India was being exploited as the country was exporting raw materials and importing finish goods from the U.K. Indian textiles at one time constituted the key role in India's exports accounted for the largest share of Imports during the British rule. The resultant was declined of Indian Industries ^[4].

Objective of the study

1. To study the structure of Indian Economy and its trading pattern.
2. To study India's exports, Imports and trade balances during various Five year plan periods till 1991.
3. To study the factors responsible for changes in trade balances.

Research methodology

The research is based on secondary data collected from national and international journals, Annual Economic reports of India, Annual report of RBI etc. The paper has examined the tables of exports and imports and its impact on Balance of Payment of the economy from First Five Year Plan in 1951 till Liberalization in 1991.

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It has also highlighted trade patterns before and after independence.

Foreign trade in various plan period

Table 1: Export Import and Trade Balance during First Plan (Rs in Crore)

Year	Import	Export	Balance
1950-51	650	647	-3
1951-52	963	730	-233
1952-53	633	602	-31
1953-54	592	540	-52
1954-55	690	597	-93
1955-56	773	641	-133
Annual Average	730	622	-108

Source - Economic survey (Various issues)

The plan period started from 1950-51 and this was the period when basic primary products like- cashew kernels, Black Pepper, Tea, Coal, Mica, Raw Cotton, Raw Wool etc. dominated the Indian export market⁵. This increase in exports was not enough for balance of trade. India's major share of exports is from agriculture sector which do not add much value to GDP of the economy. It was the time when the world was moving towards development through manufacturing. There was decline in agriculture production which further created problems for foreign trade⁶. One more activity which increased the pressure further was the closure of Suez Canal.

Table 2: Export Import and Trade Balance during Second Plan. (Rs in Crore)

Year	Imports	Exports	Balance of Trade
1956-57	1102	635	-467
1957-58	1233	594	-639
1958-59	1029	576	-453
1959-60	932	627	-305
1960-61	1106	631	-475
Annual average	1080	613	-467

Source: Economic Survey various issues

Foreign Trade in 2nd & 3rd Plan Period: The 2nd five year plan of India was putting more emphasis on the development of Industry, Mining and Transport to enhance its foreign exchange component⁷. There was a need to Strengthen the import policy of the economy. It was the time when India was negotiating with IBRD to cover for Loans to cover its development projects. India was also exploring the possibilities of differed payment in respect of Imports from various countries⁸. This gave rise to a new policy in 1957 when India discontinued the open general license and instead limited quotas were being imposed on essential goods in terms of imports No new licenses were issued. As a result the imports declined and position of balance of payment was comparatively better in 1959-60⁹.

Table 3: Export Import and Trade Balance during Third Plan (Rs in Crore)

Year	Import	Exports	Balance of Trade
1961-62	1006	668	-338
1962-63	1097	681	-416
1963-64	1245	802	-443
1964-65	14212	801	-620
1965-66	1350	783	-567
Annual average	1224	747	-477

Source: Reserve Bank of India Bulletin March 1967

In 1960-61 government setup 12 export promotion councils to promote respective areas and special export schemes were also being operated. In some cases larger import licenses were also being issued to aid export production. As a result, once again balance of payment was under pressure in 1964-65. It was due to repayment to IMF, increase in imports of food and goods for development¹⁰.

Table 4: Average of 2nd and 3rd year Plan Period

Year	Import	Exports	Balance of Trade
1966-67	1992	1086	-906
1967-68	2043	1255	-788
1968-69	1740	1367	-737
Annual average	1925	1236	-689

In 1966, India faced the problem of financial crises and went for devaluation of rupee from Rs 4.7 to Rs 7.5 per dollar that is 57.5% It was due to the cut of in foreign aid as India was in war with Pakistan and the friendly nations of Pakistan Like US and other countries with drew foreign aid. In addition the war efforts accelerated inflation. India also increased its expenditure on defense¹¹. One more factor which worsened the situation was the drought of 1965-66 which further inflated the prices over 10%. The above table is the annual plan showing the picture of Indian trade and industry where with the increase in exports the imports are also increasing and the balance of trade is negative in each individual year this increase in the wake of growing demand in the domestic market¹².

Table 5: Export Import and Trade Balance during Fourth Plan (Rs in Crore)

Year	Import	Exports	Balance of Trade
1969-70	1582	1413	-169
1970-71	1634	1535	-99
1971-72	1824	1607	-217
1972-73	1867	1971	+104
1973-74	2955	2523	-432
Annual average	1972	1810	-162

Source: Reserve Bank of India Bulletin March 1975.

The fourth five year plan continues with the export promotion activities and was at its best in 1972-73 after the introduction of 5 year plan it was due to the introduction of innovative promotional schemes¹³.

Table 6: Export Import and Trade Balance during Fifth Plan (Rs in Crore)

Year	Import	Exports	Balance of Trade
1974-75	4519	3329	-1190
1975-76	5265	4036	-1229
1976-77	5074	5143	+69
1977-78	6020	5048	-612
1978-79	6811	5726	-1085
Annual average	5538	4728	-810

Fifth 5 year plan was a turning point and started giving its positive impact. It was a time when Indian workers migrated to oil rich Middle East countries as unskilled labors, skilled technicians and started sending their part of earnings to their families in India¹⁴. It was also a time the world trade rose by 8% and India too enjoyed the benefits. It was an era when strict majors taken against smuggling and other legal International payments. The tourism was also expanding its

business in India. As a result the later part of 70's had positive impact of balance of trade though overall this plan period had negative balance of payment.

Table 7: Export Import and Trade Balance during Fifth Plan (Rs in Crore)

Year	Import	Exports	Balance of Trade
1979-80	9142	6418	-2724
1980-81	12549	6711	-5838
1981-82	13608	7806	-5802
1982-83	14293	8803	-5489
1983-84	15831	9770	-6061
1984-85	17134	11744	-5390
Annual average	14683	8967	-5716

Source: Reserve Bank of India Bulletin March 1986.

This Plan period faced the problems of trade deficits which was at Rs. 5716 Cr.

Table 8: Export Import and Trade Balance during Fifth Plan (Rs in Crore)

Year	Import	Exports	Balance of Trade
1985-86	19658	10895	-8763
1986-87	20096	12452	-7664
1987-88	22244	15674	-6750
1988-89	28235	20231	-8004
1989-90	35328	27658	-7730
1990-91	43198	32553	-10645

Source: Reserve Bank of India Bulletin March 1995.

Late 1980's and early 1990s the country showed growth and development in income and there was a huge demand from upper income groups for consumer durables like color TV, Refrigerators, AC, Motorcycles, Cars etc. To fulfill the demands the import components demanded further hike from abroad ^[15]. We have already discussed in the introduction part that the currency even depreciated in this period all these factors contributed and demanded trade liberalization and the government of India had to introduce "new economic policy" in India ^[16].

Conclusion

The annual trade deficit has always witnessed increased trade deficits since introduction of Five year plan in India. It was only during fourth plan period when certain steps were taken by government of India to reduce trade deficits on one side & to enhance exports on the other side. The fifth plan period witnessed the increase in Exports as well as imports and continued to increase in the similar manner during 6th plan period. By this time the growth & development provided income in the hands of people who demanded for goods and India had to increase its imports to stabilize these demands the increase in education and technology encouraged government to boost its exports and hence the new economic policy was introduced in 1991 to satisfy the above cause.

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