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Introduction to the Series*

MANMOHAN SINGH: A PROFILE

Manmohan Singh was born to Amrit Kaur and Gurmukh Singh in Gah village in the Punjab province of undivided India, now located in Chakwal district of Pakistan. His official date of birth is 26 September 1932. From an early age, he was keenly interested in learning and excelled in academics. He did his Matriculation (1948) and Intermediate (1950) from Panjab University, Chandigarh. In 1954, he completed his MA in Economics from Panjab University College (Hoshiarpur), standing first in the University. During 1955–7, he was at St. John's College in Cambridge University, and obtained a Tripos in Economics with first class honours. At Cambridge, he was awarded the Adam Smith Prize for his essay on international investment and economic development. He was also awarded the Wright Prize for Distinguished Performance and was elected Wrenbury Scholar. In 1958, he married Gursharan Kaur.

Manmohan Singh started his teaching career in 1957 as a senior lecturer in Economics in Panjab University, Chandigarh. He took a two-year break from teaching in order to pursue his DPhil at Nuffield College, the University of Oxford (1960–2), under the supervision of Dr. I.M.D. Little. His doctoral thesis, subsequently published by the Clarendon Press, was titled *India's Export Trends and the Prospects for Self-Sustained Growth*. Returning to Panjab University, Manmohan Singh became a Professor in 1963.

In 1966, Dr. Singh moved to New York to join the United Nations Conference on Trade and Development (UNCTAD), initially as Economic

* Minor corrections have been made to the text, where necessary. Sections of press conferences and interviews in Hindi have been uniformly transcribed in the Devanagari script and English translations (not part of the official transcripts) have been provided for the benefit of readers. Urdu verses have been transcribed in Devanagari and translations have been provided where possible. Sections where transcriptions are unintelligible have been omitted and the breaks in the text are indicated.

Affairs Officer and then as Chief of the Financing for Trade Section (1967–9). While working in UNCTAD, he gained valuable insights into processes of development, with particular emphasis on trade, money and finance. He cut short his career in the United Nations to return to teaching, this time as Professor of International Trade in the prestigious Delhi School of Economics (1969–71), thus firmly establishing his academic credentials.

The next phase of Dr. Singh's career was with the Government of India, where he held several important posts—he was Economic Adviser in the Ministry of Foreign Trade (1971–2); Chief Economic Adviser in the Ministry of Finance (1972–6); and Secretary, Department of Economic Affairs, Ministry of Finance (1976–80). From 1980 to 1982, he was Member-Secretary of the Planning Commission. In 1982, he was appointed Governor of the Reserve Bank of India (RBI). During 1983–4, he also served as a member of the Prime Minister's Economic Advisory Council. After two-and-a-half years as RBI Governor (1982–5), Dr. Singh returned to the Planning Commission, this time as its Deputy Chairman—a position he held till 1987.

Over a span of about fifteen years, Dr. Singh gained considerable experience of the economic and development sectors in India. In 1987, he took over as the first Secretary-General of the newly established South Commission based in Geneva, Switzerland. During these years (1987–90), he further deepened his understanding of social, economic and political issues facing developing countries across the world. On returning to India, he was appointed Adviser to the Prime Minister of India on Economic Affairs (1990–1), and also spent a few months of that time (in 1991) as Chairman of the University Grants Commission.

Dr. Manmohan Singh entered politics in 1991, when he joined the Indian National Congress. In that year, he was appointed Finance Minister of India by Prime Minister P.V. Narasimha Rao, and he entered the Rajya Sabha as a representative of the state of Assam. As Finance Minister from 1991 to 1996, Dr. Singh launched a series of radical measures to revive and reform the economy. During this period, Dr. Singh was re-elected as member of the Rajya Sabha, and served as the Leader of the Opposition in the upper house (1998–2004).

In May 2004, Dr. Manmohan Singh became the thirteenth Prime Minister of India, heading a coalition government formed by the United Progressive Alliance (UPA), led by the Indian National Congress. In 2009, the UPA was voted back to power and Dr. Singh was sworn in for a second term as Prime Minister. He remained in office till 26 May 2014.

Dr. Manmohan Singh lives in New Delhi, India, and continues to be a Member of Parliament. He has three daughters—Upinder, a historian; Daman,

a writer; and Amrit, a lawyer. His sons-in-law are Vijay Tankha, Ashok Patnaik and Barton Beebe. Dr. Singh has three grandchildren—Madhav, Raghav and Rohan. A biography of Dr. Manmohan Singh and Mrs. Gursharan Kaur has been authored by Daman Singh under the title *Strictly Personal: Manmohan & Gursharan* (2014).

A repository of Dr. Singh's writings, speeches, interviews, press conferences, photographs and video recordings is currently being prepared by Nehru Memorial Museum and Library.

THE VOLUMES IN THIS SERIES

From 1957 onwards, Manmohan Singh wrote extensively, producing one monograph and a large number of essays, articles and reports. Together with his prolific speeches and his frequent interactions with the print and electronic media, his writings constitute a vast collection of material. A selection of the most important material from this collection is presented in the series, *Changing India*.

The five volumes of this series present a definitive expression of Dr. Singh's perspectives on a wide range of economic, social and political issues as they evolved over his long and eventful career.

Volume 1: India's Export Trends and the Prospects for Self-Sustained Growth

Based on Manmohan Singh's DPhil thesis at the University of Oxford, *India's Export Trends and the Prospects for Self-Sustained Growth* was published by the Clarendon Press in 1964. It was path-breaking at the time, because it used empirical analysis to challenge views on trade and development that then prevailed in India as well as abroad. The book is reprinted here with a new Preface by the author that provides a connecting link between the economic challenges and opportunities of the 1960s and the present.

Volume 2: Early Thoughts on Trade and Development, *edited by C. Rangarajan*

During the period 1957 to 1979, Dr. Manmohan Singh wrote over 20 papers. This volume contains a selection of papers covering the three broad themes of trade, development and monetary policy. They deal with issues such as Indian and international trade, investment, regional development banks, monetary

policy in India and the United Kingdom, land reform and the challenges before developing countries.

Volume 3: The International Economic Order and the Quest for Equity in Development, *edited by K. Sundaram*

Dr. Manmohan Singh wrote over 30 papers during the 1980s. This volume presents a selection of papers that deal with various aspects of the international economic order, development strategy and public policy and the place of agriculture and industry in economic development. They include writings on trade, planning, banking and aid, and also address the problem of reconciling economic development with social equity and justice.

Volume 4: Economic Reforms: 1991 and Beyond, *edited by Nicholas Stern and Shantanu Singh*

Dr. Manmohan Singh wrote and spoke extensively about the economic reforms that were introduced in India in the early 1990s. Prominent among the nearly 100 pieces belonging to this period are his speeches in Parliament, at conferences and at convocations. They range over issues such as poverty, social justice, liberalisation and modernisation, India and the world economy and challenges for the future. The writings and speeches of this period are of special interest as they explain the imperative and rationale for a radical change in India's economic policy.

Volume 5 (Parts 1 and 2): The Prime Minister Speaks, *edited by Rudrangshu Mukherjee*

As Prime Minister of India from 2004 to 2014, Dr. Manmohan Singh spoke on a wide range of social, economic and political issues at the global, national, regional and local levels. His speeches cover a vast range of issues such as nationhood, democracy, social equity, education, health, employment, rural development, urban renewal, agriculture, the environment, industry, infrastructure, science and technology, national security and foreign policy. The policies and programmes of the UPA feature prominently in the over 1,350 speeches that he delivered during these 10 years. Apart from a selection of his most important speeches, this volume also contains a selection from Dr. Singh's numerous media interactions during the period.

Preface to This Volume

I am very grateful to the Oxford University Press for bringing out a collection of my writings, speeches and interviews in the form of a five-volume series. This volume, the first in the series, is a reprint of my book titled *India's Export Trends and the Prospects for Self-Sustained Growth*, which was originally published by the Clarendon Press, Oxford, in 1964. This volume, and the series of which it is a part, owe their inspiration to my wife, Gursharan, and daughters—Upinder, Daman and Amrit—and I would like to record my deep appreciation of their persistent efforts to persuade me to undertake this task. I would also like to express my gratitude to the editors of Volumes 2–5 of this series—Dr. C. Rangarajan, Professor K. Sundaram, Professor Lord Nicholas Stern and Mr. Shantanu Singh and Dr. Rudrangshu Mukherjee.

This book is based on my doctoral thesis for which I was awarded the DPhil degree by the University of Oxford in 1962. It is an empirical analysis of India's export trends in the 1950s, the factors which contributed to the sluggishness of exports during this period and the prospects for export growth during the 1960s. It was the first detailed analysis of India's exports.

My interest in this subject was aroused by a feeling that Indian planners were swayed by undue export pessimism, which led to a neglect of the scope and potential of export growth and to the sacrifice of important efficiency gains associated with greater emphasis on international specialisation.

The study came to the conclusion that there were important external factors at work operating on the demand side and constraining export growth. Despite these factors, the study showed that Indian policy makers had underestimated India's export potential. In fact, it suggested that given sensible domestic policies in areas such as the control of inflation and more realistic exchange rate policies, India's exports could do much better than assumed by India's development planners.

However, in the overall assessment, I went along with the official thinking that India had no alternative to laying emphasis on industrialisation based on import substitution as the dominant theme in its development strategy.

As a result of such official thinking, India could not benefit from the wave of export-oriented, labour-intensive industrialisation which swept the countries of East Asia and South East Asia from the 1970s onwards. The rise of China in the wake of economic reforms of the 1980s was the latest manifestation of the gains of a policy of export-oriented and labour-intensive industrialisation.

It was not until the early 1990s that India came to recognize the need for a reorientation of its trade and development policies. Even then, the overall emphasis of economic reforms since 1991 has been towards a cautious process of import liberalisation. The gains of this process, though clearly visible, have not been as striking as has been the case with China.

I do not mean to suggest that even now India can profitably replicate the Chinese approach to the development process. For one thing, the overall international trading environment is no longer that favourable to the growth of labour-intensive exports from the developing countries. The markets of developed countries are becoming more protectionist and less open to competition from the developing countries. The multilateral trading system as enshrined in the articles of the World Trade Organization (WTO) is experiencing considerable strains and the WTO mechanisms are seen to be incapable of meeting the many challenges facing the global multilateral trading system.

Under the Obama administration, the industrialised countries led by the United States of America started looking for new regional arrangements to cope with challenges of a rising China. These included arrangements such as the Trans-Pacific Partnership Agreement covering the USA, Japan and ten other East Asian countries, and the Trans-Atlantic Partnership Agreement in trade and investment negotiated between the USA and the European Union. Although the Trump administration in the USA has disowned both these arrangements, it has shown considerable interest in evolving bilateral strategies to contain the rise of China and, in particular, its exports to the USA.

The Chinese have not been sitting idle in working out strategies to meet Western challenges to the rise of China, in particular, through developments associated with the New Silk Road and the One Belt, One Road Project. India has to very carefully examine the implications of these new developments for the growth of its economy and, in particular, its exports.

To sum up, the evolving global economic environment presents many new challenges to developing countries like India. India, therefore, needs to devote considerable intellectual resources to examine their implications, while recognising the constraints imposed on her development by limited per capita availability of domestic natural resources. To overcome these constraints on her development, India needs to be a major trading nation in the world. In this context, we have to pay considerable attention to developing our trade and investment relations with the countries of Africa and Central Asia. Over six million persons of Indian origin work in the countries of West Asia and their remittances constitute a major support for India's balance of payments. Therefore, relations with West Asian countries and their growth and stability are of great concern to India. The expansion of trade and investment among the countries of South Asia holds a great promise, provided India-Pakistan relations can be normalised.

Thus, India has a great interest in a smooth functioning of the multilateral trading system leading to a balanced and equitable management of the growing global interdependence of nations. To that end, she has to invest heavily in the development of infrastructure and on sound macro-economic management of her economy, operating on the frontiers of modern science and technology. India, therefore, has to make every effort to become a globally competitive economy.

MANMOHAN SINGH
New Delhi, 2018

Preface to the 1964 Edition of *India's Export Trends and the Prospects for Self-Sustained Growth*

The sluggishness of India's export earnings since 1951 is a well observed fact. However, no comprehensive analysis of the causal factors at work is available so far. The present work tries to fill this gap.

Apart from its academic interest, the analysis presented in this book has also some important policy implications. For example, one often finds far-reaching policy recommendations being made for the strategy of Indian economic development on the assumption of 'stagnant' exports—as if the stagnation of India's export earnings was an inescapable phenomenon. Therefore an attempt to study the empirical foundations of 'export fatalism' should prove of interest to those entrusted with the framing of Indian economic policy, if only to fortify them in their present largely unverified convictions.

My interest in this study was first aroused by a feeling of dissatisfaction regarding the attitudes towards export promotion prevailing in India until the late fifties. This dissatisfaction was born out of a conviction that in spite of a considerable (and justified) emphasis on import-saving investment the country would need greatly to intensify its export effort if it was ever to become 'viable' or 'self-sustained'—in the sense that the economy ought to be able to balance its foreign exchange budget without resorting to external aid of an extraordinary type. Whereas nearly every argument would point to the necessity for a large-scale export drive, the past stagnation of exports had contributed to the fatalistic view, prevalent in India at least until very recently, that export earnings could not be increased significantly beyond their existing level. That an exhaustive study of India's export performance during the last decade may help in removing this sense of fatalism was, therefore, another

hope which inspired the present work. Not that the ground lost as a result of neglecting export promotion in the past could be easily recovered in the future. Nevertheless, a discovery that the stagnation of export earnings was partly a consequence of faulty Indian economic policies could at least induce a more constructive shift of emphasis in economic thinking for the future.

Sir Donald Macdougall's study of India's balance of payments (*Bulletin of the Oxford University Institute of Statistics*, vol. 23, pp. 153-77), published after the present work was well in progress, has already shaken the complacent mood in India. He has rightly emphasized not only that a large increase in export receipts is an essential condition of India's ability to become self-reliant by the Fifth Five-Year plan but also that India is capable of much greater export effort than is often believed. And in contrast to the official thinking at the time when the Second Five-Year Plan was formulated, the official document of the Third Five-Year Plan is also much more emphatic about export promotion. Thus the planners have stressed that India's export receipts will have to rise to at least Rs 13,000-14,000 million by 1970 (as against Rs 6,500 million in 1960-1) if the objective of self-sustained growth is to be realized by the Fifth Plan (see *The Third Five-Year Plan*, New Delhi, 1961, p. 138).

These recent developments are naturally welcome. Yet much work remains to be done for devising an efficient export strategy. For this purpose it is essential to assess the implications of known past trends in terms of export prospects facing the Indian economy. Thus our analysis of India's export performance in the last decade leads directly to a study of India's export prospects. Indeed, from the point of view of economic policy, a study of past trends is of interest only in so far as it may provide an insight into the likely developments in the future. Part II of this study is therefore devoted to an analysis of India's export prospects in 1970-1. This is the period by which India's planners expect the economy to become self-sustained. Thus our study of India's export prospects in 1970-1 will throw light on the probability of this objective's being realized by that period. Part III of the book is concerned with an analysis of some important policy problems thrown up by our discussion of India's export prospects. Thus apart from giving a broad outline of the export strategy, we analyse the impact of bilateralism and regional co-operation in South-East Asia on India's export prospects.

To sum up, this book seeks to provide answers to the following major questions: First, what explains the stagnation in India's export earnings from

1951 to 1960? Second, given the existing trends, what are India's export prospects in 1970-1? Third, what are the major policy implications suggested by our analysis of the trends and prospects of Indian exports?

This work was completed in 1962. After my return to India in December 1962, my other academic duties did not leave me sufficient time to make any significant changes in the original text. However, on most issues discussed in the book my views have not changed since then, though of course the emphasis on some points might have been different had I been writing now.

MANMOHAN SINGH
Chandigarh, April 1963

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Among the published writings, my greatest debt is to the work done by the various specialized UN agencies, particularly the FAO and the Economic Commission for Europe. I have drawn extensively on the great mass of data compiled by these agencies and the vast amount of useful information contained in their special reports and bulletins. Wherever possible, references to these publications have been acknowledged at their appropriate places in the main text.

Finally, I should like to thank Miss C. Kennedy, the Librarian of Nuffield College, Oxford, and the Library staff of the Indian Institute, Oxford, for providing me with facilities for the collection of data.

Introduction

The Role of Exports in a Developing Economy

It is now widely recognised that there are important factors at work, emanating from industrial countries, which are preventing a fast enough growth of the export demand for the products of underdeveloped countries. Some of these factors, as listed by Professor Nurkse,¹ are: a shift in the composition of industrial output (in the advanced countries) from industries with a high raw-material content of the finished output to those with a low content; low income elasticities of consumer demand for many agricultural commodities, once a high standard of living has been reached; growing technological advances leading to economies in the industrial uses of primary raw materials; and the displacement of natural raw materials by synthetic and other man-made substitutes, made from a few basic elements mostly of local origin. As a consequence, if the rate of economic development in underdeveloped countries were left to be determined by the rate of growth of foreign demand for their exports, the pace of development for most of them (barring those fortunate countries which possess raw materials like oil, the international demand for which is likely to remain strong for a long time to come) must be painfully slow. Therefore, international trade cannot now be an effective 'engine of economic growth';² and in their strategy of growth, underdeveloped

¹ See his *Patterns of Trade and Development*, Blackwell, Oxford, 1961, p. 26.

² Strictly speaking, the Nurkse thesis of deficiency of export demand is applicable only to primary products. But the production of manufactures for export also bristles with many difficulties in underdeveloped countries. There is the initial problem of mastering the technical know-how; then the volume of production has to be large enough to enable a reasonable utilization of economies of scale; there is also a problem created by the fact that because of faster growth and a greater

countries have of necessity to lay emphasis on 'balanced growth'—a co-ordinated development of local industries in accordance with the growth and structure of domestic demand.³

The acceptance in broad outline of the Nurkse thesis does not imply that the foreign trade sector has no important role to play in the process of economic development. For one has to face the practical problem that the initiation of a process of 'balanced growth' à la Nurkse—'Increases in output that are diversified in accordance with domestic income elasticities of demand so as to provide markets for each other locally'—will itself generally involve an increase in import requirements. This is due to the fact that the available stock of capital and other resource inputs that an underdeveloped country has initially at its disposal lack a sufficient degree of malleability; and therefore cannot be readily transformed into a structure of output as dictated by the pattern of domestic demand.

capacity to invest in research and innovation, the more developed countries may be at a permanent competitive advantage relatively to the new entrants; and finally one has to contend with the extreme reluctance of developed countries to import from underdeveloped countries manufactures in which the latter have a comparative advantage—textiles being the obvious example. All these difficulties would render an export-based industrialisation drive a practical impossibility for most underdeveloped countries. This, of course, does not mean that the development of new manufactured exports from underdeveloped countries is always a hopeless task.

³ However, for many small countries, the Nurkse remedy of 'balanced growth' would be unduly wasteful if economies of scale are of substantial importance in industries sought to be newly established. And such countries need not always be those with small populations. Even countries with large populations but with low per capita incomes currently, although potentially able to utilise such economies, may not be able to do so for a considerable time to come. In some cases the size of the local market may be large enough to accommodate at least one plant of an economic size. Even if this were true (and it may not be for many underdeveloped countries, at least in some branches of manufacturing) technical efficiency may be purchased by having to tolerate a degree of concentration and monopoly which may well sap all incentive to economic efficiency on the part of an enterprise. In a realistic assessment of the relative efficiency of the alternative routes to development these costs of 'balanced growth' must be compared with such costs of 'unbalanced growth' as, for example, a possible deterioration in terms of trade, following in the wake of a further expansion of export industries.

Moreover, the hump in import demand is unlikely to be a merely temporary phenomenon. History provides us few cases where the import requirements of an economy have been actually reduced in the wake of successful development. The developing countries are often faced with the problem that, while in some cases import substitution may be physically impossible for want of a sufficient diversity of natural resources, in some other cases it may be economically unduly wasteful.⁴ If, therefore, the development of an economy is not to be hampered by a periodic emergence of exchange crises, leading to cuts in imports and investment, the export-promoting activities have to be built into the strategy of economic development from the very start.

To sum up, whatever the development strategy, the function of international trade as a supplier of 'material means, indispensable for development' is likely to retain its importance for most underdeveloped countries in their quest for higher rates of economic growth. And often the mere size of the trading sector is an inadequate measure of the contribution of trade to a country's development. For example, as brought out in Table Intro.1, in India the share of export of goods and services in the national income has been fluctuating between 5 and 8 per cent since 1948-9; the corresponding fluctuations in the share of imports of goods and services have been within a range of 6 to 10 per cent. In terms of its contribution to India's economic development, however, international trade is playing a much more important role than is suggested by the above-mentioned figures. In the present stage of its development, the Indian economy, being unable to produce locally all the machinery, components and raw materials needed for the implementation of its development plans, has of necessity to look to the imported supplies. The availability of such supplies from abroad means that the pace of development need not be held up by bottlenecks in the domestic sources of supplies. Imports, therefore, are being called upon to provide some of the most vital and strategic goods for India's economic development; and their availability has not only added to the supply of investible resources, but has also imparted a much needed element of flexibility to India's planning effort. Imports, however, have to be paid for either by current export earnings, or by a withdrawal from the reserves of foreign exchange, or by a fresh capital inflow. The withdrawal from reserves is not an unlimited process, and in India's case

⁴ Either because technical processes are much too complex to be learnt easily or if economies of scale are of considerable importance.

Table Intro.1 India: Exports and Imports of Commodities and Services in Relation to the Country's National Income, 1948-9 to 1960-1
(*Percentage Distribution*)

	1948-9	1949-50	1950-1	1951-2	1952-3	1953-4	1954-5
1. Exports of Commodities and Services	6.0	6.2	7.1	7.7	6.7	5.8	6.8
2. Imports of Commodities and Services	8.8	6.8	6.9	9.4	6.7	5.8	7.1
	1955-6	1956-7	1957-8	1958-9	1959-60	1960-1	
1. Exports of Commodities and Services	7.0	6.1	6.3	5.3	5.6	5.1	
2. Imports of Commodities and Services	7.7	9.4	10.2	8.0	7.2	7.8	

Note: National Income for the purposes of this table means net national product gross of imports.

Source: *Estimates of National Income: 1948-9 to 1961-2*, issued by the Central Statistical Organisation of the Government of India, New Delhi, January 1963 (see page 7).

seems to have been carried too far already. Capital inflows (other than outright grants) ultimately lead to higher service charges and repayment obligations. In the long run, therefore, the import capacity of an economy and its ability to utilize the above-mentioned benefits of international trade is crucially dependent on its export capacity.

PART ONE

Analysis of India's Export
Performance, 1951-60

(i) *General*

I

Export Trends, 1951-60

An Introductory View

In the light of our observations in the introduction, the trend in India's exports from 1951 to 1960 should be a matter of serious concern. Table I.1 brings out the main developments in the value of India's exports over this period.

Table I.1 reveals that while the value of exports increased rapidly from 1948 to 1951, there is no upward trend to be noticed after 1951. The average annual value of exports increased from Rs 4,907 million in the three-year period 1948-50, to Rs 6,039 million during the five-year period, 1951-5. In the following five-year period, 1956-60, exports averaged Rs 6,027 million a year.

To some extent, the stagnation in the value of Indian exports after 1951 is a reflection of a fall in export prices after 1952 from their peak levels reached in the wake of the Korean war in 1951. Yet the picture is not much altered, even if

Table I.1 Value of India's Exports, 1948-60 (excluding re-exports)
(In Million Rupees)

1948	4,210.4	1951	7,288.9	1956	6,130.3
1949	4,720.7	1952	5,723.0	1957	5,845.2
1950	5,789.8	1953	5,261.6	1958	5,531.9
		1954	5,884.7	1959	6,299.0
		1955	6,038.5	1960	6,329.4

Note: These statistics relate to Indian fiscal years beginning 1 April.

Sources: Statistics published by the Director-General of Commercial Intelligence and Statistics. For a general note on these statistics please refer to the appendix on Statistical Sources at the end of the book.

Table I.2 Volume Indices of India's Exports, 1948-60 (1953 = 100)

1948	91.7	1952	100.0	1956	110.0
1949	99.7	1953	100.0	1957	119.0
1950	112.5	1954	105.0	1958	108.0
1951	90.0	1955	115.0	1959	119.0
				1960	109.0

Notes: 1. Statistics relate to fiscal years beginning 1 April.

2. Indices from 1948 to 1951 have been derived from the old series with 1948 as base and include re-exports.

Sources: *Statistical Abstract of India, 1958-9*, and *Monthly Abstract of Statistics* (both published by the Central Statistical Organisation, New Delhi).

we abstract from price changes. As shown by Table I.2, in terms of volume also there is no strong upward trend in India's exports from 1951 to 1960.

The sluggishness of India's exports from 1951 to 1960 has to be studied against the background of the fact that over the same period world trade expanded rapidly, in terms of both its value and volume. This is brought out in Table I.3 which depicts trends in world trade from 1951 to 1960.

Table I.3 Trends in World Exports from 1951 to 1960

A. Value (Million U.S. \$)		B. Volume Indices, 1953 = 100		
		1.	2.	3.
		All Goods	Food and Raw Materials	Manufactures
1951	82,400	95	97	94
1952	80,000	94	94	93
1953	82,000	100	100	100
1954	85,500	105	104	105
1955	93,100	114	111	115
1956	103,100	124	121	126
1957	111,100	131	128	133
1958	107,300	129	127	130
1959	115,100	140	141	140
1960	127,500	154	156	155

Notes: 1. The value figures are in current year prices and exclude the trade of mainland China, Mongolia, North Korea, and North Vietnam with one another.

2. The volume indices exclude the trade of the entire Sino-Soviet area.

3. Indices of food and raw materials exclude fuels.

Source: *Statistical Year Book, 1961*, United Nations, New York.

Table I.4 Average Annual Value of Indian Exports—First and Second Five-Year Plans (*In Million Rupees*)

	First Plan (1951-5)	Second Plan (1956-60)
Exports	6,039	6,027
Imports	7,240	10,720
Export-Import ratio	83.4%	56.2%

Note: Figures relate to fiscal years beginning 1 April.

Sources: For exports—Table I.1. For imports—*The Third Five-Year Plan*, Planning Commission, New Delhi, 1961, p. 133.

A comparison of trends in the value of India's exports with those of world trade reveals the fact that while India's exports in 1960 were 13 per cent lower than in 1951, over the same period the value of world trade increased by about 55 per cent. As a result India's share of world exports fell from slightly less than 2 per cent in 1951 to about 1 per cent in 1960. In terms of volume, while India's exports in 1960 were about 21 per cent higher than in 1951, over the same period the volume of world trade rose by 62 per cent, and the manufactures group shares nearly equally with the food and raw materials group in this expansion in world trade.

The stagnation of India's exports has led to a widening gap between her exports and imports. As brought out in Table I.4, export earnings financed 83.4 per cent of India's total imports during the First Five-Year Plan (1951-5). During the Second Five-Year Plan the proportion of imports financed by current export earnings fell to 56.2 per cent.

Thus the mounting requirements of imports have had to be financed by a large-scale withdrawal from India's foreign exchange reserves, accumulated during the Second World War, and by a massive external assistance. Over the ten-year period, 1951 to 1960, the country's sterling balances were drawn down by Rs 7,360 million;¹ and in addition India utilized, up to 31 March 1961, external assistance (excluding drawings on the IMF) worth Rs 16,944 million.² In spite of this aid, stringent import controls have had

¹ Over the First Plan, the withdrawal was only Rs 1,380 million (*vide the Review of the First Five-Year Plan*, 1957, p. 11). Over the Second Plan, the withdrawal from reserves was Rs 5,980 million. In addition, net drawing from the IMF was Rs 550 million (cf. *The Third Five-Year Plan*, p. 108).

² *Vide* the Reserve Bank of India's *Report on Currency and Finance for 1960-61*, Bombay, 1961, Statement 90.

to be imposed which, by restricting the supply of components and essential raw materials, have led to a widespread idle capacity in the industrial sector of the economy.³ Besides this, the country's foreign exchange reserves having been nearly exhausted, the Third Five-Year Plan has started under an unfavourable prospect of having no sterling balances to draw upon to cushion the effects of an unexpected rise in imports or a fall in exports. The economy therefore faces a situation whereby even a small shortfall in the expected amount of foreign aid or even a minor dip in export earnings can induce disproportionately adverse effects on the economic health of the country. Looked at against this background India's export performance during the first decade of planning looks extremely disappointing.

³ According to estimates of the Ministry of Commerce and Industry of the Government of India, 15 to 20 per cent of the industrial capacity of India was lying idle in 1960-1. See the *Report of the Import and Export Policy Committee*, New Delhi, 1962, p. 9.

II

Export Performance

The Approach Outlined

A. INTRODUCTORY

Although the sluggishness of India's exports since 1951 is a well observed fact, no detailed analysis of the causal factors at work is available so far. No doubt in the last few years there has been some controversy whether the explanation of India's stagnant export earnings is to be found in a stagnation of world demand for Indian exports or in Indian supply elasticities.¹

¹ Dr. S. J. Patel is a leading exponent of the view that India's stagnant export earnings have to be explained in terms of stagnant world demand for Indian exports. See his article 'Export Prospects and Economic Growth—India', *Economic Journal*, September 1959, pp. 490–506. His critics Dr. Anne Krueger and Prof. P. T. Bauer however maintain that 'the past behaviour of Indian exports can be more than adequately explained by the policies of the Government of India and the Planning Commission combined with internal demand and supply factors within India'. (See Anne Krueger's comment on Patel's article in *Economic Journal*, June 1961, 436–42, esp. p. 439.) This latter view is also to be found in some GATT reports: 'It is evident that the failure of the semi-industrialized countries (India is one of them) to keep their share in world trade is due to the fact that their production of principal export commodities was not sufficient to meet domestic requirements and at the same time to maintain an adequate volume of export supplies. Nor can there be any doubt that, given limited investment resources, this slow growth of primary production is closely connected with the rapid growth in their industrial activities.' (GATT, *International Trade*, 1956, Geneva 1957, p. 17.) The report of a panel of experts appointed by the GATT makes essentially the same point though in a somewhat more cautious language. 'There appears to be a long term tendency for the export proceeds of the semi-industrialized countries to

However, the discussion has often lacked a sound empirical basis.²

An analysis of the commodity composition of Indian exports from 1951 to 1960 reveals the fact of stagnant export earnings from most of India's major export commodities. This is brought out by figures given in Table II.1. Thus export earnings from tea, jute manufactures, and cotton fabrics, which together account for nearly 50 per cent of India's total export receipts, show no strong upward trend. Cashew kernels, iron ore, and coffee are the only

rise more slowly than is the case for the other non-industrial countries. This tendency is not necessarily due to industrialization policies as such, but to certain forms of such policies which carry with them an anti-export bias.' (*Trends in International Trade*, Geneva 1958, p. 24.)

² Thus Patel's analysis suffers from some important gaps. Certainly, his interpretation of past developments in the export of four commodities which he cites as evidence in support of his thesis is open to some serious doubts. He supports his thesis of demand deficiency in the case of tea simply by reference to the fact that tea output in India has increased considerably faster than exports (op. cit., p. 495). This evidence, unsupported by a further analysis of the relative profitability of the export and domestic markets and developments in India's relative share of world trade in tea, can clearly establish nothing about the causal factors at work. For cotton textiles, the mere fact that India's exports expressed as a percentage of Indian textile output fell from 30 per cent in 1950 to 14 per cent in 1956 is considered by Patel to be a valid proof of demand being a limiting factor on India's exports (op. cit., p. 496). To establish that conclusion, one would need to study the developments in world trade in cotton textiles and India's relative share of world trade, a task not attempted by Patel. In the case of groundnut oil, simply because Indian production has increased while Indian exports have fallen, he concludes that foreign demand is a limiting factor. If he had been careful, he would have found that India's relative share of world exports in this case has fallen drastically according to his own figures. According to his own calculations, whereas the volume of world exports of groundnut oil in 1953-5 was 64 per cent of the pre-war annual world exports, the average annual volume of Indian exports in 1953-5 was only 23 per cent of the pre-war (of course, pre-war figures refer to undivided India, but then the areas now forming parts of Pakistan produced very little groundnuts). Clearly Patel's results by no means follow logically from his analysis. The issue calls for a more patient and thorough analysis.

As regards the opposite view, that India's export performance can be adequately explained by internal demand and supply factors (within India), Dr. Krueger herself admits that it is merely an alternative hypothesis which requires to be tested. (Krueger, op. cit., p. 440.)

Table II.1 India's Export Earnings from Principal Commodities, 1951-6 (*In Million Rupees*)

	1951-2	1952-3	1953-4	1954-5	1955-6	1956-7	1957-8	1958-9	1959-60	1960-1
1. Total Exports	7,288.9	5,723.0	5,261.6	5,884.7	6,038.5	6,130.3	5,845.2	5,531.9	6,299.0	6,329.4
COMMODITY COMPOSITION:										
2. Jute manufacturers	2,697.3	1,289.2	1,137.6	1,237.8	1,182.5	1,188.1	1,109.2	1,011.5	1,090.0	1,317.2
3. Tea	939.4	808.6	1,021.6	1,477.4	1,091.4	1,451.4	1,136.5	1,296.9	1,290.9	1,235.9
4. Cotton fabrics	521.5	620.6	636.4	633.1	566.3	629.6	584.7	454.8	641.5	576.5
5. Vegetable oils	236.1	255.4	48.9	200.2	343.5	155.9	105.9	63.7	148.1	85.4
6. Iron ore	10.0	37.0	58.2	42.1	62.7	93.1	118.6	96.5	145.9	170.3
7. Manganese ore	156.9	217.6	242.7	129.2	107.2	258.1	297.0	136.4	119.9	140.6
8. Mica	132.1	90.1	79.9	67.2	83.7	87.7	86.6	95.8	100.4	101.5
9. Unmanufactured tobacco	161.4	130.3	110.2	117.6	106.5	124.8	146.3	146.8	135.3	146.1
10. Coffee	5.5	13.9	14.6	76.4	14.9	66.9	67.3	78.9	63.3	72.2
11. Cashew kernels	90.5	129.8	109.9	107.0	129.2	145.3	151.6	158.5	160.5	189.1
12. Manufactured leather	250.2	201.1	249.7	205.8	225.2	209.7	209.2	188.6	304.5	248.5
13. Spices	291.7	205.9	162.0	104.3	93.1	78.0	80.1	80.1	144.6	166.4
14. Coir yarn and manufacturers	102.8	71.6	81.5	84.5	89.4	96.9	82.8	82.1	88.6	90.0
15. Raw cotton	136.7	193.3	94.0	101.9	296.9	134.6	90.8	166.2	100.6	70.0
16. Lac	148.7	74.4	67.6	105.5	117.1	94.6	68.5	57.0	62.9	63.2
17. Raw wool	49.0	84.1	58.7	86.1	97.3	104.0	110.8	96.6	122.1	77.2
18. Sub-total (2 to 17)	5,929.8	4,422.9	4,173.5	4,776.1	4,606.9	4,918.7	4,445.9	4,210.4	4,719.1	4,750.1

Note: Statistics relate to Indian fiscal years beginning 1st April.

Source: Statistics published by the Director-General of Commercial Intelligence and Statistics, Calcutta.

important commodities whose exports increased rapidly from 1951 to 1960. Since each commodity is likely to face different conditions of demand and supply, no single factor would suffice to explain India's export performance. In the succeeding chapters, therefore, an attempt will be made to analyse individually the export performance of all the major export commodities. Nevertheless, as a starting point it seems necessary to outline our method of analysis. Our first task is to discover a general method of isolating the relative importance of external (i.e. those emanating from abroad) and internal (i.e. those operating within India) factors in India's export performance.

B. THE RELATIVE IMPORTANCE OF EXTERNAL AND INTERNAL FACTORS IN INDIA'S EXPORT PERFORMANCE

The foreign demand for a country's exports depends among other things on (a) foreign incomes and the income elasticity of foreigners' demand for goods entering the export trade of our country, (b) its export prices, and (c) prices of related commodities in world markets.³ Of these, the exporting country has normally no influence on foreign incomes and prices of related commodities in world markets.⁴ In addition it has no control over its export prices if it is a small, marginal exporter of a standardized commodity in the world. In this latter case, export prices are determined by the conditions of over-all world demand and supply; and our particular country, being a small world exporter, cannot much influence the course of world demand and supply; it has therefore to accept export prices as given. On the other hand, if a country is a major world exporter of any particular commodity, it has distinct possibilities of exercising some control over export prices by influencing the volume supplied. Therefore those who regard a lack of external demand as the major

³ If a country exports investment goods or intermediate products entering the production of investment goods, the demand for its exports will depend also on the composition of output and the share of investment in total output of the importing countries. Furthermore the state of the balance of payments of the importing countries and the position of their foreign exchange reserves may also affect the export performance of their trading partners at the other end.

⁴ Unless it has such a great importance in world trade that swings in its economic activity can exercise an important influence on the income of foreign countries. Thus it is for this reason that the throb of America's large industrial heart (to borrow a phrase from Sir Dennis Robertson) can have an important effect on the economic health of the rest of the world.

explanation of India's export performance are, presumably, referring to those variables of the demand function for Indian exports which are beyond India's influence as an exporting country. In other words, they must deny that Indian export prices might have had a major influence on the country's export performance.

In order to isolate the relative importance of external and internal factors in India's export performance, we may divide the commodities entering India's export trade into three broad groups. In the first group we shall include all those commodities of which India is a major exporter in the world, and the world trade is dominated by only a few countries. The second group shall consist of those commodities in which India enjoyed almost a position of monopoly in world trade during the period under review (1951-60). In the third group we shall bring in all those remaining commodities of which India is only a marginal exporter in the world. The usefulness of such a classification will be obvious as we proceed further.

1. In an Oligopolistic Market Environment

Tea, cotton textiles, Virginia flue-cured tobacco, manganese ore, black pepper, and castor oil, together accounting for about 38 per cent of India's average annual export earnings from 1955 to 1960, fall into our first group. In all these commodities India is a major exporter in the world, and the world markets are dominated by a small number of exporting countries. If in each country the state had a monopoly of the export trade, the market structure as far as the world trade was concerned would correspond to what economists call 'oligopoly'—a market dominated by only a few large sellers. In actual practice, in private-enterprise economies the export trade is normally in the hands of private persons, and in every country there are often many export traders for any single commodity, competing with one another. Nevertheless, when the world trade is dominated by only a few countries, it may not be far wrong to apply the results of oligopoly theory in explaining the export performance of any single member of the group. In the present world there must be few countries which do not keep a constant watch on the state of their balance of payments. Most Governments take an active interest in export promotion, and such tests as the trend in the relative share of a country in world exports of a particular commodity are widely used in assessing the export performance of an industry. Also countries pay close attention to their export performance relatively to their principal rivals. Once this state is

reached, we are in a world of oligopoly, for a conscious recognition of the fact of mutual interdependence on the part of rival exporting countries is also the basic fact in oligopolistic markets. Therefore, even if there is more than one export trader of a commodity in any single major exporting country, the fact that they can often be induced or coerced by governmental action to act in the wider 'national interest' of promoting exports, imparts oligopolistic characteristics to the world trade in that commodity.

In oligopolistic situations producers no doubt acquire a control over their pricing policies. But this does not mean that they can freely use the price policy as an active instrument of sales promotion. For such a policy may be unduly risky, as it may invite retaliation from rival producers and thus upset the existing equilibrium. The price competition resulting from retaliation may turn out to be undesirable from the point of view of the interests of the group as a whole, particularly if the product in question has a relatively inelastic demand. In any case where a war takes place among equals the final outcome is very uncertain. 'Peaceful co-existence' then becomes the safest as well as the most practicable policy to adopt. Thus there emerges a tacit but an effective agreement among the participants not to encroach upon each other's territory.⁵ Of course, what constitutes a really effective boundary line, not to be crossed, can be found only after a good deal of probing. But in settled market conditions producers have a pretty clear idea of a safe degree of manoeuvrability. In practical terms it means that it may be difficult for any single oligopolist to improve greatly upon his existing relative share of the total market. Indeed the preservation of oligopoly equilibrium may sometimes involve a reduction in the market share of the leading producers. If there are no insuperable barriers—technological or those arising out of a scarcity of a natural resource—then conditions are ripe for a new entrant in an oligopolistic market. He is liable to take a chance on the unwillingness of large sellers to upset the entire market merely to punish a new intruder of negligible size. For any disciplinary move on the part of any single large seller may be misconstrued by his rivals as 'aggressive competition', as being directed at them rather than at the new small entrant. Thus for fear of being misunderstood by one another the oligopolists may be forced into inaction and the new entrant may successfully encroach on their relative shares.

⁵ This is the main theme of Professor Fellner in his book *Competition among the Few*, New York, 1949.

On the above analogy, given an oligopolistic environment, it will be difficult for any single important exporting country to raise its relative share of world exports of a particular commodity (and sometimes it may be difficult even to maintain its existing share in the face of new small entrants). Of course we do not mean to suggest that this is an absolutely rigid constraint on the export performance of any single country. First of all, attempts to improve one's relative share of the market may sometimes prove successful if the rival exporting countries are already planning a retreat, realizing their basic long-term weakness arising out of a large relative disadvantage in costs. Secondly, the extent to which the rival countries will retaliate so as to protect their existing relative share will also depend on the importance of the affected commodity in their export trade. If its contribution to their total export earnings is small, they may not go out of their way to retaliate. Furthermore, a country's preoccupation with its present relative share of the world trade will be less strong if the export market is itself growing, so that its export receipts continue to rise even though its relative share is falling. When, however, the volume of world trade is itself static, the temptation to retaliate will be much stronger, especially if the affected commodity is a major export earner for the country concerned. Therefore our general conclusion is that, although there may be exceptions, in an oligopolistic market environment it will generally be difficult for any single major exporting country to raise significantly its relative share of the world trade in a particular commodity.

The above analysis gives us a clue for determining the relative importance of external and internal factors in explaining the export performance of those commodities in which India enjoys the position of an oligopolist in world trade. Given the difficulties, in an oligopolistic market, of increasing one's relative share of the market, India's exports could not grow at a rate much faster than the rate of growth of world trade in the specified commodities. Thus if India has successfully held on to its relative share of the world trade in such commodities and yet its exports are stagnant, one must explain the export stagnation largely by reference to external factors, originating outside India. In an oligopolistic market a stagnant level of world trade is generally a strong indication that the demand is a severely limiting factor on the export performance of any single major exporting country.

Of course, one may object that looking *ex post facto* at the figures of world trade can prove nothing about the relative importance of external and internal factors in a country's export performance; for, since in oligopolistic situations producers have some control over their prices, a lack of sufficiently rapid

growth in world trade in a particular commodity (as revealed by statistics) may well have been a consequence of the monopolistic price-output policies of the major exporting countries.⁶ That such a possibility exists cannot be denied. However, only a detailed analysis of the trends in world trade of individual commodities can reveal the relative influence of the exporting countries' price-output policies on the volume of international trade. Therefore, a complete explanation of the export performance of commodities falling under the oligopolistic group, must involve an analysis of both the developments in India's relative share of world trade as well as trends in the world trade of such commodities.

2. Commodities of Which India Had Nearly a Monopoly

Jute manufactures, natural mica, cashew kernels, and lac, together accounting for about 24 per cent of India's average annual export earnings during 1955-60, fall into our second group. In all these commodities the once complete monopolistic hold of India on the world markets is being increasingly challenged. Nevertheless, although rival sources of supply for all these commodities have appeared during the last few years, their quantitative significance during the greater part of the last decade was still very small. Indian policies, therefore, were still capable of exerting a major influence on the course of world trade. Because of India's predominant position in world trade, in all these cases a study of India's export performance is also nearly a study of the behaviour of world trade in the respective commodities.

The observed *ex post facto* trend in world exports is the combined product of the operation of forces of demand and supply. The demand for exports

⁶ Thus in a recent discussion of factors that have led to a fall in the share of primary producing countries in the world trade, Professor Cairncross writes, 'If, after twenty years, the non-industrial countries are getting prices that have risen half as much again as the prices obtained by industrial countries for primary produce, it is hardly surprising if the demand for their exports shows some signs of sluggishness. Here, surely, is a powerful reason for industrialized countries to develop domestic supplies of primary produce, to economize in the use of imported materials and to accelerate the introduction of substitutes. It is, in fact, difficult to make sense of the post-war decade if we leave this price factor out of account.' (A. K. Cairncross, *Factors in Economic Development*, London, Allen & Unwin, 1962, p. 201.) Cairncross is, however, careful to add that a great deal must depend on the luck of the draw (*ibid*, p. 202).

depends on the behaviour of consumption in the importing countries and also on the extent to which it is met by domestic production therein. Clearly, in so far as the demand is sensitive to prices, price-output policies in the exporting countries may have an important influence on the course of world trade. If, therefore, the world trade in a commodity of which India holds a monopoly is stagnant, one can attribute the stagnation of India's exports to factors beyond her control only if it can be shown that the course of world trade has not been affected by Indian policies. However, only a detailed study of forces behind the trend of export trade in different commodities can reveal the relative influence of external and internal factors in the export performance of commodities in this group.

3. Commodities of Which India Is a Marginal Exporter

India is only a marginal exporter in the world for the following commodities: coffee, raw cotton, raw wool, hides and skins, groundnuts, linseed, coal, and iron ore. If a product is of an internationally recognized standard quality and a country supplies only a very small part of total world exports, then that country has not much influence on export prices. Such a country has to take export prices as given from outside, and the only course of action open to it is to adjust its export supplies. This is similar to the familiar world of pure competition in which any single seller has to accept market prices as given and then adjust his supplies in the most profitable manner open to him. Theoretically, a seller under pure competition faces an infinitely elastic demand-curve for his product at the ruling price, and the only effective limit on the volume of his sales is that set by his own willingness and ability to supply goods at that price. On this analogy the world demand is never a relevant determinant of the export performance of a country which is only a minor exporter of a standard commodity. Such a country cannot claim the lack of demand as a valid explanation of its export performance.

Of course the mere fact that a country is only a marginal exporter of a particular commodity does not by itself establish the conclusion that it is operating in a world of pure competition. For even though this country may have no influence on export prices these prices may be set by a few dominant exporting countries, so that the market structure from the point of view of world trade may in fact be oligopolistic. In such a case, the 'oligopolists' may set the export prices, and marginal exporters may have to follow their lead. In an oligopolistic market environment, the outcome of an attempt by minor

exporters to raise their shares of the market depends on the attitude of the 'oligopolists'. If the latter insist on maintaining their existing share of world exports, then the rate of growth of exports of small exporters is limited to the growth of over-all world trade in any particular commodity. However, as mentioned earlier in this chapter, in oligopolistic markets the small exporting countries are often able to raise their market shares without inviting a retaliatory action from oligopolistic exporting countries—for it is quite unlikely that the latter would be willing to upset the existing market equilibrium merely to punish a new exporting country which does not pose any serious threat to their markets. Thus in practice the ability and willingness to supply exports at world prices are likely to exercise a more important influence than conditions of world demand on the export performance of countries accounting for only a small proportion of world exports of relatively homogeneous commodities. In other words, in all such cases one must look largely to domestic forces in these countries themselves to explain their export performance.

C. DOMESTIC FACTORS

Our next task is to locate the important domestic factors which also influenced India's export performance during the period under review. Domestic policies in India can affect the country's export earnings in so far as they can influence the volume of production of export commodities, the domestic demand for them, and also the terms on which they are made available for export. Thus such domestic policies as the imposition of export controls and export duties, and the pressure of internal demand on the available supplies of exportables, may have important repercussions on the country's export performance. The relative significance of the various forces in operation can emerge only after a detailed examination of export trends in the major export commodities, to be undertaken in the following chapters. At this stage, we shall give only a general outline of the possible ways in which domestic policies in India can also affect the trend of exports.

1. The Role of Export Controls

On a general plane, it is obvious that the very object of licensing an article under the scope of export control is to regulate, restrict, or ban its export. However, the intended degree of restriction is subject to a good deal of

variation. In an extreme case exports may be totally banned. Thus the export of raw jute from India has mostly remained banned since 1950; the export of raw hides was banned in 1951; and the export of groundnut oil was often banned from time to time in the last decade. In such cases the restrictive effects are most severe. In some other cases exports may be allowed subject to an over-all quantitative ceiling. This has often been the practice with regard to raw cotton, raw wool, tea, coffee, and vegetable oils (when their export was not altogether banned). Within an over-all ceiling, if everybody is free to export on a 'first come, first served' basis and the licensing formalities take merely the form of endorsements on shipping papers at the ports, the practice is known as 'free licensing'. A commodity may be allowed to be exported under 'free licensing' within or without an over-all quantitative ceiling, either for a specified period or indefinitely. In a case where 'free licensing' without an over-all quantitative ceiling prevails, the intended degree of restriction on exports is practically nil so long as 'free licensing' is not suspended. If a ceiling is imposed on the total export of a commodity, the alternative to free licensing is to prescribe individual quotas for export traders within the over-all ceiling. Generally, when the export of commodity is subject to control, only the established exporters whose names have to be approved and registered with the licensing authorities are allowed to participate in the export trade.

In all those commodities where India supplies only a small part of world exports, a restriction by India on the volume of its exports is unlikely to have any significant effect on world prices of the affected commodities. In all these cases we may therefore reasonably expect that a given degree of restraint on the volume of Indian exports will have an immediately commensurate adverse effect on the value of Indian exports. However, the adverse effects of an export control on the value of exports of a controlled commodity may not be immediately obvious in all cases. When a sellers' market prevails abroad, or a particular country exercises a significant control over world supplies of a commodity, restrictions on the volume of its exports may not have a proportionate adverse effect on its export receipts. Sometimes a country 'doctoring its terms of trade' may restrict its export volume so as to raise the prices of its exports. But such a policy will lead to an increase in export receipts only if the foreign demand for a country's exports is inelastic. This in turn depends both on the foreigners' elasticity of demand for the product in general and also on the elasticity of supply of exports in rival exporting countries. Thus a restriction imposed by India on the volume of its exports of jute manufactures, tea, mica, lac, and cashew kernels could conceivably result

in a rise in their export prices, in view of India's commanding position in world trade in these commodities. But such a policy if successful in increasing export earnings is likely to do so only in the short run. In the long run it is capable of doing great harm to India's export prospects. For it may speed up the search for domestically available substitutes in the importing countries; it may give added impetus to economy in the use of the imported products in question; and it may also encourage the development of alternative sources of supply. Thus the exercise of 'monopolistic' policies by an important exporting country, although successful in the short run, is likely to run counter to that country's long-run export interests.

Moreover, a continuous use of export controls over a long period is likely to have some other important unfavourable consequences for a country's export prospects, although it is not easy to quantify such adverse effects in any simple manner. Generally speaking, the export trade is more risky than internal trade and the existence of export controls further adds to the risks that export traders have to face. In so far as their export quotas can be changed from one year to another the volume of their business transactions and their prospects of profit are subject to additional fluctuation and uncertainty depending on the policies of export control authorities. This may well lead to less than the optimum amount of efforts and resources being devoted to the export trade. Export performance in the modern world is not simply a function of a country's export prices relatively to its competitors'. It also depends on investment of sizable resources in establishing trade connexions abroad, in systematically nursing and developing a foreign market, and in keeping oneself well informed of the latest developments in commodity markets all over the world. There is a danger that export controls may tilt the balance against such an effort on the part of private exporters. Such a danger is particularly strong in those commodities whose export involves only a small part of their total domestic production and for which the domestic market is growing. For in such cases a withdrawal by private traders of resources from the export trade to the internal trade may be accompanied by little or no loss of their profits; but the effect on the economy as a whole may be serious in view of the often crucial importance of foreign exchange for a developing economy. Similarly if export controls cause export allotments to fluctuate from one period to another, they may make foreign buyers of a country's exports doubt whether supplies will be steadily available. This may tend to make the exporting country an unreliable business partner and may result in a loss of valuable goodwill in the eyes of foreign buyers.

The importing countries may be induced to turn to other sources of supply, if only to insure themselves against fluctuations in the available supplies from a single exporting country. Export controls strengthen the case against importers' putting too many eggs in one basket, and this may well cause a permanent loss of some of the export earnings to a country, especially if alternative sources of supply are readily available to the foreign consumers or can be speedily developed.

Sometimes an export control may be imposed so as to alter the composition of a country's exports to include more processed goods and less of the crude raw materials entering into their production. Thus the export of crude raw materials may be restricted so as to encourage instead the export of processed articles.⁷ If successful, this device would not only enlarge the employment opportunities within the exporting country but also raise the value of aggregate export receipts of the country to the extent of value added in manufacture.⁸ In practice, however, there are bound to be varying limits to the effective use of the mechanism of export controls to alter the composition of a country's exports. Normally, the same reasons, namely the favourable effect on employment and the balance of payments, which may induce an exporting country to encourage the growth of processed exports rather than crude materials, will also induce the importing countries to show a preference for the import of crude materials rather than processed articles (unless there are such great differences in manufacturing costs between the two countries as to render the import of the manufactured article much cheaper than the alternative of producing it at home with the help of imported raw materials).

⁷ This was officially stated to be the major motive for banning the export of raw hides and most vegetable oilseeds from India after 1951.

⁸ More correctly the net gain of foreign exchange in the above case will be equal to the value of export sales of the manufactured product minus the cost of raw material used in the process of manufacture (which would otherwise have been exported). If, however, the manufactured product uses any other imported materials, or if a part of the value added in manufacture accrues to foreign factors of production in the form of profits earned by a firm owned by foreign nationals, or also if a part of incomes earned by domestic factors of production in the process of manufacture is spent on imported goods, the net gain of foreign exchange from the export of manufactured product (at the cost of the export of a raw material) will be reduced. But so long as the net gain is positive the switch-over remains profitable as far as export earnings are concerned.

Thus if there are other, non-Indian, competing sources of supply available to the importing countries and if they are prepared to supply the material in a form preferred by importers, the ability of any single country like India to alter the composition of her exports through export controls may be severely limited. In the attempt, export earnings from crude materials may dwindle, without an adequate reimbursement in the form of additional export earnings from processed articles. In such circumstances the game may turn out to be unduly risky.

The main conclusion of our analysis is that in general the existence of export controls is most likely to have adverse effects on export earnings, although it is possible to visualize exceptions to this rule. However, an exact measurement of the restrictive effects of an export control is an impossible task. The actual export performance in a given period is the result not only of export control regulations but also depends on export prices quoted by one country in relation to those of other exporting countries, and also on those variables of foreign demand which are outside the influence of an exporting country (i.e. foreign incomes). Trying to isolate the relative importance of all these variables becomes difficult as the imposition of an export control may directly affect some of the other supposedly independent variables, particularly the country's export prices. Thus in so far as an exporting country can influence the course of world prices of a commodity, the imposition by it of an export control is capable of bringing about a rise in export prices. However, this possibility will generally exist only when the said exporting country is a major world exporter of the commodity concerned.

In addition, another factor whose effect on exports is difficult to quantify, but which may, nevertheless, exercise a powerful influence on the actual export performance in the present period is the past behaviour of export controls. For example, it may well be that actual exports in a given period are less than a volume authorized by the export control authorities. This does not necessarily mean that export controls have had no effect on the actual export performance. For it may well be, that in part at least, today's export performance has been affected by past export controls. Thus, as argued earlier, because of the uncertainty generated by controls in the past, the willingness and the ability of exporters to utilize the currently available export opportunities may have been greatly affected. Similarly, if export controls in the past created an uncertainty about the availability of supplies from the exporting country, the importers may have turned to other sources of supply. Moreover, if export quotas are not issued in time or if they are issued in dribbles, they may not be

fully utilized.⁹ Yet this would not justify a conclusion that export controls had had no effect on exports in this case.

The problem of measuring the restrictive effect of export controls becomes all the more difficult if the authorities do not precisely state the quantity they want to be exported in a given year. Thus sometimes they may simply allow every registered exporter to export as much as he likes without prior licensing for a given period. If this period coincides with a year, we can get an idea of the rigour of export control restrictions.¹⁰ But suppose that during the early part of a year the authorities have been allowing every exporter to export freely without any quantitative ceiling, and then suddenly they impose quota restrictions in the later part of a year. In this case, it is difficult to measure the restrictive effect of export controls for the year as a whole. Again, it is quite common for the authorities to extend the validity of export licences originally issued for a given period to a later date. In all such cases it is not possible to form a correct idea of the intended degree of export restrictions without following each and every notification of the export control authorities. For all these reasons, our analysis of the restrictive effects of export controls must largely be in qualitative terms.

2. Export Duties

As regards the effects of export duties on export earnings, the underlying theory is simple.¹¹ Generally speaking, if the foreign elasticity of demand for

⁹ Such complaints have frequently been voiced with regard to the working of export controls on raw cotton and coffee.

¹⁰ In this particular case the restrictive effect will be practically nil.

¹¹ Probably that theory is no longer simple. In fact one general conclusion of the 'General Theory of Tariffs' is that we really do not know what the final effects of a tariff will be. One has to consider the effects of tariffs on the economy of both the importing and exporting countries. For example, if the foreign elasticity of demand for a country's exports is positive but less than unity, one result of the levy of an export duty will be that the importers (if their money incomes are constant) will be left with less money to spend on other goods; and one has then to consider its repercussions on the level of imports and the economic activity in general of the importing countries. Similarly, in the exporting country so long as the foreign elasticity of demand for its exports is positive, the imposition of export duty will give rise to some excess capacity in the export sector and will thus be deflationary. This, however, assumes that the Government acts impassively and merely piles up

a country's exports is less than unity the imposition of export duties serves to increase its export receipts.

Whether a country's exports have a high or low foreign elasticity of demand is not simply dependent on foreigners' elasticity of demand for the product in general. In a multi-country world where there are alternative sources of supply, it is crucially dependent on the elasticity of supply of exports of other competing sources of supply. It is, therefore, clear that for those standardized commodities of which India is only a small supplier to world markets the demand elasticity facing Indian exports is most likely to be quite large, regardless of the overall elasticity of foreign demand for such products. In such cases the imposition of export duties by India is unlikely to have much effect on the course of world prices, and their only result will be to reduce the profit margins earned by traders in India on their export sales. To that extent export duties will improve the relative profitability of home sales and discourage exports.¹²

We next consider those commodities of which India, along with a few other countries, is a leading world exporter. In such cases the elasticity of demand for Indian exports would depend on the attitude of rival exporting countries towards their respective existing shares of the world market. If their supply is fairly elastic and they are dissatisfied with their existing share of the world market, the demand curve facing India, if it levies export duties, may become highly elastic. Such a situation is well represented by the familiar kinky demand curve associated with oligopolistic situations—the upper part of the curve being more elastic than that lying below the point of the kink (signifying that rivals do not follow the lead of a producer who raises his price and prefer instead to attract some of his customers; and also that a price reduction by any single producer also does not pay, because rivals want at least to stick to their present market share and are prepared therefore to match

the proceeds of export duty. If the Government were to increase its expenditure or reduce its other taxes, the deflationary effects might be neutralized. It all depends on the effects of budgetary policy. In India, however, exports form only a very small part of the country's total national income, and no country in the world spends a significant part of her national expenditure on imports from India. These secondary effects of exports duties may therefore be ignored.

¹² However, if the entire production is for export, export duties may leave exports unaffected in the short run so long as producers can recover their prime costs and a part of overhead costs. In the long run, production for export may be affected if producers can earn a higher rate of return in other industries.

any price cut on the part of any single seller by a price cut of their own). In such circumstances the imposition of an export duty is bound to affect export earnings adversely.¹³

Alternatively, if the leading oligopolists are not out of step with one another, and if the overall elasticity of foreign demand for a product is low, export duties may well lead to a rise in export earnings of the group as a whole. However, in all such cases, there is the danger of new entry by other countries. If prices are maintained at a level such as enables a newcomer to earn fair profits, the long run consequences of export duties for the existing exporting countries may be unfavourable. Of course, what a potential entrant ought to consider is the likely post-entry price rather than the pre-entry price in deciding whether to invest or not in a particular branch of economic activity. And he ought to take into account the possibility that the post-entry prices may be lower than the pre-entry prices because of a possible retaliatory action by the existing exporting countries. But he may well take a chance on the unwillingness of existing exporters to upset the entire market merely to punish a newcomer who initially appears to be a negligible rival.

3. Inflation

It is a familiar text-book story that in an economy where reserves of excess capacity are low, an 'excess demand' in commodity markets must give rise to an inflationary gap which can be closed only by a rise in the general price level. Domestic inflationary pressures may also have significant repercussions on a country's balance of payments. Indeed, in an open economy, price rises and a deficit in the balance of payments are often alternative patterns of response to an underlying inflationary situation. In the following pages, we shall examine various possible ways in which domestic inflationary pressures may affect a country's export performance. At first we assume that the exporting country is unable to alter the course of world prices of its exports; in a later part of this section, this assumption is relaxed to allow for those cases where a country is capable of influencing, by its own actions, world prices of the exported commodities.

¹³ If, however, the supply curve of a country's exports is very inelastic, the incidence of export duties may fall largely on exporters. In this latter case the export prices may remain unaffected and the only short-run effect of export duties may be to reduce the traders' profit margins on export sales.

a. Diversion of Exportables to Domestic Investment

In so far as inflationary pressures are the result of rising investment spending they may have immediate and direct effects on exports by causing prices of investment goods to rise in the home market, and thereby encourage manufacturers to divert them from the export markets to their domestic users. This is often an important consideration for an economy which specializes in the export of machinery, equipment, and building materials. A rising level of investment impinges directly on potential supplies for export, posing thereby a conflict between higher domestic investment and an immediate improvement in the external balance.¹⁴ In India, this is, however, not a serious conflict because Indian exports do not contain many investment goods. In fact machinery and equipment have largely to be imported from abroad. However, higher investment activity invariably entails higher building activity and this means larger domestic demand for such materials as cement, iron and steel. Thus there would be a reduction in the available surpluses for export, assuming no idle capacity.

b. Increased Domestic Absorption of Consumers' Exportables

As a result of rising development spending, money incomes rise and this leads to an 'excess demand' for consumption goods at home and is followed by a rise in their prices.¹⁵ In such a situation, the short-run effects of inflation on exports depend on the extent to which consumer goods are exported. In India, with the exception of jute manufactures and minerals like mica and manganese ore, most export commodities enter directly or indirectly into domestic consumption. Thus vegetable oils, cotton textiles, tea and coffee are directly consumed as final goods; while raw cotton, raw wool, raw tobacco, raw hides and skins and leather act as raw materials for the consumer-goods industries. If we assume that India cannot affect world prices of the commodities in question, the immediate effect of inflationary pressures in India is to raise profit margins on domestic sales in relation to export sales. As

¹⁴ For the British economy this conflict has been admirably analysed by Ranger Nurkse in his article 'The Relation between Home Investment and External Balance in the Light of British Experience, 1945-55', *Review of Economics and Statistics*, May 1956, pp. 121-54.

¹⁵ Unless there is excess capacity.

a result, these goods may be diverted to the home market and export surpluses may fall.

c. Inflation, Resource Allocation and Production for Export

If a country's exports are confined to one or two raw materials or manufactured goods which are mostly consumed abroad, domestic inflationary pressures may have little adverse effect on export surpluses in the immediate short run. But even if exportables do not enter into domestic consumption directly, substitution possibilities may be present in production, in the sense that both exportables and consumer goods compete for the same domestic factors of production. A rise in the prices of domestically consumed goods may have no immediate and direct effect on export surpluses or export prices, but such a situation may tempt the owners of productive resources to transfer them from export industries to the now more profitable production for domestic consumption. Obviously the speed of such a response will greatly depend on the possible mobility of factors of production from one use to another, and such mobility will be low if large capital resources have been sunk in an enterprise, and if overhead costs are more important than prime costs of production. Economists usually discuss the possibility of such shifts only in the long run (in the short run, productive capacity is assumed to be given), but the long run may in fact be no longer than one crop period for agricultural commodities (plantation crops which involve a large capital investment are an obvious exception).

As an example, the case of raw jute is relevant. Prices of raw jute are determined by the demand for jute manufactures, which in turn means largely the foreign demand, because nearly 75 per cent of the output of jute manufactures in India is sold abroad. Thus domestic inflationary pressures do not directly affect the price of raw jute. Yet indirectly they do exercise an important influence on the production and prices of raw jute. This is because in the jute-producing states of Bengal and Bihar, acreage under jute is highly sensitive to the relative prices of rice and jute prevailing at the time of sowing. Prices of rice in turn are directly affected by the pressures of domestic demand. A rise in the price of paddy (rice) unaccompanied by a corresponding rise in the price of raw jute will adversely affect the production of raw jute and therefore of jute manufactures too, a major item of export, earning over 20 per cent of India's total annual export receipts. In such a case inflationary pressures can have an adverse effect on exports in a short period of time, even though the entire production of the exported commodity is sold abroad.

d. Rising Costs of Production and Competitiveness in Export Markets

Even if no substitution is possible either in consumption or in production, inflation may yet have an adverse effect on exports if costs of production of export industries are increased in the wake of inflation. The extent of cost increases consequent on domestic inflation will depend on the importance of domestic factors of production and other domestic inputs in the production of export goods. In enterprises where overhead costs are large in relation to prime costs, costs in the short run may not be much influenced by internal inflation. Again, if a part of current expenditure is spent on imported materials, domestic inflation may have little effect on costs of production. Wage costs must, however, rise, particularly if cost-of-living adjustments are widely accepted. Thus in the case of tea plantations, while the possibilities of substitution both in consumption¹⁶ and production may be limited, yet the plantation economy being a labour-intensive activity, costs of production will rise as a result of domestic inflationary pressures. In the short run, assuming world prices to be given,¹⁷ production for export may remain unaffected so long as at least the prime costs and some part of fixed costs can be recovered. But if costs keep on rising, profit margins will be progressively squeezed. As a result both the ability and the incentive to add to productive capacity in the relevant export industry will be adversely affected.

e. Inflation, Import Controls and Exports

To minimize the adverse effects of inflation on the balance of payments, import controls may have to be tightened. Import restrictions on consumer goods may also have to be intensified in order to release foreign exchange for the import of essential capital equipment. Such restrictions inflate the margin of profit to be earned from investment in the production of import substitutes as against the production of exportables. Of course the Government can regulate the pace of investment in import substitution, because such investment usually requires imported equipment for which import licences are necessary. But when such controls are lax and priorities in the allocation

¹⁶ At least for some time to come.

¹⁷ Though in the case of tea, India, being a major source of supplies to the world markets, is capable of exerting an important influence on world prices.

of foreign exchange are not carefully worked out almost every investment project may become eligible for the grant of foreign exchange, because 'import substitution' is especially respectable. At the same time the genuine needs of export industries may be overlooked. Thus in the mid-fifties, while export industries like jute and cotton textiles were denied foreign exchange for their programme of much-needed modernization, a much too liberal approach was followed in India in allocating foreign exchange to many non-essential industries in the name of import substitution. In addition, continuously tight import restrictions provide a sheltered market for domestic industries and thereby reduce the incentive for a speedy reduction in their costs of production. The result may be that the prospects of newly established industries becoming at some stage earners of foreign exchange are further diminished.

f. Inflation and the Emergence of New Foreign Competitors in a Monopolistic Market

We have so far assumed that our country can do nothing to alter the prices of its export commodities prevailing in world markets. Under this assumption a rise in domestic costs cannot be passed on to foreign consumers. The only effect of domestic inflationary pressures in this model is to reduce the profit margins to be earned on export sales in relation to home sales. This assumption, however, is not valid for commodities like jute manufactures, tea, mica and perhaps also manganese ore. In these cases India is a major supplier to the world markets; and as a result export prices may be raised at the very time when domestic costs and prices are rising. If this happens the relative profitability of exports and home sales is unchanged. However, export earnings would still be reduced if the foreign demand for Indian exports has an elasticity greater than unity. But even if India is able in the short run to pass on the higher costs to foreign consumers without damage to her export receipts, in the long run this will encourage the search for alternative sources of supply as well as the substitute goods. Such a situation will offer an exciting opportunity to a low-cost new exporting country.

g. The Length of Delivery Dates and Export Performance

Until now we have been assuming that commodity prices so react to excess demand as to eliminate it at the new equilibrium prices. However, in manufactured goods it has been noticed in many countries that manufacturers

often fail to use prices as an equilibrating device in the short run. In such cases available supplies have to be 'rationed' by some other device. One device is that of quoting longer delivery dates so as to induce customers to look elsewhere for supplies. In an inflationary situation there is a danger that such rationing devices may be used to discriminate against distant, often unknown, over-seas customers rather than against well-known local dealers. In this way exports may suffer under inflationary circumstances.

SUMMARY

In this chapter we have outlined a general method of isolating the relative importance of external and internal factors in India's export performance. In addition we have also discussed the different ways in which such domestic policies as export controls and export duties and the existence of domestic inflationary pressures may affect India's export performance. However, the actual importance of various factors at work can be assessed only after a detailed analysis of export trends in major export commodities. The following six chapters are therefore devoted to a detailed analysis by commodities of India's export performance from 1951 to 1960.

(ii) *Case Studies*

III

Jute Manufactures

A. INTRODUCTORY

Jute manufactures are one of the two most important earners of foreign exchange for India, and normally accounted for over 20 per cent of total annual export proceeds in the past decade.

Undivided India had almost a complete monopoly of the production of raw jute. India was also the largest producer and exporter of jute manufactures in the world. The partition of the country in 1947, however, dealt a serious blow to the jute industry. While the jute industry was highly localized near Calcutta, the most important jute-growing areas were in East Bengal which went over to the new state of Pakistan.¹ As a result of strained economic relations between the two new nations a smooth flow of raw jute from Pakistan to the mills in Calcutta was seriously interrupted. Faced with inadequate supplies of raw jute India had at first to restrict, and then in 1950 to ban altogether, the export of raw jute.² She is, therefore, no longer an exporter of raw jute. But India is still the world's largest producer and exporter of jute manufactures and accounted for nearly 75 per cent of world exports, and about 44 per cent of total world production³ in the late fifties. By virtue

¹ The area under jute in East Pakistan was 71 per cent of the total area under jute in 1945-6 in the undivided India. See Nafis Ahmed, *An Economic Atlas of East Pakistan*, Oxford University Press, Karachi, 1958, p. 128.

² This ban was lifted for a while in 1958.

³ According to the Commonwealth Economic Committee, the average annual volume of world production of jute manufactures was 2,519 thousand metric tons during the three-year period 1958-60. India's production averaged 1,100 thousand metric tons a year over the same period. See *The Annual Review of Industrial Fibres*, London 1962, p. 187.

of her dominant position in the world markets India is therefore capable of exerting an important influence on world trade and consumption of jute goods.

B. TRENDS, INDIAN AND WORLD

Table III.1 brings out the trends in India's exports of jute manufactures as seen against the background of developments in world exports.

This table reveals the following facts:

1. India's exports during the period 1951-60 never reached even the pre-war volume of exports.⁴

Table III.1 India's and World Exports of Jute Manufactures, 1937, 1948-60
(Volume in 000 Metric Tons and Value in Million Rupees)

1. Year	2. Indian Exports		3. Volume of World Exports	4. India's Share of World Exports (%)
	A. Value	B. Volume		
1937	290.8	1,048.0	1,181.1	88.7
1948-50 (Av.)	1,289.4	825.7	849.3	97.2
1951	2,402.8	789.2	921.1	85.7
1952	1,632.5	746.0	840.2	88.8
1953	1,106.4	759.3	901.2	84.3
1954	1,213.9	855.7	987.5	86.7
1955	1,237.6	891.1	1,044.4	85.3
1956	1,125.1	876.8	1,068.7	82.0
1957	1,148.8	873.5	1,056.7	82.7
1958	1,038.1	806.2	1,023.4	78.8
1959	1,107.5	874.0	1,166.7	74.9
1960	1,255.4	810.4	1,105.2	73.3

Note: Figures for India relate to calendar years. Figures for India are those published by the Director-General of Commercial Intelligence and Statistics and have been converted into metric weights. For sources and methods of compilation of figures of world trade please refer to the appendix on Statistical Sources.

⁴ The pre-war figures relate to undivided India. The combined exports of India and Pakistan since 1959 have been about the same as undivided India's exports in 1937.

2. From 1951 to 1953 the annual volume of Indian exports was lower even than the average annual volume for the three-year period 1948-50. The volume of exports reached a peak in 1955 and since then seems to have stabilized at a somewhat lower level. The average annual volume of India's exports for the three-year period 1958-60 was less than 1 per cent higher than the average annual volume during the three-year period 1948-50.
3. In terms of their value Indian exports reached an all-time peak in 1951. Leaving aside 1951 and 1952, the annual value of exports from 1951 to 1960 never surpassed the average annual value of exports during the three-year period 1948-50.
4. What applies to Indian exports, applies with slight modifications to world exports also. World exports of jute manufactures have never surpassed their pre-war volume in any post-war year.⁵ Table III.2 summarizes the trends in world and Indian exports of jute manufactures in a more convenient form.

Even though the average annual volume of world exports for the three-year period 1958-60 was only 93 per cent of the corresponding annual volume in 1937, world exports tended to rise in the fifties from their earlier post-war level. The average annual volume for the three-year period 1958-60 was 29.3 per cent higher than the corresponding volume during 1948-50. The bulk of the increase, however, took place between 1948-50 and 1955-57 (24.4 per cent) and the growth in world exports

Table III.2 Salient Features of World and India's Exports of Jute Manufactures
(Annual Averages)

	1937	1948-50	1955-7	1958-60
1. World Exports (000 Metric Tons)	1,181.1	849.3	1,056.6	1,098.4
2. Index of World Exports 1937=100	100.0	71.9	89.5	93.0
3. Indian Exports (000 Metric Tons)	1,048.0	825.7	880.5	830.2
4. Index of Indian Exports, 1937=100	100.0	78.7	84.0	79.2
5. Indian Exports as Percentage of World Exports	88.7	97.2	83.0	75.6

Source: Table III.1.

⁵ They came very near to the pre-war world exports in 1959 and 1960.

after 1955-7 was much more modest (the average annual volume during 1958-60 was only 4.0 per cent higher than the average for 1955-7).

5. Although both the world and Indian exports in the post-war years have never reached their pre-war volume, nevertheless from 1948-50 to 1958-60 world exports rose at a much faster rate than Indian exports. As a result India's share of world exports fell from 97.2 per cent in 1948-50 to 83 per cent in 1955-7, and to 75.6 per cent in 1958-60.

C. CAUSES OF STAGNANT WORLD TRADE

Since India exercises a very important influence on the world market for jute manufactures, a study of the causes of sluggish world trade in jute manufactures will also throw light on some of the factors that have affected India's export performance.

There are two possible explanations for the fact that world exports of jute goods in the post-war years failed to recover even to their pre-war level. First, it could be that hitherto importing countries had set up jute industries of their own. Or second, that consumption of jute goods in these countries had for some reason failed to rise.

All the available evidence points to the fact that the most important cause of the stagnation in world trade in jute manufactures is to be found in the failure of consumption, outside India and Pakistan (and also excluding the Sino-Soviet area for which reliable statistics are not available), to rise significantly beyond its pre-war level. The cultivation of raw jute is largely confined to the Indian sub-continent, though in recent years Thailand and Burma have also been producing small quantities of raw jute for export. Therefore if we subtract imports of raw jute into India from the figures of world exports of raw jute we shall get some idea of the extent of manufacturing activity outside India and Pakistan. The relevant figures are given in Table III.3.

According to these calculations, world exports of raw jute (excluding imports into India from Pakistan and Nepal) in the three-year period 1958-60 were higher than the average annual exports during 1934-8 by only 5.8 per cent. This suggests that the production of jute goods outside India and Pakistan in the post-war years has increased only moderately above the pre-war level.

That in the absence of any significant growth of import substitution, the stagnation of world exports of jute manufactures must be ascribed to the stagnation in the consumption of jute goods in the importing countries is

Table III.3 World Exports of Raw Jute and Imports into India (00 Metric Tons)

	1934-8 (Average)	1956	1957	1958	1959	1960	1958-60 (Average)
1. World Exports	791	901	819	950	896	835	894
2. Imports into India	—	193	124	78	41	52	57
3. Imports by the Rest of World	791	708	695	872	855	783	837

Note: World exports are the sum of exports from the Far East and Africa (excluding mainland China, though she is not known to be an exporter).

Source: FAO *Trade Year Books*. For details please refer to the appendix on Statistical Sources.

immediately suggested by the above figures. This conclusion is confirmed by a more direct piece of evidence as well. Thus in Table III.4 we have tried to estimate the apparent consumption of jute goods in the world (excluding India, Pakistan, and the Sino-Soviet area) and according to these estimates the average annual apparent consumption of jute goods outside India and Pakistan increased by only 15.5 per cent from 1934-8 to 1958-60.

Basically, the explanation for the sluggishness of world trade in jute manufactures must, therefore, be found in the stagnation of jute consumption in the importing areas. The global figures, however, conceal the important fact that this stagnation is a consequence of stagnant jute consumption in the

Table III.4 World Production of Raw Jute, Apparent Consumption of Jute Goods in India and Pakistan, and in the Rest of the World (000 Metric Tons)

	1934-8 (Average)	1957/8	1958/9	1959/60	57/8 to 59/60 (Average)
1. World Production	1,954	2,172	2,453	2,173	2,266
2. Apparent Consumption in Indian and Pakistan	288	372	329	324	342
3. Consumption in Rest of World	1,666	1,800	2,124	1,849	1,924

Notes: 1. World consumption of jute goods has been assumed to be equal to world production of raw jute.

2. Estimates of production of raw jute include allied fibres like mesta, kenaf and Congo Jute.

Source: And methods of compiling this table are given in the appendix on Statistical Methods and Sources.

industrial countries of North America and Western Europe, accounting for over 50 per cent of the total world consumption of jute goods. For example, the average annual apparent consumption of jute goods in North America in 1957-8 was only 73 per cent of the estimated apparent consumption in 1937; while in Western Europe it was 92 per cent of the pre-war apparent consumption.⁶ The consumption of jute in the primary producing areas in the post-war years has risen beyond pre-war levels (by 22 per cent in Latin America, 27 per cent in Oceania, 36 per cent in Africa and by 60 per cent in the Near East from 1937 to 1957-8),⁷ but because of the great importance of the industrial countries in the world consumption of jute goods world consumption has failed to rise significantly above the pre-war level.

D. STAGNANT CONSUMPTION IN INDUSTRIAL COUNTRIES

The post-war behaviour of jute consumption in the industrial countries has to be interpreted against the background of a rise in agricultural production of about 60 per cent in North America and 38 per cent in Western Europe between the prewar years and 1959-60.⁸ The packaging of agricultural commodities is a major source of demand for jute goods and the fact that rising agricultural production has failed to be accompanied by a rising consumption of jute goods in these areas suggests that there have been important factors at work which have adversely affected a growing use of jute goods.

These factors are known to be of a fairly long standing and have already been noted by competent industrial observers.⁹ One of them is a change in

⁶ cf. an FAO study, 'Trends in World Demand for Jute Manufactures', *Monthly Bulletin of Agricultural Economics and Statistics*, December, 1960, and January, 1961. The pre-war figures for Western Europe include the whole of Germany, while those in the post-war years include only Western Germany. If allowance is made for this fact consumption in Western Europe would be about the same as in pre-war days.

⁷ Ibid.

⁸ Calculated from the FAO statistics published at the end of *State of Food and Agriculture*, 1961. See Annexe Tables 3A (p. 147) and 5A (p. 152). Thus, the FAO index (1952/3-56/7 = 100) of all farm produce for Western Europe increased from 82 in 1934-8 to 113 in 1959-60. The index for North America rose from 68 to 109 over the same period.

⁹ See the report of the Low Delegation of the Indian Jute Mills Association: *The American Burlap Industry*, Calcutta, 1950, p. 25.

Table III.5 Indices of Quantities of Burlap (Jute), Paper, and Cotton Fabrics Used for Bag-Making in the U.S.A. (1940 = 100)

	1940	1948-50	1952-4	1955-7	1958-60
Burlap	100	90.9	88.4	99.1	105.9
Paper	100	313.2	400.5	437.9	440.7
Cotton	100	68.6	53.5	34.2	30.1

Source: Commonwealth Economic Committee, London. For details please refer to the appendix on Statistical Sources.

the techniques of production and transportation of commodities to what is now called 'bulk handling'. This method of transporting commodities eliminates altogether the use of a container for packaging purposes. A second important factor is the growth of new techniques in distributive trades, the manufacturer supplying goods to the trader, in small pre-packed units, again dispensing with the use of the large traditional jute containers. Thirdly, in many uses, paper has been found to have taken jute's traditional position as a packaging material. Table III.5 gives us some idea of the extent to which paper bags have eaten into the market for burlap (jute) in the U.S.A.¹⁰

Causal Relationship: What Induced These Developments?

That these factors have been at work is well known. But what is the causal mechanism that brought them into play? To what extent were they a response to policies (or lack of policies) pursued by the exporting countries (mainly India)? At the outset we must note that prices of jute goods did rise steeply

¹⁰ The competition between paper and jute is not a recent phenomenon. In the 1920's paper bags were first used in the cement industry on a large scale, replacing jute bags, and since then they have steadily made new inroads into the other normal used of jute bags. This development gathered an added momentum in the 1940's, as will be obvious from the above table. Since the 1930's cotton fabrics have also been used for making bags, and this process received further encouragement in the U.S.A. in the pre-war years, when indemnity payments by the U.S. Government under its cotton-bagging programme made it possible for manufacturers to sell cotton bale covering at much lower prices than those for jute bags. Cotton, however, has lost its ground in the making of bags in the post-war years.

Table III.6 Indices of Prices of 100 lb. Flour Bags in the U.S.A.: 1940, and Yearly Averages for 1948-50, 1952-4, 1955-7 and 1958-60 (1940 = 100)

	1940	1948-50	1952-4	1955-7	1958-60
Burlap	100	233.6	184.5	160.8	165.3
Cotton	100	296.9	268.0	275.2	280.0
Paper	100	156.3	179.9	182.3	193.0

Source: Indian Jute Mills Association. For details please refer to the appendix on Statistical Sources.

until 1951 and in fact they rose much faster than prices of paper bags, as is brought out in Table III.6. Since 1952, however, they have shown a falling tendency, and at the end of the last decade the competitive position of jute relative to paper was much more favourable than it had been until 1951.

The question that needs answering is: to what extent was the stagnation in the consumption of jute goods in the industrial countries an outcome of the behaviour of prices of jute goods? For that purpose we need to discuss separately the rise of bulk-handling techniques, changes in methods in the distributive trades, and the competition offered by paper bags.

As far as bulk deliveries are concerned it appears that techniques of bulk handling are a part of the wider movement towards an increasing mechanization of farm and factory operations, which received impetus, perhaps, from high and rising labour costs. For example, when commodities are moved from the field to the warehouse in bulk trucks labour is saved in both the collection and transportation of the produce. Similarly, the introduction of conveyor-belt methods in unloading and movement to the warehouses and the processing factories results in a saving of labour. Deliveries in bulk of the commercial feed from the factory to the farm reduce the amount of farm labour required in the mixing and handling of the feed, and manufacturers can also make deliveries more quickly. Thus, according to the report of a delegation of the Indian Jute Mills Association, in the U.S.A. a bulk truck holding 22 tons could be loaded or unloaded by one man in one hour, whereas bagged unloading would take approximately 8 hours, employing 3 or 4 men.¹¹ The delegation also found that the adoption of bulk-handling devices in the

¹¹ Report of Low Delegation: *The American Burlap Industry*, Calcutta, 1950, p. 10.

movement of raw sugar from Hawaii to refineries in California had reduced labour requirements by 90 per cent in one instance.¹² Similarly in the case of feed mills one man could prepare 40 tons of feed per hour when bulk practices were adopted, compared with one ton per hour if sacks were used.¹³

Undoubtedly, the process of technological change is much too complex to be analysed simply in terms of a response to the movement of relative prices in a single factor of production.¹⁴ But to the extent that relative prices of factors do play their part, the inducement in the present case must have come primarily from the desire to save on labour costs. Of course there is an additional saving in costs as a result of the introduction of bulk practices in so far as the produce is no longer required to be packed in a container. But generally speaking this latter saving, although a welcome by-product, is unlikely to be either the most important gain or a predominant consideration in determining the pace of bulk handling, except perhaps for very cheap packageable goods.¹⁵

¹² Ibid., p. 16.

¹³ Ibid., p. 31.

¹⁴ The process of technical change often displays strong complementarities and innovations get linked in a manner resembling the 'backward and forward linkages' recently emphasized by Hirschman in his book *Strategy of Development*. Thus if a new method has got a foothold in one industrial process its extension to other complementary and related processes is only a matter of time. As the IJMA delegation whose report was quoted above pointed out, 'The extension of the system of combine-harvesting of grains enables bulk handling to take place while the growth of various systems of artificial ripening and of storage encourages the producers to develop bulk methods' (op. cit., p. 25). Thus in a process as complex as technological change it is hard to pin down any single source of inspiration. Often the price of a single factor or other inputs may fail to explain adequately the main motivation for change. Besides, manufacturers may take account of future expected changes in relative prices of different factors of production in deciding to introduce a new method of production. Sometimes the mere fear of shortages and bottlenecks, quite regardless of relative prices, may be an important factor influencing their decision. No wonder that economists treat technical progress as an exogenous variable.

¹⁵ There is some evidence in the report of the Low Delegation that in cheaper by-products of the oilseeds industry in the U.S.A. the saving on the cost of containers was more important than a saving in labour costs. Thus in the case of cotton seed meal the introduction of bulk handling in one case led to a fall of \$5.6 per ton in costs. Of this \$4 represented the saving on the bag (op. cit., p. 13).

As for the changes in methods of marketing, the manufacturer supplying goods to the traders in small pre-packed cases, so eliminating the use of the orthodox container, they seem to take place largely independently of jute-goods prices. More appropriately, these changes are an outcome of the desire on the part of manufacturers to differentiate their products; and are linked with the new developments in retail trade whereby large self-service multiple stores have grown in importance. Product differentiation may be attempted by a manufacturer to ensure that the ultimate consumers do get a desired quality; he also wishes to reduce his dependence on the retailer for promoting the sale of his particular brand by establishing, through the media of mass advertising, a direct contact with the final consumer. This becomes all the more necessary as self-service stores grow in importance, for the manufacturer can no longer be sure of the personal interest of a retailer in promoting the sales of his particular brand. And to cope with the needs of self-service stores, manufacturers have, in any case, no alternative but to pack their products in small, ready-to-take-home packages. For such small packages jute is often not a very suitable material because of its roughness, difficulties in printing attractive designs on it, &c. Therefore the changes in marketing techniques referred to above may be considered to take place regardless of the price of jute goods. Such changes have, however, imposed heavy losses on jute. It has been observed that whereas the jute sack was once the traditional packaging material for potatoes, the introduction of small ready-to-take-home packages has greatly eaten into the market for jute in many countries.¹⁶

As regards the substitution of paper for jute bags, once again the pattern of developments is not so simple as to be analysed entirely in terms of the movement in relative prices of jute and paper bags. In those branches of the distributive trades where branded goods have increasingly gained in popularity the use of paper bags was bound to grow at the cost of jute bags, because jute bags do not lend themselves as easily to the printing of attractive brand labels as paper bags. To some extent the loss suffered by jute bags must, therefore, be ascribed to factors other than the behaviour of relative prices of jute and paper. Besides, there were some extraordinary factors at work in the forties that greatly affected the use of jute goods but which cannot be discussed simply in terms of the relative prices of jute and paper. During the Second World War many importing countries were cut off from their normal

¹⁶ IJMA, *Report of the Low Delegation*, Calcutta, 1950, p. 14. See also the *Report of the Third Delegation of the IJMA to the U.S.A.*, Calcutta, 1954, p. 6.

peace-time sources of supply of jute goods. They had, therefore, to restrict the use of jute goods to the interest of conserving the available supplies for essential war purposes. For example, in the U.S.A. the use of jute in the packaging of fertilizers and sugar was prohibited during the war. As a result many industrial users of jute goods had of necessity to fall back upon paper bags as a packaging material. And once people get used to an alternative material, the sheer force of inertia often prevents them from switching back to the old material, even when its supply becomes more plentiful.

There is, however, no doubt that, in part at least, the losses suffered by jute and the gains recorded by paper in the post-war years must be attributed to the behaviour of relative prices of jute and paper bags. Although the restricted use of jute goods during the war could not be analysed in terms of the behaviour of relative prices, one has to face the fact that until 1951 the relative price of jute continued to rise. Thus the hope that at least a part of the market lost by jute goods during the war would be recaptured in the post-war years was frustrated by a continued rise until 1951 in the price of jute goods relative to that of paper bags. The adverse effects of a steep rise in prices of jute goods on export earnings were, of course, not immediately obvious. In fact, given a relatively inelastic demand in the short run, the possible adverse effects of a rise in prices are likely to be small. But in the long run this price behaviour contributed to a further weakening of the position of jute relative to that of paper bags in the world markets. Many people who had perforce to switch over to paper bags during the war finally wrote off a possible return to a renewed use of jute in the post-war years. Prices of jute goods have tended to fall since 1952, and in 1958-60 were about 50 per cent lower than the peak levels reached in 1951. Yet this has brought only minor gains in the consumption of jute bags, as was shown in Table III.5. This suggests that markets once lost are not easily re-captured, even when prices return to their more normal level.

Thus, to the extent that a part of the losses suffered by jute was due to the behaviour of relative prices of jute and paper bags, one would normally blame policies pursued by the exporting countries. In the present case many people have regarded the steep increases in export duties levied on jute manufactures by India in 1950 and 1951 as ill-conceived and harmful to the long-run interests of exports of jute manufactures. That export duties did rise steeply is no doubt true. Thus the duty on hessian (a superior type of jute cloth exported to the U.S.A.) was raised from Rs 80 to Rs 350 per ton in October 1949, following the devaluation of September 1949. In October 1950 the duty was

further raised to Rs 750 per ton; and in November 1950 it was further increased to Rs 1,500 per ton and it remained at this level until February 1952. In March 1952 there began a process of gradual reduction in duties and all export duties on jute manufactures were finally abolished in 1955.

The increase in export duties on jute manufactures was, however, not the most important reason for an abnormal rise in the prices of jute goods until 1951. Given a relatively inelastic supply and demand for jute goods in the short run (to which speculative purchases in the wake of the Korean war also contributed) it was hardly to be expected that prices of jute goods to the final consumers in the importing countries would be stabilized merely because export prices in India were controlled. Indeed, this is exactly what the Government of India was doing until October 1950. Feeling that, in order to improve the competitive position of jute relative to its substitutes, it was necessary to stabilize prices of jute goods at a reasonable level the Government imposed a price control on jute goods in 1950. But it was soon realized that, in a situation where demand and supply (*ex ante*) were out of balance, controlling prices of jute goods in India did not by itself ensure that prices to final consumers in the importing countries were also stabilized. In fact there was a wide margin between prices in India and those prevailing in the U.S.A. and other importing countries, and the only beneficiaries of the price control imposed in India were the import traders in those countries. It was in this context that the Government of India gave up its attempts to keep prices under control and tried instead to bring Indian prices in line with those prevailing in the U.S.A. by an increase in the rate of export duties on jute manufactures.

The basic reason for a rise in prices of jute goods until 1951 is to be found in the exceptional difficulties faced by India in procuring enough supplies of raw jute. These difficulties were partly the result of poorer harvests,¹⁷ and partly they were man-made. The acreage under raw jute was sought to be controlled during the war in the interest of greater production of rice. Since

¹⁷ Production of raw jute averaged 8.7 million bales a year in undivided India from the 1936-7 to the 1939-40 season (July-June). In 1946-7 production was estimated at only 5.6 million bales. It increased to 8.5 million bales, taking both India and Pakistan, in 1947-8. In 1948-9, however, it again fell to 7.5 million bales and in 1949-50 it fell to a low level of 6.4 million bales. Calculated from the *Annual Summary of Jute and Gunny Statistics*, published by the Indian Jute Mills Association, Calcutta, 1961.

rice shortages continued to persist in the early post-war years, the relative prices of paddy and raw jute, which are an important determinant of the area devoted to the cultivation of raw jute by the farmers in Bengal, moved in such a manner as to encourage greater production of rice at the cost of raw jute.¹⁸ This meant that not enough raw jute was available to meet the entire world demand for jute manufactures. This naturally led to a continued rise in prices. In addition, whatever production was available could not be speedily allocated, in view of the strained economic relations between India and Pakistan. As was pointed out earlier in this chapter the partition of India in 1947 seriously affected the position of the Indian jute industry; for, while the jute industry was entirely localized in India, the most important jute-growing areas had gone over to Pakistan. So far as shortages of raw jute were the result of poorer harvests the blame could not be laid at India's door. However, to the extent that a more co-operative policy between India and Pakistan could have reduced the effects of shortages, a lack of economic statesmanship in the sub-continent must also share the blame. For a reduction in the consumption of jute in the importing countries, as a result of the rise in prices of jute goods, was neither in the interest of India, the world's largest exporter of jute manufactures, nor in that of Pakistan, the world's largest exporter of raw jute.

To sum up our discussion of the causes of stagnant jute consumption in the importing areas, it may be pointed out that many of the factors that adversely affected a growing use of jute goods in the industrial countries would probably have operated even if prices of jute goods had risen less sharply than they actually did. This applies particularly to the growth of bulk deliveries and also to such changes in the methods of marketing as eliminate the traditional burlap container. As regards competition from the paper bags, there were again extraordinary factors which favoured them during the Second World War, when jute supplies were short and consumption had to be deliberately controlled. Besides, in those branches of distributive trades where there is an increasing emphasis on branded goods, paper was bound to displace jute, it being easier to print attractive labels on paper than on jute cloth. However, in the post-war years until 1951, the competitive position of jute was further weakened by a steep rise in its prices while the prices of paper

¹⁸ That the acreage devoted to the cultivation of raw jute is highly sensitive to the relative price of jute and paddy in Bengal is a well observed fact. See an article by Ralph Clark, 'Economic Determinants of Jute Production', *FAO Monthly Bulletin of Agricultural Economics and Statistics*, September 1957 (vol. vi, no. 9).

bags remained relatively stable. This must have done some lasting damage to the use of jute goods in the importing countries and, although there were extraordinary difficulties on the supply side, this was a development whose rigour could have been moderated by more farsighted policies in India and Pakistan. It is only in this last respect that policies pursued by the exporting countries did contribute to a stagnation in the consumption of jute goods in the importing countries. However, their influence can easily be exaggerated.

E. INDIA'S WEAKENING POSITION

In addition to the factors affecting the use of jute in the industrial countries, India's export performance since 1952 has also been affected by a steady deterioration in her competitive ability in world markets. This is brought out by a continuing fall in her relative share of world exports after 1952 (*vide* Table III.1). Until 1955 the major sources of competition were the European and Japanese jute industries, both competing against India in the U.S.A., the world's most important market for jute goods. Since 1955 the growth of an export-based jute industry in Pakistan has posed a far more serious challenge to India. Unlike European countries Pakistan has so far concentrated on capturing markets for cheaper varieties of jute goods (called 'sacking') only, mostly in the Far East and Oceania.

As for the competition from the European jute industry, some unusually favourable factors helped European countries to increase their exports to the U.S.A. in the early fifties. Normally India has an overwhelming cost advantage over the European industry, and the countries of Europe have to protect their domestic jute industries by both high tariff walls and stringent quota restrictions on imports from India. In the early fifties they were, however, helped by the following favourable factors. First, as a result of inadequate world production of raw jute, prices of jute goods rose steeply until 1951 and this made it profitable for European countries to develop their exports to the U.S.A. Second, the inability of the Indian jute industry to procure enough supplies of raw jute from Pakistan coincided with Pakistan's attempts to divert her exports of raw jute to countries other than India. Faced with an insufficient supply of raw jute, the Indian industry could not meet the entire export demand. And in the prevailing climate of scarcity when prices were rising steeply, assured of more plentiful supplies of raw jute, European countries were able to increase their production and exports. Table III.7 sets out the developments in the U.S. imports of burlap together with imports from India and other countries.

Table III.7 U.S. Imports of Burlap (Jute Fabrics) (*000 Metric Tons*)

	Total Imports	Imports from India	Imports from Others	India's Share (%)
1947	245.5	235.7	9.8	95.9
1948	230.0	220.7	9.3	95.9
1949	202.6	193.6	9.0	95.5
1950	190.0	164.6	25.4	86.6
1951	151.5	125.1	26.4	82.6
1952	219.1	180.4	38.7	82.3
1953	197.5	153.9	43.6	77.9
1954	188.7	155.6	33.1	82.4
1955	215.2	182.0	33.2	84.6
1956	239.0	199.4	30.6	83.4
1957	224.0	190.2	33.8	84.9
1958	221.1	189.9	31.2	85.9
1959	260.3	221.9	38.4	85.2
1960	243.1	203.4	39.7	83.7

Source: Statistics published by the U.S. Department of Commerce.

Prices of jute goods in India fell steeply in 1952¹⁹ from their all-time peak, reached in 1951, and have shown a mild tendency to fall further since then. But other countries, having once got a foothold in the world's largest market for jute goods, could not be easily displaced, and imports into the U.S.A. from non-Indian sources have maintained the level attained in the early fifties, even during the later years, although India's relative share of the U.S. market has tended to rise since 1954. Indeed, because of an extreme instability of prices and supplies from India until 1951 the American importers, not having a domestic jute industry, have encouraged imports from Europe as a second reserve line. As an OEEC report pointed out some years ago, American consumers look upon European exports with approval for they regard European competition 'as an essential factor in the stabilization

¹⁹ The wholesale prices Index, with the year ending August 1939 as 100, rose from 474 in 1947 to 561 in 1950 and further to 803 in 1951. In the following year it fell to 506. See *Agricultural Prices in India*, 1955 issue, Table 1.9, p. 31. (Published by the Ministry of Agriculture, Government of India, New Delhi.)

of world markets'.²⁰ Thus, had India been able to procure more raw jute from Pakistan, the ability of the European industry to get an important foothold in the U.S. market would have been considerably reduced.

While the European competition has become somewhat weaker since 1954, Pakistan's growing export-based jute industry has become an important rival source of supplies to the world markets. This is brought out in Table III.8.

Thus during the two-year period 1959-60 Pakistan's exports had reached about 23 per cent of the average annual exports of India during the same period.

Generally speaking the Indian jute industry is still more efficient than the jute industry in Pakistan, although there are divergent opinions on the extent of the former's relative efficiency. According to a fact-finding committee of the Pakistan Development Corporation in 1958 the manufacturing costs of the most efficient mill in Pakistan were higher than similar costs of an average mill in India by Rs 194.76 per ton.²¹ These estimates were, however, not accepted by the Pakistan Jute Enquiry Commission which reported in 1960.²² The Commission quoted, seemingly with approval, estimates of costs of production as prepared by a team of the International Bank for Reconstruction and Development in 1956. According to these estimates Pakistan's cost disadvantage relative to India was much more modest. For hessian it was found to be Rs 48 per ton, while for sacking it worked out to

Table III.8 Exports of Jute Manufactures from Pakistan (*000 Metric Tons*)

	Hessian	Sacking	Total (Incl. Others)
1957	29.7	60.4	90.4
1958	36.9	78.5	115.8
1959	50.7	135.7	188.4
1960	61.9	123.8	190.7

Source: Pakistan's Foreign Trade Statistics.

²⁰ OEEC, *The Textile Industry in Europe—A Study*, by the Textile Committee, Paris, 1955, p. 99.

²¹ Quoted in the report of the Pakistan Jute Enquiry Commission, Karachi, 1961, p. 144.

²² *Ibid.*, p. 146.

be only Rs 33 per ton.²³ Since 1959, however, any possible cost disadvantage that Pakistan may have had relative to India has been more than neutralized by the introduction of a currency-retention scheme in Pakistan; and according to the Pakistan Jute Enquiry Commission this meant an addition of about 25 per cent to the earnings of exporters of jute goods from Pakistan in 1960.²⁴

It is because of a rapid increase in exports of jute goods from Pakistan since 1957 that India's relative share of the world exports has continued to fall, despite the fact that the competition from Europe has somewhat decreased in intensity. Basically, as we saw above, India is a more efficient producer of jute goods than Pakistan.²⁵ Despite this stronger position India has failed to react aggressively to Pakistan's export subsidy. Probably the feeling has been that in the short run, trying to match Pakistan's export subsidy would reduce India's export earnings from jute goods. But a failure to accept some short-term loss now may well mean that Pakistan's industry will grow in size and experience and present a much more serious challenge in the long run. However, India's ability to adopt a more aggressive export policy has often been greatly weakened by her failure to find a satisfactory solution to the problem of growing enough raw jute to supply her industry. Thus both in

²³ These estimates are given below: Cost of Production in Rupees Per Ton

	Pakistan		India	
	Hessian	Sacking	Hessian	Sacking
Price of Jute*	756	705	782	707
Labour Costs	300	115	330	125
Depreciation	150	90	50	30
Other Costs	205	145	210	160
Total Cost	1,420	1,055	1,372	1,022
Export Price Ex Mill	1,480	1,105	1,480	1,105

* Prices are at mills.

Source: Pakistan's Jute Enquiry Commission's report, p. 145.

²⁴ Ibid., p. 146.

²⁵ Pakistan has only one advantage over India and that consists in the better quality of raw jute available to her. But according to the Indian Jute Commissioner, Calcutta, this advantage is of much less importance now than before. As a result of a complete modernization of their spinning section it has become possible for the Indian mills to use even inferior quality of raw jute without affecting the quality of the final product.

1959 and 1960 India could hardly adopt a more vigorous export policy when she did not have enough raw jute to meet even the existing demands of the jute industry, and as a result prices went soaring up. A satisfactory solution of the problem of growing enough raw jute is a basic prerequisite of a more effective export strategy.

SUMMARY

Our analysis of India's exports of jute manufactures leads us to the following main conclusions:

1. By far the most important factor affecting India's exports of jute goods in the post-war years has been the stagnation in the consumption of jute goods in the world (outside India, Pakistan, and the Sino-Soviet area). Consumption of jute goods in the industrial countries of the West in the post-war years has not increased beyond the pre-war level.
2. There have been important factors at work in the industrial countries, tending to reduce the use of jute as a packaging material. Of these, bulk handling and changes in methods of retail distribution, both of which eliminate the traditional jute container, seem to have taken place independently of the behaviour of prices of jute goods. The same cannot, however, be said about the losses of jute to paper as a packaging material. Here the steep rise in the relative price of jute bags until 1951 did some lasting damage to a growing use of jute as a packaging material (although it is well to remember that paper bags had an extraordinary advantage during the war, when consumption of jute in many importing countries was sought to be restricted in order to conserve supplies for war purposes). The steep rise in prices of jute goods in 1950 and 1951 was partly a result of some abnormal difficulties arising out of poorer harvests. To some extent, however, a more co-ordinated effort by India and Pakistan could have got over some of the difficulties.
3. India's relative share of world exports has steadily fallen since 1952. If she had been able to maintain her relative share at its 1948-50 level, India's exports during 1958-60 would have been about 28 per cent higher than they actually were.

IV

Tea

A. INTRODUCTORY

India is the largest producer and exporter of tea in the world and accounted for about 43 per cent of the average annual world production and world exports in the three-year period of 1958–60.¹ Tea and jute manufactures are the two most important contributors to India's export earnings and there has been often in the past a close competition between the two for the top position. Tea was responsible for over 21 per cent of India's average annual export receipts in the three-year period 1958–60. Ceylon is the world's second most important exporter of tea, and the two countries taken together supplied about 80 per cent of world exports during 1958–60. Indonesia and China were the other important exporters before the war. Indonesian exports in the post-war years have, however, failed to recover to their pre-war level and in the late fifties seemed to have stabilized at about 50 per cent of the pre-war exports. Exports from mainland China are believed to have increased considerably in the last few years, but complete statistics are not available. African exports, although still a small part of world exports, have grown rapidly in the last decade. Nevertheless India and Ceylon still dominate the world markets, and their policies are capable of exerting considerable influence on the course of world trade.

B. 1948–60: MAJOR CHARACTERISTICS

Table IV.1 traces the course of exports of tea from the major exporting countries, India, Ceylon, Indonesia and African territories, together with the

¹ World production excludes production in mainland China and the U.S.S.R. Similarly, world exports exclude exports from mainland China, for which reliable estimates in the post-war years are not available.

Table IV.1 Exports of Tea: World, India, Ceylon, Indonesia, Africa with Relative Shares of the above Countries in World Trade (*Metric Tons 000*)

A. Volume of Exports												
	1934-8	1948-50	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
World	360.1	387.8	443.2	410.1	460.1	490.2	419.7	496.9	476.5	514.7	490.0	483.9
India	156.7	191.6	206.1	188.1	227.2	204.1	166.8	237.7	201.3	229.7	214.3	193.6
Ceylon	99.6	134.8	138.4	142.7	152.2	163.9	164.5	158.1	167.0	186.5	174.0	85.9
Indonesia	67.6	19.2	40.1	31.9	28.9	40.2	28.8	34.5	35.7	34.6	29.7	35.0
Africa	6.9	13.3	15.8	15.8	15.2	24.0	23.7	28.3	29.6	32.7	37.6	41.3
B. Relative Share (Percentages)												
India	43.5	49.4	46.5	45.9	49.4	41.6	39.7	47.8	42.2	44.6	43.7	40.0
Ceylon	27.8	34.8	31.2	34.8	33.1	33.4	39.2	31.8	35.1	36.2	35.5	38.4
Indonesia	18.8	5.0	9.0	7.8	6.3	8.2	6.9	6.9	7.5	6.7	6.1	7.2
Africa	1.9	3.4	3.5	3.9	3.3	4.9	5.6	5.7	6.2	6.4	7.7	8.5

Notes: 1. World exports are the sum of exports from the producing countries, but exclude mainland China.

2. Figures for India in 1934-8 relate to undivided India.

Source: Compiled from FAO Statistics published in *Trade Year Books*. For details please refer to the appendix on Statistical Sources and Methods.

Table IV.2 Exports of Tea: World, India, Ceylon, Indonesia and Africa
(Annual Averages in 000 Metric Tons)

	1934-8	1948-50	1955-7	1958-60
World Exports	360.1	387.8	464.4	496.2
India	156.7	191.6	201.9	212.5
Ceylon	99.6	134.8	163.2	182.1
Indonesia	67.6	19.2	33.0	33.1
Africa	6.9	13.3	27.2	37.2
Relative Shares: Percentages				
India	43.5	49.4	43.5	42.8
Ceylon	27.7	34.8	35.1	36.7
Indonesia	18.8	5.0	7.1	6.7
Africa	1.9	3.4	5.9	7.5

Source: Table IV.1.

development in world trade. Table IV.2 summarizes the main findings in a more convenient form.

We have already remarked that India and Ceylon exercise a major influence on world trade in tea, so that from the point of view of supplies to the world markets the market structure resembles oligopoly. In oligopolistic situations the performance of any single oligopolist is determined both by the over-all growth of market demand as well as by his ability to maintain his relative share of the market. As for the growth of world trade in tea, we find that from 1948-50 to 1958-60 its average annual volume rose only moderately, by about 28 per cent. As compared with the pre-war years (1934-8) the average annual volume of world trade in tea during 1958-60 was about 38 per cent higher. This ought to be contrasted with the fact that the volume of world trade in all commodities went up by over 100 per cent² between 1938 and 1960. Thus it is a misfortune of countries like India that their exports are dominated by such commodities, international trade in which has grown relatively slowly. Of course, under oligopolistic situations price-output

² See *UN Statistical Year Book*, 1961, Table 151, p. 426. The index of the volume of world trade (excluding the Sino-Soviet area) rose from 73 in 1938 to 154 in 1960 (1953 = 100).

policies are under the control of producers; and it may well be that the consumption in the importing countries, and, therefore, their demand for imports may have been affected by the monopolistic pricing policies of the exporting countries. Thus the mere fact that world trade in a particular commodity has not grown fast enough does not rule out the possibility that this development may have been the result of 'faulty' policies on the part of major exporting countries. We shall, therefore, have to consider this aspect of the problem in detail in the following pages, so as to determine whether the volume of world trade in tea in the post-war years has in fact been so affected by the policies of countries like India and Ceylon.

If we assume that in oligopolistic market environments the oligopolists may be expected at least to maintain their relative share of the market, we shall find that India has failed to live up to this expectation in the years after 1951 (see Tables IV.1 and IV.2). Between 1948-50 and 1958-60, the average annual volume of world exports rose by 28 per cent. Over the same period the average annual volume of Indian exports went up only by about 11 per cent. As a result India's relative share of world exports fell from 49.4 per cent in 1948-50 to 43.5 per cent in 1955-7, and 42.8 per cent in 1958-60. Had India maintained her relative share of 1948-50, her exports of tea in 1958-60 would have been about 15 per cent higher than they actually were.

One may, of course, argue that India's relative share in the early post-war years had been boosted by a delayed recovery of Indonesian supplies from the effects of the Second World War; and that as Indonesian production recovered, that country was bound to regain part of her lost ground as an exporter. This, however, does not succeed in making India's export performance look satisfactory. First, Indonesian supplies have not made any major recovery since 1950; and as was brought out in Table IV.2, Indonesia's relative share increased only very modestly after 1948-50—from 5.0 per cent in 1948-50 to only 6.7 per cent in 1958-60; whereas in the pre-war years that country's relative share of world exports stood at 18.8 per cent. Second, it has to be borne in mind that Ceylon, the second major exporter of tea, has, on the whole, successfully held on to her relative share of 1948-50 in the later years and, in fact, has further improved her position slightly—from 34.8 per cent in 1948-50 her relative share of world exports went up to 35.1 per cent in 1955-7 and to 36.7 per cent in 1958-60. And it has to be remembered further that Ceylon's relative share in 1948-50 was already higher by 6 per cent as compared with her pre-war share (India's share in 1948-50 was also about 6 per cent higher than in 1934-8). Thus while Ceylon has firmly held

on to her relative share of world trade, India's relative share has tended to fall since 1951. This suggests that all has not been well with regard to India's export policies. It will be one of our tasks in the present chapter to lay bare some of the faulty policies.

C. WORLD TRADE: DEVELOPMENTS AFFECTING CONSUMPTION IN IMPORTING AREAS

It was suggested above that the mere fact that world trade in a particular commodity has not grown fast enough does not rule out the likelihood that this may be due to factors originating in the exporting countries. The present section is devoted to an analysis of consumption of tea in the importing areas in the post-war years to see if policies pursued by the exporting countries have affected it adversely. This has obvious relevance to an analysis of India's export trade; because India, accounting for about 43 per cent of world production and exports, is capable of exerting a powerful influence on the course of world trade in tea.

At the outset it is necessary to keep in view the fact that the developed countries of Western Europe, North America, and Oceania accounted for about 73 per cent of total world net imports of tea (excluding net imports into Eastern Europe and the U.S.S.R.) during the three-year period 1958-60.³ These areas are wholly dependent on imported supplies for their consumption. Thus the consumption of tea in these areas is a major determinant of the world demand for imported tea.

Table IV.3 brings out the fact that between 1948-50 and 1958-60, the average annual volume of net imports into these areas increased by about 20 per cent. But it is to be noted that the major rise took place between 1948-50 and 1954-6. Whereas between 1948-50 and 1954-6 average annual net imports increased by 16.2 per cent, the increase between 1954-6 and 1958-60 was only 3.3 per cent.

The fact that the rate of growth of tea consumption in high income importing countries has considerably slowed down since the mid-fifties is not surprising. During the Second World War and in the early post-war years the consumption of tea was restricted by official rationing in many countries. In

³ World net imports were 509 thousand tons a year during this period while net imports into high income countries averaged 370 thousand tons a year.

Table IV.3 Net Imports of Tea by the Developed Countries (*Annual Averages in 000 Metric Tons*)

	1934-8	1948-50	1954-6	1958-60
U.K.	193.6	185.9	217.0	231.7
Other West Europe	34.4	27.1	41.0	34.0
U.S.A.	37.7	44.7	48.0	49.3
Canada	17.8	20.3	20.0	19.7
Oceania	25.6	29.7	32.0	35.0
Total	309.1	307.7	358.0	369.7

Source: FAO Trade Year Books.

the U.K., the most important market for tea in the world, tea was not derationed until 1952. Thus there was some suppressed demand for tea in many countries. However, the extent of the suppressed demand was relatively modest as tea rations had remained liberal in most countries.⁴ But once the pre-war levels of *per caput* (per capita) consumption were reached in the predominantly tea-drinking countries like the U.K., Eire, and Australia, there was not likely to be much further scope for an increased consumption of tea. For the pre-war *per caput* consumption of tea in these countries was already near the saturation point, and all the available estimates of income and price elasticities of demand suggested negligible elasticities. Prof. Richard Stone's study of consumer's expenditure in the U.K. for 1920-38 suggested an income elasticity of demand of 0.04 and a price elasticity of 0.3 for tea in the U.K. market.⁵ This meant that once the pre-war levels of *per caput* consumption were reached, the consumption of tea in these countries would not grow at a rate much faster than their rates of population growth.

In the U.S.A. and countries of continental Western Europe the consumption of tea is very low as compared with the U.K. But these countries are predominantly coffee-drinking and, at high income levels, habit rather

⁴ According to the estimates of the Commonwealth Economic Committee, *per caput* yearly consumption of tea in the U.K. was 9.3 lb. in 1934-8; it was 8.5 lb. in 1950. In Australia, as against pre-war consumption of 6.9 lb. per person, the consumption in 1950 was 6.8 lb. See their annual *Review of Plantation Crops*, 1958, p. 50.

⁵ Richard Stone, *Measurement of Consumer's Expenditure and Behaviour in the U.K. during 1920-38*. Cambridge, 1954, vol. I, p. 145.

than income and prices is the most important determinant of the consumption of a beverage. Actually, the fact that during the war tea was rationed in the U.S.A., while coffee was not, must have led to some further shift in tastes in favour of coffee.⁶ Thus the chances of any significant expansion of demand for tea in these countries were also not very bright. The pre-war levels of *per caput* consumption having been reached by the mid-fifties, there was bound to be a slowing-down of the rate of growth of consumption and imports into the high income countries regardless of prices of tea.⁷

Thus the fact that the consumption of tea in high income countries accounting for about 75 per cent of world imports has not increased significantly beyond the pre-war levels must be ascribed to factors that the exporting countries could do little to modify. Professor Stone's study, referred to earlier, brought out clearly that at high income levels the income elasticity of demand for tea is negligible. His study also suggested that though some price-substitution relationships existed between tea on the one hand, and coffee and beer on the other, they were not very significant.⁸ As already noted above, even the own price elasticity of demand for tea was observed to be very low in the U.K. This should lead to a conclusion that the factors affecting tea

⁶ In the U.S.A., *per caput* annual consumption of tea was estimated at 0.7 lb. before the war. It recovered to that level by 1954 but seems to have stabilized at 0.6 lb. a year in the later years. In continental Western Europe tea is a popular drink only in the Netherlands, but even in that country annual *per caput* consumption of 1.8 lb. in the late fifties was considerably lower than the pre-war level of 2.9 lb. Commonwealth Economic Committee, *Annual Review of Plantation Crops*, 1960, p. 59.

⁷ In the U.K. *per caput* annual consumption of tea in the late fifties was slightly higher than the pre-war level of 9.3 lb. *Per caput* consumption has been estimated at 10.1 lb. in 1956, 9.8 lb. in 1957 and 9.9 lb. in 1958. But in Australia and Canada *per caput* consumption in recent years was lower than the pre-war level. As against an estimated consumption of 6.9 lb. in the pre-war years, *per caput* consumption in Australia was 5.9 lb. in 1956, 6.2 lb. in 1957 and 6.0 lb. in 1958. In Canada, as against the pre-war level of 3.5 lb., *per caput* consumption since 1954 has moved in the range 2.6–2.9 lb. Source: Commonwealth Economic Committee's *Annual Review of Plantation Crops*, 1960, p. 58.

⁸ Prof. Stone put the price elasticity of demand for tea at -0.3 for the U.K. for the period 1920–38. Elasticity of substitution with respect both to coffee and beer prices was found to be 0.1, but neither of the last two coefficients was statistically significant. *Op. cit.*, p. 146.

Table IV.4 Indices of Deflated World Wholesale Prices of Coffee, Cocoa, and Tea (1934-8 = 100)

	Coffee	Cocoa	Tea
1934-8	100	100	100
1950	263	260	122
1951	254	264	88
1952	260	271	66
1953	283	288	94
1954	384	448	146
1955	277	289	95
1956	273	204	104
1957	260	222	90
1958	218	317	93

Note: The FAO indices of wholesale prices of the three commodities were deflated by the U.S. Wholesale Price Index in the case of coffee and cocoa, while for tea the U.K. wholesale price index was adopted as a deflator.

Source: *The World Coffee Economy*, published by the Coffee Study Board, Washington, 1960. Available in a mimeographed form in the Institute of Agricultural Economics, Oxford.

consumption in the developed countries originated outside the policies pursued by the exporting countries. In any case, as Table IV.4 brings out, not only has the price of tea in the post-war years risen only moderately relative to the price level in general, but tea has also remained relatively cheaper than both coffee and cocoa in the post-war years as compared with the pre-war.

D. INDIA'S FALLING SHARE

While the pricing policies of exporting countries could not have done much to raise the consumption of tea in the developed countries beyond its present level, there is no doubt that Indian policies contributed to the fact that while Ceylon firmly held on to her relative share of 1948-50 in the later years, India's relative share of world exports tended to fall after 1951. During the last decade, as we have observed earlier, Indonesian Exports recovered only to a small extent. Exports from Africa, however, increased rapidly. Why did the growth of African production and exports hit India harder than Ceylon? The following pages throw light on this question.

One universal complaint in India is that in the post-war years costs of producing tea in India have risen much faster than in other countries. The

actual calculation of costs of production and a comparison of costs of different exporting countries is beyond the resources of any individual research worker. However, some indirect evidence is available which may throw some light on the cost trends and will be utilized here (all its limitations being borne in mind).

In an industry with a high labour factor, such as tea, labour costs are the most important single constituent of the cost of production.⁹ We can, therefore, get some idea of the trends in costs by following the behaviour of labour earnings in tea plantations. Of course, for cost calculations and comparisons we need to look at 'efficiency wages' rather than money wages; but in an industry where production techniques have changed little, and are also surprisingly uniform in different countries, it may not be too far wrong to assume that the trends in labour earnings also reflect the behaviour of labour costs per unit of output. Thus it is not too wild an exercise to compare the trends in costs of production in India and Ceylon on the basis of their respective wage costs. In both countries production techniques and management practices are similar, largely because of the common foreign ownership of tea plantations in both countries.

In the pre-war days costs of production were somewhat higher in Ceylon than in India; and during the Second World War also they rose faster in Ceylon than in India. This is brought out by Table IV.5 which gives prices paid

Table IV.5 Average Annual Prices Paid by the U.K. Government to Tea Producers of Various Countries (*Pence per lb.*)

	North India	Ceylon	British East Africa
1942-3	14½	17	13½
1943-4	17¼	19¾	13½
1944-5	17¼	20	14¼
1945-6	18¼	22½	14¼
1946-7	18¼	22½	14¼

Source: Report of the International Emergency Food Council, Washington, D.C., 1947, p. 104.

⁹ According to a team of Government accountants who examined costs of tea production in India, wage costs, including medical and other welfare expenses, formed 38 per cent of total costs of production in North India and 45 per cent in South India. See *Report of the Plantation Enquiry Commission*, vol. 1, New Delhi, 1956, p. 99.

to tea producers by the U.K. Ministry of Food during the war. Since these prices were based directly on the estimates of the pre-war costs plus an allowance for a subsequent rise thereof, the prices paid to the producers in different countries also reflected the relative state of their costs of production.

While during the war costs of production rose faster in Ceylon¹⁰ than in India, the process seems to have been reversed in the post-war years if the figures of earnings of workers on tea plantations in the two countries, shown in Table IV.6, are to be relied upon. The two sets of figures are not strictly comparable because, while the Indian figures refer only to average cash earnings, the Ceylonese figures refer to complete wages.¹¹ However, the

Table IV.6 Earnings of Workers on Tea Plantations in Assam and Ceylon

	A. Assam		B. Ceylon	
	1	2	1	2
	Average Monthly Cash Earnings of Settled Male Workers. Rupees	Index of Earnings 1948 = 100	Average Daily Earnings of Male Workers. Rupees	Index of Earnings 1948 = 100
1948	19.27	100	1.70	100
1949	21.78	113.0	1.72	101.2
1950	20.43	106.0	1.96	115.3
1951	22.49	116.7	2.40	141.2
1952	21.09	109.4	2.36	138.8
1953	34.15	182.4	2.48	145.9
1954	40.71	211.2	2.50	147.1
1955	46.12	239.3	2.55	150.0
1956	47.48	246.4	2.54	149.4
1957	49.23	255.4	2.59	152.4
1958	45.46	235.8	2.61	153.5

Ceylon: *I.L.O. Yearbook of Labour Statistics*, 1956 (p. 277) and 1959 (p. 374).

Source: India: *Indian Yearbook of Labour Statistics*, 1961, p. 78.

¹⁰ Wages on the average are still lower in India than in Ceylon, but the plucking season in India is of much shorter duration than in Ceylon. In Ceylon plucking all the year round is common; in India it is not.

¹¹ According to the report of the Plantation Enquiry Commission, 1956, non-monetary benefits formed about 17 per cent of the cash earnings in the North India plantations. See the Commission's *Report*, vol. I, New Delhi, 1956, p. 99.

broad conclusion suggested by the above figures that wages in India have risen faster than in Ceylon since 1948 is not invalid. Whereas the average daily earnings of adult male workers on tea plantations in Ceylon rose by about 54 per cent from 1948 to 1958, over the same period average monthly cash earnings in Assam went up by about 136 per cent.

As a result of the above changes in costs of production Ceylon's competitive position must have been strengthened relative to India's. This is one possible explanation of Ceylon's superior export performance as compared with India's in the post-war years.

Both India and Ceylon suffer from a cost disadvantage relatively to East African producers. For the war years this was brought out in Table IV.5 which gave average prices paid by the U.K. Government to producing countries during the war. African producers have not lost their earlier cost advantage over India in the post-war years. Production costs in Africa were estimated at 14 to 21 pence per pound in the mid-fifties. The costs for the comparable Indian teas may be between 27 and 31 pence per pound.¹²

The growth of African exports in the last decade was bound to affect India's exports more than those of Ceylon. This is because a much larger proportion of the Indian output and exports (over 60 per cent) consists of common teas, the same as are exported from Africa. On the other hand a much smaller part of the Ceylonese exports (about 33 per cent) consists of common teas. Since there is a very restricted competition between common teas and high grade teas, the growth of African exports, from 15.8 thousand tons in 1951 to 41.3 thousand tons in 1960, was bound to affect India's exports more than Ceylon's (*vide* Table IV.1).

To this outcome Government policies in India were also a contributory factor. Exports of tea from India are subject to an export duty as well as an export cess.¹³ Together, these levies accounted for 10–15 per cent of export prices of tea in the last decade, as is brought out in Table IV.7. No doubt in fixing the rates of such duties India tried to keep in step with Ceylon. But they further weakened India's competitive ability relative to the East African countries whose output competes more against Indian exports than against Ceylon's.

In addition, throughout the period under study, exports of tea from India were subject to over-all quantitative limits as well as the allotment of quotas

¹² FAO. *Tea—Trends and Prospects*, Commodity Bulletin 30, Rome 1960, p. 44.

¹³ Export duty was abolished in 1963.

Table IV.7 Average Annual Prices of Tea with Export Rights at Calcutta Auctions (Excluding Export Duty and Cess) and Export Levies (*Rupees Per lb.*)

	1951	1952	1953	1954	1955	1956	1957	1958	1959
Average Auction Price	1.83	1.40	1.99	3.10	2.09	2.39	2.13	2.18	2.29
Export Duty and Cess	0.27	0.27	0.27	0.32	0.50	0.43	0.40	0.38	0.26

Source: International Tea Committee, *Annual Bulletin of Statistics*, June 1960, p. 49. Further notes in the appendix on Sources and Methods.

for individual exporters. If we look at the figures of quota allotments and actual exports since 1950 (Table IV.8), we find that in every single year the actual exports were lower than the authorized exports. From these figures one may infer that the export control has had no adverse effect on the export performance in the past. This is, however, not wholly true. For the way in which the quota rights were distributed to the exporters often raised the marginal costs of exports to some of them. Quotas were given to every producer of tea on the basis of his production rather than on the basis of his export performance. Those who wanted to export more tea than permitted by their original quota rights had, therefore, to purchase export rights from those quota holders who did not want to utilize them. There was a regular market where such quota rights were traded. As Table IV.9 brings out, quota prices before 1958 were often high enough to have involved some considerable discrimination against marginal exports of tea by those who exported more than their official quotas.

That a sufficiently long-term perspective was missing in the past regarding tea exports should be obvious from the above two examples. Presumably the

Table IV.8 Export Quota and Actual Exports of Tea from India (*Million lb.*)

Year	Quota	Actual Exports	Year	Quota	Actual Exports
1950-1	513.1	444.5	1955-6	498.9	401.1
1951-2	516.2	418.7	1956-7	538.9	501.1
1952-3	543.2	422.9	1957-8	498.2	417.3
1953-4	480.5	467.2	1958-9	569.0	457.2
1954-5	474.6	444.7	1959-60	563.1	453.3
			1960-1	519.6	262.3

Source: *Tea Statistics*, 1959 (p. 45) and 1960 (p. 59) published by the Indian Tea Board, Calcutta.

Table IV.9 Average Annual Prices of Quota Rights and Export Prices of Tea at Calcutta Auctions (*Rupees per lb.*)

	1954	1955	1956	1957	1958	1959	1960
Average Quota Price	0.54	0.39	0.16	0.21	0.08	0.02	0.05
Average Export Price	2.86	2.55	2.15	2.23	2.14	2.17	2.38

Note: To make them comparable to the quota prices, average annual export prices of tea in the present table relate to the calendar years. Those of Table IV.7 related to the fiscal years.

Source: *Annual Tea Statistics*, 1959 (pp. 16, 46) and 1960 (pp. 20, 58) published by the Indian Tea Board.

authorities imposing such burdens did not think that they would adversely affect India's exports. They may well have taken the view that because of India's important position in the world market for tea such burdens could be passed on to the foreign consumer without much adverse effect on India's export receipts, in view of the known inelasticity of foreign demand for tea. This view, however, ignores the long-run consequences of such measures. Even if these burdens could be passed on to foreign consumers in higher prices, in the long run they encourage the growth of production in new areas and also in the existing rival sources of supply. That an excessive preoccupation with profit maximization in the short run may well conflict with the long-run interests of a producer is well recognized by producers operating the oligopolistic markets. That consideration is equally relevant in the present case.

Enough has already been said about the disincentives to exports from India in the period under review. For the rest a rapidly growing domestic demand sapped the remaining incentives on the part of the tea industry to take a more vigorous interest in export promotion. As Table IV.10 brings out, the domestic consumption of tea has risen faster than exports in the post-war period. As a result, the percentage of output that was exported fell from 71.7 per cent in 1948-50 to 65.6 per cent in 1950-60.

The fact that the production of tea in India has risen faster than exports has been interpreted by Dr. S. J. Patel as sufficient evidence that exports have been limited by a lack of foreign demand.¹⁴ We have already observed that

¹⁴ S. J. Patel, 'Export Prospects and Economic Growth', *Economic Journal*, September, 1959, p. 495.

Table IV.10 Exports and Production of Tea in India (*Annual Averages in 000 Metric Tons*)

	1934-8	1948-50	1955-7	1958-60
Exports	156.7	191.6	201.9	212.5
Production	178.0	267.1	309.1	323.9
Export-Production Ratio (%)	88.0	71.7	65.3	65.6

Source: For exports—Table IV.2. For production—*Tea Statistics*, 1960, p. 4 (published by the Indian Tea Board).

though there were no unlimited opportunities to increase Indian exports the fact that India's relative share of world exports has tended to fall since 1951 does suggest that the export performance cannot be entirely explained in terms of a lack of foreign demand. Besides, although it is true that for want of adequate attention to quality some varieties of common teas exported from India are increasingly becoming unsaleable abroad, yet there is no strong evidence that the increasing quantities of tea unloaded on the home market have represented 'distress sales'. As is brought out in Table IV.11, internal markets have generally been firm and have grown in profitability over the last decade. Of course too much should not be read into this table; because since the bulk of Indian production is sold abroad export prices set the tone for internal prices as well. Nevertheless, the trend of internal prices is an indication of the strength of domestic demand. Tea sold as exports is generally superior in quality to that sold for internal consumption. The above shows not only that the home sales did not represent 'distress sales' but also that there is no evidence that the quality premium enjoyed by export sales is becoming wider.

Among the factors leading to a fast rise in domestic consumption of tea government policies were again contributory. Throughout the period under investigation excise duties were lower than the combined incidence of the export duty and the export cess on tea. This is brought out in Table IV.12. Apart from the fact that the export levies on tea had a higher incidence than the central excise duty, tea was perhaps the only major export commodity in which the Government did not allow a refund of the excise duty on the output exported.

The expanding domestic demand need not have been an occasion for a slackening of interest in exports if the production of tea had risen at a still faster rate than domestic consumption. As we saw above tea production in

Table IV.11 Comparison of Average Annual Export Prices and Prices Realized at Internal Auctions at Calcutta (*Rupees per lb.*)

Year	Export Prices	Internal Prices	Difference
1948	1.65	1.48	0.17
1949	1.94	1.50	0.44
1950	2.06	1.70	0.36
1951	1.83	1.69	0.14
1952	1.40	1.35	0.05
1953	1.99	1.80	0.19
1954	3.10	2.46	0.64
1955	2.09	1.99	0.10
1956	2.39	2.14	0.25
1957	2.13	1.89	0.24
1958	2.18	1.99	0.19
1959	2.29	2.13	0.16

Source: International Tea Committee, *Annual Bulletin of Statistics*, June 1960, p. 49. Figures relate to fiscal years beginning 1 April.

Table IV.12 A Comparison of Export Duty (Including Export Cess) and Central Excise Duty on Tea, as on 1 January of a Year (*Rupees per lb.*)

Year	Export Levies	Central Excise Duty
1950	0.27	0.19
1951	0.27	0.19
1952	0.27	0.19
1953	0.27	0.19
1954	0.27	0.06 on loose tea 0.25 on packet tea
1955	0.48	0.06 on loose tea 0.25 on packet tea
1956	0.42	As in 1955
1957	0.54	As in 1955
1958	0.42	As in 1955
1959	0.28	0.02 to 0.10 on loose tea 0.25 on packet tea
1960	0.26	0.02 to 0.12 on loose tea 0.21 on packet tea

Source: Indian Tea Board, *Tea Statistics*, 1959 and 1960 issues.

India increased by about 21 per cent between 1948–50 and 1958–60. A large part of the additional production was, however, a result of coarser plucking rather than of new planting. This led to a deterioration in the quality of tea produced and is one explanation why some of the common teas grown in India have been increasingly difficult to sell abroad in recent years. However, the fact that the expanding home market could readily absorb even the inferior quality teas weakened any incentive that the industry may have had otherwise in planting new, superior varieties of plants.

The Plantation Enquiry Commission of 1956 which examined the working of the tea plantations in India found a sad neglect of replanting on the part of tea companies, more so in the case of foreign-owned than the Indian-owned companies. According to the Commission's findings about 30 per cent of the total area under tea in India in 1956 was in need of immediate replantation, having been planted before 1900. In Darjeeling, which produces some of the finest tea in India, 79 per cent of the area was in need of immediate replantation.¹⁵ As against such vast needs of replantation the actual pace of replantation has been less than 1 per cent a year in the post-war years. In fact the foreign-owned tea plantations have shown but a faint degree of confidence in the industry's future. All these years they have been expecting that soon the world would have more tea than it could absorb. The industry's psychology, therefore, has hardly been conducive to expansion. In such an environment an expanding domestic demand, unaccompanied by a proportionate increase in production, was bound to have some adverse effect on the country's export performance.

SUMMARY

To sum up, the following major conclusions emerge from our analysis of India's tea exports from 1948–50 to 1958–60:

1. The course of world trade in tea has been largely determined by the fact that at high income levels tea tends to have a negligible income elasticity of demand. The fact that the high income countries account for about 75 per cent of world imports means that the world trade in tea is dominated by the trend in tea consumption in these areas. There is no evidence that the pricing policies pursued by the major exporting countries could have

¹⁵ *Vide* their report, vol. 1, New Delhi, 1956, p. 62.

done much to alter the course of events. In fact tea has been relatively cheaper than both coffee and cocoa in the post-war years.

2. There is, however, plenty of evidence that some of the policies pursued by India contributed to a steady reduction in India's relative share of world exports. Policies with respect to the levy of export duties, export control, and excise duties lacked a long-term perspective. Between 1948-50 and 1958-60 the average annual volume of Indian exports rose by about 11 per cent. Over the same period the average annual volume of world exports rose by about 28 per cent while the exports of Ceylon, India's major rival, went up by about 35 per cent.¹⁶

¹⁶ I hope I have provided a satisfactory solution to the controversy that arose between S. J. Patel and Anne Krueger with respect to tea exports of India (see the latter's comments on Patel's article in the *Economic Journal*, June 1961, pp. 436-41). It is not true that there were unlimited opportunities for India to increase exports of tea over the past decade. However, if India had held on to her relative share of 1948-50 in the later years her exports of tea during 1958-60 would have been about 15 per cent higher than they actually were.

V

Cotton Textiles

A. TRENDS, 1948-60

Next to jute manufactures and tea, cotton textiles are the most important source of export earnings for India. In the last decade they contributed 10-13 per cent of India's total annual export receipts. India is now a major exporter of cotton textiles in the world. However, her rise as an important exporter of cotton textiles is only a post-war phenomenon. Before the Second World War India was a heavy net importer of cotton textiles.

Table V.1 presents a statistical picture of world trade in cotton textiles (tissues, yarn, and other manufactures) from 1948 to 1960. It also depicts the behaviour of exports from the major exporting countries in the world, namely India, Japan, the United Kingdom, and the U.S.A.

Table V.2 summarizes the salient results of Table V.1 in a more convenient form.

The following facts emerge from an examination of these tables:

1. In terms of their value Indian exports from 1951 to 1960 ruled in every year except 1951 at a level lower than the average annual value of exports of cotton textiles for the three-year period 1948-50. The average annual value of exports during the three-year period 1958-60 was 21 per cent lower than the corresponding value during 1948-50.
2. Taking tissues, yarn, and other manufactures together we find that the volume of Indian exports from 1951 to 1960 fluctuated at a level somewhat higher than that of the 1948-50. The average annual volume during 1958-60 was 4.5 per cent higher than the corresponding volume during 1948-50. Over the same period exports of tissues went up by 16 per cent, those of yarn fell by 43 per cent and those of other manufactures rose by 15.7 per cent.

Table V.1 Exports of Cotton Textiles (Tissues, Yarn, and Other Manufactures) from India, Japan, U.K., U.S.A. and World Totals (000 Metric Tons) with Relative Shares of These Countries, 1948-60

A. All-Cotton Textiles												
Value of Indian	1948-50	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1958-60
	(Annual av.)											(Annual av.)
Exports (Million Rupees)	837.7	943.7	741.1	638.4	723.2	637.2	622.8	749.4	575.8	716.8	689.7	660.8
VOLUME												
World	839.7	989.8	800.3	795.8	876.3	832.2	876.7	946.3	852.7	983.8	1,132.3	989.6
India	94.8	103.5	81.0	86.4	116.7	97.0	93.5	113.0	89.8	113.9	93.5	99.1
Japan	94.7	131.1	101.4	114.5	151.8	141.2	149.8	176.6	153.0	160.4	204.9	172.8
U.K.	148.7	154.5	114.9	118.7	115.0	101.8	92.9	92.9	77.8	72.3	66.9	72.3
U.S.A.	125.9	133.3	110.2	95.8	95.0	84.3	81.2	90.0	78.7	73.2	70.2	74.0
RELATIVE SHARES												
(Per cent)												
India	11.3	10.5	10.1	10.8	13.4	10.4	10.7	11.9	10.5	11.6	8.3	10.0
Japan	11.3	13.2	12.6	14.4	17.3	16.9	17.1	18.7	17.9	16.3	18.1	17.5
U.K.	17.7	15.7	14.4	15.0	13.1	12.3	10.6	9.8	9.1	7.3	5.0	7.3
U.S.A.	15.0	13.4	13.7	12.1	10.8	10.1	9.2	9.5	9.2	7.4	6.2	7.5

(Cont'd)

Table V.1 (Cont'd)

B.—Volume of Exports of Tissues, Yarns and Other Cotton Textiles Separately

	1948-50 (Annual av.)	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1958-60 (Annual av.)
A. TISSUES												
World	589.4	698.1	571.5	575.9	626.9	589.3	626.6	683.9	607.3	684.0	767.1	686.1
India	71.1 (12.1)	86.4 (12.4)	66.6 (11.6)	73.3 (12.7)	96.8 (15.4)	83.4 (14.2)	83.0 (13.2)	99.6 (14.6)	70.1 (11.5)	96.4 (14.1)	81.0 (10.6)	82.5 (12.0)
Japan	81.7 (13.9)	110.8 (15.9)	78.3 (13.5)	93.4 (14.6)	124.8 (19.9)	117.7 (18.9)	123.0 (19.3)	147.0 (21.5)	128.2 (21.1)	134.7 (19.7)	151.7 (19.8)	138.2 (20.1)
B. YARN												
World	173.0	195.0	143.2	127.8	136.3	135.4	146.8	157.6	141.6	184.0	239.3	188.3
India	18.7 (10.8)	11.9 (6.1)	9.0 (6.3)	7.6 (6.0)	3.7 (2.7)	8.3 (6.2)	5.5 (3.1)	7.5 (4.7)	14.3 (10.1)	11.1 (6.0)	6.5 (2.7)	10.6 (5.6)
Japan	8.8 (5.1)	12.2 (6.3)	12.9 (9.0)	9.1 (7.1)	12.6 (9.2)	10.5 (7.8)	11.2 (7.6)	13.5 (8.6)	10.0 (7.1)	9.4 (5.1)	37.2 (15.5)	18.9 (10.0)
C. OTHERS												
World	77.2	96.7	85.6	92.1	113.1	107.5	103.3	104.8	103.8	115.6	125.9	115.1
India	5.1 (6.6)	5.2 (5.4)	5.4 (6.3)	5.5 (5.9)	16.2 (14.3)	5.3 (4.9)	5.0 (4.8)	5.9 (5.6)	5.4 (5.2)	6.4 (5.5)	6.0 (4.8)	5.9 (5.1)
Japan	4.2 (5.4)	8.1 (8.4)	10.2 (11.9)	12.0 (13.0)	14.4 (12.7)	19.0 (17.7)	15.6 (15.1)	16.1 (15.3)	14.8 (14.3)	16.4 (14.2)	17.0 (13.5)	16.1 (13.9)

Note: Figures in brackets are relative shares of India and Japan respectively.

For sources and methods please refer to the appendix on Statistical Sources and Methods.

Table V.2 Exports of Cotton Textiles: India and World
(Annual Averages, Volume in 000 Metric Tons)

	1948-50	1955-7	1958-60	Per cent Change 1948-50 to 1958-60
1. India's Exports:				
Value (Million Rs)	837.7	669.8	660.8	-21.1
Volume:				
All-Cotton Tex.	94.8	101.2	99.1	4.5
Tissues	71.1	88.7	82.5	16.0
Yarn	18.7	7.1	10.6	-43.3
Other	5.1	5.4	5.9	15.7
2. World Export Volume:				
All-Cotton Tex.	839.7	885.1	989.6	17.9
Tissues	589.5	633.3	686.1	16.4
Yarn	173.0	146.6	188.3	8.8
Other	77.2	105.2	115.1	49.1
3. India's Relative Share (%):				
All-Cotton Tex.	11.3	11.4	10.0	
Tissues	12.1	14.0	12.0	
Yarn	10.8	4.8	5.6	
Other	6.6	5.1	5.1	

Note: As a result of rounding up, the parts do not exactly add up to the aggregate totals.

Source: Table V.1.

- Over the period under study world exports of cotton textiles also increased only modestly. However, they rose faster than Indian exports. Between 1948-50 and 1958-60 the average annual volume of world exports of all cotton textiles increased by 17.9 per cent, that of tissues went up by 16.4 per cent, of yarn by 8.8 per cent and of other manufactures by 49.1 per cent.
- From the above facts it is clear that one of the factors affecting Indian exports during this period was the sluggishness of world exports in cotton textiles. However, it is equally clear that India's competitive position also tended to weaken, as is witnessed by a fall in her relative share of world trade. Had India's relative share of world exports in 1958-60 been the same as during 1948-50, her export volume in 1958-60 would have been about 13 per cent higher than its actual level.

5. The fifties was a period when erstwhile exporters of cotton textiles like the U.S.A. and the U.K. were willing to see their relative shares of world exports fall from their previous levels. It was, therefore, possible for India to raise her relative share of world exports further during the last decade. While India failed to cash in on this opportunity, Japan effectively seized it, and steadily enlarged her relative share of world trade (Table V.1). Starting from the same level of exports as India's during 1948-50 Japan managed to raise her exports by 82.5 per cent between 1948-50 and 1958-60. In the process her relative share of world exports went up from 11.3 (same as India's) in the earlier period to 17.5 per cent in the latter (while India's fell to 10 per cent). Perhaps Japan is more experienced as an exporter of cotton textiles than India (although experience has not been of much help to the U.K.). But even tiny Hong Kong managed to raise her exports by over 100 per cent over the same period (from 30 thousand tons a year in 1948-50 to 62.1 thousand tons in 1958-60)¹ and her exports during 1958-60 had reached 63 per cent of Indian exports during the same period. Hong Kong supplied 6.3 per cent of world exports of cotton textiles during 1958-60. Further, Pakistan, which did not have a textile industry worth the name in 1947, has, within a decade, become a net exporter of cotton textiles. Since 1959 Pakistan has become the world's largest exporter of cotton yarn, supplying about 23 per cent of world exports of cotton yarn in 1959 and 21 per cent in 1960. It is, therefore, clear that while the stagnation of world trade in cotton textiles is one possible explanation of India's export performance during 1951-60 it is by no means the whole explanation. At a time when previously large exporters like the U.K. and the U.S.A. were willing to see their relative shares fall, a more vigorous export drive on the part of India would have resulted in an increase in her relative share of world exports. India, however, failed even to hold on to her relative share in 1948-50. For the purpose of analysis as well as for assessing the export prospects (to which Chapter X of this study is devoted) it is necessary to analyse not only the causes of the relative stagnation in world trade in cotton textiles but also the specific domestic factors in India which prevented her from fully exploiting the available opportunities.

¹ For sources please refer to the appendix on Sources and Methods, where the sources of figures used in this chapter are explained.

B. INTERNATIONAL TRADE STAGNATION, 1948-50 TO 1958-60

World exports of cotton textiles during 1958-60 were no doubt higher than 1948-50. But this expansion, modest as it was, was sustained only because the previous net exporters like the U.K. and the U.S.A. were willing to import more cotton textiles from Asian net exporters (Japan, Hong Kong, and India). Thus it was the trade among net exporting countries themselves that was responsible for an increase in the volume of world exports from 1948-50 to 1958-60. Imports into net importing areas in fact fell over the period, as is brought out in Table V.3.

Thus from this Table, we find that imports into the traditionally net-importing areas fell by 2.2 per cent between 1948-50 and 1958-60; and the decline would have been 7.4 per cent if the industrial net-importing countries of Western Europe and Canada were excluded. Had it not been for a 100 per cent

Table V.3 Imports of Cotton Textiles into Net Importing and Net Exporting Areas
(Annual Averages, Volume in 000 Metric Tons)

	1948-50	1958-60
1. Net Importers:		
A. Primary Producers		
Africa	174.7	180.8
Latin America	68.2	54.4
Near East	65.7	53.2
Oceania	40.4	53.4
Net Importing Far East	240.4	204.1
Total Primary Producers	589.4	545.9
B. Industrial Net Importers:		
Canada	23.0	37.9
Net Importers of West. Europe	57.1	70.9
Total Indus. Net Importers	80.1	108.8
Total Imports of all Net Importers	669.5	654.7
2. Net Exporters:		
U.S.A.	7.8	47.0
9 Net Exporters of Western Europe	103.8	196.1
Far East Net Exporters	38.4	57.9
Total Imports of all Net Exporters	150.0	301.0

For Sources and Methods of compilation please refer to the appendix on Statistical Sources.

rise in trade among the net-exporting countries themselves the world trade in cotton textiles in 1958–60 would have been lower than in 1948–50. As is well known, imports from Asian net-exporting countries to the U.K. and the U.S.A. expanded rapidly over the last decade. It was this development that imparted a modest expansionary bias to an otherwise declining volume of world trade in cotton textiles after 1950.

The fact that world trade in cotton textiles did not grow significantly after 1950 must, therefore, be ascribed to developments in the net-importing areas of the world. There are two main reasons for this outcome, the second being of much greater importance than the first. First, there has been a growing use of non-cotton textiles in place of cotton textiles. Second, there has been the growth of import substitution in the net-importing areas—the growth of import substitution being defined as a fall in the share of net imports in the total supplies available for home use.

That the share of cotton textiles in total consumption of all textiles has been falling for many years is brought out in Table V.4 which gives the relative share of cotton in total textile consumption for all the net-importing areas of the world. Its main conclusions are summarized in Table V.5. Taking all the net-importing regions consumption of all textiles went up by 48.1 per cent between 1948–50 and 1958–60. The consumption of cotton textiles, however, increased only by 36.1 per cent over the same period. As a result the relative share of cotton fell from about 73 per cent in the earlier period to about 67 per cent in the latter.

By far the most important development affecting the world trade in cotton textiles has been a steady growth of import substitution in the importing areas of the world. This is brought out in Table V.6 where we give the ratios of net imports in the total apparent consumption of cotton textiles for all the net importing regions from 1948 to 1960. Table V.7 summarizes the main findings of Table V.6.

Taking all the net-importing areas we find that the share of net imports in total apparent consumption of cotton textiles fell from 41.5 per cent in 1948–50 to 18.4 per cent in 1958–60. It is this fact that explains why a rise of 36.1 per cent in the average annual apparent consumption of cotton textiles in these areas was accompanied by an absolute fall in their imports of cotton textiles between 1948–50 and 1958–60. Import substitution is, however, a phenomenon of much longer duration. This is explained by the fact that the share of world exports of cotton textiles in total world consumption of cotton textiles fell from 14.1 per cent in

Table V.4 Consumption of Cotton and All Textiles in Net Importing Regions and Relative Share of Cotton Textiles in Total Textile Consumption, 1948-60 (*Volume in 000 Metric Tons*)

A. All Textiles (000 Metric Tons)												
	1948-50 (Average)	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1958-60 (Average)
Africa	240.3	292.0	273.0	307.0	335.0	350.0	345.0	404.0	372.0	357.0	383.0	370.7
Latin America	620.0	658.0	644.0	650.0	719.0	770.0	804.0	843.0	809.0	842.0	886.0	845.7
Near East	226.0	252.0	286.0	289.0	336.0	356.0	353.0	387.0	409.0	431.0	425.0	421.7
N.I. Far East	329.0	414.6	432.0	431.2	497.0	539.8	617.2	590.2	578.0	589.0	678.0	615.0
N.I.W. Europe	304.0	353.1	289.2	310.3	321.4	343.7	356.9	381.5	369.0	399.0	422.0	396.7
Oceania	111.3	128.0	114.0	65.0	121.0	127.0	119.0	111.0	125.0	131.0	148.0	134.7
Canada	178.1	196.1	172.7	184.9	162.8	193.6	199.3	195.7	178.2	207.9	194.5	193.5
B. Consumption of Cotton Textiles (000 Metric Tons)												
Africa	190.0	212.0	207.0	221.0	244.0	230.0	209.0	229.0	225.0	228.0	249.0	234.0
Latin America	472.0	484.0	481.0	483.0	534.0	580.0	606.0	614.0	610.0	630.0	667.0	635.7
Near East	169.0	191.0	218.0	215.0	248.0	266.0	262.0	282.0	305.0	319.0	310.0	311.3
Far East	292.8	352.4	356.0	376.7	428.2	454.4	516.0	502.3	490.0	501.0	584.0	525.0
W. Europe	171.8	200.3	167.3	172.5	175.6	184.4	193.2	207.3	105.0	214.0	225.0	214.7
Oceania	55.3	65.0	64.0	33.0	66.0	69.0	64.0	59.0	68.0	72.0	82.0	74.0
Canada	114.5	126.1	104.6	108.9	96.7	113.4	117.6	115.4	103.4	114.6	109.6	109.2

(Cont'd)

Table V.4 (Cont'd)

C. Share of Cotton in Textile Consumption (Per cent)													
Africa	79.1	72.3	72.1	72.0	68.7	65.7	60.5	56.6	60.5	63.9	65.0	63.1	
Latin America	76.1	73.5	74.6	74.3	75.3	74.2	75.3	72.8	75.4	74.8	76.4	75.2	
Near East	82.0	75.8	76.2	74.4	73.8	74.7	74.2	73.6	74.6	74.0	73.0	73.8	
N.I. Far East	89.0	84.8	82.4	87.4	86.1	84.0	83.6	85.1	84.8	85.1	86.2	85.4	
N.I.W. Europe	56.4	56.6	57.7	55.8	54.8	53.4	54.0	54.2	55.6	53.6	53.3	54.1	
Oceania	49.7	50.7	65.1	50.7	54.5	54.3	53.7	53.1	56.0	55.0	55.4	54.9	
Canada	64.3	64.2	60.7	58.9	60.0	58.2	59.2	58.6	57.9	55.3	56.4	56.4	

Notes: 1. N.I. Far East is Far East excluding net exporters, i.e., excluding India, Japan, Mainland China and Hong Kong.

2. N.I.W. Europe (Net Importing Western Europe) is Western Europe excluding 9 net exporters of cotton textiles, i.e., excluding U.K., W. Germany, France, Italy, Belgium, Netherlands, Switzerland, Spain and Portugal.

For sources please refer to the appendix on Sources and Methods.

Table V.5 Relative Share of Cotton in Consumption of all Textiles
in Net-Importing Areas (*Per cent*)

	1948-50	1958-60
Africa	79.1	63.1
Latin America	76.1	75.2
Near East	82.0	73.0
Net Importing—Far East	89.0	85.4
Oceania	49.7	54.9
Canada	64.3	56.4
Net Importing—West. Europe	56.4	54.1
All Net Importers	73.0	67.3

Source: Table V.4.

1938 to 12.4 per cent in 1948-50, and further to 9.94 per cent in 1958-60.²

That import substitution should proceed at such a fast pace is, of course, not surprising. Cotton textiles is an industry which lends itself most easily to import substitution. Its requirements of capital are much more modest than those of many other modern industries. Its demands for expensive technical skills are also not very rigorous, and in any case many countries have a tradition of hand-loom weaving, so that the learning of new techniques is not too difficult a process. It is an industry where economies of large scale are not very great, so that its introduction even to small countries with modest populations and *per caput* incomes is often a sound economic proposition. Further, it is an industry whose development is often not contingent on the creation of fresh demand. It can readily draw upon the existing demand by simply replacing imports (often helped by import duties and import quotas).

² Figures of estimated world exports and world production are as follows:

	1938	1948-50 (Annual Average)	1958-60 (Annual Average)
Exports (000 Metric Tons)	874.7	839.4	989.6
Production (000 Metric Tons)	6,200.0	6,526.0	9,961.3

For sources please refer to the appendix on Sources and Methods.

Table V.6 Cotton Textiles: Net Imports, Consumption, and Net Import Consumption Ratios, 1948-60, for Net Importing Regions of the World

A. Net Imports (000 Metric Tons)												
	1948-50	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1958-60 (Annual av.)
Africa	168.5	185.3	177.5	190.0	211.5	195.5	171.6	185.3	174.5	171.8	191.4	179.2
Latin America	57.0	45.2	54.9	46.9	52.1	49.9	53.9	59.7	52.9	49.4	52.5	51.6
Near East	50.5	42.1	52.4	46.5	48.8	42.8	27.8	30.7	23.7	29.2	5.4	19.4
Oceania	39.1	46.8	50.1	18.3	46.5	50.2	44.9	38.6	48.0	51.8	60.0	53.3
N.I. Far East	221.2	280.0	251.6	226.4	217.5	193.2	228.0	189.8	161.9	126.1	180.0	156.0
N.I. W. Europe	50.4	67.8	60.5	44.1	43.3	44.6	46.9	51.0	41.7	56.5	56.7	51.6
Canada	22.0	23.0	26.2	30.1	26.2	29.6	33.6	35.0	36.1	38.1	36.6	36.9
B. Net Import/Consumption Ratios (Per cent)												
Africa	88.7	87.4	85.7	86.0	86.7	85.0	82.1	80.9	77.5	75.4	76.9	76.6
Latin America	12.1	9.3	11.4	9.7	9.8	8.6	8.8	9.7	8.7	7.8	7.9	8.1
Near East	29.9	22.0	24.0	21.1	19.6	16.0	10.0	10.5	7.7	9.1	17	6.2
Oceania	70.7	72.0	78.2	55.4	70.4	72.7	70.1	65.4	70.0	71.9	73.2	72.0
N.I. Far East	75.5	79.5	70.9	60.0	50.9	42.5	44.1	37.8	33.0	25.2	30.8	29.7
N.I. W. Europe	29.3	34.0	36.5	25.4	24.4	24.4	24.3	24.6	20.3	26.4	25.2	24.1
Canada	19.2	18.2	24.7	27.5	26.8	26.5	28.8	30.4	34.9	33.2	33.4	33.8

Notes: 1. N.I. Far East is Far East exclusive of net exporters, i.e. excluding India, Mainland China, Japan, and Hong Kong.

2. N.I. W. Europe is Western Europe excluding 9 net exporters, i.e. excluding U.K., West Germany, France, Italy, Switzerland, Belgium, Netherlands, Spain, and Portugal.

For sources please refer to the appendix on Sources and Methods.

Table V.7 Relative Share of Net Imports in Consumption of Cotton Textiles in Net Importing Areas (*Per cent*)

	1948-50	1958-60
Africa	88.7	76.6
Latin America	12.1	8.1
Near East	29.9	6.2
Oceania	70.7	72.0
Net Importing Far East	75.5	29.7
Net Importing West. Europe	29.3	24.1
Canada	19.2	33.8
All Combined	41.5	18.4

Source: Table V.6.

No wonder that cotton textiles are an early favourite in programmes of industrial development in most underdeveloped countries. Cotton led the pace towards industrialization in India by displacing Lancashire from its position as the main supplier to India. The development of the cotton industry was particularly rapid in Latin America during the Second World War. In the post-war years, countries like Egypt, Turkey, and Pakistan have not only become self-sufficient but have also started exporting textiles in a short period of less than a decade. This is a process which is now under way in other Asian and African countries. As a result international trade in cotton textiles shows no strong upward trends.

Since the development of textile industries in underdeveloped countries is often a part of a wider process of industrialization it is extremely doubtful if the speed or the rigour of import substitution could be significantly modified by price-output policies of major exporters of cotton textiles. Therefore the stagnation of world trade in cotton textiles cannot be attributed in any simple manner to the policies of the exporting countries.

C. DOMESTIC FACTORS

We have already noted earlier that India's exports in the last decade failed to keep pace with the growth of world exports of cotton textiles. Another significant fact to be noticed is that the modest rise in the volume of Indian exports that took place over this period is more than accounted for by the fact that India's exports to the U.K. have grown rapidly in the last decade. Thanks

to the system of Commonwealth Preferences, the U.K. has become the largest single market for Indian textiles in recent years and accounted for 20–25 per cent of the total Indian exports of textiles in the late fifties. But the rapid rise in India's exports to the U.K. is only a recent phenomenon and dates back only to 1955. The average annual volume of Indian exports to the U.K. went up from 27.2 million sq. yards in 1948–50 to 173.2 million sq. yards in 1958–60.³ Had Indian exports to the U.K. not increased over the decade beyond their average annual level of 1948–50, the average annual volume of Indian exports in 1958–60 would in fact have been lower by 12.4 per cent than the corresponding volume during 1948–50. Japan on the other hand has steadily enlarged her exports despite the fact that she does not enjoy preferential treatment in any world market, and in fact, many countries discriminate against Japanese imports and have not accorded her the 'most favoured nation treatment' as the GATT members are normally required to extend to one another.

1. Favourable, Early Post-War Years

In order to get a proper perspective of India's export performance we ought to bear in mind that India's rise as a major exporter of cotton textiles in the early post-war years was due to some exceptionally favourable circumstances in that period. Some of them were bound to be of only temporary duration unless special efforts were made by India.

First, world demand for cotton textiles rose rapidly from 1948 to 1951. There was a large backlog of unsatisfied demand to be met in most countries—a product of war-time shortages, and consumers were eager not only to increase their current consumption of textiles but also to bring their stock of clothing to a more normal relationship with their current consumption than was possible during the war. This abnormal factor would soon have disappeared but for the Korean war. That war created fears of renewed shortages of cloth and induced both traders and consumers to indulge in stock-piling. On the supply side the early post-war period was too short to witness the development of new industries in the importing areas. In any case, new industries could not be established in the underdeveloped countries without supplies of imported machinery, and imports were not freely available as Europe's

³ Based on statistics published by the Cotton Board, Manchester, in its quarterly bulletins.

production was needed by the European industry itself to meet its own pressing rehabilitation needs. In such circumstances a rising demand for textiles in the importing areas had to be met mainly by higher imports. Hence there was a rapid rise in world exports of cotton textiles from 1948 to 1951, from an estimated 702.7 thousand tons to 989.8 thousand tons.⁴

Among the exporting countries India was in a particularly favourable position to meet the growing needs of importing countries in Asia and Africa. After the war, although textile output in all the major pre-war exporting countries recovered from the effects of the war, this recovery was not large enough to satisfy all the demands, domestic and foreign. From India's point of view, of particular significance was the inability of the British industry to expand its output fast enough on account of difficulties in recruiting its labour force. Within the sterling area imports from outside the area were being discriminated against for balance of payments reasons, and this conferred an advantage on the textile exporters within the sterling area. Since the British textile industry failed to meet the entire export demand India was provided with an opportunity to raise her exports to the sheltered markets of the sterling area. In the non-sheltered markets, particularly of the Far East, India's export prospects were improved by the delayed recovery of Japan. In 1947 a rehabilitation target of 4 million spindles was planned for the Japanese textile industry, and even this target, which would have restored barely 30 per cent of the pre-war capacity of the Japanese textile industry, was not achieved until 1951.⁵ It was only after 1951 that a major expansion in the Japanese textile industry took place. All these factors created a favourable outlook for Indian exports as far as demand was concerned.

On its part, consequent on partition in 1947, the Indian industry was faced with the problem of finding substitute markets abroad for those that formerly lay in those parts of India that now formed part of Pakistan. These areas were responsible for a heavy consumption of Indian textiles, estimated at an annual level of 1,000 million yards.⁶ Thus the industry was under pressure to seek export markets, now that a part of the internal trade of undivided India had been transformed into the external trade.

⁴ See appendix on Statistical Sources for the source of these figures.

⁵ cf. *The Labour Situation of the Cotton Spinning Industry in Japan*, All Japan Cotton Spinners Association, Osaka, Japan, February, 1958, p. 1.

⁶ cf. *The Report of the Textile Enquiry Committee*, Government of India, New Delhi, 1954, pp. 22-33.

There were also some other factors which favoured exports from India during this period. The competitive ability of the Indian industry relative to other exporting countries was strengthened by the fact that the Government was controlling prices of raw cotton at a level which was nearly 30 per cent lower than that of prices prevailing abroad. And since the price paid for raw cotton accounts for nearly 50 per cent of the cost of production of cloth,⁷ this conferred an important competitive advantage on India. Besides, the Government controlled not only the internal distribution of cloth but also specified the prices and profit margins that the cotton mills could charge for their domestic sales. Abroad, a sellers' market prevailed. Thus both the carrot and the stick combined to favour exports. Devaluation of the rupee in 1949 was an additional stimulus. As a combined result of all these favourable factors India's exports reached a record level in 1950, when she achieved the distinction of being the world's largest exporter of cotton textiles.⁸

2. Developments after 1951

Our analysis of the circumstances favouring Indian exports until 1951 immediately brings out the fact that at least some of the factors were bound to be of a short duration. The growth of import substitution was inevitable once the imported supplies of machinery were made available; Japan was bound to re-equip her industry sooner or later and the discriminatory character of import restrictions in the sterling area could not be relied upon as a permanent factor. Also, an extreme relative profitability of export markets was bound to disappear as supplies from other sources became more plentiful and as the growing development activity in India added to the profitability of home sales.

⁷ cf. a study by the National Council of Applied Economic Research, New Delhi, for the Central Wage Board for the Cotton Industry. See the *Report of the Central Wage Board for the Cotton Industry*, Government of India, New Delhi, 1960, p. 9.

⁸ The success of the export drive in 1950 affected severely the supplies available for the home market, and in sheer panic the Government in 1951 mercilessly cut down the export quota and cancelled licences already issued. This led to Indian firms being unable to honour many firm commitments abroad, and thus contributed to India's being regarded as an unreliable trading partner by the overseas customers, at the very time when the Japanese trade offensive was about to begin.

It is a truism that in this changed environment it was bound to be more difficult than before to increase exports. But what country is better endowed than India to be an exporter of cotton textiles? Had there been a greater export consciousness India could have further consolidated her position as an exporter. At a time when traditional exporters like the U.K. and the U.S.A. were willing to see their exports decline India could have cashed in on this opportunity to raise her exports. As it is, even the new environment of a vigorous competition in the world textile markets has not impeded the steady growth of exports from Japan, Hong Kong, and Pakistan. India, on the other hand⁵ failed even to retain its previous (1948–50) relative share of world trade during the late fifties. Some of the factors at work will now be described in greater detail.

a. Trend in Cost of Production

Since 1951 India's cost advantage relative to countries like Japan has tended to disappear. As we pointed out earlier, the fact that in the early post-war years prices of raw cotton in India were controlled at a level lower than those prevailing abroad conferred an important advantage on the Indian textile industry, which relies mostly on locally-produced raw cotton. Countries like Japan, which depend on the imported supplies of raw cotton, were, therefore, at a relative disadvantage, considering that raw cotton accounts for nearly 50 per cent of the total cost of production of cloth. Since 1955, however, the U.S. Government, in its attempt to recapture for the U.S.A. 'a fair historic share' of the world trade, and also to dispose of cotton surpluses accumulated with the Commodity Credit Corporation, has been subsidizing exports of raw cotton to the extent of 25–30 per cent. Since the U.S.A. dominates the world markets for raw cotton (she supplies about 37 per cent of world exports), the U.S. policies have a decisive influence on the world price of raw cotton. Prices of raw cotton in the world have, therefore, come down from the high level of the early fifties. This has meant that India's earlier advantage over countries like Japan, in having cheaper supplies of raw cotton, has disappeared. This is confirmed by a comparison of prices (of similar varieties of raw cotton) ruling in India and export prices in the U.S.A. (Table V.8).

Thus not only has India's past relative advantage in having cheaper supplies of raw cotton disappeared, but in recent years prices of raw cotton ruling in India have in fact been above the prices of similar cottons in the world markets.

Table V.8 Average Season Prices of Raw Cotton in India and U.S. Export Prices (U.S. Spot Prices Minus Export Subsidy) (U.S. Cents per lb.)

Season	India (Bombay Spot Prices)		U.S. Prices	
	A.	B.	A.	B.
	Broach Vijay (24"/28")	Jarilla Fine (24"/28")	M 7"/8"	M 13"/16"
1949-50	19.22	17.50	30.30	31.83
1950-1	34.46	32.15	41.35	42.58
1951-2	23.52	20.49	38.36	39.42
1952-3	21.36	18.53	32.53	34.52
1953-4	21.71	19.60	31.97	33.55
1954-5	20.14	17.40	31.99	33.88
1955-6	24.06	19.84	32.09	34.38
1956-7	25.01	21.15	23.01	25.93
1957-8	24.31	19.29	24.14	26.49
1958-9	24.34	18.88	23.73	25.78
1959-60	26.63	23.07	20.54	21.73

Source: *Bulletins* of International Cotton Advisory Committee, Washington.

The wage cost is the second most important constituent of the cost of production in the cotton textile industry, and according to a study of the Central Wage Board for the Cotton Textile Industry, formed 28-32 per cent of the cost of cloth production in India.⁹ The available evidence suggests that wage costs in India have also risen faster than in Japan since 1951. This is brought out in Table V.9, which gives indices of earnings and productivity of labour for the two countries compiled from their official statistics.

According to the figures in Table V.9 wage costs per unit of output in India must have increased by 13.9 per cent from 1951 to 1957. For Japan the productivity figures are not available after 1955. Even if we assume that productivity in the Japanese cotton industry remained constant after 1955, we should still arrive at the conclusion that wage costs rose faster in India than in Japan. For on that assumption wage costs in Japan would have risen by only 8.5 per cent from 1951 to 1957.¹⁰

⁹ *Report of the Central Wage Board for the Cotton Textile Industry*, Government of India, New Delhi, 1960, p. 9.

¹⁰ No allowance has been made for the possibility that a faster growth of labour productivity in Japan may well have been a partial result of higher capital expenditure per unit of output.

Table V.9 Indices of Earnings and Productivity of Workers in Cotton Industries of India and Japan (1951 = 100)

Year	India		Japan	
	1. Earnings	2. Productivity	1. Earnings	2. Productivity
1951	100.0	100.0	100.0	100.0
1952	106.8	98.6	121.5	106.3
1953	104.2	104.6	134.3	128.8
1954	99.5	107.0	159.3	154.0
1955	110.5	105.4	160.1	165.4
1956	115.4	104.7	185.7	Not Available
1957	115.7	101.6	179.4	Not Available

For sources and methods used in compiling this table please refer to the appendix on Statistical Sources.

Table V.10 Indices of Wholesale Prices of Cotton Textiles: India and Japan

	1953	1954	1955	1956	1957	1958	1959	1960
India	100	104	103	107	109	105	106	123
Japan (Tokyo)	100	92	87	88	82	75	77	77

Source: U.N. *Monthly Bulletin of Statistics*, June, 1961, p. xiv.

As a result of cheaper availability of raw cotton and faster growth of labour productivity, prices of cotton textiles in Japan since 1953 have tended to fall while the trend in India has been upward. Thus, according to the UN statistics of wholesale prices of cotton textiles, while the Japanese prices in 1960 were 23 per cent lower than 1953, prices in India in 1960 were 23 per cent higher than 1953 (*vide* Table V.10). This must have helped Japan greatly in her export drive.

b. Static Standards of Quality

The implication of our previous analysis is that on the available evidence costs of production seem to have risen faster in India than in Japan since 1951. In addition there is a widespread complaint that Indian exports have not improved in their quality since the early post-war years. On the other hand the Japanese industry and Government have laid an increasing emphasis on the need steadily to improve the quality of textiles exported from

Japan. Thus as early as April 1951 the Japanese Ministry of International Trade stressed the development of advanced techniques in cotton dyeing and finishing as instruments of export promotion. Finishers were given special treatment under the Taxation Special Measures Law regarding depreciation of machinery and equipment necessary for modernizing production facilities. Standards were developed for fastness of colour, and it was made compulsory for all Japanese cloth to bear a label indicating whether the colour was fast and washable. In 1955 the Government of Japan ruled that nothing but cloth of washable colour or better could be exported to the designated areas, and in March 1958 this ruling was made applicable to Japanese exports to all destinations.¹¹ The primitive hand printing has given place to automatic screen printing.

On the other hand the bulk of Indian exports has remained confined to coarse and medium cloth. Grey cloth accounts for about 60 per cent of the total Indian exports of cotton piece goods, the share of bleached cottons has not risen beyond 17–19 per cent, while the dyed cottons account for only about 17 per cent of the total exports.¹² This naturally limits the scope for raising exports. Because of their relative simplicity the cotton textile industries in the newly developing countries are likely to concentrate mostly on coarse and medium varieties of textiles in the initial stages. This would naturally affect Indian exports more than Japanese exports, because the latter have come to consist increasingly of processed and dyed goods. Another consequence of a progressive diversification of the composition of the export volume in the case of Japan has been that she has been able to find markets all over the world for her textiles. The Indian markets apart from the U.K., however, remain concentrated in Asia and Africa where there is a much greater danger of import substitution in the years to come.¹³

Another factor which has led to a relative deterioration in the quality of Indian textiles in recent years arises out of an increasing preference abroad for

¹¹ See *Kuriha Textile Review*, no. 3, January, 1960, published by the Kuriha Spinning Company Ltd., Japan, for a description of these policies.

¹² Calculated from the supplement to the *Texprocal Bulletin*, July, 1961 (no. 9–61), published by the Cotton Textiles Export Promotion Council, Bombay, p. 6.

¹³ Asian countries took nearly 40 per cent of both the Japanese and Indian exports in 1960. For the rest, leaving aside the U.K., Indian exports went mostly to Africa. The Japanese exports have been, however, more uniformly distributed among the African, European, American, and Oceania markets.

the flawless cloth which cannot be readily manufactured on the ordinary looms that account for the bulk of Indian loomage. This argument, which was formerly not believed by the Government, is now considered valid, having received the blessings of the Textile Enquiry Committee of 1958, who pointed out that 'preference in the markets overseas is definitely for flawless cloth which can be produced only on automatic looms' and that 'other countries like China and Japan having equipped themselves extensively with automatic looms were at an advantage *vis-à-vis* India.'¹⁴ Until then the Government's attitude towards the installation of automatic looms had been discouraging. In 1956 it was willing to allow their installation, subject to the condition that the entire production of such looms would be exported, and that in addition the firm would undertake to maintain at least 87.5 per cent of its previous exports in any of the three calendar years 1953, 1954, and 1955. In 1959 the Government was prepared to be more liberal. Thus in addition to the condition that the entire output of such looms must be exported it was now stipulated that only 50 per cent of the previous exports by a mill in 1954 or 1955 or 1956 were to be maintained. In view, however, of a growing competition in the world markets the industry's response to this scheme has been none too encouraging.¹⁵ While the industry is clearly not enthusiastic for installing automatic looms under such stringent conditions the Government is equally reluctant (for other valid reasons) to allow a widespread adoption of automatic looms.¹⁶ Exports therefore continue to suffer even when the doctors agree about the diagnosis and there exists a remedy as well. And so it goes on.

¹⁴ *The Report of the Textile Enquiry Committee*, Government of India, New Delhi, 1958, p. 25.

¹⁵ *Vide* the *Annual Report* of the Bombay Millowners Association for 1959, part I, Bombay, 1960, p. 48.

¹⁶ The Government's hesitation in allowing a widespread adoption of automatic looms arises for the following reasons: First, there is the usual economic argument for preferring labour-intensive to capital-intensive techniques when labour in some sense is more plentiful than capital and factor prices do not reflect correctly the true underlying social costs of using different factors of production and different methods of production. Second, from the practical point of view one has to note that the installation of automatic looms, if adopted all round, will reduce employment in the cotton mill industry by about 50 per cent. This is because, even after allowing for the people employed in the auxiliary processes, automatic looms would offer employment to half the present labour force of the industry.

C. Growing Relative Profitability of Home Sales

Whether we seek an explanation of India's export performance in terms of a rising level of costs or a neglect of quality improvements on the part of the cotton textile industry, these are both the product of an environment in which home sales have become increasingly attractive both absolutely and relatively to exports. The very fact that the industry can afford to ignore the Government's offer to allow it to install automatic looms for export sales shows that it is confident of making a handsome living for itself, regardless of the state of the export markets.

That export markets since 1951 have become increasingly competitive and that even their absolute profitability seems to have decreased is brought out in Table V.11, which gives figures for the average export unit value of the mill-made cotton cloth exported from India.

Table V.11 Average Annual Export Unit Value of Mill-Made Cloth Exported from India (*Rupees per Yard*)

1950-1	0.86	1955-6	0.71
1951-2	1.11	1956-7	0.71
1952-3	0.94	1957-8	0.70
1953-4	0.76	1958-9	0.71
1954-5	0.71	1959-60	0.71

Source: Statistics published by the Director-General of Commercial Intelligence and Statistics, Calcutta.

According to the report of the Textile Enquiry Committee, 1958, whereas 16 automatic looms would employ only 3 persons, 16 ordinary looms employ 6 persons (*ibid.*, p. 25).

The general policy towards rationalization was laid down by the 15th Labour Conference, a body consisting of representatives of the employers, workers, and Government. Under this policy rationalization is permitted only if there is no retrenchment or loss of earnings of existing employees, i.e. operatives employed before rationalization have to be assured of full employment even after the scheme of rationalization has been implemented, except for cases of natural separation or wastage. Given this stringent condition rationalization could be practised only in an expanding environment whereby those becoming redundant could be absorbed by the industry itself. However, for protecting the interests of the hand-loom weavers who are also faced with heavy unemployment the Government is not willing to allow the mill sector of the cotton industry to grow rapidly.

Table V.12 Wholesale Prices of Cotton Textiles, Raw Cotton, and All Goods
(1952-53 = 100)

Year	Raw Cotton	Cotton Manufactures	All Commodities
1951-2	128	108	118.0
1952-3	100	100	100.0
1953-4	104	104	104.6
1954-5	102	107	97.4
1955-6	97	105	92.5
1956-7	111	116	105.3
1957-8	106	116	108.4
1958-9	99	112	112.9
1959-60	106	117	117.1
1960-1	112	128	124.8

Source: Reserve Bank of India *Reports on Currency and Finance* and Reserve Bank *Bulletins*.

As against the above trends in export markets the available evidence suggests that the home market has steadily become more profitable under the impact of rising demand. As is brought out in Table V.12, the wholesale prices of cotton textiles in the last decade have risen with the rise in the general price level. The same table suggests that in most years after 1951 the rise in prices of cotton textiles has been more pronounced than the rise in prices of raw cotton, the industry's principal raw material. There is an unmistakable evidence, therefore, that home sales have become increasingly more lucrative than export sales. And considering that the domestic market absorbs nearly 85 per cent of the total output of the mill sector of the cotton industry,¹⁷ such a development was likely to result in an insufficient attention being given to the export market unless special steps were taken to the contrary. Thus whereas between 1948-50 and 1958-60 India's average annual exports of cotton textiles rose by only 4.5 per cent, the average annual apparent consumption of cotton cloth in the country went up by 40.8 per cent (*vide* Table V.13).

¹⁷ Export Production ratio of the mill-made cloth has varied as below (percentages):

1950-1	32.9	1952-3	11.9	1954-5	15.2	1956-7	14.3	1958-9	11.56
1951-2	9.4	1953-4	14.4	1955-6	13.3	1957-8	14.7	1959-60	19.2

Calculated from the *Statistical Bulletins* of the Textile Commissioner, Bombay.

Table V.13 Apparent Consumption (Production Minus Net Exports) of Cotton Cloth in India (*Million Metres*)

	Apparent Consumption	Index of Consumption 1948-50 = 100
1948-50 (Average)	4,194	100
1951	3,904	93.1
1952	4,859	115.8
1953	5,163	123.1
1954	4,208	124.6
1955	5,579	133.0
1956	5,817	138.7
1957	5,849	139.5
1958	5,892	140.5
1959	5,795	138.2
1960	6,034	143.9
1958-60	5,907	140.8

Source: Compiled from statistics published by the Textile Commissioner, Bombay, in his monthly *Statistical Bulletin*, formerly called the *Indian Textile Industry Bulletin*.

We have already remarked that one of the factors favouring exports from 1948 to 1950 arose out of the fact that while the Government had imposed statutory profit margins on home sales the export markets were passing through a phase of sellers' market. This has now been reversed. Cotton textiles are a basic necessity and the industry is assured of a steadily rising demand at home. The available estimates of the income elasticity of demand for cloth are well above unity,¹⁸ and in addition the Indian population is now growing at an annual rate of about 2 per cent. Attempts by the Government to make home sales less attractive have been feeble and largely unsuccessful. This is mainly because the bulk of Indian exports consists of coarse and medium cloth; and on these varieties the imposition of heavy excise duties, so as to discourage domestic sales, bristles with

¹⁸ A study by the Central Statistical Organization suggests an income elasticity of demand for cotton textiles of 1.4. See an article by B. R. M. Chatterjee, 'A Statistical Study of Consumption of Cotton Textiles in India' in the *Monthly Abstract of Statistics*, New Delhi, vol. 13, no. 10 (Oct. 1960).

obvious political difficulties.¹⁹ At one time, in 1956 and 1957, it did appear that the Government was at last picking up political courage, and for a while excise duties were steeply raised. However, the engines were reversed later in 1957 and 1958, when excise duties were again reduced²⁰ because of difficulties on the export front. Indian exporters have, therefore, never been accustomed to selling the hard way and a growing profitability of the domestic market has obviated any economic necessity on their part to adopt a much more active attitude towards export promotion.²¹

SUMMARY

The following major conclusions can be drawn from our analysis of India's export performance in cotton textiles in the post-war years:

1. The world trade in cotton textiles shows no strong tendency to expand. The modest expansion that took place between 1948–50 and 1958–60 was the result of liberalization of imports by the U.K. and the U.S.A. from Asian net exporters. Imports into the traditional net-importing areas actually fell over this period. Given this over-all environment, no

¹⁹ The coarse cloth was subject to an export duty of 6.25 per cent until March 1956. The excise duty on coarse and medium cloth was then Rs 0.03 per yard.

²⁰ A more vigorous application of excise duties on the mill-made cloth would not only have discouraged its domestic sales, but would also have stimulated the demand for handloom cloth which the Government is now protecting by restricting the capacity of the mill sector and by subsidizing sales of hand-loom cloth.

²¹ Since 1958 the Government has sought to encourage exports by offering to allow the exporting mills and traders to retain a part of their export earnings for the import of certain essential raw materials like coal-tar dyes, textile chemicals, & c. In 1959 the exporting mills were entitled to retain export proceeds for the import of specified materials to the value of 3 per cent of export proceeds if exported to markets other than the American continent and continental Western Europe. For these latter areas the allotment was 5 per cent of the f.o.b. value of exports. Merchant exporters were entitled to import licences of 2 per cent of the f.o.b. value of the exports. As for the mills, this scheme can have a very small positive effect on their export performance, because even before, they were entitled to import licences for the necessary raw materials under the scheme for licences being granted to the Actual Users.

doubt, India would have required strong determined action to increase her exports significantly above their average annual level during 1948-50.

2. This, however, does not mean that the task of export promotion was entirely hopeless, for the same environment has not hindered Japan, Hong Kong, and Pakistan in increasing their exports significantly. India has on the other hand failed even to stick to her 1948-50 relative share of world trade in the late fifties.
3. Since 1951 costs of production seem to have risen faster in India than, e.g., in Japan. This is true of the cost of raw cotton as well as of the wage cost.
4. There is also evidence that India has failed to pay enough attention to an improvement in the quality of her textile exports. Her exports have remained concentrated largely on grey cloth, consisting mostly of medium and coarse grades and these simpler varieties are likely to be an early victim of import substitution in the developing countries of Asia and Africa.
5. Basically, the over-all economic environment in India since 1951 has not been conducive to sufficient interest in export promotion. While the export markets have become increasingly competitive the home market has steadily grown in profitability relative to the export sales. No wonder that India has even failed to hold on to her relative share of 1948-50.

VI

Vegetable Oilseeds and Oils

A. TRENDS

Vegetable oilseeds play an important part in India's agricultural economy and nearly 10 per cent of the total net sown area of the country is normally devoted to their cultivation. There are five principal oilseeds grown in India: groundnuts, rape and mustard, sesamum, linseed, and castor.¹ From the point of view of exports, however, only three of them, namely, groundnuts, linseed, and castor, are really important, even though some other minor oilseeds also figure in India's export trade.

Before the Second World War oilseeds were a major earner of foreign exchange for India and normally accounted for about 10 per cent of her total annual export receipts. India was the largest producer and exporter of groundnuts in the world and her share in world exports of groundnuts (seed and oil in terms of oil equivalent) varied between 40 and 50 per cent in the pre-war days. Exports of groundnuts, linseed, and castor (seeds and oils) from India since 1948 are given in Table VI.1. That table tells us that India's exports of oilseeds and oils have fallen sharply from their pre-war level with the exception of castor. What is worse, they have continued to fall in the post-war years too. Table VI.2 summarizes the main results of Table VI.1.

Our first comment on Table VI.2 is that the figures for 1955-7 are really not representative of the trend in exports of groundnuts and linseed in the fifties as the annual average for the three-year period 1955-7 has been inflated by the exceptionally good performance of exports in 1955. The annual

¹ The above five oilseeds have a weightage of about 10 per cent in the official index of agricultural production in India. Groundnuts alone have a weightage of 5.7 per cent.

Table VI.1 India's Export of Vegetable Oilseeds and Oils in Terms of Oil Equivalent (000 metric tons)

1. Groundnuts and Groundnut Oil												
	1934-8	1948-50	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Nurts (as Oil)	334.5	31.6	15.8	8.3	4.4	3.4	13.7	5.3	0.8	1.3	10.8	14.8
Oil	8.2	36.1	72.9	60.6	15.9	27.3	172.6	28.8	—	0.9	42.0	1.7
Total as Oil	342.7	67.7	88.7	68.9	20.3	30.7	186.3	34.1	0.8	2.2	52.8	16.5
2. Linseed-seed and Oil												
Seed (as Oil)	84.5	19.9	6.3	1.0	—	—	—	—	—	—	—	—
Oil	0.7	8.2	18.7	37.8	7.6	3.0	72.8	46.6	15.5	22.1	19.1	6.9
Total as Oil	85.2	28.1	25.0	38.8	7.6	3.0	72.8	46.6	15.5	22.1	19.1	6.9
3. Castor-seed and Oil												
Seed (as Oil)	21.8	11.3	5.0	2.0	—	—	—	—	—	—	—	—
Oil	6.0	14.1	26.8	33.5	28.6	23.1	43.5	42.8	43.1	20.6	35.7	41.7
Total as Oil	27.8	25.4	31.8	35.5	28.6	23.1	43.5	42.8	43.1	20.6	35.7	41.7

Notes: 1. Conversion Factors: Groundnuts—oil as 43 per cent of shelled groundnuts.

2. Linseed-oil as 34 per cent of seed.

3. Castor-oil as 45 per cent of beans.

For details please refer to appendix on Statistical Sources and Methods.

Table VI.2 Exports of Vegetable Oilseeds and Oil from India (in Terms of Oil Equivalent) (*Annual Averages in 000 Metric Tons*)

	1934-8	1948-50	1955-7	1958-60
Groundnuts	342.7	67.7	73.7	23.8
Linseed	85.2	28.1	45.0	16.0
Castor	27.8	25.4	43.2	32.7

Source: Table VI.1.

averages for 1958-60 are a better indication of the trend in the fifties than the figures for 1955-7.

Our figures reveal that India's exports of groundnuts and linseed (seed and oil together) in the post-war years have fallen drastically below the pre-war exports of these two oilseeds. The figures are so eloquent as hardly to require any comment. Of course the pre-war figures refer to undivided India. But the partition of the sub-continent in 1947 did not affect adversely the supplies of oilseeds available to the new Indian Union. The areas which came to form part of Pakistan did not produce any groundnuts and their share of the other oilseed crops of undivided India was also insignificant except for rape and mustard; and even in this case, East Bengal, the main producing area in Pakistan, was a net importer from the areas now forming part of India. On the basis of the production figures for 1945-6, relating to undivided India, we find that the areas now forming part of Pakistan produced only about 5 per cent of the total oilseeds production of India in that year.² The partition of the sub-continent in 1947 reduced the consuming population of the Indian Union by 18 per cent, leaving the oilseed resources of the undivided country largely intact in the hands of new India; this must have added to the *per caput* availability of supplies in new India. Judged against this background the performance of Indian exports in the period after 1947 seems all the more disappointing.

B. WORLD TRADE

It is hard to explain India's export performance in terms of a lack of foreign demand, especially in the case of groundnuts. As regards the world demand

² See *Indian Agricultural Statistics 1943-4 to 1946-7 (57th issue)*, vol. 1, Ministry of Food and Agriculture, New Delhi.

for the imported vegetable oilseeds and oils, if we adopt the FAO figures of world exports as indicative of the trend we find that world trade in vegetable oil-seeds and oils was growing in the fifties. By the mid-fifties, world trade in groundnuts (seed and oil together) had exceeded the pre-war level though world exports of linseed have still not reached the pre-war level. In the case of castor, world exports had already exceeded the pre-war level by 1948-50 and have continued to grow further since then. Table VI.3 gives figures for world trade in these three oils and oilseeds from 1948-50 to 1960 and the Table VI.4 depicts the main results in a more convenient form.

1. Groundnuts

The above table brings out clearly that India's export performance in groundnuts (seed and oil together, in terms of oil equivalent) cannot be explained by reference to a lack of world demand as claimed by S. J. Patel.³ There has been a drastic fall in India's relative share of world exports in the post-war years. Whereas before the war India normally accounted for about 45 per cent of world exports, in 1958-60 the average annual volume of her exports formed only about 3.0 per cent of world exports.

One can only surmise what would have happened to world trade if supplies from India, the world's principal pre-war exporter, had been more plentiful than they actually were in the post-war years. Could they be readily absorbed by the world markets? If we look at the average world export unit values of the different oilseeds and oils as indicative of the price developments we find that prices of groundnuts and groundnut oil have not moved disproportionately relative to those of other oils and oilseeds, despite an almost total withdrawal of the world's leading pre-war exporter from the world markets in the post-war years.

Table VI.5 shows that the world markets for groundnuts did not suffer from any serious shortages as a result of India's withdrawal. This, however, does not mean that had more plentiful supplies been available from India they could not have been readily absorbed by the world markets without a severe fall in prices of groundnuts and groundnut oil. This is because the absence of disproportionate price rises for groundnuts was a result of some special compensatory factors at work, whose force could have

³ S. J. Patel, 'Export Prospects and Economic Growth—India', *Economic Journal*, September 1959, p. 496.

Table VI.3 World Exports of Vegetable Oilseeds and Oils in Terms of Oil Equivalent 1934-8, 1948-50, and from 1951 to 1960
(000 Metric Tons)

	1934-8	1948-50	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Groundnuts	770	570	520	490	560	650	774	756	730	841	809	746
Linseed	780	350	520	260	340	675	503	434	598	426	484	451
Castor	105	115	120	130	145	120	135	119	152	134	137	143
12 Major Oil Seeds and Oils	4,725	3,610	4,410	3,730	3,960	4,740	4,792	5,221	5,409	5,110	5,415	5,592

Source: *FAO Trade Year Book*. For further notes on the series please refer to appendix on Statistical Sources and Methods.

Table VI.4 World Trade in Vegetable Oilseeds and Oils (Oil Equivalent)
and India's Share of World Exports (*Volume in 000 Metric Tons*)

A. Volume of World Exports (Annual Averages)				
	1934-8	1948-50	1955-7	1958-60
Groundnuts	770	570	753.3	798.7
Linseed	780	350	511.7	453.7
Castor	105	115	135.3	138.0
12 major oilseeds and oils	4,725	3,610	5,141.0	5,372.0
B. India's Share of World Exports (%)				
Groundnuts	44.5	11.9	9.8	3.0
Linseed	10.9	8.0	8.8	3.5
Castor	26.5	22.1	31.9	23.7

Note: The pre-war figures of world exports are not strictly comparable with the post-war figures. The latter under-estimate the volume of world trade because exports of some non-reporting countries (mostly the Sino-Soviet area) are excluded. For details please refer to the appendix on Statistical Sources.

Source: Tables VI.3 and VI.1.

Table VI.5 Average World Export Unit Value Indices of Vegetable Oilseeds and Oils (1952-3 = 100)

	1947-9	1950-1	1952-3	1954-5	1956-7	1958	1959	1960
All Veg. Oils and Oilseeds	111.5	108.8	100	91.7	90.4	89.9	97.4	94.4
Groundnuts	88.0	79.9	100	89.9	90.5	77.7	74.2	82.7
Groundnut Oil	114.9	108.4	100	88.8	98.6	88.8	88.0	87.1

Source: Compiled from statistics of world export unit values published in the FAO *State of Food and Agriculture*, 1961.

been moderated by larger supplies from India. First, there were deliberate attempts on the part of European countries to raise the production of groundnuts in their African dependencies because Indian supplies in the post-war years were insufficient. Second, a part of the deficiency in supplies of groundnut oil was made good by substituting soya-bean oil for it in the making of margarine. The production of soya-beans had greatly increased in the U.S.A. since the pre-war days and the U.S.A. is now a major supplier to

Western Europe. But at a time when Western Europe was faced with a 'dollar problem', a greater availability of vegetable oils from 'soft' currency areas like India would almost certainly have led to reduced purchases from the U.S.A. by the European countries. Third, the remaining deficiency was made good by an increased use of so-called 'hard oils' like palm kernel, palm, and coconut for food. These latter oils were the first to regain their pre-war levels of production in the post-war years. And at a time when their supplies were increasing, their position in their traditional fields (for example, in the making of soaps) declined rapidly in face of the growing use of synthetic detergents in Western countries. At the same time technical changes such as the improved refining practices were increasingly making these 'hard' oils suitable for use in place of 'soft oils' like groundnut.

Looking back one may perhaps be permitted to say that the rigour of some of the compensatory factors mentioned above (which were tending to mitigate the adverse effects of the shortage of groundnuts) would have been moderated had supplies of groundnuts from India been available in larger quantities. Moreover, even if massive exports of groundnuts on the pre-war scale were to be ruled out, had Indian exports been stabilized at their modest 1948-50 level, exports of groundnuts and groundnut oil (in terms of oil equivalent) from India in 1958-60 would still have been about 285 per cent of their actual level in 1958-60. Deficiency of demand can, therefore, not be claimed as a major factor affecting India's exports of groundnuts in the post-war years. The reasons must be sought in the domestic situation.

2. Linseed

World exports of linseed (seed and oil combined in terms of oil equivalent) never reached their pre-war level in the post-war years. The most important reason for this is the rise of the U.S.A. from its previous position as a large net-importer in the pre-war days to that of a major net-exporter in the post-war years. The cultivation of linseed in that country has grown rapidly since 1941 as a result of the price-support measures introduced by the U.S. Government in that year. Besides, there have been important developments in the post-war years that have adversely affected a growing use of linseed. Linseed oil is primarily used in industry as a drying agent and in the making of paints and varnishes. However, as a result of an increasing use of rubber and synthetic-based paints and floor coverings, a process to which the high prices of linseed oil in the wake of the Korean war boom

may also have contributed, the demand for linseed oil shows no rapid tendency to rise.

Nevertheless world exports since 1951, though fluctuating from year to year, have generally been higher than during 1948-50. But in this case too India has failed to maintain her relative share of world trade. She supplied about 11 per cent of world exports in the pre-war years; by 1948-50 her relative share was reduced to 8 per cent and during 1958-60 it had come down to 3.5 per cent.

3. Castor

Castor, like linseed, is primarily an industrial oil. World exports of castor beans and castor oil (in terms of oil equivalent) have steadily risen in the post-war years. Although, like linseed, its use in the making of paints, varnishes, and soaps has declined, yet the over-all demand for it has been growing as a result of its use for medicinal purposes and also in the manufacture of high-grade lubricants and industrial products like nylons. Both the U.S.A. and the U.S.S.R. are important importers of this oil. Brazil and India are the only major exporters in the world. Exports from India have been well maintained and India's relative share of world exports in 1958-60 had only moderately fallen from the pre-war level. Castor, therefore, is the solitary bright spot in India's exports of vegetable oilseeds and oils in the post-war years.

C. DOMESTIC POLICIES: THE BASIC EXPLANATION

Taking all the above factors into account we must come to the conclusion that India's export performance in vegetable oilseeds and oils, with the possible exception of castor oil, has been more influenced by domestic factors than by those operating on the side of world demand. Plainly there has been a lack of adequate export surpluses. The production of vegetable oilseeds as a group had been rising in the last decade, as is brought out in Table VI.6.⁴ The production of groundnuts, exports of which have fallen most drastically, has on the whole risen faster than that of other vegetable oilseeds, and in the late fifties was over 30 per cent higher than in 1949-50. The domestic demand, however, has been so strong as to have eaten not only into the increase in

⁴ Production of castor oil and linseed shows no strong rising trend.

Table VI.6 Indices of Production of Vegetable Oilseeds in India (1949-50 = 100)

	1950-1	1951-2	1952-3	1953-4	1954-5	1955-6	1956-7	1957-8	1958-9	1959-60	1960-1
All Oilseeds	98.5	97.4	91.9	103.7	122.6	108.6	120.3	118.9	133.4	122.0	135.4
Groundnuts	101.4	93.0	85.3	100.3	123.6	112.4	127.2	137.5	142.7	128.9	142.4
Linseed	87.8	77.1	86.6	89.1	90.3	97.1	90.3	60.0	105.2	105.2	99.9
Castor	80.5	82.8	79.7	80.5	95.4	96.1	95.3	68.7	87.4	82.7	76.5

Source: Agricultural Situation in India, August, 1961. Published by the Ministry of Food and Agriculture, New Delhi, p. 522.

production but also into the previous export surpluses. Vanaspati (Indian equivalent of margarine) is the most important 'consumer' of groundnut oil in India and one can form an idea of the strength of domestic demand by looking at its production figures. From 3,296 tons in 1932 its production rose to 52,031 tons in 1939, 153,000 tons in 1950-1, 276,000 tons in 1955-6 and 330,000 tons in 1960-1.⁵ This gives us a rise of 115.7 per cent in production from 1950-1 to 1960-1.

An export-orientated policy would have done something to reduce the pressure of domestic demand for groundnut oil in order to generate larger export surpluses. The Government, however, actually connived at this situation until 1958 by imposing rigorous controls on the export of vegetable oilseeds and oils, and groundnut and groundnut oil were subject to the severest restrictions of all. In many years the Government went so far as to ban altogether the export of groundnut oil from India. This was to help prevent the domestic prices from rising. The policy of the Government was to allow the export of groundnut oil only if prices in the home market threatened, as they occasionally did, to fall, in face of a bumper crop. Thus an exceptionally good crop in 1955 led to liberal export quotas but soon the policy was reversed and exports of groundnut oil remained banned for the greater part of 1956, 1957, and 1958. In this way export markets were deliberately sacrificed in the interests of domestic consumption.

Since 1958 export quotas have become more liberal but the domestic inflationary pressures have been so strong as to have prevented any large-scale exports of groundnut oil from India, except in 1959. In that year the Government found that at the prices prevailing in the domestic markets traders had no incentive to export any groundnut oil. Deliberate incentives in the form of export allotments for some varieties of oilcakes, for which there was a strong demand in Europe on account of a drought in that year, were therefore offered to the exporters of groundnut oil. In 1960 even these incentives failed to work, in face of the growing profitability of the home market, and, apart from some varieties of edible groundnuts, India was able to export only 1.7 thousand tons of groundnut oil in that year.

⁵ Figures for 1932 and 1939 are unofficial estimates by the National Council of Applied Economic Research, New Delhi. See their *Demand Forecasts for Consumer Goods*, Asia Publishing House, Bombay, 1959, p. 78. Figures for later years are the official estimates and have been taken from the official document of the Third Plan, p. 508.

Table VI.7 Recovery of Oil from Oilseeds—a Comparison of Extraction Rates of Mills and Village 'Ghanis' (*Per cent*)

Oilseed	Mills	Old Village 'Ghani'	Improved Village 'Ghani' (<i>Wardha</i>)
Groundnuts	40	35	36
Mustard	35	30	32
Linseed	35	30	32
Sesamum	42	32	39
Coconut	64	58	60
Castor	40	35	37

Source: Report of the Oilseeds Crushing Industry Enquiry Committee, New Delhi, 1956, p. 1.

Exports of vegetable oils, as we have seen in Table VI.6, were being held up at a time when the domestic production of vegetable oilseeds as a group was steadily rising.⁶ Even if the Government had made up its mind to satisfy the existing local demand, there were other sources of increasing the supply of vegetable oils for export which could be adopted if the country were really export-conscious. First, the existing oilseed resources of the country are being wastefully exploited and substantial potential oil supplies are being lost on account of a continued reliance on primitive techniques for extracting oil from the oilseeds. According to an official report, 25–30 per cent of the oilseeds are being crushed by means of the primitive village 'ghanis'.⁷ And, as compared to the oil mills, they are patently inefficient in extracting oils. This fact is brought out clearly in Table VI.7.

This table shows that a replacement of the primitive village 'ghanis' by more efficient methods of extraction would add to the yearly supply of oils in the country by about 5 per cent, assuming that at present 25–30 per cent of the oilseeds are crushed by the former method. The official policy, however, has been extremely reluctant to allow this change. The Oilseeds Crushing Industry Enquiry Committee, reporting in 1956, was in favour of encouraging the replacement of old village 'ghanis' by the improved Wardha 'ghanis' but it was firmly opposed to the mills' being allowed to work above their existing

⁶ Production of linseed and castor, however, shows no rising trend. Exports of castor oil have increased all the same, while the growing domestic industrial demand for linseed oil has reduced the export surpluses.

⁷ cf. *Oilseeds in India 1951–2 to 1955–6*, Government of India, New Delhi, 1957, p. xiii.

capacity.⁸ Of course if one were looking at this question as a problem in the choice of techniques one could probably justify this recommendation on the ground that the oil mills used more of scarce capital resources, while the 'ghanis'⁹ were more labour-intensive. But if one bears in mind that the estimate of the installed capacity of the mill sector was sought to be made by the Committee on the basis of a single shift of eight hours a day one can readily appreciate that a greater reliance on the oil mills could have augmented the country's supplies of vegetable oils without any extra expenditure on scarce capital resources.

A second and more serious case of an inefficient use of the available oilseed resources of India arises out of an utterly wasteful use of cotton seed which, if used for the extraction of oil, could have provided a substitute for groundnut oil, and thereby have helped to release the pressure of domestic demand on the latter in the interests of larger exports. In the U.S.A. 90 per cent of the cotton seed crop is crushed and utilized in the manufacture of margarine and other food products. In India, however, the bulk of the seed is fed to animals and hardly 6-7 per cent of the annual production of 1.6-1.8 million tons is crushed to get oil. If the entire crop were to be crushed the country would get additional oil to the extent of about 200,000 tons a year.

In this latter case also the official policy has been extremely slow in recognizing the importance of tapping this important potential source of oil supplies. Reporting in 1956, the year when India was beginning to face a severe exchange crisis, an official committee took the view that 'we must go slow in the matter of encouraging cotton seed crushing' and that 'no more than 20 per cent of the cotton seed crop be allowed for crushing.'¹⁰

⁸ *Report of the Oilseeds Crushing Industry Enquiry Committee*, New Delhi, 1956, p. 16.

⁹ Again, if we were making a policy recommendation, we should have to assume that the resulting redistribution of income between the village ghani workers on the one hand and the mill workers and capitalists on the other was a matter of indifference.

¹⁰ The *Report of the Oilseeds Crushing Industry Enquiry Committee*, New Delhi. See page 33.

The Committee was guided in its recommendation by a supposed fear of the possible adverse effects of encouraging the crushing of cotton seed on the rural economy of India. It feared that a 'large-scale diversion of cotton seed from the Indian villages to the urban areas for crushing by mills may have a dangerous effect

Things have improved since 1958 and official thinking has taken a more helpful turn.¹¹ However, there is always a lag between the formulation of a policy and its implementation, and in India this lag can be very long indeed. The bulk of cotton seeds, therefore, continue to be wasted as before. According to the official document of the Third Five-Year Plan, production of cotton seed oil in the organized sector of the industry was 12 thousand tons in 1956. In 1960-1 it increased to a mere 15 thousand tons.¹² Economic development involves, among other things, a more efficient use of the available resources. That Indian economic policy in the past has often given insufficient attention to this aspect of the problem is borne out by our preceding analysis.

SUMMARY

The most important conclusion from our analysis of India's export performance in vegetable oilseeds and oils is that, with the exception of castor, India's exports have fallen severely from their pre-war level in the post-war years and this process proceeds. For this outcome the blame must squarely rest with the domestic policies in India that have often discriminated against exports and in favour of domestic consumption, and have not paid enough attention to fully exploiting even the available resources of potential oil supplies.

on the health of Indian cattle', because 'cotton seedcakes may never return to the villages'. But since most of the ginning mills are already located in towns and if cotton seed can return from the ginneries at present, why cannot cotton seedcake return to the villages? The Committee's second objection to a large-scale crushing of cotton seed was that the whole cotton seed is a better feed for the cattle than cotton seedcake. This is, however, a view which was not shared by the technical expert who served as a member of the committee (*ibid.*, p. 93).

¹¹ The position was again reviewed by another Committee in 1958. This Committee recommended that the immediate aim should be to produce some 60 thousand tons of cotton seed oil, while in the second stage, additional capacity of 70 thousand tons ought to be planned for. See *Report of the ad hoc Committee on Cotton Seed Oil Industry*, New Delhi, 1958, p. 19. The implementation of this recommendation has been extremely slow.

¹² cf. *The Third Five-Year Plan*, Government of India, New Delhi, 1961, p. 508.

VII

Minerals

A. INTRODUCTORY

The bulk of India's exports of mineral ores is accounted for by four commodities, namely iron ore, manganese ore, mica, and coal. On balance the export receipts from mineral ores have risen during the period under study. This over-all performance, however, is a product of conflicting tendencies among the major commodities. Exports of iron ore have increased very rapidly since 1951. On the other hand those of manganese ore, mica, and coal have tended to stagnate since the mid-fifties, though for reasons peculiar to each commodity.

B. IRON ORE

As Table VII.1 brings out, India's exports of iron ore have increased rapidly since 1951.

In brief, this happy performance has been made possible by favourable trends in world trade in iron ore and the rapid growth in imports of iron ore into Japan. From India's point of view this latter factor has been the most important determinant of her export performance. These developments are examined below in greater detail.

1. World Trade

The world trade in iron ore has been growing rapidly since 1951. This is borne out by Table VII.2, which gives figures of imports (gross and net) of iron ore by the principal importing areas, the U.S.A., the OEEC countries, and Japan.

According to these figures gross imports of iron ore into the above areas increased from 42.7 million tons in 1951 to 131.9 million tons in 1960. Over the same period their net imports (imports minus exports) rose from

Table VII.1 India's Exports of Iron Ore since 1951

Year	Volume (000 Metric Tons)	Value (Million Rupees)
1951	284.5	10.0
1952	823.0	37.0
1953	1,270.1	58.2
1954	1,025.2	42.1
1955	1,384.9	62.7
1956	1,821.8	93.1
1957	2,223.3	118.6
1958	1,848.2	96.5
1959	2,921.1	145.9
1960	3,556.2	170.3

Note: Figures relate to fiscal years beginning 1 April.

Source: Official Statistics published by the Director-General of Commercial Intelligence and Statistics. Volume figures have been converted into metric weights.

Table VII.2 Gross and Net Imports of Iron Ore into U.S.A., OEEC Countries and Japan (*Million Metric Tons. Gross Weight*)

Year	A. Gross Imports				B. Net Imports (Imports Minus Exports)			
	U.S.A.	OEEC	Japan	Total	U.S.A.	OEEC	Japan	Total
1951	10.3	29.3	3.1	42.7	5.9	1.7	3.1	10.7
1952	10.0	35.2	4.8	50.0	4.8	5.6	4.8	15.2
1953	11.3	37.5	4.3	53.1	6.9	8.3	4.3	19.5
1954	16.1	36.4	5.0	57.5	12.9	7.8	5.0	25.7
1955	23.9	46.9	5.5	76.3	19.3	14.3	5.5	39.1
1956	30.9	54.0	7.8	92.7	25.3	19.1	7.8	52.2
1957	34.2	58.1	9.4	101.7	29.2	22.7	9.4	61.3
1958	27.9	54.3	7.6	89.8	24.3	16.6	7.6	48.5
1959	36.2	57.8	10.4	104.4	33.1	17.6	10.4	61.1
1960	35.2	81.6	14.9	131.7	29.9	27.4	14.9	72.2

Sources: For U.S.A.—*Commodity Year Book, 1961*, p. 201 (converted into metric weights). For OEEC Countries—OEEC *Foreign Trade Statistical Bulletins and Annual Studies on Iron and Steel Industry*. For Japan—*Statistical Year Books* (overseas volume) of the British Iron and Steel Federation.

10.7 million tons to 72.2 million tons. These figures give only a rough indication of the underlying trend because they are in terms of the gross weight of iron ore, and iron ore varies in iron content. Yet the basic underlying trend is pretty clear.

The demand for iron ore is a derived demand, its most important use being in the production of pig iron. Ore is charged either directly into the blast furnace or first subjected to the process of sintering.¹

Pig iron in turn is utilized mostly in the production of steel, though other users like the iron foundries and wrought iron mills absorb about 15 per cent of the total pig-iron output in the world.

Although steel works are the most important consumers of pig iron (and therefore indirectly of iron ore) the demand for pig iron is not perfectly correlated with steel production. This is because iron and steel scrap competes directly with pig iron as a raw material in the making of steel; much of the former is produced at comparatively little cost, but the latter is manufactured by a complex and expensive process.² However, in the past decade the world supplies of scrap were relatively inelastic.³ Obsolete capital equipment and discarded ships are a major source of scrap. The supplies from this source, however, depend on capital investment twenty to twenty-five years ago. In the Great Depression of the thirties capital investment was at a low ebb and this affected adversely the supplies of scrap available in the fifties. In addition, as a result of war-time hostilities, the strength of the shipping fleets of many countries was considerably reduced by enemy action, thus further reducing the potential supplies of scrap that might have been made available in the fifties. As a result the world production of pig iron and crude steel were more closely related than they would have been had supplies of scrap been more plentiful.

¹ A small amount of iron ore is charged directly into the steel furnaces. But the share of steel works in the total consumption of iron ore does not exceed 5-8 per cent in most areas of the world, cf. U.N. *Long Term Trends and Problems of the European Steel Industry*, Geneva, 1959, p. 69.

² Relative prices apart, scrap has certain economic advantages of its own. In most forms, it has a superior metal content. The production of pig iron on the other hand calls for heavy investment in iron-ore prospecting and mining, in providing transport facilities for connecting the mining areas to the steel works, in coal mining and finally in the construction of blast furnaces and related installations. All these costs are saved by using scrap. Scrap in addition makes possible a more rapid adjustment of the steel output to sudden changes in demand.

³ Thus the share of scrap as an input in the production of crude steel has not grown in the fifties, as is brought out below:

While additional requirements of steel have given rise to a proportionate increase in the demand for pig iron,⁴ the domestic resources in iron ore of the major steel-producing countries have become increasingly inadequate to meet the growing needs of their iron and steel industries. These industries remain highly localized in the major industrial countries despite the fact that they have become dependent on the imported supplies of iron ore. As is brought out in Table VII.3, production of pig iron in the major industrial countries

Table VII.3 Production of Iron Ore and Pig Iron in Industrial Countries:
1951 and 1960 (000 Metric Tons)

	A. Iron Ore (fe. Content)			B. Pig Iron		
	1.	2.	3.	1.	2.	3.
	1951	1960	Per cent Change	1951	1960	Per cent Change
U.S.A.	60,123	47,961	-20	65,746	62,251	-5
EEC	16,690	28,900	73	31,564	54,743	73
U.K.	4,504	4,687	4	9,859	16,016	62
Japan	600	1,574	162	3,227	12,341	282

Source: U.N., *Statistical Year Books*, 1960 (pp. 142, 245) and 1961 (pp. 142, 246).

Inputs of Pig Iron and Scrap in Steel Making
(Kilograms Per Ton of Steel)

	1950		1955	
	Pig Iron	Scrap	Pig Iron	Scrap
N. America	565	518	568	517
W. Europe	611	478	643	453
Far East (Excluding Mainland China)	477	650	543	561

Cal. from U.N., *Long Term Trends and Problems of European Steel Industry*, Geneva, 1959.)

⁴ This is confirmed by the U.N. indices of world production (excluding Mainland China) of crude steel and pig iron (1953 = 100):

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Pig Iron	89	91	100	94	114	118	124	113	122	138
Steel	90	90	100	95	114	120	123	113	125	139

Source: U.N., *Monthly Bulletin of Statistics*, February, 1962, Special Table B.

from 1951 to 1960, except the EEC countries taken as a group, has risen much faster than their local production of iron ore. As a result, net imports of iron ore into the industrial countries have increased rapidly over the past decade.

2. The Rapid Growth of Imports into Japan

Within this over-all framework of an expanding world trade in iron ore a particular significance attaches to the rapid growth of the Japanese iron and steel industry in the last decade. The pre-war level of production of steel having been achieved by 1951 the Japanese iron and steel industry has continued rapidly to increase its output further. From 1951 to 1960 the Japanese output of pig iron went up by 282 per cent, while that of iron ore (in terms of Fe content) rose by only 162 per cent (*vide* Table VII.3). As a result the Japanese imports of iron ore have had to rise rapidly. This is brought out by Table VII.4. From 3,089 thousand tons in 1951 they went up to 14,861 thousand tons in 1960, an increase of 381 per cent.

This development has naturally favoured India. Because of the rich quality of her iron-ore deposits and her favourable geographical location

Table VII.4 Imports of Iron Ore by Japan: Total and from Important Sources
(000 Metric Tons. Gross Weight)

Year	Total Imports	From India	From Malaya	From Philippines
1951	3,089	153	716	601
1952	4,768	419	821	900
1953	4,290	455	864	1,182
1954	5,005	758	1,129	1,205
1955	5,460	959	1,632	1,480
1956	7,840	1,293	2,322	1,574
1957	9,381	1,535	2,872	1,451
1958	7,585	1,599	2,387	1,152
1959	10,389	1,877	3,750	1,295
1960	14,861	2,442	53,54	1,202

Source: *Annual Statistical Handbook* (overseas volume) published by the British Iron and Steel Federation.

India is very well placed to meet the Japanese requirements. In the pre-war days China (Manchuria) and Malaya were the most important sources of supply of iron ore to Japan. China is now out of the market because, though she has considerable resources of iron ore, they are by no means large compared with China's own growing requirements. Output in the Philippines, another major exporter to Japan, has failed to rise since the mid-fifties because that country has not enough high-grade iron ore left to meet the growing Japanese needs. Malaya's exports to Japan have risen rapidly in the past decade. From 746 thousand tons in 1951 they went up to 5.35 million tons in 1960. However, the Japanese requirements have grown so rapidly that both Malaya and India have been able to expand their exports to Japan significantly. In 1951 India supplied about 5 per cent of the total Japanese imports, while Malaya accounted for 23.2 per cent. In 1955 India's share went up to 17.6 per cent, while Malaya's share increased to 30.0 per cent. In 1960, while Malaya had further raised her share to 36 per cent of the total Japanese imports, India's share fell to 16.4 per cent. In absolute terms, however, India's exports to Japan in 1960 were the highest on record until then. In 1960 Japan took nearly 70 per cent of India's total exports of iron ore, and the remaining 30 per cent were directed to countries of Eastern Europe and to Italy.

Given such favourable circumstances the really effective limit on India's exports of iron ore arose out of the fact that supplies could not be increased much faster. The development of iron-ore mines and the laying of transport facilities for the transport of ore from the mines to the ports is a costly process. It is, however, a process which has given rise to a fruitful co-operation between India and Japan, and the latter is actively assisting India in the speedy development of her vast iron-ore resources.

C. MANGANESE ORE

Table VII.5 sums up the behaviour of Indian exports of manganese ore.

From this table we find that the average annual volume of Indian exports during 1958-60 was 58 per cent higher than the corresponding volume during 1948-50; in terms of value the average annual value of exports during the later period was about 153 per cent higher than during 1948-50. The volume of exports increased rapidly until 1953, when there was a sharp setback lasting until 1955. In 1956 they again recovered and a new peak was reached in 1957. Since then exports have ruled at a much lower level though there was again a recovery in 1960.

Table VII.5 Exports of Manganese Ore from India (*Volume in 000 Metric Tons and Value in Million Rupees*)

Year	Volume	Value
1936-8 (Av.)	722.4	15.3
1948-50 (Av.)	633.0	52.2
1951	1,143.1	156.9
1952	1,462.1	217.6
1953	1,595.2	242.7
1954	1,005.2	129.2
1955	935.8	107.2
1956	1,542.4	258.1
1957	1,610.4	297.0
1958	922.6	136.4
1959	965.2	119.9
1960	1,117.7	140.6
1958-60 (Av.)	1,001.8	132.3

Note: Statistics relate to fiscal years beginning 1 April.

Source: Statistics published by the Director-General of Commercial Intelligence and Statistics. Volume figures have been converted into metric weights.

The fluctuations in the volume of exports are partly a reflection of the fluctuating level of activity in the world iron and steel industry; partly they are due to changes in the stock-piling activities of defence authorities in the importing countries (manganese being a strategic material); and partly to changes in stocks held by the iron and steel industry. But these short-term factors cannot explain the entire situation. For example, as is brought out in Table VII.6, India's relative share in two of her principal markets, namely the U.S.A. and the U.K., has shown an unmistakable tendency to fall since 1955. In 1954 India supplied 42.4 per cent of the total imports of manganese ore by the U.S.A.; but in 1960 India's share had fallen to 21.4 per cent. In the pre-war days India was the most important supplier to the U.K. and normally accounted for three-fourths of the total imports by that country. The position of eminence once enjoyed by India had been lost as early as the late forties in face of the growing imports into the U.K. from Ghana and the Union of South Africa. Since 1956 India's relative share in the U.K. market has fallen somewhat further.

India's exports seem to have been affected also by attempts in importing countries to economize in the use of manganese ore. There is some evidence

Table VII.6 Total Imports of Manganese Ore into the U.S.A. and the U.K. and Imports from India (*Volume in 000 Metric Tons*)

Year	A. U.S.A. (in Terms of mn. Content)			B. United Kingdom Imports (in Terms of Gross Weight)		
	Total	India	India's Share (%)	Total	India	India's Share (%)
1950	814.6	283.0	34.8	409.3	107.7	26.3
1951	800.1	267.6	33.4	388.7	113.2	29.1
1952	908.1	319.3	35.2	438.7	154.3	35.2
1953	1,263.7	489.9	38.8	502.5	173.0	34.4
1954	934.4	396.4	42.4	509.7	142.3	27.9
1955	949.8	346.5	36.5	411.6	125.8	30.6
1956	913.5	266.7	29.2	450.0	89.4	19.9
1957	1,058.7	279.4	26.7	484.4	133.9	27.6
1958	759.3	212.3	28.0	353.5	94.3	26.7
1959	805.6	177.8	22.2	348.7	91.5	26.3
1960	1,002.4	215.0	21.5	531.4	129.1	24.5

Sources: For U.S.A.—*Commodity Year Book*, 1961, p. 219. For U.K.—*Statistical Year Books* of the British Iron and Steel Federation. Figures have been converted into metric weights.

that because of technical advances the consumption of manganese per unit output of steel has been falling in the post-war years. Thus, as brought out by Table VII.7, the world production of manganese ore has risen less fast than the world production of steel from 1951 to 1960. Technical progress has not only reduced the requirements of manganese in steel making but has also made it possible to recover manganese from slag.⁵ Of course, the UN statistics of production of manganese ore usually exclude the production of low-grade ore, which is now suitable for many previous uses of high-grade ore. Many steel-producing countries, though deficient in the resources of high-grade ore, have sizable domestic resources of low-grade ore. Thus it is possible that the requirements of manganese in steel making may not have fallen as much as

⁵ In the U.S.A. the Paley Commission in its report recommended that for security reasons the U.S.A. should encourage research on the economic use of low-grade domestic ore, the recovery of manganese from slag and the reduction of manganese requirements in steel making. See its report, *Resources For Freedom*, a report by the President's Mineral Policy Commission, July, 1952, Vol. 2, 'The Outlook for Key Commodities', pp. 21–22.

Table VII.7 Indices of World Production of Steel and Manganese Ore (*mn Content*)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Steel (Crude)	90	90	100	95	114	120	123	113	125	139
Manganese	81	92	100	92	94	100	108	104	108	110

Source: The Steel Index is the U.N. Index as given in *Monthly Bulletin of Statistics*, Feb. 1962, p. xviii. The index for manganese ore has been constructed from figures of world production given in U.N. *Statistical Year Book*, 1961 (p. 140). World production of both manganese ore and steel excludes the production of mainland China.

suggested by the above figures. However, an increasing use of locally available low-grade manganese ore by the steel-producing countries does imply that world trade in manganese ore would not grow as fast as the total consumption of manganese ore in the making of steel.

From India's point of view the most important explanation of a fall in her exports since 1957 is to be found in a steep rise in exports of manganese ore from Brazil to the U.S.A. since 1956. In the European market the reappearance of the U.S.S.R. as an important exporter has also limited India's ability to expand her exports. In the late forties a sudden withdrawal of the U.S.S.R. from the world markets created a scarcity of manganese and, apart from economies in its use, attempts were made to find new sources of supply. The Paley Commission which examined the resources of manganese ore was impressed with the possibilities of developing the 'free world's' resources of manganese ore to meet all peace-time requirements, but it expressed fears that in war time the situation may prove difficult, as the U.S.A. was greatly dependent on imported supplies to meet its needs. Hence it noted with approval the search for domestic resources of manganese ore and also the development by the U.S. steel companies (with assistance of loans and purchase guarantees from the U.S. Government) of the Brazilian resources of manganese ore.⁶ The process of developing the Brazilian resources by the U.S. companies had been under way since 1951 and as a result of these efforts Brazilian output rose steeply in 1957. From 93.5 thousand tons (in terms of mn. content) in 1955, production went up to 403.9 thousand tons in 1957, and has ruled near that level since then.⁷ Almost the entire production of Brazil finds its market in the U.S.A., and as a result of this significant increase

⁶ *Ibid.*, pp. 21-24.

⁷ U.N., *Statistical Year Book*, 1961 (p. 190).

Table VII.8 Average Annual Export Unit Value of
Manganese Ore Exported from India (*Rupees per Metric Tons*)

1936-8	21.2
1948-50	82.5
1951	137.3
1952	148.1
1953	152.1
1954	128.4
1955	114.6
1956	167.3
1957	185.0
1958	147.5
1959	124.0
1960	125.8
1958-60	132.0

Note: Figures for 1936-8, 1948-50 and 1958-60 are averages of the respective three years.

Source: Table VII.5.

in Brazilian production the relative share of Brazil in the U.S. imports of manganese ore went up from about 6 per cent in 1955 to 24 per cent in 1957.⁸ In Western Europe the U.S.S.R. has since 1955 become an important supplier.⁹ Moreover, exports from Africa to Western Europe have also tended to increase in post-war years.

All the factors mentioned above were bound to have some adverse effects on India's exports. One naturally asks whether India could have done anything to retain her relative share of both the U.S. and the U.K. markets. Prices of manganese ore did rise sharply in the early fifties, as is brought out in Table VII.8, which gives the unit export prices of manganese ore exported from India.

The rise in prices of manganese ore may have accelerated the search for alternative sources of supplies and may also have given an added impetus to

⁸ According to statistics published in *Commodity Year Book*, New York, 1961, p. 219.

⁹ *Statistical Year Books* of the British Iron and Steel Federation (overseas volumes). Soviet exports were 851.4 thousand tons in 1955, 917.0 thousand tons in 1956, 805.9 thousand tons in 1957, 833 thousand tons in 1958, 979 thousand tons in 1959 and 973 thousand tons in 1960.

higher production in other exporting countries. But the price of manganese ore is only a very small part of the final price of steel,¹⁰ and an uninterrupted supply is often of a far greater importance to consumers than the price of the ore itself. In the then prevailing atmosphere of world tensions the U.S. companies were interested in finding sources of supplies nearer home which could be relied upon in the case of an outbreak of hostilities, when supplies from distant countries like India would be greatly threatened. Therefore the development of new mines in Brazil by the U.S. companies was most likely to proceed uninterrupted, regardless of price considerations. In any case Brazil has excellent resources of manganese ore, and she was bound to exploit them sooner or later.

A bilateral balancing of trade is often a condition of commerce with the U.S.S.R. Being desirous of extending economic relations with her, many countries of Western Europe have been prepared to enter into such bilateral arrangements with the Soviet Union. Oil and manganese ore have figured prominently on the Soviet export lists and many countries of West Europe have found this exchange to be mutually beneficial. Given this situation India could hardly hold out in Western markets. Of course one may argue that had Indian prices been more competitive the buying firms in Western countries would still have preferred the Indian to the Soviet ore. But, as is well known, in most countries the steel industry displays strong monopolistic tendencies and there is often a close informal contact between manufacturers and their respective governments. A mere hint that the Government is interested in promoting trade with the Soviets in such-and-such goods is often very effective in bringing about the desired result. In any case the manufacturers do not have to suffer great losses from being compelled to restrict their purchases from a particular source, in view of the fact that the cost of manganese ore is only a very small part of the final price of steel. Besides, it is easy enough for the Soviet authorities to bring their prices to 'competitive' levels if they are bent on pushing the sale of a particular commodity to finance some essential imports.

Basically then India's exports have suffered in recent years because of the growth of exports from Brazil and the U.S.S.R. The main burden of our preceding discussion was that these losses were inherent in the situation and well beyond India's control. In the light of these observations it is hard to

¹⁰ A ton of steel requires about 13 lb. of ferro-manganese, and to produce this one would need about 26 lb. of manganese ore.

agree with a recent study of the *Economist's* Intelligence Unit, which concludes that difficulties in getting supplies from India in the early fifties, the imposition by India of fluctuating and uncertain export duties and of quantitative restrictions are the major explanations for India's poor export performance in the U.S. market in the last few years.¹¹ This clearly is an exaggerated story of India's guilt. First, manganese was not subjected to any quantitative restrictions until 1953, when they were first introduced with the sole object of co-ordinating exports in such a way as to reduce the pressure on the transport system. Second, as for the charge of levying fluctuating export duties, export duty remained constant at 15 per cent *ad valorem* from 1948 to 1954, when it was abolished—to be re-imposed in 1956. This latter was obviously a badly-timed move for it coincided with a very rapid increase in Brazilian exports to the U.S.A. But if one remembers that investment in the Brazilian mines was under way well before 1956 the harmful consequence of export duties is placed in proper perspective.¹²

This is not to deny that more effective Indian policies could have done something to repair the damage to India's exports arising out of the growth of exports from Brazil and the U.S.S.R. We have already referred to the reimposition of export duty in 1956. In that year there was a strong demand for manganese ore but this was also the time when, as was pointed out above, Brazilian exports were to grow significantly. Export duties had again to be abolished but it took the Government some two years to realize that India's exports were being hampered by export duties.

In addition export control policies pursued since 1956 have also been lacking in imagination. Since that year the Government of India has been increasingly canalizing exports of manganese ore through the State Trading Corporation of India. Starting with a reservation of 33 per cent of the total export quota for the State Trading Corporation in 1956 its quota for the following year was suddenly raised to 50 per cent. One need not object to the entry of the State Trading Corporation to India's export trade. It is, however,

¹¹ *The State Trading Corporation and India's Export Trade*, published for the Council for Economic Education, Bombay, 1961, p. 30.

¹² Of course it can be argued that the export duty from 1948 to 1954 was high enough to have given an added stimulus to the development of non-Indian sources of supply. However, our previous analysis suggests that prices of Indian ore are unlikely to have exercised the most important influence on the growth of non-Indian production and exports.

absolutely necessary that those participating in the export trade should take a keen interest in the development of export markets. And there is no doubt that the official policy in this matter has hindered the development of such an outlook on the part of private exporters. Private exporters have not been eliminated from the field, but their export quotas can be changed at the will of the authorities. The introduction of an unnecessary element of uncertainty in the conduct of export business hardly persuades exporters to take a sufficiently 'long' view of the export business. No doubt, the State Trading Corporation has been willing to make a part of its own quota available to the private exporters for a fee. But such a fee adds another unnecessary element to export costs, ill conceived at a time when the general emphasis is on export incentives and India is facing stiff competition in the world markets.¹³

D. MICA

Table VII.9 brings out the fact that the annual volume of exports of mica (blocks and splittings) from 1951 to 1960 was always lower than the average annual volume for the three year period 1948-50, with the single exception of 1951. The average annual volume of exports during 1958-60 was 17 per cent lower than during 1948-50, though the value of average annual exports over the same period was higher by about 30 per cent.

Unfortunately any discussion of mica is complicated by an extremely intricate classification of grade and type under which the material is marketed. Varieties differ in chemical composition and physical properties and therefore in their prices. Besides it is impossible to get any reliable statistics of mica consumption or trade in the world as a whole. The bulk of mica traded consists of scrap or waste which has little value compared with the blocks and splittings. However, trade statistics often do not separate scrap from other more valuable varieties. In India itself the separate classification of scrap mica is only a recent phenomenon. Broadly speaking, classified by chemical contents, there are two principal varieties of mica, muscovite and phlogopite. India is a leading producer of muscovite mica, and is followed by Brazil.

¹³ The Government realized in 1960 that a situation whereby the quotas of private exporters could be reduced at will was hardly conducive to export promotion. Beginning 1 January 1961 a new policy was formulated with respect to manganese ore, and it was then laid down that the quotas of the private exporters would not be further reduced for at least another three years.

Table VII.9 Exports of Mica from India (*Volume in Metric Tons and Value in Million Rupees*)

	Volume (Blocks & Splittings)	Value (Including Scrap)
1948-50 (Av.)	11,836.9	76.0
1951	13,411.7	132.1
1952	6,553.5	90.1
1953	7,112.3	79.9
1954	7,264.7	67.2
1955	9,906.4	83.7
1956	9,398.4	87.7
1957	9,459.2	86.6
1958	8,687.1	95.8
1959	10,312.8	100.4
1960	10,465.2	101.5
1958-60 (Av.)	9,820.0	99.2

Note: Statistics relate to fiscal years beginning 1 April.

Source: Director-General of Commercial Intelligence and Statistics. Volume figures have been converted into metric weights.

The demand for mica is a derived demand. Because of its perfect cleavage, flexibility, infusibility, high di-electric strength, high heat, and electrical insulation properties mica is regarded in the electrical industry as a perfect insulator. If one takes the growth of electricity production in the world as a rough indicator of the growth of the electrical-appliances industry one would expect that the consumption of mica would also have grown rapidly. Yet a doubling of world production of electricity¹⁴ from 1951 to 1960 does not seem to have been accompanied by any large increase in the consumption of mica. Figures for world trade and consumption are hard to get for reasons stated earlier. Yet the following figures for the apparent consumption of sheet mica (blocks, splittings, and films) in the U.S.A. serve to indicate the trend.

¹⁴ cf. the following UN Index of World Production of Electricity (1953 = 100):

1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
85	92	100	108	122	134	142	150	164	178

Table VII.10 Apparent Consumption of Sheet Mica in the U.S.A. (*Metric Tons*)

1950-4 (Av.)	8,006.0
1955	6,296.4
1956	5,765.7
1957	5,699.0
1958	5,269.0
1959	5,751.6

Source: U.S. Mineral Year Book, 1959, vol. 1, p. 768 (published by the U.S. Department of the Interior). Figures have been converted into metric weights.

Thus a major element in the stagnation of exports of mica from India in the past decade was the stagnant, if not declining, consumption of sheet mica in the U.S.A., the most important consumer of Indian mica.¹⁵

Basically there have been two sorts of factors at work affecting the consumption of mica. First, the growing use of synthetic mica; and second, the ever increasing possibility of making use of scrap mica in place of high-grade mica. In recent years the development of high-temperature-resistant plastics with good insulation properties has made great progress, and in addition, some promising glass-fibres have been developed which have become a substitute for sheet mica in some branches of electronics. The Paley Commission was so impressed with the technological possibilities of finding domestic substitutes for the imported mica that it felt it reasonable to conclude that 'by 1975, most mica will probably be derived from domestic sources and will consist of built-up materials'.¹⁶ The Commission 'foresaw a far-reaching replacement of hand-processed mica splittings by mica built up mechanically or possibly by synthetic glass or mica'.¹⁷ It is because of these factors that consumption of natural mica shows no tendency to grow.

How far this replacement of natural mica by synthetic substitutes is a response to the behaviour of prices of mica and how far it is the result of autonomous developments in the sphere of technology is difficult to say.

¹⁵ Changes in the stock-piling activities of the defence authorities in various countries also exercise an influence on exports of mica.

¹⁶ *Resources for Freedom*, vol. ii—'The Outlook for Key Commodities', p. 95.

¹⁷ *ibid.*

Table VII.11 Export Unit Values of Mica Exported from India
(Rupees per Metric Ton)

Year	Blocks	Splittings
1934-6 (Av.)	3,385.7	610.2
1941-5 (Av.)	7,991.7	2,952.6
1946-50 (Av.)	14,822.5	5,177.0
1951-55 (Av.)	23,818.0	6,397.4
1958	18,759.1	7,283.2
1959	18,483.5	6,692.6

Source: Calculated from official statistics published by Director-General of Commercial Intelligence and Statistics, Calcutta.

Certainly, prices of mica have risen steeply since pre-war days, as is brought out in Table VII.11.

From the above Table, however, it is not easy to conclude that prices of natural mica have been a major determinant of the pace at which synthetic substitutes have taken its place. After all, the price of mica is only a very small element in the cost of production of most electrical goods in which it is used. Considering that many Government-aided schemes are currently in operation in the U.S.A., U.S.S.R., and Japan to develop synthetic substitutes for natural mica¹⁸ it appears that strategic considerations play a more important part in regulating the pace of substitution. Mica is a strategic material and the U.S. Government has been encouraging its production in Brazil too. In 1955, to give further stimulus to production in Brazil, the U.S. stock-piling authorities deliberately raised the price paid by them for Brazilian mica by 25 per cent. Thus it appears that strategic considerations have exercised a more important influence on India's exports of mica than the behaviour of prices of Indian mica.

E. COAL

Table VII.12 summarizes the behaviour of exports of coal and coke from India.

The story of coal is simple enough. The only effective limit on exports has been the availability of adequate export surpluses. South-East Asia is

¹⁸ These schemes are mentioned in the *U.S. Minerals Year Book, 1959*, vol. i (U.S. Department of the Interior), pp. 788-9.

Table VII.12 Exports of Coal from India (*Volume in 000 Metric Tons and Value in Million Rupees*)

Year	Volume	Value
1948-50 (Av.)	1,138.6	37.1
1951	2,844.9	97.6
1952	2,946.6	101.2
1953	2,032.1	70.4
1954	2,032.1	58.8
1955	1,524.1	43.1
1956	1,930.5	55.4
1957	1,625.7	52.6
1958	1,828.9	56.0
1959	1,422.5	47.2
1960	1,219.3	40.0
1958-60 (Av.)	1,493.6	47.7

Note: Statistics relate to fiscal years beginning 1 April.

Source: Director-General of Commercial Intelligence and Statistics.

particularly deficient in coal and India is geographically well suited to meet the needs of both South-East and West Asia. However, India is not able fully to exploit this situation to her advantage because the domestic demand for coal is growing faster than production, as a result of an increasing stress on economic development. Although production increased from about 35 million tons in 1951 to about 55 million tons in 1960-1, the actual production in the latter year was still below the target of the Second Five-Year plan (60 million tons).¹⁹

SUMMARY

Our analysis of exports of mineral ores leads us to the following main conclusions:

1. Exports of iron ore are the brightest spot in India's export performance in the last decade. The rapid growth in exports of iron ore was made possible by a fast increasing level of world trade in general, and in particular by the rapid growth of imports of iron ore into Japan.

¹⁹ cf. *The Third Five-Year Plan*, New Delhi, 1961, pp. 511-12.

2. The fall in exports of manganese after 1957 was largely the result of a steep rise in exports from Brazil to the U.S.A. In addition, exports to Western Europe from the U.S.S.R. have also been growing since 1955. India could not do very much to counter the adverse effects of these developments on her exports. However, Indian policies with regard to export duties and export control have also to share a part of the responsibility.
3. The stagnation in exports of mica is a result of the stagnant consumption of natural mica in the importing countries, thanks to the development of synthetic substitutes. Prices of mica have risen steeply in the post-war years but, mica being a strategic material, the pace of substitution of natural mica by synthetics seems to be largely independent of the behaviour of relative prices.
4. Exports of coal and coke have been held up by a lack of export surpluses as a consequence of growing domestic demand.

VIII

Tobacco and Coffee

A. TOBACCO

Exports of unmanufactured tobacco from India averaged Rs 134 million a year for the three-year period 1951-4. The average annual value of exports increased to Rs 143 million during 1958-60. Thus in the late fifties tobacco accounted for over 2 per cent of India's total export receipts. Table VIII.1 traces the trend of Indian exports of unmanufactured tobacco as studied against the background of developments in world trade from 1948 to 1960.

Table VIII.1 World and Indian Exports of Unmanufactured Tobacco
(Volume in 000 Metric Tons)

Year	World Exports	Indian Exports	India's Share (%)
1948-50 (Av.)	529	37.9	7.2
1951	617	56.5	9.2
1952	545	42.1	7.7
1953	606	31.5	5.2
1954	632	33.6	5.3
1955	667	35.3	5.3
1956	688	42.3	6.1
1957	732	36.4	5.0
1958	708	48.1	6.8
1959	707	37.7	5.3
1960	764	40.7	5.3
1958-60 (Av.)	726	42.2	5.8

Note: The figures of world exports exclude exports of some non-reporting countries, mostly members of the Sino-Soviet area.

Sources: FAO *Trade Year Books*. For details please refer to the appendix on Statistical Sources.

The above table shows that since 1948–50 Indian exports have risen at a slower rate than world exports. Between 1948–50 and 1958–60, whereas the average annual volume of world exports increased by 37.2 per cent, India's exports of unmanufactured tobacco went up by only 11.3 per cent. Indeed, Indian exports never again reached the peak attained in 1951.

At the outset it must be borne in mind that the bulk of India's exports consists of Virginia flue-cured tobacco. The U.S.A. and the Federation of Rhodesia and Nyasaland are the other major exporters of this variety in the world. The U.S.A. dominates the world markets and it supplies about 60 per cent of total world exports of this variety. Though the world demand for it has been steadily growing a number of factors operating outside India have limited the scope for expanding India's exports.

First of all, the U.S.A. in its attempts to get rid of its tobacco surpluses has been selling tobacco in exchange for the local currencies of importing countries under various concessional schemes such as PL 480. These favourable terms of purchase have been directed particularly at underdeveloped countries like Pakistan and Egypt.¹ It is quite likely that in the absence of such favourable opportunities some of these countries might have been interested in buying Indian tobacco which, although poorer in quality, is much cheaper than both American and Rhodesian tobacco. The concessional sales of tobacco by the U.S.A. have, therefore, affected India's exports somewhat adversely. As is brought out in Table VIII.2, such exports have formed up to about 15 per cent of the total U.S. exports of tobacco.

In Western Europe, the most important importing area in the world, countries like France and Italy have state monopolies of the sale and import of tobacco, and both these countries also produce tobacco locally; in addition, France gives preference to imports from the former French West Africa. In West Germany the preference, apart from the superior flue-cured American Virginia, is for the oriental leaf tobacco grown in Greece and Turkey. In the U.K. the import of tobacco is the hands of only a few companies and they distribute their purchases over a large number of countries. In addition, since 1946 there has been an agreement between the British manufacturers of tobacco and the South Rhodesian Marketing Board whereby the British manufacturers have undertaken to buy two-thirds of the Rhodesian crop, subject to good quality, and the Rhodesian growers have undertaken to do

¹ The U.K. also bought considerable quantities of tobacco from the U.S.A. during some years of the last decade under these concessional arrangements.

Table VIII.2 Total and Concessional Exports of Tobacco from U.S.A. (*Million lb.*)

	1955-6	1956-7	1957-8	1958-9	1959-60
Total	577.7	500.7	472.3	473.2	456.6
Concessional	78.9	52.3	34.5	41.0	41.9

Source: Commonwealth Economic Committee: *Tobacco Intelligence Bulletin*, vol. 12, No. 4 (Nov. 1960).

everything possible to improve the quality of their tobacco. This agreement was renewed every year until 1956, when it was modified to a three-year agreement whereby the British manufacturers undertook to give in advance an assessment of their requirements for the coming three years, the assessment for the first year being a firm commitment, while the estimates for the two following years would be open to review.² A similar agreement between the Rhodesian producers and the Australian manufacturers of tobacco has been in force since 1949.

The factors mentioned above naturally restricted the scope for India to raise her exports. One may therefore get a wrong impression if one merely limits one's attention to the fact that India is only a small exporter, and that she could have increased her exports if she had really wanted to, regardless of the over-all volume of world trade. As is pointed out above, the bulk of Indian exports consists of Virginia flue-cured tobacco for which the U.S.A. and the Federation of Rhodesia and Nyasaland are the other major exporters. For this variety the market structure therefore resembles oligopoly; in addition, the two other oligopolists could protect their interests either because they were able to offer more attractive terms of sale (the case of the U.S.A.), or enter into long-term agreements with the major importers (the case of Rhodesia).

Yet there is no doubt that India has not done her best even to exploit the limited opportunity that was open to her. After all, exports from Rhodesia to the U.K., the latter being the world's largest importer of tobacco, form only about 25 per cent of the total imports of the U.K.,³ and at a time when the

² See in F. S. Joelson (ed.), *Rhodesia and East Africa*, an essay by Peter Spearing on 'The Federal Tobacco Industry', London, 1958, pp. 413-17.

³ Taking a three-year average, the U.K. imported 305 million lb. (dry weight) a year of flue-cured tobacco during 1958-60. Of this the Federation of Rhodesia and Nyasaland supplied 79 million lb. a year and India supplied 39 million lb. a year on the average. (Calculated from CEC *Tobacco Intelligence Bulletin*, vol. 13, 1961, no. 1.)

Table VIII.3 Average Import Unit Value (Excluding Import Duty) of Unstripped Leaf, Virginia Flue-Cured Tobacco Imported into the U.K. (*Pence per lb.*)

Country of Export	1937-9	1952	1953	1954	1955	1956	1957	1958
U.S.A.	15.5	60.2	61.8	62.9	61.9	63.1	67.7	68.8
India	10.4	33.5	35.2	36.1	40.6	33.7	34.0	38.1
Canada	18.2	52.5	52.6	53.2	54.9	56.5	58.4	60.1
Rhodesia	14.0	62.3	62.6	62.0	64.7	59.5	64.2	67.2
Nyasaland	12.5	42.0	49.1	49.9				

Note: From 1955 onwards the figures shown against Rhodesia are the combined figures for the Federation of Rhodesia and Nyasaland.

Source: Statistics published by the Commonwealth Economic Committee in the various issues of the *Tobacco Intelligence Bulletin*.

U.K. was faced with a 'dollar problem' India was more favourably placed than the North American exporters for supplying the needs of the U.K. However, being unable to produce enough of the high-quality Virginia, India was not in a position to take advantage of this opportunity for the U.K. is interested only in the top varieties produced in India. According to an official classification the top grades of Virginia form only about 27 per cent of the total Indian exports of that variety.⁴ As Table VIII.3 brings out, Indian is the cheapest relative to American, Canadian, and Rhodesian tobacco. Yet because of its inferior quality there has been only a limited demand for it.

Had India made sustained attempts to improve the quality of her tobacco she would have gained, even if her export volume had remained constant. For in that case prices fetched by Indian tobacco would have been closer to those received by other countries. Unfortunately the incentive for an improvement in quality has not been very strong. The world markets have become more and more competitive now that the dollar problem once faced by Europe seems to have been solved. Even otherwise, as we saw earlier, India would have needed considerable effort to break through the difficulties facing her in the world markets. On the home front cultivators have often been able to get a better return by producing other crops, like groundnuts. As a result neither

⁴ See a monograph, *Types and Grades of Unmanufactured Tobacco exported from India in 1957*, published by the Department of Marketing, Ministry of Food and Agriculture, Government of India, 1960.

Table VIII.4 Area, Yield, and Production of Unmanufactured Tobacco in India

	1948-50	1951	1952	1953	1954	1955
Area (000 Hectares)	343	288	288	369	369	346
Production (000 Tons)	263	208	209	272	272	255
Yield—000 kg per Hectare	7.7	7.2	7.3	7.4	7.4	7.4
	1956	1957	1958	1959	1960	
Area (000 Hectares)	410	419	359	363	370	
Production (000 Tons)	303	305	240	265	286	
Yield—000 kg per Hectare	7.5	7.2	6.7	7.3	7.7	

Source: FAO, *Production Year Books*.

the total production nor the yield per hectare of tobacco in India has risen much in the last decade. This is revealed by Table VIII.4.

At a time when the production of tobacco did not show a tendency to rise significantly the domestic consumption of tobacco products more than doubled from 1953 to 1960. The annual production of cigarettes rose from 18,423.6 million in 1953 to 38,350.8 million in 1960.⁵ Over 80 per cent of the total tobacco produced in India is consumed at home and the home market has grown rapidly. Thus cultivators have had little incentive to improve the quality of tobacco for export.

B. COFFEE

Table VIII.5, which gives figures of production and exports of coffee from India, does bring out that both production and exports of coffee have risen rapidly in the post-war years.

India's export performance in this case, however, does not look so good if we compare it with India's exports in the pre-war years. In the pre-war years India's relative share of world exports was about 0.5 per cent and in 1958-60 this share had increased only to about 0.62 per cent. Coffee is but a minor item in India's exports, and even at their highest, export receipts from coffee formed barely 1 per cent of India's total export earnings. However, it is a case

⁵ cf. Statistics published by the Ministry of Commerce and Industry in their *Journal of Industry and Trade*, June 1961, p. 1159.

Table VIII.5 Production and Exports of Coffee from India and World Exports
(000 Metric Tons)

Year	Indian Exports	Indian Production	World Exports
1934-8 (Av.)	9.0	16.7	1,651
1948-50 (Av.)	1.9	20.7	1,931
1951	1.0	21.2	1,922
1952	2.2	23.6	1,950
1953	1.0	29.9	2,086
1954	10.3	25.1	1,781
1955	4.4	34.8	2,058
1956	7.5	42.7	2,323
1957	13.4	44.3	2,213
1958	14.9	46.5	2,156
1959	14.4	47.5	2,556
1960	16.4	48.0	2,592
1958-60 (Av.)	15.2	47.3	2,435

Source: Indian Official Statistics and FAO *Trade Year Books*. For details please refer to the appendix on Statistical Sources.

which serves well to illustrate the lack of export consciousness prevalent in India until 1958.

Since India is only a minor exporter of coffee and Indian coffee is known to enjoy high reputation among the quality coffees of the world, it was possible for India to raise her exports much further in the last decade if only the importance of exports to the national economy had been better appreciated. Between 1948-50 and 1958-60 the domestic consumption of coffee in India increased by about 71 per cent and, even if production could not be further increased, restraint on consumption would have led to larger exports. Coffee, after all, is not a necessity of life for the great mass of the Indian people. Even during 1958-60 exports formed only 33 per cent of the total production of coffee in India.

In fact until 1957 the whole emphasis of the Coffee Board, the official agency charged with the collection of the entire produce from producers and arranging for its internal and external distribution, was on satisfying the home market, regardless of its effects on exports. As early as 1952 the Government had sanctioned this policy of the Board, even if it meant a total suspension of exports. No wonder that the Coffee Board was busier in encouraging the growth of a 'coffee habit' in India than in promoting

Table VIII.6 Average Annual Return to Growers of Coffee and Internal and Export Prices Realized by the Coffee Board at the Respective Auctions (*Rupees per cwt.*)

Year	Return to Growers	Internal Sale Price	Export Price
1953	185.6	219.15	406.88
1954	187.2	205.19	375.75
1955	191.2	217.31	253.50
1956	207.2	213.43	381.67
1957	224.8	222.70	314.11
1958	200.8	218.31	245.90

Source: Various issues of *Indian Coffee Statistics*, published by the Indian Coffee Board, Bangalore.

exports.⁶ The coffee habit in India was sought to be developed in more than one way. Thus, to keep the domestic prices low,⁷ the system of auction sales which is used to market coffee was modified by the Board and a ceiling price was fixed, within which auction sales were to be held. To provide coffee as cheaply as possible to the small retailers, hotels and canteens, the Board held local auctions in important towns. The co-operatives were sold coffee at the minimum release prices for direct retail sales to the final consumers. In addition the export proceeds were used to subsidize deliberately the domestic consumption of coffee,⁸ as is brought out in Table VIII.6. This table gives

⁶ 'Home consumption of coffee has marched hand in hand with production during the period under review (1944-60). We dare say that it was the relatively steady price line held by the Board which helped to create the climate suitable for promoting the coffee habit in India.' From *Indian Coffee* (the official organ of the Coffee Board), December 1960.

⁷ 'The Board has been successfully maintaining its price policy which in short is the sale of coffee at the lowest possible prices to consumers in India with a reasonable return to the producer.' Chairman of the Indian Coffee Board in the 16th *Annual Report* of the Board, Bangalore, 1955-6, vol. 1, p. 22.

⁸ All the coffee grown in India is pooled with the Board, which distributes it by inviting closed-bid tenders. For the purpose of paying the producers, all the sale receipts are pooled and growers are then paid on the basis of a 'fair return'. All varieties are converted into Plantation A grade equivalent and the cost of producing one cwt. of Plantation A grade is related to the cost of production of other varieties (one cwt. of Plantation A has 80 points).

prices paid by the Board to the growers and its realization on internal and export sales.

To ensure that domestic consumers were kept supplied with the needed quantities exports were severely controlled, even when they were more profitable than the home sales and in spite of the fact that 'Indian coffee is well known abroad as one of the finest mild coffees and has always got a market in Europe and the U.K.' Besides, the whole system of marketing the quantities made available for export showed an extremely short-sighted view. The quantities earmarked for export by the Coffee Board are sold in auctions to the registered exporters. At first they are provided with the samples. These they send abroad and then submit their tenders for coffee on the basis of the offers they receive. The tenders are tabulated by the Board and the highest tender for each lot is accepted. The whole system, therefore, rests on the assumption that India has only to offer more coffee to the world for it to be readily absorbed. The registered exporters cannot enter into any firm commitment with foreign buyers because they are not sure whether their tender will be accepted by the Coffee Board. On their part, the foreign buyers cannot be sure that supplies will be readily forthcoming from India. Indian coffees are mainly used for the purpose of blending with other varieties, and unless blenders can be sure of their supplies from India they are unlikely to use Indian coffee in their blends. Thus the marketing procedure adopted by the Board has helped in making Indian coffee 'a very uncertain commodity' in the eyes of foreign customers. Surprisingly, there has been no provision of forward sales for export purposes which could have helped exporters and importers to plan their sales and purchases well in advance.

Faced with a severe exchange crisis in 1957 the Government induced the Coffee Board to be more export-minded than before. However, this interest in exports coincided with the worldwide over-production of coffee, which appeared for the first time in the post-war years, in 1957. No wonder that the growers are no longer enthusiastic for exports. The earlier efforts to promote a coffee habit in India have now borne fruit and it is to the internal market rather than exports that they now look hopefully. Valuable time was wasted before 1957, a time when a more sustained effort in promoting exports would have endeared Indian coffee permanently to the overseas consumers of quality coffees, and this by itself would have been the best guarantee that exports would further expand.

SUMMARY

The following conclusions may be drawn from our analysis of India's exports of tobacco and coffee:

1. Such factors as sales of tobacco by the U.S.A. on concessional terms, the agreement between the Rhodesian producers and the British manufacturers of tobacco, and the existence of state monopolies for imports in France and Italy would have limited India's export opportunities in any case. However, the fact that India seems to have paid little attention to an improvement in the quality of her tobacco has meant that she has not been able to utilize fully even the available opportunities, limited though they were.
2. In the case of coffee, exports have increased since the mid-fifties, but more could be exported if the Indian Coffee Board were less preoccupied with the development of a coffee habit in India and had taken more active steps to increase exports.

(iii) *Summary*

IX

Export Performance, 1951-60

A Summary View

A. INTRODUCTORY

In the last six chapters we adopted a micro approach so as to lay bare the factors which exercised a decisive influence on India's exports from 1951 to 1960. The commodities whose export performance was surveyed account for over 60 per cent of India's total export earnings. Thus our analysis can provide us with a fairly good idea of the major factors affecting India's export performance. Obviously no single explanation would do justice to the great variety of experience. Nevertheless, a common underlying pattern could be observed in many commodities.

B. EXTERNAL FACTORS: THE LIMITING ROLE OF FOREIGN DEMAND

Our study of export trends in various commodities brought out the fact that both external (i.e. those originating outside India) and internal factors influenced India's export performance during the period under review. No doubt the intensity or the relative importance of the two types of factors varied from one commodity to another. Nevertheless it is possible to make a few generalizations on the basis of the three-fold classification of export commodities that we suggested in Chapter II.

1. Commodities in Which World Trade Is Dominated by a Few Countries, Including India

Tea, cotton textiles, Virginia flue-cured tobacco, black pepper, manganese ore, and castor oil fall into our first group. Thus India accounts for over

40 per cent of world exports of tea, and India and Ceylon together supply nearly 80 per cent of world exports. In cotton textiles Japan, India, the U.S.A., and the U.K. are responsible for about 50 per cent of world exports. The U.S.A., the Federation of Rhodesia and Nyasa-land, and India account for nearly 80 per cent of world exports of Virginia flue-cured tobacco.¹ India, Indonesia, and Sarawak accounted for nearly 85 per cent of total world exports of black and white pepper in the late fifties.² In manganese ore India, the U.S.S.R., the Union of South Africa, Ghana, and Brazil supply the bulk of world exports. India and Brazil are the two leading exporters of castor oil. In all these commodities world markets are dominated by only a small number of exporting countries, including India.

To explain the export performance of commodities included in the above group we put forward in Chapter II an hypothesis that, although there may be more than one individual exporter of a given commodity in a particular country, yet in a world where the concern for the balance of payments is so widespread it is not inappropriate for some purposes to assume that the country acts as a single unit.³ If this is accepted then it turns out that the

¹ The FAO does not record exports of Virginia flue-cured tobacco separately. But according to a report of the U.S. Congress, world exports of this variety of tobacco were 768 million lb. in 1958. Of these the U.S.A., the Federation of Rhodesia and Nyasaland, and India together supplied 606 million lb. or about 79 per cent of the total. See *Tobacco Price-Support Hearings before the Sub-Committee on Tobacco of the House of Representatives, March 1959*, Washington, 1959.

² World net exports of black and white pepper averaged 45.7 thousand tons a year during 1958-60. Of these, India supplied 16.2 thousand tons, Indonesia 17.9 thousand tons, and Sarawak 7.5 thousand tons. (Calculated from the FAO *Trade Year Book*, vol. 14, Rome, 1961.)

³ That it may not be inappropriate to make this assumption (and to apply the results of oligopoly theory to explain the trends in international trade in the commodities being considered in this section) is supported by the following facts. In the case of tea, since it accounts for over 60 per cent of the annual export earnings of Ceylon, the Government of that country has taken an active interest in export promotion by opening tea centres in various parts of the world to popularize Ceylonese tea. Also, bilateral trade agreements have been used by Ceylon to develop tea markets abroad. In cotton textiles, while the U.K. and the U.S.A. seem to have resigned themselves to a fall in their export shares, Japan has paid special attention to increasing her exports of textiles in the last decade, for cotton yarn and fabrics accounted for nearly 25 per cent of Japan's total export earnings in the mid-fifties. For Virginia flue-cured tobacco there is a marketing

export performance of those commodities in which the world trade is dominated by only a few countries can be analysed with the help of the theory of oligopoly. It is widely recognized that, barring some unstable situations,⁴ it is difficult for any single major producer working in an oligopolistic market structure to raise his relative share of the market significantly. For an attempt to do so on the part of any single oligopolist is likely to invite retaliation from his rivals whose market shares are threatened by his move. And the temptation to retaliate (so as to preserve one's existing market share) will be stronger if the rate of growth of the over-all market demand is sluggish. On the same analogy, given an oligopolistic environment, it is likely to be difficult for any single major exporting country to increase her exports at a rate much faster than the rate of growth of world trade in a given commodity.

Looked at this way it is India's misfortune that (as brought out in Table IX.1) the world trade in some of her major export commodities shows no strong rising trend. Given an oligopolistic market environment and a very slowly growing world trade, only limited opportunities were open to India to raise her exports of the commodities considered in this section. Comparing the growth of world trade in the five commodities (tea, cotton textiles, pepper, tobacco, castor seed and oil) with the growth of world trade in general we find that with the exception of pepper⁵ the growth of world trade in these

Board in Rhodesia for export sales; and in the U.S.A. the Commodity Credit Corporation has also been actively interested in exports, if only to reduce its burdensome surpluses accumulated in the process of its farm-support programmes. In manganese ore the export trade in the U.S.S.R., a major world exporter, is a state monopoly.

⁴ Such unstable situations may arise if there is a vast disparity in costs among the rival producers, so that the weaker producers may be planning a retreat in view of their inherent competitive disadvantage. International trade in cotton textiles provides an example of an unstable situation where two major exporters—the U.K. and the U.S.A.—seem to have resigned themselves to a falling share of world exports. They have been convinced that with their high and fast rising wage costs they have not much chance of competing in the world markets against Asian exporters of cotton textiles.

⁵ Although the average annual volume of world exports of pepper (black and white) rose by 144.4 per cent between 1948-50 and 1958-60, the average annual volume of world exports in 1958-60 was 36 per cent lower than the average annual volume of world exports in 1934-8. Pepper in the present discussion includes only black and white pepper.

Table IX.1 Trends in World Exports of Tea, Cotton Textiles, Pepper, Tobacco, and Castor (*Volume in 000 Metric Tons*)

	1. Volume			2. Percentage Change	
	1934-8	1948-50	1958-60	A 1934-8 to 1958-60	B 1948-50 to 1958-60
Tea	360.1	387.8	496.2	37.8	28.0
Cotton Textiles ¹	874.7	839.4	989.6	13.1	17.9
Pepper (Black and White)	71.2	18.7	45.7	-35.8	144.4
Tobacco ²	—	529.0	726.0	—	37.2
Castor (Seed & Oil)	105.0	115.0	138.0	31.4	20.0

Notes: 1 Pre-war figures are for 1938.

2 For tobacco, pre-war figures are not strictly comparable with post-war figures because the latter do not include the trade of some non-reporting countries.

Sources: Tea—Chapter IV, p. 57, Table IV.1. Cotton Textiles—Chapter V, p. 74, Table V.1. Pepper, FAO, *Trade Year Book*. Tobacco, Chapter VIII, p. 130, Table VIII.1. Castor, Chapter VI, p. 101, Table VI.3.

commodities between 1948-50 and 1958-60 was much more modest than the growth of world trade as a whole.⁶ It is in this sense that conditions of international demand have exercised a limiting influence on India's export performance; for the commodities considered in this section accounted for about 38 per cent of India's total export earnings during 1955-60.

One may of course object that the observed relative sluggishness of world trade in commodities discussed above is not a sufficient proof that foreign demand is a major factor limiting India's export opportunities. For it is possible that, since under oligopolistic conditions producers can control prices, trends in world trade may well have been a consequence of the price-output policies of major exporting countries. Tea, accounting normally for over 20 per cent of India's annual export earnings, is the most important of the export commodities being considered in this section. Our analysis in Chapter IV brought out that tea in the last decade remained the cheapest drink relative to both coffee and cocoa, and also that in real terms⁷ tea in the last decade was in fact often

⁶ The volume of world exports of all commodities in 1960 was 117 per cent higher than the corresponding volume in 1948 and it was 62 per cent higher than 1951. See UN, *Statistical Year Book*, 1961, p. 426.

⁷ The FAO index of wholesale prices of tea being deflated by the U.K. index of wholesale prices.

cheaper than in 1934-8. In addition, all the available evidence that was examined in Chapter IV pointed to a negligible price-elasticity of demand for tea in the developed countries, which together account for nearly 75 per cent of world imports. Thus price policies of exporting countries could not have affected significantly the course of world demand for tea.

The second most important commodity in our group is cotton textiles, accounting for 10-13 per cent of India's annual export earnings in the last decade. As explained in Chapter V, the most important reason for the stagnation of world trade in cotton textiles in the last decade was a progressive growth of import substitution in the underdeveloped countries. Since this process was a part of their industrialization drive, there is no reason to suppose that it could have been greatly modified by more moderate price policies on the part of the exporting countries. In any case, if the trend of export unit values is any guide, Indian export prices of cotton textiles were falling during the last decade.

This leaves us with raw tobacco, castor (seed and oil) and black pepper, together accounting for about 5 per cent of India's annual export earnings. Frankly, one cannot be very confident in stating that the price-output policies of exporting countries had no effect on the course of world trade in these commodities. Castor oil is used mostly in industry and for medical purposes. In industry its use for the making of paints and varnishes has been affected by a growing use of synthetic paints and floor coverings; and it is difficult to determine the extent to which this development was a response to the price behaviour of castor oil. In addition, other vegetable oils also compete with castor oil but it is not possible to estimate the elasticities of substitution among various vegetable oils. However, the fact that between 1934-8 and 1958-60 world trade in vegetable oilseeds and oils as a whole increased less fast than world trade in castor (seed and oil) would suggest that price policies of countries exporting castor were on balance relatively moderate.⁸ As for raw tobacco, tastes differentiate the market for different varieties and India exports

⁸ Thus world exports of castor (seed and oil in terms of oil equivalent) rose by 31.4 per cent between 1934-8 and 1958-60. Over the same period the average annual volume of world exports of twelve major oilseeds and oils rose by only 11.4 per cent. It must be noted, however, that this is only a rough comparison, as pre-war figures include the trade of some non-reporting countries in the post-war years as well. Of course, between 1948-50 and 1958-60 world trade in castor grew less fast than world trade in vegetable oilseeds and oil together. But this was because the world trade in castor attained the pre-war level earlier than other oils and oilseeds.

mostly Virginia flue-cured.⁹ But we have no firm estimates of the price-elasticity of demand for products made out of Virginia flue-cured tobacco; and we also do not know if any price cuts for unmanufactured tobacco by exporters would have been passed on by manufacturers in the importing countries to their consumers.

As far as pepper is concerned, although world exports of black and white pepper rose rapidly after 1948–50, the volume in 1958–60 was still about 36 per cent lower than the pre-war.¹⁰ Prices of pepper did rise sharply in the early post-war years; and even after a considerable fall in later years, the average annual price in London during 1958–9 was still over 500 per cent higher than the average annual price during 1934–8.¹¹ It is therefore possible that this price behaviour may have affected the consumption and import of pepper in the importing countries. However, it is equally possible that prices may not have played an important role in this development; and it may well have been the result principally of an autonomous shift in tastes in importing areas in favour of less spicy foods. Advanced Western countries account for over 50 per cent of world net imports of black and white pepper. And it is widely believed that the growth of refrigeration facilities in these countries has greatly reduced the demand for spices as a preservative. In so far as the use of refrigerators cannot be easily ascribed to the rise in the prices of pepper, the losses suffered by the pepper trade (due to the growth of refrigeration facilities) may be considered to have been largely independent of the behaviour of prices of pepper. Even if the reduced consumption of pepper in the importing areas was a response to rising prices India could hardly be blamed for the rise in prices. Before the Second World War India was an insignificant exporter and the world trade was dominated by Indonesia.¹² In the post-war years

⁹ India's relative share of world trade in unmanufactured tobacco as a whole varied between 5 to 7 per cent in the last decade. Taking only the Virginia flue-cured variety, India's share was about 12 per cent during 1958.

¹⁰ *Vide* Table IX.1.

¹¹ Calculated from the *FAO Monthly Bulletin of Agricultural Economics and Statistics*, July–August, 1961.

¹² During 1934–8 India supplied annually only 1.7 thousand tons of pepper, whereas the volume of world exports averaged 71.2 thousand tons a year. In 1948–50, out of an average annual volume of world net exports of 18.7 thousand tons, India supplied 11.8 thousand tons. During 1958–60, out of a total of 45.7 thousand tons India supplied 16.2 thousand tons a year. (Calculated from the *FAO Trade Year Books*.)

India became the world's largest exporter, largely because adequate supplies were not available from Indonesia. Therefore the reason for an excessive rise in prices must be found in an insufficient recovery of supplies from Indonesia, the most important pre-war exporter.

We may therefore conclude that for commodities discussed in this section price policies pursued by India, with the possible exception of that in respect of black pepper, did not materially affect the growth of world trade. The lack of a sufficiently rapid rise in world exports of these commodities was therefore a result of factors outside India's control. Given this behaviour of world trade, the opportunities open to India to increase her exports of these commodities were bound to be limited.

2. The Cases of Near-Monopoly

We next consider the cases of commodities which fall into the second group, namely those of which India was nearly a monopolist in the last decade. Jute manufactures, natural mica, lac, and cashew kernels can be grouped under this category.¹³ These four commodities accounted for about 24 per cent of India's total export earnings during 1955-60. In all these cases India's once complete monopolistic hold on the world markets is being increasingly challenged. Pakistan has become an important exporter of jute manufactures since 1958 and is planning to become a formidable rival to India in the not too distant future. For the last ten years Thailand has been successfully challenging India's position as the world's only source of lac. Brazil and Mozambique have started exporting cashew kernels in the last few years. Similarly, production of mica for export is being encouraged in Brazil. Nevertheless, although rival sources of supply have appeared in the last few years, the quantitative significance of these rival sources was still very small during the period under review. Indian policies, therefore, were still capable of exerting a major influence on the course of world trade.

¹³ India's relative share of world exports of jute manufactures was still about 75 per cent in the late fifties (Chapter III, Table III.1). For mica it is, however, difficult to speak in terms of relative shares because mica differs greatly in quality and therefore value. For lac India's share in the late fifties had been reduced to about 70 per cent of world exports (imports of raw lac from Thailand into India being excluded from world exports).

Table IX.2 India's Exports of Jute Goods, Mica, Lac, and Cashew Kernels
(Annual Averages in 000 Metric Tons)

	1948-50	1951-3	1955-7	1958-60
Jute Manufactures	825.7	764.8	880.5	830.2
Mica	11.8	9.0	9.6	9.8
Lac	24.9	32.5	28.1	26.6
Cashew Kernels	22.5	257	33.1	40.8

Note: Figures for mica, lac, and cashew kernels relate to fiscal years beginning 1 April. Figures for cashew kernels in the first column are the average for two fiscal years, 1949 and 1950.

Source: Jute—Chapter III, p. 38, Table III.1. Mica—Chapter VII, p. 125, Table VII.9. Lac—Official Statistics by DGCI & S. Cashew Kernels—DGCI & S.

As is brought out in Table IX.2, only in the case of cashew kernels could India's export performance be considered satisfactory.

In the remaining three cases the basic explanation of the behaviour of exports is to be sought in the stagnation of consumption of these goods in the importing areas. The stagnation of their consumption in turn is due to their diminished importance in their traditional uses as a result of new developments in technology. In the case of jute manufactures the growth of techniques of bulk handling has led to a complete elimination of containers for packaging in many industries. In addition, because of an improvement in its quality, paper has increasingly been used as an alternative packaging material. For mica and lac the development of successful synthetic substitutes has greatly affected a growing use of these commodities.

How are we to explain the emergence of the new technological developments referred to above? To what extent are we to regard technical progress as autonomous or induced by the structure of relative prices of principal inputs? There is one view which emphasizes that the pace is set by the behaviour of relative prices of natural raw materials. We have already referred to Cairncross's view that prices of natural raw materials were often an important factor in determining the pace at which synthetic substitutes were introduced.¹⁴ Unfortunately prices for all the three commodities being considered here did rise very high in the early post-war years. The price trends in jute manufactures and mica have already been noted in earlier chapters of this study. The same story of a rapid rise in prices until 1951 is to be found in

¹⁴ A. K. Cairncross, *Factors in Economic Development*, London, 1962, p. 201.

the case of lac. Thus the average annual price of shellac in the U.S.A. rose from 15 cents per lb. in 1937 to 66 per cent per lb. in 1948, though by 1958 the price had come down to 35 cent per lb. As against this the price of nitro-cellulose (R.S.) was 26 cents per lb. in 1937 and it rose to only 27 cents per lb. in 1948. By 1958 however it had risen to about 41 cents per lb.¹⁵ Even then, comparing the price rises from 1937 to 1958, we find that prices of shellac did rise faster than those of its synthetic substitutes.

Do we then take the view that the stagnation in consumption of these commodities in the importing areas was a result of faulty price policies pursued by India? There may be an element of truth in the above view, although it is difficult to assess its quantitative importance. Nevertheless, the following points would suggest that the relative prices of these commodities must have played only a subordinate role in giving rise to the growing use of synthetic substitutes (or bulk deliveries in the case of jute).

The process of technical change is much too complex to admit of a simple causal explanation. There is no doubt a great deal of truth in the saying that necessity is the mother of invention. But it would be an over-simplification to assume that the price behaviour of natural products is the sole and sufficient indicator of necessity. That necessity may be felt in other ways as well. Thus the mere uncertainty whether supplies would be readily available when demanded is a powerful influence, making for a displacement by domestically-produced substitutes of materials imported from distant lands. The uncertainty with regard to the availability of the imported supplies, in turn, may not necessarily be a consequence of the past unreliability of the exporting countries as trade partners. In a security-conscious world strategic considerations often play an important part. Thus the fear of being cut off from the overseas sources of supply in the event of a war has exercised an important influence on the pace of development of synthetic substitutes for natural mica. How else do we explain the active interest of governmental agencies in the U.S.A. as well as the U.S.S.R. in encouraging the development of synthetic substitutes for mica? Or how else do we explain the attempt by the U.S. stock-piling authorities to develop resources of mica in Brazil (which is much nearer geographically to the U.S.A. than India) by going out of their way in deliberately raising the prices they were willing to pay for Brazilian mica in 1955, while prices to India were not raised? Since the cost of mica is likely to

¹⁵ These figures were collected from the Ministry of Commerce and Industry, Government of India, New Delhi.

form only a very small part of the total cost of production of electrical appliances in which it is used as an insulator it is not certain that a rise in the price of natural mica was the most important factor at work in inducing the development of substitutes.

In some cases new processes or substitute materials are discovered merely as a by-product of some major research work. If these substitutes have some technological advantages over natural raw materials their use will only partially depend on the behaviour of prices of natural materials. Thus it turns out that for the packaging of cement the traditional jute container is technically inferior to paper bags. No wonder that the entire market in this case was lost to the latter as early as the thirties. Again, as a result of the growth of branded, ready-to-take-home goods, pre-packed by manufacturers in small attractive packages, paper was bound to gain at the cost of jute, the latter being a rough material, not easily amenable to the printing of attractive designs. Similarly it has been found that the lac used in the manufacture of gramophone records is not a suitable material for making long-playing records; and in paints and varnishes it is less easy to apply and also takes longer to dry than its synthetic substitutes.¹⁶ In such cases new synthetic substitutes were bound to gain although their pace in some branches of economic activity may well have been hastened by an excessive rise in the prices of natural materials.

In some other cases, while the behaviour of relative prices of the major inputs may be an important influence on the speed of their replacement by new processes and products, such developments may often bring some welcome incidental savings in other minor inputs. But this latter saving, although welcome, may not have been the major reason for the change. Thus the growth of bulk handling, which eliminates altogether the use of a container in packaging, is part of a wider movement towards the mechanization of farms and factories, receiving its impetus perhaps by a desire to save on labour costs. The saving of the cost of the container is normally likely to be only an incidental gain. Therefore, to the extent that the elimination of the container is not the major reason for the introduction of bulk handling devices, the loss suffered by jute goods may be considered to have resulted from exogenous factors.

Our conclusion with regard to jute manufactures, mica, and lac may now be summed up. In so far as their consumption abroad has suffered because of the successful development of new products and processes such losses were

¹⁶ See a study by the National Council of Applied Economic Research, New Delhi, *Export Markets for Indian Lac*, Bombay, Asia, 1958, pp. 46-8.

probably unavoidable. In theory there may well be a price of a natural material or product which will make it uneconomic to develop and use the synthetic substitutes. However, it is difficult in practice to discover such a price. Prices of these products undoubtedly rose steeply until 1951 and this may well have played a part in the stagnation of consumption in the importing countries. Thus a rise in the price of jute manufactures may have accelerated the growth in the use of paper bags, and rising prices of lac may have encouraged a greater use of synthetics. But if our preceding analysis is valid, relative prices are unlikely to have exercised the most important influence on consumption of these commodities.

3. Commodities of Which India Is a Marginal Exporter

It remains to consider those commodities of which India is only a minor exporter in the world. Such commodities are coffee, raw cotton, raw wool, hides and skins, groundnuts, linseed, coal, and iron ore. That India is a very small exporter of these commodities in the world is borne out by the following facts. India's relative share of world exports of coffee averaged 0.6 per cent in 1958-60.¹⁷ Her relative share of world exports of raw cotton never exceeded 2 per cent in the last decade;¹⁸ and in raw wool India accounted for slightly more than 1 per cent of world exports in the late fifties.¹⁹ For groundnuts (nuts and oil together) her relative share of world exports was 3.0 per cent during 1958-60, while the corresponding share for linseed (seed and oil) was 3.5 per cent during the same period.²⁰ India's relative share in world exports of iron ore seems to be less than 2 per cent.²¹ While no detailed statistics are available about the world trade in hides and skins India is known to be a minor exporter. The same holds for exports of coal and coke.

It has already been explained in Chapter II that in all those commodities of which India is only a minor exporter in the world, the lack of foreign

¹⁷ Chapter VIII, p. 136, Table VIII.5.

¹⁸ According to that FAO Series, whose figures after 1956 are comparable with those for pre-1956 post-war years, world exports of raw cotton averaged 2,954 thousand tons during 1958-60, while India exported on the average 55 thousand tons a year during 1958-60.

¹⁹ World exports averaged 1,295 thousand tons a year, while those of India averaged 16 thousand tons a year during 1955-60.

²⁰ Chapter VI, p. 102, Table VI.4.

²¹ Chapter VII, p. 113, Tables VII.1 and 2.

Table IX.3 Trends in India's Exports (*Annual Averages in 000 Metric Tons*)

	1948-50	1951-3	1955-7	1958-60
Coffee	1.9	1.4	8.4	15.2
Raw Cotton	61.4	42.2	64.4	55.0
Raw Wool	14.9	14.0	15.3	16.0
Hides & Skins (Raw) ¹	13.3	11.1	11.0	12.2
Leather (Tanned) ²	21.3	25.3	21.6	21.0
Groundnuts (Seed & Oil as Oil)	67.7	59.3	73.7	23.8
Linseed (Seed & Oil as Oil)	28.1	23.8	45.0	16.0
Iron Ore ³		792.5	1,813.0	2,775.2

Note: Statistics relate to fiscal years beginning 1 April.

Source: Coffee—Chapter VIII, p. 136, Table VIII.5. Groundnuts and Linseed—Chapter VI, p. 99, Table VI.1. Iron Ore—Chapter VII, p. 112, Table VII.1. Rest—Official Statistics by DGCI & S.

demand cannot be accepted as a valid explanation of India's export performance. Just as any single seller under pure competition has to accept market prices as given, so a small exporting country cannot much influence the course of world prices of its exports. The export prices being given from outside, the effective limit on export performance in all such cases is the ability and willingness of the country to supply goods at the ruling prices.²² A look at Table IX.3 shows that coffee and iron ore are the only two commodities in this group whose exports increased significantly from 1951 to 1960. This suggests that important domestic factors have also been at work in making for stagnant exports.

²² However, as was pointed out in Chapter II, the mere fact that a country is only a marginal exporter of a particular commodity does not by itself establish the conclusion that it is operating in the world of pure competition. For even though this country may have no influence on world prices they may be set by the action of a few dominant exporting countries. In such a case the oligopolists set the world prices and marginal exporters have to follow their lead. And it does appear that the world trade in many commodities being considered in this section displays oligopolistic tendencies, as a small number of countries account for the bulk of world exports. Thus the U.S.A. dominates the world markets for raw cotton: it supplies about 37 per cent of total world exports. Nigeria and the former French West Africa supply nearly 70 per cent of world exports of groundnuts (nuts and oil combined in terms of oil equivalent) and the marketing of the produce is often a state monopoly. Five countries, namely Australia, New Zealand, the Union of

C. DOMESTIC FACTORS IN EXPORT PERFORMANCE

In our threefold classification of India's export commodities the first two groups, accounting for over 60 per cent of India's export earnings, consisted of those commodities of which India is a major exporter in the world. Our previous analysis suggests that in view of the sluggishness of world trade in most of these commodities during the last decade there were only limited opportunities for India to increase her export earnings. However, there is plenty of evidence that India failed to exploit fully even the available opportunities. Thus, as is brought out in Table IX.4, in most cases the growth of Indian exports from 1948-50 to 1958-60 was much less than the expansion

Table IX.4 The Growth of World and Indian Export Volume: 1948-50 to 1958-60
(Per Cent Growth)

	A		B	
	Growth of Exports 1948-50 to 1958-60		Growth of Exports 1951-3 to 1958-60	
	World	India	World	India
Tea	28.0	11.0	13.3	2.6
Cotton textiles	17.9	4.5	14.8	9.7
Tobacco	37.2	11.3	23.2	-2.8
Pepper	144.4	37.3	71.8	15.7
Castor	20.0	28.7	4.5	2.2

Source: Tea—Chapter IV, p. 57, Table IV.1. Cotton Textiles—Chapter V, p. 74, Table V.1, Tobacco—Chapter VIII, p. 130, Table VIII.1. Pepper—FAO, *Trade Year Books*. Castor—Chapter VI, pp. 99 & 101, Tables VI.1 and 3.

South Africa, Argentina, and Uruguay account for about 80 per cent of world exports of raw wool. In an oligopolistic market environment the attempt on the part of a small exporter to increase its relative share depends on the attitude of the 'oligopolists'. If the latter insist on maintaining their existing market share of world exports the rate of growth of exports of any single small exporter will be limited to the growth of over-all world demand. However, this limit is unlikely to have been valid in India's case in the commodities discussed in this section, for India's relative share in all these commodities is so small that even a significant increase in her exports would not have materially affected the leading exporters. And, as is pointed out in Chapter II, it is unlikely that the latter would be willing to upset the existing equilibrium merely to punish an extremely small exporter.

in the volume of world trade over the same period. Besides, in cotton textiles, an oligopolistic environment notwithstanding, there were definite opportunities for India to raise her relative share of exports in the last decade; for the two major exporters, the U.K. and the U.S.A., seemed resigned to a growing reduction in their relative shares of world trade, and this opportunity was fully exploited by countries like Japan and Hong Kong. India, however, failed even to hold on to her relative share of 1948-50. Further, the export performance of commodities falling into our third group, i.e. those of which India is only a marginal exporter in the world, has to be explained mostly in terms of domestic factors. An examination of export trends in some of the important commodities in this group (as given in Table IX.3) shows that coffee and iron ore are the only bright spots in an otherwise stagnant picture. All this evidence suggests that domestic factors operating in India also played a part in the stagnation of India's export earnings during the last decade. In Chapter II we outlined the manner in which such domestic factors as export controls, export duties, and the pressure of home demand could affect the export performance. The following pages summarize the actual experience.

1. Export Controls

Export controls in India are a legacy of the Second World War when they were first introduced so as to conserve essential supplies for use within the country, and also to save shipping space for war purposes. In the immediate post-war years, although attempts were made to relax the rigour of export controls, exports had still to be controlled with a view to canalizing them to the dollar-area countries. The Korean war witnessed an increase in the intensity of export controls so as to reduce the inflationary pressures which had received a fresh impetus during that war. Since 1953 the trend has again been in favour of a progressive relaxation of export controls. In view of the serious foreign exchange difficulties facing India the process of liberalization of exports has been proceeding at an accelerated pace since 1958. However, as late as 1960 commodities like tea, raw cotton, raw wool, vegetable oilseeds and oils, raw hides and skins, coffee, iron and manganese ores were allowed to be exported only within quantitative ceilings as prescribed by the export-control authorities. For reasons given in Chapter II a quantitative analysis of the restrictive effects of export controls on India's export performance is an almost impossible task. Therefore of necessity our analysis has to be in qualitative terms. The following notes are intended to bring out

the effects of export controls on some of India's major export commodities during the last decade.

a. Jute Manufactures

Though subject to export control until 1958 jute manufactures have been freely licensed without quota restrictions since 1952. For that reason export control may be said to have exercised no influence on actual exports since 1952. Until then exports were subject to destination quotas, the aim being not to discourage exports but to canalize them increasingly to the dollar area, in view of the 'dollar problem' then facing the sterling area (of which India is a member). Such discrimination was necessitated by India's inability to meet fully the entire foreign demand for jute manufactures, due to shortages of raw jute. This may have accelerated the use of substitutes for jute goods in the soft-currency-area countries, exports to which were being somewhat restricted and may have done some harm to India's long-run export prospect in these countries. However, to the extent to which the dollar-area countries were assured of more liberal supplies, the use of substitute materials for jute in these latter countries may have been somewhat moderated. It is difficult to assess the total effect of export control and in all probability it was very small.

b. Tea

It has already been pointed out in Chapter IV of this study that actual exports of tea from 1950 to 1960 were in every year lower than the quota fixed by the Indian Tea Board. But this does not mean that export control had no effect on the export performance. As is brought out earlier, the way in which quota rights were allotted to exporters, i.e. on the basis of their production rather than past export, must have exercised some adverse effect on exports (by raising the marginal cost of exports to those who wanted to export more tea than their original quota and had, therefore, to purchase quota rights from others not interested in exports). We have also observed that until mid-1958 quota prices were about 10-15 per cent of the actual export prices of tea, so that they were high enough to have involved some considerable discrimination against exports at the margin. After 1958 quota prices fell drastically as a result of more liberal export allotments by the Tea Board, so that their effect on exports was reduced to insignificance. There was however hardly any justification for the system itself. When effective, it imposed an undesirable

burden on exports and subsidized those producers who were not interested in exports, but who were yet entitled to export quotas; when not effective, as from mid-1958, it was an irksome formality.²³

c. Cotton Textiles

Cotton textiles have been licensed freely without quota restrictions since 1953. Export controls, therefore, did not affect the export of cotton textiles in later years. Yet in 1950 and 1951 the administration of export control was so defective as to have done some permanent damage to India's reputation as a reliable trade partner. In 1950, thanks to an excessively liberal export policy, India achieved the distinction of being the world's largest exporter of cotton textiles. But the success of her export drive led to an extreme shortage of cloth in the domestic market, and in sheer panic the authorities clamped down ruthlessly on exports in 1951. As a result mills were unable to honour even their firm commitments to overseas buyers. Exports of cotton cloth fell from 1,120 million yards in 1950 to 823 million yards in 1951. This was, however, not the only or the most important adverse effect of export control. The clumsy manner in which export control was administered must have done some lasting harm to India's reputation abroad at the very time when the Japanese trade offensive was in full swing. If the authorities were really so much concerned with ensuring minimum supplies for domestic consumption a better method would have been to restrict exports more in 1950 and less in 1951. This would have prevented mills from entering into large commitments overseas which they could not later honour because of the stringent export controls suddenly imposed in 1951. This way, the overseas buyers would have been assured of more orderly supplies and India would have been saved from the embarrassment she had to face on account of her failure to honour even firm overseas commitments.

d. Vegetable Oilseeds and Oils

Exports of most oilseeds, with the exception of some edible varieties of groundnuts and some minor oilseeds like niger and kardi, have remained banned since 1952. Originally the ban on the export of vegetable oilseeds was imposed so as to encourage the growth of exports of vegetable oils. However,

²³ The licensing of exports has been suspended since November 1961.

any possible favourable effects of such a ban did not materialize because of restrictions imposed on the export of vegetable oils from time to time during the last decade. Among oils, controls were most stringent on groundnut oil whose export was completely banned from June 1953 to June 1954 and again from March 1956 to June 1958.

Exports of vegetable oilseeds and oils have been so consistently controlled during the post-war years that it is difficult to say what their exports would have been in the absence of these controls. In the pre-war days India used to supply 40-50 per cent of world exports of groundnuts and groundnut oil (in terms of oil equivalent) and the average annual volume of her exports was 342.7 thousand tons (in terms of oil equivalent) during 1934-8.²⁴ As against this, India's entire exports of groundnuts and groundnut oil (in terms of oil equivalent) over the ten-year period 1951 to 1960 amounted to only 501 thousand tons.²⁵ However, the entire blame cannot be laid at the door of export controls. For the pre-war and the post-war situations differ from each other not only in that the former period had no export control; but also in that in the pre-war period the biggest single user of groundnut oil in India, the Vanaspati industry, was still in its infancy. Thus there is no guarantee that in the absence of export controls on vegetable oilseeds and oils India would have been able to export in the post-war years as much groundnuts and groundnut oil as she did in the pre-war years. It is however worth recalling that had Indian authorities merely allowed an additional yearly export of 50 thousand tons of groundnut oil from 1951 to 1960, India's export earnings over the ten-year period would have risen by at least Rs 650 million.²⁶

e. Raw Cotton

As a result of the partition of the country in 1947 India has become a net importer of raw cotton. However, she is also an exporter of short staple cottons of which there is normally a surplus. Some of these cottons, particularly the Bengal Deshi, have been much in demand abroad, because they are

²⁴ Chapter VI, p. 99, Table VI.1.

²⁵ Ibid. This poor export performance has to be studied against the background of a steady increase in the production of groundnuts in India during the last decade. Thus by the second half of the last decade production had risen by nearly 30 per cent above 1949-50.

²⁶ Groundnut oil in this case has been valued at £100 a ton. This, the 1958 figure, was the lowest U.K. market price in the last decade.

extremely suited to the requirements of makers of surgical dressings, and also because they lend themselves most easily to being mixed with other fibres. Export quotas for raw cotton, however, remained small in the last decade.²⁷ As a result exports of raw cotton from India failed to rise during the period under review. From an average annual volume of 61.4 thousand tons during 1948–50 they fell to 42.2 thousand tons a year during 1951–3, rose to 64.4 thousand tons a year during 1955–6 and fell again to 55 thousand tons a year during 1958–60.²⁸ This performance has to be studied against the fact that the production of raw cotton in India in every year since 1956–7, excluding 1959–60, was at least 75 per cent higher than in 1949–50.^{29,30}

There were no doubt years when actual exports fell below those authorized by the authorities, but invariably the difficulties arose on account of cottons other than the Bengal Deshi.³¹ The quota for the Bengal Deshi never exceeded 160,000 bales a year during the period under study and in many years was as low as 100,000 bales, out of a normal crop of 300,000 bales. If exports of this variety were allowed on a more liberal basis, allowing, say, an additional 100,000 bales a year, export receipts over the ten-year period would have risen

²⁷ However it is difficult to measure precisely the intended degree of restriction on exports; for while in some years some varieties of cotton were subjected to export quotas other varieties of cotton were allowed to be freely exported for specified periods.

²⁸ Official figures have been converted into metric weights.

²⁹ The official index of production of raw cotton was 163.6 in 1954–5; it rose to 181.2 in 1956–7, after falling to 153.9 in 1955–6. It stood at 178.8 in 1957–8, 176.6 in 1958–9, 138.5 in 1959–60 and 203.1 in 1960–1 (base 1949–50 = 100). See *Monthly Abstract of Statistics*, Government of India publication, December 1961, p. 76.

³⁰ As explained above, India is on balance a net importer of raw cotton. The picture looks brighter when it is borne in mind that net imports of cotton tended to fall over this period. From an average annual volume of 117.4 thousand tons during 1948–50 net imports of raw cotton fell to 69.7 thousand tons a year during 1958–60, a fall of about 42 per cent over this period. Yet even net imports fell proportionately less than the rise in the production of raw cotton.

³¹ In the cotton season 1951–2, as against the total quota of 0.35 million bales actual exports were 0.2 million bales. This was due to an extreme delay in issuing the quota. In 1954–5 the quota was 0.496 million bales while actual exports were only 0.32 million bales. The quota for the Bengal Deshi was however only 0.1 million bales. The quota for the Bengal Deshi was 0.075 million bales in 1953–4 and 0.1 million bales both in 1954–5 and 1956–7.

by about Rs 500 million. The contemplated additional exports would have amounted to a bare 2 per cent of the normal consumption of raw cotton by Indian mills (estimated at 4.5 to 5 million bales a year) and would not have imposed serious hardships on domestic consumers. This is due to the fact that, as is pointed out above, the production of cotton in India rose very rapidly in the last decade.

f. Raw Wool

Until 1953 exports of raw wool were licensed freely on the basis of 'first come, first served' within an over-all ceiling. In September 1953 the system of individual quotas was introduced with a view to 'avoid cornering of what was released by shippers at Bombay, which afforded greater shipping facilities' and also 'to enable up-country dealers to participate in the export trade.'³² It was also hoped by the authorities that the system of regulated exports would give a greater bargaining power to exporters from India. This system was later modified and the principle of 'first come, first served' was reintroduced, with the proviso that no shipper was to be allowed to export more than 100 bales a year from all the ports together.

The over-all ceiling on exports of raw wool was sought to be justified on the ground that it preserved enough raw wool for the domestic carpet industry, which also exports its products, averaging about Rs 45 million a year. Unfortunately we have no exact figures for the production of raw wool in India, so that we do not know what proportion of it has been used to satisfy the needs of domestic consumers. In some years actual exports were lower than those authorized by the authorities. In 1954 the export quota was 47.2 million lb. and actual exports were only 29.0 million lb.; in 1955, against a quota of 40.2 million lb., actual exports were 28.0 million lb.; in 1957 the quota was 39.8 million lb. and exports were 35.0 million lb.; and in 1958, as against a quota of 36.9 million lb., actual exports of raw wool were only 34.0 million lb. This does not establish that the export control has exercised no adverse effect on exports. But it suggests that other factors such as the strength of domestic demand may also have been at work.

³² The *Annual Administration Report for 1955* of the Import and Export Control Organization, New Delhi, 1956, p. 12.

g. Coffee

As is brought out in Chapter VIII, exports of coffee from India rose rapidly in the last decade. But much more could have been exported if only the Indian Coffee Board had been a little less soft to domestic consumers. The export control in this case suffered from a large number of defects. For example, it has been observed that the import demand for coffee in Europe is particularly brisk from January to May, and that this is followed by a period of relative inactivity from June to October. Thus the ideal thing would be to ensure that the bulk of the quota for export should be released during the earlier period to take advantage of the seasonal demand for coffee. It is, however, well known that quotas have often not been issued in time by the Coffee Board, and that they have been issued in dribblets. As the Plantation Enquiry Commission observed in 1956, 'One common grievance was that the export quota was not fixed for the whole season in advance but in instalments so that the foreign buyer was not able to plan his purchases properly and make his offers.'³³ Export control on coffee was therefore a contributory factor in making Indian coffee 'a very uncertain commodity' in the eyes of foreign consumers.³⁴

h. Manganese Ore

Before 1956 the export control on manganese ore was sought to be officially justified on the plea that it helped in the coordination of rail shipments with the availability of railway wagons.³⁵ The export control was therefore meant to overcome the transport bottlenecks. Controls, however, have costs of their own: the prescription of individual quotas for every exporter may prevent

³³ See the Commission's *Report*, vol. II, p. 157.

³⁴ As stated by the Chairman of the Coffee Board himself, and as reported in the *16th Annual Report* of the Indian Coffee Board, Bangalore, vol. I, p. 21. See also two articles by Mr. Srinivasan, a former chairman of the Coffee Board, in *Indian Coffee*, December 1960 and January 1961.

³⁵ 'The supply of wagons being inadequate, licensing restrictions introduced were aimed at making the best use of what was available and, as far as possible, an equitable distribution was made to all exporters. Dispensing with the present control must necessarily depend on an adequate supply of railway wagons.' The *Report for 1955* of the Import and Export Control Organization, New Delhi, 1956, p. 11.

some of them from honouring all their commitments to overseas customers; the fragmentation of quota rights may stand in the way of an optimum degree of specialization in the export trade; and finally, the timing of export demand may not coincide with the availability of transport facilities, and a failure to effect exports at a time considered most desirable by foreign buyers may cause some permanent damage to India's exports. There was, therefore, a strong case for trying to solve the transport difficulties without resorting to export control, in view of the inherent defectiveness of such an arrangement.³⁶

Since 1956 export control has been used to restrict the scope of activity of private exporters and to entrust an increasing share of the export trade in manganese ore to the State Trading Corporation.³⁷ The official justification for the intervention of this body in India's export trade was that 'for some time past, it was being noticed that Indian exporters were not able to fulfil the large contracts entered into with foreign buyers, which not only caused inconvenience to the importers but also undermined their confidence in this country's capacity to maintain an assured line of supply. In the second half of 1956 it was, therefore, decided to canalize exports of manganese and iron ores in a progressively increased measure through the State Trading Corporation.'³⁸ However, if the assumption is that the presence of too many small exporters is undesirable, the mere introduction of export quotas does nothing to bring about an effective reorganization of trade. If there is a strong case for a centralization of India's exports it is better to entrust the entire trade to the State Trading Corporation, as has been done in iron ore. The half-hearted policy of the Government with respect to manganese ore has contributed much to create an unnecessary uncertainty in the minds of private exporters. Their quotas have been subject to change at six-monthly intervals, and not knowing whether their quotas will remain unaffected in the future they have been unwilling to apply their best efforts to develop new markets and

³⁶ If, however, transport difficulties cannot be solved in any other way, the imposition of export controls may represent the second-best policy. For, given the transport bottlenecks, it is better that exporters should know well in advance what can be exported rather than enter into commitments which they may not be able to honour later because of transport difficulties.

³⁷ Since 1957 50 per cent of the total export quota of manganese ore has been allotted to the State Trading Corporation.

³⁸ The *Report for 1956* of the Import and Export Trade Control Organization, New Delhi 1957, p. 9.

effectively to nurse the existing ones.³⁹ Thus the Government's export policies must also have contributed to India's unsatisfactory export performance in manganese ore.

To conclude our survey of the working of export controls in India, there is no doubt that they did restrict severely some of India's exports during the last decade, particularly of vegetable oilseeds and oils and raw cotton. There is, however, evidence that makes it doubtful if, given the strength of domestic demand, a mere abolition of export controls would have led to large increases in exports of such commodities as vegetable oilseeds and oils, raw cotton, and hides and skins.

2. Export Duties and Their Restrictive Effects

The details of various changes in export duties from 1950 to 1960 are given in Table IX.5. The following facts emerge from a study of changes in export duties over this period:

1. Though some commodities like unmanufactured tobacco mica, and hides and skins have consistently been exempted from the payment of export duties, some of the major items of export like jute manufactures, tea, cotton textiles, manganese ore, vegetable oils, raw cotton, black pepper, raw wool, and coffee were subjected to export duties of varying rigour from time to time over this period.
2. Broadly speaking, the trend since 1952 has been towards a reduction of export duties. The duty on jute manufactures was progressively reduced after 1952 and was finally abolished in August 1955. The duty on cotton cloth was finally eliminated in May 1956, after progressive reductions since 1953. By the end of 1958 the remaining duties on manganese ore and vegetable oils were also abolished, and tea and raw cotton were the only important commodities that were still being subjected to the payment of export duties.

It was stated in Chapter II that the restrictive effects of export duties on a country's export performance would depend on the foreign elasticity of demand for her exports. For those standardized commodities of which India

³⁹ The Government belatedly recognized the validity of their grievances and announced in 1960 that the export quotas of private exporters would remain unaffected for three years beginning 1961.

Table IX.5 Export Duties in India, 1950-60 (*As on 1 January of Every Year*)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
1. Jute Manufactures (Rs Per Long Ton)											
(a) Hessian	350	1,500	1,500	275	120	10	-	-	-	-	-
(b) Sacking	50	150	150	175	80	80	-	-	-	-	-
(c) Other	350	80	80	-	-	-	-	-	-	-	-
2. Tea (Rs Per 100 lb.)	25	25	25	25	25	43	37	50	38	26	24
3. Raw Cotton (Rs Per Bale of 400 lb.)											
Bengal Deshi	100	400	400	125	125	150	50	100	100	25	25
4. Coffee (Rs Per cwt.)	-	-	-	-	62.5	62.5	-	-	-	-	-
5. Raw Wool	30% (ad val.)	30%	-	-	-	-	-	-	-	-	-
6. Black Pepper (Rs Per cwt.)	30% (ad val.)	120	150	150	65 or 30% (g)	-	-	-	-	-	-
7. Cotton Cloth	-	-	25% (ad val. (h))	25%	10%	10%	6.25% (i)	-	-	-	-
8. Manganese Ore (Rs Per Long Ton)	15% (ad val.)	15%	15%	15%	(i) (ad val. (i))	-	-	10-30 (k) (I)	10-30	-	-
9. Groundnut Oil (Rs Per Long Ton)	160	160	300	-	-	100	150	150	150	-	-
10. Linseed Oil (Rs Per Long Ton)	160	160	200	200	50	-	-	-	-	-	-
11. Castor Oil (Rs Per Long Ton)	-	-	300	300	300	200	125	175	175	-	-

Notes: (g) Whichever is less, (h) Excluding cloth of 35s and above and also handloom cloth, (i) This duty related only to cloth of 17 counts or below, (j) Only on coarse cloth, (k) Up to 38 per cent mn. content—nil; 38 to 40%—Rs 10; 40 to 44%—Rs 20; over 44% mn. content—Rs 30. (1) Up to 42% mn. content—nil; 42 to 44%—Rs 10; over 44%—Rs 30.

Source: Indian Customs Tariffs.

is only a small exporter in the world the demand elasticity facing India is most likely to be quite large. In such cases the imposition of export duties by India is unlikely to have much effect on world prices of the affected commodities, and the only likely effect will be a reduction in profit margins earned by traders on their export sales. To that extent export duties improve the relative profitability of home sales and discourage exports. Very often the purpose of imposing export duties on raw cotton and vegetable oils in the last decade was to preserve adequate supplies for home consumption.⁴⁰ Therefore, along with export controls, export duties also combined to restrict the export of raw cotton and vegetable oils. As was stated previously, export duties on vegetable oils were not abolished until 1958, and raw cotton remained subject to export duty even then.

In those commodities of which India is a major exporter in the world and the world trade displays oligopolistic characteristics, export duties in India are likely to harm her exports if the rival exporting countries do not follow India's lead, but instead want to enlarge their market share at India's expense. For example, until 1954 exports of manganese ore from India were subject to an *ad valorem* duty of 15 per cent. The adverse effects of this duty were not obvious immediately because of the Korean War boom and the stock-piling activities in the importing countries. However, soon afterwards, India found that the U.S.S.R. and other exporting countries had utilized this opportunity to enlarge their share of the European market.⁴¹

Alternatively, if the leading exporting countries are not out of step with one another and if the over-all elasticity of foreign demand for a product is

⁴⁰ At times, however, the intention was not so much to reduce exports as to prevent inflationary impulses coming from abroad from spilling over to the domestic economy. Thus on some occasions when international prices were above those prevailing in India the Government thought that, rather than allow domestic prices to rise in sympathy and thereby enable exporters to earn 'abnormal' profits, a better method of equalizing the two price levels would be for the Government to impose an export duty roughly equal to the difference between the two. In such a case the immediate consequences of imposing export duties may not be unfavourable. There is however the difficulty that since prices of primary commodities can fluctuate widely even in the short run, the Government may not quickly reduce or abolish export duties in the face of falling world prices so that exports may be adversely affected. For example in 1952 the fact that even the permissible quota of raw cotton was not fully utilized was due to the fact that export duty was not quickly adjusted downwards when world prices slumped.

⁴¹ Although it must be pointed out that there were also other factors favouring the Soviet exports to Western Europe. These factors have been analysed in Chapter VII.

low export duties may well help in increasing the value of exports. Thus in tea, where all the available evidence points to a very low price-elasticity of demand in the major importing countries, India and Ceylon were both able to maintain an export duty throughout the period under study. However, in all such cases there is the danger of new entry. If prices are maintained at a level such as enables the newcomers to earn normal profits, the long-run consequences of export duties may be unfavourable from the point of view of the interests of existing exporters. For example, while India and Ceylon still retain their pre-eminence in the world market for tea East Africa has progressively enlarged her share of world exports in the post-war years. And since nearly two-thirds of Indian exports consist of common teas, as against only one-third in the case of Ceylon, the growth of exports from East Africa, consisting mostly of common teas, has affected India's exports much more than Ceylon's.

3. Inflationary Pressures, 1951-60

Table IX.6 describes the course of movements of the All-India Wholesale Price Index and the All-India Working Class Cost of Living Index. Broadly speaking, wholesale prices rose by only 5.8 per cent over the ten-year period 1951-2 to 1960-1.⁴² They fell by 21.7 per cent between the first and the last year of the First Five-Year Plan (1951-2 and 1955-6 respectively) and then rose by 34.9 per cent between the last year of the First Five-Year Plan and the final year of the Second Five-Year Plan (1960-1). Over the ten-year period the All-India (Working Class) Consumer Price Index exhibited a more sustained rise than the wholesale price index. It rose by 18 per cent between 1951-2 and 1960-1.

If we take the decade as a whole the surprising thing is the mildness of inflation revealed by the above indices.⁴³ And this impression is confirmed by

⁴² 1951-2 represents the fiscal year beginning 1 April 1951. Similarly 1960-1 stands for the fiscal year beginning 1 April 1960.

⁴³ Surprising because over the decade there has been a steady rise in development-spending under the Five-Year Plans. In the absence of reliable estimates of private investment the progress of development-spending in the public sector is an indication of the growing claims on the nation's resources. Real development-expenditure (monetary outlay deflated by the wholesale price index) in the public sector from 1951-2 to 1960-1 behaved in the following manner (in million rupees): 2,200, 2,676, 3,279, 4,886, 6,639, 6,009, 8,157, 8,870, 8,629, 8,582. Figures of development-expenditure are given in *India's Third Five-Year Plan*, New Delhi, 1961, p. 733.

Table IX.6 Indices of Wholesale and Retail Prices in India

All-India (Working Class) Consumer Price Index 1949 = 100	All-India Wholesale Price Index 1952-3 = 100	
	Wholesale Price Index	Consumer Price Index
Average Weeks of		
1948-9	98.8	97
1949-50	101.3	100
1950-1	111.8	101
1951-2	118.0	105
1952-3	100.0	104
1953-4	104.6	106
1954-5	97.4	99
1955-5	92.5	96
1956-7	105.3	107
1957-8	108.4	112
1958-9	112.9	118
1959-60	117.1	123
1960-1	124.8	124

Notes: The figures for wholesale from 1948-9 to 1951-2 have been derived from the old series with year ending August 1939 = 100.

Sources: Reserve Bank of India, *Reports on Currency and Finance*.

an examination of the trends of wholesale prices of some important export commodities as given in Table IX.7. However, price rises are not always a sufficient measure of the strength of underlying inflationary pressures—for more than one reason. First, some prices may be sticky or subject to Government controls; and during the last decade there were many deliberate attempts by the Government to control prices.⁴⁴ Second, and more important,

⁴⁴ Under the Essential Commodities Act (1955) and the Industries (Development and Regulation) Act, 1951, the Government of India has comprehensive powers to control prices. Prices of steel, coal, petroleum, electricity, cement, rubber, paper, caustic soda, copper, zinc, &c, are subject to statutory price control. Prices of raw cotton are subject to a legally fixed floor and ceiling; prices of sugar cane payable by sugar factories are also controlled by the Government; although rationing of foodgrains was given up by 1954, yet restrictions on a free movement of foodgrains from one part of the country to another were frequently imposed during the last decade.

Table IX.7 Wholesale Price Indices of Some Important Export Commodities (1952-3 = 100)

	Jute Manufactures	Raw Jute	Tea	Cotton Textiles	Raw Cotton	Raw Tobacco	Groundnuts	Groundnut Oil
1948	114	126	142	N.A.	85	60	100	128
1949	116	126	145	N.A.	94	63	116	147
1950	133	125	175	N.A.	102	88	133	161
1951-2	191	220	151	108	128	128	125	124
1952-3	100	100	100	100	100	100	100	100
1953-4	91	98	174	104	104	100	127	120
1954-5	102	112	255	107	102	90	82	77
1955-6	96	117	170	105	97	77	79	74
1956-7	95	126	165	116	111	80	111	104
1957-8	95	133	164	116	106	92	108	105
1958-9	87	118	169	112	99	93	117	107
1959-60	91	125	186	117	106	98	131	118
1960-1	131	210	206	128	112	111	146	138

Notes: Figures until 1950 are averages for calendar years. Figures until 1951-2 are derived from the old series with year ending 31 August 1939 = 100. N.A. = Not available.

Source: The Reserve Bank of India *Bulletin*, November 1958, July 1962, and the *Statistical Abstract of India for 1952-3*.

is the fact that in an open economy price-rises and a deficit in the balance of payments are often alternative patterns of response to an underlying inflationary situation. Thus in so far as export goods can be easily diverted for domestic absorption, or if the state of foreign exchange reserves permits additional imports, the domestic inflationary pressures would have a greater impact on the country's balance of payments than on prices. The outcome in India during the last decade would have been very different if the underlying expansionary forces operating in the economy were not allowed an outlet in the form of massive balance-of-payments deficits financed by a drawing down of the country's foreign exchange reserves and foreign aid.⁴⁵ It has already been explained in Chapter II that domestic inflationary pressures can exercise an important influence on India's export performance. Some of India's important export commodities enter either directly or after being processed into domestic consumption, and many of them are bound to be demanded in ever-increasing quantities as population increases and *per caput* money incomes rise under the impact of development-spending. And, considering the potential vastness of the domestic market, even a small rise in the *per caput* domestic consumption of exportables could affect export receipts significantly. That the growing pressures of domestic demand during the last decade were also a contributory factor in India's poor export performance has been amply brought out by our analysis of export trends of the major commodities. The present section summarizes the main results in a more handy form.

a. Tea

We have already noted in Chapter IV that India's relative share in world exports of tea fell from 49.4 per cent in 1948-50 to 42.8 per cent in 1958-60.⁴⁶ Over the same period Ceylon, the other principal exporter of tea

⁴⁵ During the First Five-Year Plan (1951-5) the total deficit in the balance of payments was Rs 3,180 million, financed by a withdrawal from reserves of Rs 1,220 million and receipts of external assistance worth Rs 1,960 million. During the Second Five-Year Plan the over-all deficit of Rs 20,590 million was financed by external assistance worth Rs 14,610 million (including net drawings from the IMF) and by the use of foreign exchange reserves worth Rs 5,980 million. See *The Third Five-Year Plan*, Government of India document, New Delhi, 1961, pp. 107-8.

⁴⁶ Chapter IV, p. 57, Table IV.1.

in the world, managed to raise her share from 34.8 per cent to 36.7 per cent.⁴⁷ We have discussed at length the various factors which contributed to this outcome. Clearly export duties and export controls also lacked a long-term perspective. But the strength of domestic demand was also a contributory factor, for there is no clear evidence that the increasing quantities of tea unloaded on the domestic market represented 'distress' sales. As a result of the growing domestic demand the share of exports in total production of tea fell from 72 per cent in 1948-50 to 65 per cent in 1958-60.⁴⁸

b. Cotton Textiles

Taking all cotton textiles together we found that India's relative share of world exports fell from 11.3 per cent in 1948-50 to 10 per cent in 1958-60.⁴⁹ The charge against rising domestic demand in this case is not that it led to a reduction in India's share of world trade. The really serious charge is that it prevented India from raising her share of world exports at a time when the old-established exporters like the U.K. were resigned to a reduction in their share. While India's relative share fell from 11.3 per cent in 1948-50 to 10 per cent in 1958-60, Japan managed to raise her share from 11.3 per cent in 1948-50 to 17.5 per cent of world exports in 1958-60.⁵⁰ In her export drive Japan must have been greatly helped by the fact that while prices of cotton textiles in India were rising those in Japan continued to fall. Thus while the Japanese wholesale prices in 1960 were 23 per cent lower than in 1953 wholesale prices in India in 1960 were 23 per cent higher than in 1953.⁵¹

c. Vegetable Oilseeds and Oils

We have already suggested in the sub-section on export controls that although India's exports of vegetable oilseeds and oils have greatly fallen in the post-war years the entire blame could not be laid at the door of export control, in view of the growing strength of domestic demand. That this is true is supported by

⁴⁷ Ibid.

⁴⁸ Ibid., p. 69, Table IV.10.

⁴⁹ Chapter V, p. 74, Table V.1.

⁵⁰ Chapter V, p. 74, Table V.1.

⁵¹ cf. the U.N. indices of wholesale prices of cotton textiles. See UN *Monthly Bulletin of Statistics*, June 1961, p. xiv.

the following piece of evidence. The ban on the export of groundnut oil was lifted in May 1958 and a quota of 20,000 tons was released as the first instalment for export. Actual exports, however, were only 0.9 thousand tons in 1958. The Government soon realized that at prices prevailing in the home market traders would in fact lose if they were to export groundnut oil at prices ruling abroad. Therefore, as an incentive, the established exporters of groundnut oil were given quotas for the export of groundnut oilcake, for which there was a brisk demand in Europe in 1959. For a while this proved effective and exports of groundnut oil rose to 42.0 thousand tons in 1959. But even this device failed to work in 1960 in the face of growing domestic demand for groundnut oil; and exports stood at only 1.7 thousand tons in that year, despite liberal export quotas. Thus the most important explanation for the poor export performance in groundnut oil is to be attributed to the strength of domestic demand, which ate into export surpluses, in spite of a steady increase in the production of groundnuts in India during the last decade.

The same behaviour could be traced in the case of linseed. Exports of this oil were generally more liberally allowed than others, and in 1958 its export was completely decontrolled. Yet in 1958-60 the average annual volume of exports at 16 thousand tons was lower than the average annual volume during 1948-50 (28.1 thousand tons).⁵² Once again the explanation is to be sought in terms of a rising pressure of domestic demand on a relatively inelastic supply.

d. Exports of Manufactured Leather

Exports of raw hides and skins were controlled after 1951 in order to encourage the export of manufactured leather. But exports of tanned hides and skins (leather) failed to increase beyond the average annual level attained in 1948-50. The average annual volume of exports rose from 21.3 thousand tons in 1948-50 to 25.3 thousand tons in 1951-3; it fell to 21.6 thousand tons a year during 1955-7 and to 21.0 thousand tons a year during 1958-60.⁵³

Exports of manufactured leather (tanned hides and skins) from India did not rise despite the fact that there was a keen world demand for leather in the

⁵² In terms of seed and oil. *Vide* Chapter VI, p. 99, Table VI.1.

⁵³ Based on official statistics published by DGCI & S. Figures relate to fiscal years.

past decade. This is an ill-documented industry and figures of world trade are difficult to collect, but that there was a shortage of leather in the world markets during the last decade is borne out by the fact that the average annual unit export value of leather exported from India rose steadily over the decade—from Rs 9,237 per metric ton in 1951-3 it rose to Rs 9,940 per ton during 1955-7 and to Rs 11,800 per ton during 1958-60.⁵⁴ This suggests that it would have been possible for India to export more manufactured leather if she had had larger export surpluses. That India failed to do so must be attributed to pressures of domestic demand, for exports of manufactured leather were themselves not subjected to export control. The rising production of leather foot-wear is one indication of the strength of domestic demand. According to the official index of industrial production (1951 = 100) the production of leather footwear in 1960 was about 61 per cent higher than 1951.⁵⁵ Of course a small quantity of leather footwear is also exported. But between 1951 and 1960 these latter exports rose by only 10.3 per cent (from 3.22 million pairs in 1951 to 3.55 million pairs in 1960).⁵⁶ Thus the basic explanation for the static exports of leather (tanned hides and skins) is to be found in the growing pressure of domestic demand on the available supplies.

e. Raw Cotton

In a previous sub-section on the working of export control we have already commented on the effects of export control on the export of raw cotton. But the domestic demand for raw cotton also rose rapidly in the post-war years. As already pointed out, between 1948-50 and 1958-60 the average annual consumption of cotton cloth in India went up by about 41 per cent.⁵⁷ This naturally meant higher demand for raw cotton as well. Given this trend in demand for raw cotton a significant rise in exports of raw cotton from India would have been difficult even if the export control on raw cotton had been more liberal. Prices of raw cotton in India during 1959 and 1960 had risen

⁵⁴ Ibid.

⁵⁵ The production index stood at 114.3 in 1956, 129.6 in 1957, 132.4 in 1958, 144.2 in 1959, and 160.9 in 1960. See the Reserve Bank of India's *Report on Currency and Finance for 1960-61*, Bombay, 1961, Statement 15.

⁵⁶ Calculated from *Statistics of Foreign Trade*, published by the DGCI & S, Calcutta.

⁵⁷ Chapter V.

above the prices of similar cottons in the world markets.⁵⁸ For this reason, except for raw cottons like the Bengal Deshi, which cater for a special demand, a more liberal export policy was not a sufficient guarantee of significantly higher exports.

f. Engineering Products and Other 'New Manufactures'

In the last few years many light engineering products such as aluminium wares, sewing machines, electric fans, steel furniture, &c., have also figured as export items. Because of dismal export prospects for many of her traditional exports India has pinned great hopes on the export of engineering products and other new manufactured goods. The manufacturers themselves, however, do not take a very rosy view of export prospects. In the words of a Committee which was appointed by the Engineering Export Promotion Council at the instance of the Government of India and included prominent representatives of industry, exporters have no particular incentive 'when there is a large and growing demand for all types of engineering goods in the country.'⁵⁹ That there is a large and flourishing domestic demand for 'new manufactures' is borne out by the indices of gross profits (including depreciation) for the engineering, chemical and cement industries, as given in Table IX.8.

This state of affairs is due both to the rising domestic demand and also to the stringent import restrictions which have been in force since 1957. As a result, home sales are becoming far more profitable than exports. According to the committee whose report was quoted above the manufacturers of the following products in India found export prices in 1960 to be 25 per cent

Table IX.8 Indices of Gross Profits in Indian Industries (1950 = 100)

	1951	1952	1953	1954	1955	1956	1957	1958
Engineering	117.3	124.9	115.9	157.4	255.2	305.2	335.7	353.9
Chemicals	113.4	86.8	105.8	106.6	151.9	176.4	212.7	235.5
Cement	128.0	128.9	124.5	150.1	168.9	154.9	160.5	177.5

Source: Monthly Abstract of Statistics, Government of India publication, December 1961, p. 82.

⁵⁸ Chapter V, p. 88, Table V.8.

⁵⁹ *Report of the Steel Prices Sub-Committee* (not published). A copy is however available in the office of the Federation of Indian Chambers of Commerce and Industry, New Delhi.

lower than prices prevailing in India: wagons, transmission-line towers, galvanized-iron pipes, bolts and nuts, tin-plate containers, wood screws, crown corks, galvanized-iron buckets, tower bolts, and steel furniture.⁶⁰ At the same time the Committee reported a widespread idle capacity in the engineering industry in 1960. According to their information more than 50 per cent of the available capacity was lying idle in the following products: hacksaw blades, portable tools, motor cycles, threading tools, steel files, typewriters, steel pipes and tubes, trailers, twist drills, grinding wheels, portable room air-conditioners, wire ropes, and expanded metals. In the case of aluminium ware, steel castings, pressure lamps, and domestic refrigerators, the idle capacity varied from 25 to 50 per cent; in razor blades, conduit pipes, dry cells, machine tools, and hurricane lanterns, they reported excess capacity ranging up to 25 per cent.⁶¹

The inability to utilize the available capacity fully is mainly due to a shortage of raw materials. The Government has, however, made it known that if the available excess capacity were to be utilized for export, raw materials, both indigenous and imported, would be made readily available to the industry. Indeed, a scheme to that effect is already in operation, and exporters of engineering products are entitled not only to a concessional purchase of raw materials, like iron and steel, but they also get replenishment quotas beyond 100 per cent of the raw-material content of the exported goods. So long as there is idle capacity and export prices are above the average prime costs, a profit-maximizing entrepreneur would avail himself of the opportunity to export more, even if it meant only a partial coverage of his overhead costs. Obviously the manufacturers in the engineering industry do not think in these terms. They aim at a 'normal' rate of profit on capital, and the existence of domestic inflationary pressures coupled with rigorous import controls create a situation where they can easily earn their 'planned' rate of profit even on a small turnover meant for the domestic market.

Many engineering products are 'new' exports, and the development of new markets overseas is even normally a difficult job, calling for special skills in sales promotion, as well as much patient hard work to break through the hold of other exporters on a particular market. There are already many psychological barriers hindering exports, and these barriers may be particularly effective in preventing the emergence of an export-orientated

⁶⁰ Ibid.

⁶¹ Ibid.

outlook if the entrepreneurs are able to earn their expected profits easily in the home market.⁶²

To sum up, India has so far witnessed only a moderate degree of inflation since 1951. Yet in the Indian context even a mild degree of inflation can have considerable adverse effects on exports, in view of the growing substitutability in consumption and production between exportables and consumption goods. Because of the potential vastness of the domestic market even a small increase in *per caput* consumption of exportables may greatly affect surpluses for export.⁶³

⁶² In the case of cement there is a rising demand in the neighbouring countries. But India's exports have failed to make any headway in the face of Japanese competition. This is despite the fact that the production of cement in 1960 was 141.4 per cent higher than in 1951. The industry attributes its failure to find export markets to India's cost of production being much higher than Japan's. With the growth of such industries as iron and steel, chemicals, and paper the demand for high-quality limestone, the industry's principal raw material, has been rising rapidly and so have its prices. For the rest, a rising domestic demand for cement has ensured that manufacturers are under no pressure to seek export outlets for their rising production.

⁶³ Yet it is not that inflation can only be controlled or ought to be controlled by a reduction in the size of Indian plans, as some orthodox economists have recently argued. Indeed, that would be a remedy worse than the disease itself, for ultimately India's hopes of increasing her export earning must rest on higher investment and a rapid growth in output and productivity made possible by higher investment. The aim should be to match a larger planning effort to price stability by paying greater attention to agricultural production, and also by a more vigorous use of the weapon of fiscal policy to keep domestic consumption, particularly of exportables, under control.

PART TWO

Export Prospects

X

Export Prospects and Self-Sustained Growth¹

A. OBJECTIVES

India's Third Five-Year Plan has been formulated on an assumption that 'it would be advantageous from the point of view of the recipient country as well as the donor countries to plan for substantial amounts of external assistance for a relatively short period rather than to proceed in terms of varying and uncertain amounts of assistance over an indefinite period'.² The policy objective is, therefore, to ensure that by the end of the Fourth Plan (1970) the Indian economy will be able to do without external assistance 'outside the normal inflow of foreign capital'.³ The foreign aid to India is at present performing two important functions: it has increased the supply of investible resources beyond a level permitted by domestic savings; it has in addition provided a much needed support to the country's balance of payments. The achievement of self-sustained growth by 1971, therefore, implies that the country should be able not only to support 'an adequate scale of investment from its own production and savings' but also that India would be earning enough foreign exchange to balance her external accounts without foreign assistance of an extraordinary type. It is with the latter aspect of the problem that we shall be concerned in the present chapter.

Whether such an objective is capable of being realized or not would require a detailed analysis of all the principal elements of India's balance of

¹ A summary of this chapter appeared in an article in *The Economic Weekly*, Bombay, Special Number, July 1962. I am grateful to the Editor for permission to make use of the material published in that article.

² *The Third Five-Year Plan*, Government of India, New Delhi, 1961, p. 107.

³ *Ibid.*, p. 28.

payments and their likely magnitudes in 1971. This is clearly beyond the scope of our work. However, since export earnings are a most important constituent of India's balance of payments, our study does enable us to shed some light on this question.

It is now widely recognized that an early achievement of self-sustained growth will require a much greater effort on the export front than has been forthcoming in the past. Gone are the days when it was so readily assumed that 'import substitution' by itself would be able to resolve India's balance of payments difficulties. Thus, according to the official document of India's Third Five-Year Plan, import requirements of the Indian economy and repayment obligations on account of loans previously contracted would be such as to require annual exports worth Rs 13,000–14,000 million by 1970–1. The planners regard the realization of this target as one of the essential conditions for ensuring that the Indian economy would become self-reliant by the Fifth Five-Year Plan.⁴

This is undoubtedly a welcome shift in emphasis. However, it appears that the official estimates of export earnings needed for attaining self-reliance by 1970–1 are an under-estimate. The foreign exchange budget for the Third Plan provides for average annual imports of Rs 11,500 million, even after excluding the expected imports under PL 480 worth Rs 1,200 million a year.⁵ In addition, repayment obligations on account of past loans will amount to Rs 1,000 million a year during the Third Plan period.⁶ The value of loans and credits repayable in foreign currencies and utilized up to 31 March 1961 was Rs 9,323 million.⁷ Such loans and credits are likely to multiply many times over the next ten years. The Third Plan itself visualizes that new loans worth Rs 26,000 million will have to be raised during the period of its currency. Even if loans play a less important role in the Fourth Plan it is obvious that the requirements of foreign exchange on account of repayment obligations will be much higher in 1970–1 than during the Third Plan period. They may well amount to Rs 4,000–5,000 million a year by 1970–1, and Rs 3,000–4,000 million would be a conservative estimate. Even if we assume that they will be as low as Rs 3,000 million the

⁴ *The Third Five-Year Plan*, p. 138.

⁵ *Ibid.*, p. 112.

⁶ *Ibid.*, p. 113.

⁷ Reserve Bank of India's *Report on Currency and Finance for 1960–1*, Bombay, 1961, Statement 90.

acceptance of an export target of Rs 13,000–14,000 million for 1970–1 would imply that the Indian planners expect India's import requirements to be Rs 10,000–11,000 million a year by 1970–1. One cannot comment on this estimate without a detailed knowledge of the likely pattern of demand and output planned for 1970–1. Nevertheless, it seems grossly unrealistic to assume that India's import requirements after 1966 are likely to be lower than their present level. History provides us with few cases where the import requirements of an economy have fallen absolutely in the wake of successful economic development. For these reasons Sir Donald Macdougall's estimate of Rs 15,000 million⁸ as the minimum export target for 1970–1 indicates more correctly than the official estimates the magnitude of the effort needed to achieve the objective of self-sustained growth by that year.⁹

B. ANALYSIS: INTRODUCTORY

As against the need for higher export earnings what are India's export prospects? Can we raise our exports by 1970–1 to the level suggested above? Our analysis of India's export performance from 1951 to 1960 can form the basis of a study of India's export prospects in 1970–1. Indeed, from the point of view of economic policy a study of past trends is of interest only in so far as it may provide an insight into the likely developments in the future. Of course looking into the future can often be a perilous task. Forecasts and projections have often been sadly contradicted by the actual experience. The reasons are not far to seek. All projections are, by their very nature, a reflection of a small manageable set of assumptions about economic behaviour drawn from the contemporary experience. On the other hand the actual course of economic evolution is determined by a complex interaction of many variables, some of which can neither be accurately foreseen nor easily quantified. Nevertheless, while one may readily admit the inherent pitfalls in any attempt at looking into the future, one need not push the argument to its logical conclusion. More and more, the State is

⁸ cf. his article 'India's Balance of Payments', *Bulletin* of the Oxford Institute of Statistics, 1961, pp. 154–77.

⁹ It should be noted that our estimates of export needs do not take into account the likely growth of imports on account of higher defence expenditure necessitated by the Chinese threat.

trying to influence the rate of economic development by an active intervention in economic life. Because of a gestation lag in the productive process, and also because of a time lag between the formulation of a policy and its actual implementation, it is often necessary to think and plan many years ahead. But the more we seek to regulate and plan, the more we need to know well in time about the nature of the trend we are trying to control. The remaining part of this chapter is therefore devoted to an analysis of India's export prospects for 1970. Given the planning objective of self-sustained growth by 1970-1 the course of such policies as the pace of import-substitution, the investment pattern of the Indian plans and India's attitude to private foreign investment will be greatly shaped by the export prospects of the country. Hence the utility of the exercise, notwithstanding its obvious imperfections.

The question that we ask ourselves in this chapter is: What do India's export prospects for 1970-1 look like as compared with the actual value of average annual exports during the last two years of the Second Five-Year Plan, namely 1959-60 and 1960-1?¹⁰ The selected time period is long enough to enable us to ignore purely temporary factors, so that we can concentrate on the underlying long-term trends. It is also long enough for changes in economic policy as suggested by our projections to have sufficient time to be effective. At the same time it is not so long as to give rise to entirely new developments appearing on the scene, which may fundamentally alter the economic outlook.

The estimates presented below are not forecasts of India's export earnings in 1970-1. They represent merely an estimate of the probable level of achievement, projected on the basis of known existing trends and policies. They have not been derived from an econometric analysis but with the help of a less formal, commonsense approach. This then is frankly an exercise in 'casual empiricism' as some econometricians may derisively call it. However, it does not mean that our analysis is not based on a thorough consideration of the existing trends. As will become immediately obvious, our projections for various commodities rely heavily on our earlier discussion of export trends from 1951 to 1960. Thus it is an exercise in 'casual empiricism' only in the sense that we do not employ rigorous econometric techniques. I frankly do not see how

¹⁰ 1959-60 and 1960-1 refer to Indian fiscal years beginning 1 April, 1959 and 1960 respectively.

econometric techniques could be brought to bear more fruitfully in the present case.¹¹

The method adopted by us in this chapter can thus be described in the following words: First of all, we take note of trends in world trade in individual commodities, and the projections of the likely world consumption and trade, as prepared by various international agencies in recent years. We then try to see how India's exports might fit in with the emerging world outlook; and in doing so, due note has been taken of known policies as well as the policy intentions of the Indian Government concerning different export products.

C. PROJECTIONS: BROAD ASSUMPTIONS

All projections have to be based on certain assumptions, and in the present case assumptions have to be made both about factors affecting world trade in those commodities of which India is a major exporter in the world, and also about Indian economic policies. These assumptions will be stated as explicitly as possible in their appropriate place. Nevertheless, it seems necessary to state at the outset some broad assumptions about Indian economic policies on which our projections are based.

First of all, we assume that India will take all necessary steps to ensure the competitiveness of India's export products in the world markets. For those primary products which have internationally recognized standards this is largely a matter of quoting prices which compare favourably with those of other competitors. In addition, the length of delivery dates and the ability to ensure a smooth and steady flow of supplies may also weigh heavily with importers in choosing their sources of supply. In the case of branded or differentiated products, prices apart, attention to quality and the consumer-appeal are also important elements in a competitive strategy.

¹¹ Although we do not employ any systematic econometric techniques use has been made of the various estimates of income elasticities of demand as found in the writings of Professors Stone, Houthekkar, Lamartine Yates and in the publications of the FAO and the UN Economic Commission for Europe. Care has been taken to see that such estimates are 'authentic'. But it may well be that econometricians differ among themselves about the correct methods for deriving estimates of these elasticities. No allowance has been made for any errors arising from this source.

Secondly, we assume that exports of India's traditional products will not be allowed to suffer for want of adequate export surpluses. As is duly emphasized in the official document of India's Third Five-Year Plan: 'By far the most important condition for fulfilling the programmes for exports is obviously the realization of the agricultural and industrial targets of the plan.'^{12,13}

This assumption does not mean that we are assuming an infinite elasticity of supply of exports. The operational significance of the first two assumptions can be expressed as follows: Of those commodities of which India is a major exporter in the world we assume that India's relative share of world exports will not normally fall below that of 1958-60. This means that export supplies will be readily forthcoming in such quantities and at such prices as would prevent a fall in India's relative share of world trade. Thus we are assuming that supply will adjust itself to demand, the latter being determined by India's present relative share of world trade. In the case of those commodities of which India is only a marginal exporter the conditions of demand are hard to prescribe as precisely as in the above case. Indeed, by virtue of her smallness as an exporter, the prospects for Indian exports in this latter group will mainly depend on the elasticity of supply of exports. Although we assume that sustained efforts will be made to increase export supplies, and thereby to raise India's relative share of world exports, it is difficult to define accurately the elasticity of supply which is valid for all the commodities. Clearly the elasticity of supply will vary from one commodity to another; and it will have to be judged in each case separately, in the light of planned targets of production during the Third and Fourth Plans, the past trend in production and exports, and the declared policy intentions of the Government concerning the export of various commodities in this group.

Thirdly, we assume that India's trading relations with other countries will continue to be conducted on a non-discriminatory and multilateral basis. This means that the present bilateral arrangements with the countries of Eastern Europe will not develop to a point that will alter the export outlook significantly. It also involves an assumption that no preferential trading

¹² *The Third Five-Year Plan*, New Delhi, 1961, p. 139.

¹³ Apart from assuming that agricultural and industrial targets of the Third Five-Year Plan which aim at substantial increases in the production of export commodities will be fully realized we also assume a similar trend would be in operation during the Fourth Five-Year Plan as well.

area will emerge in South-East Asia. In two later chapters the role of bilateralism and the possible gains from a regional trading agreement will be analysed in detail so as to assess their potentialities for India's exports.

Fourthly, it has been assumed that export prices (in 1970) will not fall below their level in 1959 and 1960, and also that the relative price relations between commodities exported from India and their foreign substitutes will remain stable. Clearly this assumption will not hold in the event of a worldwide recession of economic activity.

D. COMMODITY PROJECTIONS, 1970-1

1. Jute Manufactures

a. Consumption and Imports—(i) The Industrial Countries

Our projections assume that the import demand for jute manufactures of the industrial countries of North America and Western Europe, which together account for about 50 per cent of the world consumption of jute goods (excluding India, Pakistan, and the Sino-Soviet area), will not be much different in 1970 from the level of the late fifties.¹⁴ In these areas jute is used as a packaging material, in the making of floor coverings and also in some other branches of industry.¹⁵ The demand for jute in the making of floor coverings will steadily grow but it is unlikely to benefit much the world trade in jute manufactures (unless the trade in jute backing and jute carpets were to be developed). Most of these countries have carpet industries of their own and it is jute yarn which will be in an increasing demand for use in the manufacture of floor coverings. But all these countries meet their requirements of jute yarn through domestic production (with the help of

¹⁴ For additional and more comprehensive notes on the prospects of jute consumption in the industrial countries please refer to the appendix attached to this chapter.

¹⁵ According to an FAO estimate, the industrial countries of North America and Western Europe consumed nearly 0.67 million tons of jute goods in 1957. Of the total, packaging uses accounted for 0.39 million tons (over 58 per cent), floor coverings absorbed 0.15 million tons and the rest (0.13 million tons) was absorbed in other industrial uses. See 'Trends in World Demand for Jute Manufactures', *FAO Monthly Bulletin of Agricultural Economics and Statistics*, December 1960 and January 1961.

raw jute imported from Pakistan); there is very little trade in jute yarn—and that too is confined to the intra-European transactions only. Thus the growing demand for jute in the manufacture of floor coverings will mostly benefit only Pakistan, the world's main source of supply for raw jute.

For the use of jute as a packaging material a recent FAO study has forecast a big fall in the years to come in the industrial countries.¹⁶ This is an unduly pessimistic view, for reasons discussed in detail in the appendix to this chapter. The fact is that the use of jute as a packaging material has been growing moderately since 1952 both in North America and Western Europe;¹⁷ and if the relative prices of jute in the future do not rise the position of jute in relation to its substitutes (principally paper) will be further strengthened. As regards bulk-handling techniques, which eliminate altogether the use of a container in the process of transportation, they are capable of further extension; and this factor will naturally affect the growing use of jute as a packaging material. But it may well be that the pace of bulk handling may be moderated in the sixties as compared with the last decade. Now that all the immediately suitable fields have been captured by bulk handling the remaining commodities may not lend themselves to it very readily. A delegation of the Indian Jute Mills Association which visited the U.S.A. recently noticed that in the U.S. manufactured-feed industry, bulk deliveries from the mills to the feed users had been extended beyond economic limits 'owing to feed manufacturers' under-estimating the delivery costs incurred by them'.¹⁸ The delegation also observed that some of the disadvantages of bulk deliveries, such as the inability of manufacturers to use their brands (as on jute bags), and the inconvenience caused to feed users in not having their feed formulations conveniently separated, were being more keenly felt than before.¹⁹ Such inconveniences could be more readily tolerated at a time when prices of jute goods were rising disproportionately; but now that they have come down from the abnormally high levels of the early fifties

¹⁶ 'Trends in World Demand for Jute Manufactures', FAO *Monthly Bulletin of Agricultural Economics and Statistics*, December 1960 and January 1961.

¹⁷ The average annual quantity of jute goods used in packaging in the U.S.A. increased from 162 thousand tons in 1950–2 to 169 thousand tons in 1953–5 and 174 thousand tons in 1956–8. See appendix to this chapter.

¹⁸ IJMA, *Report of the Fourth Delegation to the U.S.A. and Canada*, Calcutta, 1960, p. 9.

¹⁹ *Ibid.*

a further extension of bulk deliveries may be slowed down. We may therefore assume that the consumption of jute as a packaging material in the industrial countries in 1970 will at least not be less than the level of the late fifties; and given good luck, it may grow moderately, say by about 10 per cent over the decade.

The U.S.A. does not produce jute fabrics and depends entirely on imports for meeting its requirements of jute cloth and bags. Western Europe however has a sizable jute industry of its own; and it is heavily protected against competition from India both by high tariff walls²⁰ and by import quotas. The future of imports of jute manufactures into the industrial countries is therefore crucially linked to the import policies of the countries of Western Europe, particularly the European Economic Community. The Common External Tariff of the Community has been fixed at 23 per cent both for jute sacks and cloth. Although the Common External Tariff will be higher than the existing import duties in Benelux countries and West Germany, by itself it will not be able to reduce the Community's imports from non-European countries, in view of the overwhelming relative advantage in costs enjoyed by Asian exporters.²¹ A much more effective limitation on imports into Western Europe arises out of the stringent quota restrictions on imports that are still maintained by many European countries. Thus France allows practically no import quota for jute goods in the interest of local industry; there are very stringent controls

²⁰ The import of jute cloth into France was subject to an *ad valorem* duty of 23 per cent while the duty on jute sacks was 27 per cent; in Benelux the import duty on jute cloth and sacks was 18 per cent though some varieties of heavy sacks were treated more leniently; the import duty in Italy was 22 per cent; in Western Germany the import of jute sacks was subject to a duty of 14 per cent while that on the import of jute cloth was 20 per cent. In Britain imports from the Commonwealth are nominally free from the import duty. Imports are, however, a State monopoly and the jute controller sells imported goods after a mark-up, so as to equalize prices of imported and domestically-produced jute goods. Until 1960 this markup was as high as 40 per cent but in that year it was reduced to about 20 per cent. This information on import tariffs was correct to November 1960, and was compiled from the Commonwealth Economic Committee's annual *Survey of Industrial Fibres*, 1961.

²¹ Even the entry of the United Kingdom into the European Economic Community will not reduce her imports from non-European countries. The existing mark-up on the imported jute goods in that country is already of nearly the same height as the Common External Tariff of the Community.

on imports of jute goods in Italy and West Germany; in Britain, jute imports being a State monopoly, the system is not much different from that of quotas. Given such stringent import restrictions imports of jute manufactures into the industrial countries will not rise significantly over the decade. However, a 10 per cent rise in imports of the industrial countries over the present decade is not improbable, particularly if the use of jute in packaging does not further decline; and if in addition trade in jute backing for carpets develops satisfactorily. Further, although there are no clear indications that European countries are planning for any significant increase in their imports of jute manufactures, it is likely that the present decade will witness an intensification of pressures on them to reduce the rigour of their quantitative restrictions on imports from underdeveloped countries.²² Even a moderate liberalization of imports by European countries alone, so as to allow the import of an additional 50 thousand tons of jute manufactures by 1970, will mean a rise of about 10 per cent in the imports of industrial countries over the present decade.²³

a. Consumption and Imports of Jute Goods,

Cont.—(ii) the Primary Producing Importers

In the primary producing countries almost the entire demand for jute is for packaging purposes. As a first approximation demand might be expected to keep up with the growth of agricultural production. From 1952–3 to 1957–8 the average annual rate of growth in agricultural production was 2.3 per cent in Oceania, 2.4 per cent in the Far East,²⁴ 3.3 per cent in the Near East, 1.7 per cent in Africa, and 3.5 per cent in Latin America.²⁵ If these rates persist in the sixties agricultural production in these areas together would probably rise by

²² West Germany has promised to do away with quantitative restrictions on imports by 1964.

²³ During 1957–8 the average annual production of jute fabrics in the OECD countries was 323.6 thousand tons; during the same period their imports of jute cloth and bags averaged 106.5 thousand tons, of which the U.K. alone accounted for 52.3 thousand tons, and the EEC countries for only 34.2 thousand tons. See OEEC; *The Textile Industry in Europe*, Paris, 1959. Thus a further import of 50 thousand tons will not constitute a serious hardship for the jute industry in these countries, especially if the process of liberalization were to be properly phased over the decade.

²⁴ Excludes mainland China.

²⁵ cf. FAO, *The State of Food and Agriculture, 1960*, Rome, 1960, p. 14.

25–30 per cent over the present decade. If there were no adverse factors at work affecting the use of jute as packaging material, jute consumption would also rise by the same amount. But unfortunately there are reasons why the consumption of jute is unlikely to rise at the same rate as the output of packageable goods. Although the use of paper as a packaging material is not widespread in the primary producing countries, bulk handling is well advanced in some of them, particularly in Australia and Argentina. Nevertheless, the consumption of jute is likely to grow in all these areas. The trade in raw cotton and raw wool is likely to remain unaffected by bulk-handling devices, the freight advantage in compressing them in jute bales being a decisive factor; coffee and cocoa are mainly packed in jute sacks and the much smaller tonnage involved would not justify the capital costs of installing bulk-handling equipment. Besides, the movement towards bulk handling will remain limited in underdeveloped countries for a long time to come for want of well developed and efficient road systems.

In these circumstances it seems reasonable to assume that jute input per unit of packageable output in the primary producing countries would not fall by more than 10 per cent from 1960 to 1970. If the packageable output should rise by 25–30 per cent, jute consumption would rise by 13–17 per cent under these assumptions. It is, however, worth recalling that the latest FAO projections assume a rise of 35–40 per cent in the packageable output in the primary producing countries (excluding the Far East) from 1957–9 to 1970.²⁶ Assuming a fall of about 10 per cent in jute input per unit output of packageable goods, the total consumption of jute goods in the primary producing countries under this assumption would rise by 21.5 to 26 per cent over the stated period. The FAO projections however, point to a 10–30 per cent rise in jute consumption in the primary producing countries (outside the Far East and the Sino-Soviet area).²⁷ This is because the lower estimate assumes a fall of about 18 per cent in jute input per unit output of packageable goods and it seems to be unduly pessimistic. On the other hand the FAO assumption about the likely increases in the output of packageable goods is somewhat over-optimistic in the light of past trends. Thus as a rough estimate we may assume that the consumption of jute goods in the primary producing countries—outside India, Pakistan, and the Sino-Soviet area—would probably rise by 15–25 per cent from 1960 to 1970.

²⁶ *Agricultural Commodities—Projections for 1970*, Rome, 1962, Chapter ii, pp. 76–78.

²⁷ *Agricultural Commodities—Projections for 1970*, Chapter ii, pp. 76–80.

As regards their imports one has to note the fact that some countries of the Middle East, like Iran and Iraq, are establishing jute industries of their own; and the Brazilian jute industry is also likely to expand its size. Imports into the primary producing countries may, therefore, rise somewhat less fast than the consumption of jute goods. As against the postulated increase of 15–25 per cent in their consumption of jute goods over the decade we may assume as a rough approximation that their imports would probably rise by 10–20 per cent.

b. Prospects of World Trade—Summary

According to our projections an increase of about 10 per cent in imports of the industrial countries over the present decade is not improbable. Our corresponding estimates for the primary producing countries suggest a likely rise of 10–20 per cent in their imports between 1960 and 1970. Since the share of the two sets of countries in world imports is nearly even, on balance we may expect the volume of world trade in jute manufactures to rise by 10–15 per cent between 1960 and 1970.

c. Prospects of India's Exports—India's Relative Share

In Chapter III we noted that as a result of a growing jute industry in Pakistan, India's relative share of world trade has gradually fallen since the mid-fifties. Pakistan's exports of jute manufactures in 1959–60 accounted for 19.1 per cent of the combined exports of jute manufactures of India and Pakistan. Working on the assumption that she can capture as much of the export market as her capacity permits, Pakistan's Second Five-Year Plan aims at increasing her exports from 197 thousand tons in 1959–60 to 290 thousand tons by 1964–5.²⁸ As only a very moderate growth is expected in the volume of world trade in the future, Pakistan's success in the export markets is bound to affect further India's relative share of world exports.

Normally India produces jute goods at a cheaper cost than does Pakistan. But with the introduction from 1959 of an export-bonus scheme in Pakistan, which involved an export subsidy of nearly 25 per cent of the export prices of jute goods in 1960,²⁹ that country's cost disadvantage relative to India has been more than neutralized. In these circumstances India faces a dilemma.

²⁸ cf. *Pakistan's Second Five-Year Plan (1960–65)*, Karachi, June 1960, p. 238.

²⁹ As officially stated in the *Report of Pakistan Jute Enquiry Commission*, Karachi, 1961, pp. 142–6.

If she does not neutralize the effects of Pakistan's export subsidy her relative share of world trade will fall further. On the other hand, if she matches Pakistan's subsidy, in the short run the value of her export receipts is bound to fall. However, a failure to act now might impose much more serious losses on India in the long run, when Pakistan's industry would have grown to maturity. A fall of about 10 per cent in export prices so as to match Pakistan's subsidy³⁰ would no doubt neutralize the beneficial effects of a possible increase of about 10 per cent in the volume of exports over the decade, assuming that India maintains her present share of world trade. If, however, world trade were to rise by 15 per cent, as suggested by our upper estimate, India's exports would still rise from their present level if India maintains her relative share, even if it should involve a reduction of about 10 per cent in export prices. Besides, this step may enable India to gain somewhat further at the cost of European countries in the U.S. market, and may also help in developing the trade in speciality goods like jute carpets and jute backing, now being planned by the Indian industry.

India's exports of jute manufactures averaged Rs 1,204 million a year during 1959-60 and 1960-1. At worst, they would remain stagnant at this level if Pakistan were to succeed in further reducing India's relative share or if the rise in world trade were to be no higher than a reduction in export prices by India (to match Pakistan's subsidy). If, however, world trade were to rise by about 15 per cent, and if India were to prevent a further fall in her relative share, and also if exports of speciality goods were successfully developed, the value of exports could rise to about Rs 1,400 million by 1970.

2. Tea

The high-income countries of Western Europe, North America, and Oceania accounted for about 75 per cent of world net imports of tea during 1958-60. Among the underdeveloped countries the most important importers are the countries of the Near East and North Africa. The future of world trade in tea is, therefore, closely linked with the future developments in consumption of tea in these areas.³¹

³⁰ This subsidy was reduced by 50 per cent in 1961.

³¹ Another high income country, Japan, has a sizable domestic production of tea and has plans to cover its entire projected consumption of 96-106 thousand tons in 1970 by local production. The U.S.S.R. plans to attain self-sufficiency in tea by 1965 and the Sino-Soviet area is in any case a net exporter. Latin America is a coffee-drinking area and most countries of South-East Asia have a local tea industry of some size.

In the developed countries *per caput* consumption of tea is already near saturation level and in some countries shows a mild tendency to decline (Australia and Canada). As was observed in Chapter IV, at high income levels consumption of tea is hardly responsive to income and price changes and depends on habit. This means that the future growth of consumption in these countries will largely depend on the growth of population and the development of 'tastes'. In the underdeveloped countries the consumption of tea is responsive to income and price changes, once the tea habit has been formed; but from the point of view of world trade only the consumption in countries of the Near East and North Africa is really important.

In the light of these observations, it is interesting to examine the recent FAO projection of tea consumption in the importing areas for 1970. The main results are given in Table X.1.

According to the above projections, consumption of tea in all the importing areas taken together would rise by 18–29 per cent between

Table X.1 Total Consumption of Tea in Importing Areas for 1958–60 and Projections for 1970–2 (*in 000 Metric Tons*)

	1958-60	1970-2		1970-2 as Per cent of 1958-60	
		Low	High	Low	High
A. High Income areas:					
North America	69	75	89	109	129
Oceania	34	40	43	118	127
EEC	18	20	23	111	128
U.K.	230	238	251	104	109
Other West Europe	15	17	19	113	127
Sub Total	366	390	425	107	116
B. The Underdeveloped:					
Near East	32	51	56	160	175
North Africa	51	76	83	149	163
Others	35	52	58	149	166
Sub Total	118	179	197	152	167
Total	484	569	622	118	129

Source: FAO *Agricultural Commodities—Projections for 1970* (Rome, 1962), Chapter II, p. 52.

1958–60 and 1970.³² For the high-income countries zero income and price elasticities of demand have been assumed in these projections; and estimates for 1970 have been derived from a projection of the trends in consumption since the mid-fifties. For most of the underdeveloped countries an income elasticity of demand of about 0.8 has been assumed (in terms of quantity demanded); the lower estimates rest on the assumption that the growth of *per caput* incomes in these countries would proceed at the same rate in the sixties as in the fifties, while the upper estimates allow for an acceleration of the growth rates as laid down in the development plans of the various countries. Thus estimates for the Near East and Africa assume a growth of population at an annual rate of 2.5 per cent each, while the two projections for the growth of *per caput* GNP are 1.5 and 2.8 per cent respectively.

If the past trend is any guide it appears that the upper FAO estimate of the likely consumption in all the importing areas together for 1970 is over-optimistic. Between 1949–51 and 1954–6 consumption of tea in all the importing areas taken together rose at an average annual rate of 2.3 per cent; from 1954–6 to 1959–61, when consumption in the importing areas was no longer dominated by the effects of earlier post-war shortages, the annual rate of growth slowed down to 1.9 per cent. At this latter more normal rate the total consumption of tea in all the importing areas will not increase by more than 20 per cent over the present decade. Besides, the FAO projections make no allowance for the fact that balance-of-payments difficulties in the underdeveloped countries may prevent consumption of tea from growing at the assumed rates, particularly the higher rates. It seems very likely that if the underdeveloped importing countries were to achieve the higher of the two projected rates of growth of incomes which form the basis of the estimates of consumption of tea, many of them would be faced with balance-of-payments difficulties. This may well lead to restraints being imposed on imports of tea into these countries. Therefore it seems more reasonable to assume that the consumption of tea in all the importing areas would probably not increase by more than 20 per cent over the decade.

With an assumed rise of about 20 per cent in consumption of tea in all the importing areas together, if India were to maintain her relative share of world exports at its 1958–60 level her exports of tea would rise by about 20 per cent over the decade. India has, in fact, taken steps to strengthen her competitive position in the last few years—export duty on tea has been twice reduced

³² Op. cit.

and the operation of export controls on tea has been suspended since November 1961. However, in view of the known fact that African producers have normally lower costs of production than those in Asian countries, some further fall in India's relative share of world exports is probably unavoidable. African production of tea in the last decade increased at an average annual rate of 9.5 per cent; and Africa's relative share of world exports went up from slightly over 3 per cent in 1948-50 to 7.5 per cent in 1958-60. On past performance, a further doubling of production in the sixties is not improbable and this may also mean a doubling of African exports to nearly 70 thousand tons by 1970. Therefore, given an assumed increase of about 20 per cent in the volume of world exports over the decade, India's exports of tea may be expected to rise within a range of 15-20 per cent. Assuming constant export prices, under these assumptions, the value of Indian exports would rise from Rs 1,263 million a year during the last two years of the Second Five-Year Plan (i.e. 1959-60 and 1960-1) to Rs 1,450-1,520 million a year by 1970.³³

3. Cotton Textiles

India is a major exporter of cotton textiles in the world. The future of her export trade in cotton textiles is, therefore, closely linked with the future of international trade. The prospects of world trade in cotton textiles will depend on the likely growth of imports into the net-importing areas of the world, and also on the extent to which the hitherto net-exporting countries of Western Europe and the U.S.A. further liberalize their import trade.

³³ European integration is unlikely to have any significant adverse effect on India's exports. Although imports of tea into the European Economic Community from African Associates will enter free of duty, the quantitative impact of this concession will be small. As at present constituted, the former Belgian Congo is the only tea-producing country associated with the European Economic Community, and the production of tea in that country in the late fifties was only about 3,000 tons. Thus even a large increase in production of tea in the Congo would pose no serious problems for the Asian countries. However, the situation would change if Britain were to be admitted to the EEC and the former East African colonies of Great Britain were to be granted the status of associated territories. Nevertheless the fact that before the recent breakdown of negotiations for Britain's entry the six present members of the EEC had agreed to Britain's request for a completely free import of tea into the enlarged Community would safeguard the interests of Asian exporters if Britain were to join the EEC in the future.

a. Imports into the Primary Producing Areas

As for the net importing regions, the following considerations are relevant in a discussion of their import prospects: first, the likely developments in the consumption of all textiles; second, the likely trend of the relative share of cotton in the consumption of all textiles; and third, the rate of growth of import substitution in these areas.³⁴ Extrapolating past trends, we have made some calculations of the likely net imports of cotton textiles in 1970 by the primary producing net-importing regions.³⁵ The detailed results of our exercise are given in an appendix to this chapter.³⁶ The combined net imports of cotton textiles of these regions were 575 thousand tons in 1960. And according to our estimates their net imports in 1970 would be either 496 or 587 thousand tons.³⁷ In other words the magnitude of the likely change over the ten-year period will be narrow enough to fall within a range of -79 to +12 thousand tons. Of course no great significance should be attached to the precise quantitative estimates. They do serve, however, to emphasize that, if past trends are any guide, imports into the net-importing primary

³⁴ The growth of import substitution is measured by reference to changes in the relative share of net imports in total supplies available for home use.

³⁵ As defined in Chapter V the net-importing regions were Africa, the Far East (excluding India, mainland China, Japan, Hong Kong), the Near East, Oceania, and Latin America. However, in preparing import projections for 1970, slight changes have been introduced in the definitions of the net-importing areas of the Far East and the Near East. Egypt and Turkey both having attained self-sufficiency in cotton textiles in the last decade have therefore been excluded from the net-importing Near East. Similarly Pakistan, which has in the last few years become a net exporter of cotton textiles, has been excluded from the net-importing Far East.

³⁶ See the note on prospects of net imports of primary producing net-importing regions in an appendix to this chapter.

³⁷ The lower estimate rests on the assumption of a 20 per cent rise in *per caput* consumption of all textiles in these regions from 1960 to 1970. The higher estimate assumes an increase of 30 per cent in *per caput* consumption. The other assumptions are: first, we assume population to grow from 1960 to 1970 at the same rate as from 1950 to 1960; second, we assume that the share of cotton in the consumption of all textiles will fall from 1960 to 1970 at the same rate as was observed for the period 1950 to 1960; third, we assume that the growth of import substitution in these areas will be as fast from 1960 to 1970 as was found for the period 1950 to 1960. For a defence of these assumptions please refer to the appendix at the end of this chapter.

producing countries are not likely to grow beyond their present level. As we saw in Chapter V imports into these areas fell absolutely between 1948–50 and 1958–60; the fact that the volume of world exports nevertheless grew over this period was due to the growth of trade among the net-exporting countries themselves—particularly due to a steep rise in imports into the U.K. from the Asian members of the Commonwealth, and into the U.S.A. from Japan. The future of world trade in cotton textiles is again closely dependent on the import policies of industrial countries.

b. Imports into Industrialized Countries

Whether any further liberalization of imports into the industrial countries could be expected is difficult to say. Without such a step the volume of world trade in cotton textiles is unlikely to rise and may well fall in the coming years.³⁸ Many countries of Western Europe impose quantitative restrictions on imports of cotton textiles from Asian countries. Only the U.K. and the U.S.A. have greatly liberalized their imports of cotton textiles in the last decade. However, it is doubtful if any further liberalization can be expected from these countries. Already India, Pakistan, and Hong Kong have been voluntarily restricting their exports to the U.K. for the last few years; and similarly Japan has also had voluntarily to restrict her exports to the U.S.A. The International Textile Agreement signed in Geneva in 1961 does recognize the need for higher export earnings for the Asian countries, but it contains no specific steps to induce industrial countries to relax further their import restrictions on cotton textiles from Asian countries. No doubt, it provides that industrial countries should gradually remove quota restrictions on imports of cotton textiles but the pace of liberalization is not laid down in the agreement. It has only a negative advantage in that the participating countries have agreed not to use import restrictions to reduce the level of their future imports below the 1960–1 level. For the rest, the agreement authorizes the

³⁸ The enlargement of the European Economic Community to include Great Britain and the abolition of tariffs on mutual trade of the members would no doubt stimulate intra-European trade. The benefit to world trade from such a development is, however, doubtful because a part at least of the stimulus to intra-European trade will be at the cost of Indian and Pakistani exports to the U.K., particularly if the existing Common External Tariff of the EEC remains intact at its previously agreed level of 18 per cent.

importing countries to impose import restrictions if a sudden increase in imports threatens to 'disrupt' the market.³⁹ Thus unless industrial countries were prepared further to relax their restrictions on imports from the Asian countries the volume of world trade in cotton textiles would not be higher in 1970 than in 1960. It may in fact be somewhat lower.

c. India's Exports

Given a static, if not a declining volume of international trade India will need all the effort she is capable of even to maintain her exports at the level of the late fifties. Besides, the fact that the bulk of Indian exports consists of coarse and medium cloth will further handicap the growth of exports from India as the export of these simpler varieties is likely to be an early victim of import substitution in the developing countries of Asia and Africa. In the processed cloth, unfortunately Indian exports have failed to make much headway in the face of Japanese competition. In these circumstances, unless European countries were to pursue an unexpectedly liberal import policy, India's exports of cotton textiles are unlikely to rise beyond their present level. The value of exports averaged Rs 609 million a year during 1959-60 and 1960-1. We may therefore assume that the value of India's exports of cotton textiles in 1970 will remain constant at this level.

4. Vegetable Oilseeds, Oils, and Oilcakes

India is now only a minor exporter of vegetable oilseeds and oils in the world. Therefore the availability of export surpluses rather than the conditions of world demand will be the most crucial determinant of her export prospects in

³⁹ If there were any hopes that the Geneva Agreement heralded a growing tide of liberal import policies in the industrial countries, such hopes must have been dashed to the ground by the speed with which the U.S. Government acted in March 1962 in invoking the market disruption clause of the agreement for banning the entry of some eight categories of textiles from Hong Kong into the U.S.A. The U.S. view is that imports from Hong Kong during 4½ months since October 1961 had equalled her total exports to the U.S.A. during the year ending 30 June 1961 and the U.S. Government felt justified in preventing a further rise of imports, as permissible under the Geneva agreement. See *Foreign Commerce Weekly* (U.S. Department of Commerce), 26 March 1962 (vol. 67, no. 13), p. 531.

vegetable oilseeds and oils.⁴⁰ India is primarily interested in the export of groundnut, castor and linseed oils. Of these she is a major world exporter only in the case of castor, where her relative share of world trade (seed and oil combined in terms of oil equivalent) averaged 23.7 per cent during 1958–60.⁴¹ In spite of a contracting use of vegetable oils in industry the world trade in castor (seed and oil combined) has been expanding in the postwar years, and the average annual volume of world exports increased by 20 per cent between 1948–50 and 1958–60 and by 31 per cent between 1934–8 and 1958–60.⁴² In addition to its use in the high-quality paints, castor oil is used also for medical purposes and in the manufacture of industrial products like nylons. Apart from Western Europe both the U.S.S.R, and the U.S.A. are importers of this oil. Thus on the basis of past trends it seems reasonable to assume that world exports of castor (seed and oil) will probably rise by about 25 per cent from 1960 to 1970. India's exports of castor oil averaged 38.7 thousand tons a year during the two-year period 1959–60. If India were to hold on to her present relative share of world trade her exports would perhaps rise to about 48 thousand tons in 1970.

The prospects of world trade in linseed are not good because of its diminishing use in industry. However, in the late fifties India had become an insignificant exporter and her relative share of world exports of linseed (seed and oil) was only 3.5 per cent in 1958–60. Thus regardless of the conditions of world demand India should be able to increase her exports if she can find larger export surpluses. However, for some inexplicable reasons, production of linseed in India during the last decade has not risen much above its 1949–50 level. On the other hand there is a growing domestic demand for its use in industry. Thus large increases in exports seem unlikely. The average annual volume of exports during 1959–60 was 13 thousand tons. This was much lower than exports during many previous years; and during the five-year period 1955–60 the annual volume of exports averaged 22 thousand tons. Given even moderate efforts to increase the production and restrain domestic consumption it should not be difficult to export 22 thousand tons of linseed oil in 1970.

⁴⁰ However, as is argued in an appendix to this chapter, the volume of world trade in vegetable oilseeds and oils is likely to increase by 15–20 per cent over the present decade.

⁴¹ cf. Chapter VI.

⁴² Ibid.

This leaves us with groundnut oil. In this case the expected rise in demand for edible oils in Europe and Japan should sustain world trade at a higher level in 1970 than 1960. Edible uses apart, a continued expansion of the emulsion paints containing protein should further increase the demand for oils like groundnut and soyabean. In this case too India had become an insignificant exporter in the late fifties. Exports of groundnuts and groundnut oil (in terms of oil equivalent) were 52.8 thousand tons in 1959, but dwindled to 16.5 thousand tons in 1960 under the pressure of rising domestic demand.⁴³ Production of groundnuts in India has been rising steadily in the post-war years, and in 1960-1 was 42.4 per cent higher than in 1949-50.⁴⁴ The Third Five-Year Plan envisages a further rise of 38 per cent in the production of oilseeds between 1960-1 and 1965-6 and normally groundnuts should share in this expansion.⁴⁵ Besides, the Government has plans to encourage the industry to use increasing quantities of cotton-seed oil instead of groundnut oil so as to release increasing amounts of the latter for export.⁴⁶ Therefore, given a serious effort to restrain the growth of domestic demand for groundnut oil, it should be possible for India to export at least 100 thousand tons of groundnuts and oil (in terms of oil equivalent) in 1970.

It may well be that the treatment accorded to imports from Associated Territories into the European Economic Community may have some adverse effect on India's export prospects. The Community's present common external tariff is nil for groundnuts, 10 per cent for the crude groundnut oil, and 15 per cent for the refined groundnut oil. The fact that Associated Territories will enjoy a privileged position may well encourage a further growth in production of groundnuts in these countries. There are, however, some hopeful features in the present situation which will help countries like India to increase their exports even to the European Economic Community. First, production of groundnuts in African associated countries has been pushed too far at the expense of food crops, and in Senegal it appears that most of the readily available land suitable for the cultivation of groundnuts has already been used for that crop. Second, Mali, which accounted for about 10 per cent of the total exports of groundnuts from the former French West Africa,

⁴³ Chapter VI, p. 99, Table VI.1.

⁴⁴ Chapter VI, p. 107, Table VI.6.

⁴⁵ Planning Commission, *The Third Five-Year Plan*, New Delhi, 1961, p. 317.

⁴⁶ *The Third Five-Year Plan*, p. 319.

sold most of its 1960 crop to the U.S.S.R.,⁴⁷ and if this trend persists it will certainly help other countries to increase their exports to France. India, therefore, need not face an impossible situation in increasing her exports to Western Europe.

To sum up, if export surpluses are made available India will be able to increase her exports of vegetable oilseeds and oils. On our assumptions, exports of castor oil would rise from an annual average of 38.7 thousand tons during 1959–60 to about 48 thousand tons in 1970; exports of linseed oil would rise from 13 thousand tons to 22 thousand tons over this period; and exports of groundnuts and groundnut oil would rise from about 35 thousand tons (in terms of oil equivalent) a year during 1959–60 to about 100 thousand tons in 1970. Thus the volume of exports of the three oilseeds and oils together would be nearly doubled over the decade. This is a target which is clearly feasible if only the Indian Government were to become a little bolder in curbing the rate of growth in domestic demand for groundnut oil. Here then is a test of the Government's determination to increase exports. The average annual value of exports during 1959 and 1960 was Rs 327.0 million.⁴⁸ If export prices do not fall over the decade, the value of exports could rise to Rs 650 million in 1970. We have finally assumed them to lie within the range of Rs 550–650 million.

5. Iron Ore

Iron ore seems to offer extremely promising export opportunities in the years to come. To form an idea of these opportunities it will be useful to analyse the prospects of world trade in iron ore. The major determinants of world trade in iron ore are (1) the production of steel in various countries of the world, (2) the share of scrap, as against pig iron in the production of steel, and (3) developments in the production of iron ore in steel-producing countries.

Steel is the basic metal in modern industry and despite its replacement in some uses by aluminium and plastics it will retain its eminence for a long time to come. A recent study by the UN Economic Commission for Europe, extrapolating the consumption and production trends of steel and assuming an uninterrupted growth from 1957 to 1972–5, concluded that the world

⁴⁷ FAO, *Monthly Bulletin of Agricultural Economics and Statistics*, September 1961, p. 15.

⁴⁸ This includes other oilseeds, oils and oilcakes.

production of steel would increase from 292.6 million tons in 1957 to 630.6 million tons in the latter period, giving us an increase of 115 per cent.⁴⁹ The corresponding increases for various regions would be as follows: Western Europe—78 per cent (from 90.6 to 161.2 million tons), Eastern Europe, excluding the U.S.S.R.—136 per cent (from 16.2 to 38.2 million tons), North America—49 per cent (from 106.8 to 159.5 million tons) and Japan—by 189 per cent (from 12.5 million tons in 1957 to 36.5 million tons in 1972–5).⁵⁰ Of course the assumption of an uninterrupted growth may exaggerate the likely increase in steel production, but the underlying trend is undoubtedly strongly expansionist. Since the above areas are the major importers of iron ore the likely growth of steel production is bound to have favourable consequences for the trade in iron ore.

Whether the consumption of iron ore in steel-producing countries increases at the same rate as the production of steel will depend on the relative shares of scrap and pig iron in the production of steel. Scrap can be made available in the process of steel-making itself (when it is called circulating scrap); it also arises in the industries fabricating iron and steel into the finished products (it is then called process scrap); and finally, worn-out and obsolete iron and steel products are also an important source of scrap (called capital scrap). As for the first two sources of supply, their output may be expected to keep pace with the rate of growth of steel output (although if yield rates improve, both in the making of finished steel from crude steel and in the steel-using industries, the output of scrap from these sources will rise less fast). As for capital scrap, its availability depends on the level of capital formation some 20–25 years previously. As a result of brisk investment activity in all the steel-producing countries in the fifties, after over 15 years of capital consumption during the Great Depression and the Second World War, this source will be of greater importance in 1970 than it was in the past decade. In the UN study referred to above, it was assumed that, even if all the potentially available scrap were to be utilized, the share of scrap in world production of steel would improve only marginally, from an estimated 45.5 per cent in 1955 to 46.3 per cent in 1972–5.⁵¹ Under this assumption the world consumption of iron ore would more or less keep pace with the growth in steel production.

⁴⁹ *Long Term Trends and Problems of the European Steel Industry*, Geneva, 1959, p. 147.

⁵⁰ *Ibid.*

⁵¹ *Op. cit.*, p. 156.

As against their growing requirements of iron ore, the domestic production in major steel-producing areas—the U.S.A., Western Europe, and Japan—is unlikely to grow fast enough. This, as we saw in Chapter VII, was the major reason for a rapid growth of world trade in iron ore in the last decade. Net imports of iron ore into the U.S.A. rose from 5.9 million tons in 1951 to 29.9 million tons in 1960; net imports into the OEEC countries went up from 1.7 million tons to 27.4 million tons; and those of Japan increased from 3.1 million tons to 14.9 million tons over the same period. World trade in iron ore will, therefore, grow at a much faster rate than world consumption of iron ore. Thus, according to another UN study,⁵² from 1955 to 1975 net imports into North America might increase by 250 per cent—from about 10 million tons a year during 1954–6 to 30–35 million tons in 1972–5; and net imports into Western Europe may rise by 450–800 per cent, from 10–15 million tons a year in 1954–6 to 65–110 million tons in 1972–5.⁵³ A similar UN study for Japan, assuming an increase of 130 per cent in her GNP between 1955 and 1975 and of 150 per cent in her mining and industrial output, concluded that Japan's imports of iron ore would increase by some 300 per cent over the stated period.⁵⁴ In the light of actual experience during the past decade this may well turn out to be a conservative estimate: Japan's imports of iron ore increased from 5.5 million tons in 1955 to 14.9 million tons in 1960, or by about 170 per cent in a short span of five years. And already the Japanese are again planning at least to double their imports from 1960 to 1970.

In the light of these observations the limit on India's future exports of iron ore is most likely to be imposed by mining and related transport facilities in India. Her geographical location places India in a particularly advantageous position to supply the needs of Japan. The Philippines and the Federation of Malaya are the only other important Asian exporters of iron ore to Japan. But the high-grade reserves of iron ore being rapidly exhausted, the production and exports of iron ore from the Philippines have not increased since 1955. Malaya undoubtedly has plentiful reserves of iron ore of a high quality. But Japanese imports are expected to increase so rapidly that it would be

⁵² UN, *Economic Survey of Europe in 1957*, Geneva, 1958, Chapter V, p. 11.

⁵³ Ibid. The more optimistic estimate rests on an assumption of a 100 per cent rise in Western Europe's Gross National Product, while the less optimistic one assumes a rise of only 60 per cent in the GNP from 1955 to 1975.

⁵⁴ UN, *Economic Survey of Asia and the Far East in 1959*, Bangkok, 1960, p. 90.

possible for both India and Malaya greatly to increase their exports to Japan. Besides, India may well be called upon to meet a part of Europe's growing requirements of imported iron ore. Already Italy has shown a keen interest in importing iron ore from India and so also have the countries of Eastern Europe.

The existing agreements between India and Japan provide for about 8 million tons of iron ore to be exported by India to Japan by 1966. In the Third Five-Year Plan it has been assumed that exports to other countries would be about 2 million tons in 1966, so that total exports would rise from 3.5 million tons in 1960 to 10 million in 1966.⁵⁵ If this trend continues exports of iron ore would probably rise to about 15 million tons by 1970. At prices prevailing in 1960 the value of exports would rise from Rs 170 million in 1960-1 to about Rs 680-700 million in 1970.

So far we have not taken any account of exports from the former Portuguese colony of Goa, which now forms a part of India. Goa is rich in iron-ore resources, and unlike other mining areas in India, is not far away from the seaports. As far as we could make out from trade statistics of the importing countries Goa exported about 4.5 million tons of iron ore in 1960. Of this, 1.97 million tons went to Japan, and 2.2 million tons to West Germany. At prices prevailing in 1960 total exports of Goa must have been worth about Rs 220 million. Exports of iron ore from Goa could be greatly expanded and a doubling over the decade is not improbable. In that case, the total value of exports of iron ore from India would rise to about Rs 1,100 million.⁵⁶ If, however, exports from Goa were to remain constant at their present level the total value of exports in 1970 would probably be Rs 900 million. We may therefore finally assume that exports of iron ore in 1970 would lie within a range of Rs 900-1,100 million.⁵⁷

⁵⁵ Planning Commission, *The Third Five-Year Plan*, New Delhi, 1961, p. 53.

⁵⁶ It has recently been reported that the Foreign Trade Board of India has recommended a target of 25 million tons of iron ore for export by 1970. Our upper estimate would involve an export of about 23 million tons and is therefore close to that recommended by the Foreign Trade Board.

⁵⁷ This volume of exports assumes that the world steel industry would not suffer from any recession of economic activity in 1970. Needless to add, all our estimates would be proved wrong if there were to be a major recession.

6. Manganese Ore

The demand for manganese ore is a derived demand arising out of its use in the making of steel and other alloys.⁵⁸ Most industrial countries, with the exception of the U.S.S.R. (and also Japan to some extent), do not produce manganese ore in significant quantities at home. Thus if input of manganese per ton of steel were to remain constant their import requirements of manganese ore would grow at the same rate as their production of steel.

We have already noted, in the section on iron ore, projections of steel production for 1972-5 prepared by the UN Economic Commission for Europe.⁵⁹ According to this study, output of crude steel in North America, Western Europe, Eastern Europe (excluding the U.S.S.R.), and Japan would together increase by 74 per cent between 1957 and 1972-5. If realized, these estimates would result in an increase of about 50 per cent in steel production in the above areas from 1960 to 1970. And if input of manganese per ton of steel were to remain constant their import requirements of manganese ore would rise by the same percentage as their steel production.

As regards input of manganese per ton of steel, the possibilities of further economies, although not entirely ruled out, are not extensive in the present stage of knowledge.⁶⁰ Under the pressure of scarcity during the war and high prices ruling in the early post-war years, special attention was given by all principal users to economize the use of manganese. As a result manganese blast-furnace requirements in the making of pig iron are being met by the use of local ores or slag. Thus imports are already confined to the high-grade ore needed for the manufacture of ferro-manganese, which in turn is required to give finished steel its desired, specification. In these circumstances it would be difficult to foresee any marked reduction in the requirements of manganese per ton of steel in the principal importing countries particularly if, as is expected, the output of special steels,

⁵⁸ Manganese acts as a deoxidizing and de-sulphurizing agent on steel and gives the latter properties of resistance and ductibility, especially suitable for working it hot.

⁵⁹ UN, *Long-Term Trends and Problems of the European Steel Industry*, Geneva, 1959, p. 147.

⁶⁰ cf. OEEG, *Manganese in the Iron and Steel Industry: Use, Recovery and Supplies*, Paris, 1953.

with their relatively higher consumption of manganese, were to grow faster than that of other varieties.

If, therefore, the output of steel in the regions mentioned above were to rise according to the ECE projections, their imports of manganese ore would rise by about 50 per cent from 1960 to 1970. However, as was noted earlier in this chapter, the ECE estimate assumes an uninterrupted growth in these regions from 1955 to 1975, whereas actually output of steel is subject to periodic swings in economic activity, at least in the capitalist countries. Making allowance for the probably over-optimistic nature of the ECE projection we may as a rough estimate assume that the output of steel in these regions would perhaps rise by about 40 per cent from 1960 to 1970. In that case their imports of manganese ore would also rise by about 40 per cent over the same period.

If India were to maintain her present relative share of world trade her exports of manganese ore would rise by about 40 per cent over the decade. The average annual volume of exports during the last two years of the Second Plan was 1.0 million metric tons, valued at Rs 130 million. A rise of 40 per cent would raise the value of exports to Rs 182 million in 1970. However, the odds are against India's being able to maintain her present relative share of world trade. The U.S.A. is the largest market for Indian ore; and, as was noted in Chapter VII, the steel companies in the U.S.A. have invested large sums in the mining of manganese ore in Brazil. They are, therefore, unlikely to reduce their dependence on the Brazilian ore, though it may well be that a steady and relatively cheaper availability of ore from India may slow down a further exploitation of Brazilian resources by the U.S. steel companies. Strategic considerations may, however, still favour a continued reliance on Brazilian resources rather than on the distant Indian ore.

Africa and the U.S.S.R. are other major suppliers to Western Europe. African mines are mostly owned by interests in European countries, and are often linked to the steel interests in the metropolitan countries; this interlocking may restrict reliance on other sources of supply. For the rest, purchases of Soviet and Indian ore are not entirely a matter of relative prices. Many Western countries are desirous of trading with the Soviet Union. That country, however, insists on a bilateral balancing of trade. Into this over-all framework imports of manganese ore from the U.S.S.R. have fitted well. If this trend continues India's relative share may further fall. We may, therefore, assume that India's exports would probably increase within a range of 25-40 per cent over the decade, i.e. to Rs 165-180 million in 1970.

7. Mica

If our discussion in Chapter VII is a good indication, then exports of mica from India are unlikely to increase beyond their present level. As we saw there, consumption of natural mica has greatly suffered as a result of a growing use of synthetic substitutes. Natural mica is now only used as a high-grade insulator. We also noted that the Paley Commission was very optimistic about greatly reducing the U.S. dependence on imports by 1975. Although U.S. imports have not fallen they show no tendency to rise either.

The process of finding newer synthetic substitutes for the remaining uses of mica is under way in many countries, including the U.S.A., Japan, and the U.S.S.R. Mica being a strategic material the Governments of these countries are actively assisting this research. In addition, efforts are being made to transform scrap mica into usable mica. This latter prospect, if it materializes, would significantly affect U.S. import requirements since that country has large resources of scrap mica. Although the U.S. domestic resources of mica are considerable, the high costs of hand-processing in classifying, trimming, and above all in splitting, have tended to restrain domestic mining operations in face of the low labour costs in foreign producing countries—India and Brazil. The Paley Commission, however, visualized a far-reaching replacement of the hand-processed mica by mechanically built-up mica splittings, thereby opening U.S. resources to mechanical operating methods and reducing U.S. dependence on imports.⁶¹

In view of these uncertainties exports of mica are unlikely to increase in the future and may well fall. We have however assumed that India's exports in 1970 would remain stable at their 1960 level of Rs 100 million.

8. Tobacco

India mostly exports Virginia-type flue-cured tobacco. The U.S.A. and the Federation of Rhodesia and Nyasaland are other major producers and exporters of this variety. In view of this oligopolistic market structure Indian exports are likely at best to keep pace with the growth of world exports.

In discussing India's export prospects the following considerations are relevant: first, the likely trend in the consumption of tobacco in the importing

⁶¹ *Resources for Freedom*, vol. 2: *The Outlook for Key Commodities*, Washington, 1952, p. 95.

areas, particularly in Western Europe, which accounts for over 75 per cent of world imports of tobacco; second, the likely trend of production in the importing areas—for in Western Europe, countries like France and Germany, although on balance net-importers, are important producers of tobacco; third, the effects of European integration (including the treatment accorded to imports from the Associated Overseas Territories by the European Economic Community) on Europe's imports from non-member countries.

a. Consumption of Tobacco

If the past trend is a guide, consumption of tobacco in Western Europe will grow further. The available estimates of income-elasticity of demand for tobacco products suggest an elasticity of about 0.6 for the high and middle-income countries, and of about unity for the poor countries of Europe.⁶² Moreover, the consumption of tobacco in the past decade benefited considerably by the spread of the smoking habit among women, and also by a lowering of the age at which people start smoking. The only uncertainty affecting the future developments is the consumers' reaction to a further evidence of a causal relationship between smoking and lung cancer. The suspected relationship between smoking and lung cancer could affect the consumption of tobacco in two ways: first, it might affect the rate of smoking by an individual; and second, as a safety device, it might cause a shift in demand towards filter-tip cigarettes which would reduce the manufacturers' requirement of tobacco leaf up to 20 per cent per unit of final product.

A recent study sponsored by the Twentieth-Century Fund concludes that Western Europe's total consumption of tobacco might rise by 54 per cent from 1955 to 1970.⁶³ The authors of the study, however, base their conclusion on an assumption that the smoking habit would not suffer owing to a fear of contracting lung cancer, and also that there would be no major quality shifts in the demand for cigarettes. But if we allow for the possibility that people's preferences would increasingly favour filter-tip cigarettes, the consumption of leaf tobacco will rise by only 25 per cent,

⁶² See a Twentieth-Century Fund Sponsored Study by J. F. Dewhurst and others—*Europe's Needs and Resources*, London, Macmillan, 1961, p. 211.

⁶³ J. F. Dewhurst and others, *Europe's Needs and Resources*, London, Macmillan, 1961, p. 211.

assuming that filter-tip cigarettes use 20 per cent less leaf than other cigarettes. This of course assumes that the entire production of cigarettes in 1970 will consist of the filter-tip variety which is unlikely to be the case. Clearly it would be hazardous to offer a firm quantitative estimate in view of the surrounding uncertainty. However, as a rough approximation adapting the above projection, we may assume that Western Europe's consumption of tobacco leaf will probably rise by 15–20 per cent from 1960 to 1970.

b. European Production

Whether net imports in Western Europe would rise by the same percentage as consumption of tobacco leaf is difficult to say. It is possible that the abolition of tariff restrictions on intra-European trade may reduce Europe's dependence on outside imports. Among members of the European Economic Community France and Germany are considerable producers, Italy is a net exporter and so also is Greece, which is an associate member. In due course Turkey, another net exporter, will also probably seek associate membership of the European Community. As a result European production of tobacco might rise faster than the growth of consumption and the share of net imports in total consumption might fall.

But it appears that the prospects for the import of Virginia-type flue-cured tobacco in Europe would not be affected by the Common External Tariff of the Community. This variety is increasingly in demand but is not produced in Europe, so that we may assume that Europe's net imports of this variety would at least rise at the same rate as the total consumption of tobacco (although the very fact that other varieties grown locally would be cheaper by virtue of not having to pay an import duty of 30 per cent may in the long run lead to a modification in the tastes of European consumers).

c. Imports from Associated Territories in Africa

With an expected rise of 15–20 per cent in Western Europe's net imports of Virginia flue-cured tobacco between 1960 and 1970 Indian exports could be expected to rise by the same extent over this period. Of course exports from India to the European Economic Community will have to pay an import duty of 30 per cent while the Community's imports from its African Associates

will enter free of duty. However, as at present constituted, the Associated Territories produce only small quantities of tobacco, and the Virginia variety is not grown by them. Although a duty-free entry into Europe might stimulate further production it is unlikely that these countries would be producing significant quantities of Virginia-type tobacco in the near future: not only the capital costs but also the growing-requirements and the care and attention needed for this variety are much more exacting than for other varieties. Thus India may be expected to share fully in the expected increase in European imports during the present decade.⁶⁴

In the underdeveloped countries India may not be able to sell much more of her tobacco, particularly if the U.S.A. should continue to sell her tobacco surpluses abroad for local currencies of the importing countries. Fortunately, in the last few years the U.S.S.R. has emerged as an important buyer of Indian tobacco and could greatly increase her purchases from India in the future. However, it is extremely difficult to predict the course of Indian exports to the U.S.S.R. Nevertheless an over-all increase of 15–20 per cent in the volume of Indian exports of tobacco between 1960 and 1970 is not improbable. During 1959–60 and 1960–1 exports averaged Rs 141 million a year. Assuming constant export prices, a rise of 15–20 per cent in the volume of exports would raise export earnings from tobacco to Rs 164–170 million in 1970.

9. Coffee

India's exports of coffee in the late fifties formed about 0.6 per cent of total world exports. In view of the smallness of Indian exports the future of world trade in coffee is not the most important determinant of exports from

⁶⁴ However, things would be different if Britain were to succeed in joining the EEC and the territories which now constitute the Federation of Rhodesia and Nyasaland were to be accorded the status of an Associated Territory by the enlarged European Community. The Federation is an important exporter of Virginia flue-cured tobacco; and if it were to get the right of duty-free entry for its exports to the EEC (while exports from India would pay a duty of 30 per cent) India's export prospects would be greatly affected, since Western Europe accounts for over 60 per cent of India's total exports of tobacco. Otherwise, the loss of Commonwealth Preferences enjoyed by Indian tobacco in the U.K. would not by itself be a disaster for India in view of the fact that these preferences had by the late fifties been reduced to only about 2.5 per cent. Given the preference in the U.K. for Virginia tobacco India should be able to maintain her present relative share in that market.

India.⁶⁵ The policies pursued by the European Economic Community and the availability of export surpluses are the most relevant considerations from India's point of view.

Western Europe absorbs over 70 per cent of India's exports of coffee; West Germany, Italy, and Belgium being her most important customers. Coffee is not grown in Europe, but a duty-free entry of imports from Associated Territories into the European Economic Community will militate against the interests of other exporters.⁶⁶ However, India need not be discouraged by this discrimination against her exports. As at present

⁶⁵ However, there is every indication that world trade in coffee will continue to grow in the future. According to most available estimates of income and price elasticities the consumption of coffee seems to be fairly sensitive to income and price changes. The estimates for the U.S.A. point to an income elasticity of 0.5 and a price elasticity of 0.3. For the countries of Western Europe estimates of income elasticities are not very different from those for the U.S.A., but much higher price elasticities ranging from 0.5 to 0.9 have been observed (see *The World Coffee Economy*, a mimeographed report of the Coffee Study Board, Washington and also a GATT report, *Trends in International Trade*, Geneva, 1958). Thus coffee consumption will gain both by a rise in incomes as well as by the fact that in the European Economic Community internal taxes on coffee are likely to be reduced. Prices of coffee have been falling since 1957 but the fall in import prices has not been passed on to final consumers in most European countries. For example, retail prices in Italy fell by only 2 per cent from 1958 to 1960, whereas import unit values fell by 31 per cent over the same period (cf. FAO: *Monthly Bulletin of Agricultural Economics and Statistics*, November 1961). In 1961, however, the European Commission of the Community recommended that internal taxes on coffee in member states should be abolished by 1965; and if implemented this recommendation would further boost coffee consumption in the EEC. According to an FAO study, a complete abolition of internal taxes would alone raise imports by 7.5 per cent in France; 7.2 per cent in West Germany; 20.8 per cent in Italy; giving us an annual increase of about 43 thousand tons over the 1958 level of imports (assuming price elasticity to be 0.6 for Italy, 0.4 for West Germany and France—cf. *Monthly Bulletin of Agricultural Economics and Statistics*, September 1960). The only uncertainty affecting coffee consumption in the importing areas arises out of a fear of a growing use of soluble coffee, since the introduction of soluble coffees involves at least a 30 per cent reduction in requirements of green coffee per cup of coffee.

⁶⁶ The Common External Tariff of the Community for coffee is likely to be suspended at 9.6 per cent *ad valorem*.

constituted Associated Overseas Territories produce mostly robusta coffee; while the bulk of Indian exports to Western Europe consists of 'milds'—a variety of arabica coffee not grown in Brazil and used mostly for blending with other varieties. The present output of arabica coffee in Associated Territories is 55–60 thousand tons and this covers less than 20 per cent of the Community's present requirements of coffee. Output could expand, but the prospects for arabica are not as encouraging as for robusta. Furthermore, the bulk of arabica output of the Associated Territories consists of 'Brazils', while Indian exports are of 'milds'. Arabica coffees have a market of their own and it seems unlikely that countries like Germany which consume considerable quantities of quality coffee would switch over to robustas even if the prices of the latter should fall unless, of course, the use of soluble coffees which could use a high percentage of robusta became much more popular. Hence the discrimination in favour of Associated Territories will not prevent India from greatly increasing her exports of coffee from their present modest level. India's total exports of coffee of about 15 thousand tons a year in the late fifties were a negligible fraction of Western Europe's total annual net imports of about 860 thousand tons during 1958–60. India therefore ought to concentrate her attention on increasing the export supplies of her superior quality coffees.⁶⁷

In the late fifties India's exports formed only about 30 per cent of her total annual production of about 45 thousand tons. The Third Five-Year Plan aims at raising the production of coffee by about 68 per cent between 1960–1 and 1965–6, and this is a target which is certainly capable of being realized in the light of past trends.⁶⁸ If this trend were to continue during the Fourth Five-Year Plan also the production of coffee would be at least doubled between 1960 and 1970. Assuming a doubling of production a 200 per cent rise in exports over the decade (from about 15 thousand tons to 45 thousand tons) would still allow for a 50 per cent increase in domestic

⁶⁷ But if Kenya, the other leading producer of 'milds', were to be granted the status of an Associated Territory in the event of Britain's entry into the EEC the prospects for Indian exports would be somewhat less bright. However, the fact that 'milds' are expected to remain in strong demand should be of help to India. Otherwise Britain's entry into the EEC and a possible loss of Commonwealth Preferences will not affect India's exports, as India sells very little coffee to the U.K.

⁶⁸ *The Third Five-Year Plan*, Government of India, New Delhi, 1961, p. 317.

consumption of coffee (from about 30 thousand tons in 1958-60 to 45 thousand tons in 1970).

Although a 200 per cent increase in India's exports of coffee from 1960 to 1970 is clearly possible the actual performance is likely to fall short if India becomes a member of the recently negotiated International Coffee Agreement, and if this agreement remains in force even in 1970. Under the present agreement, which will be valid for a period of five years, India's quota has been fixed at 21.6 thousand tons, which is about 50 per cent higher than India's exports during 1958-60. Perhaps India's quota would not be more than doubled over the decade. Of course India could refuse to participate in the International Coffee Agreement but that would be setting a bad precedent and would not be worthwhile, considering the small amounts involved. The average annual value of exports was Rs 67.8 million during 1959-60 and 1960-1. A possible 100 per cent increase would raise the value of exports to about Rs 135 million in 1970.

10. Hides, Skins, and Leather

Export prospects for hides, skins, and manufactured leather are not good. First, the consumption of natural leather in the importing countries has suffered as a result of a growing use of rubber and synthetic leather. Thus according to a recent study by *The Economist's* Intelligence Unit the consumption of sole-leathers in the U.K. fell by over 20 per cent between the late forties and late fifties, and the consumption of other heavy leathers fell even more markedly.^{69,70} The only increases have occurred in light

⁶⁹ *The Economist* Intelligence Unit, *The Commonwealth and Europe*, London, 1960, pp. 227-8.

⁷⁰ In addition there is the uncertainty created by the fact that on Britain's entry to the European Economic Community India's exports of manufactured leather may suffer since the United Kingdom is the largest single market for Indian leather. However, the fact that unmanufactured leather will enter the EEC free of duty and also because Indian tanned leather has an appeal of its own, the possible entry of Great Britain to the European Economic Community will not seriously prevent a rise in India's aggregate exports. Besides, in recent years the countries of Eastern Europe and the U.S.S.R. have been importing large quantities of hides and skins and this alone should provide India with some opportunities to increase her export earnings subject only to the availability of adequate export surpluses.

leathers used in clothing and other non-footwear products. However, India is only a marginal exporter of hides, skins, and leather in the world; so that regardless of conditions of world demand it should be possible for her to increase her exports. The most important reason why India's exports of hides, skins, and manufactured leather are not likely to rise significantly is to be found in an inelastic supply of raw hides and skins in the country. There being a widespread prejudice against the slaughter of animals, the availability of hides and skins depends largely on the natural death rate among animals. Already India is an importer of raw hides which are tanned and exported. Given a relatively inelastic supply and a growing domestic demand for leather products exports are unlikely to increase significantly. A small rise of about 10 per cent is not impossible, given a strong export drive and a control of domestic consumption. The value of exports averaged Rs 380 million a year during the last two years of the Second Plan. In 1970 the value of exports may well fall within a range of Rs 400–420 million.

11. Cashew Kernels

India's exports of cashew nuts increased rapidly from 1951 to 1960. The volume of exports went up from 21.6 thousand metric tons in 1951 to 42.7 thousand tons in 1960. Over the same period the value of exports increased from 90.5 million to Rs 189 million. Since India is almost the only exporter of cashew kernels in the world the trend in her exports also indicates the trend in world consumption. The average annual volume of India's exports was 25.7 thousand tons during 1951–3; it rose to 33.1 thousand tons in 1955–7 and to 40.8 thousand tons in 1958–60.⁷¹

The U.S.A. is the world's largest market for cashew nuts and accounted for about 60 per cent of India's total exports in the late fifties. The U.K., Canada, Australia, and West Germany are other important consumers. There is a vast potential market for edible nuts in all these countries, offering further scope for increasing India's exports of cashew nuts. To judge by past performance a doubling of exports in the sixties is not improbable.

⁷¹ All these figures have been taken from official sources and converted into metric weights. They refer to fiscal years beginning 1 April.

However, some uncertainty is introduced by two factors. First, the domestic production of raw nuts is no longer sufficient to meet the entire existing export demand. As a result India has to import large quantities of raw nuts from East Africa, averaging Rs 70 million a year during 1958–60. Thus if one merely looks at the value of exports of cashew nuts one is likely to form an exaggerated view of their contribution to the earning of foreign exchange. Unless India can increase significantly the domestic production of raw nuts, she will hardly be able to exploit fully the potentialities offered by this commodity.

Second, in due course East Africa will probably start shipping cashew kernels to the world directly rather than be contented with the export of raw nuts (for processing) to India. Already Brazil and Mozambique have started exporting small quantities of cashew nuts to the U.S.A. In 1950 the U.S.A. imported 48.5 million lb. of cashew nuts. Of these India supplied 48 million lb. or about 99 per cent. In 1960 the U.S.A. imported 64.3 million lb., of which 59.1 million lb. came from India, so that India's share in the vital U.S. market fell to 92 per cent.

Thus even if the consumption of cashew nuts in the importing countries rises by 100 per cent in the present decade India's exports are unlikely to be doubled again. However, exports from East Africa are still extremely small and if India has an adequate supply of raw nuts she will still be able greatly to increase her exports. It is, therefore, heartening to know that the Third-Plan target of production of cashew nuts envisages 105.5 per cent increase between 1960–1 and 1965–6.⁷² This will greatly reduce India's dependence on imported nuts and also help raise export earnings significantly. From an annual average value of Rs 175 million during 1959–60 and 1960–1 the value of exports may well rise to Rs 300 million in 1970.

12. Spices

Black pepper and cardamom are the most important spices exported from India. Export earnings from spices reached a peak in 1950–1 (Rs 237.8 million). After that year they fell almost continuously until 1958–9 (Rs 80.1 million). In the last two years of the Second Plan they recovered and exports averaged Rs 156 million a year during 1959–60 and 1960–1. The fall

⁷² *The Third Five-Year Plan*, 1961, p. 317.

in export earnings over the last decade was largely a consequence of the steep fall in prices of black pepper after 1951. In terms of volume, exports of both black pepper and cardamom increased over the last decade. From an average annual volume of 13–6 thousand tons during 1951–5 exports of black pepper went up to a yearly volume of 15 thousand tons during 1956–60. Over the same period yearly exports of cardamom rose from 935 metric tons to 1,524 tons.⁷³

As was pointed out in Chapter IX, world net exports of black and white pepper rose from an annual volume of 18.7 thousand tons during 1948–50 to 45.7 thousand tons during 1958–60. Even then they were lower than pre-war world exports (estimated at 71.2 thousand tons a year during 1934–8). Changes in food habits in favour of less spicy foods have greatly contributed to a fall in the *per caput* consumption of pepper in post-war years as compared with pre-war. But there is no doubt that until the mid-fifties there was a shortage of pepper all over the world (though it was diminishing after 1951). Thus it seems reasonable to assume that now that prices of pepper have come down the consumption in the importing countries will recover to at least the pre-war level. If this does happen world exports of black and white pepper may rise to 60–70 thousand tons in 1970. Given a sustained effort India's exports should at least rise by 30–40 per cent over the decade.

World exports of cardamom had already risen above the pre-war volume by the mid-fifties and they further rose to an estimated 2.18 thousand tons in 1958 (as compared with the pre-war 1.37 thousand tons).⁷⁴ Thus while they were 12 per cent lower in 1950–53 than the pre-war volume, in 1953–8 the annual average volume of world exports was 21 per cent higher than the pre-war.⁷⁵ In other words they rose by about 37 per cent from 1950–53 to 1958–60.

If past trends persist into the present decade India's export earnings from spices could rise by 30–40 per cent over the decade. From an annual level of Rs 156 million during 1959–60 and 1960–1 export earnings may well rise to Rs 205–220 million in 1970.

⁷³ All these figures have been compiled from official statistics published by DGCI & S, Calcutta, and converted into metric weights. They relate to fiscal years beginning 1 April.

⁷⁴ FAO, Committee on Commodity Problems, 34th session, *Trends in World Market for Spices*, part ii (Mimeograph), 1961, table 30.

⁷⁵ Ibid.

13. Lac

India's export receipts from lac are unlikely to rise from their present level.

First, there is a growing use of synthetics as a substitute for lac. Synthetics have virtually replaced shellac completely in the U.S. gramophone record market, and have made serious inroads into the European market too. This is a process which is capable of being greatly intensified because in many uses synthetics are technically better. A survey some years ago by the National Council of Applied Economic Research, New Delhi, revealed that in the U.K. market lac is not a suitable material for the making of long-playing records; in paints and varnishes, apart from relative cheapness, synthetics have the advantage of being more easily applied and are quicker to dry; in electrical insulation synthetics give a better and more easily manufactured insulation; and in leather dressing they are considered easier to apply and are also cheaper.⁷⁶ As a result of these developments any significant growth of demand for lac is improbable.

Moreover, India is no longer a monopolist of lac. Thailand is now a growing competitor and is no longer content to send raw lac to India for being processed as she did before the war. In view of these developments we have assumed that exports of lac from India in 1970-71 would remain constant at their present level.

14. Coir Goods

Coir fibre is used in the manufacture of matting and rugs, brushes and brooms, in upholstery (as a substitute for horse hair) and in the making of rope and twine. India and Ceylon are the only exporters of coir in the world. While Ceylon's exports consist mostly of coir fibre, Indian exports take the form mostly of yarn and other manufactures.⁷⁷

Exports of coir fibre, yarn and other manufactures from India and Ceylon taken together increased by nearly 34 per cent between 1948-50 and

⁷⁶ See their report, *Export Markets for Indian Lac*, p. 46, Asia Publishing House, Bombay, 1958, pp. 46-8.

⁷⁷ The average annual value of Indian exports was Rs 86.35 million during 1958-9 and 1959-60. Of these, fibre brought in only Rs 0.86 million; yarn, Rs 51.81 million; mats, Rs 24.84 million; rugs and carpets, Rs 6.13 million; cordage and rope, Rs 2.52 million.

1958-60 (from 117.9 thousand tons to 157.5 thousand tons a year).⁷⁸ If past trends are any guide, consumption of coir goods in overseas countries ought to expand further. However, because of a growing competition from other vegetable fibres like sisal in the making of floor coverings, and also because of an increasing use of floor coverings made of synthetic fibres and plastics, consumption will probably rise less fast in the sixties than in the last decade. As a rough estimate, against a rise of 34 per cent from 1948-50 to 1958-60, we may assume that consumption would further rise by 25-30 per cent between 1960 and 1970.

Western Europe accounts for the bulk of exports from India and Ceylon.⁷⁹ Besides, there is also a growing market for coir goods in Eastern Europe and the Middle East. Therefore a rise of 25-30 per cent in India's exports of coir goods from 1960 to 1970 is not impossible. From an average annual level of Rs 89 million during 1959-60 and 1960-1 India's export earnings could rise to Rs 110-115 million by 1970.

15. Raw Cotton

India is only a marginal exporter of raw cotton and her share of world exports in the last decade never exceeded 2 per cent. The future of world trade in raw cotton is therefore hardly a relevant variable for India to

⁷⁸ Calculated from the annual reports of the Commonwealth Economic Committee on Industrial fibres. Figures have been converted into metric weights.

⁷⁹ The six countries of the European Economic Community have a sizable coir industry of their own. Therefore their imports of coir goods from India mostly consist of coir yarn. The U.K. is however an important importer of coir manufactures (other than yarn) from India, and imports from India at present enter free of duty. Under the EEC's Common External Tariff coir mats will have to pay a duty of 24 per cent. If the U.K. were to become a member of the EEC and the existing Common External Tariff of the Community were to remain unchanged India's exports of coir manufactures to the U.K. would nearly disappear. At present India exports coir manufactures worth about Rs 15 million a year to the U.K. (excluding yarn). However, even if the continental industry were to capture the entire Indian market for coir manufactures in the U.K. the loss of export earnings to India would be somewhat mitigated, owing to the continental industry's higher import needs for coir yarn. Coir yarn will enter the EEC free of any duty.

bother about in view of the smallness of Indian exports.⁸⁰ Some varieties of raw cotton exported from India have special qualities which make them particularly suitable for non-spinning purposes, or for being mixed with other fibres. Thus cottons like the Bengal Deshi have been in particularly strong demand in the past decade, and the only effective limit on Indian exports has been the availability of export surpluses. This latter factor will again be the most important determinant of India's exports in 1970.

India's Third Five-Year Plan regards it 'of highest importance' that 'in the Third Plan, substantial increases should be secured in commercial crops, especially cotton, oilseeds and jute'.⁸¹ Thus it is visualized that the agricultural programmes of the Third Plan will lead to an increase of 37.2 per cent in

⁸⁰ Still, the available evidence points towards a further moderate growth of world trade in raw cotton in the present decade. In the late fifties, Western Europe accounted for about 47 per cent of world imports, Japan for another 17 per cent, and the Sino-Soviet area for about 25 per cent. Whereas the former two areas are overwhelmingly dependent on imported supplies, imports are of only marginal significance for the Sino-Soviet area. The latter area is an important producer of raw cotton and it is difficult to say much about the probable behaviour of its imports. As for Western Europe and Japan, their requirements of raw cotton will depend on the consumption of cotton textiles in these areas and also on their net foreign trade position. Cotton has been faced with severe competition from man-made fibres and the share of cotton in total textile consumption has tended to fall in both these areas. In 1948-50 cotton textiles accounted for 57.4 per cent of total textile consumption in West Europe; in 1958-60 their share fell to 52.7 per cent; over the same period the share of cotton in Japan's total textile consumption fell from 61.1 per cent to 52.3 per cent (cf. FAO, *Per Caput Fibre Consumption Levels, 1948-58*). Despite this, consumption of cotton textiles in both these areas has continued to grow. Because of a declining volume of exports of cotton textiles from West Europe consumption of raw cotton by the European countries has not grown very fast (by 9.6 per cent between 1948-50 and 1958-60); in Japan, however, it has grown very fast indeed (by 201.5 per cent from 1948-50 to 1958-60). And it appears that in spite of the adverse factors at work, raw cotton needs of Western Europe and Japan are likely to expand further. According to FAO projections, consumption of raw cotton would probably grow at an annual rate of about 2 per cent in Japan and 1 per cent in Western Europe in the present decade. Together the two would be importing 10-20 per cent more cotton in 1970 than in 1957-9. See *Agricultural Commodities—Projections for 1970*, Rome, 1962.

⁸¹ *The Third Five-Year Plan*, New Delhi, p. 302.

cotton production from 1960-1 to 1965-6 (from 5.1 million bales in 1960-1 to 7.0 million bales in 1965-6).⁸² If this target is realized, and the same trend continues during the Fourth Plan as well, then the production of raw cotton may well rise by 75-100 per cent over the decade. And this would not be an ambitious target. Already the production of raw cotton in 1960-1 was over 100 per cent higher than 1949-50.⁸³ Now that vast tracts of land in Punjab and Rajasthan have been provided with irrigation facilities, it should not be difficult to increase cotton production by 100 per cent over the present decade. Exports of raw cotton averaged 55 thousand metric tons a year from 1955 to 1960, though the average for the last two years was only 46 thousand tons on account of a poorer harvest in 1959-60. Given a nearly 100 per cent rise in production the minimum aim should be to export 100 thousand tons by 1970. This is a target which would not impose any severe restrictions on domestic consumption in view of the expected rise in production. Thus on these assumptions the average annual value of exports of raw cotton would rise from Rs 85.3 million during 1959-60 and 1960-1 to Rs 175-200 million in 1970.

16. 'New Manufactures'

During the last few years India has started exporting what are now called 'new manufactures', consisting largely of the products of light engineering industries, but also including base metals like iron and steel, ferro-manganese, drugs and other pharmaceutical products. These exports accounted for about 2 per cent of India's total exports in 1960. Because their emergence as export items is so recent it is difficult to draw any firm conclusions about their export prospects from past experience. In official circles great hopes are pinned on the likely growth of such exports in the near future. That such an expansion is urgently needed is of course obvious from our preceding discussion of export prospects for many of India's traditional export products; but whether present hopes are likely to be sustained by actual experience is a different matter.

On the demand side one may take the view that the total volume of world trade is an irrelevant consideration from India's point of view, India being a minor exporter. In any case, it may be argued, world trade in

⁸² Ibid., p. 317.

⁸³ According to statistics published in the *Monthly Abstract of Statistics*, December 1961, the index of production in 1960-1 was 206 (1949-50 = 100).

Table X.2 India's Exports of Engineering Products (*Millions of Rupees, with Relative Share in Brackets*)

	1959	1960
Consumer Goods	40.46 (72.6%)	51.46 (57.9%)
Intermediate Products	11.08 (19.9%)	29.45 (33.2%)
Capital Goods	4.25 (7.5%)	7.94 (9.9%)
Total	55.79	88.85

manufactures has grown very fast in the last decade and there is every indication of a further growth in the present decade. It is in these terms that the issue is often discussed in India. However, given the present structure and the extremely narrow base of such exports, the outcome may not be as bright as the above view would suggest. The issues can probably be best studied with reference to what the Engineering Export Promotion Council calls the 'engineering products'. At the outset we may note the following characteristics of such exports.

First, as Table X.2 brings out, the bulk of engineering exports consists of consumer goods.⁸⁴

Second, the great majority of items, both in the consumer goods and in the intermediate products lists, can be readily manufactured on a small scale. Any visitor to an industrial township in the Punjab will find that such consumer goods as aluminium utensils, buckets and tubs, steel trunks, cutlery umbrellas, sewing machines, electric fans, and bicycles lend themselves easily to manufacture on a small scale. Similarly, what is true of many consumer goods is also true of such intermediate products as bolts and nuts, screws, hand pumps, iron nails, hand tools, and the simpler types of agricultural appliances.

⁸⁴ The basic figures were supplied by the Engineering Export Promotion Council, Calcutta and they were rearranged by the author according to the following classification:

Consumer goods include: aluminium utensils, copper, art and EPNS ware, crown corks, buckets, lanterns, razor blades, steel trunks, furniture and utensils, cutlery, sewing machines, clocks, fountain pens, umbrellas, locks, bolts, dry batteries, electric fans, fluorescent tubes, radios, and bicycles.

Capital goods include: marine transport equipment; jute, rice, flour, shoes, tea, oil, textile, and other machinery.

Intermediate products: iron and steel, sheets of nonferrous metals, cast iron pipes, tubes, diesel engines, and auto parts.

Table X.3 Engineering Exports from India (*Relative Share of Various Areas in Brackets*)

	1959	1960 (Millions Rupees)
South-East Asia	16.3 (29.2%)	21.8 (24.5%)
West Asia	16.0 (28.7%)	21.0 (23.6%)
Africa	8.2 (14.7%)	12.9 (14.5%)
Europe	3.2 (5.7%)	17.0 (19.1%)
Oceania	1.1 (2.0%)	1.1 (1.2%)
North and Central America	10.7 (19.2%)	13.9 (15.6%)
South America and West Indies	0.44 (0.8%)	1.2 (1.3%)

Third, the bulk of India's engineering exports goes to the under-developed countries of Asia and Africa, as is borne out by Table X.3.

These characteristics of engineering exports have certain consequences for the export prospects. To the extent that consumer goods predominate in India's exports of such things, and if they continue to be directed towards the underdeveloped countries, there is a risk that the importing countries may soon restrict their imports for balance-of-payments reasons.

Perhaps more important is the fact that because a large number of engineering products exported from India can be easily manufactured on a small scale they may well be the early victims of the process of import substitution in the newly developing countries. That these are not imaginary fears is borne out by some recent developments in neighbouring countries. Thus Burma has since 1957 banned the import of aluminium utensils and buckets to encourage domestic production; so also have Pakistan, Iraq, and Mauritius; and Ceylon is planning to set up plants to manufacture these products. For electric fans Iran and Iraq have set up their own plants; for sewing machines Ceylon and South Vietnam have set up local assembly plants.⁸⁵ And these developments are bound to be extended to other products and countries as more countries embark on economic planning. Thus to the extent that India's exports of engineering products remain confined to relatively simple types of products, and their markets limited to the neighbouring underdeveloped countries, it is exceedingly unlikely that, as at present constituted, engineering exports may be expected to fill the trade gap.

⁸⁵ All these instances have been quoted in various issues of the quarterly *Statistical Bulletin* of the Engineering Export Promotion Council, Calcutta.

This is not to deny that there may still be a considerable scope for a further expansion of engineering exports even with their present composition; but in terms of their quantitative significance it is unlikely that with their present structure they can be relied upon to make a major impact on India's exports in the near future. To some extent things would be different if India were to pay increasing attention to developing the markets in the advanced countries of the West which have less serious balance-of-payments problems, and which may find simple things available at cheaper prices in India than if domestically produced. A hopeful beginning has already been made in some directions—notably with respect to wood screws, sewing machines, and cast-iron pipes. Yet apart from the growing tariff barriers there is the basic problem created by a pattern of wants in the developed countries generally different from that of countries like India. This means that unless industries are set up specifically to meet export needs it may be difficult to find export outlets in advanced countries.

In these circumstances, if 'new manufactures' are to be relied upon to provide a big forward push to India's exports the country will need to diversify her exports of these products. More specifically, to guard against the danger of an early import substitution in the importing countries, and also to minimize the risk of import restrictions in these countries being used to curtail imports, India's exports ought to consist of capital goods, of such intermediate products as iron and steel and chemicals, and of such essential consumer goods (drugs for example) as are likely to remain high on the import-priority lists of the importing countries, not being easily manufactured locally.

No doubt, to the extent that economic development in other underdeveloped countries is financed by tied loans and grants from the developed countries, exports of capital goods from India, which have made a modest beginning in the last few years, would be handicapped. But provided India chooses her lines well, she need not be deterred by this prospect. And besides, if the sums involved are not large India could also extend 'tied' loans to other countries as her contribution to the development process in these countries. Thus while prospects for many of the existing engineering products are not too cheerful, those for capital goods and intermediate products like iron and steel are very good, subject only to the availability of export surpluses and the competitiveness of Indian prices and standards of quality.

As far as competitiveness is concerned, in a general way India is favourably placed. She is well endowed with natural resources, with large

reserves of first-grade iron ore, lying in close proximity to coal and other essential raw materials needed for the manufacture of steel. In addition, a country of the size of India should be able to utilize all the reasonable economies of scale at an early stage of its development. This should greatly strengthen her competitive position in the world markets. Competitiveness in prices and quality also depends on a mastery of newer techniques, and on this point one needs to avoid both extremes of snobbery—one that asserts that India will never be able to master modern technology to a level that will enable her to compete in the world markets; and the other that assumes India can readily master modern technology in a very short period.

One may feel fairly optimistic about export prospects if one talks in such general terms as these. Yet a closer scrutiny may not sustain this optimism as far as the near future is concerned (1970). The generation of adequate export surpluses is a matter partly of creating the necessary capacity and partly of restraining domestic demand to its planned level. There is unfortunately no easy way of judging the adequacy of planned additional capacity for Indian industry in the Third Five-Year Plan. That would require a detailed knowledge not only of the existing effective capacity but also of the future domestic requirements. The official document of India's Third Five-Year Plan does mention that in undertaking new industrial development the accent will have to be on projects which 'by contributing to exports will earn foreign exchange'⁸⁶ and that 'special attention will have to be given to the development of industries for whose products there are reasonable prospects of finding export markets'.⁸⁷ Yet when it comes to discussing such industries and whether any provision for exports has been made in planning for additional capacity for various industries, we are left totally in the dark.

Indeed, when the Third-Plan document discusses the question of additional demand and additional capacity for specific sectors (in the chapter on Industrial Development) it makes no mention of the export demand at all. Take for example the case of steel. One often hears of India's emerging soon as a major exporter (on account of the excellent quality of her iron ore). But in the Third-Plan document, where the breakdown of the likely pattern

⁸⁶ *The Third Five-Year Plan*, New Delhi, 1961, p. 458.

⁸⁷ *Ibid.*, p. 459.

of steel demand for 1965-6 is given, we find that in 1965-6 the likely production of steel will be 6.8 million tons as against an expected demand of 7.3 million tons.⁸⁸ Since there is no mention of exports one is bound to assume that this estimate of demand refers only to domestic demand. Similarly, production targets for industrial machinery, cement sugar, paper, and cotton mill machinery do not mention export possibilities at all.⁸⁹ For machine tools, while the efficiency of the Hindustan Machine Tools factory is widely advertised, it is admitted that as against an expected demand of Rs 500 million in 1965-6 production will be worth only Rs 300 million.⁹⁰ Regarding railway rolling-stock equipment, 'the project for the manufacture of diesel electric and diesel hydraulic locomotives included in the railway plans will make a major contribution towards self-sufficiency in respect of railway equipment',⁹¹ For fertilizers, as against an expected domestic demand of one million tons of nitrogen and 400 thousand tons of P2q5 in 1965-6 the expected production in that year will be 800 thousand tons of nitrogen and 400 thousand tons of P2q5.⁹² For caustic soda and soda ash the target is one of self-sufficiency.⁹³

If the above examples are any indication, at least in the sectors mentioned above, export possibilities have not been allowed for in planning additional capacity. That not much additional capacity is being created with an eye on export markets is indirectly suggested by the extremely modest targets for exports laid down in the Third Plan.

Of course one could argue that in a discussion of export prospects for 1970 one ought to consider the likely additions to productive capacity during the Fourth Plan also; and that having taken steps towards self-sufficiency in many industrial products in the Third Plan, the planners would lay greater emphasis on creating additional capacity for exports during the Fourth Plan. This may well happen. But it is unduly risky to assume that this additional investment will be able by 1970 to step up Indian exports significantly. Investment in heavy industry has a long gestation lag and, in addition, difficulties similar to those that have caused the Second-Plan targets for steel,

⁸⁸ Planning Commission, *The Third Five-Year Plan*, New Delhi, 1961, pp. 466-7.

⁸⁹ *Ibid.*, p. 473.

⁹⁰ *Ibid.*, p. 474.

⁹¹ *Ibid.*

⁹² *Ibid.*, pp. 478-9.

⁹³ *Ibid.*, p. 480.

fertilizers, and electrical machinery &c. to be imperfectly realized,⁹⁴ may well crop up in later years too. Many of these industries are being set up in India for the first time; and for want of adequate experience there are bound to be unexpected delays in their completion. If this should happen, higher investment during the Fourth Plan would not be ready early enough to add to the flow of production.

Even if the added capacity were ready by 1970 to go into production it is hardly to be expected that export markets will be waiting to be captured by Indian producers overnight, as it were. A successful build-up of exports in new commodities, involving as it does entry into many new markets for the first time, requires careful planning and is a long-term process. The world markets are becoming increasingly competitive; and there will be fierce competition facing India from the developed countries, backed by the reputation of their brands as well as 'tied' external assistance extended by them to the importing countries. This means that India will require much patient hard work to make a successful entry into the world markets, and the degree of success will have to be large enough to raise total exports to Rs 13,000–14,000 million by 1970, as is the stated official intention.⁹⁵ And if this is true then the time to plan the needed capacity for exports lies in the Third-Plan period and not during the Fourth Plan (1966–71). Whatever the reasons for not creating additional capacity for export requirements (presumably foreign exchange is the decisive limit) during the Third Plan, inability to do so would mean that export performance by 1970 would fall short of expectations. For, by now it should be obvious that unless export plans include iron and steel, industrial machinery, chemicals and fertilizers, it seems extremely unlikely that the existing structure of 'new manufactures' can alone provide a sound basis for a big forward leap on the export front.⁹⁶

⁹⁴ See *The Third Two-Year Plan*, p. 453.

⁹⁵ *Ibid.*, p. 138.

⁹⁶ Much as I admire Sir Donald MacDougall's analysis of India's balance of payments (*Bulletin* of the Oxford University Institute of Statistics, vol. 23, no. 2, pp. 153–77), I cannot share his optimism about the prospects of 'new manufactures' whose contribution during the Fourth Plan he regards as 'major and important'. Sir Donald concentrates largely on the competitiveness of 'new manufactures' and does not discuss such questions as the export potential of existing products and the provision of adequate capacity during the Third Plan in really promising lines of export.

E. 1970: A SUMMARY LOOK

To get a final picture, export projections for various commodities discussed in this chapter are summarized below. To repeat, these estimates are not forecasts. Indeed, no particular significance attaches to the precise quantitative estimates and they are used to indicate no more than a broad order of possible magnitudes. Table X.4 sums up our projections for India's major traditional exports.

Thus according to our projections, exports of the above commodities would rise by Rs 1,586–2,236 million over the decade.

In addition, the Third Plan estimates of exports assume significant increases in the export of sugar, art-silk fabrics, woollen fabrics, and fish. Thus it is expected that exports of sugar will increase from an annual average of Rs 23.5 million during 1959–60/1960–1 to Rs 200 million in 1965–6; over the same period, exports of art-silk fabrics will rise from Rs 30.7 million to Rs 90 million; of fish—from Rs 48.4 million to Rs 120 million; and of woollen

Table X.4 Value of India's Exports, Annual Averages for 1959–60 and 1960–1 and Projections for 1970–1 (*Million Rupees*)

I. Commodity	2. Annual Average 1959–60/1960–1	3. Projections for 1970–1	
		A. Low	B. High
Jute Manufactures	1,204	1,205	1,400
Tea	1,263	1,450	1,520
Cotton Textiles	609	610	610
Vegetable Oils, Oilseeds and Cakes	327	550	650
Iron Ore	158	900	1,100
Manganese Ore	130	165	180
Mica	101	100	100
Tobacco	141	165	170
Coffee	68	135	135
Hides, Skins, and Leather	380	400	420
Cashew Kernels	175	300	300
Spices	156	205	220
Lac	63	65	65
Coir Goods	89	no	115
Raw Cotton	85	175	200
Total of Above	4,949	6,535	7,185

fabrics—from Rs 63.1 million to Rs 100 million. Assuming these export targets are fully realized, we expect that these commodities will together bring additional foreign exchange worth Rs 354 million in 1965–6. Exports of art-silk fabrics, woollen manufactures, and fish are capable of being further developed. But the greatest uncertainty surrounds export prospects for sugar. The cost of production of sugar in India is so high that without a large export subsidy there is hardly any chance of sugar being exported from India. Besides, sugar surpluses in India have arisen only in the last few years, and they may not persist in the future. Many a time in the past decade India had actually to import sugar.⁹⁷ In view of the uncertainty concerning sugar we may roughly assume that export receipts of all the above commodities would not rise beyond their planned level for 1965–6, any possible future losses in sugar being offset by higher exports of others. On this assumption, exports of these commodities and the traditional items considered previously would rise by Rs 1,940–2,590 million over the present decade.

This leaves us with 'new manufactures'. If our previous discussion is any guide, their prospects are not as good as is sometimes assumed. We have argued earlier that in those lines where really promising opportunities exist the authorities have not made adequate provisions for exports in the planning of production facilities during the Third Five-Year Plan. But even if they have not done so it will still be possible for them, should they so decide, to divert some part of production originally intended for home use to the export markets. It is therefore extremely risky to venture even the vaguest quantitative estimate of the likely exports of 'new manufactures'. We may, however, note that the official estimates allow for about Rs 800 million worth of exports of 'new manufactures' in 1965–6. Should these exports double themselves again over the following five years they would reach Rs 1,600 million in 1970–1 (from an annual average of about Rs 200 million during 1959–60 and 1960–1). This is of course a very wild guess indeed.

Bearing in mind that our estimate for 'new manufactures' is extremely shaky we assume that Indian exports would rise by Rs 3,340–3,990 million between 1959–60/60–1 and 1970–1. The value of exports averaged Rs 6,315 million a year during the last two years of the Second Plan (1959–60 and 1960–1). On our assumptions the value of exports in 1970–1 would be

⁹⁷ Originally in the Second Five-Year Plan, there was a provision for imports of sugar worth Rs 350 million during 1956–60. See Planning Commission, *The Second Five-Year Plan*, New Delhi, 1956, p. 99.

Rs 9,655–10,305 million. As a purely notional figure the value of exports in 1970 may be imagined at about Rs 10,000 million. This clearly falls short of the Planning Commission's target of Rs 13,000–14,000 million of exports in 1970.⁹⁸

It can hardly be over-emphasized that our projections for traditional exports are crucially dependent on India's success in greatly increasing the production of commercial crops like cotton, vegetable oilseeds, raw jute, and coffee. This in turn implies a satisfactory solution of India's baffling agricultural problem. In addition, our estimates for the 'new manufactures' suffer from the greatest uncertainty. If anything, the figure for 1970 as suggested above would appear to the present writer to be somewhat over-optimistic. It is, however, a level which is capable of being achieved, provided large quantities of intermediate products like iron and steel are made available for export.

F. SELF-SUSTAINED GROWTH BY 1971?

We are forced to end with a gloomy conclusion that India's export performance in 1970–1 is likely greatly to fall short of the export requirements of self-sustained growth. As against the needed export earnings worth at least Rs 15,000 million we shall be lucky if we can export goods worth Rs 10,000 million by 1970. The available evidence, therefore, points to a strong likelihood that India may have to postpone the realization of her objective of self-sustained growth beyond 1970–1. This, however, should not be taken to mean that its pursuit ought to be given up right now. The best strategy will still be to aim high and utilize the period between now and 1970 to put in the largest possible effort in export promotion as well as in import-saving activities. If in spite of all the effort the balancing of the foreign exchange budget in 1970–1 should prove difficult the choice whether to postpone the achievement of the objective of self-sustained growth to a later date or to modify the character of the Fifth Five-Year Plan could then be settled in the light of such considerations as the availability of fresh foreign aid and the terms on which it was made available.⁹⁹

⁹⁸ *The Third Two-Year Plan*, New Delhi, 1961, p. 138.

⁹⁹ If India's relations with China remain strained and necessitate a long-term build up of the country's defence potential, the chances of self-sustained growth's being attained by 1970–1 will further recede.

APPENDIX: PROSPECTS

1. Consumption of Jute Goods in Industrial Countries

North America and Western Europe account for over 50 per cent of jute consumption in the world (excluding India, Pakistan, and the Sino-Soviet area). In these countries, if past trends as analysed in Chapter III are any guide, the prospects for increased future consumption are not very good. A study some years ago by the U.N. Economic Commission for Europe¹⁰⁰ concluded that consumption of jute goods in North America and Western Europe together would probably rise by 30–35 per cent between 1954–5 and 1975. A more recent study by the FAO¹⁰¹ is, however, highly pessimistic and according to its findings the consumption of jute goods in the two areas together is likely to fall between 1957 and 1965–70, although the chances of a small expansion are not ruled out. The two studies have different time horizons and they also differ in their assumptions about the over-all projected rates of growth of the GNP for the two areas. As such their results are not comparable. In any case an assessment of the ECE projection is made difficult by the fact that not all its assumptions are stated explicitly: we are told hardly anything about the growth of output of the sectors that use jute goods, nor about the pace of substitution of jute by alternative materials. We have, therefore, confined our attention to an examination of the FAO projection.

Table X.5 summarizes the FAO estimates of the probable demand for jute goods in North America and Western Europe.

At the outset it is useful to note various assumptions of the FAO study. As regards its general assumptions, the population of North America is expected to rise by 16 per cent and that of Western Europe by about 6 per cent over the stated period (1957–67); real income in the U.S.A. is expected to rise by 42 per cent, and by 40 per cent for all the other countries taken together. Moreover, it has been assumed that the relative prices of jute and of its substitutes will remain largely unchanged over the period.

As for the use of jute in floor coverings, the following assumptions have been made: first, an income elasticity of demand of 1.6 for the floor coverings has been assumed for the U.S.A. With income per head rising by 22 per cent, *per caput* consumption of carpets would rise by about 35 per cent and total

¹⁰⁰ *Economic Survey of Europe in 1957*, Geneva, 1958, chapter v, p. 8.

¹⁰¹ 'Trends in World Demand for Jute Manufactures', *Monthly Bulletin of Agricultural Economics and Statistics*, January 1961.

Table X.5 Demand for Jute Goods in North America and Western Europe: 1957, and Estimates for 1965-70 (1967)

Country and End-use	Per cent Change from 1957 to 1965-70			Jute Consumption (Million Tons)	
	A. Commodity Output	B. In Jute Input Per Unit of Final Output	C. In Jute Consumption	1957	1965-70
The U.S.A.:					
Packaging	+15	-40 to -60	-30 to -55	0.18	0.08-0.13
Floor Coverings	+55	0 to -5	+50 to +55	0.05	0.07-0.08
Other Uses	+20 to +40	-10 to -20	-5 to +25	0.04	0.04-0.05
Total				0.27	0.19-0.26
Other Countries:					
Packaging	+15 to +20	-40 to -60	-25 to -55	0.21	0.09-0.16
Floor Coverings	+85 to +100	-10 to -20	+50 to +80	0.10	0.15-0.18
Other Uses	+20 to +40	-10 to -20	-5 to +25	0.09	0.09-0.11
Total				0.40	0.33-0.45
Grand Total				0.67	0.52-0.71

Source: 'Trends in World Demand for Jute Manufactures', FAO, *Monthly Bulletin of Agricultural Economics and Statistics*, December 1960 and January 1961.

consumption by 57 per cent. For other countries an income-elasticity of 2.2 has been assumed, so that with an assumed rise of 33 per cent in *per caput* incomes, *per caput* consumption of floor coverings would rise by about 75 per cent and aggregate consumption by about 85 per cent if the relative prices of carpets were to remain unchanged. If, however, the proportion of cheaper tufted carpets in total consumption should rise in Europe, as has happened in the U.S.A., relative prices of carpets would fall. In that case, assuming a fall of about 20 per cent in the relative prices of carpets, total carpet consumption in these countries would rise by nearly 100 per cent. Last, it has been assumed that jute consumption per unit output of floor coverings would fall by 0-5 per cent in the U.S.A. and by 10-20 per cent in other industrial countries. On the basis of these assumptions the demand for jute used in floor coverings would rise by 50-55 per cent in the U.S.A. and by 50-80 per cent in other countries.

As regards the use of jute as a packaging material it has been assumed that the output of packageable goods (cereals, potatoes, coarse grains, and

sugar, &c.) for which jute is a traditional packaging material would rise by about 15 per cent in the U.S.A. (income-elasticity of demand for these products being assumed as zero on the average). For other countries, taking income-elasticity of demand for packageable goods to be within the range of 0.25 to 0.5, their output is assumed to rise by 15–20 per cent. However, it has been further assumed that a technological trend (tending to reduce the use of jute per unit of packageable output) which was noticed for the period 1948–58 would be operative during the later period also. This means that if the relative prices of jute remain unchanged, input of jute per unit output of packageable commodities would decline by about 50 per cent over the ten-year period. To cover such contingencies as a further change in relative prices of about 20 per cent either way, it has finally been assumed that the fall may be within the range of 40–60 per cent. As a result the demand for jute as a packaging material is expected to fall by 30–55 per cent in the U.S.A. and by 25–55 per cent in other industrial countries between 1957 and 1965–70.

From the above it should be obvious that the FAO study draws its pessimistic conclusion regarding the prospects for jute consumption in the industrial countries largely because it assumes a severe fall in the use of jute as a packaging material in these countries—from an estimated 0.39 million tons in 1957 to 0.17–0.29 million tons in 1967. The basis of this projection, as we saw above, is the assumption that a technological time-trend, which was noticed for the period 1948–58, tending to reduce the input of jute per unit output of packageable goods by about 50 per cent over the ten years, would continue to operate with nearly the same force in the future also. It is for this reason that the FAO study postulates a fall of 40–60 per cent in the input of jute per unit of packageable output in its projection.

The above assumption underlying the FAO projection can be criticized from more than one standpoint. It is questionable to assume that a technological time-trend which was noticed during 1948–58 would operate with the same force in the later years too. First of all, the first four years of the ten-year period (1948–58) were extremely abnormal in the sense that there were extraordinary reasons limiting the supply of jute goods from India. To this state of affairs unusually poor harvests, the dislocation caused by the partition of the Indian subcontinent, and strained economic relations between India and Pakistan, which affected adversely a smooth flow of raw jute from Pakistan to the highly localized jute industry in Calcutta, were contributory factors. As a result prices of jute goods rose steeply relative to the shipping-sack paper, the chief substitute for jute. This naturally affected the position

of jute adversely. Since 1952 supplies of jute have been more plentiful and prices of jute goods have fallen relatively to those of paper as well as cotton. As a result the consumption of jute as a packaging material in the U.S.A. has risen both absolutely and relatively to the substitutes for jute. This is brought out in the Table X.6 figures, compiled from the FAO study itself.

That the consumption of jute as a packaging material has been rising since 1950-2 is conceded in the FAO study itself, but the authors ascribe the improvement in the position of jute since 1952 to a fall in the relative price of jute rather than a reversal of the technical trend. But this raises the question: in what sense can we regard the relative prices of the earlier four years as a normal framework for future reference, when it is known that jute supplies were faced with abnormal difficulties during those years? If we excluded the first four years we should get a trend different from the one found by the authors of the FAO study. We have, however, not undertaken such an exercise because the later period would be too short to enable us to use that trend for future projections.

It is no doubt true that between 1950-2 and 1956-8 the consumption of jute as a packaging material rose only moderately in the U.S.A., despite the fact that relative prices of jute over the period fell by nearly 50 per cent¹⁰² (as compared with paper, the principal substitute for jute). This does suggest that there is a substantial trend against the use of jute, arising partly because of the growth of bulk deliveries and also because in some uses paper may possess distinct technological advantages over jute. However, it is possible

Table X.6 Materials Used in Packaging in the U.S.A. (*Thousand Metric Tons*)

	1948-9	1950-2	1953-5	1956-8
Jute	186	162	169	174
Cotton	92	72	52	39
Paper	488	710	732	769
Total	766	944	953	982
Relative Share of Jute (%):	—	17.2	17.7	17.7

Source: FAO, *Monthly Bulletin of Agricultural Economics and Statistics*, January 1961, p. 4.

¹⁰² The average annual price of a jute bag in the U.S.A. was 22.7 cents in 1948-9, 28.9 cents in 1950-2, and 16.3 cents in 1956-8. The average price of a paper bag was 10.7 cents in 1948-9, 11.2 cents in 1950-2; and 12.7 cents in 1956-8. Calculated from *Annual Summary of Jute Statistics*, IJMA, Calcutta, 1961.

that the use of jute in the future may grow somewhat faster than in the past decade. Many people who switched over to the manufacture of paper bags in the early post-war years because of a relative scarcity of jute would not immediately return to jute use, despite a substantial fall in the relative prices of jute. After the installation of costly machinery to manufacture paper bags an immediate switch-back is neither possible nor profitable. But if relative prices of jute stay at competitive levels for a long enough period some people who had previously shifted to the use of other packaging materials, solely under the influence of relative prices, will be tempted to switch back to jute (especially if jute is not inferior to its substitutes from the technical point of view). To some extent this process is already under way. Thus a delegation of the Indian Jute Mills Association which visited the U.S.A. in 1960 noted with satisfaction that 'Ralsten Purina, one of the largest milling organizations in the U.S.A., have in the past four years converted some ten to twelve of their feed plants from the use of 50 lb. multiwall paper bags to returnable burlap (jute) bags'.¹⁰³

Secondly, as far as the losses on account of the growth of bulk handling are concerned, these have been significant in the past and this factor will also be operative in the future. But the pace of bulk handling may be moderated in the sixties as compared with the last decade. Now that all the immediately suitable fields have been captured by bulk handling the remaining commodities may not lend themselves very readily to it. Thus the IJMA delegation whose report was quoted above found that in the U.S. manufactured-feed industry bulk deliveries from the mills to the feed users had been extended beyond economic limits 'owing to feed manufacturers' underestimating the delivery costs incurred by them'. The delegation also noticed that some of the disadvantages of bulk deliveries, such as the inability of manufacturers to use their brand, as on jute bags, and the inconvenience caused to feed users in not having their feed formulations conveniently separated were being more keenly felt than before.¹⁰⁴ Such inconveniences could be more readily tolerated at a time when prices of jute were rising disproportionately. But now that they have come down from the abnormally high levels of the early fifties this fact may well exercise a somewhat moderating effect on a further growth of bulk-handling practices. For all these reasons the severity of the past

¹⁰³ IJMA, *Report of the Fourth Delegation to the U.S.A. and Canada*, Calcutta, 1960, p. 7.

¹⁰⁴ *Op. cit.*, p. 9.

adverse trend may be modified in the future if the prices of jute remain stable. Further, the FAO study assumes the same technological adverse trend to be valid for the U.S.A. as for Western Europe. But one has to remember that in view of the much smaller size of farms in Europe the scope for bulk handling is likely to be less in European agriculture than in American.

Thus the main burden of our preceding analysis is that the FAO projection for the future consumption of jute in packaging is unduly pessimistic. For reasons stated above, the consumption of jute goods in packaging in the industrial countries of the West will at worst remain constant at the level of the late fifties. At best, it may well show a further modest expansion, assuming that the output of packageable goods does rise in the manner assumed in the FAO study. If we accept the FAO estimates for other end-uses of jute, consumption of jute goods in the industrial countries of North America and Western Europe would rise from 0.67 million tons in 1957 to 0.74–0.83 million in the late sixties, which means a rise of 10–24 per cent over a decade.

A more recent FAO study, based largely on the previous study referred to earlier, and trying to bring the results up to date, concludes that consumption of jute goods in the main industrial countries of North America and Western Europe may change by –15 to +20 per cent between 1957–9 and 1970.¹⁰⁵ Since this study is largely an extension of the earlier FAO study it is no wonder that it does not rule out a fall of 15 per cent in the consumption of jute in the industrial countries. We have already suggested that it is unduly pessimistic to assume an absolute fall in the consumption of jute by these countries, and that a minimum rise of 10 per cent over the decade is a reasonable estimate. Our upper estimate is, however, broadly in line with the latest FAO higher estimate. As a rough generalization we may therefore assume that the consumption of jute goods in the industrial countries would rise within a range of 10–20 per cent from 1960 to 1970.

2. Net Imports of Cotton Textiles into Net-Importing Primary Producing Areas

As defined in Chapter V the net importing regions were Africa, the Far East (excluding India, Japan, Hong Kong, and mainland China), the Near East,

¹⁰⁵ *Agricultural Commodities—Projections for 1970*, Rome, 1962, chapter ii, pp. 76–78.

Oceania, and Latin America. Canada and many countries of Western Europe are also net importers but no estimates have been made for them in the following discussion, which is devoted to an analysis of import prospects into the other net-importing regions. The projections given below follow directly from our discussion in Chapter V of developments in world trade in cotton textiles from 1948–50 to 1958–60. However, slight changes have been introduced in the definition of net-importing areas of the Far East and the Near East. Egypt and Turkey, having attained self-sufficiency in cotton textiles during the last decade, have for that reason been excluded from the net-importing Near East. Similarly Pakistan, which in the last few years has become a net exporter of cotton textiles, has been excluded from the net-importing Far East. All figures for the period 1948–60 have been derived from the FAO statistical publication, *Per Caput Fibre Consumption Levels—1948–58*, supplemented by the data for 1958–60 as published in the *FAO Monthly Bulletin of Agricultural Economics and Statistics*, January 1962.

In assessing the import prospects for these regions we shall proceed as follows. First we shall study the likely behaviour of consumption of all textiles. Then we shall try to estimate the consumption of cotton textiles in 1970. Finally we shall have to determine the share of net imports in consumption of cotton textiles.

a. Total Textile Consumption

The major sources of demand for textiles are clothing, other household requirements, and industrial uses. Among the important quantitative determinants of consumption the demand for clothing is likely to depend on personal expenditure; that for household textiles may in addition depend on trends in building activity; and textile consumption in industry may be expected to vary with changes in industrial production. Relative prices of textiles may also exert an important influence on the consumption of textiles in the poorer areas. Similarly the state of the balance of payments may also affect the textile consumption in the importing areas.

In the absence of knowledge about the relative claims of various end-uses, and also because of non-availability of income and price elasticities that could be considered valid for future projections, we have to fall back on a rough and ready method for estimating the possible consumption of all textiles in the net-importing areas in 1970. Thus the figures given in Table X.7 are to be used merely as an illustration of probable developments in the consumption of all textiles, projected in the light of existing trends.

Given the level of textile consumption of the net-importing areas in 1960 we want to form an idea of their likely consumption of all textiles in 1970 on the following assumptions: first we assume the population of these areas to grow by the same percentage from 1960 to 1970 as from 1950 to 1960;¹⁰⁶ second, in addition, *per caput* consumption of textiles is assumed to rise by 20–30 per cent over the decade.¹⁰⁷ This gives us two estimates of possible consumption of all textiles in 1970. The results so obtained are given in Table X.7.¹⁰⁸

Under these assumptions, the total consumption of all textiles in all the net-importing regions together would rise by 46.1–58.2 per cent from 1960

Table X.7 Consumption of all Textiles in Net-Importing Areas for 1960 and Estimates for 1970 (000 Metric Tons)

	1. Consumption in 1960	2. Assumed Growth ¹ of Population (%)	3. Consumption in 1970	
			A	B
The Near East	195	29	290.4	314.6
The Far East	490	20	705.5	764.4
Africa	383	24	570.0	617.5
Latin America	886	21	1,286.4	1,393.6
Oceania	148	28	218.4	236.6
TOTAL	2,102		3,070.8	3,326.7

Note: 1 This is the same rate of growth as was found for the period 1950–60, figures for which were taken from the FAO study referred to above.

¹⁰⁶ The available UN projections of population in 1970 as given in *The Future Growth of World Population* (N.Y. 1958) were not used, as their estimates of population growth from 1950 to 1960 were found to be sadly out of line with the actual experience of the past decade. Hence the present assumption was adopted.

¹⁰⁷ According to Mr Houthakker it seems safe to adopt an elasticity of 1.2 for expenditure on clothing with respect to total expenditure when no estimates for income-elasticity of demand are available ('An International Comparison of Household Expenditure Patterns', *Econometrica*, vol. 25, pp. 532–51). If the same estimate is valid for quantity demanded with respect to changes in *per caput* incomes, our projections would assume an increase of 17–25 per cent in *per caput* incomes over the decade.

¹⁰⁸ For additional notes on statistics in this and the following tables in this section please refer to the appendix on Sources and Methods (see notes on Chapter V).

to 1970. It is interesting to recall that between 1948-50 and 1958-60 total textile consumption in these areas increased by 51.2 per cent.

b. Consumption of Cotton Textiles

To get the possible consumption of cotton textiles in 1970 in the above areas we assume that the relative share of cotton in total consumption of all textiles will fall in the sixties at the same rate as was observed for the period 1948-50 to 1958-60. However for Oceania, where the relative share of cotton has risen since the mid-fifties (after a steep fall in the early fifties), we have assumed that the relative share of cotton textiles would stabilize itself at the 1958-60 level.

The assumption that the share of cotton textiles will continue to fall in the sixties at the same rate as in the past decade may seem somewhat pessimistic, now that the relative prices of cotton have come down from their abnormally high levels of the early fifties. Nevertheless, we have to remember that the relative share of cotton in most underdeveloped countries (with the exception of Africa) fell only moderately in the post-war years when compared with the losses suffered by cotton in the countries of Western Europe over the same period. Now that manmade fibres have acquired a new appeal because of their novelty, and also because the relative prices of rayon goods still remain highly competitive with cotton, it is not unrealistic to make the assumption stated above.

Our estimates of the possible consumption of cotton textiles in 1970 are given in Table X.8.

Table X.8 Consumption of Cotton Textiles in Net-Importing Regions for 1960 and Estimates for 1970

	1. Cotton's Relative Share (Per cent)			2. Consumption of Cotton Textiles (000 Metric Tons)		
	A. 1948-50	B. 1958-60	(1970 Assumed)	A. 1960	B. 1970 Low	C. 1970 High
The Near East	75.0	62.7	50.4	123	146.36	158.56
The Far East	86.5	80.0	73.5	402	518.62	708.83
Africa	79.1	63.1	47.0	249	267.90	290.23
Latin America	76.1	75.2	74.3	667	955.80	1,035.44
Oceania	49.7	54.9	55.0	82	119.90	130.00
Total				1,523	2,008.58	2,323.06

Under the stated assumptions the consumption of cotton textiles in these regions would rise by 31.9–52.5 per cent between 1960 and 1970. The corresponding rise between 1948–50 and 1958–60 was 41.5 per cent.

c. Net Imports of Cotton Textiles

To arrive at the estimates of net imports of cotton textiles into these areas for 1970 we have assumed that the pace of import substitution will be as fast from 1960 to 1970 as it was from 1948–50 to 1958–60.

One may object to this assumption on the ground that the growth of import substitution might slow down in the future. No doubt 1948–50 was a period when the dependence on imports was inflated by the need to make good the backlog of demand from the war period, and a projection based on the rate of growth of import substitution for the period 1948–50 may, therefore, exaggerate the likely growth of import substitution in the future. Against this, however, we have to bear in mind that there were many countries whose dependence on imports remained very heavy even during 1958–60 (especially in Africa). These countries, having attained their independence only recently in most cases, are bound to embark on programmes of industrial development. The cotton textile industry lends itself easily to establishment in most countries, as was pointed out in Chapter V. Therefore the import trade in cotton textiles is always an early victim of attempts at import substitution in the developing countries. And the experience of countries like Pakistan suggests that countries whose dependence on imports was originally complete are capable of emerging as net exporters within a single decade. We need not, therefore, modify the assumption stated above.

Table X.9 gives the main results of our exercise. According to these calculations the volume of net imports into the primary producing net-importing areas would change within a range of –79 to +12 thousand tons over the 1960–70 period.

3. World Trade in Vegetable Oils, Oilseeds, and Oilcakes

Western Europe and Japan account for over 80 per cent of world net imports of vegetable oilseeds and oils. The future behaviour of consumption of vegetable oils in these areas is therefore the most important single determinant of the future of world trade.

India is primarily interested only in the export of groundnut, castor and linseed oils. But the outlook for these oils cannot be studied in isolation from

Table X.9 Net Imports of Cotton Textiles into Net Importing Regions 1960 and Projections for 1970 (*000 Metric Tons*)

	Net Import/Consumption Ratio (Per cent)			Net Imports of Cotton Textiles		
	A. 1948-50	B. 1958-60	1970 (Assumed)	A. 1960	B. 1970 Low	C. 1970 High
The Near East	61.3	38.7	16.1	42.4	23.57	25.53
The Far East	77.5	55.6	33.7	228.8	174.77	238.87
Africa	88.7	76.6	64.5	191.4	172.80	187.18
Latin America	12.1	8.1	4.0	52.5	38.23	41.42
Oceania	70.7	72.0	72.0	60.0	86.33	93.60
Total				575.1	495.70	586.60

other oils, as was noted in Chapter VI. Owing to improvements in refining techniques the so-called 'hard' oils, like coconut, palm and palm kernel, can be substituted for the 'soft' oils, like groundnut. It is therefore necessary to consider the demand outlook for all the major vegetable oils taken together and then analyse the various implications for Indian exports.

a. Consumption of Vegetable Oils in Western Europe

The development of synthetic detergents and an increasing production of rubber and synthetic-based paints have greatly reduced the use of vegetable oils both in the making of soaps and in the manufacture of paints and varnishes. As a result of a growing use of synthetic detergents the consumption of soap in Western Europe, estimated at 1.6 million tons in 1956, was more than 10 per cent lower than in pre-war days.¹⁰⁹ This is a trend which will continue to operate in the future too. Given the total supply of vegetable oils a fall in their consumption in industrial uses would mean a steadily increasing supply for edible uses.

Edible uses in the fifties were a steadily expanding source of demand for vegetable oils, and more than neutralized the adverse effects of their falling uses in industry. The *per caput* consumption of oils and fats other than butter in Western Europe is estimated to have risen from 11 kilograms in 1934-8 to 13 kilograms in 1955-6; over the same period the consumption of butter fell from 5.1 kilograms to 4.5 kilograms (in terms of fat content).¹¹⁰ Since 1956,

¹⁰⁹ UN, *Economic Survey of Europe in 1957*, Geneva, 1958, chapter v, p. 31.

¹¹⁰ UN, *Economic Survey of Europe in 1957*, chapter v, p. 27.

however, *per caput* consumption of oils and fats other than butter has not risen in Western Europe because butter supplies have been more plentiful than before, and the prices of butter have fallen relatively to those of margarine.

For the future the consumption of oils and fats other than butter in Western Europe may be expected to rise moderately. Studies by Dr. Lamaritine Yates¹¹¹ and the UN Economic Commission for Europe¹¹² suggest an income-elasticity of demand for fats and oils other than butter of about 0.2 for Western Europe. Accepting this, one can estimate the likely demand of Western Europe for vegetable oils in 1970, given some additional assumptions about the growth of *per caput* expenditure and population. But unfortunately the future behaviour of the relative price of butter introduces an element of great uncertainty regarding the future consumption of other fats and oils.

The trend in butter supplies in Western Europe will be determined by the trends in production of milk and the claims of other users of milk on milk supplies—i.e. for direct consumption as well as in the making of cheese. It is hazardous to make any forecasts about the probable behaviour of so many variables. Yet all the available information suggests a strong probability that in Western Europe as well as in other dairy producing areas the production of milk will exceed the normal requirements. Thus a recent FAO study points out that Western Europe may be faced with a surplus production of 5.5 million tons of milk in 1970 as against a deficit of about 2.6 million tons a year during 1956–60.¹¹³ Should this happen, the consumption of butter might be deliberately stimulated by lowering its prices, and this would have an adverse effect on the market for other fats and oils. The likely adverse effects on the European market for other fats and oils would, however, be moderated if the emergence of local surpluses of butter in Western Europe should lead to restrictions on its import from the non-European countries.

Apart from butter such animal fats as slaughter fats and marine oils also compete with vegetable oils in the European market. The production of slaughter fats in Europe is likely to grow along with the growth of meat production. Here again the likely adverse effects on the demand for vegetable oils would be avoided if the higher domestic production of tallow in Europe

¹¹¹ Lamaritine Yates, *Food, Land and Man Power in Western Europe*, Macmillan, London, 1960, p. 93.

¹¹² *Economic Survey of Europe in 1957*, Geneva, 1958.

¹¹³ *Agricultural Commodities—Projections for 1970*, Rome, 1962, chapter ii, pp. 15–18.

were to result in a cessation of imports from the U.S.A., which in the past have been largely financed under the concessional sales sponsored by the Commodity Credit Corporation. As for the marine oils, the production of whale oil shows no rising tendency, as whaling activities continue to be restricted by the international agreement in force. Western Europe is not an important producer of vegetable oils other than olive oil. Here again production of olive oil in the past decade has not shown any significant tendency to rise. And if this state of affairs continues, imports of vegetable oils and oilseeds into Europe will grow nearly at the same rate as the consumption of vegetable oils.

A major conclusion of our preceding discussion is that the consumption of vegetable oils in Western Europe is subject to a good many uncertainties. The available projections, however, suggest a further moderate expansion. According to a recent study by Mr. Lamaritine Yates, Western Europe's total consumption of fats and oils other than butter may rise by about 18 per cent between 1955 and 1970,¹¹⁴ This estimate rests on the following assumptions: a rise of 7.5 per cent in population and about 50 per cent in *per caput* consumers' expenditure; an income-elasticity of demand of about 0.2, and finally that the relative prices of butter and fats and oils other than butter would be such as to prevent a big switch-over to butter on the part of consumers. As is pointed out above, the last assumption may not hold if burdensome butter surpluses emerge in Europe in the present decade.

It is therefore somewhat cheering to note that an FAO study¹¹⁵ which does take into account the problems created by rising butter surpluses in Europe should still come to the conclusion that Western Europe's imports of oils and fats will rise from an annual average of 3.9 million tons in 1957-9 to 4.5 million tons by 1970, giving us an increase of about 15 per cent over the period. This study assumes a population growth of 9 per cent in Western Europe over a twelve-year period (against a rise of 7.5 per cent assumed by Mr. Yates over the fifteen-year period), and a rise of 51 per cent in Western Europe's *per caput* GNP (Mr. Yates assumes a rise of about 50 per cent in *per caput* consumer spending). Therefore to some extent the more cheerful picture presented by the FAO study is due to its slightly more optimistic assumption about population growth. However, it has to be noted that even though the FAO study allows for a 28 per cent increase in production of butter in Western Europe, this falls short of the production that one would expect if

¹¹⁴ P. Lamaritine Yates, *Food, Land and Manpower in Europe*, London, 1960, p. 94.

¹¹⁵ *Agricultural Commodities—Projections for 1970*, Rome, 1962, Chapter II, p. 26.

its own estimates of the likely surplus in milk production were to be accepted as valid.¹¹⁶ Thus it may be somewhat over-optimistic to assume a rise of 15 per cent in Western Europe's consumption of oils and fats other than butter between 1957-9 and 1970. In the light of this discussion we may assume that Western Europe's consumption of fats and oils other than butter would probably rise within the range of 10-15 per cent between the late fifties and 1970, the higher estimate conforming to the FAO projection.

b. Consumption of Fats and Oils in Japan

After Western Europe, Japan is another important net importer; she imported about 300,000 tons a year of vegetable oils and fats in the late fifties. *Per caput* consumption of fats and oils in Japan is extremely low by Western standards, averaging 3 kilograms a year during 1957-9 as against 21 kilograms in North America over the same period.¹¹⁷ The available estimates of income-elasticities of demand are all over unity. According to the FAO study referred to above, assuming a population growth of about 9 per cent and a rise of *per caput* GNP by 86-108 per cent between 1957-9 and 1969-71, Japan's net imports of fats and oils other than butter would probably rise by 200,000 tons over the same period.¹¹⁸

According to the FAO projections, net imports of fats and oils into Western Europe and Japan together would rise from an annual average of about 4.2 million tons in 1957-60 to 5.0 million tons in 1970,¹¹⁹ or by about 19 per cent. This however assumes that consumption in Western Europe will rise by about 15 per cent over the same period, which may not be true if burdensome surpluses of butter develop in Europe. If we assumed that consumption in Western Europe rose by only 10 per cent, total imports of the two areas together would then rise by about 14 per cent over the stated period. The outcome may well lie within a range of 14-20 per cent.

¹¹⁶ The study, however, assumes that a threatening disequilibrium between demand and supply of dairy products would itself exert a strong economic pressure against too rapid an increase in the production of milk.

¹¹⁷ FAO, *Agricultural Commodities—Projections for 1970*, Rome, 1962, Appendix A, p. 12.

¹¹⁸ *Ibid.*, chapter ii, p. 26.

¹¹⁹ *Ibid.*, chapter ii, pp. 19-26.

PART THREE

Towards a Trade Policy

XI

Bilateralism

A. INTRODUCTORY

Our analysis of India's export prospects in the last chapter was based on many assumptions. One of these was that India's foreign trade and payments would continue to be conducted on a multilateral, non-discriminatory basis. Our estimates of India's possible export receipts in 1970 clearly fell short of the Planning Commission's target of Rs 13,000–14,000 million worth of exports in that year. In the present chapter we seek to discover whether India could use bilateral trade and payments arrangements with other countries to raise her export earnings beyond the level indicated in our last chapter.¹

B. THE PRESENT POSITION

Before 1959 bilateralism was not employed by India as a deliberate technique to increase her exports, or to bring about a reduction in her trade deficits, except with Pakistan, Afghanistan, Egypt, and Burma. India negotiated many trade agreements with foreign countries from time to time but they were no more than an expression of a mutual desire on the part of the participating countries to expand the flow of their trade, subject to the existing trade and payments regulations in the countries concerned. The commodities that were available for export were appended to the trade agreements but there was no stipulation that trade in those commodities would necessarily take place, or that it would be on a self-balancing basis. The trade agreements served merely to bring to the notice of the other party that certain goods were available for export. But the actual level of trade in them would still be determined by normal commercial considerations.

¹ Throughout this chapter we include the U.S.S.R. in Eastern Europe.

In the case of Eastern European countries, the trade agreements often contained clauses that specified the clearing arrangements arising out of transactions provided for in the main agreement. Under these clearing arrangements payments for imports from Eastern Europe could be made in Indian rupees; and the trade agreements provided for the opening of one or more accounts by the Central Banks of those countries with the Reserve Bank of India and one or more commercial banks in India dealing in foreign exchange. These clearing arrangements might convey an impression that bilateral payments arrangements were influencing India's trade with the countries of Eastern Europe. But if one examines the other provisions of the agreements it turns out that their discriminatory influence tended to be insignificant. This is because it was invariably stipulated that any balances in the rupee accounts would be immediately convertible into Sterling on demand, and also any outstanding balances held by either party at the time of expiry of an agreement were to be accorded the same treatment. This meant that the currency of Eastern European countries was in fact no softer than Sterling from the Indian point of view. Thus there was no inducement for India to discriminate in favour of imports from these countries. The rupee payment clauses of the trade agreements were in fact meant merely to facilitate the task of Indian traders in making settlements arising out of trade deals with Eastern European nationals with whose trade and currency systems and regulations Indian traders were not very familiar. The actual volume of trade was, therefore, still determined by the relative profitability of trade transactions, although it is true that external assistance extended by these countries to India, in the form largely of trade credits and development loans, did influence the volume of Indian imports from them.

Since 1959, however, there has been a distinct change. The pattern was set by the new trade and payment agreement between India and the U.S.S.R. which came into force on 1 January 1959 and was valid for a period of five years. The new agreement made a clean departure from the payment provisions of the old agreement. Thus the rupee balances held by the State Bank of the U.S.S.R. in India were to be no longer convertible into Sterling on demand, and it was agreed that any balances that were outstanding at the expiry of the agreement would be used during the ensuing six months for the purchase of Indian or Soviet goods, or as agreed upon between the two parties.²

² *Vide* Article VIII of the agreement. The text of the agreement is reproduced in an official publication, *India's Trade Agreements as in force on 31 December 1959*, New Delhi, 1960.

The export of goods from India to the U.S.S.R. and from the U.S.S.R. to India was to be carried out in accordance with the schedules of commodities to be agreed upon between the two Governments for every calendar year before the beginning of the year to which they referred.^{3,4}

The new U.S.S.R.-India trade agreement was followed by new protocols that were negotiated and added to the then existing trade agreements between India and other countries of Eastern Europe. The payment clauses of the outstanding agreements were modified to bring them into line with the provisions of the new India-U.S.S.R. trade agreement of 1959. With these modifications a genuine element of bilateralism has been introduced in India's trade relations with the countries of Eastern Europe.

Besides, a part of India's trade with Pakistan, Afghanistan, Burma, and Egypt is also conducted on a bilateral basis. The scope of these arrangements is, however, very limited. They provide for trade in specified commodities up to specified amounts within an over-all self-balancing monetary ceiling, with a provision for a swing credit. Such trade is, however, additional to the normal trade which takes place on a multilateral basis. In their likely impact on India's foreign trade the agreements with Eastern Europe are of far greater importance than those with the above countries.

³ Article II.

⁴ The payment procedure referred to above was applicable to payments arising out of the following transactions as laid down in Article VII:

- (a) payments for goods exported and imported in accordance with this agreement;
- (b) payments connected with commercial transactions and covering insurance, freight, postal charges, storage, forwarding expenses and bunkering;
- (c) payment for distribution of films;
- (d) payment for technical assistance, including maintenance of experts and technicians and for technical and other training;
- (e) payments for expenses connected with tours of a commercial and cultural nature and of official delegations;
- (f) payments of the expenses for the maintenance of the Embassy of India in the U.S.S.R. and of the Embassy and Trade Representatives of the U.S.S.R. in India;
- (g) any other payments on which agreements may be reached between the Reserve Bank of India and the State Bank of the U.S.S.R.

C. THE ECONOMIC LIMITS OF BILATERALISM

The word 'bilateral' often invokes in orthodox circles a strong feeling of disapproval. Bilateralism is condemned as an economically wasteful method of balancing trade and payments. However, economic theory now explicitly recognizes that non-discrimination is not always a virtue when a country is faced with severe balance-of-payments difficulties that necessitate import restrictions. It is now conceded that complete non-discrimination in the application of balance-of-payments restrictions, in a situation where such restrictions cannot be dispensed with, is not necessarily conducive to the best results; and that bilateralism, even though it has its weaknesses arising out of its failure to take advantage of trilateral adjustments, may yet be an improvement over a completely non-discriminatory application of import restrictions.⁵

Generally speaking, India is not in such a strong bargaining position as to be able to force bilateral settlements on her trading partners. The bulk of Indian imports of capital goods, intermediate products, and essential consumer goods are of such a nature that India can contemplate a reduction in their volume only at the cost of slowing down the speed of her development process. On the other hand there is no single country that depends to any significant degree on the Indian market for her exports. Thus India cannot use the threat 'if you won't buy more from us, we won't buy from you' to induce other countries to import more from India.

In 1960 Western Europe, North America, and Japan accounted for 71 per cent of India's imports and 62.7 per cent of her exports.⁶

⁵ The underlying theory is set out admirably in an article by J. M. Fleming. He measures the net gain from trade adjustment as the sum of the increments of international trade in such items as are subject to import restrictions, each increment being valued by the margin between the inland price in the importing country and that in the exporting country. These margins will, of course, vary from commodity to commodity, depending on the severity of import restrictions. Starting from a situation where non-discrimination is the rule, a bilateral relaxation improves 'welfare' so long as the price of the relaxed items in the importing country exceeds its price in the exporting country. In other words, so long as import restrictions are in force in both countries the adjustment is beneficial. See his article 'On Making the Best of Balance-of-Payments Restrictions on Imports', *The Economic Journal*, March 1951, pp. 48-69.

⁶ Calculated from statistics published by the Director-General of Commercial Intelligence and Statistics, Calcutta, in *Monthly Statistics of Foreign Trade of India*.

India's largest trading deficits are with these countries, but bilateralism is not a feature of their trade policy and India is not strong enough to force them to modify it.

As for the under-developed countries (outside the Sino-Soviet area), they supplied 25.3 per cent of India's imports and took 29.3 per cent of her exports in 1960.⁷ With the group as a whole India had a trade deficit of Rs 336 million in that year.⁸ India may be able to use bilateralism to induce at least some of these countries to import more from India. But a widespread resort to bilateralism in under-developed countries can only harm India's long-term interests in these countries. For it is obvious that for a considerable time to come the advanced countries of the West are going to remain the major source of Indian imports.⁹ In the light of our previous analysis of India's export prospects it is equally obvious that these countries offer only a limited opportunity for expanding Indian exports to them. Thus for a long time to come India cannot hope to balance her trade with these countries by direct exports. She will, therefore, have to rely on her export surpluses with other countries to balance her external account with the advanced countries. But India's ability to do so will be greatly reduced if bilateralism becomes widespread in under-developed countries. It is therefore not in India's interest to encourage the growth of bilateralism among under-developed countries, even though this may mean some sacrifice in the short run.

This leaves us with only the countries of Eastern Europe. India's exports to these countries have risen rapidly in recent years as Table XI.1 brings out.

Thus India's exports to Eastern Europe rose by more than ten times between 1955 and 1960, though it must be emphasized that bilateralism as such exercised very little influence on the course of these exports until 1959. However, Eastern Europe still plays a very small part in India's export and import trade. In 1960 Eastern Europe and China took 8 per cent of India's exports. In the same year they supplied only 3.7 per cent of India's total imports.

Prima facie, there is a considerable scope for expanding trade between India and Eastern Europe. The standard of living in these countries is much

⁷ Ibid.

⁸ Ibid.

⁹ Apart from a few raw materials under-developed countries cannot supply India's imports.

Table XI.1 India's Exports to Eastern Europe (*in Million Rupees*)

	1952	1953	1954	1955	1956	1957	1958	1959	1960
U.S.S.R.	20.0	3.6	25.1	24.8	125.0	175.3	233.2	300.0	299.4
Czechoslovakia	29.0	27.5	20.8	11.4	29.1	37.8	39.5	41.7	60.0
Hungary	0.3	0.3	2.0	0.5	5.1	3.0	6.1	7.4	11.2
Poland	2.4	0.9	2.7	4.4	10.9	11.5	9.2	35.9	33.5
East Germany	0.2	0.1	0.2	0.4	2.6	13.5	7.5	25.0	39.7
Rumania	0.2	0.2	0.3	0.2	0.7	5.2	5.2	20.1	11.4
Bulgaria	0.1	—	—	0.2	0.6	0.2	0.7	2.4	1.5
Total	52.2	32.6	51.1	41.9	174.0	246.5	301.4	432.5	456.7

Source: Official statistics published by DGCI & S, Calcutta.

lower than in Western countries, and the consumption of many agricultural commodities is therefore far below saturation point. As their living standards rise there should be a great scope for higher consumption by them of many commodities which enter into India's export trade. There should thus be promising opportunities of increasing Indian exports of tea, textiles, vegetable oils, tobacco, and leather goods to Eastern Europe. Furthermore, countries of Eastern Europe are well suited to meet many of India's import needs, especially of capital goods. Most of them were until recently mainly exporters of primary products and semi-manufactured goods. But their rapid industrial progress has led to a steady increase in their capacity to export machinery and other capital equipment.¹⁰ An exchange of India's traditional exports for machinery and equipment from Eastern Europe could, therefore, open up possibilities of fruitful and mutually beneficial trade on a substantial scale.

Entering into bilateral trade and payment agreements is often a condition of trade with these countries. This is how trade among the communist countries themselves is conducted. The explanation probably lies in the nature of their planning process. If one relies on quantitative planning for some years ahead it is necessary to be sure beforehand of the likely supplies to be had through foreign trade, if serious bottlenecks are to be avoided. The mere fact of certainty

¹⁰ According to the UN Economic Commission for Europe, their exports of machinery, equipment, and other industrial goods quadrupled from 1950 to 1958, reaching \$3 billion in the latter year. The Soviet Union exported machinery and equipment worth \$0.8 billion and other countries' exports were \$2.2 billion in 1958. See *Economic Survey of Europe in 1960*, Geneva, 1961, Chapter V, p. 18.

that supplies will be available in stated quantities at the right time has important consequences for the success of a planning process which lays a tremendous emphasis on an achievement of physical targets. Price inflexibility may no doubt be a feature of bilateral deals, but prices can be and have often been re-negotiated among the communist countries themselves in the light of changing trends in 'capitalist prices', i.e., those ruling in the world markets.¹¹

The insistence by the countries of Eastern Europe on conducting their trade on a bilateral basis need not be unwelcome to India, faced as she is with a chronic balance-of-payments problem. India faces dismal export prospects for many of her traditional exports in their traditional markets. This naturally limits her capacity to import machinery and equipment in the needed amounts. She should, therefore, welcome an opportunity whereby she can increase her imports in exchange for her traditional exports.^{12,13}

¹¹ See a paper by R. L. Allen entitled 'An Interpretation of East-West Trade' published in *Comparisons of the U.S. and Soviet Economies*, part ii, doc. 46283 of 86th Congress, Washington, 1959, pp. 403-21.

¹² Of course, bilateral deals involve discrimination against third countries and for that reason they arouse suspicion among those countries who are not party to them. There is a danger that those countries with whom India has a surplus in her balance of trade may retaliate. But in recent years India has had a favourable balance of trade with only a few countries and, with the exception of New Zealand and Eire, all other countries with which India had a favourable balance of trade in 1960 were under-developed or semi-developed. In 1960 India had a favourable balance of trade with the following countries: Aden, Afghanistan, Argentina, Ceylon, Chile, Cuba, Ethiopia, Ghana, Greece, Indonesia, Iraq, Ireland, Kuwait, Nigeria, New Zealand, and Turkey. India's surplus on merchandise with all these countries totalled Rs 604.4 million in that year. Admittedly, if all these countries were to insist on a bilateral balance with India as a condition of imports from India, the loss to India's exports would be considerable. But India's bilateral agreements with Eastern Europe would in fact discriminate not against poorer countries but against other industrialized countries of the West. With them India has already large trade deficits. No doubt, under the agreements, the countries of Eastern Europe may have to discriminate in favour of India and against some of India's competitors in under-developed countries. This would, however, affect only a few countries and in any case, in view of the small amounts involved, that discrimination would not be large.

¹³ It may be objected that any resort to bilateralism ought to be avoided by India because this would encourage its growth in under-developed countries. However, it is widely recognized that trade arrangements with Eastern Europe need not conform to the same practices as do those with the rest of the world.

However, the extent to which bilateralism can be used to increase India's exports to Eastern Europe will depend on a number of imponderables. First, if India is to benefit from bilateral trade arrangements it is absolutely necessary that Indian exports should have a sufficiently elastic supply. Second (and in the long run this is more important), the outcome would also depend on the ability and willingness of the countries of Eastern Europe to export more to India. This in turn would depend, first, on their capacity to export capital goods in general, and, more important, on their willingness to import more from India. The following pages develop these points further.

D. ELASTICITY OF SUPPLY: INDIAN EXPORTS

It was pointed out above that the first basic condition if India is to benefit from bilateral trade and payments agreements is to ensure that the supply conditions of Indian exports are such that an increase in demand for them leads to an increase in their volume. If the supply elasticities are small, bilateral arrangements may lead merely to a diversion of exports from the traditional markets to the bilateral partners. If this is allowed to take place the country will be worse off with the bilateral arrangements than without them. If the total volume and value of exports do not increase, the loss to India will be measured by the difference in import costs from the bilateral partner, as against the cost of importing similar goods from the rest of the world. Further, if the supply elasticities are not large and purchases by the bilateral partners are not well phased, the mere knowledge on the part of Indian exporters that the Soviet Union is in the market with large sums to spend may push up the prices of export goods; and this may result in Indian goods being priced out of their traditional world markets. Moreover, if the traditional importers are not assured of regular supplies from India they may well look elsewhere. In all such situations India's exports would suffer.¹⁴

Thus there is a need for careful advance planning of both production for export in India as well as the likely purchases in India by her bilateral partners.

¹⁴ That the above are not entirely imaginary fears is borne out by Mr Lal Bahadur Shastri, a former Union Minister of Commerce and Industry. In an address to the Export Promotion Council in 1960 he pointed out that one of the reasons why Indian exports of coffee were not rising as fast as was desirable was that Indian exporters took the line of least resistance and sold their coffee to the rupee-payments-area countries while traditional markets in Western Europe were being neglected. Reported in *The Indian Coffee* (Bangalore), January 1961.

Presumably the yearly exchange of commodity lists under the Indo-U.S.S.R. agreement is meant to provide the necessary safeguards referred to above. But a year is often too short a period to enable a country to make adequate adjustments in her production plans. Of course sometimes the bilateral partners may be persuaded by India to buy less of a particular commodity that is in less plentiful supply in a particular year in India, and to switch their purchases to other goods in more plentiful supply, but India cannot do this too often. For if her trade partners in the bilateral agreements often cannot purchase the commodities they had originally planned to buy from India, and are forced to accept less essential goods as part of their clearing obligations, they will soon lose interest in the mutual promotion of trade. What is worse, if they were made to accept commodities they do not need, they might be tempted to dump them on world markets. This would depress the prices of such goods, as is alleged to have often happened with Russian purchases of Egyptian cotton and Chinese tin.

If in the long run India's exports are to be expanded under the bilateral arrangements, and in the short run the possibilities of inessential Indian goods being dumped by countries of Eastern Europe on the world markets are to be avoided, they should be allowed to make purchases in India as freely as possible in accordance with their own requirements, within the broad range of the agreed commodity lists. If India's exports to her traditional markets are not to suffer in the process, production facilities in India should possess a high degree of elasticity both in the short run and the long run. This has, of course, its own costs in so far as some permanent excess capacity may have to be tolerated in the interests of greater flexibility. However, the extent of needed excess capacity could be greatly reduced if India were to approach these countries for longer-term commitments of mutual purchases than are provided for in the yearly exchange of commodity lists. Apart from providing additional certainty on both sides such agreements would allow both sides to integrate their imports more fully in their plans.¹⁵

¹⁵ Agricultural commodities may pose some difficult problems. Though efforts could be made to increase their output there are bound to be fluctuations in crop yields from one year to another. The provision of steady supplies for export may therefore become difficult in a year of poor harvest. To some extent the creation of buffer stocks for agricultural commodities would help in ensuring steady prices and steady supplies.

E. EASTERN EUROPE'S CAPACITY TO EXPORT

1. The Short Run

From India's point of view it is most relevant to consider Eastern Europe's capacity to export capital goods, machinery, and equipment, as these are the products that are likely to figure high on India's list of import priorities. Eastern Europe's capacity to export more of these goods to India will in the short run depend on the following factors: first, the production of machinery and equipment in Eastern Europe; second, the claims of domestic expansion; third, the commitments to other countries of the Sino-Soviet area; fourth, the amount earmarked as aid to other under-developed countries; and finally, the output earmarked for normal commercial exports having thus been determined, the limits to the growth of trade with India will depend on the importance of Indian goods in their list of import priorities.

There is no doubt that in the long run the resources available for export under credit agreements with under-developed countries and for normal commercial exchanges are capable of being greatly expanded, especially when it is remembered that the *per caput* foreign trade of the U.S.S.R. in 1960 was only about 25 per cent of the U.S.A.'s, and the *per caput* foreign trade of the rest of Eastern Europe in 1960 was less than half that of Western Europe.¹⁶ However, in the short run the resources available for export are unlikely to be very large, given the present emphasis on heavy investment in all these countries. Thus, according to Mr. Alec Nove, 'those who imagine that the top Soviet leadership give high priority in their thinking to foreign economic ventures seem likely, on the evidence, to find themselves mistaken, for it is quite likely that even the relatively modest exports of capital goods to non-Soviet countries as in recent years cause a strain on resources that are already stretched'.¹⁷ It has been pointed out that the U.S.S.R. is a net importer of machinery and her own exports of machinery in the past have largely gone to China. The future of Soviet exports to China may well depend crucially on the final outcome of the recent quarrel between the two countries. If one assumes that it will be patched up, such exports to China would continue for some time to

¹⁶ Based on UN statistics as given in *Year Book of International Trade Statistics*, 1960 and *Demographic Year Book*, 1961, *per caput* foreign trade of the U.S.A. was about 194 U.S. dollars in 1960, while the corresponding estimate for the U.S.S.R. is \$52; for Western Europe—\$329; and for Eastern Europe, excluding the U.S.S.R. and Albania—\$154.

¹⁷ A. Nove and D. Donnelly, *Trade with Communist Countries*, London, Hutchinson, 1960, p. 48.

come, though on a diminishing scale. On the other hand, the growing output of machinery in East Germany and Czechoslovakia is heavily engaged in supplying the U.S.S.R. and Bulgaria under the existing arrangements for co-ordinating the trade and investment plans of these countries. Thus the prior claims of domestic investment and commitments to other countries of the Sino-Soviet area would be important factors limiting Eastern Europe's exports to non-Soviet countries in the short run. Such views are shared by some American observers also. Thus Joseph Berliner¹⁸ has pointed out that a greatly expanded programme of trade and aid could conceivably have a substantial negative impact on the Soviet rate of investment and therefore on the rate of economic growth in the short run.

2. The Long Run

The above were, of course, merely shrewd guesses and in any case have relevance only in the short run. For in the long run, if there are profitable opportunities for export of capital goods these economies are capable of adjusting their patterns of production in such a way as to enlarge their capital goods sectors while withdrawing resources from some other sectors, and satisfying more of their growing requirements of the products of the latter through imports. A willingness to take advantage of the international division of labour, far from damaging their growth prospects, would in fact have a positively favourable effect on their rates of economic growth.

Should countries of Eastern Europe decide to take advantage of the international division of labour to a larger extent than they have done in the past, large possibilities of mutually profitable trade with under-developed countries would open up. It has, for example, been obvious for some time that achievements in agriculture in Eastern Europe have often fallen short of their planners' expectations.¹⁹ At the same time industrial targets are often over-fulfilled. One of the possible solutions of the agricultural problem faced by them is to accept the divergent rates of growth in industry and agriculture as reflecting genuine productivity differentials, to be adjusted through international trade.

¹⁸ In his *Soviet Economic Aid*, New York, 1958, pp. 115–16.

¹⁹ On the performance of Soviet agriculture and the possibilities of the U.S.S.R. overtaking the U.S.A. in *per caput* supplies of food, see a paper by D. Gale Johnson and A. Kahan on 'Soviet Agriculture: Structure and Growth' in *Comparisons of the U.S. and Soviet Economies*, published for the Joint Economic Committee of 86th Congress, Washington, 1959, pp. 201–37 (Doc. No. 46283).

Thus it may well be that the Soviet Union will find the growing of food in the virgin lands beyond the Volga and Urals much too costly relative to the other solution—i.e. international exchange of foodstuffs for Soviet industrial goods. Similarly the continuing difficulties in the solution of the livestock problem may also force the Soviet Union to a greater dependence on international trade.

Greater reliance on international trade to solve their agricultural problem is, however, only one possible line of action open to these countries. Another possibility is that they may simply tolerate the differences in the relative rates of growth of industrial and agricultural output and adjust their consumption of agricultural products accordingly, as has often happened in the past. Or alternatively, the problem of diminishing returns in agriculture may be solved by a re-allocation of investable resources in favour of such production, as witnessed by Soviet efforts at an increasing mechanization of agriculture. It is therefore extremely difficult to say which course of action these countries may adopt. There are indications that they can no longer afford to keep consumption as severely controlled as in the past. And it is possible that they may rely less on autarkic measures than before in solving their agricultural problems. For in the past autarky was often forced on these countries by the state of their balance of payments (arising out of a limited capacity to export and the need to conserve foreign exchange for the import of 'essentials'), a reluctance of capitalist countries to trade with them and also by strategic considerations arising out of the fear of a possible war. In the new situation the desire to be self-sufficient in everything may, therefore, be less strong than in the past.

Even if the countries of Eastern Europe were to depend increasingly on imports of agricultural commodities one has to consider the role of Communist countries in Asia, particularly China, in meeting their import requirements. As an example, though the imports of agricultural commodities into the U.S.S.R. have risen sharply above the pre-war levels, the bulk of such imports has come from the other countries of the bloc.²⁰ The average annual value of

²⁰ That Soviet imports of agricultural commodities have risen significantly above the pre-war level is brought out in the following statistics of Soviet imports compiled from various issues of the *FAO Trade Year Books* (000 metric tons):

	1934-8	1955	1956	1957	1958	1959
Vegetable oilseeds	9	760	801	716	552	715
Vegetable oils	4	195	96	46	73	72
Tea	19	10	16	21	26	30
Tobacco	2	55	73	91	84	97

Soviet imports during the three-year period 1958-60 was 5,018 million U.S. dollars. Of this the Asian members of the bloc supplied imports worth \$1,068 million or 21 per cent of the total. All the other underdeveloped countries together supplied imports worth only \$408 million or about 8 per cent of the average annual Soviet imports over the three-year period.^{21,22} Whether Asian members of the bloc would be able to supply more agricultural goods, when and if required by the U.S.S.R. and other countries of Eastern Europe, would in turn depend on the success of agricultural plans in countries like China. If China continues to suffer from bad luck in agriculture, Eastern Europe may have to turn to other sources for imports. In that event the underdeveloped countries would benefit, unless the agricultural surpluses that have emerged in the U.S.A. in the last decade, and are now threatening to appear in Western Europe, were made readily available to the countries of Eastern Europe. It is difficult to predict the final outcome.

To sum up our discussion of the export capacity of the countries of Eastern Europe, we have pointed out that in the short run, the resources available for export are likely to remain small because of their domestic needs and commitments to the other members of the bloc for the supply of machinery. In the long run, their export capacity could be greatly expanded. And there could be large opportunities for trade with the primary producing countries if the countries of Eastern Europe were to rely increasingly on international trade to meet their growing needs of primary products. This is a distinct possibility but not a certainty. And even if Eastern Europe were to rely more on imported supplies of primary products one would have to consider the possible role of Asian members of the bloc in meeting their requirements. It is hard to say which way the wind will finally blow.

F. IMPORTANCE OF INDIAN GOODS TO EASTERN EUROPE

Even if the countries of Eastern Europe have no large resources available for export and still think in terms of agricultural self-sufficiency they could greatly expand their exports to and imports from India. This is because of the

²¹ Calculated from UN *Year Book of International Trade Statistics*, 1960.

²² For other countries of Eastern Europe (i.e. excluding the U.S.S.R.) the Asian members of the bloc are a less important source of imports than the other underdeveloped countries together. Their total imports averaged 6,581 million U.S. dollars a year during 1958-60. Of this the Asian members of the bloc supplied \$350 million and other under-developed countries \$460 million.

extremely small turnover in their present trade with India. Thus, taking an average of export values for 1959 and 1960, only about 1 per cent of Soviet exports went to India, while India accounted for about 0.5 per cent of exports of all other countries of Eastern Europe.²³ Even if their over-all capacity to export is limited, nevertheless a small amount of exportable resources diverted to India should add significantly to their total exports to India. Similarly, India accounted for only 1.2 per cent of Soviet average annual imports during 1959 and 1960 while India's share in the average annual imports of other countries of Eastern Europe during the same period was only 0.4 per cent. Thus they could greatly increase their imports from India even if they are planning for only modest increases in their total imports. Therefore there is scope for a further expansion of India's trade with countries of Eastern Europe. It is unfortunately difficult to say with confidence how large that scope is.

From an economic point of view there are some discouraging features in the present situation which are likely to give Indian export commodities a low priority on the import lists of the countries of Eastern Europe. First, many Indian export goods like tea, textiles, and footwear are final-consumer goods so that their import is not very closely related (as is the import of raw materials) to other elements in the development plans of the importing countries. They are therefore susceptible to a sudden curtailment if the importing countries are suffering from a difficult balance of payments situation. Second, because Indian exports consist of consumer goods or constitute raw material for consumer goods (raw tobacco, vegetable oilseeds, raw hides, and skins) and also because some of them may not be classed as 'essential' goods, there may be limits to the extent to which countries of Eastern Europe may be willing to exchange Indian products for capital goods. This is especially likely if the

²³ In 1959 the Soviet Union imported goods worth 54.5 million new roubles from India while her total imports were 4,566 million new roubles. In 1960 out of total imports of 5,066 million new roubles India supplied 61.6 million new roubles' worth of goods. In 1959 out of total Soviet exports of 4,847 million new roubles India accounted for 61.2 million new roubles. In 1960 out of total exports of 5,006 million new roubles 42.3 million roubles went to India. All other countries of Eastern Europe (excluding U.S.S.R.) exported goods worth \$6,950 million a year during 1959-60. Of this, on an average, \$36 million went to India. During 1959-60 these latter countries' imports averaged \$7,095 million a year. Of this, goods worth \$30.5 million a year came from India.

law of comparative advantage is not well learnt, and if during their intellectual training the administrators have been constantly led to believe that capital goods, 'machines to make machines', are in some sense inherently superior to all other goods for a country. Even if the U.S.S.R. were to seek a solution of its agricultural problem through international trade its important demands will arise in dairy products and meat. India unfortunately cannot supply either. Third, there are commodities like jute manufactures, the demand for which in the countries of Eastern Europe may shrink for the same reasons as it has done in Western countries. It was pointed out in Chapter III of this study that in countries like the U.S.A. the use of jute has suffered as a result of the growth of bulk techniques. There is no reason why this should not happen in the Soviet Union too. For Soviet agriculture, like its American counterpart, is also being rapidly mechanized; and for that reason there is going to be increasing scope for the techniques of bulk handling. This would greatly limit the chances of expanding exports of jute manufactures to the Soviet Union.

These are obviously not insurmountable barriers to an expansion of trade between India and Eastern Europe. But as far as the available information goes, the Soviet plans give no indication that significant increases in imports from India are being planned for or built into their system. Take first the case of jute. The Soviet Union imports only small quantities of jute manufactures from India; they averaged Rs 12.9 million a year during 1958-60. The Soviet Union has, however, a sizable jute industry of her own, whose raw-material requirements are met partly by local production of raw jute and kenaf, a substitute fibre, and partly by imports of raw jute from Pakistan. Imports of raw jute into the Soviet Union averaged 20.5 thousand tons a year during 1958-60,²⁴ and domestic production of raw jute was 38 thousand tons in 1960. It is now planned to raise the domestic production of raw jute to 75 thousand tons in 1965, and it is expected that by that year Soviet production will be large enough 'to satisfy fully the country's requirements of this valuable raw material'.²⁵ India is not an exporter of raw jute and she will not be directly affected by this development. However, the fact that the consumption of raw jute by the Soviet jute industry will rise from about

²⁴ FAO, *Trade Year Book*, 1961 (vol. 15).

²⁵ Secretary of the Communist Party of Uzbekistan as quoted in UN, *Economic Survey of Europe in 1960*, Geneva, 1961, chapter v, p. 15.

55 thousand tons²⁶ in 1960 to 75 thousand tons in 1965 means that the domestic production of jute manufactures is expected to increase. This implies that Soviet imports of jute manufactures from India are unlikely to increase much from their present extremely modest level.

The Soviet Union is both a minor producer and an importer of tea. The average annual production of tea during 1958–60 was 34.4 thousand tons,²⁷ while imports averaged 26.0 thousand tons a year.²⁸ Of these, on an average, 11.4 thousand tons a year came from India.²⁹ Other countries of Eastern Europe together imported 7.6 thousand tons of tea a year in the three-year period 1958–60. The *per caput* consumption of tea in the Soviet Union is about 0.3 kilograms a year.³⁰ Obviously there is a great scope for higher consumption and imports. But the Soviet plans, while giving no indication that any significant increases in consumption are planned, are aiming at a large increase in the production of tea in Georgia and Trans-Caucasian republics. The immediate declared aim is to reduce imports from 25 thousand tons in 1958 to 8–13 thousand tons in 1965, and the ultimate objective is to cover all the needs of the Soviet Union from domestic production in the shortest possible time.³¹ In 1958 other countries of Eastern Europe imported 6.7 thousand tons of tea³² and their published plans provide for an increase of about 11 thousand tons in imports by 1965. But if the Soviet plan is fulfilled the countries of Eastern Europe together will be importing less tea in 1965 than in 1958.

The Soviet Union in recent years has been the second biggest buyer of Indian tobacco, though the quantities involved have not been very large. The bulk of Soviet imports are derived from China and Bulgaria. The average annual value of Soviet imports of unmanufactured tobacco in 1959–60 was 63.3 million new roubles.³³ Of this, Bulgaria and China accounted for 75.5 per cent of total imports.³⁴ The prospects for Indian tobacco in the

²⁶ The Soviet Union imported 16.6 thousand tons of raw jute in 1960, while the domestic production was 38 thousand tons.

²⁷ FAO, *Production Year Book*, 1961 (vol. 15).

²⁸ FAO, *Trade Year Book*, 1961 (vol. 15).

²⁹ Official statistics by the DGCI & S, Calcutta.

³⁰ Population being assumed at 210 million.

³¹ The speech of the First Secretary of the Communist Party of Georgia as quoted in UN, *Economic Survey of Europe in 1960*, Geneva, 1961, Chapter v, p. 16.

³² FAO, *Trade Year Book*, 1961.

³³ UN, *Year Book of International Trade Statistics*, 1960.

³⁴ *Ibid.*

U.S.S.R. will, therefore, depend on the future of imports from Bulgaria and China into the U.S.S.R. On balance Eastern Europe is a net importer of tobacco. The average annual imports of tobacco into the Soviet Union were 85.0 thousand tons during 1958–60, and other countries of Eastern Europe imported another 52.5 thousand tons a year over the same period; so the combined total imports of Eastern Europe were 137.5 thousand tons a year.³⁵ At the same time their combined exports averaged 76.5 thousand tons a year.³⁶ Thus they had a net import surplus of 61.0 thousand tons a year during 1958–60. Of this China supplied 35.6 thousand tons.³⁷ Thus the dependence of Eastern Europe on sources other than Asian members of the bloc was only marginal. Over the three-year period 1958–60 non-members of the bloc accounted for only 25 thousand tons a year of the total net imports of Eastern Europe. This suggests that if member countries can expand their production of tobacco the dependence on non-members is unlikely to increase.

India could supply large quantities of cotton textiles for export to Eastern Europe. The opportunity, however, seems to be limited in view of the fact that Eastern Europe is on balance a net exporter of cotton textiles, as is brought out in Table XI.2.

The U.S.S.R. is a net exporter although it imports large quantities of textiles from China. Other countries of Eastern Europe taken together are equivalent to a net exporter and their average annual export surplus during 1958–60 was 22.6 thousand tons, as against the Soviet export surplus of only

Table XI.2 Foreign Trade of Eastern Europe (including U.S.S.R.) in Cotton Textiles (*Annual Averages in 000 Metric Tons*)

	1948–50	1951–3	1955–7	1958–60
Exports	30.9	43.4	67.9	76.5
Imports	2.4	4.4	15.1	49.6
Export surplus	28.5	39.0	52.8	26.9

Sources: FAO, *Per Caput Fibre Consumption Levels, 1948–58*, Rome, 1960. FAO, *Monthly Bulletin of Agricultural Economics and Statistics*, January 1962.

³⁵ Calculated from FAO, *Trade Year Book, 1961* (vol. 15).

³⁶ The Soviet Union exported about 5.0 thousand tons and others 71.5 thousand tons a year.

³⁷ FAO, *Trade Year Book, 1961* (vol. 15).

4.3 thousand tons.³⁸ Despite the fact that Eastern Europe is a net exporter of cotton textiles opportunities could arise for India to increase her exports to these countries. Their consumption of cotton textiles is bound to grow as population and *per caput* incomes rise, and the new Soviet Twenty-Year Plan provides for a rise of 110 per cent in the *per caput* consumption of cotton textiles from 1960 to 1970.³⁹ While their consumption may be expected to rise their textile industries are not developed to the point where any significant increase in imports must give rise to a painful process of re-adjustment, as is the case in Western Europe. However, whether larger imports from India would in fact be fitted into the plans of these countries is difficult to say. All of them are planning for significant increases in the output of textiles.⁴⁰ But one would need data on the planned increase in consumption, as well as their import and export plans with regard to the other members of the bloc, in order to judge whether larger imports from India were being planned for. To get all these data is, however, an impossible task.

Eastern Europe is on balance a net importer of vegetable oilseeds and oils. Thus Soviet net imports of vegetable oilseeds and oils averaged 116.7 thousand tons a year during 1958–60 as measured in oil equivalent.⁴¹ The rest of Eastern Europe had a net import surplus of about 84 thousand tons a year over the same period.⁴² The combined net import surplus of Eastern Europe averaged about 201 thousand tons a year during 1958–60. But mainland China is a very important producer and exporter of vegetable oilseeds and oils in the world. According to calculations based on statistics published

³⁸ Calculated from FAO, *Monthly Bulletin of Agricultural Economics and Statistics*, January 1962.

³⁹ As given in UN, *Economic Survey of Europe in 1961*, Part I, Geneva, 1962, Chapter 2, p. 56.

⁴⁰ The Soviet Twenty-Year Programme provides for an expansion of the output of textile fabrics from 6.6 billion sq. metres in 1960 to 13.6 billion sq. metres in 1970. See UN, *Economic Survey of Europe in 1961*, Geneva, 1962, Part I, Chapter 2, p. 52. The Seven-Year Plan (1958–65) of Czechoslovakia aims at an increase of 17 per cent in the output of cotton textiles. The corresponding planned increases over the same period for other countries are: East Germany, 111 per cent; Hungary, 45 per cent; Poland, 30 per cent; and Rumania, 111 per cent; cf. UN, *Economic Survey of Europe in 1960*, Geneva, 1961, Chapter v.

⁴¹ FAO, *Trade Year Book, 1961* (vol. 15), p. 255.

⁴² These estimates are based on FAO statistics using the FAO conversion factors for converting oilseeds into oils.

in the *FAO Trade Year Book, 1961* mainland China exported on an average 387 thousand tons of vegetable oilseeds and oils in terms of oil equivalent during 1958–60.⁴³ Of these about 169 thousand tons went to the Soviet Union; and another 53 thousand tons were sent to other countries of Eastern Europe. Thus China exported about 223 thousand tons a year of vegetable oilseeds and oils (in terms of oil equivalent) to Eastern Europe as a whole during 1958–60.⁴⁴ Imports from China, therefore, exceeded Eastern Europe's combined import surplus over this period. If this trend continues outside countries will not be able greatly to increase their exports to Eastern Europe.

The preceding analysis does not enable us to draw any firm conclusions about prospects of India's exports to Eastern Europe. Some available evidence suggests that the countries of Eastern Europe are not preparing themselves for admitting increasing quantities of the type of goods in which India is deeply interested as an exporter. However, one must bear in mind that the current seven-year plans were formulated before 1958, and it is only since 1959 that a genuine element of bilateralism has been introduced in their trading relations with India. Thus it is quite possible that they may suitably modify their later plans to allow for larger imports from India if they are satisfied with the working of existing agreements. Besides, they could absorb considerably more Indian goods even without significant modifications in their present plans, in view of the fact that their imports from India at present form less than 1 per cent of their total imports, taking all the countries of Eastern Europe together.

G. THE OFFER OF A LONG-TERM CONTRACT

In these circumstances it would be helpful if India were to find out more clearly the intentions of these countries by offering to conclude long-term agreements with them for the supply of specified quantities of export goods.

⁴³ FAO conversion factors for converting oilseeds into oil have been used. These figures, however, exclude exports of sunflower seed from China which averaged 16.8 thousand tons a year during 1958–60, and of these 10 thousand tons were sent to the U.S.S.R., while the rest of Eastern Europe imported another 3.0 thousand tons of sunflower seed from China during 1958–60. The conversion factor for sunflower seed was not available.

⁴⁴ See *FAO, Trade Year Book, 1961*, pp. 274–86.

This would enable them to define their trade objectives towards India, and would also help India in planning her export strategy more effectively.

Such long-term agreements could be mutually beneficial. From the Indian point of view they could provide an assured market for a number of years ahead,⁴⁵ and she would be better placed to plan her production capacity. This is very important for many of India's traditional exports. As prospects for an increased demand are limited in traditional overseas markets, any large increases in investment to raise productive capacity would be unduly risky in the absence of new assured outlets. In commodities like iron ore, where the creation of new capacity is costly as well as time-consuming, an assured market is a great help. From the point of view of the importing countries a long-term agreement could provide a greater security of imports for a relatively long period ahead, and would therefore facilitate the planning of consumption and production. The agreement could also be used as a device to introduce an element of stability in import and export prices, and therefore, in foreign-exchange receipts and outlays.⁴⁶

No doubt long-term agreements provide risks as well as opportunities. For example, the existence of an agreement may prevent an exporting country's taking advantage of higher prices ruling in other export markets; similarly, in periods of falling prices an importing country's opportunity to

⁴⁵ Although even long-term agreements can be abruptly ended sometimes (Yugoslavia's trade relations with the Soviet bloc suggest that political factors may lead to a unilateral suspension of previously agreed agreements on the part of countries of the bloc).

⁴⁶ There is a danger that the existence of a long-term agreement may lead to a greater instability of prices in the 'free' market. For if some countries import under the agreement and are assured of more stable prices than those of countries not party to it the former countries are relieved from making economies in use at the time of scarcity. Therefore other importing countries are forced to cut their imports more severely or have to compete for the remaining quantities available in the 'free' market. Consequently the market demand may prove less elastic in relation to the variation in supplies than if the effects of scarcity had been more evenly spread among the different importing countries, cf. FAO, *The Long-term Contract*, Rome, 1953.

However, the fact that the agreements proposed in the text are not likely to cover more than a small fraction of India's total exports, and also that such exports will often be a very small fraction of world exports in these commodities, the destabilizing effects referred to above will not be really important.

buy at the cheapest price may be restricted. But provisions could be made to re-negotiate prices in the light of changing trends.⁴⁷ Indeed, without provision for a periodic review, one or the other party may lose faith in the agreement altogether. Besides, the risks arising out of price fluctuations even in the short run could be reduced by including more than one commodity in the agreement so that the losses on some lines would be made good by profits on some other commodities. Basically, a long-term agreement is a form of mutual insurance in that it assures the importer of a fairly secure supply and the exporter a guaranteed market for at least a part of his exports. It is here that the mutual benefit lies. In addition, such an agreement will fit eminently into the planning procedure adopted by the countries of Eastern Europe; and if they were genuinely keen on expanding trade with India they would welcome an offer by India to conclude a long-term agreement. At worst, India will be able to find out their trading intentions, and this will help her in estimating the growth potential for her exports in their markets. As such it would help in planning an effective export strategy.

CONCLUSIONS

Our discussion of India's export prospects with the countries of Eastern Europe must unfortunately end on an inconclusive note, both because of the uncertainty of political and economic policies in the latter countries, and also because of significant gaps in the available information. The published information suggests that in some ways they are making it more difficult for themselves to import more Indian goods. However, no definite conclusion could be ventured on the basis of this information. For if they so wanted, even within the framework of their existing plans, they could certainly import more from India. The best thing would be to find out their intentions by offering to conclude a long-term agreement for an exchange of specified commodities. Generally speaking, many of India's traditional exports are likely to enjoy a low priority on their import lists, either because their consumption can be easily cut, or because they can be

⁴⁷ There is no doubt that the existence of bilateral agreements may itself influence the 'free price' or that ruling in the world markets. But if trade under these agreements is only a very small part of total world trade in the commodities falling within the scope of such agreements, these effects will be insignificant.

readily produced locally, or because they can be imported from elsewhere, within or outside the countries of the bloc. This does not mean that there exists no economic basis whatsoever for a mutually profitable expansion of trade between India and Eastern Europe. What it does mean is that the extent of this expansion will be largely determined by such political factors as, for example, the ability of India to do a tight-rope walking act in matters of foreign policy.⁴⁸

⁴⁸ The immediate outlook for India's exports to countries of Eastern Europe is encouraging as judged by the new trade agreements between India and these countries negotiated in 1963. A new trade and payments agreement between India and the U.S.S.R. was signed in Moscow in June, 1963. This agreement is valid for five years, starting 1 January, 1964. A similar agreement between India and Czechoslovakia was signed in Delhi in November, 1963. As stated by Mr Manu Bhai Shah, Minister for International Trade, Government of India, it had been mutually agreed between India and the U.S.S.R. that India's exports to the U.S.S.R. under the new agreement would rise from Rs 380 million in 1962-63 to Rs 1,000-1,050 million by 1966.

XII

Regional Trade Agreements and Export Prospects

A. INTRODUCTORY

It is now a well observed fact that exports of under-developed countries, excluding petroleum producers, have failed to keep pace with the growth of exports from the developed countries.¹ As a result a wide gap has emerged between their import needs for an accelerated economic growth and their import capacity as measured by the trend in their export earnings. It is also widely recognized that the operation in the advanced countries of such factors as low income-elasticities of demand for primary products and advances in modern technology (discovering synthetic substitutes for natural raw materials in ever-increasing quantities) will greatly limit the chances open to the under-developed countries to expand exports to their traditional markets.² It has, however, been suggested that problems created by the 'export lag' could be solved, at least partly, by a mutual expansion of trade among the under-developed countries themselves, within the context of an effective regional arrangement. Of late the UN Economic Commissions for Latin America, and for Asia and the Far East have become the leading champions of this cause.³

We are interested in regional trade agreements in Asia only in so far as they have a bearing on India's export prospects. Our earlier analysis of these in Chapter X was based on an assumption that India's foreign trade and payments would continue to be conducted on a world-wide

¹ See a GATT report, *Trends in International Trade*, Geneva, 1958.

² cf. R. Nurkse, *Patterns of Trade and Development*, Oxford, Blackwell, 1961.

³ UN, *The Latin American Common Market*, 1959. UN, *Economic Survey of Asia and the Far East for 1959*, Bangkok, 1960.

non-discriminatory basis. The last chapter was devoted to an analysis of the likely effects of bilateral trade and payments agreements on India's exports. The present chapter analyses the possible effects on India's exports if some regional trade agreement were to emerge in South-East Asia. Clearly the effects on India's exports would greatly depend on the ultimate shape of the agreement, the transitional provisions, and the duration of the period of transition. A greater part of this chapter is, therefore, concerned with an analysis of the shape that the regional agreements might take. Without a lengthy digression of this sort it is difficult to analyse the likely effects of regional agreements on India's exports. The final section is devoted to this latter task.

B. THE CASE FOR REGIONAL CO-OPERATION

The likely shape of a regional agreement would, among other things, depend on the objectives of regional co-operation. It is therefore useful to review briefly the advantages usually associated with regional co-operation in the field of trade liberalization.

1. The Free-Trade Argument

First of all there is an argument that arises out of the assumption that free trade maximizes world welfare. It is argued that even though countries cannot adopt universal free trade policies, any relaxation of trade and exchange controls is a step towards free trade, and therefore adds to the welfare of the participating countries by enabling them to specialize more rationally, so gaining from a greater international specialization in productive capacity and a greater utilization of differences in comparative costs (gains through an optimization of production and trade).

It is well known that the case for a partial relaxation of trade controls and tariffs among the countries of a region, when argued from the premises of free-trade doctrine, is by no means watertight. First, one may challenge the view that free trade maximizes world welfare.⁴ Second, even if one accepts the

⁴ The argument that free trade maximizes world welfare assumes that all the usual Paretian conditions of optimum production and exchange are satisfied in all countries, and in addition, as Dr. Little has pointed out in his *Critique of Welfare Economics*, that the distribution of income among different countries is a matter

idea that free trade maximizes world welfare it does not follow that it is a good policy for every country to adopt.⁵ Third, as is now emphasized in the theory of customs union, the effects on welfare depend on the relative strength of the trade-creating and trade-diverting effects. All these objections are so well known as hardly to require any elaboration. Nevertheless the free-trade doctrine has often provided a powerful intellectual basis for trade-liberalization policies on a regional basis.

2. Economies of Scale and Beneficial Effects of Competition

Apart from the above theoretical arguments there are those which emphasize the beneficial effects of an access to a wider market, in terms of a greater utilization of economies of large scale than is possible within the national frontiers of the participating countries. We should also note the stimulating effects of foreign competition in eliminating waste and inefficiency and in encouraging innovation and enterprise.

To the extent that economies of scale are important, a large country is at a relative advantage *vis-à-vis* a smaller country. It may be that even a small country is large enough to provide a market for at least one plant of an optimum size in some industries. This may, however, require a degree of standardization considered otherwise undesirable. A small country is faced with a sharper conflict between diversification and specialization than is the

of indifference. Besides, as the 'General Theory of the Second Best' now explicitly recognizes, when some Paretian conditions are fulfilled while others are not, in general there is no *a priori* way to judge whether a removal of any 'single distortion' would improve welfare.

⁵ Even within the limits of the static theory it has long been recognized that an individual country may well be better off by departing from free trade. Until recently, following Professor Scitovsky, it was, however, assumed that while any particular country may be better off by departing from free trade (Edgeworth-Bickerdike theorem), in a two-country world both could gain in welfare by a move from a tariff-ridden world back to free trade. See his article, 'A Reconsideration of the Theory of Tariffs', *Review of Economic Studies*, vol. 9 (1942), pp. 89-110. This seemed to rehabilitate the cosmopolitan position. More recently Professor H. G. Johnson has demonstrated that even after a series of retaliations had occurred, one country might conceivably be still better off in a tariff-ridden world than in a free-trade world. See his article on 'Optimum Tariffs and Retaliation', *Review of Economic Studies*, vol. 21 (1953-4), pp. 142-53.

case with a larger market. Furthermore, the smaller the number of firms of a minimum efficient size that a market could keep employed, the greater would be the likelihood of monopolistic tendencies; so that even if small countries were able to utilize economies of large scale it would often be at the price of having to tolerate, if not deliberately encourage, the growth of monopoly. In addition, in a small market the establishment of a new plant of minimum efficient size would greatly depend on the growth of the market itself. On the other hand, in an already large market the addition of a new plant is often less heavily dependent on an uncertain growth of future over-all demand. To that extent the risks are reduced, and confidence in a necessary minimum of expansion is more readily created.^{6,7}

Foreign trade is no doubt an escape from the penalties of smallness, but it is more uncertain than a country's internal trade. Uncertainties arise because of possible political interventions, such as unexpected changes in tariff rates or a sudden imposition of quantitative controls by the importing countries. Any arrangement that reduces the risks attaching to foreign trade among sovereign nations will, therefore, enable countries to benefit by a greater utilization of economies of scale than is possible within the national frontiers of the participating countries. The effectiveness of such arrangements will, of course, depend on the degree of sacrifice of sovereign national rights that the countries are prepared to accept in the interest of international co-operation.

3. Development Arguments

In recent years the U.N. Commissions for Latin America and for Asia and the Far East have been increasingly stressing in their reports the potentialities offered by regional trade co-operation in promoting the economic development of under-developed countries.⁸ For example, most under-developed countries in the ECAFE region which specialize in a very narrow

⁶ E. A. G. Robinson (ed.), *Economic Consequences of the Size of Nations*, London, Macmillan, 1960, p. xvii.

⁷ It must be emphasized that what is of crucial importance is not the mere size of a country's population but her aggregate expenditure. A small but rich country is often better placed to utilize large-scale economies than a large but poor country. Size however is at least a measure of potential opportunities.

⁸ UN (ECLA), *The Latin American Common Market* (UN, 1959). UN (ECAFE), *Economic Survey of Asia and the Far East for 1959*, Bangkok, 1960.

range of primary products or agriculture-based manufactures⁹ are faced with none-too-encouraging prospects for their traditional exports. Some commodities like tea, rice, and vegetable oils have to contend with very low income-elasticities of demand in their traditional markets, which mostly lie in the developed countries of the West. The use of industrial raw materials like jute, cotton, mica, lac, and natural rubber has been restricted by the successful development of synthetic substitutes. With this background an exclusive concentration on their existing export products in their development strategy, such as would, for example, follow from a consideration of their existing comparative advantage, would involve a progressive deterioration in their terms of trade. This would greatly reduce the beneficial effects of capital accumulation on the rise of the standard of living in these countries, and would also intensify the well-known instability arising out of short-term fluctuations in the volume and prices (the two being usually not compensatory) so characteristic of primary products. In such a situation the growth strategy of these countries must of necessity place considerable stress on import substitution,¹⁰ if the growth of their imports in the long run is not to exceed

⁹ Rice alone accounts for nearly 75 per cent of Burma's exports; tea and rubber are responsible for nearly 80 per cent of Ceylon's total export earnings; Malaya depends on rubber and tin for over 80 per cent of her export receipts; rice and rubber account for about 75 per cent of the export receipts of Thailand; over 70 per cent of Pakistan's exports are derived from raw jute and raw cotton; rubber, tin, and petroleum account for 70 per cent of Indonesia's export earnings; rubber, rice, and maize bring over 65 per cent of Cambodia's export receipts; jute manufactures, tea, and cotton textiles account for nearly 50 per cent of India's total earnings from exports.

¹⁰ This is because the establishment of new export industries bristles with difficulties. The economies of scale and the rapid growth of productivity made possible by larger investment outlays and faster technical progress confer a distinct competitive advantage on the existing exporters for no other reason than that they were the first in the field. There are no doubt exceptions and there are industries where neither economies of scale nor rapid technical progress are very important. Some of these industries, like textiles and footwear, are in addition admirably suited to the region's factor endowment, labour-intensive as they are. However, in these fields the developed countries have shown a great reluctance to see their home markets 'disrupted' by 'low wage' exports—notwithstanding the teachings of Ricardo, on which generations of students have been trained, as to the basis of a mutually profitable international trade.

the growth of their import capacity as determined by the trend in their export earnings.

The process of import substitution has, however, its own costs, apart from the fact that it is often physically impossible to produce everything at home, for want of sufficient diversity of climatic conditions and natural resources. The pace of import substitution itself will be limited by the state of the balance of payments of a country, since during the investment phase of the projects their contribution to import saving is always negative. More important is the fact that balance-of-payments considerations may dictate a pattern of diversification that is wasteful. If the home market is small in relation to an economic size for the industry, costs of production will be higher at home than abroad because of inadequate specialization. If the level of likely home demand for a long period ahead is insufficient to absorb the output of even a single plant of a minimum economic size there will be a wastage of scarce capital resources due to idle capacity, and this wastage will be at its highest during the initial stage of development, i.e. at a time when capital accumulation is most difficult. In such circumstances the establishment of domestic industries, substituting imports all along the line, will require a large degree of protection for the developing industries.

These costs of development may still be worth accepting if a country wants to grow at a faster rate than the one dictated by the growth of its import capacity, and it may still be the most efficient strategy if the costs of the alternative pattern which emphasizes export industries are taken into account (in the form of deteriorating terms of trade). Regional co-operation may, however, offer such countries a still better alternative. The ability to produce for the larger regional market would enable a country to utilize fully the economies of scale as well as to minimize the chances of capacity's remaining idle. As a consequence the opportunity costs of protection would be smaller even to start with. In addition, the new industries to be established within the region, having access to reasonable economies of scale to start with, would be better able to compete in the export markets outside the region. The essential point is that although the need for import substitution in the region as a whole is obvious enough, regional co-operation would provide an opportunity for the countries of the region to specialize more rationally, keeping in view their comparative advantage *vis-à-vis* their partners. The consequent expansion of intra-regional trade would enable countries to import from one another such goods as could not be imported from outside the region for want of foreign exchange. Regional co-operation would, therefore, obviate the necessity for an uneconomic import substitution on the part of the constituent

countries and at the same time help them in the solution of their balance-of-payments difficulties. The region's balance of payments *vis-à-vis* the rest of the world would also improve. Regional co-operation is, therefore, considered by its advocates as offering the best possible method of maximizing the growth-potential of under-developed countries placed in similar situations.

To what extent the above objectives would be actually realized would depend on the ultimate shape of the arrangements for regional co-operation. A basic condition of any effective regional agreement is that it must involve an element of reciprocity. If an industry, requiring protection to get started, is established within a country the benefit to that country is obvious. However, the other countries of the region, in having to grant preferential treatment to the products of such an industry for entry into their markets, will suffer a loss by paying more for this product when bought from a member country than the alternative cost of importing from outside the region. They will therefore agree to such an arrangement only if they are convinced that benefits to their own 'infant' industries justify a higher price for some products made in other member countries. There has to be an element of reciprocity in the sense that all countries must get opportunities to increase their exports to one another, and these must not be at the cost of their exports to countries outside the region. Only then would their growth prospects be positively improved by a participation in a regional arrangement. If such an agreement does not increase a country's exports, but merely leads to a diversion in the source of her imports from outside the region to another country within the region, such a country will be worse off as a result of the regional agreement than without it; for the only effect that a regional arrangement will have on such an unfortunate country is a diversion of the source of her imports from a low-cost area outside the region to a possibly high-cost area within the region.

C. SOME ECONOMIC CHARACTERISTICS OF THE ECAFE REGION

Before discussing any schemes of regional co-operation it will be useful to bear in mind some dominant characteristics of the ECAFE region. The region, which even geographically is not a compact area, is characterized by a good many differences in political and economic conditions among the countries. Most countries have only recently attained their national independence, and this will greatly condition their response to a call for sacrifice of national sovereignty in the interests of regional co-operation. Whereas in other areas of

the world there have been developments favouring regional integration, in the ECAFE region there has been a strong trend towards disintegration, as witnessed first by the separation of Burma from India, and then by the division of India into two sovereign states; similar trends can be found in the political evolution of states in the former Indo-China. In addition there is the uncertainty about China's attitude towards any regional arrangement, and that attitude may weigh considerably with China's small neighbours.

On the economic plane we find that, although countries differ in their dependence on intra-regional trade, yet for the region as a whole, excluding Japan, intra-regional trade is of much less importance than trade with the outside world. Thus taking an average of 1959 and 1960, intra-regional exports were only 33.5 per cent of the region's total exports and intra-regional imports were only 34.7 per cent of the total imports of the region.

That this should be so is, of course, not surprising.¹¹ Most primary-producing countries of the region specialize in a narrow range of products meant to be exported to countries outside the region. Thus Burma and Thailand are economies largely based on the export of rice. After the opening of the Suez Canal the European demand for rice showed unsuspected possibilities of expansion and this factor, combined with the ease of importing rice-milling machinery from Europe, opened up vast possibilities of rice

Table XII.1 Intra-Regional Trade as Percentage of Total Foreign Trade in the ECAFE Region (Excluding Japan): Averages of 1959 and 1960

Country	Exports	Imports	Country	Exports	Imports
Burma	65.5	29.3	Malaya	7.6	46.0
Cambodia	31.3	33.7	Pakistan	21.2	16.4
Ceylon	9.7	33.6	Singapore	29.8	58.9
Hong Kong	29.5	36.3	Thailand	44.7	22.1
India	12.1	10.4	S. Vietnam	25.1	12.7
Indonesia	39.8	24.9			

Source: Calculated from regional economic statistics as published by UN Economic Commission for Asia and the Far East. See *Economic Bulletin for Asia and the Far East*, vol. xiii, no. 1 (June 1962), p. 51, Statistical Table 7.

¹¹ The share of intra-regional trade in the total foreign trade of the region still remains one-third even if Japan's trade with the countries of the region and her total foreign trade are included in the respective totals.

production in the Irrawady and Mekong deltas.¹² Similarly, Ceylon came to specialize in tea and rubber; Malaya in tin and rubber; and Indonesia in sugar, tea, petroleum, tin, and rubber. These commodities offer only very limited opportunities for an expansion of intra-regional exchanges. Some of them are industrial raw materials, and in the absence of industrial development there is not much demand for them in the region itself. Moreover, the scope for trade is limited by a broad similarity of natural environment which makes for similarity in the specialties of tropical production; and in the absence of sufficient diversification of non-primary output, such as would have resulted from a successful drive for industrial development, these economies contain only a very limited element of mutual complementarity. This explains the comparative insignificance of intra-regional trade.

The relative insignificance of intra-regional trade emphasizes the fact that a close feeling of interdependence has been lacking in the past among the countries of the region. This is a factor which will greatly affect the scope of regional co-operation. As Professor Triffin has pointed out, effective regional arrangements are likely to be concluded only among countries closely dependent on one another.¹³

Secondly, we notice that while all the countries in the ECAFE region, with the exception of Japan, would be classified as under-developed and share the common characteristic of a heavy concentration of population in agriculture and the allied occupations,¹⁴ still there are significant differences in their development experience over the last decade, as is brought out in Table XII.2.

The diversity of experience with regard to growth rates is due to many causes: partly to the vagaries of weather which cause agricultural production to fluctuate from year to year; partly differences in rates of capital formation,¹⁵

¹² See B. N. Ganguli, *India's Economic Relations with the Far Eastern Countries*, Calcutta, Orient Longmans, 1956, p. 4.

¹³ Robert Triffin, 'The Size of the Nation and its Vulnerability to Economic Nationalism' in E. A. G. Robinson (ed.), *Economic Consequences of the Size of Nations*, London, 1960, p. 260.

¹⁴ In all these countries the share of agriculture in total national income lies between 40 and 55 per cent. See UN, *Statistical Year Book, 1960* (New York, 1961), pp. 460-5.

¹⁵ According to statistics published in the UN *Economic Survey of Asia and the Far East for 1960* (Bangkok, 1961), gross domestic capital formation expressed as a percentage of gross domestic product at market prices in Burma was 20 per cent in 1957, 22 per cent in 1958, and 20 per cent in 1959. In Ceylon, it was 12 per cent

Table XII.2 Average Annual Rates of Growth of Real Gross Domestic Product Total and Per Caput in the ECAFE Region, 1950-9

Country	Total	Per Caput	Country	Total	Per Caput
<i>Burma:</i>			<i>Pakistan:</i>		
1950-9	5.7	4.6	1950-9	2.6	0.9
1950-3	8.7	7.2	1950-3	3.3	1.1
1954-8	3.8	2.8	1954-8	1.8	0.4
<i>Ceylon:</i>			<i>Thailand:</i>		
1950-9	3.4	0.9	1952-9	4.9	3.0
1950-3	4.0	1.3	1954-8	4.2	2.2
1954-8	3.4	0.9			
<i>India:</i>			<i>Philippines:</i>		
1950-8	3.5	2.2	1950-9	5.6	3.1
1950-3	4.2	2.9	1950-3	7.1	4.8
1954-8	3.3	1.9	1954-8	4.8	2.2
<i>Indonesia:</i>					
1951-9	3.6	1.6			
1951-3	4.8	3.2			
1954-8	2.7	0.5			

Source: UN, *Yearbook of National Accounts, 1960* (New York, 1961), pp. 265-8.

which in turn arise out of different rates of domestic savings as well as varying inflows of foreign assistance;¹⁶ further, there are differences with regard to such qualitative influences on rates of economic growth as political stability, administrative competence of the governmental machinery, and the quality of

both in 1957 and 1958, and 13 per cent in 1959. According to statistics published in Pakistan's official document of her Second Five-Year Plan (Karachi, 1960), gross investment was 9.2 per cent of the GNP in 1955-6, 8.2 per cent in 1956-7, 10.0 per cent in 1957-8, 9.7 per cent in 1958-9 and 10.5 per cent in 1959-60 (see p. 28). For India estimates of gross investment are not available. It has however been officially estimated that net investment rose from 7.5 per cent of national income in 1955-6 to 11 per cent in 1960-1. (See the official document of India's Third Five-Year Plan, New Delhi, 1961, p. 28.)

¹⁶ Estimates of *per caput* international aid received by the countries of the region in 1958-9 are given below in terms of U.S. dollars: Burma-1.1, India-1.6, Indonesia-2.4, S. Korea-28.6, Pakistan-3.8, Thailand-3.0, Ceylon-4.5, Philippines-3.4. UN, *Statistical Year Book, 1960* (N.Y., 1961).

the entrepreneurial class. There are in addition differences in the stage of development of the fiscal system, and also with regard to the role of the public sector in the strategy of development.

A minimum co-ordination of economic policies of the member countries is often an essential condition of successful regional agreements. As Prof. Triffin has emphasized, 'It is a dangerous illusion to think that strict limitations on the use of external policy tools, such as exchange-rate determination, tariffs, import restrictions, exchange discrimination, and bilateralism can be effectively negotiated and implemented without parallel agreements of a more positive nature about mutual assistance or escape clauses in case of difficulties and even without a minimum harmonization in the area of internal economic policies in so far as they have a direct and important repercussion upon the countries' balance of payments'.¹⁷

D. THE CUSTOMS-UNION ISSUE

Regional co-operation can take many forms and one of them is the creation of a customs union whereby the member countries agree to abolish tariff walls on their mutual trade, and also agree to administer a common external tariff in relation to the rest of the world. This is a solution which has been canvassed for in Latin America by the U.N., Economic Commission for Latin America.

The context in which demands for regional co-operation have arisen in the under-developed countries has already been discussed in an earlier section. The issues involved and an assessment of the likely benefits, however, cannot be adequately analysed within the framework of the static theory of customs union. According to this theory the likely effects of a customs union depend on the relative strength of the trade-creating and trade-diverting effects now made famous by Prof. Viner.¹⁸ In addition, as Prof. Meade has pointed out, even if the customs union left the pattern of production of the member countries unchanged there would still be some gain arising out of the now

¹⁷ R. Triffin, 'The Size of the Nation and its Vulnerability to Economic Nationalism' in E. A. G. Robinson (ed.), *Economic Consequences of the Size of Nations*, London, 1960, pp. 251-2. See also his *Europe and the Money Muddle*, New York, 1957.

¹⁸ Jacob Viner, *The Customs Union Issue*, Carnegie Endowment for International Peace, New York, 1950.

greater opportunities for consumers to substitute cheaper foreign goods for the more costly domestic goods in consumption.¹⁹ It is generally held that a customs union between countries that trade more with one another than with the outside world will be a beneficial arrangement because in that case the trade-creating effects are likely to be more important than the trade diverting effects. On this analogy, presumably, a customs union in the ECAGE region will lead to a loss of 'welfare' rather than to any gain, since the intra-regional trade is less important than the trade with the outside world to most countries of this region.

But the mere fact that the intra-regional trade for most countries of the ECAGE region is less important than their trade with the outside world does not by itself justify a conclusion that trade-diverting effects will be more important than trade-creating effects. Many goods, especially capital goods and intermediate products, are either simply not available within the region or at least are not available in the needed quantities, and this situation will remain substantially unchanged for a long time to come. In addition, the fact that many countries of the region are heavily dependent on foreign aid (which comes mostly from countries outside the region) and will remain so for a considerable period ahead, and that this aid is often tied to imports from the donor countries, will ensure that the scope for trade-diverting effects will long remain small. Admittedly, so also will the scope for trade-creating effects, given a limited complementarity among the economies of various countries of the region. This only shows that the issue cannot be conclusively decided simply by reference to the static gains or losses flowing from the customs union. Even in Western Europe, where the trade-creating effects are likely to be more important than the trade-diverting effects,²⁰ competent observers have pointed out that the static gains from the resulting greater international specialization will be quantitatively small; and over a period of time they will be swamped by the effects of capital accumulation and the pace of technical progress.

¹⁹ J. E. Meade, *The Theory of Customs Unions*, Amsterdam, North Holland Publishing Company, 1956.

²⁰ Of course the mere fact that trade between two countries is large relative to their trade with the outside world does not automatically establish that trade-creating effects will be more important. Take for instance the trade between a highly industrialized country and a primary-producing country. There is a high degree of complementarity based on wider differences in factor endowments. In such a case if neither country can produce goods produced by the other partner

In the UN reports referred to earlier there is a great stress on the fact that, in a world where economies of large scale are important, the creation of a common market among the under-developed countries of a region will enable them to carry forward the process of import substitution a great deal without incurring undue costs. There is no doubt a good deal of truth in this view. But the mere creation of a common market does not automatically establish the conclusion that all countries will gain from such an arrangement. First, there is the infant-industry argument to be considered. To the extent that economies of large scale confer an important competitive advantage on a well-established industry some countries, having developed their industries earlier than others, may well secure a permanent monopoly of these industries in a common market, simply because they had the benefit of an earlier start.

There are, however, other arguments which suggest that the problem may not be solved merely by granting a temporary protection to infant industries. If countries differ in their capacity to invest they will experience divergent rates of economic growth. Larger investment outlays will result in a faster growth of productivity and this will confer important competitive advantages on those members of a customs union which grow at a relatively faster rate. As a result the weaker members may suffer in the wake of increased competition in their local markets from their more progressive neighbours in the regional union. Economists usually emphasize the beneficial effects of a wider market and the resulting competition in eliminating waste and inefficiency. This, however, assumes that different countries have more or less the same capacity to withstand the pressure of higher competition. The existence of a large market with its challenge and opportunities could have important stimulating effects on the 'climate of enterprise' and also enable countries to take advantage of economies of large scale. If, however, countries differ in their capacity to take advantage of such opportunities, either because they lack the necessary savings, or because the inducement to invest in their economies is relatively weak, or for other reasons, the poorer countries may

the trade-creating effects will simply not be there. It is not mere complementarity but a certain degree of overlapping in activities, usually associated with a broad similarity of factor endowment but varying stages of development in different industries, that is often a condition of trade-creating effects in a regional union.

well be worse off in a regional union than without it. These dangers are particularly strong in those countries that have started only very recently on the path of economic growth so that the inducement to invest and bear risks is still very weak.

One could argue that differences in growth rates and saving capacity would disappear if, in addition to the tariff walls' being abolished, controls on capital movements among the members were also simultaneously removed. But it is unlikely that freer capital movements will work to the advantage of poorer countries in the union. It might be said that where investment decisions are in private hands trade liberalization followed by a freedom of capital movements will bring about a pattern of production in accordance with the principle of comparative advantage. This is true, but the comparative advantage itself is likely to be distorted to the disadvantage of the poorer countries if countries differ in their rates of economic growth. With faster growth, productivity and profits are also likely to grow faster. Thus the faster-growing countries are likely to attract private investors from even the less fast-growing countries. In addition modern industry displays a strong tendency towards concentration, and up to a point the momentum of the early start works to the relative disadvantage of the latecomer. Thus a freer movement of private capital is unlikely to result in a harmonization of the rates of economic growth in different countries of the region. Unfortunately, in matters of growth the biblical saying 'To him that hath shall be given' has a wide applicability.

This suggests two courses of action. First, the establishment of a customs union should be postponed to such time as the various countries of the region have attained a sufficient level of development to enable them to take advantage of the opportunities presented by a larger collective market. As these countries undergo a successful 'take off' into 'self-sustained' growth their saving capacity, and willingness and ability to take risks will progressively increase, and so also will their capacity to benefit from a common market. But those who emphasize the beneficial effects of a common market have precisely the early stage of development in under-developed countries in mind. In their view, in the absence of a common market the extent of import substitution forced by the dismal export prospects of individual countries may involve undue costs if carried out within the national frontiers. This is true, but if our earlier analysis is correct it is unlikely that the mere creation of a common market will bring about prospects of accelerated economic growth for all member countries. Only when supplemented by a proper

planning of new investment, taking into account the needs of the region as a whole and also ensuring that as far as possible all members get opportunities to expand their exports to other members, can a customs union bring about the results that its advocates have in mind. Planning of new investment in the region is, therefore, the second alternative.

Unfortunately, it is easier to recognize the necessity for the planning of new investment in the region than to devise acceptable criteria for the allocation of investible resources among the various countries. When countries differ in their investment capacity as measured by the availability of savings, and/or their ability to make a profitable use of such resources, it is difficult to devise criteria which would be easily accepted; it is even more so when there are no agreed principles of income distribution among the countries of the region. Of course some of these difficulties are not insurmountable. Most countries of the region are heavily dependent on foreign aid for their development. This aid could be canalized through a regional authority, the giving of aid being made conditional on regional co-operation among the recipient countries. This may force the countries of the region to think together and devise some workable solution with regard to a co-ordination of their investment plans. However, one must not underestimate the enormous difficulties in bringing about the needed degree of co-ordination. So long as the bulk of resources needed by different countries for their development must come from internal sources, and countries differ in their capacity to mobilize domestic resources for development, it must be extremely difficult to bring about the desired degree of co-ordination particularly when there is no strong past tradition of economic co-operation among the countries.

In Western Europe, where both political and economic factors were much more favourable for regional co-operation than in Asia today, it took more than a decade's preliminary spade work to agree upon the formation of a common market. Even then, not all countries of Western Europe decided immediately to join the European Community. The complete establishment of a common market even among the six original signatories to the Treaty of Rome is to be brought about over a period of more than twelve years, and the transitional period for weaker members like Greece may well extend to twenty-five years. The road to a successful process of integration in Asia is likely to be much longer and more arduous than in Europe. Although one may still keep in view such an ideal as an ultimate objective the present situation demands much more partial solutions to start with.

E. PREFERENTIAL APPLICATION OF QUANTITATIVE CONTROLS

An alternative and less ambitious method of promoting intra-regional trade is a mutual relaxation of quantitative controls on such trade, such as that in Western Europe under the OEEC code of liberalization. Faced with balance-of-payments difficulties a country attempting a unilateral relaxation of import controls may run undue risks, and for that reason the pace of liberalization, if attempted unilaterally by each country as and when it suits her, is liable to be much slower and more difficult than a discriminatory mutual relaxation of such controls by several countries acting together simultaneously. Under the latter method the exchange risks for the group as a whole are obviously nil, since the gains and losses necessarily offset each other. Such risks are small also for any individual country, provided the group is homogeneous enough both as to the level and the pace of economic development, and also as regards the degree of attempted liberalization.

In Western Europe the liberalization of intra-European trade was also facilitated by the creation of a European Payments Union. Basically the EPU was a device to multi-lateralize the existing trade controls. Since after the creation of the EPU what mattered for any individual country was its over-all deficit or surplus in its intra-European transactions (which were settled through the EPU machinery), no country had any incentive left to discriminate as between various countries of Europe when faced with balance-of-payments difficulties. The EPU, however, also helped the cause of liberalization by the credit provisions of the agreement. The credit rights to which individual members were entitled in settlement of their over-all deficits helped to reduce the risks involved in trade liberalization, and also ensured that a small deterioration in the balance of payments would not be used by any country as a pretext to re-impose quantitative restrictions or to intensify them if already in force.

It was recognized from the beginning that a country suffering from serious balance-of-payments difficulties could be exempted from its commitments under the code of liberalization, and persistent debtors to the EPU like Turkey and Greece were exempt from such commitments altogether. What is therefore to be emphasized is the fact that, although the OEEC experiment was the child of the balance-of-payments difficulties faced by Europe in the early post-war years, fundamentally its success in liberalizing Europe's intra-regional trade was due to a steady improvement in Europe's balance of payments as a result of its recovery from the after-effects of war.

The path of liberalization was, however, neither smooth nor always easy. There arose, for example, serious problems with regard to the treatment of the chronic debtors and creditors. But the fact that these difficulties did not wreck the whole system was a product of some particularly favourable circumstances.

First, there was a strong mutual interest of the members in intra-European trade. In view of this interdependence countries were often willing to put up with pressures that in less favourable circumstances they would not have accepted. Second, countries were often prepared to put up with 'intolerable' situations under pressure, because right from the beginning it was emphasized that the EPU arrangement was not a permanent device and was to operate only 'until it is possible, by other methods, to establish a multilateral system of European payments'. Thus nobody was keen to appear as unreasonable when it was known that the agreement itself was only a temporary device. They might have acted differently if they had to put up with 'unreasonable' situations for an indefinitely long period. The basic reason for the success of the liberalization drive was first the recovery and then the sustained growth of European economies leading to an improvement in Europe's balance of payments, confounding the pessimistic predictions resulting from a 'chronic' dollar problem. In addition, the drive towards trade liberalization was further helped by the triumph of conservative parties throughout Western Europe in the fifties, with their emphasis on monetary and fiscal policies rather than on quantitative controls as instruments of balance-of-payments policy.

A mere look at the above favourable factors at work in Europe would convince us that not much could be expected from this approach in the Asian context. First, there is much weaker interdependence in Asia than in Western Europe. Intra-European trade, even before the war, formed over 50 per cent of the total foreign trade of Europe. In the ECAFE region, however, as we have seen previously, intra-regional trade is only one-third of the region's total trade; and for many countries like India intra-regional trade is of still less importance than for the region as a whole. In the absence of a strong feeling of interdependence it would be much more difficult to work out compromise solutions for bringing about a minimum co-ordination of economic policies of the members, and the granting of mutual assistance which would be necessary if extreme debtor and creditor positions were to be avoided without jeopardizing the process of liberalization.

Moreover, the problems that under-developed countries face with regard to the balancing of their foreign payments are not likely to prove as short-lived as the problems arising during the recovery phase of a war-torn economy.

The development process is essentially a long-term process, and devices like the EPU, whereby poorer countries may be found leading to richer countries, cannot be built into a long-term arrangement. For example the Federation of Malaya and Ceylon would be habitually deficit countries in a payments union embracing the ECAFE region. Yet these two are the richest countries in the ECAFE region.

More fundamentally, the balance-of-payments difficulties in some countries may be the result of their more ambitious growth policies, and import controls may form an essential part of the development policy in conserving the scarce foreign exchange for the import of 'essential' goods only. If the balance-of-payments difficulties are not of a temporary nature, a relaxation of import controls must be followed by other policies to avoid undue pressures on the balance of payments. And it is at this point that we find that monetary and fiscal policies that are alternative instruments of balance-of-payments policy do not possess adequate flexibility or speed to tackle a payments disequilibrium in many under-developed countries. In an economy where financial institutions are rudimentary in character monetary policy is often an ineffective regulator of the state of the balance of payments. On the other hand a flexible use of fiscal policy is frustrated by a primitive system of public administration which makes collection of taxes on income extremely difficult, while the low *per caput* incomes and the courage of the political leadership set extremely severe political and economic limits to an effective use of indirect taxes. Quantitative controls on imports, therefore, become indispensable tools of balance-of-payments policies and so long as the balance of payments difficulties last the relaxation of such controls cannot go far.

There are some additional difficulties that will face an Asian payment union. In some countries, like the Federation of Malaya, import controls are much less rigorous than in countries like India so that the scope for liberalization on a reciprocal basis may be small. Further, where some countries specialize in only one or two products for export, they may gain much less from liberalization than those with a more diversified economy, and to reconcile the divergent interests either the scope of liberalization policies would have to be limited or some special arrangements would have to be made to compensate countries who would otherwise lose rather than gain from liberalization. Besides, it is difficult to apply the liberalization procedure to government imports and in many countries imports, especially food imports, are government monopolies.

If different countries of the region apply varying degrees of import restrictions on goods coming from outside the region, those applying more rigorous controls so as to conserve foreign exchange for 'essential' goods only may plead with some justification their inability greatly to relax controls on intra-regional trade, particularly if the region does not produce many 'essential' goods needed by them. Such countries may also find that a more liberal treatment of outside imports by other member countries greatly reduces the benefit to their exports derived from the regional discriminatory arrangements. Moreover, if facilities for clandestine transshipment exist, countries applying more rigorous controls on outside imports may well find their efforts to conserve foreign exchange for 'essential' imports being frustrated by the more liberal import policy of other member countries (with regard to their treatment of outside imports). Thus if countries differ in the intensity of their balance-of-payments difficulties, the progress towards a speedy reduction in trade barriers on a regional basis is likely to be slow and will be resisted by those with more serious difficulties than others.

In these circumstances, when more ambitious programmes of regional integration are likely to prove impracticable for some time to come, the only effective alternative seems to be to make a beginning by concluding long-term reciprocal agreements or even barter deals among like-minded countries. These agreements ought then to be integrated in the development plans of the participating countries as, for example, is the practice among the countries of Eastern Europe.

F. REGIONAL CO-OPERATION AND INDIA'S EXPORT PROSPECTS

We have come to the conclusion that the creation of a common market in the ECAFE region would require such a close co-ordination of economic policies as to signify a revolutionary break with the past habits of thinking in a region where the trend so far has been more towards fragmentation than integration. The idea that such an arrangement could materialize in the near future seems unlikely to be realized. However, it is not impossible that, since the idea of a common market has caught on and countries all over the world are thinking in terms of regional arrangements to strengthen their bargaining position relative to the powerful European Economic Community, the countries of the ECAFE region may also come together to form a common market. But, in view of the difficulties sketched earlier in this chapter, its effectiveness is likely to be weak. For a long time to come the common market in the ECAFE

region, if it were to come into existence at all, would hardly make any important impact on the economic relations of the countries in the region. A limited degree of complementarity and the various transitional safeguards would both work to that end. Our earlier analysis of India's export prospects in 1970 therefore needs no modifications.

Even if the progress towards regional integration were to be more swift than is anticipated by us, the likely economic gains to India, including improved export prospects, would be small. India's foreign trade with the region is barely 1 per cent of her national income, and even a significant increase in this trade would not bring any large-scale gains in terms of a more efficient specialization. Over a period of time these static gains are likely to be swamped by the dynamic influences of capital accumulation and technical progress. Moreover, a country of the size of India should be able to utilize all the reasonable economies of scale within her national frontiers at an early stage of her development. Thus the costs of import substitution would be considerably less for India than for many smaller countries. If, however, India's export prospects were to be considerably improved as a result of a regional arrangement, that would be a significant gain. But such an outcome seems unlikely.

Superficially it may appear that India, being at a relatively advanced stage of industrial development compared with most other countries of the region, would reap considerable benefits in terms of exports if a common market were to be formed in the region. This view however ignores the fact that it is extremely unlikely that the other countries would allow India to increase her exports to them without importing more from them. For any regional arrangement to prove acceptable to all the member countries it must provide opportunities for a two-way expansion of trade to all the participants. Otherwise, why should Indonesia, for example, discriminate in favour of relatively costly Indian goods if Indonesian exports to India do not increase in return? If we look at it that way, we see that India's foreign trade problem cannot be effectively solved in the context of a regional arrangement. The basic problem in India's foreign trade is to earn enough by way of exports to enable the country to import capital equipment, industrial raw materials, and essential consumer goods that cannot be produced locally. But in the present stage of their development, and possibly for a long time to come, other countries in the ECAFE region can hardly supply those goods that are likely to be high on India's list of import priorities. Apart from rubber and tin the region has not many other intermediate materials or capital goods to offer in

exchange for Indian exports. Therefore there are unlikely to be large opportunities for a mutually profitable exchange of goods in the context of a regional arrangement between India and other countries of the region. Of course the prospects would be different if Japan were to be associated with such a regional arrangement. But although it would be unfair and undesirable to keep that country entirely out, it is difficult to visualize the form of her association in view of her much higher level of development compared with the rest of the countries.

In addition, as was pointed out in a previous section, the weaker countries would insist on effective transitional arrangements to protect their newly established infant industries. And even a cursory look at developments in the past decade in the ECAFE region brings out that many countries have already established or are well on the way to establishing textiles and light engineering industries. Thus the production of textiles in Indonesia, to take one example, increased from 150 million metres in 1951 to 445 million metres in 1960, and the current eight-year plan of that country (1961-9) gives special attention to the textile and other consumer-goods industries. The same pattern could be observed in other countries of the region too.²¹ If such industries continue to enjoy protection during the transitional period India's immediate export opportunities would not be greatly improved. Besides, if there were to be provisions for a minimum co-ordination of members' investment plans consequent on the formation of a regional union, it might well be that many light industries that have been developed in India in the past decade are equally fit claimants to be established in other countries as well. In many of these industries economies of large scale are not very important, and the requirements of technical skills also are not very severe. Thus other less developed countries of the region may well plead that India, being relatively more advanced industrially, ought to concentrate on more complex products and leave a further development of simpler industries to them. But this would greatly affect India's chances to export more to the other countries of the region for a long time to come. For currently it is precisely the textiles and simpler products of light engineering industries that India is capable of exporting. It is for these reasons that India's export prospects would not be greatly improved for a considerable time to come by the regional arrangements that are now being advocated.

²¹ cf. *The Tenth Annual Report of the Consultative Committee of the Colombo Plan*, H.M.S.O., London, 1962.

It was pointed out above that the basic problem in India's foreign trade is to enable the country to import such types and such amounts of capital equipment and other essential goods as cannot be manufactured locally, in exchange for India's exports. We have also suggested that since such goods are unlikely to be available within the region for a long time to come India's foreign-trade problem cannot be solved within the framework of a regional arrangement. However, the perspective would change if India's agricultural problem should continue to evade a solution so that she would continue to rely on imports of food and raw materials like raw cotton and raw jute to meet her growing requirements. In that case the region's surplus rice, vegetable oils, raw jute, and raw cotton could provide a basis for mutually profitable exchanges, the region's surplus agricultural products being exchanged for India's industrial products. But if India's domestic production of agricultural products proves responsive to the efforts now being made, there will be only limited opportunities for a mutually profitable exchange of Indian products for the region's normal exports. From a purely technical point of view there is no reason why India should not be able to raise her agricultural productivity, although the social organization of the rural economy may prove an important obstacle. Besides, even if India were to remain dependent on agricultural imports, the continued availability of such imports under concessional arrangements like PL 480 would considerably weaken the incentive for India to take part in a regional agreement which covered agricultural products as well. In any case, in the event of continued reliance on larger imports, India's import requirements and therefore exports would have to grow beyond Rs 13,000–14,000 million for 1970, as is now suggested by the Planning Commission. For that estimate rests on the assumption that India will be able to achieve self-sufficiency in foodgrains by the end of the Third Plan. If this expectation were not realized the export earnings, worth Rs 13,000–14,000 million (an underestimate of India's import needs even as they are now), would be grossly inadequate to finance a greatly inflated import bill. The ability to import agricultural products from the region in exchange for India's exports would no doubt be a help in that event, but it would not solve India's basic problem.

What applies to the more ambitious plans for the creation of a common market also applies to such other regional arrangements as a mutual relaxation of quantitative controls on intra-regional trade. India's earlier trade surpluses with the countries of the ECAFE region have largely disappeared and she has been running a trade deficit with the region as a whole for many years. This is brought out in Table XII.3.

Table XII.3 India's Balance of Trade with ECAFE Countries (*In Million Rupees*)

	1956	1957	1958	1959	1960
Burma	45.8	1.1	-380.6	-30.9	-125.7
Ceylon	107.2	112.8	157.2	162.3	145.6
Pakistan	-128.3	-66.3	8.9	8.2	-50.6
Indonesia	59.2	19.0	-4.3	0.0	3.5
Federal Malaya	-39.9	-100.5	-58.0	-56.6	-99.8
Thailand	19.2	30.6	19.9	18.6	17.9
Singapore	-68.8	-35.9	12.4	-14.4	-46.7
Afghanistan	-26.5	-31.2	-17.0	11.5	10.5
Iran	-209.4	-492.4	-271.5	-312.2	-295.6
Total of above	-331.5	-562.8	-533.0	-213.5	-440.8
Japan	-119.3	-270.8	-138.4	-74.7	-199.2

Source: Official Statistics published by DGCI & S.

This shows that even if Japan, with whom India has a persistent trade deficit, is left out India has been running a trade deficit with the above group of countries since 1956. Only with Ceylon has India normally a large favourable balance of trade. She had also a large surplus in her trade with Indonesia during the early fifties but it has more or less completely disappeared in recent years. In such circumstances India's capacity further to liberalize her imports on a reciprocal basis is severely limited, particularly as the region does not produce the type of goods which could be easily fitted into India's plans. Again, things would be different if Japan were to be party to such a regional arrangement. That country is, however, planning to dismantle her system of import controls on a unilateral basis.

This does not mean that the countries of the ECAFE region would not stand to gain by a closer regional co-operation, nor that India should not take any interest in the growth of regional collaboration. While it is true that India, being a much bigger country, can afford much greater autarky without undue cost to herself, this may not be true of the smaller countries of the region, like Burma and Ceylon. And in the long run it is in India's own interests that her neighbours also should enjoy the level of prosperity to which she herself aspires. Once the countries of the ECAFE region develop there will be growing scope for mutually profitable trade between them. In the short run, however, India cannot hope to gain much out of regional co-operation on a grand scale, which in any case seems impracticable in the prevailing circumstances.

But there is no reason why some immediate and practical steps should not be taken to emphasize India's interest in the region's development. Her long-term agreement with Burma for the import of rice is an example that ought to be extended further. Similarly India should express her willingness to import from the other countries of the region such capital goods and industrial raw material as she cannot manufacture herself. This would stimulate their development in the region on a coordinated basis. Besides, there is a strong case for harmonizing the policies of India and Pakistan in respect of jute. The existing capacity of the Indian jute mill industry is sufficient to supply the entire world demand for jute goods. Pakistan is, however, planning to build a sizable jute industry of her own. This can only result in a wasteful competition and will perpetuate idle capacity in the jute goods industries of both countries. It is only by attempting to solve immediate practical problems like those of jute that the spirit of co-operation can grow in a region where past trends have been more towards fragmentation than to co-operation and integration.

XIII

India and the European Common Market¹

A. EUROPEAN INTEGRATION AND UNDER-DEVELOPED COUNTRIES

Western Europe is the largest trading area in the world and it is also the world's second most important source of external assistance—both with capital and technical knowledge—to the under-developed countries. It is therefore natural that these countries should watch the movement towards economic and political integration in Western Europe closely. If they have followed the progress of this movement with some misgivings it is because of uncertainty about the future economic relations of an integrated and therefore much more powerful Europe with the rest of the world. Given a sufficient awareness of the needs of the poorer countries on the part of European nations, economic integration in Europe could work to the benefit of all countries—rich and poor. Thus in so far as integration leads to an acceleration in the rate of economic growth in Western Europe² it will add to Europe's capacity to import and also to render economic assistance to the under-developed countries. In addition, accelerated growth in Europe will provide the right atmosphere for inducing the industrial countries of Europe to modify their industrial structure so as to provide for an increasing volume

¹ Based largely on an article with the same title and published in the *Journal of Common Market Studies*, February 1963. I am grateful to the editor for permission to reproduce the article.

² Of course, not all economists would readily agree that integration must always lead to an acceleration in the pace of economic growth in all the member countries of the common market. For a sceptical view about the effects of European integration on the rate of economic growth among present European Economic Community members, see an article by A. Lamafalussey, 'Europe's Progress: Due to Common Market?', *Lloyd's Bank Review*, October 1961.

of imports of simpler manufactures from developing countries like India: for the social and economic costs involved in a re-allocation of domestic resources in a given country tend to be less keenly felt in a growing economy than in a stagnant one.

If the under-developed countries still fear the consequences of European integration it is because faster growth in Europe is not a sufficient guarantee that they would also benefit from such an arrangement. By now it is a commonplace that in so far as the bulk of exports of the under-developed countries consists of food and raw materials, economic growth in the advanced Western countries is unlikely to lead to a significant rise in the latter's imports from the under-developed countries (except from those that are fortunate enough to export raw materials like oil, the demand for which is expected to grow with the growth of incomes in advanced countries). The reasons for such a development are also well known.³ First, the composition of output in the industrial countries is shifting from those industries that have a high content of imported raw materials to those with a smaller import content. In addition, at a higher stage of economic development, the share of services in the national income also tends to rise. The result is that the import demand of the developed countries will rise less fast than the growth of their national income. Second, many agricultural commodities, traditionally exported from the under-developed countries to the developed countries, tend to have a low income-elasticity of demand at high income levels; so that faster growth in Europe may fail to have any significant beneficial effect on their consumption and therefore imports. Third, in so far as faster growth in Europe is accompanied by an acceleration in the pace of technical progress there may be an increasing tendency for synthetic substitutes to replace natural primary raw materials. Thus to the extent that the technical progress in the developed countries affects their consumption of natural raw materials exported by the under-developed countries, faster growth in Europe may well harm the prospects of economic development in the latter; because a bias in technical progress against natural raw materials is likely to result in sluggish export earnings and a deterioration in the terms of trade of the under-developed countries. Unless, therefore, the industrial countries suitably modify their industrial structure so as to import more of those manufactured goods in which the under-developed countries are likely to have a comparative

³ The various factors at work have been analysed in R. Nurkse's *Patterns of Trade and Development*, Oxford, Blackwell, 1961.

advantage, accelerated growth in Europe is unlikely greatly to benefit the poorer countries; and some of them may suffer in the wake of European integration in so far as the outlook for their exports may become bleaker.

It is generally to be expected that the removal of restrictions on intra-European trade will lead to an improvement in Europe's balance of payments with the rest of the world. On a static plane both the 'trade-creating' and the 'trade-diverting' effects of a customs union⁴ will normally ensure that the demand of European countries for goods from one another will rise faster than their demand for goods from the non-member countries. From a dynamic point of view the faster growth of productivity will further strengthen the competitive ability of European industry in relation to its competitors in the outside world—both in the European market itself and also in world markets outside Europe. In so far as some of the activities carried on in countries of the European Economic Community happen also to be the export products of some under-developed countries, part of the improvement in the European balance of payments will be at the expense of the poor and under-developed countries.

Of course it may be asserted that, since an improvement in Europe's balance of payments will enhance Europe's capacity to render aid to the under-developed countries, any possible loss in export earnings of the latter could be more than compensated by increased economic aid to them. Such a happy result is, however, unlikely to be brought about without a conscious governmental direction of international capital movements. If the triumph of the forces of *laissez-faire* should lead to a complete freedom of international capital movements European investors may find the U.S.A., Canada, Australia, New Zealand, and South Africa offering more attractive investment opportunities than many under-developed countries. As is well known, private foreign investment in the post-war years has largely flown only to such under-developed countries as offer scope for the development of the raw materials needed by the metropolitan countries in increasing quantities (for example oil and mining products).⁵ Unluckily, not all under-developed countries are so favourably endowed as to offer private investors from abroad sufficiently large opportunities in export industries. Furthermore, such difficulties as the lack of a well-developed infra-structure, the relative smallness

⁴ cf. Jacob Viner, *The Customs Union Issue*, New York, 1950.

⁵ See a UN report, *International Flow of Private Capital, 1946-52*, New York, 1954, and subsequent publications in the same series.

of the domestic market offering insufficient opportunities to exploit economies of large scale, and the differences in want patterns between the developed and under-developed countries tend to make production for the local market also an unattractive field for private foreign investors. But, even if European countries were to control international capital movements with a view to assisting the under-developed countries, it is quite possible that those countries that have closer political and economic connexions with European countries may absorb the entire amount earmarked for aid, while those under-developed countries that actually suffer in the process of integration in Europe may receive inadequate attention.

When, therefore, countries like India feel apprehensive it is not because they are fundamentally opposed to the idea of European integration, but because they feel that certain aspects of the arrangements for European integration suggest an inadequate appreciation of the need of developing countries like India for higher export earnings for financing their development plans. These fears are not entirely imaginary but are based on India's experience in the last decade. During the past few years India has received large amounts of foreign aid from the U.S.A. and countries of Western Europe. While India is grateful for this aid the policies pursued by some countries in Western Europe, particularly some of the present members of the European Economic Community, have at least partially nullified the beneficial impact of this aid on India's economy by their continued insistence on imposing stringent import restrictions on some of India's most important export commodities. Of course one may take the view that in so far as the common external tariff of the Common Market is an arithmetical average of the existing separate tariffs of the individual members it creates no new barriers for India's exports. Even if one accepts the logic of this conclusion (and it is open to objections) the very fact that the common external tariff of the European Economic Community sets its seal of approval on the existing high tariff barriers to some of her principal exports must cause anxiety in India. It is also true that there is no rigid commitment on the part of European countries to remove their stringent import restrictions on Indian goods.

B. INDIA'S BALANCE-OF-PAYMENTS PROBLEM

To see the force of India's fears and objections one has to look at the severity of her balance-of-payments difficulties. As was pointed out in Chapter I, since 1951 India has been faced with an increasing gap between her import

capacity as measured by the trend in her export earnings and her import needs as determined by the character of her development plans. Thus whereas during the First Five-Year Plan export earnings financed 83.4 per cent of imports, during the Second Plan they financed only 56.2 per cent of imports. And according to official calculations, during the Third-Plan period also, export earnings will be able to finance only 58.3 per cent of India's total imports.⁶

The growing deficits in India's trade balance have had to be financed first by a large-scale withdrawal from foreign exchange reserves accumulated during the Second World War; and second by the receipt of massive foreign aid from international agencies and friendly foreign governments. In spite of this aid stringent import controls have had to be imposed which, by reducing imports to the bare essentials, have created a widespread under-utilization of the available industrial capacity. The foreign exchange reserves of the country having been nearly exhausted, the Indian economy now faces a dismal prospect: even a minor dip in export earnings or a short fall in the expected amount of foreign aid can induce a magnified cut in industrial production and employment. The task of increasing India's export earnings here and now, therefore, assumes a new urgency.

A further consideration is that, although India cannot do without foreign aid for many years to come, there is often a great uncertainty both regarding the magnitude of the aid that may be available and also about the terms on which it may be forthcoming. The Third Five-Year Plan (1961-5) has therefore been formulated on an assumption that action should be taken now so as to reduce India's dependence on foreign aid progressively, and the objective is that by 1970 the economy should become 'self-sustained'; this implies that India should be able to balance her foreign exchange budget without external assistance outside the normal inflow of foreign capital. The realization of the objective of 'self-sustained' growth by 1970 is in turn crucially dependent on a massive increase in India's export earnings over the present decade.⁷ A minimum export target of Rs 15,000 million by 1970 seems to be an essential condition of self-sustained growth. This would involve well over 100 per cent rise in India's export earnings over the present decade. A doubling of export earnings over a decade is not an easy task. It requires

⁶ *India's Third Five-Year Plan*, Government of India document, New Delhi, 1961, p. 133.

⁷ See Chapter X.

that India should exert herself to the utmost to exploit the available export potential of her traditional exports—primary as well as manufactured goods. It is with this end in view that cotton and jute textile industries are being fast modernized and efforts are being made to raise the output of such primary export products as tobacco, vegetable oilseeds, and coffee. Nevertheless, it is obvious that India's traditional exports offer only a limited export potential. Jute textiles, tea, and cotton textiles account for nearly 50 per cent of India's total export earnings. As was pointed out previously, in none of these commodities are the prospects of any significant growth in world trade very bright.⁸ The moral is that if India is to increase her export earnings significantly not only must she fully exploit the opportunities offered by her existing exports but she must also develop many new lines of export consisting of manufactured products.

It is against the above background that one ought to examine the role of the European Common Market in India's fight against her grim poverty and stagnation. That the European Economic Community has a special role to play in the solution of India's balance-of-payment difficulties should be obvious from the fact that her trade balance with the six present members of the European Economic Community shows persistent and growing deficits. In 1955 India imported goods worth Rs 1,097 million from the Six, while her exports to them were Rs 575 million. In 1960, while India's imports from them went up to Rs 1,840 million, her exports to the Six fell to Rs 488 million.⁹

C. THE EUROPEAN COMMON MARKET AND INDIA'S EXPORT PROSPECTS

The establishment of the European Common Market may affect India's exports in three ways: first, the adoption of a common external tariff and the abolition of all restrictions on intra-European trade will place India at a relative disadvantage as compared with a member country in competing for the European market. Second, the preferential treatment accorded to imports

⁸ But the prospects of world trade in cotton and jute textiles would considerably brighten up if European countries were greatly to liberalize their import trade in these commodities.

⁹ Based on statistics published by the Director-General of Commercial Intelligence and Statistics, Calcutta.

from the associated overseas territories will also work to India's disadvantage. Third, if Britain joins the Common Market the loss of Commonwealth Preferences and the resulting discrimination against Indian goods will not only affect India's chances of increasing her export earnings but may also result in a reduction of her present export receipts. Thus the policies of the European Economic Community are capable of frustrating India's attempts at increasing her export receipts, from primary as well as manufactured products.

1. Primary Exports

Tea, tobacco, vegetable oils, hides and skins (tanned) and coffee are some of the important primary products whose exports from India could be affected by the emergence of the European Economic Community in its present form. Together these commodities accounted for about 32 per cent of India's total export earnings in the late fifties.

a. Tea

Tea accounts for nearly 20 per cent of India's export earnings. The six present members of the EEC are not very important consumers of tea. During 1958-60 their average annual net import of tea was only 19,000 tons while the corresponding figure for the U.K. was 232,300 tons. Tea is not grown in Europe and the present African Associates of the EEC also produce only insignificant quantities of tea. The former Belgian Congo is the only producer worth mentioning and her production at present is only about 4,000 tons a year. Thus the Community's existing common external tariff of 18 per cent and the preferential treatment of imports from the African Associates could hardly make any significant difference to India's export prospects for some time to come.¹⁰ However, in the long run these arrangements must give an

¹⁰ These prospects would have become less bright if, consequent on Britain's entry into the EEC, the present duty-free imports into the U.K. from India and Ceylon were to be subjected to the Common External Tariff, and if in addition countries of British East Africa were to accept the status of Associates. However, since the Six had agreed to Britain's request for a nil common external tariff on tea in an enlarged European Community, India's exports would not suffer consequent on Britain's entry into the EEC. This was a welcome development but it is necessary to place this concession in its proper perspective. At high income levels

added stimulus to African production and to that extent they will damage the export prospects of Asian countries. Therefore, from their point of view the recent bilateral agreement between Britain and the Six to suspend simultaneously their tariffs on bulk tea for two years beginning 1 January, 1964, is a welcome development and it is to be greatly hoped that this arrangement would be made permanent.¹¹

b. Tobacco

Tobacco accounts for over 2 per cent of India's annual export earnings. The bulk of India's exports of unmanufactured tobacco is directed to Western Europe. These exports are likely to be affected by the Common External Tariff of the EEC. In the Common Market Italy and Greece are net exporters; France and West Germany are significant producers; and in due course

tea tends to have a negligible price-elasticity of demand, so that the consumption of tea in the U.K. would not suffer even if the import of tea were subject to a duty of 18 per cent. By the same logic the abolition of import duties on tea by the Six would not have led to any significant rise in their consumption and therefore imports of tea: even with the existing import duties tea is still the cheapest beverage, and in any case at high income levels, habit rather than income and prices is the major determinant of the consumption of a beverage. Kenya, Uganda, and Tanganyika are important producers of tea in Africa and, if they were to accept the status of Associates, India's export to the EEC would be at a relative disadvantage. However, African exports are still very small (35,000 tons a year), and Africa being a relatively low-cost producer, physical limitations would be the most important determinant of the future growth of production and exports, even in the absence of protection offered by the common external tariff of the EEC. In any case African countries are reluctant to accept the status of Associates. This means that the Community's willingness to abolish its tariff on tea was not such a big concession to India as was sometimes made out. This conclusion applies equally to the recent agreement between Britain and the Six under which the latter have agreed to suspend the common external tariff on tea for a period of two years starting 1 January, 1964.

¹¹ Under this agreement the existing import duty of twopence per pound on non-Commonwealth tea imported into Britain would be abolished. The loss of Commonwealth preference will not affect India's exports to the U.K. since the bulk of world tea exports is accounted for by the Commonwealth countries. However, the above conclusion will be less valid if Indonesian or Chinese exports were to grow in the future.

Turkey, another net exporter, will also probably get the status of an Associate. Imports from India into the EEC, which will be subject to an import duty of well over 30 per cent, will, therefore, be greatly handicapped. It is all the more unfortunate because India has been making special efforts in the last few years to grow tobacco specially suited to West German tastes. All these efforts will now prove fruitless. As both the U.S.A. and the Sino-Soviet area are net exporters of tobacco India could increase her export earnings from tobacco only by exporting more to Western Europe. This will now become increasingly difficult.

One may take the view that since India's exports consist largely of the Virginia, flue-cured variety, which is not extensively grown in Europe or in African Associated countries of the EEC, consumer tastes would protect the present Indian markets in Western Europe. This may be true in the short run. But considering that European tobacco, not having to pay an import duty of 30 per cent, will be cheaper than imported tobacco, consumer tastes may be modified in the long run. Besides, African Associates of the EEC may well increasingly take to the cultivation of the Virginia variety in the future, though the immediate prospects are not good. Furthermore, if the Federation of Rhodesia and Nyasaland, a very important exporter of the Virginia variety, were to get the status of an Associate consequent on Britain's future entry into the EEC, India's export prospects in tobacco would indeed be very dismal.

c. Vegetable Oils

Western Europe accounts for over 70 per cent of world net imports of vegetable oilseeds and oils. The present structure of the Common External Tariff of the Community is such that while oilseeds will generally enter the EEC free of import duty, vegetable oils will be subject to varying import duties whose incidence will generally increase with the extent of processing undergone by an oil. Thus the Community's Common External Tariff would discriminate against the development of even the simplest processing industries in the under-developed countries. Presumably the authors of the Treaty of Rome were out of sympathy with a keenly felt desire in many under-developed countries to alter the composition of their exports to include more of processed articles. They still visualized the exchange of crude raw materials from the under-developed countries with the manufactured products of the developed countries as the only natural basis of mutually profitable international exchange. Therefore the treatment accorded to imports of the

simplest processed articles like vegetable oils into the EEC is bound to encourage the suspicion of under-developed countries that the EEC policies may militate against the industrialization of poorer countries. As is well known, France has actively discouraged the growth of an oilseeds-crushing industry even in its own colonies. For example Senegal's efforts to crush increasing quantities of her groundnut crop have in the past been frustrated by French import restrictions on groundnut oil.

In the last few years India has been making special efforts to increase her export of groundnut oil by encouraging the cultivation of groundnuts; and also by inducing the Indian industry to use more cottonseed oil in lieu of groundnut oil, so as to release the latter for export. The EEC's Common External Tariff of 10 per cent on crude groundnut oil and 15 per cent on the refined groundnut oil will lead to a considerable discrimination against Indian exports to the Community. Of course India's exports to the EEC will not be severely handicapped in the short run. The immediate prospects of a rapid growth in production of groundnuts in the Associated countries are not very good as nearly all the suitable land for the cultivation of groundnuts has already been brought under cultivation. But in the long run these limitations could be overcome, and to that extent India's exports would be handicapped.

d. Coffee

Under the Treaty of Rome the Community's Common External Tariff was fixed at 16 per cent. It is now proposed to reduce it to 9.6 per cent. This would reduce the element of discrimination in favour of African Associates. Nevertheless, the production of coffee in the Associated countries may still expand, particularly if the production subsidies are not eliminated at an early date. When other under-developed countries express concern at the preferential treatment accorded by the EEC to imports from its Associates it is not that they are opposed to the economic development of the latter. But it is well known that but for large subsidies provided in the past by French consumers, the production of many agricultural crops (especially coffee and bananas) in the Associated countries would be clearly uneconomic—their production costs being above prices ruling in the world markets. While this artificial stimulus to further production acts to the relative disadvantage of other under-developed countries producing the competing crops, and will further add to the downward pressures in world markets for commodities like coffee, it is by no means obvious that the system works necessarily to the

long-run advantage of the Associates themselves. Although they gain in the short run their already excessive dependence on a single-crop economy will be further increased. It is therefore encouraging to note that the new Association convention aims at eliminating ultimately the subsidies to production so as to provide increasing amounts of aid in the form of general-purposes development aid. Nevertheless, even in the new Association convention, out of the total promised aid to the Associates of \$780 million over a period of five years, \$200 million are to be used as subsidies to help uncompetitive growers.

2. Manufactured Products

Nearly 50 per cent of India's exports already consist of manufactured goods and it is on the successful development of new manufactured exports on a large scale that the future of India's balance of payments is greatly dependent. As the GATT Declaration on Promotion of Trade of the less-developed countries adopted by the contracting parties in 1961 explicitly recognized, 'If the needs of the less-developed countries for enlarged and diversified export trade are to be met, these countries must develop trade in other than traditional products'.¹² Of course a part of the new manufactured exports from countries like India will find their markets in the neighbouring under-developed countries, but as the GATT Declaration pointed out, 'The governments of the major industrialized areas, on whose markets the less-developed countries must necessarily largely depend, recognize a particular responsibility in this respect'.¹³

On this matter the past record of the present members of the EEC is far from encouraging. Despite their growing prosperity and the strength of their balance of payments, countries like France and West Germany still greatly restrict, through tariffs and import quotas, the import of some of India's major industrial exports, like cotton and jute textiles. The total import quota of the six countries of the EEC for the Far Eastern cotton fabrics was only about 6,000 tons in 1960 (as against their total imports of cotton fabrics of 69,100 tons in 1960). Similarly, most of the present members of the EEC heavily protect their jute industries by imposing high tariffs and import quotas on Indian jute goods. Thus France and Italy allow practically no

¹² GATT: *Proceedings of the Meetings of Ministers*, 27-30 November, 1961, Geneva, 1962, pp. 221-24.

¹³ *Op. cit.*

imports of jute goods from India, while Western Germany allows only a small import quota. No wonder that the EEC is a net exporter of jute textiles. Similarly, exports of such simple manufactures as sewing machines, toys, table ware, and coir goods are also subject to import controls in countries like Western Germany.

It is hard to find a satisfactory justification of such severe import restrictions on Indian goods in the EEC countries. Import controls on Indian goods in Western Europe can hardly be justified for balance-of-payments reasons. Most countries of the EEC have greatly strengthened their balance of payments in the last decade, and in any case they have persistent trade surpluses with India. The only argument that is usually advanced in favour of these restrictions is that imports from low-wage countries are in an 'abnormal' category, and should not be allowed to disrupt European markets. But even an elementary understanding of the principle of comparative costs, on which generations of students in the advanced countries have been trained, would show that differences in factor endowments and therefore in factor prices are an essential condition of a mutually profitable flow of international trade between different countries.

Of course one can readily appreciate that too sudden and sharp a liberalization of imports may impose unduly severe hardships on those engaged in these activities in the EEC. Yet it is not true that this transitional adjustment need be so severe as to block the liberalization of imports altogether. After all, the cotton industry in the EEC countries employs only a very small fraction of the total workers engaged in manufacture in these countries. On average, in France 2.6 per cent of the total workers (wage and salary) in manufacture were employed in the cotton industry in 1959-60. The corresponding figures for other countries of the EEC were: Netherlands, 4.4 per cent (including man-made fibres); Italy, 4.4 per cent; Western Germany, 2.3 per cent; and Benelux countries, 1.5 per cent (only cotton spinning).¹⁴ Furthermore, as the bulk of Indian and Pakistani output of cotton textiles consists of coarse varieties there would be ample scope for the European cotton industry even after a considerable liberalization of imports by the EEC countries. Besides, even if the liberalization of imports should

¹⁴ Employment figures for manufacturing industry as a whole have been taken from OECD, *Manpower Statistics, 1950-60*, Paris, 1961. The corresponding figures for the cotton industry have been taken from OECD, *The Textile Industry in Europe, 1960-1*, Paris, 1962.

cause some unemployment, it should not be difficult to absorb the unemployed into other occupations, in view of the expected shortage of man-power in Western Europe. Yet the last decade did not witness any liberalization of imports from India in the EEC countries.¹⁵ As for jute textiles, even the employment argument looks extremely weak: in no European country does the jute industry employ more than a few thousand men. For example, in the mid-fifties the jute industry in Western Germany employed 12,314 workers, that in Belgium 7,533, in France 12,769 and in Italy 10,300.¹⁶

The Common External Tariff of the EEC puts its seal of approval on the present high tariff walls on cotton and jute textiles in the member countries. Thus jute manufactures will pay an import duty of 23 per cent on entry into the EEC, while cotton fabrics will be subject to an import duty of 18 per cent. Besides, there is no hope that the present stringent quota restrictions on these goods will be removed in the near future. While the Treaty of Rome lays down a strict time-table for the elimination of the remaining quantitative restrictions on intra-European trade, there is no rigid commitment regarding the removal of quantitative restrictions on imports from the non-members. The proposals now being canvassed by European cotton and jute industries in respect of future quota restrictions in the EEC countries are already causing serious concern in India. For example, the West German textile industry has proposed, with the support of textile industries in the other EEC countries, that global EEC quotas equivalent to 1 per cent of EEC production should be applied to the import of textiles from 'abnormal' countries (meaning low-wage countries and Eastern Europe), with additional imports admitted only for re-export to countries outside the EEC. The French jute industry goes even further: it has suggested that global quotas for the import of jute goods from Asian countries should also apply to imports meant to be re-exported from the EEC. The pursuit of liberal import policies with regard to jute and cotton textiles by the EEC could greatly alter the export prospects now facing India and Pakistan. Unfortunately, so far there is no firm evidence that the EEC countries are planning for such a liberalization.

¹⁵ However, under the Geneva Textile Agreement which came into force in 1962 they have promised to increase their import quotas of cotton textiles from the Far East progressively, from about 6,000 tons in 1960 to about 12,000 tons over a period of five years.

¹⁶ See OEEC, *The Textile Industry in Europe*, Paris, 1955, p. 95.

In addition to her traditional exports of manufactured goods (textiles) India is greatly hoping to increase her export earnings from the products of her new manufacturing industries. But the treatment accorded to imports from Japan in Western Europe and the continued severity of import restrictions in the EEC countries on India's existing manufactured exports suggest that the Common Market is unlikely to offer much scope for expanding India's exports of industrial products. Besides, the close economic and political links between the Common Market and the Associated countries will further militate against increased exports of simpler manufactures from India to countries of Africa. Theoretically the Associates are free to manage their own political and economic affairs. But it is a well-known fact that most countries in the formerly French parts of Africa are even now not free to follow independent fiscal and balance-of-payments policies. Thus their common monetary unit of account, the centralization resulting from the existence of three French controlled banks of issue, their membership of the Franc Area, and their dependence on France for covering their budget deficits form a very strong link between the former French colonies and France, and greatly reduce their ability to pursue their own independent economic policies. Their association with the Common Market will further strengthen the economic hold of European exporters on their markets, to the obvious disadvantage of other exporters outside the EEC.

Of course, the EEC is an evolving entity and it is still not too late for the Community to allay the fears of poorer countries like India. Since the Six were a party to the GATT Declaration of 1961 it was felt that they had now a better appreciation of the needs of the under-developed countries than at the time when the Treaty of Rome was first drafted. However, the terms offered to India and Pakistan in the course of Britain's negotiations for entry into the EEC suggest that such hopes were premature. At present Indian exports of cotton textiles enjoy a preference of 17.5 per cent in the U.K. and the latter has in recent years become the largest market for Indian cotton fabrics, accounting for over 20 per cent of India's total exports. Therefore the disappearance of the present margin of preference and the imposition of the EEC's Common External Tariff of 18 per cent on Indian exports of cotton textiles to the U.K. was bound to affect India's export earnings severely. To guard against such a possibility the provisional agreement did provide for remedial action whenever exports of cotton textiles from India or Pakistan to the enlarged Community declined below an agreed minimum as a result of the application of the Common External Tariff by Britain. Yet this agreed

floor was no higher than the average of Indian and Pakistani exports in 1959 and 1960 (29,000 tons in the case of India and 4,300 tons in the case of Pakistan). In view of India's urgent need for expanding export revenue the offer to maintain the volume of Indian exports of cotton textiles at their present level could hardly be considered a generous response by the Six. Indeed, apart from this commitment the whole emphasis of the provisional agreement was to prevent Indian textile exports to Europe from rising. Thus the proposed time-table for the adjustment of British tariffs to the Common External Tariffs of the EEC was much stricter for cotton textiles than for other goods imported into the U.K. from India and Pakistan. The reason for this stricter time-table for cotton textiles was that the Six feared that too large a tariff discrepancy between them on the one hand and Britain on the other could lead to a situation where it would become commercially more attractive to import Indian textiles into the Six via Britain. This danger was considered by the Six to be much smaller for other goods where the quantities involved were not very large, so that they could afford to be magnanimous.

Speaking in the House of Commons on 7 November 1962 the former Lord Privy Seal, Mr Heath, referred to the Six's solemn promise to India and Pakistan to 'develop mutual trade for the purpose of maintaining and as much as possible increasing the level of foreign currency receipts of those countries, and in general facilitating the implementation of their development plans'.¹⁷ The offer of comprehensive trade agreements by the end of 1966 was considered a step in that direction. However, this offer was not unconditional and was made in the context of Britain's entry into the EEC. Now that the negotiations for Britain's entry have been broken off, presumably the offer no longer stands. Even if it did, judging by the terms of the provisional agreement, the prospects for a significant growth of Indian exports to Europe were not very good. The provisional agreement which was to safeguard India's interests until the comprehensive trade agreement was negotiated did not contain even the obligation to maintain India's over-all export earnings consequent on Britain's entry into the EEC. The only firm commitment was to maintain the volume of textile imports from India to the enlarged Community at the 1959-60 level. However, it was likely that as a result of the application by Britain of the Common External Tariff, India's exports of coir manufactures, tanned hides, hand-knitted carpets, &c., would also suffer. But of the nil

¹⁷ See the Weekly *Hansard* for 7 November, 1962, Col. 986.

tariff items requested for India and Pakistan the Six agreed only to import polo and cricket equipment free of duty.

India can only hope that the Six will reiterate their desire to negotiate a comprehensive trade agreement with her and that when the time comes they will show a much greater awareness of her urgent need for rising export earnings.¹⁸ Without a significant rise in her export earnings India's capacity to carry out a programme of rapid economic growth will no doubt be greatly affected. But without a generous European liberalization of imports of those commodities that are of direct concern to India the latter's capacity to repay the massive foreign loans now being granted to her will also be in serious doubt; and if India's failure to honour her debt obligations should administer a severe jolt to international confidence the blame must largely rest with the industrial countries.

¹⁸ On 2 December, 1963 the Council of Ministers of the EEC announced a number of tariff concessions to promote India's exports to the EEC. Thus from 1 January, 1964 the EEC import duties on some spices, certain oils and hockey and cricket equipment will be totally suspended for a period of two years. Simultaneously, the Common External Tariff on cashew kernels will be suspended at 2.5 per cent while that on castor oil will be reduced from 8 to 7 per cent. However, the commodities benefiting from these concessions account for only 3-4 per cent of India's total exports to the Six. Besides, the way the EEC Council succumbed to the pressure of Madagascar in modifying its earlier proposal for a total suspension of the Common External Tariff of 5 per cent on cashew kernels is unlikely to help in allaying fears of countries like India about the trade intentions of the Six. However, the present concessions are only the first of a series and further concessions have been promised at a later stage.

XIV

The Exchange Value of the Rupee

A. INTRODUCTORY

One of the assumptions underlying our export projections for 1970, as given in Chapter X, was that India would take all necessary measures to ensure that in those commodities of which she is a major exporter in the world a further fall in her relative share of world trade would be avoided; and also that in those commodities of which India is only a small exporter a progressive rise in her relative share would be made possible. The problem of ensuring that Indian export products are fully competitive with those of other countries is not entirely a matter of prices. In the modern world international trade is not a simple arbitrage operation between prices of the same things in different centres. Prices apart, styling, salesmanship and after-sales services are also important, especially in manufactured goods. But there is no doubt that prices are also an important element in a competitive strategy. In the present chapter we shall consider whether a change in the exchange value of the rupee ought to form part of the armoury of economic policies designed to bring about the above results.

That India is suffering from chronic balance-of-payments difficulties does imply that the rupee is in some sense overvalued. But that does not by itself establish that it should be devalued. For that we shall have to consider all the possible effects of devaluation on the economy, and whether there are any better alternatives available to remove the deficit in the country's balance of payments. We shall have to discuss whether a practicable new equilibrium rate exists. Our approach to the equilibrium rate must also be influenced by such things as the measure of the deficit that is sought to be cured, whether equilibrium is to be restored with or without import controls, and the date by which the deficit is to be completely eliminated. The following section of this chapter is therefore devoted to a discussion of these preliminary issues.

B. THE CONCEPT OF A BALANCE-OF-PAYMENTS DISEQUILIBRIUM

1. The Attitude to External Assistance

The aim of economic policy in the present case is to correct the disequilibrium in the balance of payments. But what exactly is the measure of this disequilibrium? First there is the role of external assistance to be considered.

Professor Meade defines an actual surplus or a deficit in the balance of payments by looking at what he calls the balance of autonomous transactions and transfers—the distinguishing feature of the autonomous transactions being that they take place regardless of the size of other items in the balance of payments. On the other hand the accommodating transactions take place only because other items in the balance of payments are such as to leave a gap of this size to be filled.¹ One naturally asks: In what category do we place external assistance being received by India from foreign Governments? Professor Meade classifies the assistance received by one Government from another as an instance of accommodating receipts. He recognizes however, that since aid may be received both as a balance-of-payments support, and also for raising the investment effort in the recipient country beyond a level permitted by her domestic savings, in practice such aid is often an intermediate case.² The policy problem here is that the classification of aid greatly affects the size of the deficit, and therefore the rigour of the economic policies adopted to remove such a deficit.

Perhaps the best way out is to look at the attitude of a country receiving such aid. If a country is able and willing to go on receiving such aid for a considerable time to come, without trying to take steps to avoid the necessity for it, aid must then be classified as a normal receipt.³ The country's attitude will be determined by such things as the terms on which this aid is available and the degree of certainty that such aid will be forthcoming in the future. Since there is a great deal of uncertainty both about the terms and the availability of aid, a country may be planning to get aid from abroad for a number of years and at the same time she may be adopting measures which will ultimately remove the necessity for it. This means that though that

¹ J. E. Meade, *The Balance of Payments*, London, 1951, p. 11.

² *Ibid.*, p. 12.

³ R. F. Kahn, 'Dollar Shortage and Devaluation', *Economia Internazionale*, 1950 (vol. 3, no. 1), pp. 78-90.

country is prepared to use aid as long as it is available, for the purposes of future economic policy aid is to be regarded as an accommodating transaction which ought to be dispensed with as soon as possible.

India's Third Five-Year Plan has been formulated on the basis that 'it would be advantageous from the point of view of the recipient country as well as the donor countries to plan for substantial amounts of external assistance for a relatively short period rather than to proceed in terms of varying and uncertain amounts of assistance'.⁴ To that end 'development effort over the Third and Fourth Plans has to concentrate on expansion of capital goods and machine building industries on a scale that would enable the country to build up in this period sufficient capacity to produce domestically the bulk of capital goods and machinery that it will require in subsequent periods for supporting high levels of investment'.⁵ The moral is that efforts must be made now to initiate a process which would gather momentum over time so as progressively to reduce and ultimately eliminate the country's dependence on foreign aid.

2. The Speed of the Adjustment Process

The economic strategy devised to eliminate the dependence on foreign aid is also influenced by the needed speed of the adjustment process. Thus the dependence on external assistance in India is not to be immediately removed, for it is only by the end of the Fourth Plan (1970) that the planners hope that 'the economy will be strong enough to develop at a satisfactory pace without being dependent on external assistance'. This means that what we are called upon to do is not to take drastic measures to bridge the balance-of-payments gap, but rather to eliminate it by stages spread over a decade. This is indeed fortunate, for, as Professor Meade⁶ has emphasized, price adjustments, such as exchange depreciation or a cut in money wages, work best if they are not too sharp. For while rapid price adjustments may be impossible the same adjustments spread over a longer period may be quite feasible.

3. Equilibrium and the Rate of Growth

We have so far been concerned with the measuring of an actual deficit or surplus in the balance of payments. But it may be that a much larger

⁴ *The Third Five-Year Plan*, New Delhi, 1961, p. 107.

⁵ *Ibid.*, p. 107.

⁶ J. E. Meade, *The Balance of Payments*, London, 1951, p. 209.

potential deficit has been suppressed by a domestic deflationary policy or by a rigorous system of import controls. It is this potential deficit which according to Professor Meade is the proper measure of a balance-of-payments disequilibrium.⁷ Various writers on the subject are agreed that a sacrifice of full employment or the existence of import controls is not compatible with full equilibrium in the balance of payments. Thus in his article on the dollar problem Professor R. F. Kahn defines a disequilibrium in the balance of payments of a country as being expressed by the degree of deviation on her part from the position 'in which she would be in balance-of-payments equilibrium while admitting imports freely under free-trade conditions and while enjoying reasonably full employment'.⁸ Sir Donald Macdougall, in his discussion of the dollar problem, is also emphatic that the balance must be achieved 'without the aid of discriminatory restrictions on dollar expenditure, or all-round restrictions on trade that would be removed if the foreign exchange situation permitted; and it must not be achieved at a high cost to employment or economic growth'.⁹

The concept of full employment is hard to define unambiguously even in an advanced industrial economy. It becomes all the more difficult to give it any precise meaning in the context of an over-populated, subsistence type of agrarian economy where unemployment is more disguised than open. Besides, the problem of unemployment faced by such an economy is different from the Keynesian type of unemployment which is usually associated with the developed countries. The solution of the problem in an under-developed country presupposes a programme of capital accumulation over a long period. As such, the best approach would be to specify a rate of growth in real income that is widely accepted as a realistic goal of economic policy, just as full employment is in the advanced capitalist countries. In the Indian context a minimum annual rate of growth in real income of 5 per cent is a major economic objective. We may therefore conclude that the balance-of-payments equilibrium in India must be consistent with the maintenance of a sustained rate of growth in output of at least 5 per cent per annum.

⁷ Meade, *op. cit.*, p. 14.

⁸ R. F. Kahn, 'The Dollar Shortage and Devaluation', *Economia Internazionale*, 1950 (vol. 3, no. 1), p. 90.

⁹ *The World Dollar Problem*, London, Macmillan, 1957, p. 11.

4. The Role of Import Controls

The extent of the suggested variation in the exchange value of the rupee may also depend on our attitude to import controls. The present position of India's balance of payments is such that while import controls have severely reduced imports to bare essentials,¹⁰ export earnings are not enough to finance even this import bill. The volume of essential imports in turn is fixed by the structure of the Five-Year Plan, and cannot be reduced if the plan is to be fully implemented. In other words, essential imports, as determined by the structure of the plan, have a zero elasticity of demand. In these circumstances the only hope of an improvement in the balance of payments rests on the possibility of increasing export earnings by an exchange depreciation. But what is to happen to import controls in the process of depreciation? On the one hand one may take the view that we ought to retain import controls in their present intensity, so as to keep out all non-essential imports; and devalue only to the extent necessary to raise export earnings to finance all essential imports. On the other hand one may think, in the way, for example, the issue is usually discussed in economic theory, that we ought to devalue to such an extent as to eliminate the entire excess demand for foreign exchange, actual as well as that which at present is suppressed by import controls, so that we can restore the equilibrium without import controls. If the suggested rates of devaluation in the two cases differ we are faced with the problem of choice.

Of course, the problem is simple if the same rate of depreciation as raises export earnings to a level to finance all essential imports reduces simultaneously the demand for imports so as to eliminate the entire excess demand for imports. In this case one can devalue and also abolish import controls if the composition of imports is a matter of indifference.¹¹ This of course assumes a highly favourable elasticity of demand for imports. However, in an economy

¹⁰ The word 'essential' does not imply any value judgement on our part. It merely means that such imports are necessary to achieve the targets of the Five-Year Plan.

¹¹ That means that if we assume that all imports serve the same purpose they can be treated as homogeneous. In that case the distinction between essential and non-essential imports is solely quantitative. Thus if the achievement of the planned targets of the Five-Year Plan requires 100 machines to be imported while actually the import demand is for 110 machines, then the last ten are not essential. If, however, the composition of imports is a matter of concern, i.e. some types of machines are more important than others, then there may still be a case for import controls.

where investment is greatly dependent on the availability of imported equipment, and at least some consumers' durables are a symbol of social status, it is highly likely that the demand curve for imports in the absence of import controls will lie uniformly to the right of the restricted and totally inelastic demand curve for essential imports under import controls. This means that an exchange depreciation that will raise export earnings to finance all essential imports will normally still leave some excess demand for imports. If this is so, then a secondary depreciation is called for in order to reduce further the demand for imports. The alternative to this secondary devaluation is the continued imposition of import controls so as to cut imports to the level of essential imports. If export earnings remain constant at the level to which they rose as a result of the primary devaluation, foreign payments are in this latter case balanced without a secondary depreciation. How do we choose between the two solutions, one involving higher depreciation but no controls, and the other involving a smaller depreciation but import controls to eliminate all non-essential imports?

Broadly speaking our view is that an attempt to restore equilibrium without import controls will involve an unnecessary loss on the terms of trade,¹² in so far as the equilibrium will normally have to be restored at a

¹² If we assume that devaluation will usually involve some loss on terms of trade then it follows that a larger devaluation will involve a greater loss on terms of trade. It is of course a much debated question in economics whether devaluation must lead to a deterioration in the terms of trade. A great majority of economists would agree that this must be so in most cases. Thus according to Mrs. Robinson a devaluation is most likely to lead to a deterioration in the terms of trade because a country is normally more specialized in its exports than its imports. (See her 'Beggars my neighbour Policies' in *Essays in the Theory of Employment*, Oxford, Blackwell, 1947, p. 163.) S. A. Alexander (cf. his article 'Effects of a Devaluation on a Trade Balance', *I.M.F. Staff Papers*, vol. 2, p. 268) takes the same view. Dr. Balogh (in his *Dollar Problem*, Oxford, 1949) also concludes that a devaluation must lead to a deterioration in terms of trade. Professor Meade also takes the view that normally devaluation will lead to a deterioration in the terms of trade. (See his *Balance of Payments*, London, 1951, pp. 235-50.) More recently Professor I. E. Pearce has argued that there is no logical necessity for the terms of trade to deteriorate in the wake of a devaluation. He points out that basically it is a cut in real spending rather than a deterioration in terms of trade which holds the key to an improvement in the balance of payments. See his article, 'The Problem of the Balance of Payments', *International Economic Review*, September 1961.

higher volume of exports and imports than if import controls were used to reduce the demand for imports (to include only such imports as are necessary for the achievement of the targets of the Five-Year Plan). Besides, import controls in India involve other important issues as well, so that even if they do not lead to better terms of trade (as opposed to a thoroughgoing devaluation) it does not follow that they can be easily dispensed with. They enable the Government to determine not only the level of private investment but also its composition. This is because investment in most cases is dependent on the availability of imported equipment. There is no presumption that the complete restoration of price mechanism in the allocation of foreign exchange will bring about a correct division of imports between consumer goods and investment goods, or between various categories of investment goods, in accordance with the priorities laid down in the Five-Year Plan. If the resulting composition of imports is such that the programme of planned investment cannot be carried out because of an insufficient supply of foreign exchange for the import of equipment,¹³ a complete abolition of import controls, whatever its other consequences, may severely affect the rate of capital formation in the economy. To ask for a complete restoration of the price mechanism in the allocation of foreign exchange amounts to arguing that the rate of investment and its composition may be left to the market forces. It is of course not possible by objective analysis alone to prove that the resulting decisions brought about by a freer play of market forces will be 'inferior' to the priorities laid down by planners in New Delhi. But if this should affect the success of the plan as laid down by planners, they have enough justification in hesitating to abolish import controls.

Thus our approach towards devaluation is not guided by a quest for an equilibrium rate of exchange as usually understood. The disequilibrium in the balance of payments is to be eliminated not immediately but over a number of years. The ultimate equilibrium must be consistent with the requirements of an economic growth of at least 5 per cent per annum. Import controls can be retained to keep out inessential imports but they must not be allowed to impinge on essential imports of capital goods, industrial raw materials, and consumer goods, such as are needed for the fulfilment of the Five-Year Plans. As operated at present, import controls in India are so stringent as to involve a considerable under-utilization of even the available capacity in the industrial sector. Therefore while controls can be retained it is hardly possible to reduce

¹³ If, for example, private importers have imported too many consumer goods.

imports any further without causing a serious loss on realized income. In time even the requirements of essential imports are bound to rise. Yet a relaxation of import controls must await a prior improvement in the export receipts. The object of our enquiry is then to study the effects of devaluation on the value of India's exports, and to see whether this would enable the country to earn progressively larger amounts of foreign exchange to finance a growing volume of essential imports.

C. DEVALUATION AND EXPORT EARNINGS

1. The Initial Effects

The initial stimulus to exports provided by devaluation will vary from one commodity to another. Broadly speaking commodities can be classified into three groups. First, there may be some commodities whose export prices in terms of local currency remain constant even after devaluation. This means that their export prices as measured in terms of foreign currency initially fall by the full extent of devaluation. Generally speaking differentiated, manufactured products, the bulk of whose output is consumed at home, are likely to fall into this group. Since the bulk of their output is consumed inside the country manufacturers are unlikely to change their prices simply because there has been a devaluation. If devaluation leads to a fall in their export prices as measured in terms of foreign currency this should stimulate the demand for Indian exports. The extent of the initial stimulus will depend both on the overall foreign elasticity of demand for these products in general, and the elasticity of supply of exports from rival exporting countries. If rivals' export supply is inelastic they will try to neutralize the effects of Indian devaluation by a price cut of their own.¹⁴ In that case the demand for Indian

¹⁴ The elasticity approach has been much criticized in recent years. A major criticism, first voiced by Dr. Balogh and Mr. Streeten (see their article 'Inappropriateness of Simple Elasticity Concepts in the Analysis of International Trade', *Bulletin of the Oxford Institute of Statistics*, March 1951), is that partial elasticities are not useful in the analysis of a really interdependent system. This criticism was later elaborated in an article by S. A. Alexander ('The Effects of Devaluation on a Trade Balance', *I.M.F. Staff Papers*, April 1952). However, the controversy that arose between Alexander and Machlup (see Machlup's article in *American Economic Review*, June 1955) on the relative merits of the elasticity and absorption approaches seems to have ended on a pedestrian note. In a more recent

exports will rise significantly only if the over-all price-elasticity of foreign demand for the products in question is high. However, the rivals' reaction will be a significant determinant of the demand for Indian exports only in those commodities where India is a major world exporter. It is unlikely to be a major influence on the export of new manufactures where India's relative share of world exports is insignificant.

In the second group we may include all those commodities of which India is a major world exporter, and for which Indian policies exert a powerful effect on world prices. Even though there may be more than one exporter in these commodities export traders are likely to put up export prices in terms of local currency soon after devaluation. If the bulk of output is sold abroad, as for example is the case with tea and jute manufactures, the state of export demand is in any case a major determinant of export prices. If exporters initially raise their export prices in terms of home currency by the full extent of devaluation export prices in terms of foreign currency are constant.¹⁵ In that case the initial source of stimulus to exports arises from the fact that profits in the export trade are higher than before (measured in local currency). The effect on export earnings will again depend on the elasticity of demand for Indian exports, which in turn will be determined both by the over-all foreign elasticity of demand for these commodities as well as the elasticity of supply of exports from rival exporting countries.

article Alexander has in fact proposed the compromise that while the results obtained by traditional analysis may be treated as the initial (or primary) effects, a sort of multiplier (normally less than unity) is to be applied to them to yield the final effects of devaluation. (S. A. Alexander, 'Effects of a Devaluation: A Simplified Synthesis of Elasticities and Absorption Approaches', *American Economic Review*, March 1959.) But this is exactly what Professor Meade has already done in his book, *Balance of Payments*, London, 1951. In the Indian context, however, the results obtained by the elasticity approach may not be far wrong because exports and imports together form only about 13 per cent of the country's national income. Dr. Balogh and Mr. Streeten in the article referred to earlier admit that in such a case the results obtained by the elasticity approach may be accepted as approximately valid.

¹⁵ Ultimately, however, some fall in export prices as measured in foreign currency will come about as exporters try to export more under the impact of the initial stimulus provided by devaluation. The extent of the fall will be determined by the elasticity of demand for our exports.

Those commodities that are traded under internationally recognized standards, and of which India is only a marginal exporter in the world, can be included in our third group. In all these cases, the export prices in terms of foreign currency are beyond India's control. Thus it is reasonable to assume that the export prices in terms of local currency will rise by the full extent of devaluation. As a result profit margins on export sales will rise in relation to those on home sales. This is the major incentive that devaluation provides to a greater export effort in these cases.

2. Devaluation and Export Receipts in the Short Run

Our preceding discussion suggests a more fundamental division of Indian exports into two categories. The first includes all those commodities of which India is a major exporter in the world, while the second embraces those commodities of which India is only a marginal exporter. For goods in the first category the effects of devaluation on export earnings will be the combined result of the elasticity of demand for Indian exports and the elasticity of supply of Indian exports. For goods in the second category the foreign elasticity of demand is likely to be very high in view of India's small role in the world trade. Thus the elasticity of supply of Indian exports is the really crucial determinant of export earnings in these latter cases.

In the Marshallian short period the over-all elasticity of supply of exportables is relatively inelastic, unless there is considerable excess capacity. The volume of exports can, therefore, rise only if a certain amount of domestic disabsorption of exportables accompanies devaluation. This again can come about only if, as is emphasized by Alexander¹⁶ and Pearce,¹⁷ domestic real spending on exportables is cut. To some extent devaluation will itself induce disabsorption as prices rise, while total money incomes of residents remain constant in the face of rising prices. Thus in so far as profit earners' marginal propensity to save is higher than that of other income groups the shift in income distribution brought about by devaluation induces a cut in real spending. But there is no guarantee that this will suffice to bring about an improvement in the trade balance. For a part of disabsorption is needed to

¹⁶ S. A. Alexander, 'The Effects of a Devaluation on a Trade Balance', *I.M.F. Staff Papers*, April 1952.

¹⁷ I. F. Pearce, 'The Problem of the Balance of Payments', *International Economic Review*, September 1961.

make good the loss on the terms of trade, i.e., in so far as we need to export more than before to finance a given volume of imports. A deliberate, policy-contrived disabsorption will, therefore, often be necessary, if the disabsorption induced by devaluation itself is insufficient to bring about a desired improvement in the trade balance. Thus the real elasticity of supply of exports will be crucially dependent on the amount of disabsorption that accompanies a devaluation.

3. Devaluation and Export Earnings in the Long Run

By the long run we mean a time sufficient for resources to move freely from one industry to another. While in the short run the favourable effects of devaluation on the trade balance are crucially dependent on the degree of disabsorption that accompanies devaluation, in the long run, devaluation helps exports additionally by encouraging a re-allocation of resources in favour of exportables. As is pointed out above, initially, devaluation leads to a rise in the prices of traded goods relative to the prices of non-traded goods. It is this factor that is supposed to encourage entrepreneurs to shift resources to the production of exportables. This in turn requires two things: first, in so far as devaluation has initially added to the relative profitability of producing exportables, this effect should not be marred by subsequent economic policies, as for example, a fresh upsurge of inflationary pressures. Second, the structure of the economy should be such as to permit a speedy re-allocation of resources. This latter condition will be more readily fulfilled in an economy where the profit motive exercises a strong and effective pull on the allocation of resources among various activities than in a subsistence-type peasant economy where tradition, inertia, and often a lack of complementary inputs act as a severe disincentive to change.

D. DEVALUATION AND INDIA'S EXPORTS

1. Commodities of Which India Is a Major World Exporter

In those commodities of which India is a major exporter in the world the effect on export earnings will depend both on the elasticity of demand as well as on the elasticity of supply of Indian exports. The important commodities in this group are: jute manufactures, cotton textiles, manganese ore, and mica. In all these cases supply could be increased if there were a larger export

demand. Thus the foreign elasticity of demand for Indian exports is the most important determinant of export earnings in these cases.

Devaluation is unlikely to add to India's exports of tea to any large degree. India and Ceylon between them account for over 75 per cent of world exports of tea and any attempt by India to increase greatly her relative share of world exports is most likely to be resisted by Ceylon—for tea accounts for nearly 60 per cent of the export earnings of that country. Thus an attempt by India to raise her relative share of world exports through a devaluation may well lead to a fall in export prices without a more than proportionate rise in the volume of exports. For, as has been pointed out in Chapter IV, all the available evidence points to a negligible price-elasticity of demand for tea in major importing countries. But if the benefits of devaluation to other commodities are considerable the problem of tea could be tackled by imposing a countervailing export duty simultaneously with devaluation so as to ward off a competitive devaluation by Ceylon. However, although devaluation will not enable India to raise her relative share of world trade in tea some defensive action is called for to prevent India's relative share from falling further. As we saw in Chapter IV India's relative share of world trade has been falling since 1951 because of a growing competition from East Africa and other exporters of common or low-grade teas. These teas should be allowed to benefit from devaluation by exempting them from the payment of export duty on tea suggested above in the event of a devaluation.¹⁸

India accounts for nearly 75 per cent of world exports of jute manufactures. In the short run devaluation is unlikely to benefit India's export earnings, in view of a low elasticity of demand for jute goods. As a packaging material jute manufactures face a severe competition from paper bags. Theoretically a fall in the price of jute goods in relation to the price of paper bags will encourage a greater use of jute. In the short run such possibilities are, however, likely to be small. The manufacturers of bags, having installed specialized machinery for their production, may not readily switch immediately to jute bags. In the long run lower prices of jute goods may well bring larger gains to jute, especially in those uses in which paper bags have no technical superiority over jute bags.

In the short run the immediate problem that needs to be dealt with by India is that created by the export-bonus scheme in Pakistan which has been

¹⁸ This would not raise any administrative difficulties if export duty on tea were fixed on an *ad valorem* basis.

in operation since January 1959. Normally, as we have pointed out earlier in this study, India has a decided cost advantage over Pakistan, despite the fact that the latter gets her supply of raw jute cheaper than India. That advantage has, however, been more than neutralized by the export-bonus scheme in Pakistan, as was duly pointed out by the Pakistan Jute Enquiry Commission in their report in 1961.¹⁹ Pakistan's Second Five-Year Plan (1959-60 to 1964-5) aims at increasing the export of jute goods from 197 thousand tons in 1959-60 to 290 thousand tons by 1964-5.²⁰ This seems to be based on the assumption that Pakistan can capture as much of the world market as her capacity permits. In the short run an attempt by India to neutralize the effects of Pakistan's subsidy by devaluation will no doubt lead to a fall in export earnings from jute goods, in view of the short-run inelasticity of demand for jute goods. However, a failure to react now will mean that Pakistan will be encouraged to increase her production capacity still further and will present a much greater threat to India's exports of jute goods in the long run. Devaluation will, therefore, help in neutralizing the effects of Pakistan's export subsidy and will, therefore, be in India's long-term interest. Should Pakistan be willing to withdraw her export subsidy the effects of devaluation could be neutralized by the imposition of an export duty, if it was found that even in the long run the elasticity of demand for jute goods in the importing countries was low.

In cotton textiles devaluation is likely to be of considerable help in improving India's export performance. We have already noted in Chapter V that while Japan in the last decade has steadily raised her relative share of world exports India's relative share has not stabilized even at its 1948-50 level. To this outcome a faster rise in costs and prices in India than in Japan has been a contributory factor. Devaluation will thus serve to neutralize India's cost disadvantage and therefore improve her competitive position. Because India's share in world exports is not so preponderant it is unlikely that attempts on India's part to increase her exports will be frustrated by a retaliatory action on the part of other exporters of cotton textiles.

As for manganese ore, the major losses suffered by India in recent years have been on account of a rapid growth of exports from Brazil to the U.S.A. and from the U.S.S.R. to the countries of Western Europe. Since the Brazilian mines are often owned by the U.S. steel companies it will be difficult to

¹⁹ *Report of the Jute Enquiry Commission*, Karachi, 1961, p. 142.

²⁰ *Pakistan's Second Five-Year Plan*, Government of Pakistan, June 1960, p. 238.

displace the Brazilian exports to the U.S.A. But the fact that manganese ore from India will be made cheaper by devaluation may moderate the future growth of mining in Brazil. Devaluation will certainly encourage the growth of exports of ferro-manganese on the production of which India has now embarked.

Devaluation will not bring much cheerful news for exporters of mica. The basic reason for the stagnation of exports of mica is to be found in a growing use of synthetic substitutes, almost an irreversible process as we showed in Chapter VII.

To sum up, devaluation will confer only limited positive benefits on India's exports of commodities in the above group, with the exception of cotton textiles. The reason for this is a relatively low elasticity of foreign demand for Indian exports in this group. However, we have shown that as a purely defensive weapon devaluation will help to moderate the losses that India will have to suffer in the long run owing to the growth of the jute industry in Pakistan. It will also strengthen India's competitive position with regard to common teas. It may also have some beneficial effects on exports of manganese ore, while the export of ferro-manganese will receive a positive stimulus. In other cases any possible loss of export earnings could be avoided by the imposition of countervailing export duties simultaneously with devaluation.

2. Commodities of Which India Is a Marginal Exporter

In the case of commodities of which India is only a small exporter in the world the elasticity of demand for Indian exports is hardly to be worried about. The most important determinant of export earnings in these cases is the elasticity of supply of exports from India. Given an inelastic output in the short run (unless there is excess capacity) the extent of the rise in export earnings will initially depend on a cut in their domestic consumption which accompanies devaluation. In the long run, when productive resources can move more freely, the outcome will in addition depend on the likely increases in their production to make possible larger exports. If the domestic consumption is sufficiently restrained, exports of coffee, vegetable oils, leather, tobacco, raw cotton, and raw wool could rise even in the short run. In the long run the prospects for an increased export of leather are not very encouraging in view of an inelastic supply of raw hides and skins. As for other agricultural commodities export prospects in the long run depend crucially

on the success of programmes of agricultural development as laid down in the Third Five-Year Plan and the trend of production during the succeeding plans. Generally speaking, if sufficient irrigation facilities and fertilizers are made available, commercial-crop farmers, used as they are to producing for the market, will react favourably to the price incentives created by devaluation.

By far the most favourable effect of devaluation will be on the export of new manufactures. In Chapter X we have argued that, given the present composition of such exports, it would be unrealistic to assume that they could really form the basis of a big forward push on the export front. However, there is no doubt that the export potential has not been fully exploited. Although in some items India can already compete effectively in the world markets, for a good many other products she could be made to do so by a devaluation of 20–30 per cent.²¹ In the long run the future of India's export earnings is closely linked with the prospects for the export of new manufactures. In Chapter X we have made some suggestions about the most promising lines of export in this field. But considering that the established brands of other exporting countries are well entrenched in the importing countries' market, even in these lines India will often require to quote lower prices than others to break through the various psychological initial barriers. Devaluation will therefore not only increase the incentive to export more of the existing export products, but also make it profitable to export many new products from India for the first time. As for the elasticity of supply, there is considerable idle capacity in the engineering industries even on the basis of single shift work.²² The main reason for the under-utilization of available capacity is the lack of adequate supplies of imported raw materials. The Government, although

²¹ According to the reports of the Tariff Commission, fair ex-work price in India was less than 10 per cent higher than the GIF import price (excluding import duty) in the case of electric motors of 3 and 10 horsepower, A.G.S.R. conductors, oleic acid, plywood tea chests, and pears in syrup. Fair ex-work price was higher by 10–20 per cent than the CIF import price in the following cases: 3,000 K.A.V. transformers, aluminium ingots, copper sheets, plastic buttons, and dry cells. In the following commodities fair ex-work price was higher than CIF import price by 20–30 per cent: 50 h.p. electric motors, 25 K.V.A. transformers, automatic looms, grinding wheels, and stearic acid.

²² cf. *The Report of the Steel Prices Sub-Committee*, Engineering Export Promotion Council, 1960, and also the *Report of the Import and Export Policy Committee*, 1962, p. 9.

unwilling to grant import licences for the satisfaction of domestic demand, is clearly prepared to grant necessary import licences if the manufacturers want to export the resulting additional production. The manufacturers, however, have not felt a sufficient incentive fully to avail themselves of this opportunity. Devaluation will surely add to the incentive to export more.

E. ALTERNATIVES TO DEVALUATION

Must we then devalue? What are the alternatives to devaluation? Import controls are not a substitute for devaluation in that we have already argued for their retention and it is impossible further to increase their intensity without causing even more serious under-utilization of the available industrial capacity. The traditional discussion of the relative merits of devaluation in terms of its effects on the terms of trade, on the distribution of incomes within the country, and on the control of inflation, took place on the assumption that import control was an alternative to devaluation. But having decided to retain import control we only have left other methods of export promotion as the real alternative to devaluation. The alternative to devaluation in this case is an extensive use of export subsidies.²³

One of the advantages usually claimed for export subsidies is that they can be used discriminately so as to minimize the loss on the terms of trade resulting from a given improvement in the trade balance. The corollary of this is that a general price adjustment like devaluation may lead to an unnecessary loss on the terms of trade. This is true if one is considering an act of devaluation in isolation. As we have argued earlier, devaluation may not add to India's export earnings from jute manufactures and tea in view of an inelastic foreign

²³ Export subsidies may take the form of the currency-retention schemes now in operation in India for cotton textiles, whereby exporters can retain a part of their export earnings for the import of specified raw materials. From many points of view a straightforward export subsidy is to be preferred to this device. The existing schemes may well lead to an unnecessary loss on the terms of trade. The displacement of large established import traders, with their specialized knowledge of various sources of import, by a large number of small importers may lead to a situation whereby the exporting countries may appropriate a part of the difference between the demand price and the supply price of imports by raising their export prices. Besides, if economies of scale are important, there may be an unnecessary rise in landed costs of imports. For example, the cost of transport may be lower for bulk cargoes than for small quantities of shipments.

demand for Indian exports.²⁴ But if it is found that exporters were quoting unduly lower export prices (in terms of foreign currency) as a result of devaluation, this could be taken care of by a simultaneous levy of export duties on such commodities along with devaluation. Thus from the point of view of their effects on the terms of trade there may not be much difference between the two in actual practice.

It is sometimes argued that devaluation will be more inflationary than export subsidies. This is not always true. Given the desired rise in exports the inflationary effects will be the same whether such a rise is to be brought about by export subsidies or devaluation. The essential fact in both the cases is that a part of real output is sought to be withdrawn from domestic use. Presumably the argument must then rest on the assumption that devaluation would involve an unnecessary rise in import costs (without reducing imports, since imports are not allowed to be cut below their present level if the Five-Year Plan is to be fully carried out), while export subsidies would bring about an improvement in the balance of payments without such a rise. This argument is correct only if we assume that in the initial instance there were no import controls, so that import prices diverged from the export prices abroad only by a margin that covered transport costs and the normal profit of import traders. This assumption obviously does not hold if international trade is already subject to the regulation of import controls. For if import traders maximize their profits they are already charging the consumers what the market would bear. If this is true then devaluation will have no effect on import prices. Only if one assumes that importers follow some version of the full cost pricing is it likely that devaluation will lead to a rise in prices. Considering the premium on the import licences prevailing in India, it is unlikely that private importers in India really behave in this fashion. In the Government sector prices may be based on cost plus principle; and if costs of imported machinery and raw materials rise this may lead to a rise in prices charged by Government enterprises. It is only in this sense that devaluation will be more inflationary than export subsidies. But considering that many economists in India have already been advocating that prices charged by Government enterprises do not fully reflect the scarcity value of the services

²⁴ But we have also argued that this short-term loss notwithstanding, India should try to neutralize the effects of Pakistan's export subsidy for jute manufactures. In tea there is a need to strengthen India's competitive position with regard to common or low-grade teas.

and output provided by these enterprises, such a rise in prices will not be a calamity.²⁵

Up to a point the choice between devaluation and export subsidies in India is largely a matter of administrative convenience. But it may well be that the administration of export subsidies to a large number of export products may become far more cumbersome than the alternative device of devaluation and export taxes. If the export of new manufactures is to be greatly encouraged the programme of export subsidies will have to extend to a large number of industries, adding to the administrative complications. As opposed to this, devaluation will be administratively much simpler because the countervailing export duties suggested above will have to be imposed only on a few traditional exports.

There are also some other considerations which favour devaluation to export subsidies. Although both are designed to bring about the same result it has to be recognized that devaluation and taxes are internationally more respectable than export subsidies. Devaluation also has the fiscal advantage over a programme of export subsidies in that the Government is not faced with the problem of raising financial resources to finance the programme. More important is the fact that devaluation will affect all items in the balance of payments, and encourage all activities which earn foreign exchange, while discouraging its spending. A country like India which is desperately dependent on the export of new products (in view of the none-too-cheerful export prospects for many traditional exports) needs precisely a stimulus that will make the export activity as a whole more profitable. However careful the Government machinery may be in favouring all the deserving cases with export subsidies, some may yet be left out. Therefore, beyond a certain point, a general price adjustment like devaluation may prove more helpful than policies designed to stimulate only the export of the specified commodities.

Therefore a stage has been reached when India ought to give serious thought to a change in the exchange value of the rupee. Its timing could be planned for in such a way as to have a maximum favourable effect on the trade balance both in the short and in the long run. We emphasize the

²⁵ Devaluation, while not reducing the volume of imports immediately, will force Government and private enterprises to evaluate more carefully the cost of imported equipment. Thus in so far as it may lead to a reduction of the excess demand for imports, devaluation will facilitate a more efficient administration of import controls.

planning for devaluation because there is no presumption that the Government has merely to devalue and then watch for an improvement in the trade balance. In the short run devaluation will be effective only if it is combined with a policy of deliberate restraint on the domestic absorption of exportables. Devaluation may be a means to neutralize the effects of past inflationary increases in costs and prices, but it is a dangerous illusion to think that it is an effective substitute for the fiscal restraint. Thus in the short run the political problem of enforcing a cut in real absorption of exportables by domestic consumers has to be faced. Obviously the political difficulties will be considerably less if the production of exportables is itself rising, so that what is involved is a restraint on the rate of growth of this consumption rather than an absolute cut in it. Over a longer period the problem is to ensure that the production of exportables is duly expanded. In the case of agricultural exports this, among other things, would require the supply of fertilizers to farmers in the needed quantity. In industry, while planning for the creation of new capacity, the export needs of really promising industries should be sufficiently borne in mind. In addition it is also necessary to repeat the warning uttered at the beginning of this chapter, that international trade in the modern world is not a simple arbitrage operation between prices of the same commodities at different centres. Thus attention to the standards of quality and consumer appeal is as important as the prices of Indian products. Further, it is also necessary to ensure that Indian exporters are well aware of the opportunities in foreign markets. Thus a constant inflow of information about overseas countries, such as is provided by India's trade missions abroad and also by the trade delegations of various industries, should form an essential link in the export strategy. Looked at in this way devaluation will help only if the other factors sketched above are not pulling in opposite directions.

XV

Towards an Export Policy

A. INTRODUCTORY

There were two crucial assumptions underlying our export projections as presented in Chapter X: first, that traditional exports would not be allowed to suffer for want of adequate export surpluses; and second, that all necessary steps would be taken to ensure that India's export commodities were able to compete effectively in world markets. Some aspects of the problem of ensuring the competitiveness of Indian exports were considered in Chapter XIV, which dealt with the exchange value of the Indian rupee. Some further implications of both these assumptions will be discussed below.

B. ATTITUDE TO EXPORT PROMOTION

Until very recently there was a total lack of export consciousness in India. On the one hand there was a widespread feeling that not much could be done to increase export earnings in view of the stagnant demand for India's major exports.¹ On the other hand responsible economists were assuring the country

¹ For example, the official document of India's Second Five-Year Plan (1956-60) did not envisage any increase in export earnings during the Second-Plan period: 'On the whole, the fact remains that the increase in exports that we visualize over the plan period is not very striking. India's export earnings are derived from a few commodities. Three of them, namely, tea, jute and cotton textiles, account for nearly one-half of the total. These major exports are meeting increasing competition from abroad. This limits the scope for any substantial increase in exports in the short run. While every effort has to be made to promote exports of new items and to develop and diversify the markets for the country's major exports, it has to be recognized that it is only after industrialization has proceeded some way that increased production at home will be reflected in larger export earnings.' *The Second Five-Year Plan*, Government of India document, New Delhi, 1956, pp. 98-99.

that import substitution, whatever it meant, would by itself be able to solve India's balance-of-payments difficulties, so that India would in fact not need a greatly intensified export effort in the long run. The result was a neglect of exports and, as our analysis in the earlier parts of this study has brought out, even the available opportunities were missed. It is hazardous to offer a quantitative estimate of export earnings lost through neglect or inaction, but our analysis of India's major exports in Part One suggests that had India's relative share of world exports of these commodities in 1958–60 been the same as during 1948–50 her export earnings would have been 15 to 20 per cent higher than they actually were; i.e. she would have earned an additional foreign exchange worth Rs 900–1,200 million a year during the late fifties. One can form an idea of the lost opportunities from the fact that this is roughly the entire foreign exchange cost of a steel plant with an annual capacity of a million tons.

Fortunately there has been a welcome shift in emphasis in the last few years. It is now officially admitted that 'one of the main drawbacks in the past has been that the programme for exports has not been regarded as an integral part of the country's development effort under the Five-Year Plans'.² It is also recognized that a greatly intensified export effort is a basic condition if the objective of self-sustained growth is to be realized.

But how deep the export consciousness is it is difficult to say. Thus referring to the business men's lack of interest in exports the Import and Export Policy Committee reporting in 1962 lamented that 'the country had no great export tradition. Nor has one been developed so far—much less have we developed the necessary export apparatus. In a country like Germany, prosperous and full of export possibilities, there are no more than a couple of Indians in established business'.³ The Committee also pointed out that the lack of export consciousness was not confined to business men and that even the state Governments 'do not always seem to be alive to the primacy of export promotion; and some of their policies, particularly in the fiscal field, have hindered the even flow of exports'.⁴ Thus the first essential requirement of an effective export policy is a conscious recognition of the vital necessity for a much greater export effort on the part of all those whose activities can affect exports.

² *The Third Five-Year Plan*, Government of India, New Delhi, 1961, p. 137.

³ *Report of the Import and Export Policy Committee*, New Delhi, 1962, p. 24.

⁴ *Ibid.*, p. 25.

C. CURRENT EXPORT-PROMOTION POLICIES

The export-promotion measures adopted by the Government in recent years can be classified into three groups. Thus measures to establish new institutional arrangements to help the export trade form one group. The creation of various export-promotion councils and an Export Risk Insurance Corporation come under this category.⁵ Second, attempts have also been made to remove the remaining disincentives to export. Thus the review of export duties,⁶ export controls, and arrangements for a speedy refund of import and excise duties on the raw-material content of the exported articles fall into this category. In addition, to ensure that manufacturers who participate in export trade are not hampered by the lack of a sufficient supply of raw materials, the Government has arranged to provide the necessary raw materials by granting import licences to such firms.⁷ Third, the Government has offered some positive

⁵ The Export Promotion Councils, whose purpose is to provide information and assistance to exporters, have been formed for the following commodities: cotton textiles, rayon and silk, plastics, engineering goods, shellac, mica, cashew nuts, leather, tobacco, chemicals, and spices. In addition the Tea Board, the Coffee Board, and the Coir Board look after export promotion in their respective fields.

⁶ On 1 January 1961 tea and raw cotton were the only two important export goods still subject to the export duty. The duty on tea was removed in April, 1963.

⁷ On 1 January 1961 there were three schemes for granting import licences to exporters. Under the first scheme exporters on the list of the Development Wing of the Ministry of Commerce and Industry were given import licences for such raw materials as were not locally available. This scheme covered aluminium foils, aluminium semis, zinc semis, hard alloys, soft alloys, plywood, matches, carbon papers, stencils and typewriter ribbons, asbestos products, fruit and vegetable preservation industry, biscuits, confectionery, coco-butter, pearl barley, cigarettes, paper-lined hessian bags, and bituminous sandwiched paper.

The second scheme, which was meant to cover certain commodities with high export potential, covered the following products: plastic goods, engineering goods, cashew kernels, stainless steel utensils, watch straps and other products of stainless steel, non-ferrous semis made of copper and zinc and their alloys, vanaspati, art-silk fabrics, sports goods, woollen goods excluding carpets, cotton textiles, unmanufactured tobacco, articles for which baling hoops and box strappings are required, carpets and artware.

The third scheme covered the following: manufactured leather, shoes, other leather manufactures, lenses, pencils, shellac, asbestos manufactures, vegetable and food products (canned or bottled), french coffee, ropes and cordage, and manufactured furniture.

incentives to some categories of exporters. Thus the export of some commodities like plastic goods, engineering products, cashew kernels, vanaspati, unmanufactured tobacco, and silk fabrics entitle their exporters to the purchase at concessional prices of some of their raw materials. Besides, some products of new manufacturing industries are granted a 50 per cent reduction in railway freight rates when transported for export from the specified stations to the ports.⁸ The extremely small importance of positive price concessions can be judged from the fact that the commodities affected by them account for less than 15 per cent of India's total export earnings.

Our survey of the existing export-promotion policies brings out that while ambitious export targets are being set up not many positive steps have so far been taken to initiate a 'big leap forward' on the export front. As the Import and Export Policy Committee pointed out in 1962, 'So far the country has touched only a fringe of the export problem. An important lacuna in the export efforts is that whereas targets of a high order have been, theoretically, drawn up, adequate steps have not yet been taken to dovetail the import-export targets with the plans and projects of development in the private and in the public sector and to lay the foundation of a big trade.'⁹ Meanwhile, despite the Government's increasing exhortations to export more, the growing profitability of home sales threatens to kill any incentive that the manufacturers may have had otherwise for exporting more. At one time it was hoped that the Import and Export Policy Committee, which was presided over by so experienced a person as Sir Ramaswamy Mudaliar, would provide a guide-line for action. The Committee, however, did not consider the export problem very exhaustively, and barely twenty pages of its report are devoted to a discussion of the export problem and policy recommendations. The only positive recommendation to emerge from the Committee's report is that a rebate of income tax on export earnings ought to be allowed. While it is difficult to formulate the exact export plans for different commodities without a detailed study of their overseas markets and production plans in India, the following pages seek to outline some elements of a long-term export strategy.

⁸ The important goods entitled to freight concession on 1 January 1961 were: motor-vehicle batteries, dry cells and batteries, oil pressure lamps, hurricane lanterns, steel files, textile machinery, wood screws, fruit and vegetable preserves, G.I. buckets, bath tubs, medium and low-grade manganese ores, electric motors, cotton and hair belting, grinding wheels, machine screws, plywood tea-chests, glass sheet, hessian cloth, steel trunks, automobile hand tire-inflators, and steel tubes.

⁹ See the Committee's *Report*, New Delhi, 1962, p. 24.

D. EXPORT POLICY: THE BROAD STRATEGY

1. The Role of Agricultural Production

It has been stressed before in this study that the availability of export surpluses in many of India's traditional exports is crucially dependent on the progress made in agriculture. In addition, a satisfactory solution of the agricultural problem will make a significant contribution to the control of inflation and thus help to ensure that Indian prices remain competitive with those of other exporting countries. There is more than one reason why India cannot afford to neglect her agricultural exports. As we saw earlier, in Chapter X, there is a good deal of uncertainty surrounding exports of 'new manufactures'. Export prospects for commodities like iron ore are, no doubt, bright. But we have to remember that the opening up of new mines requires investment on a large scale, both in mining operations and in the creation of transport facilities. This also applies to iron and steel, the export prospects for which are also good. Thus the creation of adequate export surpluses in industry is hampered by a lack of sufficient investible resources, chiefly foreign exchange. In contrast, now that a large network of irrigation facilities has been created all over the country in the last ten years, progress in agriculture is rather more a matter of the greater use of improved techniques. It would, therefore, be a great pity if the vast opportunities presented by Indian agriculture were not to be fully exploited. In this case there need be little conflict between the needs of an export policy and the over-all strategy of Indian economic development. Agrarian unemployment is perhaps one of the greatest challenges facing India, but it is also an indication of the opportunities lying ahead, should India be able to offer even partially gainful employment to this multitude. It is obvious that for want of complementary capital equipment the capacity of the non-rural sector to offer gainful employment to the agrarian unemployed is likely to remain severely limited for a long time to come. Hence economic policy has of necessity to lay special stress on their use within the agricultural sector for the raising of agricultural productivity.

2. Competitiveness: The Broad Outline

The strategy adopted for increasing India's exports will have to vary from one commodity to another in view of the varying conditions of demand and supply. Nevertheless, export commodities can be divided into two broad groups. In the first group we can include all those commodities of which

India is a major exporter in the world. In these cases our export policies have got to be so orientated as to discourage both the growth of alternative substitutes for our products and also the development of non-Indian sources of supply. Clearly policies like the imposition of export duties and too frequent changes in export prices in response to minor fluctuations in demand and supply ought to be subordinated to the pursuit of long-term objectives. Second, in the case of those commodities of which India is only a minor exporter in the world, and world trade is dominated by a few countries (vegetable oils and raw cotton, for example), our export policies ought to contribute to India's reliability as a steady trading partner.

3. Devaluation and Fiscal Restraints

We have argued in Chapter XIV that a devaluation of the Indian rupee cannot be long delayed if India is to recover part of the lost ground in her traditional exports, and also if exports of new manufactures are to be developed in a big way. This, however, does not mean that India can relax all curbs on the domestic consumption of traded goods. No doubt devaluation may have the advantage of preventing excessive cuts in domestic consumption, which would follow if deflation were the only instrument of correcting an adverse trade balance. Yet devaluation is not a complete substitute for such cuts. Devaluation, to be successful in an economy where reserves of excess capacity are low, must involve some cut in the domestic absorption of available resources, and will fail to achieve its purpose if other instruments of economic policy are not used to assure this outcome.

Another reason why devaluation ought to be combined with a policy of deliberate restraints on the domestic consumption of traded goods arises out of the fact that the stick may sometimes be more effective than the carrot in getting the businessmen interested in export markets.¹⁰ Devaluation seeks to promote exports by increasing the incentive to export relative to sales on the home market. Business firms may, however, fail to take advantage of this opportunity if the domestic market is fairly prosperous. The opening-up of a new foreign market calls for special effort and skill and firms may let the opportunity pass by, even though economic calculations may well point to the greater profitability of export markets relative to the home market. The business men may not be as interested in a single-minded pursuit of maximum

¹⁰ cf. R. F. Kahn, 'Home and Export Trade', *Economic Journal*, 1950.

profits as is often assumed by the economists, and the pressure to do so is particularly weak if they are already reaping 'reasonable' profits on the home market. Thus the lure of additional profit may often be not very effective in interesting firms in export markets. But such disinclination would be manifestly much weaker if the domestic market were to decline absolutely in profitability. Faced with the prospect of a policy of a contrived reduction in domestic demand, and hence in profits and output, business firms may be much more willing to seek overseas outlets for their products. This point is obviously relevant for promoting exports of manufactured goods.

In addition it is often noticed that exports of manufactured goods are also influenced, apart from their prices, by the length of delivery dates. Ideally one would expect that firms would so adjust their prices as to keep the length of their order books under control. But it is a well observed fact that firms do not pursue such short-term price policies. Thus if orders keep piling up firms have to resort to other rationing devices, like refusal to accept new orders or deliberately quoting unduly long delivery dates. And there is a danger that such rationing devices may be used to discriminate against distant, often unknown, overseas customers, rather than against a well-known local dealer.¹¹ The incentive to do so would be weaker if deliveries to the home market were sought to be limited by stringent restrictions on domestic sales, and this way the balance might be tilted in favour of export orders. Hence the necessity for a proper disinflationary policy.

4. Short-Run Price Instability of Agricultural Raw Materials

Quite apart from inflationary pressures the problem of maintaining steady prices and supplies to the overseas customers is made difficult by the well-known phenomenon of short-run fluctuations in agricultural production and prices. Thus it often becomes difficult for exporters of jute goods and cotton textiles to quote the same prices to the overseas customers in face of rising prices for their principal raw materials. Foreign consumers of Indian jute goods, to take one instance, have often attributed their preference for substitute materials like paper to the relative instability of prices of jute goods. Similarly, both for raw cotton and vegetable oils, foreign consumers have many times been disappointed to find Indian prices out of line with those quoted by other sources of supply.

¹¹ Ibid.

It is to meet such situations that the idea of buffer stocks has been advocated from time to time in various parts of the world. Indian planners are familiar with this idea and its importance was emphasized even in the official document of the Second Five-Year Plan. And the official document of the Third Plan again mentions the creation of buffer stocks as being the 'key to stabilization'.¹² Yet the plan document limits the use of buffer stocks to food-grains only. It fails to recognize that the structure of relative prices of food grains and commercial crops is itself a crucial determinant of food production. An integrated price policy is therefore a basic pre-requisite of satisfactory progress both in food-grains and the production of commercial crops. Hence the operation of buffer stocks ought to be extended to include important commercial crops also. Already the Indian Jute Mills Association are planning to operate a buffer stock for raw jute. Policies of this buffer stock need to be co-ordinated with those of the buffer stock in food-grains in view of the well-known fact that the area devoted to the cultivation of raw jute is highly sensitive to the relative prices of jute and paddy. Similarly, the Textile Commissioner, Bombay, has many statutory powers to influence the prices of raw cotton and also the movement of the crop. What is therefore called for is not an entirely new effort in these fields, but a further development of existing schemes, and a co-ordination of their policies with those of the proposed buffer stock in food-grains.

5. Export Control Policies

The policies pursued by the Export Control authorities can also affect the competitiveness of Indian exports. Export controls create additional uncertainty as to the quantity available for export, and may therefore affect India's reliability as a steady source of supply. If in addition individual exporters have to obtain quotas whose volume can fluctuate from one year to another they cannot enter into long-term commitments with overseas buyers and also cannot adopt a sufficiently long view with regard to export promotion.

Export controls have been greatly relaxed in the last five years. But some important vegetable oils like groundnut oil, raw cotton, raw wool, and manganese ore are still subject to export control. Presumably the export control on vegetable oils is meant to control domestic prices. But in general a country suffering from acute balance-of-payments difficulties can ill afford to

¹² *The Third Five-Year Plan*, p. 130.

control the inflationary pressures by aggravating its balance-of-payments difficulties. There may sometimes be a case to control the export of an important wage good or a raw material needed for the production of an important wage good (raw cotton being needed for the production of cloth) but in that case the authorities ought at least to ensure that controls are administered as smoothly as possible, avoiding sudden changes in their intensity. But the export control policies in respect, for example, of raw cotton, as recently as in the 1960-1 season, go to show that not enough lessons have been learnt from past experience.

In the case of manganese ore the Government has sought to reduce steadily the quotas available to private exporters while increasing the quota of the State Trading Corporation. One need not quarrel with the intervention of the State Trading Corporation in the export trade but one has a right to demand that private exporters and the State Trading Corporation should compete on an equal footing, unless the former are proved to be less efficient than the latter. Even if the Government has made up its mind to reserve a part of the export trade for the State Trading Corporation there ought to be some stability in the relative shares of the State Trading Corporation and private exporters in the distribution of quotas, so as to enable the latter to take a longer view of export promotion.

6. Crude Materials versus Processed Goods

Another factor which may in some cases affect India's exports is the encouragement of exports of processed articles at the cost of crude materials (vegetable oils rather than vegetable oilseeds, for example). For importing countries generally prefer to import crude rather than processed materials in the interests of their own manufacturing industries. For example, while oilseeds will enter the European Economic Community free of any import duty, imports of vegetable oils will have to pay varying rates of import duties, depending on the degree of refinement of the oil. If India were the only source of supply for raw materials, or if other sources of supply insisted equally on exporting processed rather than crude materials, then India's export prospects would not be damaged by such an insistence on her part. However, in a world where other sources of supply are readily available and they are willing to supply goods in a crude form India will have to watch carefully the likely effects on her export receipts of too strong an insistence on her part to dictate the form in which commodities will be exported from India.

7. Strategy for New Manufactures

There is a great lack of clear thinking in India with regard to the export of new manufactures. While great hopes continue to be pinned on the export of the products of new industries not much thought has been given to such questions as the most promising lines of export. The Government's current policy seems to be to exhort everybody to export, but exhortations are hardly an effective substitute for a clearly thought-out export policy.

In selecting the most promising lines of export we have to consider both the likely demand prospects for such exports and also India's ability to compete effectively against other well-established exporters. In so far as exports are to be directed to the neighbouring under-developed countries, as is commonly assumed, our export strategy for new manufactures must take note of a strong desire on the part of many neighbouring countries to industrialize themselves. This means that many of the simpler types of consumer goods that India has been exporting in the last few years cannot provide the basis for a large increase in export earnings because, being relatively easy to establish, the importing countries will soon want to meet all their requirements of such goods from local production.

Second, we must recognize that many under-developed countries, which are potential markets for Indian goods, will be the recipients of 'tied' loans and grants from the developed countries. India should, therefore, concentrate on the export of such goods as are usually not financed by such loans: that is, essential consumer goods which cannot be fabricated locally, such as pharmaceuticals and drugs; intermediate products like fertilizers, cement, and iron and steel; and the simpler types of machinery which are particularly suited to the factor endowment of the under-developed countries and for that reason are likely to have a special appeal for them.¹³ In addition, India should bear in mind that the loans given by the World Bank are not tied to purchases from any single country. Public utility undertakings are a special favourite of the World Bank (IBRD) authorities. Thus we should pay special attention to the export of machinery and equipment (for example railway rolling-stock equipment) needed for public utility works. Besides, India by now has considerable experience of building dams and Indian building contractors

¹³ Of course, if general-purpose loans grow in importance and they remain 'tied' only in the sense that purchases have to be made in the country giving a loan, India's exports of even the products mentioned above would be handicapped.

ought to be encouraged to tender abroad. Apart from bringing invisible earnings this will greatly help India's exports of new manufactures.

So far we have been assuming that the bulk of India's exports of new manufactures will find markets in the underdeveloped countries. But this is not inevitable. Many simpler types of engineering products that are likely to have a limited export potential in the under-developed countries may well find profitable outlet in the developed countries. Already, goods like cast-iron pipes and wood screws from India have found a market in countries like the U.K. India will, therefore, have to ponder carefully about the export prospects of new manufactures in the developed countries. The choice will greatly depend on the third factor mentioned below.

Third, having got an idea of the commodities that are likely to remain in strong demand India will have to choose those lines in which she has a reasonable chance of exploiting most of the economies of large scale to enable her to compete against other established exporting countries. While in the short run the need for restraining domestic consumption is obvious, in the long run a substantial home market will in fact contribute to the efficiency of the export trade, provided tastes and styles dictated by the home market are not very different from those of the overseas markets. This is because a substantial home market permits the exploitation of economies of scale, and often enables industrial technology to be acquired and developed in the easiest way; and further, by providing a relatively stable and predictable home demand, secure for the firm an established position from which commercial sorties overseas can be launched without endangering its stability if they fail. These considerations would tend to rule out many of the consumers' durables as offering promising export opportunities. Since the emphasis in India will be on austerity for a long time to come, the volume of their production for the home market will often be insufficient to provide the required base for a thriving export trade. Furthermore, since the future expansion of these industries will continue to be controlled for austerity reasons many of these products will be produced by industries that have only a few firms, thus weakening the competitive pressure for cost reduction. Of course some consumer-goods industries will have to be developed even when austerity is the established slogan. Bicycles and the simpler types of electrical goods are instances in point. In licensing productive capacity in these fields the emphasis should therefore be on creating viable units that can speedily exploit all the economies of scale. In these cases export provisions ought to form an integral part of the development process.

Clearly it is beyond the scope of the present study to suggest more precisely the promising fields for export. That task will require a great deal of engineering data that only a government agency is likely to be able to collect. Therefore there is a need for a study group consisting of manufacturers, exporters, and economists which ought to go on examining the export potential of various industries continuously. Teams of experts on the lines of the Anglo-American Productivity teams of the early post-war years should be sent to other countries to report on new developments in the sphere of technology, standards of quality, and methods of cost reduction.

8. Pig Iron versus Iron Ore

In Chapter X we found that prospects for the growth in exports of iron ore from India are particularly bright. But it is worth exploring whether additional exports could not take the form of pig iron rather than iron ore. From the point of view of the importing countries such a development would involve a considerable saving of investment in blast-furnace capacity as well as a saving in shipping space and therefore of investment in shipping. In the pre-war years Japan used to import large quantities of pig iron from China and Korea, and the Japanese steel firms have recently negotiated agreements with the Union of South Africa for the supply of pig iron to Japan. From the importers' point of view the only drawback in such an arrangement would be that if the required supplies of pig iron were not forthcoming in time, they would have to suffer from bottlenecks in steel production—as additional blast-furnace capacity could not be installed at once. But this uncertainty could be taken care of by the two countries' entering into agreements for the supply of pig iron similar to those that have already been negotiated for the continued supply to Japan, on a long-term basis, of iron ore from India.

9. The Special Problem of Tea

In the last few years fears have been expressed that the world tea economy may soon be faced with a phase of worldwide over-production.¹⁴ Whether these fears are well-grounded is difficult to prove. But there is no doubt that

¹⁴ See FAO, *Commodity Bulletin*, 30, 'Tea Trends and Prospects', Rome, 1960, p. 26. See also FAO, *Agricultural Commodities—Projections for 1970*, Rome, 1962, Chapter 2, p. 51.

they have been taken rather seriously by the tea planters in India, and this may well interfere with the achievement of the target of additional production laid down for the Third Five-Year Plan. Thus Sir James Jones, Chairman of James Findlay and Co. and of Consolidated Tea and Land, is reported to have said in an address, 'I cannot believe that an increase in the annual yield of 150 million lb. can be secured in the next five years, and it does not seem that such a big increase would in fact be desirable in India's or the industry's best interests, unless consumption can be appreciably increased during the same period by intensive propaganda'.¹⁵

In these circumstances, both as a precaution and also for inspiring tea planters with a greater degree of confidence in the future, it is necessary that the Government of India should take steps to consult other countries with a view to drafting a stabilization scheme, to be put into operation should the need arise.

10. Attitude to Regional Trade Agreements

While India has in the long run a vital political and economic interest in the development of South-East Asia, and India should therefore increasingly seek economic co-operation with the countries of the region, it has to be recognized that in the present stage of development of these countries, a solution to India's balance-of-payments problem cannot be found in terms of a regional preferential trading area. Besides, any initiative coming from a large country like India may be misunderstood as a cloak for economic domination of the region. While not taking a lead, India should express her readiness to explore the possibilities of workable regional arrangements, such as the development of some specified industries on a regional basis.

11. Bilateralism as an Instrument of Trade Policy

Speaking generally, outside the Sino-Soviet area India would do well to stick to the principle of multilateral trade and payments. For a long time to come the developed countries of the West will remain a major source of supplies of machinery and equipment to India, and a part of these imports will have to be financed by India's trading surpluses with other countries—in view of the fact that, because of the limited export potential for many of India's exports

¹⁵ Reported in *The Tea*, Calcutta, June 1961.

in the developed countries, India cannot hope to balance her foreign account with them completely by exporting more to them. A resort to bilateral balancing on the part of under-developed countries would therefore reduce India's ability to import the needed quantities of essential goods from the Western countries.

In her economic relations with the Sino-Soviet area India ought not to be afraid of entering into bilateral agreements since that is often a condition of trade with these countries. In many respects these countries are becoming complementary to India and the scope for mutually profitable trade ought to grow.

Appendix on Statistical Sources and Methods

A. A GENERAL NOTE ON INDIA'S FOREIGN TRADE STATISTICS

The foreign trade statistics of India are available in two series. The first one, published by the Director-General of Commercial Intelligence and Statistics, Calcutta, relates to the foreign trade as registered by the customs authorities at Indian seaports, airports, and at land customs stations. The second series, published by the Reserve Bank of India, is based on data collected from the information provided to the Reserve Bank of India in the course of administration of the exchange control. The statistics published by the Director-General of Commercial Intelligence and Statistics in *Monthly Statistics of Foreign Trade of India* relate to the physical movement of goods into and out of the customs territory of India, irrespective of when payment is made or received. In the exchange-control data an attempt is made to record the value of current transactions when a payment is made or received—thus stocks bought and accumulated by foreign buyers in India and by India overseas would figure in the exchange-control data but not in the customs data. On the import side, customs data do not correctly record even the physical movement of goods into the customs territory of India. This is because under the 'note pass system' Government imports are cleared without any customs formalities. An attempt is made, however, to record such transactions as and when information becomes available.

Over a period the two sets of figures should give the same picture. But for particular periods discrepancy arises either because of limitations of recording or reporting or a change in procedure in regard to payments in or out of India.

In the present study we have relied on the data published by the Director-General of Commercial Intelligence and Statistics as detailed quantitative break-down of statistics is available only in this series. Formerly the statistics

were published on a monthly as well as a yearly basis. However, for many years the annual publication has not appeared and one has to collect the yearly figures from the various issues of the *Monthly Statistics of Foreign Trade of India*. Discrepancies arise because the figures are revised from time to time in the light of data made available later and the Director-General of Commercial Intelligence and Statistics issues press notes to that effect. It has not been possible for us to follow these press notes and it may be that some corrections after June 1961 have escaped our notice.

Where necessary quantities have been converted into metric measures. For that purpose the following conversion factors have been adopted:

One metric ton	= 0.9842 long tons
One long ton	= 1.016 metric tons
One short ton	= 0.90718 metric tons
One cwt.	= 50.802 kilograms
One yard	= 0.9144 metres
One acre	= 0.4047 hectares

In the following pages we give additional notes on statistics in the various chapters of this study.

B. NOTES ON STATISTICS IN THE CHAPTERS OF THE BOOK

Chapter I

Table I.1: Value of India's Exports. Explained in the text.

Table I.2: Volume Indices of Indian Exports. The volume indices for the period 1948–51 have been derived from the old series with fiscal year 1948 as their base. For this purpose 109 of the old series have been equated to 100 of the new series (the volume index for fiscal year 1953 under the old series was 109).

Table I.3: Trends in World Trade. The figures of world trade have been derived from UN, *Statistical Year Books*. The value figures have been taken from the year book for 1961 (Table 149, p. 411). The volume indices from 1952 to 1960 have also been taken from the same publication (Table 151, p. 426). The volume indices for 1951 have been taken from the year book for 1960 (Table 150, p. 402).

Table I.4: Explained in the text.

Chapter II

Table II.1: Explained in the text.

Chapter III

Table III.1: World Exports of Jute Manufactures. From 1937 to 1955 the volume of world exports has been calculated from the statistical appendix A of the *FAO Commodity Bulletin No. 28*, Rome, 1957. Exports include jute yarn, cloth, and sacks. From 1955 to 1960 world exports are the sum of Indian, Pakistani, OEEC countries', and Japanese exports. Estimates for India and Pakistan are official estimates as published in the annual summary of jute and gunny statistics, published by the Indian Jute Mills Association, Calcutta. Exports of the OEEC countries have been derived from the *Annual Studies of the OEEC The Textile Industry in Europe* (see the volume for 1960-1). The Japanese exports have been assumed to be equal to imports into the U.S.A. from Japan as complete details of Japan's foreign trade in jute goods were not available.

Table III.2: Based on Table III.1.

Table III.3: World Exports of Raw Jute. World exports are the sum of exports from the Far East and Africa and include allied fibres as well (Congo jute, kenaf). Exports from mainland China, if any, have not been taken into account. Statistics of world trade have been derived from the *FAO Year Books of Food and Agricultural Statistics* (formerly known as Part II and now known as Trade Year Book). As far as possible the latest available estimates for a given year have been used. Thus figures for world trade in 1934-8 have been adapted from vol. IX (1955), pp. 186-7; those for 1956 have been taken from *Trade Year Book*, vol. 14 (1960), p. 181; and statistics for the period 1957-60 have been adapted from *1961 Year Book*, pp. 221-2.

Table III.4: Apparent Consumption of Jute in India, Pakistan, and Rest of the World. To estimate the apparent consumption of jute (in all uses) in the world outside India and Pakistan (and also excluding the U.S.S.R. and mainland China) apparent consumption in India and Pakistan has been subtracted from world production of raw jute. Figures of world production have been taken from the following *FAO Production Year Books*: 1934-8—vol. X (1956), p. 117; 1957-8—vol. 14 (1960); 1958-9 to 59/60—vol. 15 (1961). World

production includes production of allied fibres like mesta, Congo jute, and kenaf.

To get apparent domestic consumption of jute goods in India and Pakistan exports of jute manufactures from the two countries have been subtracted from their production of jute manufactures in a given season (July–June). In addition the figures so got have been raised by 5 per cent to allow for the wastage of raw jute in the process of manufacture. The pre-war figure is the average of five seasons beginning July 1933. Basic statistics were collected from the *Annual Summary of Jute and Gunny Statistics*, 1960 issue, published by the Indian Jute Mills Association, Calcutta.

Table III.5: Quantities of Burlap, Cotton Fabrics, and Paper Used in Bag-making in the U.S.A. Estimates of quantities of burlap, paper, and cotton fabrics used in bag-making in the U.S.A. have been published for many years by the Commonwealth Economic Committee in its *Annual Review of Industrial Fibres*. The indices in this table have been constructed out of these statistics. For 1940 and 1948–53 use was made of statistics given in the Commonwealth Economic Committee's *Memorandum on Jute Manufactures*, London, 1955. Figures for the period 1954–7 have been taken from the *Tenth Annual Review of Industrial Fibres*, London, 1960, and those for 1958–60 from the *Twelfth Annual Review*, London, 1962, p. 197.

Table III.6: Prices of 100-lb. Flour Bags in the U.S.A. The Indian Jute Mills Association publishes in its *Annual Summary of Jute and Gunny Statistics* prices of flour bags in the U.S.A. as received from its American representative. Indices in this table are based on these statistics (see the annual summary for 1960). They are based on simple annual averages of the three-year periods.

Tables III.7 and III.8: Explained in the text.

Chapter IV

Table IV.1: World Exports of Tea. World exports are the sum of exports from the following countries: Ceylon, India, Pakistan, Taiwan, Indonesia, Japan, Malaya, Iran, Congo, Mauritius, Mozambique, Nyasaland, Tanganyika, and Uganda. Figures for the various countries have been taken from *FAO Trade Year Books*. As far as possible the latest available figures have been used. Thus

figures for 1934–8 have been taken from 1957 year book, those of 1948–50 have been taken from 1955 year book; for 1951 the year book for 1954 was used; figures for 1952 and 1953 are from year book, 1955; those of 1954 are from 1957 year book; figures for 1955, 1956, and 1957–60 have been compiled from 1958, 1960, and 1961 year books respectively.

Table IV.2: Compiled from Table IV.1.

Table IV.3: Net Imports of Tea into High-Income Countries. This table has been compiled from FAO *Trade Year Books*.

Table IV.4: Explained in the text.

Table IV.5: Explained in the text.

Table IV.6: Explained in the text.

Table IV.7: Average Annual Prices of Tea and Export Duties. Average annual prices of tea with export rights at Calcutta auctions are for the year ending 31st March. Export duties are simple averages of the daily rates throughout a fiscal year (ending 31st March). As such one cannot get the total value of export duties by multiplying the annual average by the volume of exports in a given year.

Table IV.8: Explained in the text.

Table IV.9: Quota Prices and Export Prices in Calcutta. Average annual prices of quota rights are simple averages of monthly prices (as published by the Indian Tea Board) of quota rights in a given calendar year.

Table IV.10: Explained in the text.

Table IV.11: Average Annual Export Prices and Prices at Internal Auctions in Calcutta. Both of these sets of statistics relate to years ending 31st March. Export prices are exclusive of export duties.

Table IV.12: Comparison of Export Duties and Excise Duties. Excise duty on tea ultimately exported from India is credited to customs. It is not refunded.

Chapter V

Table V.1: Exports of Cotton Textiles: World and Major Exporters.

The basic statistics have been compiled from statistics published by the FAO in *Per Caput Fibre Consumption Levels, 1948–1958*, Rome, 1960, and a supplement published in the *FAO Monthly Bulletin of Agricultural Economics and Statistics*, January 1962. Figures for the period 1948–57 were taken from the former publication while those for 1958–60 were taken from the above supplement. World exports include the Sino-Soviet area as far as possible.

Table V.2: Based on Table V.1.

Table V.3: Imports of Cotton Textiles by Net Importers and Net Exporters.

The basic figures were derived from publications mentioned in Table V.1. The composition of various areas is given below.

1. Net Importers:

- (a) Africa: Algeria, Angola, Cameroun, Congo (Leopoldville), Ethiopia and Eritrea, Ghana, Ivory Coast, Kenya, Uganda, Tanganyika, Madagascar, Nigeria, Rhodesia and Nyasaland, Senegal, Mali, Mauritius, Sierra Leone, South Africa, Tunisia, British Somaliland, and countries of former French Africa and Portuguese colonies.
- (b) Latin America: Includes West Indies Federation and Jamaica also.
- (c) Near East: Afghanistan, Iran, Iraq, Israel, Lebanon, Sudan, Syria, Turkey, U.A.R., Aden, Cyprus, Jordan, Libya.
- (d) Oceania: Includes (apart from Australia and New Zealand) Fiji, French Polynesia, New Caledonia, New Hebrides, Papua, and Western Samoa.
- (e) Net Importing Far East: Burma, Ceylon, Taiwan, Malaya, Singapore, Indonesia, South Korea, Pakistan, Philippines, Thailand, Vietnam.
- (f) Net Importing Western Europe: Austria, Denmark, Finland, Greece, Ireland, Norway, Sweden, Yugoslavia, Iceland, Malta, and Gozo.

2. Net Exporters:

- (a) West Europe: U.K., West Germany, France, Italy, Belgium, Netherlands, Switzerland, Spain, and Portugal.
- (b) Net Exporters in Far East: Japan, Hong Kong, India, mainland China.

Table V.4: Consumption of Cotton and all Textiles in Net Importing Areas. Compiled from the FAO publications mentioned in Table V.1. The composition of various regions is the same as that given in notes on Table V.3.

Table V.5: Based on Table V.4.

Table V.6: Consumption and Net Imports of Cotton Textiles in Net Importing Regions. Compiled from FAO publications mentioned in Table V.1.

Table V.7: Based on Table V.6.

Table V.8: Prices of Raw Cotton in India and Export Prices in U.S.A. After 1955 U.S. export prices are average of Commodity Credit Corporation's export prices minus export subsidy.

Table V.9: Indices of Earnings and Productivity of Labour in Indian and Japanese Cotton Industries. The Earnings Index for India has been compiled from official statistics collected by the Ministry of Labour, Government of India, under the Factories Act (and covering all workers earning less than Rs 200 per month). Thus the average annual earnings of workers in the cotton textiles industry in India from 1951 to 1957 were as follows (Rs per year): 1,178, 1,258, 1,228, 1,172, 1,302, 1,360, 1,363 (taken from *Indian Labour Gazette*, August 1955 and March 1958).

The productivity index for India has been compiled by deflating the official index of industrial production of cotton textiles (1951 = 100) by an index of employment constructed from statistics published by the Textile Commissioner, Government of India. Average annual employment figures for the cotton textile industry are given below from 1951 to 1957: 714,479, 740,640, 743,984, 741,169, 758,044, 806,791, 812,948 (see *Monthly Abstract of Statistics*, June 1960). The production index for cotton textiles from 1951 to 1957 (1951 = 100) is given below: 100, 102.3, 109.1, 110.9, 111.9, 117.5, 115.6 (*Monthly Abstract of Statistics*, June 1960).

For Japan the productivity index has been compiled in a more direct manner. Thus a delegation of the Indian Productivity Council which visited Japan in 1957 was supplied with the following figures of man hours required to produce a bale of 400 lb. of cotton yarn of 20 counts in Japan (see the *Report of Indian Productivity Delegation to Japan*, New Delhi, 1957—statistical appendices):

1950	107.2	man	hours
1951	107.2	"	"
1952	100.8	"	"
1953	83.2	"	"
1954	69.6	"	"
1955	64.8	"	"

These figures have been compiled in the following manner:

$$\frac{\text{Average Number of Workers in a Year} \times \text{Number of working days} \times 8 \text{ hours a day}}{\text{Year's output of cotton-yarn production converted into 20 counts}}$$

The index of earnings for Japan has been constructed on the basis of statistics of average monthly earnings of Japanese cotton-spinning operatives as given in *The Labour Situation of the Japanese Cotton-Spinning Industry*, published by the All Japan Cotton Spinners' Association (February, 1958). Thus average monthly earnings (including welfare benefits) from 1951 to 1957 were (in Yens): 10,883, 13,225, 14,621, 17,333, 17,424, 20,208, 19,523. The figure for 1957 is the average for January to September. From 1951 to 1957 number of hours worked per day remained constant at 8. Needless to say, the comparison is only a rough indicator of trends in wage costs.

Table V.10: Wholesale Prices of Raw Cotton, Cotton Manufactures. Based on official statistics published in the Economic Adviser's *Index Numbers of Wholesale Prices*. See *Report on Currency and Finance for 1960-1* (Reserve Bank of India).

Table V.11: Explained in the text.

Table V.12: Explained in the text.

Chapter VI

Table VI.1: Indians Exports of Vegetable Oils and Oilseeds. In order to compare India's export performance in different years and also to depict trends in India's relative share of world exports, statistics of oilseeds have been converted into oil equivalent. For this purpose the same conversion factors as are used by the FAO for compiling world exports of vegetable oilseeds and oils in

terms of oil equivalent have been used. These conversion factors are given in the text of the table.

Table VI.2: Based on Table VI.1.

Table VI.3: World Exports of Vegetable Oilseeds and Oils in Terms of Oil Equivalent.

The pre-war figures are not strictly comparable with those of post-war years as the data for some non-reporting regions (mostly the countries of the Sino-Soviet area) are not included in the post-war series. Since 1956 the FAO has been publishing two series of world exports: one whose figures are comparable for the entire 1948–60 period, and the other whose figures are comparable only for 1956–60. This latter series includes exports of some previously non-reporting countries like the U.S.S.R. We have, however, relied on the former series whose figures are comparable throughout the post-war years. As such our figures understate the actual volume of world exports in the post-war years in relation to pre-war exports. Subject to this limitation the latest available estimates of world exports were used. Figures for the various years have been taken from the following FAO *Trade Year Books*:

1934–8 and 1957–60	Vol. 15 (1961)
1948–50	Vol. 9 (1955)
1951–3	Vol. 11 (1957)
1954	Vol. 12 (1958)
1955	Vol. 13 (1959)
1956	Vol. 14 (1960)

Table VI.4: Based on Table VII.3.

Table VI.5: Basic statistics have been compiled from FAO: *State of Food and Agriculture*, 1961.

Table VI.6: Explained in the text.

Table VI.7: Explained in the text.

Chapter VII

All statistics in this chapter are fully explained by notes to individual tables in the main text.

Chapter VIII

Table VIII.1: World Exports of Tobacco. Our estimates of world exports are based on that series of the FAO whose figures are comparable for all years after 1948. Generally speaking this series excludes the Sino-Soviet area. FAO export totals include re-exports as well. We have therefore deducted from them the re-exports of tobacco from the U.K. As far as possible the latest estimates have been used. Thus figures for 1950, 1952, and 1953 have been taken from the FAO *Trade Year Book* for 1955; the figures for 1951 are from the 1954 year book; figures for 1955, 1956, and 1957-60 have been taken from year books for 1959, 1960, and 1961 respectively.

Table VIII.2: Explained in the text.

Table VIII.3: Explained in the text.

Table VIII.4: This table has been compiled from the FAO *Year Books of Production*. As far as possible, the latest available estimates of production and yield of tobacco have been used. Figures for various years have been compiled from the following year books:

1948-51	1953 year book
1952	1954 year book
1953	1955 year book
1954	1957 year book
1955-6	1958 year book
1958-60	1961 year book

Table VIII.5: World Exports of Coffee. Our estimates of world exports are based on FAO figures but exclude re-exports from the U.K. and the U.S.A. Basic figures have been derived from the FAO *Trade Year Books*. The figures for the various years have been derived from the volumes noted against each.

1934-8, 1948-50, 1952, 1953	year book for 1955
1951	year book for 1954
1954	year book for 1957
1955	year book for 1959
1956	year book for 1960
1957-60	year book for 1961

Chapters IX–XV

All statistics in these chapters are fully explained by notes to individual tables in the respective chapters.

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