

# Foreign Trade of India During Pre & Post Independence (Study of Development of India)

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## Abstract

This subject is selected for study, since it is directly connected with the growth of our economy. In our earlier period after independence, more emphasis was put for to make the country self- sufficient. However, that is true to be more harmful for the growth of our economy. It is then felt that the development and growth of economy, an all encompassing, comprehensive view needs to be taken for the overall development of the country. For this, increase in export is of vital importance and also we have to facilitate those imports, which are required to stimulate our economy.

**Keywords:** Foreign Trade, Development of India.

## Introduction

It could be seen that coherence and consistency among trade and other economic policies is important for maximising the contribution of such policies to development. The foreign trade policy is routed for the stimulation of greater economic activity and to act as an effective instrument of economic growth by giving a thrust to employment generation.

## Purpose of Study

The purpose of this study is to spot light the progress made on the economic front after initiation of our revised Exim Policy coupled with the Economic Reforms.. The following points are ascertained to the factual analysis:

- 1) To observe the current trend and direction of export and import of India.
- 2) To observe the foreign trade position before independence.

- 3) To evaluate the growth in foreign trade since independence.

## Hypothesis of Study

The hypothesis drawn from this study may be as follows:

- 1) The imports increased, yet welcoming signals are shown in the direction of foreign trade in India.
- 2) Increased non-POL imports led to increased trade deficit. FDIs and huge accumulation of foreign exchange reserves implies a comfortable BOP situation.
- 3) The structure of Indian exports changed in favour of manufactured goods.
- 4) India increased its exports in food products like wheat, rice, fruits and vegetables.
- 5) India has become globally competitive and export of manufactured goods has increased manifold.

## Research Methodology

The present study is based on quantitative method of research. It is constructed on the basis of statistical data drawn from the secondary sources, and the stress is given on the study of current Exim Policy and its impact on various sectors such as agriculture, industry and service. The main sources of data are the research papers published in the authentic and reputed journals and papers viz. Economic Times, Southern Economist, Economic and Political Weekly,

Facts for you, India Journal of Economics, Yojana, Indian Economic Review, Indian Journal of Marketing, Economics Studies and various articles published in Employment News and Competition Success Review that helps a lot in this study and the analysis of the programmes which are started by the government during the current Exim Policy.

Moreover, the international publications like World Development Report and Human Development Report etc. also provided data which assists much in the path of comprehensive study of current Exim Policy in the field of Agriculture, Industry and Service. However, the student had made the compilation and interpretation of the study and suffers from certain limitations due to lack of data relating to certain aspects of Exim Policy and lack of time too.

Since the mid-term appraisal of Tenth Plan is still going on, hence it is not possible to update the data up to this date. In spite, certain deficiency or short comings, the student is confident that the present study report provides a correct a reflection on the impact of Exim Policy measures through which India is currently going on. The report would form a nucleus for further research and studies.

Thus the modus operandi of the work is to estimate and access the impact of Exim Policy on different sectors in India. For the same project the materials are collected from Library books, Journals, Bulletin of Reserve Bank of India. The data analysis will be secondary in course of study.

Research methodology used for this study is on the basis of secondary data collected from various sources as stated above to give a vibrant and clear path to the study.

### **Sources of Secondary Data**

The sources of secondary data are broadly classified in the following groups:

Secondary data are compiled from the records of

authorities concerned as well as from published reports and journals.

### **Scope of Study**

Study includes Exim Policy of India in totality, i.e. its features, technical characteristics, specifications, provisions included for boosting of export of Indian goods, simplifications of procedures to import raw materials, procedures for duty free import of goods by Indian industries under deemed export scheme, fulfilment of export obligation etc. The study shall also try to check its impact on our changed/open economy and foreign investment, its role in improvement both in our foreign trade and balance of payment position. Study peeps into some of its negative impacts too, specifically in reference to generation of employment and poverty alleviation.

### **Foreign Trade of India During the Pre-Independence Period**

Before the second world war, India was forced to export more than its imports in order to meet the unilateral transfer of payments to Britain in the shape of salaries and pensions of British Officers (civil & Military), interest on sterling loans and dividends on British capital invested in India. During the Second World War, there was a basic change in the nature of India's international trade. India began exporting to Britain large quantities of goods, but the engagements of Britain in the war did not permit her to export to India adequate quantities of goods in return. Such unrequited exports gave rise to sterling balances. Thus more exports and less import, which was the feature of India's foreign trade, helped a favourable trade balance. The balance of trade was so favourable with Britain-the principal customer of Indian Goods-that even after paying of sterling debt; India was able to build huge sterling balance amounting to Rs.1,733 crores in April 1946.

**Table (2a.1) : Foreign Trade During the PreIndependence Period**

(Rs. Crores)

Year	Exports	Imports	Trade Balance
1938-39	169	152	+17
1945-46	266	245	+21
1946-47	319	288	+31
1947-48	403	389	+14

Source: Indian Economy-Ruddar Datt & K.P.M Sundharam (50t Edition) 2008, page no.763

### Trade and Policies Since Independence

In order to evaluate the the trade and policy after independence we should know the trade balance first which is shown by following table-

**Table 3.1 Exports Imports and Trade Balance**

Year	Exports (% Rate of change)	Imports (% Rate of change)	Trade Balance (Rs. Crores)
1949-50			-132
1950-51	24.9	-1.5	-2
1951-52	18.2	46.4	-174
1952-53	-19.3	-21.1	-124
1953-54	-8.1	-13.1	-79
1954-55	11.7	14.8	-107
1955-56	2.7	10.6	-165
1956-57	-0.7	8.7	-236
1957-58	-7.3	23.1	-474
1958-59	3.6	-12.5	-325
1959-60	10.2	6.1	-321
1960-61	0.3	16.8	-480
1961-62	2.8	-2.9	-430
1962-63	3.8	3.8	-446
1963-64	15.8	8.1	-430
1964-65	2.9	10.3	-533
1965-66	-0.7	4.4	-599
1966-67	42.8	47.5	-921
1967-68	3.6	-3.4	-809
1968-69	13.3	-4.9	-551
1969-70	4.1	-17.1	'-169
1970-71	8.6	3.3	-99
1971-72	4.8	11.7	-217

1972-73	22.6	2.3	104
1973-74	28.0	58.3	-432
1974-75	31.9	52.9	-1190
1975-76	21.2	16.5	-1229
1976-77	27.4	-3.6	68
1977-78	5.2	18.6	-612
1978-79	5.9	13.1	-1085
1979-80	12.1	34.2	-2725
1980-81	4.6	37.3	-5838
1981-82	16.3	8.4	-5802
1982-83	12.8	5.0	-5490
1983-84	11.0	1	-6060
1984-85	20.2	8.2	-5390
1985-86	-7.2	14.7	-8763
1986-87	14.3	2.2	-7644
1987-88	25.9	10.7	-6570
1988-89	29.1	26.9	-8003
1989-90	36.7	25.1	-7670
1990-91	17.7	22.3	-10645
1991-92	35.3	10.8	-3810
1992-93	21.9	32.4	-9687
1993-94	29.9	15.3	-3350
1994-95	18.5	23.1	-7297
1995-96	28.6	36.4	-16325
1996-97	11.7	13.2	-20103
1997-98	9.5	11.0	-24076
1998-99	7.4	15.7	-38580
1999-00	14.2	20.7	-55675
2000-01	27.6	7.3	-27302
2001-02	2.7	6.2	-36182
2006-07	22.1	21.2	-42069
2007-08	15.0	20.8	-65741
2008-09(Apr-Dec)	21.3	31.3	-91472
2008-09(Apr-Jun) (provisional)	125914.98 (Total Export)	183222.61 (Total Import)	12609.35 (Million US \$)

Source: The Fourteenth report of estimate committee of the erstwhile Ministry of Foreign

From above table we can see that trade balance was continuously adverse since independence. It was only positive in the year 1972-73 and 1976-77. Net terms of trade which had increased on an average by 1.1 per cent per annum in the 1990s, have witnessed a continuous decline since 1999-2000. This deterioration in prices of exports relative to imports has been significant in the last two years and seems to have been affected, inter alia by the resurgence in international crude oil prices.

However, given the strong growth in exports in volume terms, the income terms of trade, which measure the import purchasing power of export, has consistently improved during the 1990s (except 1996-97).

In the recent past, between 2000-01 and 2006-07 this capacity to import on the basis of exports increased by 10 per cent per year. It reflects the growing competitiveness of Indian exports with volumes increasing with decline in relative unit prices. Despite some slow down in the second half, export growth continues to be buoyant in the current financial year.

Exports registered an increase of 25.6 per cent in US \$ terms in April-January 2008-09, substantially higher than the annual target of 16 per cent as well as the rise of 11.7 per cent recorded in the corresponding period of the previous year.

Under its newly announced foreign trade policy 2008-09, Government encouraged by a 20 per cent plus growth rate in three of the last four years, has fixed an ambitious target of US \$ 150 billion of exports by the year 2008-09, implying an annual growth rate in US \$ terms of around 20 per cent, thus doubling the share of India in global exports to 1.5 per cent.

Both external and domestic factors have contributed satisfactory performance of exports since 2006-07. Improved global growth and recovery in world trade aided the strengthening Indian exports.

On the other hand, firming up of domestic economic activity especially in the manufacturing sector, provided a supporting base for strong sector-specific exports. Recent recovery in international commodity prices and various policy initiatives for export promotion and market diversification seem to have contributed as well.

The entrenchment of the growth momentum in the 1990s, the opening up of the economy and corporate

restructuring have enhanced the competitiveness of Indian industry. There is a far greater export orientation of domestic manufacturers; they are pursuing new growth strategies in response to economic reforms. India's export in recent past have continued to grow at a rate higher than that of world exports or exports from developing countries, except in 2007 when there were large US \$ price changes. India's share in world exports rose from 0.6 per cent in 1999 to 0.8 per cent in 2007. Currently, India is the 31<sup>st</sup> Leading Exporter in the World Merchandise Trade.

The strengthening of India exports has been aided by positive trends in global demand, which was also reflected in world trade.

After a sharp down turn in 2001, volume growth in world merchandise trade rebounded to 3.0 per cent in 2006 and further increased by 4.5 per cent in 2007. The trade recovery in 2007 benefited from strong import demand in developing Asia, the transition economies and the US, with Western Europe and Latin America posting the import growth due to their sluggish economies.

The most dynamic trading regions in 2007 were Asia and transition economies, recording exports and imports expansion in real terms of 11 to 12 per cent.

Trade policy reforms in the recent past, with their focus on liberalization, openness, transparency and globalisation, have provided an export friendly environment with simplified procedures for trade facilitation efforts of the government have also aided the current strengthening of export growth.

The Union Budget 2008-09 reiterated the policy approach of lowering customs duties in the measured rates to align India's tariff structure to those of ASEAN Countries. It is underlined the need a special fiscal and regulatory regime for the SEZs, given their role as growth engines that can boost manufacturing, export and employment.

Towards this, a bill for regulating SEZs, to make India a major hub for manufacturing and exports is proposed. The trade deficit, which reflects excess of imports over exports, has been showing a widening trend in the recent years and stood at a high of US \$ 14.3 billion in 2007-08. However, US import growth continued to exceed export growth, further widening its trade deficit. India is a 24<sup>th</sup> Leading Importer in world merchandise trade.

With imports continuing to grow at a relatively

higher rate, the deficit has increased further around 68 per cent to US \$ 22.7 billion in April-January,

2008-09. BOP was continuously adverse after independence except in 4<sup>th</sup>,5<sup>th</sup> and 10<sup>th</sup> plan.

### Suggestions

Total sales to DTA from EHTP units manufacturing zero duty items should attract 50% of applicable duties. This should not be linked to exports.
Allow effective 50% duty benefit on DTA sale from EOUs — to discourage trading in cheap goods allowed for, import into the country at nil basic duty, this notification needs amendment.
For EOU, EHTP, STP units in case of import substitution products up to two-third of the sales be allowed in DTA.
Self-Certification and Advance Filing of Bill of Entry/Shipping Bill for speedy clearance of imports/export goods.
No CVD to be levied on products sold overseas, which are returned only for modifications.
All supplies to defence and other strategic sectors should be considered as deemed exports.
Amendment required in the Existing FTP. No duty should be leviable at the time of debonding of 100% EOU/EHTP Units on imported items which had effective customs duty at nil rate by virtue of exemption notification

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