

**OUR FOREIGN EXCHANGE PROBLEM CAN  
BE SOLVED BY A NEW EXPORT POLICY**

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## OUR FOREIGN EXCHANGE PROBLEM CAN BE SOLVED BY A NEW EXPORT POLICY

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World trade continues to expand in spite of the limitations imposed by political tensions. Compared to world trade figures, the statistics of India's foreign trade do not indicate a commensurate increase. In 1960, the actual figures were Rs. 6,300 million worth of exports and Rs. 10,100 million worth of imports. The imbalance in our foreign trade indicated by the wide gap between exports and imports continues to cause a considerable amount of strain on the country's economy. A deficit of very nearly Rs. 4,000 million is not a small amount, and it comes as a greater hardship when we find that over the years, this imbalance is increasing instead of decreasing. In 1958, for example, the gap between our imports and exports was of the order of Rs. 2,900 millions. In 1959, it increased to Rs. 3,200 millions and in 1960, to Rs. 3,800 millions. If we judge the possible results for 1961 on the basis of the performance during first few months of the year, the exports are likely to be of the order of Rs. 6,600 million and imports are likely to be of the order of Rs. 9,800 million giving a possible deficit of 3,200 million. It is obvious that despite the very strict import controls which are being imposed from period to period, the deficit continues to be of a formidable order. It would seem, therefore, that the solution to the problem of our foreign trade does not lie

"People must come to accept private enterprise not as a **necessary** evil, but as an affirmative good."

—Eugene Black  
President, World Bank

entirely in restricting imports. We must explore other avenues in order to find a long-term solution to this very intricate problem of imbalance in our foreign trade.

During the last five years, beginning from 1956, when for the first time our country was faced with a really serious foreign exchange problem, many short-term measures and *ad hoc* remedies have been tried. To begin with, importers of capital goods were asked by the Government to obtain medium-term credits extending over 4 to 6 years for imports from Europe and America. This worked for a time. Within a short time, however, it was found by the Planning Commission and the Finance Ministry that this method of obtaining foreign exchange was only a very short-term solution because, when the time for repayment would be due in the early part of the Third Plan, the country would be faced with the problem of finding the foreign exchange required to repay these medium-term loans secured for import of capital goods. It was, however, believed at that time, that by the commissioning of various industrial plants which were imported either wholly or partly under these credits, the country would be able to save enough on its imports to be able to repay these loans. But that was wishful thinking.

In the first place, the programme of commissioning industrial plants has not gone according to schedule. The reasons are many and fairly well known by now. Everything is to be done subject to some licence or permit which normally involves a large number of authorities to be approached, even when the particular project is within the Plan and the necessary industrial licence has been secured. Therefore, the benefit of foreign exchange savings resulting from new industrial plants is not obtained on the expected date. Secondly, both the Government and industrialists in our country have been very keen to achieve a very rapid rate of industrialisation in practically all the spheres of manufacture. This desire for rapid industrialisa-

tion has been translated into action by planning various projects both in the state and private sectors. Consequently, the rate at which the imports of capital goods have been taking place has been faster than what the resources of the country permit in terms of the foreign exchange available for financing the import of capital goods.

In this manner, the balance of payments position of the country could not possibly be stabilised. The next step that was taken by the government, as another *ad hoc* measure, was to secure comparatively long-term credits from various financial institutions and governments abroad, largely on a Government-to-Government basis. The distribution of these funds among the numerous claimants for foreign exchange for industrial projects and the allocation of priorities to the different projects, apart from the finalisation of the negotiations with foreign Governments, has inevitably led to a great deal of delay and very often to a considerable degree of disappointment to those who have either not been able to have their share of the cake or who are not satisfied with the grade of priority allotted to them. Apart from this, all this procedure has involved considerable delay in bringing into commission the productive capacity of industrial projects. Consequently, the amount of foreign exchange that was hoped to be saved by expected production from these industrial projects has not materialised and the country has continued to depend upon imports, very much against the wishes of the Government and the industrialists concerned. Instances could be quoted where this unfortunate position has been created, among them, the "people's car" project, the aluminium projects, rayon projects, steel projects and various machinery projects.

Apart from these major industries, it is the common experience of industrialists that the degree of delay is equal, if not more, in the case of medium and small scale industries.

The question then arises as to what is the solution on a long-term basis for this problem of shortage of foreign exchange. It should be remembered that ours is not the only country and this is not the only time when such problems have had to be faced. Other countries had faced such a problem and tackled it with imagination, courage and with confidence in their own citizens. In our country, unfortunately, the Government—both the politicians and government officers—have constantly displayed a lack of confidence in the commercial and industrial community. This has resulted in the imposition of impracticable controls and the impracticable implementation of even apparently innocuous controls. I concede that some small section of the business community has not always lived up to the expected ethical standards. It must also be realised that the same could be said of those in authority. While mutual recrimination is both fruitless and negative, it is the duty of all in authority and in private enterprise to see to it that an undue obsession about the integrity of one section or the other does not prevent us from implementing practical policies which would yield desired results.

It has been argued by the business community that the incentives which are at present being provided for exports by manufacturers should be made available to exporters who are traders. It has often been argued by the Government spokesmen that as the present incentives are given mainly in the shape of imports of raw materials, auxiliary products, components, etc., the imports of these items by traders would lead to their sale in the open market at unjustifiably high prices. The basic economic fact that unjustifiably high prices are not the result of the agency which is entrusted with the sale or distribution of the commodity concerned but rather the result of a shortage of the items, and that the law of supply and demand ultimately governs the prices, is being overlooked in this argument. If as a result of permitting exporters who are traders to obtain the benefit of incentives, imports of these items, which are in short supply in the country and which

are selling at high prices at present, takes place to a larger extent and these imports find a way into the open market, there will be an automatic adjustment of the prices in a manner which would bring the prices down because of the larger availability of these commodities irrespective of the agency which imports them. Can it be denied, for example, that all these commodities or products which are being imported by the State Trading Corporation or, as incentives even by manufacturers, are not always consumed by the proper persons or by manufacturers? No useful purpose is served by blinding ourselves to the facts of the situation, however regrettable they may be.

It has also been urged upon Government that instead of specifying incentives in terms of import licences for specific raw materials, components, etc. related to the exported items, a system of incentives based on the retention of a part of the foreign exchange earned by the exporter should be introduced. This would enable him to obtain an import licence for any of the permissible commodities, so that he may import such items as are in short supply and thus bring about an equilibrium between supply and demand. This would be a logical and rational method of providing incentives and remedying the present shortages in the country. But, this proposal has been turned down on the ground that it is against the present accepted and announced policy of the Government.

The export of certain commodities has been channelised through and monopolised by the State Trading Corporation. A great deal of complaint and opposition against this method has been voiced by the business community from time to time, but under the cover of ideological implementation of the Government's "socialistic pattern" policy, all these complaints are being completely ignored. The result has been that the normal channels of trade have either dried up or are being utilised under great hardships resulting from the inevitable delay and unbusinesslike approach of the retired officers who constitute the



Communist countries like Czechoslovakia and East Germany have autonomous Corporations which function more or less in the same manner as trading bodies and which will be willing to do more trade with normal exporters and importers here without insisting on channelising their transactions through the State Trading Corporation. As a matter of fact, many of them are not happy about the methods adopted by the S.T.C. in dealing with them. Therefore, the function of the S.T.C. should be restricted to countries like Russia who have so far insisted on doing business on Government-to-Government level. Such trading activities on the part of the State Trading Corporation should be restricted to items which are either not available for imports from other countries or to export items which do not normally find an outlet in other countries where we can earn convertible foreign exchange. It is necessary to emphasise that our foreign exchange position can improve only if we earn *convertible* foreign currencies in payment for our exports. The earning of blocked rupees against our exports does not in any manner or shape improve our balance of payments position.

5. Encouragement of banking, shipping and insurance services of Indian origin so as to prevent an outflow of hard-earned foreign exchange in payment of these services to foreign based companies.

6. Permitting and encouraging establishment of genuine Indian exporting houses in India and also permitting them to establish branches abroad to develop our export trade. Foreign exchange required for this purpose can easily be made available if the present un-planned and unproductive expenditure on exhibitions held and show rooms maintained, in foreign countries, of traditional handicrafts and cottage industry products is reduced and brought down to a reasonable minimum. It has been my personal observation that the money spent by our Government on exhibition of these items of handicrafts and cottage industries is far beyond the justifiable level and, therefore, fails

to bring in the required results. Many Indian traders have in the past been exhibiting and exporting these products without the Government spending money on exhibitions and emporia abroad. Even where the Government has been outwardly successful in selling these products to certain countries in Eastern Europe, it has been found that these products have not all been consumed in those countries but have been sold in our normal markets, much to the detriment of our normal exports.

Just as in the industrial field, the private sector, or what can rightly be called the people's sector, even whilst working under the hurdles of controls, restrictions and licences, has shown in the last 15 years remarkable achievements, I am confident that equally remarkable results in the sphere of foreign trade could be achieved by the private sector functioning through the normal channels, if it is allowed to function more freely and with due encouragement.

## Appendix

### European Common Market & India's Foreign Trade

Of late, a great deal of discussion and negotiation between the countries of the Commonwealth on the one hand and the United Kingdom, on the other, has taken place almost simultaneously with the negotiations which are going on between the U.K. and the Inner Six, for making it possible for the U.K. to join the European Common Market. The objections to and the doubts about the advisability of the U.K. joining the E.C.M. are based on two main considerations. One is that Britain's closer association with the E.C.M. countries and the consequent adjustment of tariff walls between the U.K. and the Inner Six would lead to a more difficult position for the Common-

wealth countries in respect of their exports to the U.K. as well as to the E.C.M. countries. The second is that as a consequence of the loosening of economic ties between the U.K. and the countries of the Commonwealth, the concept and working of the Commonwealth might suffer a serious set-back. It has been emphasised, for example, by our Prime Minister that the present ties between the countries of the Commonwealth are more economic than political; that the benefits of membership of the Commonwealth too are more of an economic nature than of a political nature, and, therefore, any weakening of the close ties between these countries would lead to a gradual dissolution of the Commonwealth. Canada too has expressed a similar opinion.

At the recent meeting of the Finance Ministers of the Commonwealth held at Accra, some plain speaking took place by the spokesmen of the Commonwealth countries. Great Britain was warned that unless the interests of the Commonwealth countries in respect of their exports to the U.K. and the E.C.M. countries were properly safeguarded, Britain's entry into the E.C.M. would be undesirable and perhaps harmful from the point of view of the Commonwealth. Suggestions have been made that the countries of the Commonwealth might be offered associate membership of the E.C.M. on lines similar to the position offered to and accepted by the overseas territories of France, Belgium and Holland. Very naturally, countries like India have expressed their resentment at the idea of having to occupy a position which is not at the same level as that which might be occupied by the U.K. in the E.C.M., because in the present framework of the Commonwealth, the very basis is equality for all the members. This basis of equality is, therefore, being insisted upon by the Commonwealth countries in any future relationship that might be found possible and necessary between the Commonwealth countries on the one hand and the countries of the E.C.M. on the other.

Some business organisations and economists in India have expressed the fear that Britain's entry into the E.C.M. and the consequent adjustment of tariff walls for entry of Indian products into the U.K. and into the countries of the E.C.M. would result in a worsening of India's export trade. These fears are based on the hypothesis that our trade with the U.K. continues to remain at the present high level mainly because of the Commonwealth Preferences in respect of tariffs which govern the import of Indian products into the U.K. I feel that if a proper analysis of our export trade with the U.K. is undertaken, it would probably be found that the main items of export from India to the U.K., viz., tea, jute, cotton textiles, oils, etc., are items in which India does not have to fear international competition to the same extent as she has to face in some other commodities like manganese ore, and manufactured products. Moreover, the associated countries of the E.C.M. do not normally export these commodities either to the U.K. or to the E.C.M. countries.

Secondly, in the long run, we have got to organise our export trade, and for that matter our foreign trade, on the basis of the facts of the international situation ruling from time to time in the world markets. Our products have got to be competitive both in respect of their production cost and quality. If we are getting certain preferences from the U.K. at present, and from some of the Commonwealth countries, we are also giving them preferences which are if not more, valuable to them than they are to us. Thereore, we can take it that if the U.K. enters the E.C.M., it would be in the interest of the U.K. to see to it that she continues to get certain preferential treatment from the Commonwealth countries and for that reason she will be compelled to continue to give preferential treatment to the exports from the Commonwealth countries to the U.K. Taking the argument a step further, as part of the over-all arrangement with the E.C.M. countries, it may be possible for us to negotiate directly with the E.C.M., not as an

Associate Member, but as an important country holding an important place in world markets. By such negotiations with the E.C.M., we can obtain certain advantages which at present we do not enjoy. It should be our endeavour to continuously negotiate for obtaining such advantages and arrangements *vis a vis* the E.C.M. countries. In this connection, the appointment of an able and experienced Civilian in the person of Mr. K. B. Lall to be our Ambassador to Belgium and Commissioner-General to the E.C.M. is a step in the right direction and a welcome move on the part our Government. I hope that the Government will see to it that Mr. Lall continues to be briefed and that his hands are strengthened to the required extent to enable him to negotiate for obtaining special arrangements for larger exports of Indian products to the E.C.M. countries irrespective of the fact whether and on what terms the U.K. joins the E.C.M.

It is high time that we establish a position for ourselves in world trade which would enable us to demand and to give reciprocal concessions and to enter into reciprocal arrangements with the major economic groups which are emerging all over the world, so that we enjoy the benefits of expanding foreign trade, not just as one of the members of a particular group, but in our own right as one of the major countries of the world.

This brings us to the theme of regional co-operation in our area. In 1953, when the All-India Manufacturers' Organisation and later, the Indian Council of Foreign Trade, first mooted the idea of closer regional co-operation between the countries of South-East Asia with a view to bringing about an economic union of these countries in the long run, almost everybody in our country considered this proposal to be impracticable, and even perhaps undesirable in view of our growing 'brotherly' ties (at that time) with Communist China, with Russia and with the countries of Eastern Europe. Politically, we have been completely disillusioned in respect of the 'brotherly

feelings" for our neighbour, Communist China. Economic expectations of growing trade with Communist countries has proved to be wishful thinking. This trade, mainly channelised through the S.T.C., has neither proved to be large, nor growing, nor beneficial from our country's point of view. On the other hand, our neglect of this idea of closer economic union with our neighbouring countries has not prevented even smaller countries in this region from considering and going ahead with the idea for such a union of the countries of South-East Asia. It is now well-known that Malaya has been taking the initiative in forming an Economic Union of Malaya, Singapore, Indonesia and the Philippines.

We had also thought, at that time, of some closer economic ties with countries of the Arab world and Africa. Nothing has been done by our Government to take us any further on the road to real and effective economic union or even an association with these countries so far, except to the extent of signing a few treaties here and there of a bilateral nature for the exchange of a few commodities like cotton. But, these countries themselves, under the leadership of the U.A.R., Ghana and others have actually decided to form an economic association of the countries of Africa with headquarters at Cairo. The Communist countries have their own economic bloc which is very closely knit and, of course, very closely preserved. The countries of Western Europe have made E.C.M. an instrument of their economic prosperity and growing strength. The countries of Latin America have likewise taken steps recently to organise their own economic group. Canada and U.S.A. constitute one of the most prosperous and well-organised economic groups in the world. The Commonwealth appears to be loosening its ties because Britain has come to feel that her future economic and military strength lies in greater association with the countries of the E.C.M. and of the NATO.

Are we then to face the cold winds and blizzards of

economic competition and economic cold-war alone, unaided, and unbefriended? Have we reached such a great stature in our economy that we can afford to stand all by ourselves against these growing economic blocs all over the world? Our active participation in an economic union with the countries who share our outlook, ideology and our economic aspirations would help to strengthen our position in world trade and to secure for us a proper share of the growing world trade. Our Government, however, has so far cold-shouldered (probably as a projection of our political neutrality), the idea of any economic union. I would like once again to urge upon our Government and upon the leaders of thought to re-consider their stand and their outlook *vis a vis* the desirability of India constituting herself as an active member of an economic union of appropriate and suitable neighbours. India should take the initiative and not be just camp followers of any other organisation. We have already lost nearly 8 years of time during which we could have done a great deal. Even now it is not too late.

*The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.*

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