

# THE PROBLEM OF FOREIGN EXCHANGE

Prof. C. N. Vakil

Since the days of the East India Company, India had a favourable balance of trade as a rule. This meant that we had an excess of exports over imports throughout this long period. It may be of interest to recall that this excess of exports was the method by which India was made to pay certain contributions to Britain, which has been described as the Drain from India to Britain. In other words, it was a sort of compulsory excess of exports which we made for a large number of years, to meet some of the charges which were levied on India for different purposes by the ruling country. In the Accounts of the Government of India, these charges were described as "Home Charges". During the First World War some changes took place, but the general trend remained about the same till the Second World War. The large amount of expenditure which India had to incur in rupees to meet the war operations of the Allies in India, particularly in their effort to drive the Japanese back, created a special problem of War Finance. India found these resources by inflation which created various internal difficulties. In return India was credited with equivalent amounts in sterling. Thus we had Sterling Balances in London at the end of the War, which could be utilised under certain conditions. This is the beginning of the flow of goods in the reverse direction. We could utilise these resources to buy imports of machinery and other goods required for our Plans.

It would be appropriate to note how other countries obtained resources for investment in connection with their development. The so-called advanced countries of the world were not able to develop their economies from their own resources. The United Kingdom was able to finance its industrial revolution with the help of the vast resources which it could draw from the colonies and dependencies of the British Empire. Apart from personal or non-official methods of exploitation, the amounts officially paid by India to the U.K. are recorded in the accounts of the Government of India as explained above. Both the U.S.A. and Canada were new countries with vast natural resources and limited population. In order to develop these resources, foreign capital, mainly British, came to these countries. Similar situations can be found in connection with the development of other countries. It may also be noted that the process of industrial development in most of these countries was spread over a fairly long period and did not attract world attention at the time when it was taking place.

With the advent of independence in under-developed countries, beginning with India, the urge for economic development has grown. The problem, however, for countries like ours is different as well as difficult. We have a large and rapidly growing population, the majority of whom are poor and living on the margin of subsistence.

vely supported by adequate Shipping, Insurance and Banking facilities, by a knowledge of trade techniques and procedures in other countries, by arrangements for exhibitions, fairs and emporia of our goods in different countries, and above all by the enforcement by the trade itself of the necessary code of honour which should be observed by exporters in their dealings with foreign buyers;

(8) In view of the urgency of the problem suitable Research Teams

of competent persons should be sent out in appropriate areas to make on-the-spot enquiries and to ascertain the best method by which our export trade can be stimulated;

(9) Export Trade should not be treated as a by-product of other activities;

(10) In other words, all reasonable steps should be taken to develop export consciousness in the country to earn the foreign exchange required by us.

---

*The views expressed in this leaflet do not necessarily represent the views of the Forum of Free Enterprise.*

---

*With best compliments of:*

## Forum of Free Enterprise

235 Dr. Dadabhai Naoroji Road, Bombay 1

### HAVE YOU JOINED THE FORUM ?

Annual membership fee is Rs. 10/- only.

*Bona Fide* students can get our literature for a year by becoming student associates on payment of Rs. 2/- only.

Published by M. R. PAI for Forum of Free Enterprise, "Sohrab House", 235 Dr. Dadabhai Naoroji Road, Bombay 1, and printed by P. A. RAMAN at Inland Printers, 55 Gamdevi Road, Bombay 7.

It is not possible under these conditions for the country to have its own savings adequate to meet the demands for rapid development. Unlike other countries in the past, we are faced with the problem of rapid development, which means that we should bring about economic growth in a relatively shorter period. We have no political power to exploit other countries for these purposes as was done by some. At the same time, we do not have that affinity with other countries who can help, which the U.S.A. and Canada had. These countries were inhabited by people from England and Europe. They were able to welcome the immigration of enterprising persons from England and Europe, which helped the surplus population of European countries to settle in new areas. We have, therefore, to depend on the goodwill of other countries. Fortunately, the more advanced countries have realised that it is in their ultimate interest to raise the standard of living of the backward countries. This growing consciousness among the leading countries of the world at this juncture in our history is a great source of relief. The cold war between the two power blocs in the world has given an additional impetus to this tendency, with the consequence that countries like ours which are not attached to either bloc find it possible to get economic aid from both sides. There are, however, natural limits to such foreign aid. The demands of underdeveloped countries for development have grown. Countries in South-East Asia as well as in South America have been receiving some attention from the advanced countries in recent years. The emergence of national consciousness in Africa has created a new factor, namely, the need for development of the various African countries, who have received or are about to receive independence. This simultaneous demand from various quarters limits the amount of economic

aid, which can be made available from the countries which are able to spare the same.

A new and somewhat unexpected factor which has come into prominence in very recent times is the large export of gold from the U.S.A. During the war the monetary stocks of gold flowed from various countries to the U.S.A., with the consequence that the U.S.A. has now the largest stock of monetary gold reserves. It has given considerable assistance to other countries to restore their economic position after the World War. The recovery of Europe owes substantially to the Marshall Plan. Since then the U.S.A. has made elaborate arrangements for giving aid in different forms to a large number of countries including India. At the same time, it has military establishments both in Europe and in other parts of the world, which involve large expenditure outside the country. With the development of Europe the trade relations between Europe and the U.S.A. are changing their character. A combination of these forces resulted in an adverse balance of trade for the U.S.A. for which gold had to be exported to other countries. The movement was also partly due to speculative transactions which are inevitable under such circumstances. This factor is mentioned in order to draw attention to the fact that even the richest country in the world has a limit to its capacity to find resources to give aid to other countries. It is well known that the Government of the U.S.A. is anxiously trying to restore its balance of payments position so that the outward flow of gold can be restricted.

For the Third Plan, we have estimated that we shall require certain large quantities of foreign exchange. We are aware that our own capacity to earn foreign exchange

is very limited inasmuch as our exports are not adequate for the purpose. Our foreign exchange requirements are partly due to the need to pay interest and capital on account of foreign loans that we have already incurred. We have also to import certain large quantities of goods, raw materials and equipment for the industries that we have already established. Further, development of new industries which we are planning requires the import of machinery. In view of the magnitude of our requirements to revolutionise our economic life in a short time, such a situation is likely to continue for years to come, though we are anxious to do away with foreign aid as soon as possible.

Our economic arrangements in relation to other countries are thus fast becoming complicated. These complications are likely to grow. We have, therefore, to be careful in watching changes in International Economic Relations in which we are involved. Whereas this is a vast problem, one factor which is conclusive is that we must have a long-term export policy with a view to solving our foreign exchange problem as soon as possible. It is obviously not desirable for us to be dependent on a large number of countries for small and big quantities of foreign aid longer than necessary. In our desire to have rapid economic development within the country, we have not paid adequate attention to the effort that is necessary in this important aspect of development. It is unfortunate that at this very juncture we find that our traditional exports, like tea and jute, are stagnant and are meeting with increasing competition from other countries. We have not yet developed the art of selling our goods abroad in competition with those of other countries. In this effort we have to learn a good deal from the experience of other countries; some of the points on which attention has to be

given without delay may be summarised as under:-

(1) The export trade must be in the hands of people who have specialised in the work and are able to devote their major attention to the task;

(2) One of the essentials of success is that the export trade should be a profitable business. In return for this, the exporter should observe a code of honour, inasmuch as he should develop a national goodwill for the country, among the buyers of other countries by maintaining a supply of quality goods at competitive price and thus establishing relations, which will help us in selling our goods abroad in larger quantities. The Government should be ready to help the exporter at least in the early stages by giving subsidy and other incentives;

(3) Both the business community and the Government should actively co-operate in having a suitable, efficient organisation for a continuous study of the markets of the world and in doing propaganda to stimulate such markets;

(4) It should be possible for the industrial establishments in the country to adjust their production to the changing requirements of our foreign buyers;

(5) The aim should be not only to maintain and develop our traditional exports like tea and jute, but also to launch on the systematic export of manufactured goods;

(6) To strengthen such relations from the long-term point of view, we should have cultural contacts as a means of better understanding with other countries, which should include the study of languages of different countries, where we wish to maintain trade relations;

(7) These efforts should be acti-