

# Volume of Trade in Pre-Reforms and Post-Reforms Periods of India

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## Abstract

*“Trade has the benefits which no country can deny. It is the lifeline of the people living across different boundaries. In the absence of trade, the happiness of the world would be at least reduced to half if not vanish”.* The role played by foreign trade in the development of the economies of different nations can never be overstated. Foreign trade has been rightly called upon as the engine of economic growth by many prominent economists of international repute. In the absence of international trade, nations would find it not only difficult to utilise their economic resources to the optimum level, but also will not be able to fulfil all the demands of consumption of the people in their economies. Present paper endeavours to present the utility of international trade in the development of any economy and volume of foreign trade in pre-reforms and post-reforms periods.

**Keywords:** Pre-Reforms, Post-Reforms, Foreign Trade, GATT, WTO, MFA - Multilateral Financial Agreements

## Introduction

According to Haberler, less developed countries have benefitted the most from the provisions and operations of international trade. They not only gained in terms of goods and commodities for consumption but also learnt the techniques and modern technology provided to them by the developed nations. In the 19th and 20th centuries, underdeveloped nations made a big leap in the fields of industrial production, based on only the technology gained by them. This manifests the importance of international trade in the field of economic development of the nations of the world.

According to the view opposite to this, many economists and thinkers hold it strongly that international trade acted

as a weapon in the hands of the developed nations based on which they looted and exploited the underdeveloped nations. They also exploited their natural resources and used them to develop their own indigenous industries.

Theory of international trade answers two basic questions pertaining to international trade – one is what determines the pattern of international trade and another is who among them gains from international trade? The answer to both these questions is provided by the theory of the comparative cost advantage. The theory of comparative cost advantage was propounded by Prof. David Ricardo (1772–1823). He published this famous work in the year 1817. This work was published in his main work called *Principles of Political Economy and Taxation*. It contains the theory and canons of the Classical Theory of Value and Distribution. Chapter 7 of his book contains a detailed treatment of the theory of comparative cost advantage. It is one of the oldest, most prominent and unchallenged theories of trade in economics. Economists like Heckscher (1919) and Ohlin (1933) also discussed the significance of international trade in the area of efficient use of economic resources of any given economy. As far as gains from trade are concerned, all the nations involved in trade stand to gain from trade as it is a two-way process and all the partners of trade gain from the trade done by them and international trade. Thus, it is often called as a positive-sum game.

## Need of the Study

International trade has been the most important element of the Indian economy, just like all other economies of the world. India trades with many developing and developed nations of the world. Some of the items which comprised of international trade in past are still a part of Indian trade. Trade-in modern times has acquired increased importance and become a way of life for our people and an important means of earning foreign exchange. Before

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taking up the issue of the status of the Indian economy in the international trade, it becomes imperative to discuss the roots of trade in India. The present paper is an attempt to discuss the level and the volume of international trade in pre-reforms and the post-reforms periods.

## Literature Review

Literature review is a necessary element of any research. It tells us about the past details and throws light on the future course of action of the concerned research. A gist of some of the prominent researches is given as under:

Chandra Mohan, B. P. (1997) takes an in-depth stock of textile trade in India. The paper concludes that gain in textile and clothing for India is not going to be easy. India is likely to face tough competition in the export of textile and clothing from China, Indonesia and Pakistan, in general, and Mexico and Caribbean nations, in particular. China is going to be the largest beneficiary from the MFA phase-out in the wake of its WTO membership. Dr Chandra Mohan asserts that anti-dumping and countervailing duty cases still pose a threat to the successfully developing country exporters. Though bristled with uncertain prospects of substantial gain in textile and clothing, India could still make inroads into the world market.

Villalan, T. K. S. and Kalavathi, M. S. (1997) developed an index for measuring liberalisation for India. By applying this index, the authors analysed the impact of liberalisation on the trade balance and current account deficits by using time series data. The paper concludes that the growth rate of exports is negative due to liberalisation and the impact of liberalisation is weaker for the growth rate of imports. Contrary of this, the results of the dynamic model pointed out that effective exchange rate, real GDP growth rate and liberalisation reduce the trade burden and current account deficits in India. This may be because, in the earlier estimation, either dummy variable or number of years elapsed from the implementation of liberalisation were considered for measuring liberalisation.

According to Leela, P. (1999), the growth rate profile of India in the Post-WTO period since 1995 has changed in terms of composition, volume and destination. Her paper examines these changes with the help of aggregate data. She found that India's volume of trade declined during the first 3 years, from 1995–98, and then it started picking up. However, it still lags behind countries of South-East Asia. India must expedite her export dynamism in sectors

of crucial significance and meet the target of 1.5 percent share in world exports by 2009. This is going to come about by strengthening basic infrastructure and putting in place rule-based system aligned with WTO. A great deal of technical and professional preparedness is called for to excel in this area.

According to Wahab, Abdul (2000), Yet another examination of aggregate data found that Post-WTO trade could not show improved performance and the aggregate export growth rate decelerated during this period compared to that of the Pre-WTO period. This decline in overall export growth rate was shared by all the important categories of exports, notably manufactures. The future acceleration of exports would depend on how effectively India would be able to remove supply constraints. On the demand side, emphasis must be on the removal of numerous trade distortions and market access barriers. Issues of tariff peaks and tariff escalation, which are still persisting in developed countries, should be resolved for better market access.

We can comprehend from the above researches that international trade is of utmost importance for all the nations of the world and the people they inhabit.

## Foreign Trade of India: Historical Developments

India had trade relations with almost all the nations of the world in the past. The existence of Indian trade goes back to the Phoenician times when India traded in precious stones, tea, silks, spices and other commodities. Fine muslins and silks of India were the things cherished by almost all the nations of the world that traded with India.

The trade activities in India date far back to 3500 BC when India traded with far-off lands, including West-Asia and other nations. It also traded with Europe and Arab, covering central Asia and Malaysia as well. Pliny has called India as a bountiful land of precious stones.

## Foreign Trade of India in the Pre-Independence Period

India is a rich nation in terms of precious metals, stones and other natural endowments of all kinds. It was popularly called as the golden bird, which lured many foreign invaders and led to its exploitation beyond imagination.

Apart from the various plunderers, it was the British rule which devastated the very foundations of Indian trade and industry. British government developed its industries at the expense of Indian enterprises. India, which was the exporter of silk and many other items became an importer of the same owing to the practices of British rule.

## Volume of Trade in Pre-Independence Period

Table 1 shows India's Foreign Trade from 1834–35 to 1948–49. It shows that India always maintained a surplus trade. The British Government drained Indian national income of about 2–3 percent on per annum basis.

**Table 1: India's Foreign Trade 1834–35 to 1948–49**

(Rs. In Million)

Year	Imports	Exports	Balance of Trade
Annual Average			
1834–35–1838–39	73.40	113.2	39.80
1839–40–1843–44	104.40	142.40	38.00
1844–48–1848–49	122.00	169.80	47.60
1849–54	158.60	200.20	41.60
1855–59	268.40	258.40	10.00
1860–64	410.60	431.80	21.20
1865–69	493.20	576.80	83.60
1870–74	413.00	579.40	165.40
1875–79	482.40	631.20	168.80
1880–84	618.00	804.00	186.00
1884–85–1888–89	615.10	886.40	271.30
1889–90–1893–94	707.80	1049.90	342.10
1894–95–1898–99	737.70	1075.30	338.60
1899–1900–1903–04	848.80	1249.20	402.14
1904–05–1908–09	1198.50	1654.40	455.90
1909–10–1913–14	1516.70	2242.30	725.60
1914–15–1918–19	1592.50	2258.30	665.80
1919–20–1923–24	2670.50	3063.80	393.80
1924–25–1928–29	2510.20	3535.10	1024.90
1929–30–1933–34	1611.40	1986.00	374.60
1934–35–1938–39	1516.80	1724.40	207.60
1939–40–1943–44	1505.60	2152.50	646.90
1944–45–1948–49	3747.70	3306.00	441.70

Note: (i) Exports include re-exports.

(ii) Date up to 1946–47 pertains to undivided India.

Sources: Ministry of Commerce and Industry. Review of Trade of India (Various issues) Govt. of India Publication, New Delhi.

There was a rising trend in India's foreign trade which had the highest export surplus in the year 1928–29 with Rs. 1,024 million. Indian foreign trade sharply declined (1929–35) but it again regained some strength during 1933–34. During the period of 1946–49, India started to trade liberally.

## Volume of Trade During Pre-Reforms Period

Table 2 puts forward the trends in foreign trade in the pre-reforms period. It includes exports, imports and the trade balance of the nation.

## Exports, Imports and Trade Balance

**Table 2: Trends in Foreign Trade of India in Pre-Reforms Period**

(Rs. In Crores)

Year	Exports (including Pre-Exports)	Imports	Trade Balance	Rate of Change	
				Exports	Imports
1949–50	485	617	-132	–	–
1950–51	606	608	-2	24.9	-1.5
1951–52	716	890	-174	18.2	46.4
1952–53	578	702	-124	-19.3	-21.1
1953–54	531	610	-79	-8.1	-13.1
1954–55	593	700	-107	11.7	14.8
1955–56	609	774	-165	2.7	10.6
1956–57	605	841	-236	-0.7	8.7
1957–58	561	1035	-474	-7.3	23.1
1958–59	581	906	-325	3.6	-12.5
1959–60	640	961	-321	10.2	6.1
1960–61	642	1122	-480	0.3	16.8
1961–62	660	1090	-430	2.8	-2.9
1962–63	685	1131	-446	3.8	3.8
1963–64	793	1223	-430	15.8	8.1
1964–65	816	1349	-533	2.9	10.3
1965–66	810	1409	-599	-0.7	4.4
1966–67	1157	2078	-921	42.8	47.5
1967–68	1199	2008	-809	3.6	-3.4
1968–69	1358	1909	-551	13.3	-4.9
1969–70	1413	1582	-169	4.1	-17.1
1970–71	1535	1634	-99	8.6	3.3
1971–72	1608	1825	-217	4.8	11.7
1972–73	1971	1867	104	22.6	2.3
1973–74	2523	2955	-432	28.0	58.3
1974–75	3329	4519	-1190	31.9	52.9
1975–76	4036	5265	-1229	21.2	16.5
1976–77	5142	5074	68	27.4	-3.6
1977–78	5408	6020	-612	5.2	18.6
1978–79	5726	6811	-1085	5.9	13.1
1979–80	6418	9143	-2725	12.1	34.2
1980–81	6711	12549	-5838	4.6	37.3
1981–82	7806	13608	-5802	16.3	8.4
1982–83	8803	14293	-5490	12.8	5.0
1985–86	10895	19658	-8763	-7.2	14.7
1986–87	12452	20096	-7644	14.3	2.2
1987–88	15674	22244	-6570	25.9	10.7
1988–89	20232	28235	-8003	29.1	26.9
1989–90	27658	35328	-7670	36.7	25.1
1990–91	32553	43198	-10645	17.7	22.3

Source: Govt. of India, Various Issues of Economic Survey.

If we go through Table 2, we will recognise that barring 2 years during the period of pre-reforms in India, i.e., the years of 1973–73 and 1976–77, the trade balance of India has never been in favour of Indian economy. Exports generally moved upwards. In the plan periods of the first, second and third plan of India, there was no dynamism in exports, and they were almost stagnant and gained momentum after the devaluation of 1966 in Indian rupee.

## Volume of Trade During Post-Reforms Period

Table 3 presents the index numbers of foreign trade in India during the post-reforms period.

Introspection of Table 3 shows that there was a steady rise in the exports volume index as it was 194.1 in the year of 1990–91. Index of exports increased to become 264 in the year 2009–10.

**Table 3: Index Number of Foreign Trade (Base: 1978–79 = 100)**

Year	Unit Values Index		Volume Index	
	Exports	Imports	Exports	Imports
1990–91	292.5	267.7	194.1	237.7
1991–92	369.5	309.1	208.6	228.0
1992–93	421.5	331.0	222.9	282.0
1993–94	474.1	327.2	257.5	329.1
1994–95	494.6	324.6	292.7	408.3
1996–97	504.7	399.8	411.8	511.8
1997–98	589.4	404.2	386.0	562.1
1998–99	611.7	407.8	399.2	644.2
1999–2000	604.5	450.5	461.0	704.8
2000–01	624.3	487.5	571.4	697.7
2001–02	618.3	492.9	592.7	732.8
2002–03	619.6	545.6	721.6	802.4
2003–04	672.4	545.1	764.6	970.4
2004–05	732.0	663.0	899.0	1113.0
2005–06	881.0	988.0	1307.0	1095.0
2006–07*	158.0	206.0	227.0	191.0
2007–08*	166.0	210.0	245.0	218.0
2008–09*	194.0	239.0	267.0	262.0
2009–10*	196.0	215.0	264.0	288.0

Source: Govt. of India, Various Issues of Economic Survey.

\* Base 1999–2000

## Conclusion

As a conclusion, we may say that India's foreign trade has seen several ups and downs in the history of international trade. During the pre-independence period, it was dominated by the prominence of British rule and after that, during different plan periods, there existed stagnancy of trade in India owing to several factors. India needs to adapt to various methods and tendencies of the market to exist in international trade. International trade gives the

guarantee of its gaining strength and prominence at the international level. It is required to excel in international trade to become an international leader and the economy worth following.

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