

India's Trade Balance : 1970-71 to 1984-85 Analysis and Policy Implications

G.C.Da Costa

1. INTRODUCTION

The aim of this paper is to examine India's balance of commodity trade over a fifteen year period - 1970-71 to 1984-85. The concern with the trade balance is because of its dominance, especially since 1979-80, in the country's total payments balance (Table 1). Over the fifteen years, India's average trade deficit increased ten-fold, from 488.2 crores of rupees in the 1970-71 to 1975-76 years, to 5096.2 crores of rupees in 1978-79 to 1984-85 years. There were surpluses in the current account balance in 1976-77 and in 1977-78; surplus in trade balance in the former year and in total balance in the latter year. The average percentage share of trade deficit in the Gross Domestic Product of the country at current prices, over the latter phase, was 3.39, as compared with 0.88 for the earlier phase of the period. This share was 1.40 and 0.81 per cent, respectively, for the current account deficit, and 1.61 and 1.80 per cent, respectively, for the total deficit. More over, as Figure 1 clearly shows, there is a close parallelism in the direction of movement of the current account balance with the trade balance. Increased remittances, especially since 1979-80, may have widened the gap in these two balances, but the direction of change in the deficit has been maintained. Again, we observe a parallelism between the total balance and the trade balance - except, after 1981-82. The dramatic fall in the total deficit since then, despite the sustained trade deficit, is attributable to the country's commercial borrowings in these terminal years. It is because of the dominance, as also of the close correspondence with the current account as well as with the total balances, that a study of the trade balance is critical to the understanding of India's balance of payments.

The period of study spans important developments in both the world and in the Indian economies. At the world level, the explosion in international liquidity at the end of the sixties