1. What is meant by balance of payments? How is it classified? Explain salient features of India’s balance of payments?

**Ans:** The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debts) should balance, but in practice, this is rarely the case. Thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming.

**SALIENT FEATURES OF INDIA’S BALANCE**

From the above analysis, the following salient features emerge:

1. India has always faced trade deficits except in 1972-73 and 1976-77 where there was a small surplus.
2. Trade deficit has been rising from plan to plan with the exception of the fourth plan when the trade deficit declined.
3. The rate of growth of exports has been fluctuating from plan to plan.
4. Net invisible receipts have been positive.
5. The crisis in the balance of payments during 1990-91 and in the first quarter of 1991-92 necessitated the mobilisation of additional external funds to fill the gap. The task of the government became particularly difficult in the context of the dwindling international faith in our economy. In the end, the Government could mobilise substantial additional financial resources from the IMF, the World Bank, and the bilateral donors, specially Japan.
6. Fiscal deficit not only affects the prospects for growth and stability but has a vital bearing on the balance of payment strategy. A strategy for ensuring a viable balance of payments requires correction in fiscal imbalance as well.
7. There has been a low level of utilisation of external assistance resulting in a substantial part of authorised loans being in the pipeline. The main factor for under-utilisation of assistance is due to the time lag between commitments and conclusions of specific credit arrangements, time consuming procedures and domestic budgetary constraints in providing counterpart funds.
8. The emergence of a number of independent states out of the erstwhile USSR are bound to affect the country’s exports adversely. Thus, India’s balance of payments continue to be under strain.
9. The underlying weakness of the balance of payments remained. The falling support from net invisible receipts resulting from interest payments, the poor industrial and export performance and high rate of inflation stood in the way of achieving a sustainable balance of payments.

2. Describe various constraints hampering effective export promotion efforts in India.

**Ans:** Six major constraints in India’s exports growth. The constraints are: 1. Adoption of import substitution rather than export promotion strategy 2. Overprotection to Indian industry from external competition 3. High import barriers 4. High import tariff 5. Inadequate infrastructure 6. Complexity of trade procedures.

**India’s Exports Growth: Constraint**

Adoption of import substitution rather than export promotion strategy:

India’s initial approach to foreign trade can hardly be termed as an ‘export promotion’ approach. Rather, it was an approach to substitute imports at all costs. Policies were designed so as to protect all those industrial activities that substituted imports resulting into savings in foreign exchange to the exchequer.

**India’s Exports Growth: Constraint**

Overprotection to Indian industry from external competition:

Indian economic policies were designed to encourage domestic production and imports were restrained. Special protection was available to the units in the small-scale sector. A large number of consumer goods could not be produced by the large-scale industrial units.

**India’s Exports Growth: Constraint**

High import barriers:

The inward-looking trade policies with long lists of prohibited and restricted items restricted most consumer products from entering the Indian market. Only capital goods that too generally for export-oriented industrial production, could be imported.

**India’s Exports Growth: Constraint**

High import tariff:

The import tariffs in India have been among the highest in the world. Although imports in India were highly restricted till the nineties, even the products that could be imported became uncompetitive in the Indian market due to the high incidence of import tariffs.

**India’s Exports Growth: Constraint**

Inadequate infrastructure:

Infrastructure has been a grey area that has considerably hindered India’s economic growth. China’s edge in the speedy development of infrastructure is one of the prime causes for its impressive export growth besides the overall economic development.

**India’s Exports Growth: Constraint**

Complexity of trade procedures:

India’s trade procedures have been among the most complex in the world, resulting in much longer processing time and higher transaction costs. Prior to 1990, when the Aligned Documentation System was not yet implemented, there was hardly any synchronization among the documents required by the various government agencies.

3. “The gems and jewellery sector is one of the highest foreign exchange earners for the country.” Elaborate.

**Ans:** The Gems and Jewellery sector plays a significant role in the Indian economy, contributing around 7 per cent of the country’s GDP and 15.71 per cent to India’s total merchandise exports. It also employs over 4.64 million workers. One of the fastest growing sectors, it is extremely export oriented and labour intensive.