STRUCTURE OF INDIA'S IMPORTS : 1961-62 To 74-75

A Thesis
Submitted in partial fulfilment of the
requirement for the Degree of
DOCTOR OF PHILOSOPHY
IN
ECONOMICS

By
SATYA BALA

Birla Institute of Technology and Science
Pilani (Rajasthan) India
February, 1978

To
My Parents

BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE
PILANI, RAJASTHAN

CERTIFICATE

This is to certify that the thesis entitled "Structure of India's Imports : 1961-62 to 74-75" and submitted by Miss Satya Bala, ID. No. 73H81502, for award of Ph.D. Degree of the Institute, embodies original work done by her under my supervision.

Date: 17-2-78

(D.N. GURTOO)
B.Sc. Hons. (London),
M.A. and Ph.D. (Princeton),
Professor of Economics,
Birla Institute of Techology and Science,
Pilani, Rajasthan.

ACKNOWLEDGEMENTS

It is with profound pleasure I place on record my heartfelt thanks to my thesis supervisor professor Dr. D.N. Gurtoo, B.I.T.S., Pilani, for his inspiring guidance, invaluable suggestions and patient corrections during the entire course of this work.

I received constant encouragement from Dr. G.P. Awasthi (Group Leader, Economic Discipline), Dr. R.K. Sinha and Dr. (Miss) Sadhna Gupta and invaluable assistance and help from time to time during the course of this study. I, therefore, venture to take this opportunity to place on record my deep sense of gratitude to all of them.

I am also grateful to Mr. M.R. Kedia, Lecturer, Saboo Commerce College, Pilani, for valuable suggestions and help rendered by him from time to time.

In addition, Mr. and Mrs. Santani, Mr. V. Dube, Miss Geeta Raghavan, Miss Saroj Yadav, Mrs. Jyoti Mathur and Mrs. S. Vasudeva all of whom have directly and indirectly contributed to the present investigation. I, therefore wish to express my heart-ful gratitude to all of them.

It is my moral duty to place on record my deep sense of gratitude to my parents and other members of my family whose love and affection I received in abundance and whose patience, continued encouragement and unending blessings have always sustained me towards its completion.

I am also thankful to centre for monitoring Indian Economy, Bombay, for providingnecessary data and IPC, BITS for computational assistance.

I am also thankful to Mr. Bhagwan Das for drawing graphs and Mr. P.L. Mehta for diligently and neatly typing the thesis.

Last, but not the least, I hereby acknowledge the necessary facilities provided by the B.I.T.S. authorities during the entire time span of my present investigation and the timely financial assistance which I received in the form of BITS Research and U.G.C. Jr. Research Fellowships respectively.

Sbala

(Miss Satya Bala)

Pilani, India,
17th February, 1978.

INTRODUCTION

International trade has played a very important role in the economic development of the now highly industrialised countries, considered as leader in development in the foreign trade sector stood out as a leader for growth.

In some others, which had a large resource base, rapid increase of foreign trade became a concomitant of growth. Some other countries, which came somewhat later on the development scheme, found it feasible as also economically desirable to obtain accelerated growth based on resources imported from relatively more advanced countries.

A major constraint to economic development of developing countries is their capacity to export and pay for essential imports. When the development process is initiated, the pressure on imports is unavoidable. Imports of capital machinery and equipment for developing the infrastructure, as well as to obtain accelerated production imports of intermediates and raw materials are needed. Imports thus assume a critical role in the design of development.

In a developing country like India, the impact of industrialisation on imports is significant. The primary

need of the country is to acquire larger volume of capital equipment to augment its productive capacity. It is necessary during the course of economic transformation that a larger quantum of what is called the higher order of goods increasingly required as an integral part of the input in the productive structure of the economy is secured through imports. But Professor Hiroshi Kitamura has rightly emphasised that the size of the trade flow as such does not necessarily determine the amount of possible real capital formation, it is the structure of imports which should be taken into account in this respect. In order to examine the relationship between foreign trade and economic development, it is essential to examine the trends of imports - the magnitude, pattern and even direction.

Foreign exchange constraint is an important factor in stimulating development efforts, as it has a check on the flow of imports. Hence a study of the structure of imports of India is of vital importance for the successful implementation of the plan. The purpose of the study is diagnostic - to see what has been happening to the import structure and why it has been happening.

The present study has been divided into seven chapters centering its focus on various causes and determinants of structure of imports.

The period under study is of fifteen years i.e. from 1961-62 to 1974-75. In the first chapter relationship between foreign trade and economic growth, specially with imports has been analysed. Financing of imports have been given much weightage.

The second chapter deals with the analysis of trends in imports and direction of imports.

In the third chapter structure of imports along with impact of domestic capital formation on imports of capital goods has been discussed.

Since 1971, oil price has increased at a faster rate. This oil price hike has its own impact on the Indian imports, which during the seventies being more than doubled in value, as compared to earlier years. So in the fourth chapter, impact of oil price on imports has been studied.

Elasticity of demand plays its own role in determining imports. Hence a need of measuring the elasticity of demand, both price elasticity and income elasticity, was realised. Hence this part of the thesis consists of measurement of elasticity of demand for imports.

In the sixth chapter various factors determining our imports have been discussed.

The final chapter gives the summary and conclusions of all the chapters along with certain policy suggestions

emanating from our study as a whole.

It may be mentioned that the imports of services are studied by us only in the aggregate in so far as our imports are valued inclusive of cost, insurance and freight (i.e. on a c.i.f. basis). Imports of technology, which is of growing importance, have not been studied in our thesis. They deserve a separate study by themselves.

++++++++++

CONTENTS

CHAPTER I

INTERNATIONAL TRADE AND ECONOMIC GROWTH

CHAPTER I

FOREIGN TRADE AND ECONOMIC GROWTH

Economic growth and foreign trade are intimately connected. No one doubts the propulsive role of foreign trade in economic growth. The classic example in which foreign trade has played a leading role is that of Britain. Up to 1913, its major exports were coal and textiles. The expansion in textiles proceeded at a rate which averaged 6.75% per annum from 1819 to 1940. Thereafter, it slowed down to 4.3 per cent for the next 20 years and to 1.5 per cent from 1870 to 1913. Coal exports increased from 12.7 million tons in 1872 to 44.1 million tons in 1900 and 73.4 million tons in 1913.[1] Other examples are the Swedish development after 1880, the Danish one after 1880, Switzerland and Canada from 1900 to 1913 and so on. More significant for many underdeveloped countries today is the experience of Asia after 1950 when the Korean war touched off a scramble for raw materials. Asian export values more than doubled between the first half of 1950 and the first half of 1951.[2] Whether it was U.S.A. in

---

1. Kindleberger, C.P. (1958), Economic Development, McGraw-Hill, New York, p. 245.

2. Ibid., p. 246.

19th century or Japan in 20th century or the industrial revolution of Britain, exports gave a conspicuous momentum to the economy. One exception is that of U.S.S.R.[3] Thus, there is causal relationship between exports and economic growth. There is an interconnection between the two - exports and economic growth. If exports are to be a key factor in promoting economic growth, there must be capital formation, technical change and reallocation of resources. The larger the gains from trade, given these processes, the faster and more certainly the growth will proceed. But potential gains from trade without capacity or large capicities without gains from trade will not promote economic growth. Trade can stimulate growth, if exports are tending to increase faster than imports, or be a brake to growth if imports are tending to increase faster than exports, except in case of higher proportion of capital goods imports. If a gap emerges, it can be bridged by foreign aid. Aid, therefore, arrests the brake on growth. But this aid is, generally a repayable loan. While some aid is in the form of grants, but this subgroup is a small fraction of total aid, therefore export performance on large scale is necessary for the repayment of aid as well as to generate import capacity.

---

3. USSR which achieved high growth rate under a practically autarchic economy. USSR, however, was aided by its large area and varied resources.

It may be useful to distinguish three broad models by which cases may be classified: where trade is a leading, a balancing or a lagging sector of the economy.[4] If foreign aid is a 'leading sector' of the economy, i.e. if the stimulus to economic development comes from abroad, exports rise and provide an incentive for the establishment and the expansion of other activities. For example, if exports grow, this gives rise to new demand in the exporting country both for inputs to contribute to the physical expansion of production and as a result of increase in factor incomes. Pressure on domestic capacity may stimulate technological change which, in turn, call the attention of entrepreneurs to investment opportunities. Thus through stimulating investment and technical change, the expansion of exports can lead to economic growth. Therefore, as Rostow[5] has suggested the growth process involves a leading sector which communicates its growth to the rest of the economy. Thus, in the export-led model, exports are a leading sector of the economy. Similarly, the rapid expansion of a primary product export can lead to economic development, as North[6] has suggested.

---

4. Kindleberger, C.P. (1962), Foreign Trade and National Economy - Chapter 12.

5. Rostow, W.W. (1956), "The take-off into self-sustained growth", Economic Journal, Vol. 66. P.25-48

6. North, D.C. (1955), "Location theory and Regional Economic growth", Journal of Political Economy, Vol. 63.

If foreign trade is a 'balancing sector' of the economy, i.e. adjustment of trade keeps pace with domestic transformation. If one ignores changes in stock, it can be said that trade is filling the gap between consumption and production. Finally, if foreign trade is a 'lagging sector' of the economy, the stimulus to development is internal and trade may slow down growth. In this case if there is any export, this would be at the expense of domestic requirements.

Indian growth can't be identified properly, by any of the three models stated above. It is not an export-led growth because India's exports constitute only a small fraction of her gross national product, and because her exports show an overall stagnation for a considerably long period.[7] Although Indian exports do not resemble the 'balancing sector model', yet it is more close to the system. In a balancing sector model, the surplus of production over consumption is exported. But in India, in recent years, exports of major traditional products have until recently stagnated with a declining trend, whereas the production of those commodities showed a moderate rise.

There is widely held view that international trade served as an engine of growth for the periphery countries

---

7. Except during the last three years since 1974-75 when exports show a big jump, contributing to India's net foreign exchange earnings.

in the nineteenth century but it cannot be counted upon to serve a similar function for the developing countries of the twentieth century. According to Nurkse "Trade in the nineteenth century ... was above all an engine of growth".[8] Although Nurkse did not oppose trade in principle as an engine of growth for today's developing countries, he was pessimistic about its significance to developing countries.

Kravis[9] in a recent study, has shown that any simple generalisation about the dominant role of trade in the success stories of nineteenth century is invalid. Growth when it occurred was mainly the consequence of favourable internal factors, external demand only represented an added stimulus and this varied in importance from country to country and period to period. For instance the U.S.A. in 19th century owed the speed of its development mainly to internal factors. Other countries, such as India and Ceylon, enjoyed expansion in exports during the second half of the nineteenth century that seems to have been of the same order of magnitude as those of the United States and Canada. Kravis concludes, "A more warranted metaphor that would be more generally applicable would be to describe trade

---

8. Nurkse, R. (1961), Equilibrium and Growth in World Economy, G. Haberber and R.M. Stern, eds.

9. Kravis, Irving B. (1970), "Trade as a handmaiden of growth : similarities between nineteenth and twentieth century" - Economic Journal, pp. 850-872.

expansion as a handmaiden of successful growth rather than as an autonomous engine of growth.

The classical and neo-classical view that foreign trade serves as an 'engine of growth' has been modified by some and denied by others. Gustav Ravis[10] concludes that "... the less developed economy should treat trade not as an engine of growth but as an additional efficient machine of production at its disposal transforming exports as inputs into imports as output."

Halder[11] points out that Ravis' observation seems to be the most scientific explanation of the role of exports in economic growth. A review of the role of exports in different stages of development would, probably, justify the thesis of Gustav Ravis. The stages of economic development can be classified under the following heads: A first stage where exports are the engine of growth; a second stage where import substitution sets the pace; stage three where unbalanced growth may set off structural inflation; stage four, where the propensity to import is reduced by breaking bottle-necks; and the stage five, where despite a low import propensity, a ceiling is set to the growth rate of a mature economy by the potential rate of growth of exports.

---

10. Ravis, G. (1964), "Trade, Aid and What?", Kyklos, Vol. 17, p. 194.

11. Halder, A. (1976), India's Export Pattern, p. 10.

In the first stage, when the economy is at a subsistence level, the export trade initiates the growth process. An increase in per capita income increases demand for everything including imports. At this stage of economic development self sustaining progress can continue only if the increase in imports is matched by an increase of exports. Initially, the gap between exports and imports may be bridged by foreign aid. But foreign aid is in the form of repayable loan which has to be paid through export expansion.

At the second stage, import substitution becomes prominent. The process of import substitution in the early stage requires import of capital equipment and technical know-how. These may be paid from foreign aid in the short run but only by increased exports in long run. The essence of structural inflation (in stage three) is that a more rapid growth of the economy is prevented by the low rate of export and a too high propensity to import. The propensity to import can be reduced by breaking the bottle-necks which prevent domestic supplies from increasing in response to domestic demand. But in the fifth stage, elasticity of supply will be fairly high, but the country will still not be able to produce everything it consumes. In this final stage the limiting factor on the rate of growth, given the propensity to import and a high propensity to invest, will again be the rate at which exports can be expanded.

This analysis indicates that exports act either as an accelerator or as a promoter of the growth process, but export growth is not economic growth itself.

While many economists have written on the subject of exports and economic growth, only a few have undertaken statistical studies. Haring's[12] study suggests that "simple statistical models reveal that exports can and do act as a leading sector in some developing countries". More specifically, the simple models developed in the study show that export economies react immediately (using annual data) to changes in exports. Income is directly related to changes in exports, thus verify the existing literary theories.

Emery's[13] investigation suggests that higher rates of economic growth tend to be associated with higher rates of export growth. His investigation covered 50 countries. The findings of his investigation are: firstly there is a most significant correlation (0.82) between the growth rate of exports and that of GNP; seconaly, a country can increase its per capita real GNP aoout 1 per cent for every 2.5 per cent boost in its exports. Thus he suggests that countries eager to

---

12. Haring, J.E. and Humphery, J.F. (1964), "Simple models of trade expansion", Western Economic Journal, Spring.

13. Emery, R.F. (1961), "The relation of exports and economic growth", Kyklos, Vol. 20, pp. 470-484.

increase their growth rates should adopt the type of policies that will stimulate exports.

Syron and Walsh[14] also support the hypothesis followed by Emery's. Although they criticise Emery's paper and conclude "it may be possible for exports to have as great stimulative effect on economic growth in a less developed country as in a developed country, provided the less developed country, is not specialised in a pattern of exporting foodstuffs." They contend that because a large proportion of the exports of the less developed countries consists of agricultural products which have weak backward linkage effects, the stimulation provided by exports to the economy will also be weak. They present the hypothesis that a given percentage increase in non-agricultural exports is more effective in promoting economic growth than an identical percentage increase in agricultural exports. But the alleged weak linkage effects of agricultural, as against manufacturing, have a certain plausibility but not validity.

A major constraint to economic development of developing countries is their capacity to export and pay for essential imports. When the development process is initiated, the pressure on imports is unavoidable. Import of capital machinery and equipment for developing

---

14. Syron, R.F. and Walsh, B.M. (1968), "The relation of exports and economic growth - a note", Kyklos, p. 541.

the infra structure as well as to ootain accelerated production of intermediate and raw materials and even of essential consumer food become necessary, while imports thus assume a critical role in the design of development. The capacity to export is a limiting factor. Foreign aid mitigates the proolem, but in the long run there is no alternative to expanding the export sector.

As foreign trade is basically a two-way traffic and the magnitudes of a country's export trade are for most of the time, if not for all of it, determined by its willingness and ability to imports.

Impact of Economic Growth on Imports

Economic growth in present era is believed, by bulk of developing countries economists, to be synonymous with industrialisation, which in turn, involves application of multitude of capital goods and other resources that a country such as India does not possess. These resources have to be acquired from the advanced countries of the world. Thus during the early stages of growth, imports in one form or other are necessary. As Prof. Kindleberger suggests, that a significant rise in proportion of imports to national income is natural.[15]

---

15. Kindleberger, C.P. (1962), Foreign Trade and National Economy, Chapters 11 and 12.

Due to demonstration effect and the rising level of personal income, demand for consumer goods has to be increased which necessitate the increase in volume of imports for consumer goods.[16] During the process of growth new requirements of capital equipment and raw materials emerge, the import capacity of which depends on the country's ability to pay for that.

It is not true that the imports of all commodities increase with the economic growth. The 'National Development' objectives has its own impact. Nations will tend to import only those commodities needed to supplement their own output so that total supply (domestic plus imported goods) fits the prevailing requirements and they will import such commodities because an important condition for growth is a reasonably long-run coincidence between the commodity composition of total supply and total demand. Since no country can have an all encompassing resource base not attainable complete productive diversification, it follows that all countries must have certain minimum import requirement.

With the economic progress, pattern of demand changes with the various categories of goods - to satisfy or bring coincidence between total demand and

---

16. If imports of consumer goods are officially restricted, they tend to be smuggled in Bhagwati, J. (1974), Illegal Transactions and International Trade : Theory and Measurement, North-Holland Publishing Co., Amsterdam.

supply pattern; pattern of imports of goods have also to be changed.

If domestic productive activities are protected and imports are undertaken because of unavoidable need to supplement and fill gaps in domestic supply pattern, import levels must in practice be mainly influenced by two factors, viz. the degree of productive diversification attained by the country and the characteristics and use made of the resource base available to it. These factors must operate in a complex fashion. Thus movement towards greater productive diversification - known to be associated with increasing income levels - should be expected to influence imports both indirectly and directly, indirectly because higher income levels (and greater productive diversification will also tend to a more diversified imports, directly, in two opposing ways. On the one hand the new goods produced will reduce or eliminate dependence on some categories of imports; on the other hand dependence on other imports will increase. But whatever influence economic diversification and higher income levels may have on the level and composition of imports - where domestic activities are protected, depends on 'other things being equal' the diversification of country's physical resources. Import requirement will tend to be relatively lower the greater and more diversified a country's resource base is.

In a restrictive economy expansion of imports has to be checked by import control, import substitution

measures, etc.

Tempo of industrialisation also affects the pattern of imports. During the period under review the industrial complex of India has radically changed. There has been a shift in the emphasis from consumer goods industries to those of capital goods. The declared economic policies of the new government, which came to power in the beginning of 1977, appear to be in favour of reversing this trend in favour of consumer goods industries in preference to capital goods industries.

Trade and Economic Development in India

International trade has never played a significant role in the Indian economy, so far its quantitative aspect is concerned. In relation to the value of total world trade the value of India's foreign trade is rather insignificant.

Not only this, India's share in world trade, in percentage terms, has been steadily declining. If we take the twenty year period between 1950-51 and 1970-71, we will find that during this period, India's imports and exports rose at an average annual rate of 2.3 per cent and 2.4 per cent respectively. During the same period, the world exports rose at the annual average rate of 7.3 per cent. As a result, the share of India in the total world exports has been falling more or less steadily. This share fell from 2.2 per cent in 1950 to 0.5 per cent

TABLE I.1: India in World Imports, 1955 to 1976

(At post-devaluation rates)

Year	World Imports Million US $	India's Imports Million US $	Percentage share of India's imports in world imports
1955	98,400	1,440	1.5
1960	1,35,285	2,327	1.7
1961	1,40,941	2,277	1.6
1962	1,40,076	2,361	1.6
1963	1,62,265	2,477	1.5
1964	1,81,735	2,876	1.6
1965	1,96,959	2,840	1.4
1966	2,15,178	2,827	1.3
1967	2,25,983	2,772	1.2
1968	2,50,937	2,509	1.0
1969	2,83,471	2,201	0.8
1970	3,25,475	2,124	0.7
1971	3,31,500	2,420	0.7
1972	3,88,200	2,242	0.6
1973	5,34,900	3,210	0.6
1974	7,85,400	5,046	0.6
1975	8,1o,300	6,135	0.7
1976	9,27,700	4,860	0.5

Source: International Monetary Fund, International Financial Statistics, November 1966, October 1971, July 1977.

TABLE I.2: India's Imports and Exports as percentage of GNP, 1951 to 1977

(Rs. in crores)

Period	Imports	Exports as % of GNP	Imports as % of GNP
1951-52	1,379	11.0	13.7
1955-56	1,224	8.9	11.8
1960-61	1,768	4.3	7.5
1961-62	1,718	4.2	6.9
1962-63	1,783	4.0	6.6
1963-64	1,927	4.0	6.2
1964-65	2,126	3.6	5.9
1965-66	2,194	3.4	5.9
1966-67	2,078	4.2	7.6
1967-68	2,008	3.7	6.2
1968-69	1,909	4.1	5.8
1969-70	1,582	4.2	4.7
1970-71	1,634	4.2	4.4
1971-72	1,825	4.1	4.7
1972-73	1,867	4.7	4.4
1973-74	2,955	4.8	5.7
1974-75	4,519	5.3	7.1

(At post-devaluation rate)

Source: Based on Government of India, Economic Survey, various issues for imports and exports. GNP from C.S.O.

in 1976. Percentage share of India's imports in world imports has fallen from 1.5 per cent in 1955 to 0.5 per cent in 1976 (see Table I.1). India's share in world trade, excluding the trade of centrally planned countries, fell from 1.13 per cent in 1962 to 0.67 per cent in 1972.

The value of foreign trade of India also bears a low ratio to national income. During the last twenty five years, 1950-51 to 1974-75 India's gross national product at current market prices has been increasing at the average annual rate of 7.3 per cent. On the other hand, the imports and exports have been increasing relatively slowly at the annual rate of 2.3 per cent and 2.4 per cent respectively. As a result, imports expressed as per cent of GNP fell from 13.1 per cent to 7.1 per cent and exports fell from 11.0 per cent to 5.3 per cent. The significance of these declining figures is that the Indian economy is less dependent on the world economy. By and large, the smaller participation in world trade generally holds true in case of larger countries (Refer Table I.2).

Thus, we note that there is an inverse relationship between the size of a country and its participation in world trade. "The low percentage in respect of the larger countries only reflects the basically favourable situation as regards the natural resources endowment and the diversity of the productive apparatus of these

countries. These countries, therefore, generally manage to produce well aoove 90 per cent of all the goods which they need and absorb a corresponding proportion of all the goods they produce. Hence the low percentage level around about 4 to 7 per cent - of their exports or imports, expressed as per cent of GNP".[17]

To a great extent, this explains the low percentage figure for India.

In spite of the comparative insignificance of income from trade and her declining share of international trade, it has been recognised as a very powerful instrument of economic development. For India, international trade is not only for disposing of surplus raw materials, it is an instrument of acquiring capital goods and "know-how" for economic uplift. We may add that the importance of foreign trade in a country's economy can't be judged merely by taking percentage of foreign trade to national income, world trade etc. In India's case, three factors further add to the significance of international economic transactions to her. Firstly, India is still not in a position to manufacture for herself heavy machinery and capital goods which are necessary for her economic development. She will have to continue to import these for a long time to come.

---

17. Shah, Narottam (1972), "Vide India's foreign trade: 1949-1971", Commerce, Vol. 123, No. 3165, p. 12.

Secondly, in India both domestic savings and investment constitute a small fraction of her national income. That implies that even small capital imports or exports may loom large in her industrial structure. Despite their quantitative smallness, India's imports are vital to the operation of her economy. Lastly, being a country with a large and rising population, her marginal propensity to commerce is high. This means that the multiplier effects of her enlarged or reduced exports are large on her economy in either direction.[18]

Attention paid to international trade in India is quite insufficient. The result is almost continuous foreign exchange difficulties since the beginning of the Second Plan at the time when they took the shape of crisis. Imports have been increasing with the progress of the Plans, and despite severe restrictions, they are running ahead of exports. The result has been increasing dependence on foreign aid. No other sector of the economy is affected as much by foreign aid as foreign trade. Inflows of aid has direct as well as indirect impact on foreign trade. Directly, available quantum of foreign exchange determines the size of the import bill. More aid increases propensity to import. Indirectly, through rational channelisation of foreign aid, export oriented and export promotion are possible. Aid may also be

---

18. Dr. Gurtoo, D.N. (1961), "India's Balance of Payments, 1920-1960", p. ix.

TABLE I.3 : India's Exports as percentage of Imports 1951-76

(At post-devaluation rate)

(Rupees in crores)

Period	Imports	Exports	Exports as % of imports
1951-52	1379	1106	80.2
1955-56	1224	922	75.3
1960-61	1768	997	56.4
1961-62	1718	1033	60.1
1962-63	1783	1069	60.0
1963-64	1927	1244	64.6
1964-65	2126	1282	60.3
1965-66	2194	1264	57.6
1966-67	2078	1153	55.5
1967-68	2008	1193	59.4
1968-69	1909	1354	70.9
1969-70	1582	1413	89.3
1970-71	1634	1535	93.9
1971-72	1825	1608	88.1
1972-73	1867	1971	105.6
1973-74	2955	2523	85.4
1974-75	4519	3329	73.7
1975-76	5159	3942	76.4

Source: Government of India, Economic Survey (Various issues).

beneficial to import substitution i.e. substitution of home produced goods for imported goods.

Since the commencement of the planning era in India, foreign aid has played a predominant role. Its importance increased with the depletion of sterling reserves which India accumulated during World War II. Between 1951 and 1976 - country has imported more than it has exported except in 1972-73. The balance has been financed partly by exchange reserves and mostly by foreign aid. Thus foreign aid accepted as a source of financing imports as the country's exports are not paying for its entire import bill (See Table I.3).

It is thus clear that the capacity of the country to pay for its imports, through its own efforts is limited, at least during the early stages of economic development. Foreign aid thus becomes a must and since the foreign exchange crisis of the Second Plan dependence on external assistance to finance growing import requirement has increased.

In the First Plan the external assistance secured was only Rs.196 crores and accounted for about 5 per cent of our imports. But during the Second and the Third Plans external assistance increased at a much faster rate and financed a larger proportion of our imports, 29 per cent and 32 per cent respectively.

The balance of payments gap of Rs.927 crores and Rs.2600 crores during the Second Plan and Third Plan

TABLE I.4 : Foreign Aid and Imports

(Value in million of Rs.)

Period	Imports	External assistance utilised	Percentage of aid to imports
First Plan (1951-1956)	36170	2017	5.6
Second Plan (1956-1961)	48823	14302	29.3
Third Plan (1961-1966)	62231	28677	46.1
Annual Plans (1966-1969)	59946	31532	52.6
Fourth Plan (1969-1974)	98635	37356	37.9
1974-1975	44681	8299	18.5
Upto March 1975			34.8

Source: Reserve Bank of India - Report on Currency and Finance, various issues (Annual)

respectively was to be covered by foreign aid. Foreign aid financed a significant percentage o_ our imports. The Table I.4 indicates relationship between aid and imports.

It shows that the inflow of assistance considerably facilitated capital, maintenance and intermediate imports and India's dependence on aid to finance imports increased till 1966, but after devaluation-thinking about foreign aid started changing. While the shock of the Chinese aggression of 1962 shook the country into the realisation of its dependence on foreign countries for the defence of its borders and with 1965 Pakistani conflict, when all aid was stoppeo, that India became fully aware of her too much dependence on aid.

The temporary suspension of foreign aid in 1965 put further pressure on the already strained foreign exchange position. Due to failure of agricultural crop demand for food imports also increased. For all these reasons, dependence on foreign aid further increased and 52% of total import bill during Annual Plans were financed by external aid. But this percentage declined during Fourth Plan and only 38% imports were financed through foreign aid.

Till this time consequences of heavy dependence on aid was realised in the form of devaluation of rupee in 1966, and also severe strain on balance of payments. Due

TABLE I.5 : Aggregate External Assistance

(Rs. in crores)

Country	Authorised up to March 1975	Utilized up to March 1975
IBRD/IDA	3,493	2,416
U.S.A.	6,010	6,010
U.S.S.R.	1,033	732
West Germany	1,218	1,133
U.K.	1,439	1,303
Japan	554	471
Others	2,466	1,967
Total	16,213	14,032

Source: Reserve Bank of India, Report on Currency and Finance 1974-75.

to this attitude towards aid changed and more emphasis was given in Indian Plans to export promotion.

Although foreign assistance has been used to a great extent for financing imports, it has its own impact on the economy of receiving country. The conditions imposed by the donor country for her aid, sometimes conflict with the national policy of the receiving country. This conflict is basically associated with the project-tied character of foreign aid. For instance, the major donor nation, U.S.A. insists that her aid shall not be used for financing activities in the public sector when it is possible to establishing the steel plant in the public sector at Bokaro. Further the project-tied character of aid constitute a handicap in the utilization of the aid. The shortfall between the amounts of aid authorised and those actually utilised by India is given in Table I.5.

Foreign aid normally finances the import of capital goods. These, however, often have to be supplemented by labour, technical and managerial personnel and semi-produced inputs and raw materials. If these resources do not display adequate supply elasticity, increasing utilisation of foreign resources can be realised only by inflationary consequences. In India, mere availability of foreign resources has led to over-expansion of certain industries like electric meters and glass industries.

Most of the part of foreign aid is in the form of loan which had to be repaid in future. Not only this the debt service charges and amortization payments constitute a heavy financial burden on the recipient country and threaten its viability. In case of India this burden has increased alarmingly from Rs.23.8 crores during First Plan to Rs.512 crores in 1975-76.

The main problem of foreign aid is that it is uncertain as it depends on the economic conditions and the mood of their supplier. Further mostly aid is motivated by political interest, suspension of aid in 1965 and 1971 by U.S.A. are examples of this.

There is another relationship also between aid and import price. Aid has been helpful in enhancing unit value of imports. This is possible because most of aid is in tied form. According to Dr. Rao, during the First Plan, Second Plan and after, the percentages of tied to total aid has been 53.3 and 78.9 respectively.[19] This means that the countries receiving loans, etc., should spend the amount on the purchase of machinery, essential intermediates and raw materials from the lending countries. For a larger number of years, as will be seen, increased/decreased amount of aid (as compared to the immediately preceding year) is associated with increased/decreased unit value of imports.

---

19. Dr. Rao, V.K.R.V. and Narain, D. (1963). "Foreign Aid and India's Economic Development", p. 9.

Exports, by all means, are economically the best way of financing imports. If the imports are financed by exports, the country is just like an ordinary consumer in a perfect market without having any obligation to purchase from a definite source, hence the purchaser has the freedom to buy at the most competitive price. Table I.5 indicates that export promotion has a crucial role to play to bridge the trade gap.

During the early independence period (1947-48 to 1951-52) India imported Rs.4240 million worth of goods more than the exported and her exports were sufficient only for financing about 82.3% of the imports. But during the First Plan period about 83.4% of imports bill was financed by exports. But this percentage declined during Second and Third Plan period in which export was stagnant and imports increased due to industrialisation programme. Taking the average of ten years from 1956-57 to 1965-66, about 61.8% of total import payment was through exports. But this situation improved during Fourth Plan. India took a lead in export front and her import financing capacity was raised to 92%. The order of difference between exports and imports has been an annual averages of Rs.1175 million, Rs.3672 million. Rs.4829 million and Rs.1625 million during the First, Second, Third and Fourth Plan period. In the subsequent two years of 1974-75 and 1975-76, exports was higher as compared to previous years. But import bill during

Exports, by all means, are economically the best way of financing imports. If the imports are financed by exports, the country is just like an ordinary consumer in a perfect market without having any obligation to purchase from a definite source, hence the purchaser has the freedom to buy at the most competitive price. Table I.5 indicates that export promotion has a crucial role to play to bridge the trade gap.

During the early independence period (1947-48 to 1951-52) India imported Rs.4240 million worth of goods more than the exported and her exports were sufficient only for financing about 82.3% of the imports. But during the First Plan period about 83.4% of imports bill was financed by exports. But this percentage declined during Second and Third Plan period in which export was stagnant and imports increased due to industrialisation programme. Taking the average of ten years from 1956-57 to 1965-66, about 61.8% of total import payment was through exports. But this situation improved during Fourth Plan. India took a lead in export front and her import financing capacity was raised to 92%. The order of difference between exports and imports has been an annual averages of Rs.1175 million, Rs.3672 million. Rs.4829 million and Rs.1625 million during the First, Second, Third and Fourth Plan period. In the subsequent two years of 1974-75 and 1975-76, exports was higher as compared to previous years. But import bill during

1974-75 and 1975-76 was unprecedently high. Consequently, exports financed only 70% of imports during these two years.

The need to expand exports was realised with the commencement of the Third Five Year Plan where the Balance of Payments problem became acute. Since then Government of India has adopted many measures to boost exports such as cash assistance, tax rebates, setting-up of export promotion councils, arrangements of required imports, transport facilities etc.

The development of export trade affects the Indian economy both directly and indirectly. In the first instance, growing foreign demand may involve an expansion in the production process which leads economies of scale, which in turn induce an overall expansion of the economy. Secondly, development in the export trade can influence the growth of the economy by affecting the volume and rate of expansion of import capacity. Since more than half of India's total capital equipment requirement have to be imported, the slow expansion of export proceeds and hence import capacity adversely affect the import of capital goods and the rate of domestic growth.

It may be concluded that even though our external trade constitutes just slightly over half a per cent of the global exchanges in commodities and nor more than 20% of our gross national products, yet it has a vital bearing

on our economy. This is because we do not only are still dependent to a considerable extent on the imports of several critical inputs both for industry and agriculture - crude oil, non-ferrous metals, sophisticated machinery and equipment, several industrial raw materials and intermediates and fertilizers but also the smooth functioning of several of our major industrial jute textiles, tea - greatly depends on exports.

CHAPTER II

AN ANALYSIS OF THE TRENDS IN INDIA'S IMPORTS

CHAPTER II

AN ANALYSIS OF THE TRENDS IN INDIA'S IMPORTS

INTRODUCTION

'Imports' has been accepted as a source of economic development for the developing country like India, which cannot produce all the needed goods and sophisticated technology required for the production process. Imports in India since her independence are increasing steadily. Despite annual variation, some years as 1951-52, 1957-58, 1960-61, 1973-74 and 1974-75 were years where imports shot up very high.

So in this chapter we have tried to analyse the trend in India's imports along with its direction.

For this purpose, we have divided the whole period i.e. 1961-62 to 1974-75 into three phases.

First phase includes 1961-62 to 1965-66 period, i.e. Third Plan period, where imports increased moderately and import policy remained restrictive.

Period of devaluation era or declining trend comes under second phase. This period is from 1966 to 1970. Though import policy was liberal throughout this period yet the imports declined. We have studied the causes for their decline. After 1970, imports start picking up again with a steep increase in 1973-74 and

TABLE II.1 : Trends in India's Imports

(Value in Rs. crores)

Year	Imports (Rs.)	% Change over the previous year
1947-48	445.8	
1950-51	651.2	
1951-52	969.3	+48.9
1952-53	664.7	-31.4
1953-54	569.6	-14.3
1954-55	654.2	+14.9
1955-56	675.2	+ 3.2
1956-57	846.0	+25.3
1957-58	1002.6	+18.5
1958-59	863.0	-13.9
1959-60	960.8	+11.3
1960-61	1121.6	+16.7
1961-62	1090.1	- 2.8
1962-63	1131.5	+ 3.8
1963-64	1222.8	+ 8.1
1964-65	1349.0	+10.3
1965-66	1408.5	+ 4.4
1966-67*	1931.5	+37.1
1967-68	2007.6	+ 3.9
1968-69	1908.6	- 4.9

(contd.)

*In post-devaluation rate

Table II.1 (contd.)

Year	Imports (Rs.)	% Change over the previous year
1969-70	1582.1	-17.1
1970-71	1634.2	+ 3.3
1971-72	1824.6	+11.7
1972-73	1867.4	+ 2.3
1973-74	2955.4	+58.3
1974-75	4461.3	+52.9
1975-76	5159.0	+14.2

Source: RBI, Report on Currency and Finance (Various annual issues)

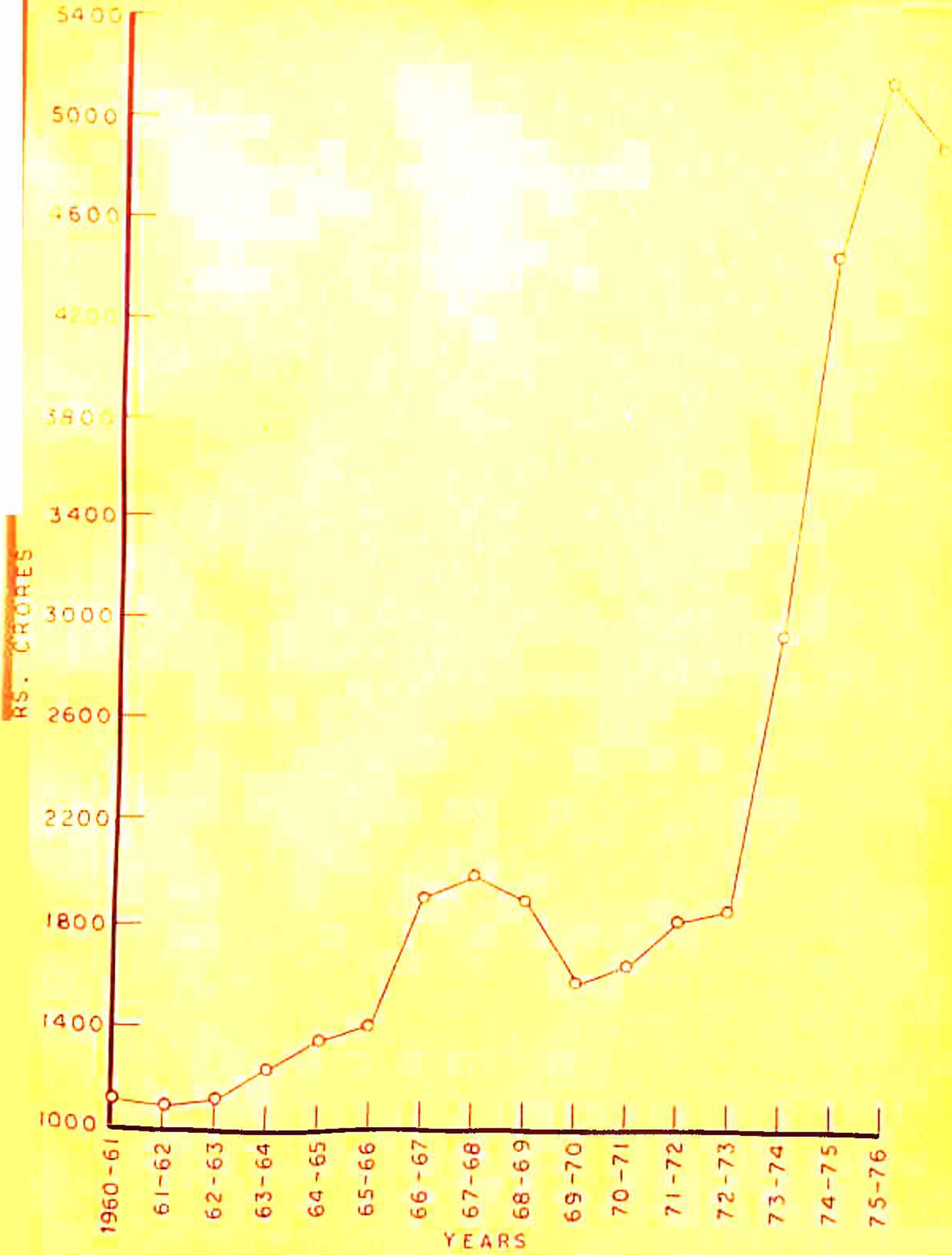


FIG. II – 1 TRENDS IN INDIA'S IMPORTS.

1974-75 (see graph). So this period we have kept under third phase or period of increasing trend.

But to see the trend more accurately one needs to take their behaviour over a longer period. For this purpose, we have taken the period since independence (i.e. 1947) until 1960, a summary of the trend of imports has included years before the period of out study.

Imports during 1947-48 to 1955-56

The merchandise imports in 1948-49 increased by Rs.198.1 crore or 44.4% over the level of imports attained in 1947-48. But during 1949-50 and 1950-51 there was slight increase in import bill. This increase was mainly because of four commodities, namely, raw jute, raw cotton, food grains and machinery. Imports of raw cotton after remaining steady at around Rs.64 crores in 1948-49 and 1949-50 shot up to Rs.100 crores in 1950-51, following the acute domestic shortage of raw cotton due in part to the failure of the monsoon. In contrast raw jute imports which were heavy around Rs.71 crores in 1948-49 owing to loss of land producing high quality jute as a result of partition, were slashed down in the subsequent years to Rs.21 crores and Rs.27 crores respectively, owing to the trade deadlock between the two countries.

In the 'capital goods' categories payments for machinery imports went up from Rs.82 crores in 1948-49 to

Rs.118 crores in 1949-50, partly because of increased rupee cost of capital goods from dollar area following the devaluation of rupee in September 1949. But the operation of stricter controls over dollar imports, however, resulted in a drop of Rs.27 crores to Rs.91 crores in machinery imports during 1950-51. But for iron and steel and non-ferrous metals payments increased.

On consumer goods the variations in the payments arose on account of fluctuations in the expenditure as food grains which rose from Rs.101 crores in 1948-49 to Rs.134 crores in 1949-50 but fell to Rs.80 crores in 1950-51. The failure of domestic production to catch up with demand due to floods in Uttar Pradesh, and Bihar and drought conditions in parts of Gujrat, Saurashtra, Rajasthan and Kutch, as also partition which took away the most important surplus areas, lead to a heavy dependence on imported food.

The demand for industrial raw material and intermediate goods was high due to rise in almost all sectors of industrial production. The imports of raw materials and intermediate products increased from Rs.186.9 crores in 1947-48 to Rs.322.1 crores in 1948-49. Significant increaseswere in textile fibres and yarn whose imports increased by Rs.114.7 crores over preceding year. The imports of chemical was less in 1950-51 but imports of metal and metal manufacturers increased from Rs.23.0 crores to Rs.34.3 crores and Rs.53.2 crores in 1947-48,

1948-49 and 1950-51 respectively.

In 1948-49 the heavy increase in import bill was also due to release of the pent up demand inherited from war time controls. But later the imports were checked by restrictive import policy.

After three years of independence in 1951-52 First Five Year Plan was launched for the economic development of the country. And as a result import bill in the first year of the Plan was the highest as compared to others. Import bill during these five years, except for the first year, increased steadily. This increase was due to liberal import policy of government. Increases in the import prices of a number of items increased the index of unit value of imports from 105 in 1950 (1948-49 = 100) to 142 in 1951. Unfavourable weather conditions resulting in decreased domestic production of food grains, raw cotton, raw jute and other agricultural crops also led to additional imports.

Import payment during 1951-52 was 48.1% higher over the previous year. Imports of every category increased during this period. Imports of capital goods increased by Rs.34.9 crores, raw materials and intermediate products by Rs.142.5 crores and consumer goods by Rs.142.6 crores. About 4.5 million tons of cereals were imported due to domestic shortage.

Imports in 1952-53 were smaller in value than 1951-52 by Rs.119.7 crores on account of a small decline in prices and a relatively larger decline in volume, most of the declines taking place in the latter half of the year . The quantum of food grains imported was actually smaller than in 1951-52 but the value was higher. The imports of industrial raw materials remained unchanged. However, its composition altered considerably, chiefly due to increased imports of raw cotton. Imports of mineral oils also increased. But, on the other hand, imports of raw jute fell as a result of increased indigenous production and fall in demand from mills following a decline in the exports of jute manufactures. Imports of manufactures declined slightly, probably because of increased domestic production.

Further the import bill during 1953-54 was again lower than 1952-53, of which the fall in Government imports alone amounted to Rs.96 crores. This was due to meeting of increased requirements of raw material associated with the continued buoyancy in industrial production from indigenous sources of supply.

Import of raw jute fell despite fall in domestic output of raw jute, because of lower level of home manufactures. More than half of the fall of imports in private account was for raw cotton, and the balance was shared by a variety of commodities, among which chemicals, machinery and vehicles were the more important ones.

It is significant that fall in import bill occurred in spite of a liberal import policy which allowed liberal imports of machinery, raw materials such as silk yarn, cotton yarn and consumer goods like spices and fruits. And quota for imports of certain commodities like power-driven pumps, garage tools, machinery and parts thereof increased.

The reduction in import bill was mainly due to reduced purchases of food grains, which was possible because of good harvest in this year. Secondly the decline in payments for imports was attributable more to the fall in quantity rather than price.

In contrast, aggregate imports rose during 1954-55 by Rs.84.56 crores. The increase in imports was spread over many items. Among the principal items, raw cotton, imports were about Rs.11 crores higher than in preceding year, oils (mainly mineral oil) increased by Rs.2 crores. But the largest increase occurred in machinery and vehicles due to country's development needs. But the imports of raw jute again was lower during this period. Import policy remained liberal during this period and restrictions were reduced on imports from dollar areas, which led to an increase in imports of machinery and industrial raw materials as raw cotton, woollen fabrics, razor blades etc. for consumers increased. But quotas of some items like table fans, jams and jellies, lead pencils, hand knitting tools etc. were reduced. Imports of food grains

also decreased. But the increase in capital goods off set these reductions and as a result import bill was high during this period.

The rise in the tempo of India's developmental effort under the First Five Year Plan reflected in the level and pattern of external trade during the year 1955-56. Imports reached a record level since the Korean boom especially owing to heavy imports of machinery and iron and steel manufactures.

Imports at Rs.751 crores were about 10 per cent higher than in the previous year, partly due to rise in import price. Imports of iron and steel rose from Rs.26 crores to Rs.58 crores while that of machinery from Rs.87 crores to Rs.110 crores. Raw jute imports increased by 53%. Imports of vehicles, raw cotton and chemicals also increased slightly. But mineral oil imports declined by 1 per cent. Imports on Government account fell by Rs.19 crores.

Trends in Imports during 1956-57 to 1960-61

During the Second and Third Five Year Plan imports increased by 128.2% - a compound growth of 12.8 per cent per annum. The very first two years 1956-57 and 1957-58 recorded a substantial rise in imports. The foreign exchange reserves declined in these two years by some $1,000 million. This sharp shot-up was partly due to direct plan expenditure. The Second Five Year Plan was mainly oriented to industrial

devlopment. This catered to the setting up of the steel plants, heavy expansion and renovation of railways and initiation of many modern industries. Being foreign resources-intensive these projects naturally made the import bill heavier.

Although there was substantial increase in volume but overall increase of 10% increase in import prices over the preceding year also increased import bill in 1957-58. This increase in import price was with the effect of international political situation, which due to Suez crisis increased shipping cost by 15 to 20%.

Moreover, the Second Plan investments were not worked out on an annual basis. There was scope for lumping together the bulk of import requirements in the early years of the Second Plan itself. As a result, private importers utilized fully the existing licences in anticipation of an import squeeze which also boosted the import bill in these years specially in 1957-58.

These increases were distributed in almost all categories of imports. Imports of base metals and metal manufactures increased from Rs.99.8 crores in 1955-56 to Rs.186.6 crores in 1956-57 and to Rs.205.0 crores in 1957-58. Petroleum and petroleum products increased from Rs.54.9 crores in 1955-56 to Rs.75.8 crores in 1956-57 and to Rs.109.1 crores in 1957-58. Imports of capital goods increased from Rs.194.8 crores in 1955-56 to Rs.253.5 crores in 1956-57 and to Rs.310.5 crores in

1957-58. Although imports of consumer goods during this period was restricted, yet the imports of electrical goods, woollen yarn and manufactures, rayon textiles, cutlery and hardware, increased. Due to failure of agricultural crop in 1957-58, food grains imports increased by Rs.47 crores. Sector-wise, Government imports increased by 70% mainly on account of expanded developmental activities in the economy. But private imports were held down by means of various controls in non-essential items. The decline of Rs.122 crores as compared to 1956-57 was spread almost in all groups with the exception of machinery.

But during 1958-59 and 1959-60 import declined. Import bill was Rs.863 crores and Rs.961 crores in 1958-59 and 1959-60 respectively showing a fall of 13.8% and 41% as compared to 1957-58.

The fall of imports was on almost all items of imports. As compared to 1957-58 there was a reduction of Rs.192 crores in 1958-59. The greatest fall was in the case of iron and steel. Other commodity groups which declined were metals, vehicles, electrical goods, cutlery and hardware, dyes and colours and drugs and medicines. Imports of raw materials in contrast were higher because of liberal import policy followed for maintenance imports. Due to severe strain on foreign exchange reserves, efforts were made to limit Government imports to the minimum. On Government account the main fall was

in food items by Rs.10 crores. But the import of capital equipment for Government projects and railway stores increased by Rs.76 crores.

Unlike the preceding year the fall of imports in 1959-60 was on Government account. The sharp fall of about Rs.108 crores was in non-food sector. But food imports rose slightly due to larger purchase of rice from Burma and higher P.L. 480 shipments.

In non-food sector, lower utilization of external assistance was the cause of fall of imports of machinery and railway store while the lower imports of iron and steel was due to their increased domestic production.

The reason for the decline of imports during this period was the restrictive import policy adopted in 1957-58. But due to fall in prices of imports the quantity of imports increased by 14% in 1959-60.

During 1960-61 last year of the Second Plan imports were highest as compared to earlier periods, reaching the level of Rs.1122 crores - Rs.161 crores more than the imports during the previous year and Rs.119 crores higher than 1957-58. The increase during this period was on both Government and private accounts. On Government account food import increased by Rs.87 crores entirely under P.L. 480 programme. But there was a marked fall in non-food maintenance categories. Imports of capital equipments for Government projects rose by Rs.3 crores and

of iron and steel and railway stores by Rs.5 crores each. On private account imports of chemicals, metals, machinery and vehicles were allowed on a large scale. Higher imports of raw cotton was allowed on the expectation of shortage in domestic production. This higher import bill in 1960-61 was on account of liberal trade policy, which was possible due to improved balance of payments position. As against the balance of payments deficit of Rs.427.0 crores in 1957-58, Rs.326.1 crores in 1958-59, the gap in 1959-60 had narrowed down to only Rs.185.6 crores in spite of increased import prices. But the favourable position did not continue for long. The liberal policy adopted during 1960-61 adversely affected the balance of payments situation and the need for conserving foreign exchange was realised in 1961-62. Moreover the import requirements of the Third Plan had been colossal and the export earnings had not been showing any sign of significant improvement. India's foreign exchange reserves declined considerably and there was slow utilization of external assistance already authorised by friendly countries. Consequently imports in 1961-62, the first year of the Third Plan showed a downward trend.

Import during 1961-66

During the period 1961-62 to 1965-66, imports increased sharply. Military requirements and the developmental projects were the main cause of this increase.

During 1961-62 imports fell down by 2.8% as compared to 1960-61. The imports of food grains were slashed due to good crop during the year. But the imports of iron and steel, machinery maintained their upward trend, as the industrial expansion in the public sector continued to centre around heavy industries. On private account, due to growing need of industrialisation imports of machinery increased. But raw cotton, non-ferrous metals, mineral oils, rayon textiles and vehicles imports declined due to restrictive import policy applied to these goods.

In spite of restrictive import policy, due to worsening balance of payments and a fall in unit value of imports, the import bill rose by about 4% due to larger receipts of external assistance to finance the developmental programme. The aggregate external assistance authorised during 1962-63 was Rs.656 crores and was Rs.225 crores higher than 1961-62.

The increase was in both development and non-development imports. More than 90% of the increase in non-development imports was in food articles specially wheat and rice under P.L. 480 agreements.

Demand for maintenance imports increased due to creation of additional capacity.

Further Chinese aggression in 1962 also increased the demand for military equipments. This can be seen in the sudden increase in defence expenditure from a normal

of Rs.340 crores in 1962 to Rs.816.12 crores in 1963-64.

During 1963-64 and 1964-65 imports increased due to higher imports of food-grains which were necessary due to two consecutive bad harvests. Also imports of fertilizer increased to stimulate agricultural products. Imports of machinery and crude petroleum also increased.

But because of increased domestic production of basic chemicals, soda ash, machine tools, aluminium and caustic soda, their imports declined.

Imports in 1965-66, further increased by 4.3%. Taking the five years period as a whole, imports increased by 29%. Although Government introduced certain import restrictions during this period, but they could not come out to be more effective because the prices of imported goods were cheaper as compared to the home produced goods.

The two consecutive wars, one with China in 1962 and other with Pakistan in 1965, diverted the factors of production towards military purposes. As a result shortage of goods appeared which also boosted the demand of imports during this period. However, imports of transport equipment including electrical and non-electrical machinery apparatus and appliances, and railway vehicles etc. fell from 35.6% of total imports bill in 1963-64 to 35.1% in 1965-66. Manufactured goods, including paper and paper boards, newsprints, silk yarn and thread, iron and steel and metals, declined from 20.7%

TABLE II.2 : India's Imports

(Rs. in crores)

Period	Imports	% Change over the previous year
1960-61	1768	
1961-62	1720	- 2.8
1962-63	1783	+ 3.8
1963-64	1927	+ 8.1
1964-65	2126	+10.3
1965-66	2218	+ 4.3
1966-67	2078	- 6.3
1967-68	2008	- 3.4
1968-69	1909	- 4.9
1969-70	1582	-17.1
1970-71	1634	+ 3.3
1971-72	1825	+11.7
1972-73	1867	+ 2.3
1973-74	2955	+58.3
1974-75	4519	+52.9
1975-76	5159	+14.2

(In post-devaluation rupee)

Source: Government of India, Economic Survey, 1964-65, 1970-71, 1972-73, 1976-77.

in 1960-61 to only 15.5% in 1965-66. Imports of chemicals declined from 8.8% in 1962-63 to 7% in 1965-66.

Imports during 1966-70

After June-1960 devaluation[1], imports, after increasing in money value in 1966 and to a small extent in 1967, declined in fiscal years 1968 and 1969. However, in terms of post-devaluation rate, imports continually declined during the four fiscal years 1966 to 1969 (see Table II.2). As a matter of fact Indian economy is agriculture-oriented, and the agriculture mostly depended on monsoon. In 1965-66 and 1966-67 India was badly hit by severe drought conditions hence she had to increase her food imports by 28.3% during 1966-67 against the imports of 1965-66. After devaluation Indian Government imposed import restrictions of various type. Apart from it the prices of raw materials and intermediate goods were having a rising trend. Hence immediately after devaluation Indian economy recorded a declining trend in imports of raw materials and intermediate products like raw cotton, raw jute, petroleum and petroleum products, raw wool, non-ferrous metals, cashew nuts etc. Due to poor harvest of cotton the import of raw cotton increased in 1966-67. The imports of jute also increased due to low production.

---

[1] The devaluation increased the import price of imports by 57.5% which increased the import bill by 37.1%, which shows that imports in pre-devaluation rate declined by 6.3%.

But in the later part noticed a sharp declining trend because of improved availability of agricultural products and slower growth of demand for new industrial capacity. Imports of cotton declined sizeably due to lack of demand for textiles during the year from Rs.90 crores in 1968-69 to Rs.83 crores in 1969-70. Imports of jute declined from Rs.9 crores in 1968-69 to Rs.1 crore in 1969-70.

On the other hand, imports of fertilizer and fertilizer products increased in pursuance of the new agricultural strategy. Imports of fertilizers and fertilizer materials increased by 64% from Rs.166 crores in 1966-67 to Rs.273 crores in 1967-68, followed by a declining trend during 1968-69 and 1969-70. This decline was due to good agricultural production.

Moreover, the basic reason of increase in imports of petroleum and petroleum products were the accelerated refining capacity of Indian refineries. The Government wanted to develop its indigenous petroleum industry. Imports of petroleum, oils and lubricants increased from Rs.75 crores in 1967-68 to Rs.139 crores in 1969-70 almost doubled. Exports of cashew kernels and finished precious stones were sufficiently increased after 1966 devaluation. Hence the import of unprocessed cashew kernels had also recorded an increasing trend from Rs.23 crores in 1966-67 to Rs.31 crores in 1968-69 and the imports of uncut precious and semi-precious stones rose from Rs.12.3 crores in 1967-68 to Rs.28 crores in 1968-69.

As previously stated the harvest of agricultural products was poor after devaluation hence in some years India had to import more of agriculture products. Imports of vegetable oil was also increased in this period. The trend in vegetable oils imports were as Rs.15 crores, Rs.34 crores, Rs.19 crores and Rs.29 crores in 1966-67, 1967-68, 1968-69 and 1969-70, to meet the requirements of vanaspati and soap manufacturers.

The increase in industrial capacity in the country, effected the flow of imports. For instance, the import of aluminium declined due to increased domestic production. The imports of iron and steel also showed a declining trend upto 1970-71.

The value of imported industrial machinery and transport equipment declined by nearly 24% owing to the slow growth of investment outlays in the recent past and a fairly rapid rise in the output of machine-building industries.

Import of food grains which was higher in 1966-67 and 1967-68, declined during 1968-69 and 1969-70 due to good harvests in 1967 and 1968.

Imports during 1970-76

As a result of rising industrial output higher levels of public investment, and improved outlook for

private investment the demand for imports picked up again in 1970-71. Since then imports showed a rising trend till 1972-73 on a moderate level but after 1972-73 there was a steep rise in the import as shown by the graph.

Total imports increased by 3.3%, 11.7% and 2.3% in 1970-71, 1971-72 and 1972-73. The increase in imports were mainly by non-food items to meet growing needs of the industries. Import of iron and steel, and fertilizer increased due to shortfall of domestic production and higher demand. Imports of iron and steel increased from Rs.82 crores in 1969-70 to Rs.226 crores in 1972-73, so also with fertilizer which increased from Rs.117 crores to Rs.146 crores. The programme of rural electrification during 1970-71 increased the demand for copper and other non-ferrous metals. Hence the imports of this article increased from Rs.75 crores in 1969-70 to Rs.109 crores in 1972-73. Imports of animal and vegetable oils were taken higher in order to stabilize internal prices by supplementing internal availability with adequate imports. Import of chemical and chemical products, professional scientific and controlling instruments were also higher. Imports of raw materials were higher due to liberal import policy followed by the Government to increase industrial production. During this period, import licences were liberalised as in 1970-71. Rs.430 crores worth of more licences were issued as compared to 1969-70. Moreover,

due to liberal import policy, imports of machinery and transport equipment also increased substantially. Poor output of cash crops in 1970-71 boosted the import of cotton and jute.

Throughout this period i.e. 1970-71 to 1972-73 imports of food grains were showing a declining trend. But this decline was offset by the increase of above mentioned imports.

During 1972-73, there was a slight increase in import payments. The whole of the increase was due to higher unit value of imports which increased from 149 in 1971-72 to 155 in 1972-73 (1958 = 100) though the quantity of imports fell down.

After 1972-73, there was a steep rise in the import bill. In 1973-74, 1974-75 and 1975-76, it was higher by 58%, 56% and 14% over the previous years respectively. This higher increase was on account of higher imports of food grains and mineral oils. Imports of food grains amounted to Rs.473 crores during 1973-74 and were higher by Rs.392 crores over the previous year, while imports of mineral oils at Rs.561 crores were higher by Rs.357 crores. Not only the quantity but the increase in the import price of both these commodities boosted their import bill by Rs.1054 crores during the year. (The impact of oil price hike on imports has been discussed separately in next chapter.) Imports of

fertilizers, animal and vegetable oil and fats, pearls, precious and semi-precious stones, non-ferrous metals as well as machinery other than electric also increased marginally. On the other hand imports of raw cotton, electrical macninery, transport equipment by Rs.39 crores, Rs.10 crores and Rs.12 crores declined respectively over the previous year. Further liberal import policy for the raw material also helped in boosting the import bill.

The year 1974-75 witnessed a very sharp increase in India's imports rising from Rs.2955.4 crores to Rs.4468.1 crores. Despite the marginal increase in the quantum of imports, the inflationary conditions prevalent in world market and higher cost of oil and other essential imports had inflated the import bill to the extent of 51% more than the imports over the previous year. Petroleum products, food grains and fertilizers have been the major growth sectors which together accounted for almost three fourth of total increase in India's overall imports. Food grains constituted about 17% of import bill. Higher quantum of imports of wheat and rice about 5.1 million tonnes as compared to 3.1 million tonnes in 1973-74 were also responsiole for higher import bill. Due to inadequate indigenous production the import of fertilizer continuously increased. In terms of value, the imports had recorded an increase of 156 per cent, even though quantitatively the increase was only of the order of 32%.

The impact of oil prices was more severe on India's imports. The relative share of petroleum and petroleum products which was about 10% of total imports in 1972-73 increased to almost 26% during 1974-75. The value of imports of petroleum crude increased from 13.9 million tonnes during 1973-74 to 14.5 million tonnes during 1974-75. But entire increase for petroleum was because of higher import price. Petroleum crude which was available at Rs.300.6 per tonne in 1973-74 became costlier by Rs.358.49 per tonne in 1974-75.

Further imports of chemical elements and compounds increased by 69%, as a result of very high international prices. The increase in the value of importswas mostly due to import of organic chemicals which rose from Rs.83 crores to Rs.145 crores. Imports of iron and steel and non-ferrous metals increased partly due to high price and partly due to larger quantities. Import of iron and steel rose by 67% from Rs.250.0 crores in 1973-74 to Rs.417.0 crores in 1974-75. In case of non-ferrour metals the imports increased by 26% from Rs.140.0 crores to Rs.178.0 crores. The main items which increased were mainly zinc, lead and nickel. Copper increased marginally while import of tin declined.

The imports of machinery was lower by 2 per cent while transport equipment increased by 29%.

As a result of increased availability of indigenous cotton, the imports of raw cotton declined sharply during

1974-75 almost to one fourth, from 57 thousand tonnes to 14 thousand tonnes. Vegetable oils and fats also declined from Rs.60 crores to Rs.12 crores.

In 1975-76 value of imports was higher by 16.5% than imports in 1974-75. The increase in value of imports was principally on account of food grains, capital goods, petroleum oils and lubricants, which together accounted for 67.3 per cent of total imports. 7.9 million of food grains against 5.6 million in 1974-75 were imported to build up adequate buffer stocks. At the same time the increases of 23.2% in the unit value contributed to the higher import bill on this account which was about a quarter of the total value of imports, reaching at Rs.1338 crores. Imports of POL during the year declined in volume by 6.5 per cent to 16.1 million tonnes. However, due to the unit value increase of 13.3% the total value of POL imports recorded a rise of 5.9% over the previous year. The imports of capital goods rose by 26% on account of liberalised import policy.

Higher domestic production of certain goods, on the other hand reduced their imports. The imports of iron and steel declined by Rs.118 crores. Though the decline in quantity was by 52 per cent but it was partly offset by the increase in unit value by 27 per cent.

Imports of non-ferrous metals also declined both by quantity and by price. Fertilizer imports declined

partly due to higher domestic production but mainly due to lower off take because of the high price of fertilizers, Chemical elements and compounds recorded a small decline for the first time in several years.

In 1976-77, the imports declined by 6.8% accounting Rs.490.2 crores, over the previous year. The decline in imports in this period was due to a marked reduction in the imports of food and fertilizers. But imports of animal and vegetable oils and fats and raw cotton increased.

Direction of Trade

The geographical pattern of country's trade depends at least to some extent, on her historical evolution. Therefore, India's imports have tended to be from sterling market but between 1947 and 1977 this pattern has changed to a great extent. Now Japan, U.S.S.R. and some of the centrally planned economies along with U.S.A. and Canada are increasing their share in India's imports (Figure II.2). To see why and how this pattern is changing we have divided the countries into (1) developing market economies, (2) developed economies, and (3) centrally planned economies. This procedure is followed for these reasons: (a) It is a common belief that trade among developed countries is increasing while from developing countries it is going down and this classification will give an idea of India's trade with the two regions. (b) Since India has established special bilateral trade

TABLE II.3 : Direction of Imports

(Rupees in crores)

	1961-1962	1962-1963	1963-1964	1964-1965	1965-1966	1966-1967*	1967-1968	1968-1969	1969-1970	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976
I. Developing Market Economies	239.8 (22.2)	224.9 (19.9)	211.8 (17.4)	222.6 (16.5)	211.6 (15.2)	341.2 (17.7)	350.0 (17.4)	412.3 (21.6)	357.6 (22.6)	411.8 (25.2)	291.9 (16.0)	498.6 (26.7)	886.6 (30.0)	1478.9 (33.1)	1448.3 (28.1)
II. Developed Market Economies	762.7 (69.8)	796.5 (70.4)	881.7 (72.1)	980.8 (72.8)	1024.5 (73.7)	1377.2 (71.3)	1435.4 (71.5)	1186.7 (62.2)	940.9 (59.5)	994.8 (60.9)	1323.2 (72.5)	1139.7 (60.9)	1668.3 (56.4)	2336.9 (52.3)	3024.4 (61.6)
U.S.A.	255.5 (23.5)	340.8 (30.7)	449.9 (36.8)	510.5 (37.9)	535.3 (37.7)	712.3 (36.9)	776.6 (38.6)	575.6 (30.1)	467.2 (29.5)	453.0 (27.7)	418.7 (22.9)	234.9 (12.6)	498.4 (16.7)	729.1 (16.3)	1270.0 (24.6)
Japan	59.4 (5.4)	64.9 (5.6)	65.9 (5.4)	78.2 (5.8)	79.2 (5.7)	99.4 (5.2)	108.4 (5.4)	115.4 (6.0)	67.4 (4.3)	83.4 (5.1)	161.6 (8.9)	178.5 (9.6)	259.5 (8.8)	453.5 (10.1)	354.8 (6.9)
U.K.	200.1 (18.3)	185.6 (16.4)	171.5 (14.0)	163.6 (12.1)	149.1 (10.8)	154.2 (7.9)	162.6 (8.1)	127.5 (6.6)	102.6 (6.4)	126.8 (7.8)	220.8 (12.1)	237.2 (12.7)	252.2 (8.5)	213.4 (4.8)	268.2 (5.2)
III. Centrally Planned Countries	87.6 (8.0)	110.1 (9.7)	129.3 (10.5)	145.6 (10.7)	155.9 (11.7)	213.1 (11.0)	222.2 (11.1)	309.6 (16.2)	283.6 (17.9)	227.6 (13.9)	209.4 (11.5)	231.1 (12.4)	400.5 (13.6)	653.3 (14.6)	685.0 (10.6)
U.S.S.R.	39.9 (3.7)	58.6 (5.2)	68.5 (5.6)	78.8 (5.8)	82.5 (5.9)	105.6 (5.4)	111.2 (5.5)	191.7 (10.0)	171.3 (10.9)	106.1 (6.5)	87.3 (4.8)	114.4 (6.1)	254.7 (8.6)	402.5 (9.0)	296.0 (5.7)
Total (I+II+III)	1090.1 (100)	1131.5 (100)	1222.8 (100)	1349.0 (100)	1392.0 (100)	1931.5 (100)	2007.6 (100)	1908.6 (100)	1582.1 (100)	1634.2 (100)	1824.5 (100)	1867.4 (100)	2955.4 (100)	4468.1 (100)	5157.8 (100)

Note: Figures in brackets indicate percentage

* In post-devaluation rupees

Source: Reserve Bank of India, Report on Currency and Finance (Various issues)

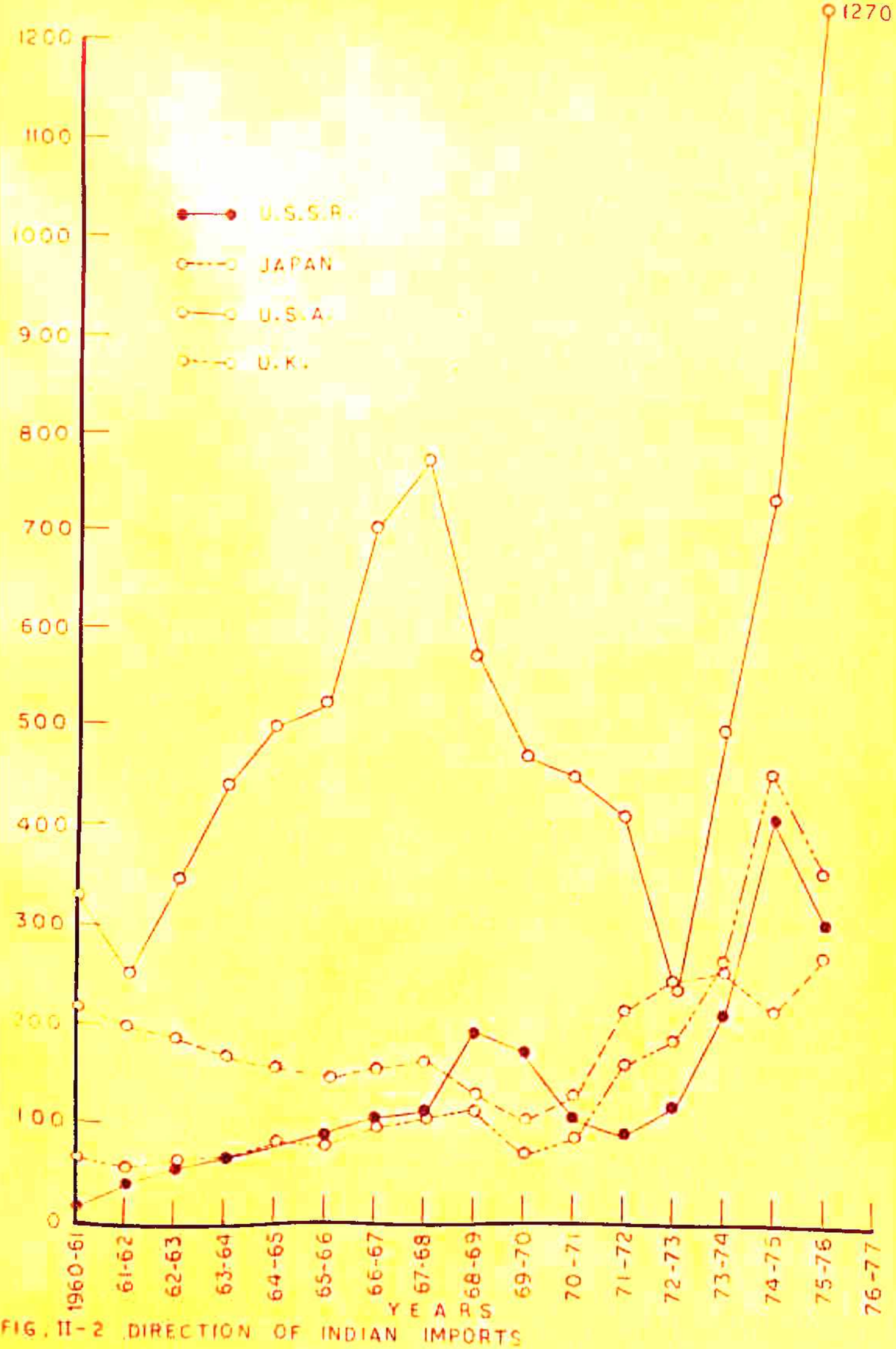


FIG. II-2 DIRECTION OF INDIAN IMPORTS

and payments agreements with the East European countries from 1956, it would be interesting to know how and in what direction, India's trade with these countries has changed since then. This is the justification of having a third category, namely, that of centrally planned economies.

India's Imports from Developing Market Economies

India's imports from this region increased from Rs.241.6 crores in 1961-62 to Rs.1590.5 crores in 1974-75. This increase was more than the increase in India total import payment from Rs.1090.1 crores in 1961-62 to Rs.4468.1 crores in 1974-75. This region as a whole accounted a lower part of our total import. The percentage share varies between 15 to 33. Table II.3 gives an idea of the percentage which reached its bottom in 1965-66 - the year of Indo-Pakistan war. In 1967-68 it was 17.4% and again picked up and got one third of the total in 1974-75. This sudden spurt in the seventies was the result of oil price hike which had to be imported from the Arabian countries.

In general, import from developing countries is not increasing sufficiently. The reasons behind our low share of imports from this region are to be found mainly in certain characteristic of our and their trade. Most of our imports demand consists of manufactured goods and

minerals and food grains. Moreover, due to balance of payments problem most of these imports are financed through aid which is almost tied in nature and India has to make her purchases from the countries which provide these loans - which during most of our period of study were developed countries. On the other hand,most of the exports of the developing economies consist of agricultural products and minerals and not only this, these exports are highly concentrated in terms of their range. For example - nine commodities (coffee, crude petroleum, raw cotton, cocoa, wood and timber, iron ore, groundnut and diamonds) account for about four-fifths of Africa's primary-commodity exports. This situation exists in even more acute form for most of the individual countries which depend on one or two commodities for their export earnings, as Libya on petroleum, Mauritania on iron ore, Zambia on copper, and Gambia on groundnuts. As a result of this heavy concentration on one or two commodities, our imports from many of them are insignificant and there is little scope for their expansion.

Another reason for their low share in India's imports is the high cost including transportation costs. Due to that it is difficult to compete with the developed countries' exports and sometime strained political relations also affect trade.

Imports from Developed Market Countries Economies

Developed market economies includes countries of Western Europe, North America, Japan and Australia.

Trade with developed countries is most significant as it accounted for more than fifty per cent of our total imports. Though the share of this region has declined from 74.6 per cent in 1960-61 to 52.3 per cent in 1974-75, yet till now it is important area in India's trade. The reasons for this decline are the suspension of aid by U.S.A. since 1971, which reduced its share in India's imports. As we know that the imports are dependent on the availability of loans and grants from the countries. Further due to increase in trade with U.S.S.R., which is based on bilateral payment the share of this region declined. Another reason is the oil-price-hike which changed the pattern of imports as a result the share of oil exporting countries increased in India's imports. After 1974-75 loans were also forthcoming from mainly rich OPEC countries.

The important countries of this region from India's point of view are U.S.A., U.K. and Japan. Due to this a separate study has been made with these countries.

Imports from U.S.A.

India's trade with U.S.A. is of considerable importance since independence. The total value of imports

from United States has increased from Rs.120.2 crores in 1950-51 to Rs.255.5 crores in 1961-62 and the increasing trend remained till 1967-68. But after this imports declined from Rs.776.6 crores in 1967-68 to Rs.234.9 crores in 1972-73. A steep fall occurred during this period (see Figure II.2).

In relative terms imports from United States varied between 20% to 40% in different years during the period 1961-73. There was a sharp decline from 38.6% in 1967-68 to 30.1% and 12.6% in 1968-69 and 1972-73. Table II.3 reveals the percentage share of U.S.A's exports in India's trade.

The steep fall during 1967-68 to 1972-73 were the result of good agricultural crops in India and also the amendment of PL 480 law in 1967, where part of repayment had now to be made in foreign exchange in place of rupee and the suspension of aid in 1971 due to hostilities with Pakistan.

During the period which is known as period of green revolution favourable natural climate dropped the wheat imports, from Rs.241.8 crores in 1965-66 to Rs.121.38 crores, almost to half in 1970-71. Wheat is the major item of imports from U.S.A. and accounted for about 1/4 of the total imports from that country.

Further recession of 1966, reduced the demand for machineries and raw materials, which also affected the

imports of these articles from U.S.A.

But after 1972-73, imports again picked up and in 1975-76 they reached their peak of Rs.1270 crores. This steep increase was due to the political relations to be cemented in 1975. This new and cordial relationship between U.S.A. and India was reflected in the surge in trade between the two countries. As an official said "trade between India and the U.S. is growing like a tidal wave".

Further the higher level of imports in the last few years is due to larger imports of food grains, fertilizers, chemicals, electrical machinery and transport equipment due basically to increases in their prices.

Despite a fall of 1972-73, U.S.A. got the highest share in India's imports since 1961-62. The only reason behind this highest share was the willingness of the country to finance development plans in the country. Up to 1971-72 U.S.A. authorised aid totalling Rs.5040.6 crores against the total authorisation of Rs.10,279 crores from all sources. Thus U.S.A. alone contributed nearly 50% of the total aid. Further a substantial portion of this aid was in the form of grants under PL 480 for imports of wheat and cotton. This commodity aid was of great importance to India facing consecutive bad harvests from time to time.

TABLE II.4 : Composition of Imports from U.S.A.

(Rs. in lakhs)

Commodities	1961-62	1965-66	1970-71*	1974-75	1975-76
Wheat	6569	24181	12138	40747	83095
Fertilizer manufactured	13	1833	1105	7597	7804
Machinery, other than electric	3831	5962	4517	4168	7226
Raw cotton	2610	1818	2876	..	..
Petroleum and petroleum products	773	628	878	..	..
Rice	606	1437	..	..	19
Transport equipment	1068	217	1778	4717	5003
Chemical elements and compounds	843	880	1817	1452	1445
Iron and steel	2214	2227	3985	678	470
Professional, scientific and controlling instruments	147	N.A.	830	N.A.	N.A.
Animal oils, fats and greases	Neg.	7	1507	723	470
Pulp and waste paper	212	395	1068	328	1089
Copper	620	2553	1302	57	82
Electrical machinery, apparatus and appliances	738	1836	1358	2220	2969
Medicinal and pharmaceutical products	327	251	1075	434	343
Chemical products and preparations, n.c.s.	..	N.A.	599	1744	1779

(contd.)

*In post-devaluation rate

Table II.4 (contd.)

Commodities	1961-62	1964-65	1970-71*	1974-75	1975-76
Fertilizer crude	17	79	729	613	1146
Tin	Neg.	106	400	N.A.	N.A.
Paper and paper board	109	28	197	69	167
Total	25554	53483	45300	73678	126992

*In post-devaluation rate

Source: (1) Directorate of Research and Statistics, Office of Chief Controller of Imports and Exports, Brochure of Foreign Trade Statistics of India (Third Plan Period).

(2) Commerce, Annual Number, 1971.

(3) Government of India, Ministry of Commerce, Statistics of Foreign Trade of India by Country and Economic Regions, 1975-76.

The main items of imports from U.S.A. are wheat, rice and raw cotton. Wheat, rice and raw cotton between themselves accounted for aoout 40% of the total exports from the U.S. to India in 1961-62. In 1970-71, the share of these items declined to 33%. The imports of wheat had considerably gone down, whereas the imports of rice was stopped. But on account of agricultural failure in 1974-75 and 1975-76, imports of wheat again picked up and it declined in 1976-77 and is likely to decline in coming two years, with the prospects of India becoming self-reliant. Machinery, both electrical and non-electrical, crude petroleum till 1970-71, iron and steel, transport equipment, chemicals and fertilizers, have been other important items of imports. Table II.4 gives the detailed picture of their trend since 1961-62. Imports from U.S.A. is also expected to increase in the future because of improved relations between the two.

Imports from U.K.

U.K. was India's most important trading partner in the pre-independence days and in the early post-independence days. Till the Second Plan period, on an average it accounted for 20% of our total imports and 28% of our total exports. Huge reserves of sterling balances during the World War II made it easy for India to import goodsfrom U.K. for industrialisation.

TABLE II.5 : Composition of India's Imports from U.K.

(Rs. in lakhs)

Commodities	1961-62	1965-66	1970-71*	1974-75	1975-76
Machinery other than electric	6973	5822	3683	6286	7502
Iron and steel	1924	1243	1990	2725	3650
Electrical machinery, apparatus and appliances	2051	1688	1143	2184	2793
Transport equipment	1998	1538	1595	2764	3087
Chemical elements and compounds	815	516	558	1308	787
Professional scientific and controlling instruments	394	N.A.	287	293	387
Copper	183	335	268	N.A.	N.A.
Chemical materials and products, n.e.s.	N.A.	N.A.	220	387	4531
Medicinal and pharmaceutical products	223	216	118	320	392
Paper and paper board	197	335	174	311	399
Dyeing, tanning and colouring materials	388	168	144	N.A.	N.A.
Total	20015	15009	12680	22010	26827

Source: Same as of Table II.4.

*In post-devaluation rate.

U.K's share in India's imports declined by 18.3% in 1961-62 to 5.2% in 1975-76. The main reason behind this downward trend was the entry of U.S.A. and U.S.S.R. to India's help. U.S.A. started giving aid since 1950 and U.S.S.R. with bilateral trade agreement increased its share. With the industrial recovery in Japan, its share also increased in India's imports. Consequently the relative share of U.K. declined. In absolute terms also imports from U.K. declined till 1969-70, while the total imports of India were on an increase (See Table II.3).

The main items of imports from U.K. are: non-electrical and electrical machinery, organic chemicals, iron and steel, copper, printed material, transport equipment etc. Machineries and transport equipment accounted more than 50% of the total imports from U.K. in 1961-62, which remained the same in 1970-71 also. Though in absolute quantity there was a declining trend from Rs.69.7 crores to Rs.36.8 crores in non-electrical machinery, from Rs.19.9 crores to Rs.15.9 crores in transport equipment[2] and Rs.20.5 crores to Rs.11.4 crores in electrical machinery in 1961-62 and 1970-71 respectively. Imports of organic chemical also declined but import of copper increased.

---

[2]During this period it appears through direct British investment in India by British firms, such as Ashok Leyland, production of transport equipment by such firms in India increased and replaced imports - thereby avoiding tariff barriers.

The decline in imports was due to increase in domestic production and also because of increase in imports from other countries on account of increased foreign aid and rupee payment agreements. Table II.5 depicts the commodity-wise situation of imports during the period i.e. 1961-76.

Imports from Japan

Japan is today the fourth leading exporter of the world after the U.S.A., West Germany and U.K. (excluding petroleum exporting countries, whose exports in value have increased in recent past due to oil price-hike). As present Japan constitutes the Second largest trading partner of India after U.S.A. and followed by U.S.S.R. as far as imports are concerned.

India's imports from Japan increased steadily over the period. Imports which accounted only 1.6% of India's total imports in 1950-51 increased its share to 5.7% and 10.1% in 1965-66 and 1974-75. But its share declined in 1975-76 to 6.7%. In absolute terms imports increased eight-fold during the period of our study from Rs.59.4 crores in 1961-62 to Rs.453.5 crores in 1974-75. In 1969-70 and 1970-71, both in relative items and in absolute terms imports declined, accounted only Rs.67 crores and Rs.83 crores respectively (also see Table II.3). This fall was mainly on account of increased price of Japanese goods (i) on account of Indian rupee devaluation,

TABLE II.6 : Composition of Imports from Japan 1961-76

(Rs. in lakhs)

Commodities	1961-62	1965-66	1970-71*	1974-75	1975-76
Iron and steel	1956	N.A.	2767	20520	10598
Machinery other than electric	1232	2101	1411	3879	5227
Fertilizer manufactured	173	473	341	6260	6673
Chemical elements and compounds	192	282	706	5134	4606
Petroleum products	1	6	21	Nil	Nil
Electrical machinery, apparatus and appliances	894	884	396	1322	1558
Transport equipment	318	753	584	630	1047
Special transactions not classified	3	364	301	N.A.	N.A.
Textile yard and thread	190	184	113	713	498
Chemical materials and products n.e.s.	2	24	70	141	230
Rubber manufactures	21	5	26	257	111
Pearls, precious and semi-precious stones	59	49	87	88	85
Professional, scientific and controlling instruments and photographic goods	50	71	110	189	254
Paper and paper board	53	61	123	151	764
Yarn and thread of synthetic fibres and spunglass	185	95	156	202	561
Total	5945	7933	8340	45484	35481

Source: Same as of Table II.4.

*In post-devaluation rate.

(ii) inflationary trend between 1963 and 1971, during which consumer prices rose at an average annual rate of 6%.

Again, industrial recession of fiscal year 1960, forced the cut of many imported articles including those from Japan.

Further aid from Japan also declined from Rs.33.8 crores in 1968-69 to Rs.24.3 crores in 1970-71 which explains the fall of imports during this period. As it is well-known that most of our imports from developed countries comes under tied-aid - so imports depend on aid. By December end 1971, Japan's aid to India totalled Rs.435 crores accounting for about 4% of total aid received by India from all sources, ranking eighth among aid givers to India.

Among the major items of India's imports from Japan, special mention may be made of iron and steel manufactures, electrical and non-electrical machinery, chemicals and their compounds, manufactured fertilizers, which together accounted more than 60% of our imports from Japan. Table II.6 deals with the commodity composition of imports from Japan - since 1961-62. It is clear from the table that imports of machinery , transport equipment and fertilizer manufactures, chemicals almost doubled in 1965-66 as compared to 1961-62, in the five year period. Imports of synthetic fibres, rubber manufactures and

precious stones declined over the same period. But in 1970-71, imports of machines and transport equipment declined which accounted for the lower rate of investment, and the increased domestic production of certain machineries. On the other hand, imports of industrial raw materials, like petroleum products, chemicals, paper and paper board and textile yarn increased.

In 1974-75 and 1975-76, the situation was different as value of imports under almost all the categories increased due to inflationary trend in international market.

In 1975-76 imports declined. However, it is expected that imports from Japan will increase in future as India required imports of machinery and equipment for her growing industries.

Imports from Centrally Planned Economies

India's trade with the centrally planned economies is limited mainly to seven countries of Eastern Europe (Czechoslovakia, Yugoslavia, East Germany, Poland, Hungary, Rumania, Bulgaria) and U.S.S.R.

India's imports from this area increased at a rapid rate from Rs.87.6 crores in 1960-61 to Rs.653.3 crores in 1974-75 (See Table II.3). While in (1950-51) immediately after independence their share in India's total imports was only 1.0 per cent, in 1961-62 it stood at 8.0 per cent

and in 1970-71 and 1974-75, the share rose to 13.9 per cent and 14.6 per cent respectively.

The most important factor responsible for such a rapid growth in our trade with East European countries, especially after 1958, is the mechanism of trade and payments agreement entered into with these countries. The salient features of these agreements are (1) The trade is based on trade and payments agreements signed with each of these eight countries provided for all bilateral transactions to be settled through commodity exchanges; (ii) the exchange of goods between these countries and India is carried out by advance agreement on the broad pattern of commodity exchanges for a particular year; (iii) the long term projects financed by these countries, including those under the credits granted by some of them, such as U.S.S.R., Yugoslavia, Czechoslovakia and Poland, are to be paid for by export of India goods under the trade plan.

The most important trading partner of India in this area is U.S.S.R. which accounts about 60% of our import from the region under review. A detailed study is required with this country.

Imports from U.S.S.R.

Prior to 1955 India's imports from the U.S.S.R. was insignificant. In 1953-54 imports amounted to Rs.0.6 crores and exports were of the order of Rs.1.1 crores.

There was no definite trend, in imports or exports before the pre-agreement period and even during the agreement period from July 1953 (first agreement took place in July 1953). But during 1955-56 and 1956-57, there was an important increase in the value of imports from U.S.S.R. This increase was partially accounted for by the changed import-content and requirements of the Indian economy with the beginning of the industrialisation programme, and more particularly, by the possibility of obtaining capital goods from the Sovient Union since her resort to a "new course" in 1954. (The "new course" was marked ... by some relaxation of political tension inhibiting East-West trade and by a change of domestic policies in the countries of Eastern Europe and the Soviet Union which involved both a slackening of the pressure to build up heavy industry at all costs - and of the investment drive and (paid a) gradually increasing attention to consumers' needs.)

Growth of Indo-Soviet trade, particularly from 1954 onwards, took place under the stimulus provided by the non-convertible rupee payment agreement concluded on November 14, 1958 for a period of five years from 1959. After 1960, India's imports from U.S.S.R. increased from Rs.40 crores in 1961-62 to Rs.251 crores in 1974-75. In other words U.S.S.R. share in India's total imports increased from 3.7% in 1961-62 to 5.9% in 1965-66, 6.5% in 1970-71, 9.0% in 1974-75. But its share declined in

TABLE II.7 : Composition of Imports from U.S.S.R.

(Rs. in lakhs)

Commodities	1961-62	1965-66	1970-71*	1974-75	1975-76
Machinery other than electric	1502	4290	5044	4593	6695
Petroleum products	221	906	562	N.A.	N.A.
Electrical machinery apparatus and appliances	189	869	628	1055	724
Iron and steel	755	813	822	1812	1639
Paper and paper board	142	214	520	1564	1053
Fertilizer manufactured	130	97	422	4251	3943
Chemical elements and compounds	63	58	93	946	1120
Transport equipment	18	173	216	309	140
Medicinal and pharmaceutical products	17	53	N.A.	131	138
Zinc	82	137	344	1576	799
Manufactures of metals n.e.s.	117	153	N.A.	167	185
Special transactions	..	31	642	9	5
Total	3994	8317	10610	40892	29575

Source: Same as of Table II.4.

*In post-devaluation rate.

1975-76. Table II.3 gives the total value of imports from U.S.S.R. during the period. U.S.S.R. became India's most important trading partner, but it lost its position to U.S.A. in 1975-76 where its imports fell down by 26%.

India's imports from Soviet Union are mostly composed of machinery, iron and steel, fertilizers, organic chemicals, paper, medicines and pharmaceutical products and petroleum products (Table II.7).

Electrical and non-electrical machinery, transport equipment, fertilizers and iron and steel manufactures together accounted for about 55% of the total imports in recent years, whereas in the early 60's their contribution was more than 60%. Among these commodities, the share of electrical machinery , transport equipment and fertilizers increased while that of non-electrical machinery and iron and steel manufactures declined over the same period. With the growth in indigenous production there have been changes in the structure of imports of capital goods and equipment. The place of ordinary non-electrical machinery has been taken by such items as special steel and steel products, oil prospecting equipment, petroleum products etc. Non-ferrous and raw materials are other important items of imports.

India's trade with U.S.S.R. is conducted on the basis of annual trade plans which are prepared within the framework of a long term trade agreement, valid for five

years. The current trade agreement was signed on April 15, 1976 and is valid upto December 1980. The policy underlying this and previous trade agreement has been that the trade is bilateral and balanced in principle. All the commercial and non-commercial transactions between the two are undertaken in non-convertible Indian rupee. Under this system funds have to be generated through exports to the credit of either country, and these funds are liquidated through mutual purchases. Even credit repayments by India are made in the form of exports. These agreements provide the facilities for expanding exports both traditional and non-traditional and at the same time, imports do not put any pressure on the foreign exchange reserves as already mentioned payment will be made through exports. As a result the trade with U.S.S.R. is expanding steadily.

To be summarised, despite certain variations imports showed an increasing trend throughout the period of our study and in the later years a steep increase occurred due to price hike in international market.

Not only this, food grains have been the main items of imports which is responsible for bringing this trend. Whenever there was a fall of food grains imports, the total import bill also declined, but when the import under this category increased import bill also boosted. So to check this trend, increase in food grains production is necessary, imports of which otherwise can't be checked due to

increasing population and life saving character of these imports. Although recently, we have good crops and a good amount of buffer stock, which pointed out that till two or three years if any calamity occurred, there will be no need for imports. But Indian agriculture is still dependent on the uncontrollable factors such as rainfall etc.

Further, most of our imports are from developed market economies. Except for few years (1969-73) U.S.A. got the highest share. Though the share of developing countries is also increasing since 1973; but, due to increased imports of oil in value from OPEC countries, which are not expected to be steady. On the other hand, U.S.S.R's share is increasing steadily.

+++++++++

CHAPTER III

STRUCTURE OF IMPORTS

CHAPTER III

STRUCTURE OF IMPORTS

Introduction

During our period of study India's balance of trade, except in 1972-73, was a deficit one, i.e., there were excesses of imports over exports. Imports at the same time were increasing. Whether this increasing trend of imports helped the growth process or not is the question. Whether Government should curtail the imports tnrough import control depends on the commodity composition of trade. If the imports of consumer goods or non-essentials are on a higher scale than it must adversely affect the growth or vice-versa. So to analyse whether Indian imports are really helpful to growth or not, study of the pattern of imports is required. In this chapter we, therefore, analyse the structure of imports over the period (1961-75).

The structure and pattern of imports is theoretically considered to be determined by comparative advantage of production between the importing country and the supplying countries. But in developing economies, especially in thos guided by planning, such as India, the choice of growth rate and of investment pattern appears to play a significant role.

The term "Structure" can be interpreted variously, as structure which implies the classification of goods into (1) Food, drink, tobacco, (2) Industrial materials, (3) Finished manufactures, or in terms of Primary, Secondary and Tertiary sectors. This classification can also take the form of Consumer goods, Raw materials and Capital goods. Finally, Standard International Trade Classification classifies goods into nine categories. This is another form of structure adopted by all the countries.

For my study I have taken two forms of classification. One is SITC classification, and the other economic classification where goods have been classified into consumer and capital goods.

S.I.T.C. Classification

Table III.1 is designed to bring to light the structure of Indian imports and the changes that were brought into it over the period 1961-62 to 1975-76.

Imports under all the nine categories increased as the import bill rose. Food grains, mineral fuels and lubricants, and chemicals rose at a faster rate than the total import bill, while the other categories rose slightly. As may be deduced from these rates of growth, the structure of imports has altered significantly.

While in 1961-62 machinery and transport equipment accounted 1/3 of total i.e. 33.7% followed by manufactured

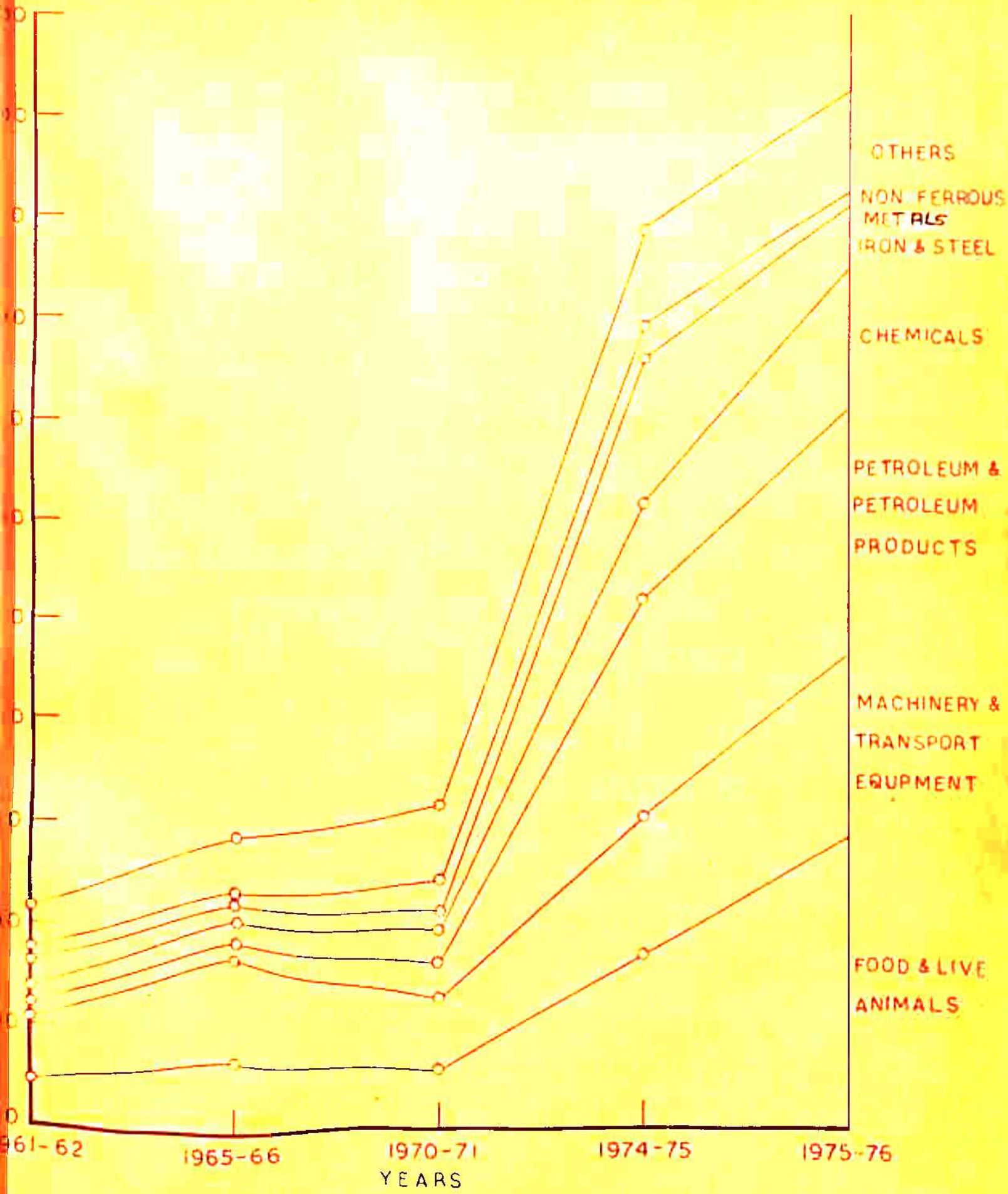
TABLE III.1 : Imports by SITC Categories 1961-62 to 1975-76

(Rupees in crores)

Commodities	1961-1962	1962-1963	1963-1964	1964-1965	1965-1966	1966-1967	1967-1968	1968-1969	1969-1970	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976
1. Food and live animals	147.1 (13.5)	179.4 (14.9)	214.4 (17.3)	322.7 (23.9)	354.1 (25.1)	638.5 (33.9)	579.2 (28.8)	403.1 (21.1)	320.7 (20.3)	271.8 (16.6)	197.0 (10.1)	159.7 (8.5)	547.1 (18.5)	855.0 (19.2)	1424.0 (27.8)
2. Beverages and tobacco	1.6 (0.1)	1.7 (0.1)	1.1 (0.1)	0.7 (0.1)	0.6 -	0.5 -	1.8 (0.2)	1.1 -	1.0 -	0.3 -	0.3 -	0.3 -	0.4 -	1.0 -	0.9 -
3. Crude materials, inedible except fuels	129.9 (12.0)	127.2 (11.2)	124.4 (10.2)	128.3 (9.5)	123.1 (8.7)	192.8 (9.9)	191.0 (9.5)	189.8 (9.9)	176.8 (11.2)	200.3 (12.2)	212.9 (11.7)	189.9 (10.1)	184.1 (6.2)	218.9 (4.9)	209.9 (4.1)
4. Mineral fuels, lubricants and related materials	95.9 (8.8)	87.9 (7.8)	104.5 (8.9)	68.7 (5.1)	68.4 (4.9)	61.4 (3.2)	74.9 (3.7)	133.9 (6.9)	137.9 (8.7)	136.0 (8.3)	194.6 (10.7)	204.3 (10.1)	560.6 (18.9)	1157.0 (25.9)	1226.0 (23.9)
5. Animal and vegetable oils and fats	8.6 (0.8)	5.6 (0.5)	4.9 (0.4)	5.6 (0.4)	13.6 (0.9)	14.2 (0.7)	34.4 (1.7)	19.3 (1.0)	29.6 (1.9)	38.5 (2.3)	46.5 (2.5)	24.9 (1.3)	64.9 (2.2)	34.8 (0.8)	18.3 (0.3)
6. Chemicals	89.8 (8.2)	100.5 (8.8)	95.9 (7.8)	94.5 (7.0)	105.0 (7.4)	186.8 (9.7)	272.6 (13.5)	283.5 (14.1)	195.1 (12.3)	192.3 (11.7)	218.5 (11.9)	258.8 (13.3)	347.4 (12.1)	711.9 (15.9)	721.3 (13.9)
7. Manufactured goods	221.2 (20.3)	203.9 (18.0)	200.4 (16.4)	218.6 (16.2)	216.3 (15.3)	232.8 (12.0)	254.5 (12.7)	250.4 (13.1)	230.0 (14.5)	344.7 (21.1)	440.4 (24.1)	449.5 (24.0)	539.3 (18.2)	763.1 (17.1)	604.6 (11.7)
8. Machinery and transport equipment	367.5 (33.7)	387.4 (33.9)	437.0 (35.7)	477.7 (35.4)	492.1 (34.9)	536.0 (27.8)	503.1 (25.1)	513.9 (26.9)	395.9 (25.0)	394.7 (24.1)	470.6 (25.8)	532.1 (28.5)	651.6 (22.0)	669.8 (15.0)	881.8 (17.1)
9. Miscellaneous manufactured articles	21.7 (2.0)	30.7 (2.7)	33.5 (2.7)	22.7 (1.7)	18.7 (1.3)	21.9 (1.1)	27.7 (1.4)	24.8 (1.3)	25.2 (1.6)	32.5 (1.9)	32.9 (1.8)	36.6 (1.9)	41.7 (1.4)	45.6 (1.0)	52.5 (1.0)
10. Unclassified	7.6 (0.7)	23.7 (2.1)	3.7 (0.3)	19.2 (1.5)	1.7 (1.5)	5.1 (2.7)	6.8 (3.6)	8.9 (4.9)	6.9 (4.5)	21.4 (1.8)	14.6 (0.8)	42.9 (2.3)	14.8 (0.5)	4.4 (0.1)	8.5 (0.2)
Total Imports	1090.1	1131.5	1222.8	1349.0	1408.5	1931.5	2007.6	1908.6	1582.1	1634.2	1824.6	1867.4	2955.4	4461.3	5157.8

Note: Figures in brackets indicate percentage
* In post-devaluation rate.

Source: Government of India, Monthly Statistics of the Foreign Trade of India, DCI and S.



G. III–1 INDIA'S FOREIGN TRADE COMPOSITION OF IMPORTS

goods including iron and steel, non-ferrous metals, paper and paper board etc. (SITC6). Import of food grains were 13.5% of the total import bill. But till the end of Third Plan period, i.e., 1965-66, food grains replaced manufactured goods and got the second place. Machinery and transport equipment occupy the first place. This trend remains till 1969-70.

After 1970, SITC6 again comes on the second place, while chemicals got the third place. Due to increased production of wheat and rice and other food grains import declined and was to the extent of 10.7% of the total bill.

(SITC7) Machinery and transport equipment though reduced its share from 33.7% in 1960-61 to 22.0% in 1973-74, yet in the total import bill its share was the highest. But after 1973-74, this trend was altered and mineral fuel and lubricants etc. became the major import items accounted 25.9% or 1/4 of the total import bill, followed by food grains due to bad harvests in 1972-73 and 1973-74. Import of machinery and equipment were of the order of 15% and 17% in 1974-75 and 1975-76.

The increased share of (SITC1), (SITC3) and (SITC5) were on account of higher import prices in international market as well as of higher volume of imports. Details are given in the later part.

Figure III.1 also throws light on the main items of imports under all these categories.

Economic Classification

It is more significant to view the structural changes in the bill of imports in terms of economic categories. For this purpose imports during the period of our study have been classified into: (1) consumer goods and (2) capital goods. A sub division of second category has been made into fixed and circulating capital. The item which changes its identity in the production process within a year has been included in circulating capital, while others have been included in fixed capital. Ideally, the annual imports in each category should be measured in constant prices if the structural shifts are to be accurately presented. However, since unit value indices on this basis are not available, we have taken the current prices. The figures have been given in percentage form to see the relative changes. The results of this classification are summarised in Table III.2.

Imports of consumer goods are fluctuating between 15% to 40% and as such have no definite trend. But if we see the plan-wise, there was an upward trend during the Third Plan period and even in 1960-67 also. But from 1967-68 till 1972-73 there was declining trend, which picked up in 1973-74, capturing again 23.5% of the total import bill. These wide fluctuations in the import of this category were because of imports of food grains which accounted for more than 50% of the total payments. If we exclude the imports of cereal and cereal preparations from

TABLE III.2 : Imports by Economics Categories (Percentage)

Commodities	1961-1962	1962-1963	1963-1964	1964-1965	1965-1966	1966-1967	1967-1968	1968-1969	1969-1970	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976
I. Consumer Goods	18.1	21.1	21.7	27.4	29.4	38.3	36.5	29.3	29.5	24.1	17.3	15.7	23.5	21.9	30.1
Food grains	10.7	12.7	14.7	20.9	22.9	30.4	25.8	17.6	16.5	13.0	7.2	4.3	15.1	17.1	25.9
Medicinal and pharmaceutical	1.1	0.8	0.7	0.6	0.6	0.9	0.9	0.9	1.2	1.5	1.5	1.7	0.9	0.8	0.7
Others	6.3	7.6	6.3	5.9	5.9	7.0	9.7	10.8	11.8	9.6	8.6	9.7	7.5	4.0	3.5
II. Capital Goods	81.9	78.9	78.3	72.6	70.6	61.7	63.6	70.7	70.5	75.9	82.7	84.3	75.5	78.1	70.0
Circulating capital goods	48.2	45.0	42.6	37.2	35.7	33.9	38.5	43.8	45.5	51.8	56.9	55.8	53.5	63.0	52.9
Fixed capital goods	33.7	33.9	35.7	35.4	34.9	27.8	25.1	26.9	25.0	24.1	25.8	28.5	22.0	15.1	17.1
Total I + II	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Based on Government of India, Monthly Statistics of the Foreign Trade of India DCI and S.

the total we will find a different trend. As is clear from the Table itself, the percentage of other consumer goods throughout the period was stagnant except during 1967-68 to 1972-73, when it accounted more than 10 per cent share. This increasing share was because of imports of oil seeds[1], whose production was 6.43 and 6.85 million tonnes in the years 1965-66 and 1968-69 respectively. Though production of oil seeds was 8.30 million tonnes in 1967-68, yet its imports increased during this period also because of increased domestic demand. Imports of fruits and vegetables and dairy products were also on an increasing scale during these years as compared to the previous years. Imports of fruits and vegetables were of the order of Rs.39.2 crores, Rs.40.4 crores, Rs.53.2 crores in 1967-68, 1968-69 and 1972-73 respectively while in 1965-66 they were only of Rs.30.2 crores. Some of the increase was because of higher import prices due to devaluation of rupee in 1966, yet it is difficult to measure precisely the share of increase due to devaluation.

Among non-food items, the imports of medicinal and pharmaceutical products and other miscellaneous consumer goods were higher. In absolute term imports of medicinal and pharmaceutical products increased from Rs.11.3 crores in 1961-62 to Rs.17.4 crores in 1966-67 and Rs.34.2 crores in 1974-75. Although in relative terms its share declined from 1.7% in 1972-73 to 0.9 per cent, 0.8 per cent and 0.7 per cent in 1973-74, 1974-75 and 1975-76, respectively. Imports for miscellaneous

---

1. Government of India, Economic Survey : 1972-73.

TABLE III.3 : Domestic Production and Imports of Cereals

Period	Population (Million)	Net Production (Million tonnes)	Net Imports (Million tonnes)	Change in Government Stocks (Million tonnes)
1961	442.4	60.89	3.49	-0.17
1962	452.2	61.85	3.64	-0.36
1963	462.0	60.19	4.55	-0.02
1964	472.1	61.79	6.26	-1.24
1965	482.5	67.33	7.45	+1.06
1966	493.2	54.60	10.34	+0.14
1967	504.2	57.65	8.66	-0.26
1968	515.4	72.58	5.69	+2.04
1969	527.0	73.14	3.85	+0.46
1970	538.9	76.83	3.58	+1.12
1971	550.8	84.53	2.03	+2.57
1972	562.5	82.31	-0.49	-4.69
1973	574.2	76.23	3.59	-0.31
1974	582.1	82.82	4.83	-0.40
1975	597.9	78.59	7.30	+5.25
1976*	609.3	92.24	6.52**	+10.59

*Provisional

**Gross imports

Source: Government of India, Economic Survey, 1976-77

consumer items increased from Rs.17.4 crores in 1961-62 to Rs.45.4 crores in 1974-75, but in relative terms it fluctuated around 1 to 2 per cent. The only consumer product whose imports declined both in absolute and relative terms was tobacco.

Food grains

The structural change in the consumer goods can be seen with the food grains imports. The trend of consumer goods is directly related to the share of food grains. From Table III.2 it is clear that during the period of Third Five Year Plan food grains imports increased from 10.7% in 1961-62 to 30.4% in 1960-67 a year after Third Plan. This increasing share was largely because of the failure of rains and inadequate attention given to the agriculture in the Second and Third Plans. But with the change in policy towards agriculture since 1966, and with favourable rains, the production of food grains in the years of 1967 and 1968 increased. This trend remained until 1972-73. But with the failure of rain in 1972-73 production again fell, and increased the imports of food grains from 4.3% in 1972-73 to 15.1% in 1973-74. This shows that imports of food grains depend on the indigenous production. But the year-to-year fluctuations in imports are determined not only by the level of domestic output, but also by the position regarding stocks, population pressure and to a certain extent world market supplies (Being an essential commodity, it is outside control and not affected by price). It is clear from Table III.3, of imports and domestic output figures that our agricultural development

programmes have not reduced the country's reliance on imports. As the production of food grains still depends on the monsoon and other natural phenomenon whenever there was a fall in the production of cereals such as in 1966, 1967 and 1973, the imports had to be increased to save the life of the masses. So due to fluctuations in agricultural production imports under this category fluctuated.

As we have mentioned above that population is another element which influence the pattern of imports specially of food grains. As seen from the table itself population increased from 442.4 million in 1961 to 609.3 millions in 1976 at an average rate of 2.8% per annum and cereal production till 1974 increased at a rate of 2.2 per cent per annum, which was less than the population growth. So to reduce the need for imports, it is necessary that the growth of population should be controlled through family planning.

Another factor is the stocks of cereals with the Government. If there is sufficient stock then a temporary fall-down of production will not affect imports but when there are inadequate stocks then in case of increased demand we have to go for imports. As is clear from the table except in 1975 and 1976, the stock was not sufficient.

The world market supplies have also its influence on the inflow of imports. As it is well-known from 1956 to 1971, India's cereal imports were coming under PL 480

grants. The one reason of increasing dependence on imports was the easy availability of foreign aid but with the suspension of aid, this category has increased the burden on the scarce foreign exchange reserves of the country. Not only this, the improvement in the standards of food grains consumption resulted in increased dependence of the country on external food assistance. Thanks to the recent change in policy towards agriculture, the situation can be saved and the Government is expecting the country to become, if not surplus, at least self-sufficient in food grains in the for seeable future.

As far as imports of circulating capital goods are concerned, the trend is reverse that of consumer goods. Imports of these items had amounted to 48.2% of the total import bill in 1901-62 which declined to Rs.33.9% in 1966-67 a year after the Third Plan and they increased in the year of 1967-68 to 38.5% and till 1974-75 showed an increasing trend. This trend gives some interesting results. Till the end of Third Plan, the policy of Government was to set up industries which needed capital goods. But with the set up of industrial base, the raw materials requirement to use the capacity increased, which increased the imports of producer goods such as chemicals, fertilizers, petroleum etc. which were needed for the domestic production. Not only this, import substitution policy of Government also helped in increasing these imports. Under this policy ban on imports of some of finished articles was put, while raw materials were allowed

so that demand need could be met by indigenous productions. In the present context it would be interesting to examine in detail some of the main items under this category and to see how they have behaved during the last few years. For this purpose, we shall study the trends in the imports of such items as non-ferrous metals, fertilizers, chemicals, Petroleum in the seventies has disturbed the life pattern of not only of developing countries as India but also the developed countries because of huge increase in the price of crude oil by OPEC countries. We will study the impact of oil price hike in the next chapter.

Non-ferrous Metals

These include copper, lead, zinc and minor metals such as antimony, nickel, manganese, chromium, tungsten and molybdenum.

At present almost all industries use non-ferrous metals in one shape or another as raw material or components. Out of these the main items of imports are copper, zinc, lead and tin. Till 1970-71, imports of non-ferrous metals was around 5% to 7% of the total import bill, but after that it declined and absorbed only 3 to 4 per cent of total import bill.

Due to increase in domestic production, import of aluminium is declining since 1960-61. It declined from 25,400 tonnes in 1960-61 to 21,200 tonnes in 1971-72,

and 700 tonnes in 1972-73. But again in 1974-75 imports increased to 3100 tonnes followed by a fall to 1400 tonnes which again followed by an increase reaching 7300 tonnes in 1975-76. In 1973-74, aluminium imports increased due to fall in domestic production. But 1975-76, despite a substantial increase in indigenous production, imports also increased. As the demand for aluminium is increasing due to replacement of copper in low and medium voltage cables, and increased production of electrical accessories and appliances, where aluminium is widely used.

India is almost self-sufficient in aluminium ore (bauxite), deposits of which are widely distributed in the country, consequently imports are declining.

India is deficient in copper, lead and zinc. Out of total import payments under this category copper accounts for half of the import bill.

At present there is only one producer of copper in the country i.e. Hindustan Copper Limited. The smelter capacity is much more than the mines capacity as a result copper concentrate has to be imported to match the smelting capacity. Imports of copper during 1964-65 ranged between 62 thousand and 75 thousand tonnes per year. In 1966-67 import declined to 35 thousand tonnes and followed by an increasing trend till 1971-72. In 1971-72, it reached a peak of 56,200 tonnes, but since then it has been declining and was 14,800 tonnes in 1975-76 (See Table III.4). Copper

TABLE III.4 : Imports and Domestic Production of Non-ferrous Metals

(Quantity in tonnes)

Period	Copper		Lead		Zinc		Aluminium	
	Production	Imports	Production	Imports	Production	Imports	Production	Imports
1960-61	8,459	62,700	3,832	24,600	-	72,200	18,317	25,400
1965-66	9,420	53,400	2,883	35,200	-	80,200	62,058	20,300
1970-71	9,330	48,000	1,850	30,000	22,900	36,100	1,68,784	7,400
1971-72	8,300	56,200	1,800	35,300	24,500	69,600	1,81,485	21,200
1972-73	12,400	54,500	2,893	42,000	21,100	77,200	1,74,676	700
1973-74	12,700	52,600	2,700	35,600	21,300	63,400	1,47,847	3,100
1974-75	15,800	41,800	4,109	37,200	22,000	66,700	1,26,551	1,400
1975-76	23,900	14,800	5,200	2,400	28,000	31,500	17,87,000	7,300

Source: (1) C.S.O., Ministry of Planning, Basic Statistics Relating to Indian Economy.

(2) Commerce, June 19, 1976.

(3) Eastern Economist, Annual Number 1972.

imports accounted for about 80% share of the total availability (domestic production + imports), but in 1974-75 and 1975-76, its share was only 72.5% and 38.2% respectively.

As far value of imported copper, the steep rise was felt in 1973-74 and 1974-75, when international prices of copper increased costing India Rs.70.8 crores and 73.0 crores in 1973-74 and 1974-75 respectively, while in 1961-62 it was only Rs.23.4 crores.

Further demand for copper increased, due to increased production of electrical industry. The production of electrical industry increased from 105.4 in 1971, 129.3 in 1974 and 126.6 in 1976 (1970 = 100), where copper and its alloys are used for electrical transmission cables, wires, contacts, electrical switches, etc. Other uses of copper are in telephone cables, batteries, chemicals, refrigerators, air-conditioning etc. The importance of copper is mainly due to its unique combination of different properties. Its characteristics include high conductivity, good tensile strength and resistance to corrosion.

Further, implementation of the Khetri Project was not in time, which also affected imports of copper.

Lead is another important industrial raw material specially for storage battery industry. Other industries using lead are cables, paints and pigments and non-ferrous alloys.

The imports of lead was between 30 thousand tonnes to 50 thousand tonnes, and accounted for more than 80 per cent share of the total availability. Despite an increase in indigenous production of lead, imports accounted for the major share. In 1975-7o, a steep fall occurred and only 2400 tonnes of lead was imported.

The production of lead also fluctued; it declined during 1968-69, 1969-70 and 1970-71 to 1852 tonnes, 1860 tonnes and 1850 tonnes respectively. But again picked up and till 1975-76 showed an increasing trend.

Demand for lead went up with the increased production of automobile industry. But due to technological changes which reduced the consumption of lead in storage batteries and other items; as well as with increased indigenous availability with the development of Sargipali, Rajpura, Dariba and Zawar, demand for imports declined till 1975-76.

Zinc production in India commenced only about ten years ago. Before 1967, all the demand was met through imports. Though the exploitation of Zawar Mines in Rajasthan began nearly 30 years ago, it was realised that the mine capacity at Zawar area might not be sufficient to sustain a large smelting capacity. Consequently, its production started from 1967.

Though indigenous production of zinc is increasing (except in 1972-73 and 1973-74, where it was only 27 thousand

tonnes) yet it is not sufficient to meet the demand. Imports are also on an increase. Imports which were 90 thousand tonnes in 1968-69, declined to 36.6 thousand tonnes in 1969-70, but again increased to 69.6 and 77.2 thousand tonnes in 1971-72 and 1972-73 respectively. In 1975-76, a steel fall came and imports were of the order of 31.5 thousand tonnes. The demand for zinc declined because of decreased industrial activity in 1974-75, which affected demand in 1975-76. Technological changes also affected zinc demand. Now zinc has been replaced by plastics in some uses.

As far as foreign exchange cost of zinc is concerned it was less in early part or only 3.79 crores in 1961-62 which increased to Rs.19.9 crores in 1968-69. Both quantity and price accounted for the increase.. In 1969-70, it fell to Rs.8.2 crores, due to steep fall in quantity. But in 1974-75. Rs.55.4 crores of foreign exchange was used up for the import of zinc. This higher import payment was the result of steep rise in international price of this article.

The other items like tin, tungsten etc. were imported due to their non-availability from indigenous sources. Their imports were of the value of Rs.11 crores in 1961-62 which increased to Rs.17.3 crores in 1974-75. Tne importance of tin increased because of expansion of packaging and automobile industry. The industries using tin are tin solders, bronze, gun metal etc.

TABLE III.5 : Production and Imports of Fertilizers

(in 000 tonnes of nutrients)

Year	Nitrogenous Fertilizer N		Phosphatic Fertilizers P_2O_5		Potassic Fertilizers K_2O
	Production	Imports	Production	Imports	Imports
1961-62	145	142	60	...	32
1962-63	178	252	81	10	40
1963-64	222	226	107	12	64
1964-65	240	234	131	12	57
1965-66	233	326	111	14	85
1966-67	308	632	145	148	117
1967-68	367	867	194	349	270
1968-69	545	842	210	138	213
1969-70	716	667	222	94	120
1970-71	880	477	229	32	120
1971-72	952	481	218	248	268
1972-73	1060	665	326	204	325
1973-74	1060	659	323	215	370
1974-75	1185	884	327	281	437
1975-76	1535	905	327	337	267

Source: Government of India, Economic Survey, 1976-77

Fertilizers

India is second largest purchaser of fertilizers, next only to the Peoples Republic of China.

The demand of fertilizers requirement keep on changing from time to time depending upon the changing agronomic requirement. Table III.5, bring to light the production and imports of fertilizer during the period 1961-76. For fertilizer K20 we are fully dependent on imports and in quantity its import increased from 32 thousand tonnes in 1961-62 to 270 thousand tonnes in 1967-68. But in 1968-69, 1969-70 and 1970-71, it declined to 213 thousand tonnes, 120 thousand tonnes and 120 thousand tonnes respectively. This was due to lower demand, which again picked up and showed an increasing trend till 1974-75, which was followed by a decline in 1975-76, accounted 267 thousand tonnes.

The situation for nitrogenous and phosphatic fertilizers are different. For these we are not only dependent on imports. Domestic production is also on an increase. Domestic production of nitrogenous fertilizer increased from 145 thousand tonnes in 1961-62 to 1535 thousand tonnes in 1975-76 a ten times increase, so also in phosphetic fertilizers, when production went up from 66 thousand tonnes in 1961-62 to 327 thousand tonnes in 1975-76.

As has been mentioned earlier that demand for fertilizer is associated with the agriculture. With the increase utilisation to get more production demand for fertilizers also boosted.

Fertilizer imports accounted about 9% of the total import bill in 1975-76 for Rs.486.2 crores. There is no definite trend in the value of fertilizers. Both in absolute terms and relative terms, till 1968-69, import payment under this category increased from Rs.22.8 crores in 1961-62 to Rs.194.1 crores in 1967-68. This increase was due to increased price of crude fertilizers in the international market; price index in 1961-62 was 92 which increased to 242 in 1967-68 (1958 = 100). But for manufactured fertilizers, there was small increase from 58 in 1961-62 to 71 in 1967-68 (1958 = 100). A steep fall came in 1969-70 and 1970-71 when imports payments were of the order of Rs.105.5 crores and Rs.96.5 crores respectively. This was because of reduction in demand as well as fall down of international price for both crude and manufactured fertilizers. The price index for crude fertilizer in 1969-70 and 1970-71 was 156 and 155 respectively.

Till 1973-74, there was a steady increase in the fertilizer imports which mostly accounted by increased quantity and a sudden increase of price in 1974-75 and increased the import bill from Rs.213.1 crores in 1973-74 to Rs.550.0 crores in 1974-75, which was more than the

double of the previous year. The price index increased from 198 in 1973-74 to 383 in 1974-75 for crude fertilizers and from 66 in 1973-74 to 135 in 1974-75 for manufactured fertilizers respectively (1958 = 100).

Now in 1976-77 due to increased production of indigenous fertilizer imports declined. But still now some of the important raw materials as sulphur, potash etc. have to be imported because of less domestic availability.

Further for fertilizer India is in a position to affect international price for being the major importer. For this the thing which accounted more is the timely purchase, or, in other words, purchase at a right time. Since 1975 MMTC has been assigned the responsibility for dealing in imports of fertilizers.

Chemicals

The other major items under this category are chemical fertilizers, medicinal and pharmaceutical products, plastic materials and organic and inorganic chemicals etc. Import of medicinal and pharmaceutical products over the period has increased. Further, government has given concessions in the form of lower import duty on these products. As these are of life saving nature and needed from health point of view. Among chemicals as such, the broad changes are the relative

increase in organic chemicals and fall in inorganic chemicals, more particularly in caustic soda and soda ash; imports of which declined from Rs.39.8 crores in 1965-66 to Rs. 2 crores and from Rs.7.9 crores to Rs.2.6 crores in 1974-75. The other major changes are the decline in coal-tar dye-stuffs. In absolute terms imports of chemical elements and compounds increased from Rs.35.5 crores in 1961-62 to Rs.186.2 crores in 1974-75.

A basic factor contributing to maintenance imports in India is the shortfall in production of certain vital items within the country. In addition, the planned targets in case of many items could not be achieved in right time which increased imports. The increased share of raw materials has meant the movement towards greater self-reliance and a smaller share of fixed capital goods.

The share of fixed capital goods declined over the period. In relative terms, during Third Plan period, imports of these items were 1/3 of the total import bill, which declined to 1/4 of total import bill (around 25%) till 1973-74. But in 1974-75 and 1975-76 it further declined to 15% and 17% respectively. However, in absolute terms the value of imported articles increased from Rs.367.5 crores in 1961-62 to Rs.669.8 crores in 1974-75. This means that the imports of capital goods increased with the increase in total import bill, though on a declining rate.

TABLE III.6 : Imports of Machinery and Transport Equipment

(Rupees in crores)

Item	1961-62	1971-72*	1972-73	1973-74	1974-75	1975-76
I. Machineries						
1) Steam generating boilers	8.6	4.7	9.5	16.8	10.6	16.4
2) Internal combustion diesel and semi-diesel engines	11.8	12.4	9.1	14.2	20.2	23.7
3) Agricultural machinery	0.8	25.6	17.2	17.0	0.5	9.8
4) Office machinery	3.6	6.0	3.4	9.2	7.6	8.9
5) Machine tools for metal working	10.6	14.9	17.2	15.7	20.9	31.4
6) Metal working machinery	27.8	9.4	11.8	7.4	9.6	10.7
7) Textile machinery	27.5	14.4	19.7	19.6	18.0	19.4
8) Machinery for special industries	-	27.5	30.6	46.6	48.0	64.9
9) Electric power machinery and switch gears	32.0	39.0	52.7	47.2	57.5	73.1
10) Insulated cables and wires for electricity	5.8	14.4	17.5	11.5	6.2	5.0
11) Telecommunication apparatus	-	19.7	23.9	26.5	32.3	31.4
II. Transport Equipment						
1) Railway Vehicles	0.4	19.9	25.3	25.2	25.2	27.7
2) Road motor vehicles	3.2	37.3	37.1	34.7	48.8	48.2
3) Air craft	13.0	35.2	34.7	29.2	46.9	48.7

*In post-devaluation

Source: C.S.O., Monthly Abstract of Statistics, April 1977.

In a developing economy such as India capital goods imports are directly related to industrialisation. The higher share of Third Plan period speaks itself for this. As it is well-known that industrialisation was the main objective of the Second as well as Third Plans. As a fact imports of machinery and transport equipment increased with the set-up of industries and many industries started working during or after Third Plan period resulting in an increase in indigenous production. Under the import substitution policy, imports of those items were banned which have sufficient domestic supply. Due to this imports of many items such as cement, sugar, textiles and tea processing machineries declined. But imports of other items increased like those of machine tools and spare parts for the already imported machines as well as for the production of new ones. In seventies imports of petroleum and gas-well drilling equipment also increased with the beginning of search for oil within the country which was intensified with the oil price hike. The details for some of the items under this category is given in Table III.6, which shows the import position of those items. From the Table it is clear that imports of spare parts have increased while machinery as such has declined. Imports of diesel engines, machine tools, telecommunication apparatus have increased. Imports of agricultural machinery declined due to indigenous production of tractors, power tillers, pumps, machinery for earth-moving and land reclamation etc.

Further imports of capital goods as stated earlier is related to industrial activity which is based on investment behaviour of the economy. This means that imports of capital goods and capital formation are linked to each other. Further there are certain trends in the field of international trade and economic development (see Chapter 1), which also throw direct light as the relation of imports to capital formation.

There has been increasing rate of growth of world trade in capital goods category in the last two decades. The fact that imports of capital goods have a special role to play in the capital formation of the developing countries is easily understandable. The developing countries cannot produce all types of capital goods, nor do they have the technology for their production. There is, therefore, need to import capital goods, although the degree of need and the type of goods needed will depend on the stage of development. As the U.N. observed[2] there is a fairly close relationship between domestic fixed capital formation and imports of capital goods and investment decisions are influenced by the availability of foreign exchange and as such it was found that the capacity to import capital goods sets the pace for fixed capital formation in the less developed countries. Less easily

---

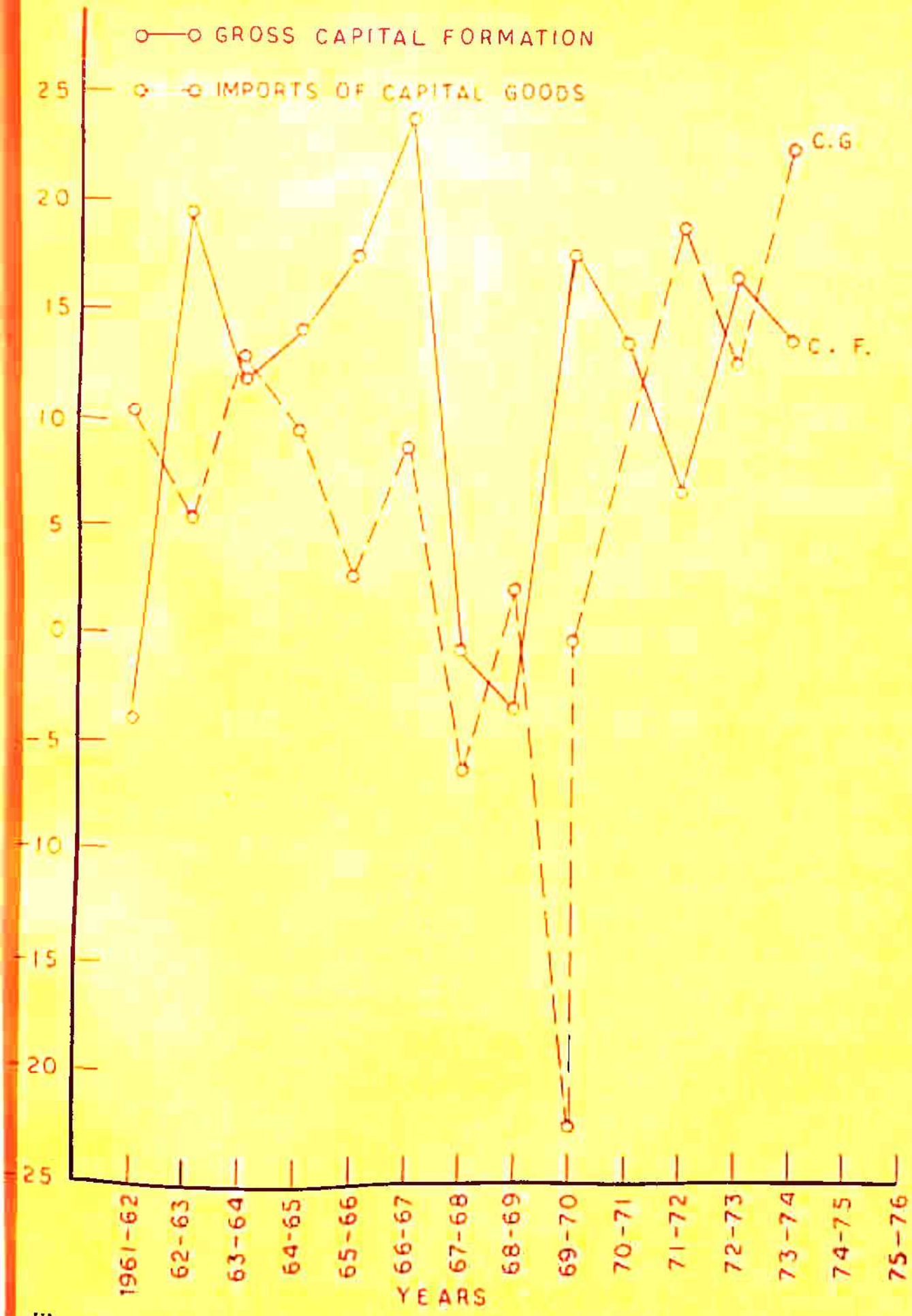
2. U.N. Department of Economic and Social Affairs, World Economic Survey, 1969-70 (New York, UN, 1971), p. 85.

TABLE III.7 : Relationship between Capital Formation and Imports of Capital Goods

Period	Gross capital formation	% Change over previous year	Imports of capital goods	% Change over previous year
1961-62	2438	-4.1	368	+10.5
1962-63	2916	+19.5	387	+ 5.2
1963-64	3266	+12.0	437	+12.9
1964-65	3735	+14.3	478	+ 9.4
1965-66	4390	+17.5	492	+ 2.9
1966-67	5437	+23.8	536	+ 8.9
1967-68	5414	- 0.4	503	- 6.1
1968-69	5238	- 3.2	514	+ 2.3
1969-70	6162	+17.7	396	-22.9
1970-71	7000	+13.6	395	nil
1971-72	7429	+ 6.4	471	+19.2
1972-73	8653	+16.5	532	+12.8
1973-74	9851	+13.8	652	+22.5

Source: (1) For Capital Formation, Centre for Monitoring Indian Economy, Bombay.

(2) For Imports, Government of India, Monthly Statistics of the Foreign Trade of India, DCI and S.



III – 2 CO-RELATION BETWEEN CAPITAL FORMATION AND IMPORTS OF CAPITAL GOODS.

perceived is the role of imports of other categories in promoting investment domestically as their effect is more indirect.

The importance of this subject (imports and capital formation) to economic theory and policy of less developed countries cannot be overemphasised as it is important for policy formulation and in planning and development. This relationship is important in yet another sense. The influence of imports on capital formation in LDC's is different from that in DCS. International trade for DCS is based more or less on the theory of comparative advantage to improve the allocative efficiency due to market imperfections, inadequacies of the price mechanism and rigidities in the responsiveness of factors of production to rewards.

Impact of Capital Formation on Imports of Fixed Capital Goods

In this portion we have analysed the impact of capital goods formation on imports of capital goods. For this purpose data on gross capital formation at current prices has been taken and imports of capital goods are also in current prices (see Table III.7).

Capital formation and imports of capital goods, both are on the one hand showing an increasing trend from Rs.2438 crores in 1961-62 to Rs.9851 crores in 1973-74, and Rs.368 crores in 1961-62 to Rs.670 crores in 1974-75. But, there is wide fluctuation in both. The increase in capital

formation was 19.5% in 1962-63 over 1961-62, followed by a less increase of 12.3% in 1963-64. The year 1966-67, recorded the higher increase of 23.8% and was followed by a decline of 0.4% (1967-68) and 3.2% (1968-69). The fall down in the capital formation was due to the industrial recession of early sixties. The evidence of recession can be found in many reports. Says the August 1967 issue of Bank of India Bulletin "Several capital and intermediate goods industries are faced with a serious decline in demand and consequently accumulation of stocks, fall in production, and under utilisation of capacity. There are fears that recession will spread to other sectors of industry ...". In 1966 production declined in 133 out of 400 industries and that idle capacity ranged from 14 to 76 per cent of total installed capacity in many industries.[3]

Again in 1969-70 there was a remarkable increase of 17.7% which was again followed by an increase of only 13.6% and 6.4%. During the years of 1970-71 and 1971-72, the capital formation increased but at a slower rate; the hostilities with Pakistan in 1971, affected adversely the investment programme during these years. But during 1972-73 and 1973-74, it again picked up. Graph III.1 also shows, ups and downs in the capital formation and capital goods imports.

So also with the imports of capital goods, which also fluctuated throughout the period (we have studied in the

---

3. Dr. Gurtoo, D.N. (1968), "Industrial Recession causes and cures", AICC Economic Review, March 15, pp. 20-24.

earlier part of the chapter).

Our hypothesis states, "A certain increase in the capital formation will give rise to more than proportionate rise in the rate of import of capital goods".

The data presented in the Table III.7 are in consistent with the hypothesis except in 1963-64, 1971-72 and 1973-74. All the times, increase in imports was either less than the proportion of capital formation or the relationship was inverse. In four years, viz. 1961-62, 1968-69, 1969-70 and 1970-71, there was inverse relationship i.e. increase in capital formation was related to a decrease in imports of capital goods (1961-62 and 1968-69) or vice versa. It means decline in the rate of investment was associated with the increase in the rate of imports (1969-70 and 1970-71).

Only in 1967-68, there was a decline in both, where capital formation declined by 0.4%, and imports declined by 6.1 per cent, i.e. more than proportionate.

Out of the thirteen years studied, only in nine years did gross capital formation and capital goods imports moved together in the same direction; and of these nine cases, only in three years, capital goods imports increased more than proportionately to the increase in gross capital formation as envisaged in the hypothesis.

The inconsistency appears to have accurred due to import substitution policies towards imports and industrial

recession of early sixties.

In developing countries, such as India, capital formation not only affects imports but is also affected by imports with a time lag. Imports help in co-ordinating and utilising better the hidden and inactive resources at home and provide an inducement to invest through what Hirschman, Streeten and Mahalanobis call the complementarity effect, thus the imports of capital goods in one sector may lead to capital formation in another related field and it is the development of a few industries and sectors that would provide the fillip to further development of the economy.[4]

Further, low level of domestic saving in relation to requirement, is a cause of low level of capital formation. But the imports of capital goods, due to then increased productivity, on the one hand, increased directly investment, and, on the other, by increasing in course of time, increase domestic saving thus indirectly investment.

Increase in the rate of capital formation increased the demand for capital goods. If domestic production is not sufficient to meet the demand (as was the case in India), the country has to go for imports. Thus imports of capital goods items are encouraged. In India, after

---

4. Avadhani, V.A. (1976), "Imports and capital formation in the less developed countries", The Indian Economic Journal, July-Sep., p. 84.

Third Five Year Plan due to indigenous production of many items viz., textile machinery, tea processing machinery, sugar machinery, cement machinery, railway locomotives, road motor vehicles such as trucks etc., imports declined.

But due to low domestic savings and inability to produce all the capital goods, India has to go for imports and imports will increase with the increase in capital formation. In other words, imports of capital goods and capital formation are inter-connected both directly and indirectly.

++++++++++++

CHAPTER IV

IMPACT OF OIL PRICE HIKE ON INDIA'S IMPORTS

CHAPTER IV

IMPACT OF OIL PRICE HIKE ON INDIA'S IMPORTS.

Introduction

Oil plays a very vital role in the economy of underdeveloped countries of the world. In the same way to the countries which are blessed by nature, having bountiful oil such as Venezula, part of middle east and north Africa, oil is economic life. Oil is the only source of their national income and foreign exchange. Oil, thus represents a great asset which could potentially provide all the capital necessary for economic development through 'unbalanced growth' which has been advocated by influential economists.[1]

The energy fuels are indispensable for modern industry and agriculture and have been considered as fourth source of factor of production in addition to land, labour and capital. For just as capital without labour is useless, so too is sophisticated capital without energy. Energy is also a necessity for Indian industrial process which involves chemical transformation. The manufacturing of cement or steel (which are very necessary for a

---

1. Hirchman, Albert O. (1958), 'The Strategy of Economic Development', New Haven, Yale University Press, p. 98.

TABLE IV.1 : India's Petroleum Sector - Extent of dependence on Imports

(Percentage)

Period*	Ratio of imports of crude oil to refinery throughput**	Ratio of imports of crude and products to total availability***
1961	90	98
1965	69	81
1968	64	75
1969	61	68
1970	63	69
1971	64	72
1972	62	72
1973	65	77
1974	65	78
1975	63	73
1976	62	69

Note: * Fiscal years.

** Refinery throughout is equal to import of crude + domestic production of crude.

*** Total availability is domestic products + imports of petroleum products.

Source: Based on C.S.O., Monthly Abstract of Statistics (Various issues).

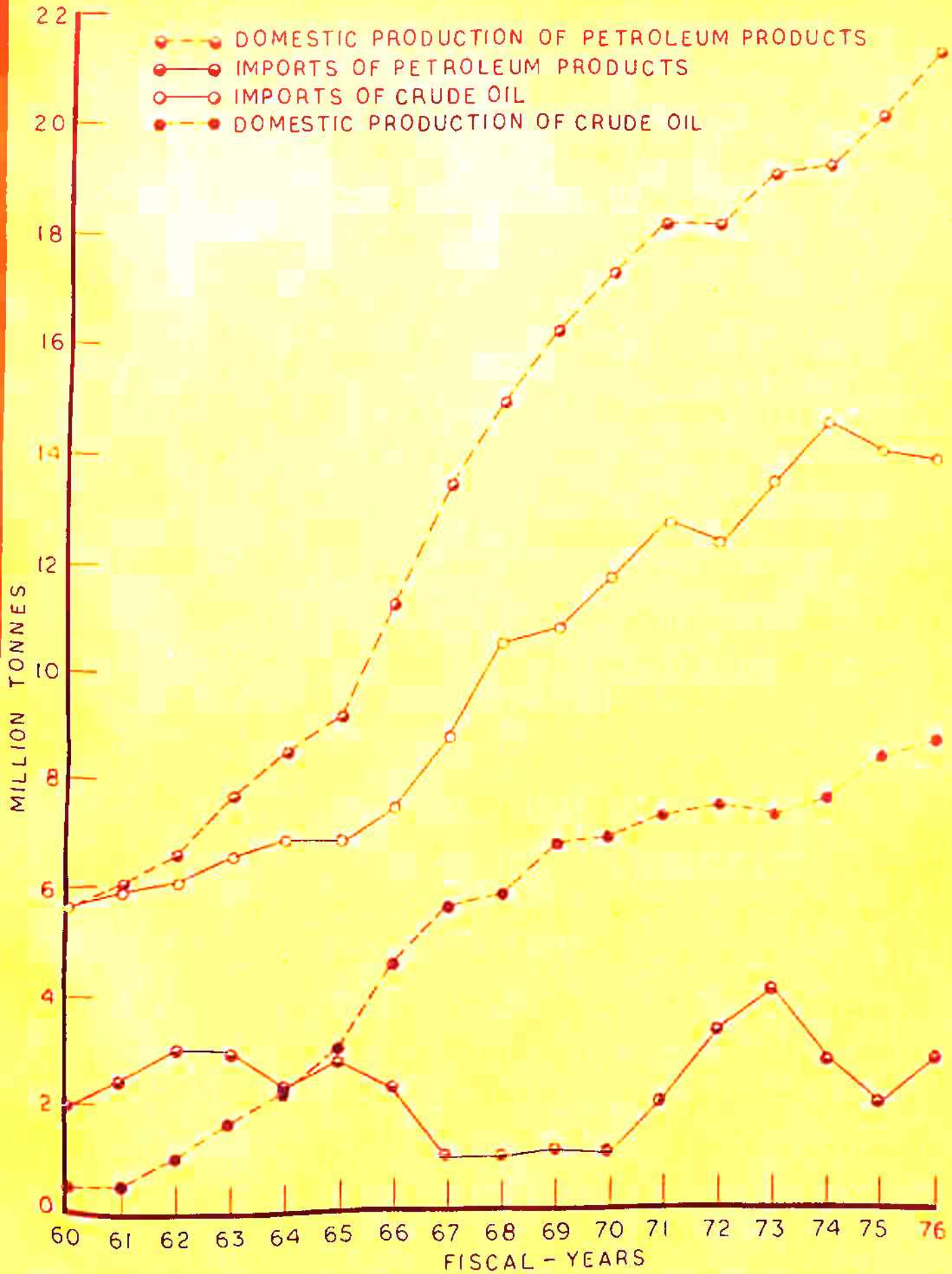


FIG. IV—1 IMPORTS AND DOMESTIC PRODUCTION OF CRUDE OIL AND PETROLEUM PRODUCTS.

developing country like India) both require great quantities of heat. In addition, for certain leading industries, energy is necessary as a basic 'feedback' i.e. where the energy source itself becomes part of final product.

The history of India's recent economic development, reveals numerous examples of idle production capacity owing solely to lack of available energy. So energy is indispensable element in the production process.

Cost of importing energy is a major burden as the scarce foreign exchange resources of underdeveloped countries specially India. Now we will analyse the impact of price hike on India's imports.

Oil Price Hike and India's Imports

In the first ten years of OPEC operations it could not succeed in raising the price of oil. Another reason was the entrance of large number of independent oil companies which had been operating for oil exploration in the Middle East. The cost of production of oil was very low and the supply happened to be abundant. Due to competition of various oil companies the oil prices could not increase. These companies were giving large discount on oil. The Iranian light crude, for example, was offering a discount from 25 to 50 cents a barrel.

The excess supply of oil provoked people to switch over from coal to petroleum which happened to be a cheap source of energy. Secondly due to abundant supply of oil search of oil fields was discouraged.

The aosolute dependence of the west on OPEC oil was the major reason of transfer of power from companies to the host governments. These host governments became aware of the importance of the energy source-oil. West Germany, Japan and U.S.A's oil consumption was continuously increasing and these countries were ready to pay any amount for this oil.

The 'Suez Canal Crisis' 1967, the sudden loss of 'Manamoth tankers' in early 1970, the tanker tonnage was short of supply. The Trans-Arabian pipeline with a capacity of taking nearly half a million barrels per day was also damaged and the Syrian government refused to allow any repairs to be made. Hence all these factors resulted in short supply of oil crippling the western refineries.

Libya and Algeria took advantage of this critical period in terms of demanding higher prices for their oil. The low sulphur oil of these countries had a great demand in the market. Moreover, if the oil is transported from Libya and Algeria the cost of transportation to companies also tends to be reduced. The Libian government curtailed the supply of oil to pursue these companies to pay higher

prices. At the same time Venezuela which is one of the major oil exporters raised its box rate from 52% to 60% and gave rights to the government to raise unilaterally the posted price.

In February 1971, with mutual consent of OPEC Members the price of oil was increased by 35 cents per barrel, readjustment on gravity differentials and annual increase of 5 cents per barrel, besides 2.5 per cent of the posted price over a period of five years. The oil companies were assured of no further hike in oil prices by the host government of the Gulf countries.

Algeria and Libya decided to secure larger shares from the oil companies which would outshadow the success of Gulf countries (OPEC Members). In 1971, Algeria took over 51% of the French oil industries' assets and in April Libya raised posted prices by 40 cents. The oil companies were not bothered by this act of host companies as the increased burden finally fell on consumer only. The devaluation of Dollar in 1971, provoked host countries to seek readjustment in posted prices to take into consideration the erosion in their oil revenues.

The bargaining power of OPEC countries was increasing with all the foresaid happenings. The Saudi Arabian Oil Minister Sheikh Yamini gave the idea of participation in oil industry. In October 1972, this idea was implemented and as per the agreement the government ownership was to start with 25% in 1973, remaining constant

through 1978, rising 30% in 1979 and 5% more in each year until 1982 and then by 6% in 1983.

In 1973, the posted price of the standard type rose from $1.80 in December 1970 to $3.01 per barrel, in October 1973 - a sharp rise of 67%. During the same period, the host government take-up price climbed from $0.91 to $1.77.

Due to 'commodity boom-1972' the oil producing nations also thought of 'oil boom' in terms of higher prices for the oil. The OPEC held a meeting with the oil companies in October 1973 to increase 13% prices of the oil. The oil companies refused to do so. The Yon Kippur War of 1973, gave an opportunity to OPEC countries to force the world to pay higher prices. They curtailed oil production during this period. On October 16, 1973, the posted price of oil was increased from $3.01 to $5.12. Again on January 1, 1974 the posted price of oil further rose to $11.65 from $5.12. In other words the world witnessed a 287% increase in oil prices from October 1973 to January 1974. The host government could get on contract oil sold to oil companies in 1974 at about $7 per barrel and sold at auction at about $11 per barrel. Between January 1, 1973 and January 1, 1974, the world witnessed a price rise of nearly 350% in oil.

According to the World Bank study the average f.o.b. price charged by the three private companies taken

TABLE IV.2 : Imports by Commodity - Mineral Fuels and Lubricants etc.

(Monthly averages or calendar month)

(in billion rupees)

Period	Mineral Fuels and Lubricants etc.	
	Total	Petroleum and petroleum products
1961	79.9	79.9
1965		
1971	162.1	161.8
1972	170.2	170.0
1973	467.2	466.9
1974	964.2	946.1
1975	1021.7	1021.4
1975 November	1182.8	1182.8
December	1116.2	1115.7
1976 January	801.8	801.8
February	1145.8	1145.7
March	1196.7	1196.6
April	1112.7	1112.7
May	1167.1	1167.1
June	607.5	607.5
July	896.3	896.3
August	593.3	593.3
September	670.2	670.2

(contd.)

Table IV.2 (contd.)

Period	Mineral Fuels and Lubricants etc.	
	Total	Petroleum and petroleum products
1976 October	817.5	817.5
November	761.3	761.3
December	776.3	776.3
1977 January	869.3	869.3

Source: C.S.O., Monthly Abstract of Statistics, July 1977.

together, for their sales to India in each of the four quarters of 1974, as follows:-

Quarters of 1974	$ per barrel
(1) January to March 1974	8.70
(2) April to June 1974	9.60
(3) July to September 1974	9.75
(4) October to December 1974	10.25

We find a continuous increase in price of each barrel of oil from the first quarter of 1974 to the last quarter of 1974. Table IV.2 depicts the imports of mineral fuels and lubricants. The price rise of oil has increased the payments burden of India as it has been importing the petroleum from the OPEC countries. The

It is clear from Table IV.2 that the value of import of petroleum and petroleum products has been continuously increasing. In 1971 the imports of petroleum and petroleum products amounted to 161.8 million rupees, which rose to 170 million rupees in 1972. In 1973, there was sharp increase which resulted in more than doubled import of petroleum and petroleum products. It rose to 946 million rupees in early 1974 agains 466.9 million rupees in 1973. This was the effect of sharp increase in the oil prices by OPEC countries. In December 1974, again there was a peak increase in imports of the petroleum and petroleum products which amounted to 1016 million

rupees. But during 1974 total imports accounted for Rs.946.1 million and it further rose in 1975 reaching a peak of 1021.4 million rupees.

In the early part of 1976 till May, imports were on large scale and rose to 1167.1 million rupees in May, 1976. But with the increase in domestic availability from Bombay High and also reduced quantity in the later part of 1976 total import bill for this article declined as compared to earlier one.

Apart from this, if we examine India's imports with oil producing countries, we find that the import bill of India has been continuously increasing since 1970 with the OPEC members.

The major oil producing companies like - Saudi Arabia, Iran, Iraq and Kuwait are the main source of oil supply to India. The main source of imported crude in 1973 was Iran. Iran supplied almost 70% of the total imported oil to India. In 1971-72 India's import bill from Iran was worth 1263.6 million rupees. But 1972-73 brought a decline in imports from Iran by 3%. A substantial increase in imports was recorded in 1973-74 from Iran. The tremendous increase in import bill was due to oil price hike. A 119% increase (Rs.2675.8 million) in imports was recorded in 1973-74, as compared to year 1972-73. The basic reason of this increase of import bill was again the oil price hike by OPEC Members. As previously mentioned

TABLE IV.3 : Value of imports of foreign merchandise into India by oil exporting countries during 1971-72 to 1975-76

The percentage increase (+) or decrease (-) over preceding year

(Rupees in million)

Country	1971-1972	1972-1973	Per cent increase or decrease	1973-1974	Per cent increase or decrease	1974-1975	Per cent increase or decrease	1975-1976	Per cent increase or decrease	1976-1977	Per cent increase or decrease
Iran	1263.6	1919.8	- 3	2675.0	+119	4726.8	+77	4598.4	- 3	5078.4	+11
Kuwait	130.8	255.6	+96	711.6	+179	637.2	-11	625.4	- 2	772.8	+23
Saudi Arabia	283.0	448.4	+58	1313.5	+193	2976.5	+27	2901.6	- 3	3319.2	+15

Source: C.S.O., Monthly Abstracts of Statistics, July 1977 and September 1977

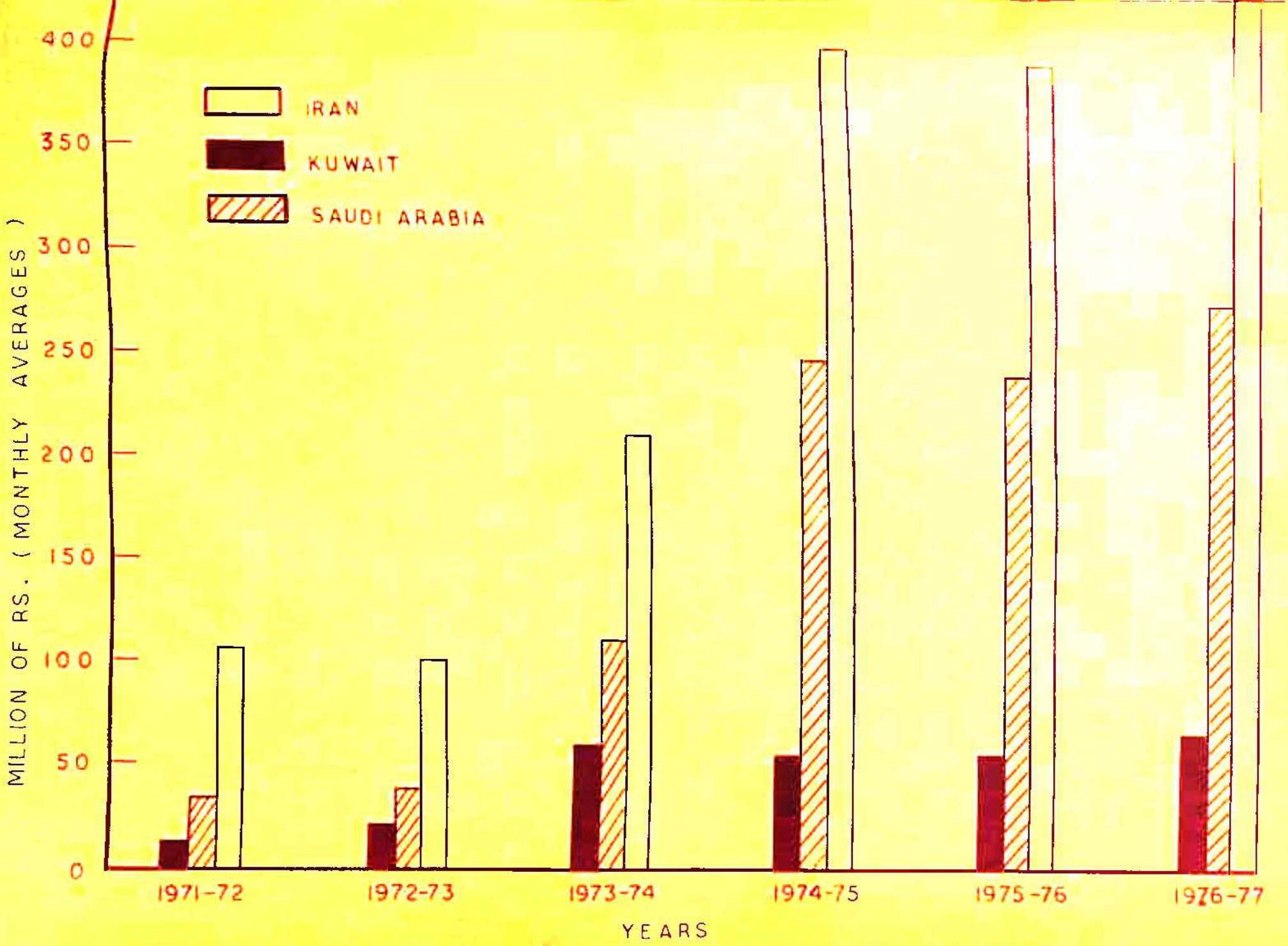


FIG. IV – 2 VALUE OF INDIAN IMPORTS FROM OIL EXPORTING COUNTRIES.

Iran was supplying about 70% of India's total imports of oil in 1973. In 1974-75 there was again an increase of 77% in import bill with Iran. India's imports from Iran were recorded at an amount of Rs.4726 million in the year 1974-75 which was followed by a slight decline in 1975-76 (See Table IV.3).

The second major oil supplying source to India is Saudi Arabia, which accounted for approximately 25% of India's imports of oil in the year 1973. As Saudi Arabia owned 60% of 'ARAMCO', the Iran and Iraq also nationalised the oil industry's operations within their territories, and as the share of imports of crude oil on a government to government basis is increasing in all probabilities, prices paid for crude oil imports would stabilise at 93% of the posted price of respective crude imports. So we find a tremendous increase in value of imports from Saudi Arabia also from the year 1972-73. At the same time there is continuous increase in imports from Iraq and Kuwait also. In 1971-72 India's imports from Saudi Arabia accounted for Rs.283.4 million. It increased in 1972-73 by 58% (Rs.448.2 million) as compared to previous year. The year 1973-74, brought a substantial increase in imports of 193% from Saudi Arabia. The imports in 1973-74 were of the order of Rs.1313.5 million against the imports of 448.2 million in 1972-73. The imports from Saudi Arabia further rose by 127% in 1974-75 against the previous year. It accounted for Rs.2976.5 million in 1974-75. In 1975-76 only a slight decline was recorded which was again followed by sharp rise in 1976-77.

Kuwait having the highest per-capita income did not grant more discount to India for oil imports. But despite the fact, there had been an increasing tendency in imports from Kuwait to India since 1970-71. In 1971-72 India's imports from Kuwait accounted for Rs.130.8 million. It rose by 96% in 1972-73 and accounted for Rs.255.2 million. The increase in import was at the rate of 179% after the price hike in the year 1973-74 against previous year. In the year 1973-74 India imported petroleum and petroleum products from Kuwait worth Rs.711.3 million. But in 1974-75 and 1975-76, a decline of 11% and 2% was recorded in imports from Kuwait which amounted to be Rs.637 million and Rs.625 million respectively. But the year 1976-77 recorded the ever highest value viz. Rs.773 million (See Figure IV.1).

From the above analysis it is clear that during 1971-75 period the payments burden of India was continuously increasing. The money value of imports from the oil exporting countries had gone up substantially. This sharp increase in import bill was responsible for increasing the import payments in India's trade.

The share of value of crude oil and product imports in total imports to India rose substantially from 8.3% in 1970 to 27.5% in 1974. Between 1972 and 1973, the quantity of import of crude oil rose by 9% as compared to an increase of about 6% between 1970 and 1972. In

the year 1974, the order of the increase was relatively smaller i.e. at the rate of 4%. But in terms of value, imports of crude oil registered a phenomenal increase of 268% during the year 1974 as against an increase of 69.5% in 1973 and 41% increase between 1970 and 1972.

Further imports of petroleum products increased by 236% between 1970 and 1972, though in terms of value they rose by only 86% during the same period. Again during 1973, the quantity of product imported rose by 22%, in terms of value they increased by double. In the year 1974, product imported actually declined by 26% in quantum, but foreign exchange paid for it was increased by 120%.

In the year 1975, the oil consumption in India was 23 million tonnes against the total world's oil consumption of 2700 million tonnes. Although our per capita consumption of oil is practically the lowest, we are still dependent for two thirds of our crude oil requirements on imports. In the year 1975, India had to pay Rs.1147 crores for the import of the crude oil and petroleum products. In 1976 the total import bill amounted to over Rs.1200 crores. The OPEC has decided to push up the prices further from beginning of 1977 and this will result in an addition of anywhere between Rs.100 crores to Rs.120 crores to our import bill for the same value of imports.[2]

---

2. Economic Times, March 30, 1977.

According to the estimates of the Petroleum Ministry, the estimated demand of petroleum products in the year 1977 would be 24.5 million tonnes. The increase in the indigenous production of crude is expected to come primarily from Bombay High. As against the five lakhs tonnes of crude in 1976 Bombay High would yield about two million tonnes in 1977. On the basis of progress made in the production wells in Bombay, experts believe that production from this area may not exceed two million tonnes as anticipated in certain quarters.[3]

For 1977, the Government has decided to import around 13.5 million tonnes of crude. Although availability of crude from indigenous sources will improve by about two million tonnes, the import of 13.5 million tonnes is considered as minimum to meet the growing demand of petroleum products.

In spite of the fact that planners had envisaged a growth rate of 4% in the demand for petroleum products, the latest consumption figures have revealed that during the year 1976 the cummulative growth is not less than 5%. We have stepped up our search for all.

To meet the challenges in this crisis, the country has embarked upon a comprehensive plan to maximise the production of indigenous crude from all known sedimentary

---

3. Economic Times, December 22, 1976.

basins, both off-shore and on-shore. This has brought about excellent results and in fact 1976 was a year of great performance by this industry. Two highly promising off-shore oil fields were discovered in Bombay High in February 1974. Equally impressive has been the commencement of commercial production at Bombay High on 21st May 1975.

The total production of indigenous crude oil during 1978-79, is expected to be of the order of about 12 million tonnes as against the estimated demand of 32 to 35 million tonnes.

By the end of Fifth Plan, the total domestic demand for crude oil is expected to reach a level of 32 to 34 million tonnes per year even assuming maximum utilization of alternative sources of energy. If India intends to achieve self-sufficiency by that time, the rate of indigenous production should be enhanced to that level.

++++++++++

CHAPTER V

ELASTICITY OF DEMAND FOR INDIAN IMPORTS

CHAPTER V

ELASTICITY OF DEMAND FOR INDIAN IMPORTS

In this chapter an attempt is made to estimate elasticities of demand for Indian imports. The estimates made are (a) price elasticities (b) income elasticities. The products for which estimates are made are: cereals and cereal preparations, raw cotton, crude fertilizers, petroleum crude, animal and vegetable oils and fats, fertilizers manufactured, paper and paper board, textile yarn, iron and steel, copper, zinc, manufactures of metals, machineries and transport equipment.

Fundamentally, the selection of commodities in this study is based on the importance of their trade in India's import pattern.

The elasticities have been estimated at two levels (1) in terms of aggregate imports, (2) in terms of individual imports.

The investigation covers the 14 years period from 1961-62 to 1974-75.

The Source of Data

The quantity and price data are obtained from the Reserve Bank of India's publication. Report on Currency

and Finance Income data are obtained from the monthly abstract of statistics published by C.S.O.

In the absence of import prices, unit value of imports have been used. Gross National Product has been used for the income data.

Methods relating to Measurement of Price Elasticity and Income Elasticity of Demand

To measure elasticity the multiple linear regression of the following type has been used.

$$Y = a + b_1 x_i + b_2 x_2$$

where Y is the import quantity (dependent variable), x_i is the import price and x_2 real income; these are the independent or explanatory variables. In the simple linear form the average price elasticity and income elasticity can be obtained by differentiating the function with respect to x_1 and x_2 and multiplying it by the averages of the two variables expressed as a ratio. To prove it, differentiating the function with respect to x_1 we get $\frac{dy}{dx_1} = b_1$. But we know that price elasticity = $\frac{dy}{dx_1} \cdot \frac{x_1}{y}$ (where x_1 is price and y is quantity). Hence substituting the value of $\frac{dy}{dx_1}$, we get price elasticity = $b_1' \cdot \frac{x_1}{y}$. The point that should be mentioned here is that the elasticity obtained is the elasticity for the period as a whole. As we are concerned with the average elasticity, the price elasticity = $b_1' \cdot (\frac{\bar{x}_1}{\bar{y}})$, where b_1'

is the estimated value of co-efficient b_1.

Similarly, differentiating the function with respect to x_2, we get, $\frac{\partial y}{\partial x_2} = b_2$, and therefore, the elasticity of income $= b_2' \cdot (\frac{\bar{x}_2}{\bar{y}})$.

Alternatively, when the function is considered linear in logarithms the co-efficients of the independent variables represent the elasticity of price and elasticity of income. Following this method the regression equation is

$$\log y - \log a + b_1 \log x_1 + b_2 \log x_2$$

Differentiating this function with respect to x_1 we get

$$\frac{\partial y}{\partial x_1} \cdot \frac{1}{y} = b_1 \frac{1}{x_1}$$

That is b_1' (estimated value of the co-efficient b_1) is the elasticity of price.

Similarly, differentiating the function with respect to x_2, and proceeding one step further we get $\frac{\partial y}{\partial x_2} \cdot \frac{x_2}{y} = b_2$. Therefore b_2' (estimated value of co-efficient b_2) is the elasticity of income. The second technique (function is considered linear in logarithms) has been used in this chapter.

The estimated value of the parameters on commodity basis are stated in the Table V.1, with the value of

TABLE V.I : Elasticity of Demand for Imports

Commodities	Price elasticity	Standard error	Income elasticity	Standard error
Food grains	4,6119	22.402	3.2018	15.835
Raw cotton	2.6439	3.967	1.5328	3.367
Crude fertilizer	0.0964	0.58	0.7459	0.399
Crude oil	0.0062	0.291	0.8595	0.494
Animal and vegetable oils	0.4787	0.312	1.3063	0.532
Fertilizer manufactured	0.1064	8.452	1.4314	1.817
Paper and paper board	0.9025	0.782	0.1591	0.506
Textile yarn	0.7262	2.324	0.4682	0.298
Iron and steel	0.1197	0.682	0.0010	0.392
Copper	0.6695	1.231	0.4619	1.846
Manufactures of metals	2.0465	1.488	0.4627	2.457
Machinery non-electrical	1.1705	2.712	0.4172	1.131
Transport equipment	0.4341	0.154	0.0237	0.456
Zinc	0.1782	1.026	0.1186	0.106
Electrical machinery	1.1739	3.722	0.5005	3.895
General	0.0808	1.476	0.0002	0.849

standard error.

The average elasticity of demand for imports with respect to import price was found to be +0.08 and with respect to income +0.0002. The standard error of the co-efficients are +1.47 and +0.84 respectively. Our findings are different with those of the Wadhwa (price elasticity -0.11 and income +1.305); whose findings are based on 1954-70 data with a time lag of nine months for income.[1] The lower value of both prices as well as income elasticity (which is almost zero) indicate that in India both the factors are insignificant. Price has to play its role as far as imports as a whole is concerned. In India imports are based on the foreign exchange reserves position. And with a certain amount a certain quantity can be imported as a certain price. But the increase or decrease in the price will automatically influence the purchasing power to some extent. But not proportionately due to characteristics of our imports. But income does not have any influence on the imports, primarily because of controls.

The results are different for individual items. All the 15 items show positive elasticity for income as

---

1. Wadhwa, D.C. (1974), "Elasticities of demand for India's exports and imports and the question of devaluation of rupee", Foreign Trade Review, Jan.-March, pp. 364-377.

well as price. The higher value of price shows that price is not an explanatory variable for Indian imports. And the positive income elasticities show that the foreign goods are superior in Indian markets as well as craze of Indians for imported goods.

The price and income elasticities for food-grains are both positive and amount to +4.61 and +3.2 respectively, indicating that price is not a significant variable. Though the results look misleading showing higher elasticity for food grains which is a life saving article. But the higher value of standard error shows that imports of food grains is not affected by price but by the domestic production and population growth. If domestic production is good enough to meet the demand, then imports will automatically be curtailed despite a substantial fall of prices in international market.

The higher income elasticity is an important explanatory variable. This means that with the increase in income imports will increase more than proportionately. Rising income is accompanied with not only more than proportionate increase in demand for food but also with a shift in demand to better quality food. For example from 'bajara' and maize to wheat and rice. This explains, by itself, the increase in imports with increase in income, as food grains imports consist mainly of wheat and rice. The higher value of standard error for income indicates

that imports are dependent on the will of exporting country and also the availability of easy aid, which was in the form of PL 480 in the past.

Like food grains, raw cotton is also an agricultural product. Here also both prices as well as income elasticities are positive and more than unity, 2.64 and 1.53 respectively. Income seems a powerful variable in this article also. With the increase in price imports should decline. But actually, its imports are also affected by the indigenous production and growth of the industries, which is explained by the higher value of standard error for the parameters.

The other consumer goods items for which elasticities have been measured is animal and vegetable oils. The co-efficient for price as well as income are positive and income seems more important than price. Further this article is also an agricultural one and its imports are again connected with agricultural production.

Crude fertilizers, crude oil, paper and paper board, textile yarn, iron and steel, copper, zinc and manufactures of metals, all are industrial raw materials. The price as well as income elasticities for all these products are less than unity except manufactures of metals, but are positive. All values are in inelastic ranges; indicating that increased price will not check the imports. With a certain increase in price import will be curtailed,

but to a minor extent or less than proportionately. But a higher price will effectively check imports as happened in case of crude oil in recent years, when people will either start substituting home-made goods, or will cut down imports. This also throws light on the fact that indigenous production of raw materials is less than demand; therefore to use the installed capacity imports have to be allowed in spite of higher prices. Another explanation for this is the modern technology which has made Indians dependent on the imported raw materials for their products.

But in a developing country like India, positive elasticity of demand indicates that growth of national income has an influence on industrialisation, though it is not very significant. In other words rising income means expansion of consumption.

But the higher value of standard error for textile yarn (price - 2.32), copper (price - 1.23 and income - 1.85), paper and paper board (price - 0.78), and iron and steel are an indication that control on imports and the import substitution policy are influencing their imports as well as price and income.

For capital goods such as electrical machinery, non-electrical machinery and transport equipment elasticities are+1.17 (price)+0.50 (income),+1.17 (price)+0.41 (income), +0.43 (price)+0.02 (income) respectively. The higher value

of price co-efficient speaks that price is not a significant variable. Being unable to produce all the sophisticated equipment at home (due to technical difficulty and capital shortage) and with the drive for industrialisation, price becomes an insignificant variable.

On the other hand, income elasticity is less than unity, which shows that with increase in income investment will take place but less than the increase. As has been stated earlier this is because of increasing tendency towards consumption.

One more item which is neither a raw material for industries nor a consumption item is manufactured fertilizer. Its demand depends on the habits of people for its use and also the agricultural policy of the Government. The positive yet less than unitary price elasticity, explains that the increase in price to a more than certain level will definitely affect the imports, by substituting it with others or by stopping its use.

The higher value of standard error for all the items, in general, speaks that market behaviour is not working to its full extent; because the major markets for our imports are developed countries which have greater bargaining power than ours. And due to severe strain on balance of payments as regards foreign exchange and reserves throughout the period of our study, imports were under control which did not allow market behaviour to function.

Limitations of the Study

For individual articles we have taken the group as a whole for such items as machinery, transport equipment due to non-availability of data on import price for single items. Had the items been taken separately, results would have been different. Further we are assuming that price and income are the only two variables affecting imports. The influence on imports of all other factors, such as, level and pattern of investment, foreign aid and price level has be n assumed away. Obviously only about 50% of variations in demand for Indian imports, which are subject to strict control, are explained by using price and income as the explanatory variables.

++++++++++

CHAPTER VI

DETERMINANTS OF IMPORTS

CHAPTER VI

DETERMINANTS OF IMPORTS

Introductory

Despite controls and restraints, India's imports have increased substantially during the last fifteen years. Significant changes have occurred in India's pattern of imports as well. The proportion of consumer durables as well as capital goods like machinery and transport equipment declined, while imports of raw materials and intermediate goods increased.

Many factors contributed to this change. Some of these are, the rate of growth of economy, the tempo of industrialisation, industrial structure of the country, the level of technology, the pattern of domestic consumption, the availability of natural resources and the various controls and restrictive measures imposed on the national economy may be considered endogenous causes, whereas, other factors, such as changes in international prices of various items which the country has been importing and the loans and the grants proffered by friendly countries to assist the developing nations may be considered exogenous. There are other causes of psychogenetical type which breed animosity and hatred between nations by inculcating prejudices against certain

articles of consumption and by producing various types of responses to different stimuli-economic or otherwise provided by the Government and other organisations which also influence the changes in the magnitude composition and pattern of import trade.

We have seen in Chapter III that the level of food imports is related to the yield of agricultural crops. In the same way general level of imports excluding food items, are related to the net output of the industrial sector of the economy. Examining the problem from this view point, we find that the industrial production has increased and it is natural to expect that the quantum of imports would significantly rise under the impact of industrial development programmes.

The effect of industrialisation on the magnitude of various categories of imports, such as consumer goods, intermediates, industrial raw materials as well as machinery and transport equipment has been significant. The pattern of Indian imports is considerably influenced by the programme of her industrialisation. Increasing emphasis on heavy and light engineering goods as well as on the expansion of domestic production of locomotives, automobiles, transport equipment etc. increased the need of imports of metals and metal manufactures. During the last 18 years imports of non-ferrous metals, steel have increased, while imports of locomotives etc. have declined.

Crude petroleum imports increased with the rising tempo of industrialisation as well as with the rise in level of personal income.

Similar changes were registered in the case of chemical industries also. Increases in domestic production of chemical industry and diversification in the pattern of chemical production increased the import of sulphur etc. due to short supply at home.

The "New industries" set up to turn out specialised products required modern machinery which have to be acquired from abroad. Such machines were required both for establishing new fabrication plants as well as for substantial additions to existing capacity. Moreover, during the process of industrialisation, the maintenance requirements of the economy also went on increasing. This necessitated not only larger imports for setting up of new industries and for substantial expansion in the existing ones, but also for meeting the increasing requirements of raw materials, intermediates, components and parts for utilising capacity already built in. It is, therefore, but natural to expect the level of imports to increase along with the increasing levels of investment in industrial development, and level of technology.

Availability of natural resources has its own impact on the inflow of imports. As it is well-known that though for some natural resources like bauxite, iron ore, coal etc. we are self-sufficient and also exporting some of them,

but for non-ferrous metals, crude oil etc. our economy is deficient. Most of the industries use natural resource as raw materials so as to run those on existing capacity as well as to meet the demand for imports of those resources, which are not available indigenously, become necessary.

Above all, those factors which can influence the pattern as well as inflow of imports during this period are, namely, relative prices, rate of exchange, gross national product, foreign exchange reserves, foreign aid and various trade control measures.

Relative Prices and Imports

Over all, as imports are fluctuating in India over the period, the average propensity to import is falling between 1970 and 1972. In 1973-74, imports increased primarily because of three-fold increase in the value of imported crude oil as a result of OPEC action. The structure of industrial output has also undergone perceptible change. Items such as chemical goods, basic metals, electrical engineering products, transport equipment and machinery have increased their share in total industrial production. Also import availability ratio has fallen for steel ingots, copper, zinc, nitro-fertilizer, ammonium sulphate, newsprint paper and paper board and machine tools and many other items.

Relative prices in a planned import substituting economy play an important role in defining and determining imports by working as indicators of pull and push between domestic and foreign markets. Relative prices, appear as a significant explanatory variables in Indian import function. In other words relative prices indicate the relative strength of domestic goods to compete with foreign goods in domestic market.

Quite a few studies have been made to measure the role of relative prices in Indian import demand. In earlier studies of the Indian economy, the relative prices of domestically produced goods and imported goods were either ignored or found statistically non-significant in the aggregative import functions. Narasimhan[1] (1950) ignored relative prices in studying India's foreign trade flows "because of the predominance in imports of consumer goods which could not be produced at home". Aggarwala[2] (1970) used relative prices in import function but found them statistically insignificant. He ignored price variable in the import function for investment goods as "most of capital goods were not substitutable with home goods". An interesting study of relative price is made in Kanta

---

1. Narasimha, N. (1956), A Short Term Planning Model for India, North Holland Co.

2. Aggarwal, R. (1970), An Econometric Model of India 1948-61, Frank Cass and Co., Ltd.

Marwah[3] (1970) and elaborated in Marwah (1972). However, she also fails to note the impact of the relative strength of domestic and import prices on the import of important categories of goods such as transport and equipment, mineral - fuels and crude materials.

But the recent study made by O.P. Sharma[4] and S.K. Patel[5], on the other hand, showed that variable based on the ratio of domestic and import prices is an important and highly significant explanatory variable in India's import functions. Both have disaggregated the total imports into various commodity classes according to Standard International Trade Classification. O.P. Sharma's study is based on annual observation while S.K. Patel has taken quarterly import functions.

Marwah viewed that the relative price variable based on the ratio of domestic and import prices, entered into import relationship showing import substitution. Conforming to Marwah's views, Sharma and Patel, also concluded that their results indicate the relative strength of the domestic goods to compete with foreign goods in the domestic market. But, if we closely watch the working

---

3. Marwah, K. (1972), "An Econometric Model of India : Estimating Prices, Their Role and Sources of Change", Indian Economic Review, April, pp. 53-85.

4. Sharma, O.P. (1975). "Foreign Trade and Relative Prices in an Import Substitution Economy", Indian Economic Journal, January-March, pp. 201-214.

5. Patel, S.K. (1976), "Relative Prices in Indian Import Function", The Indian Economic Journal, April-June, p. 381.

TABLE VI.1 : Relative Price and Imports: 1961-76

(1970 = 100)

Period	Domestic wholesale price (P)	Import price (PM)	P/PM	Imports
1961	57.9	66	86	67
1962	57.9	63	93	69
1963	60.2	65	92	75
1964	66.5	66	100	82
1965	71.9	69	104	86
1966	80.5	87	93	118
1967	92.6	103	90	123
1968	92.2	97	95	117
1969	94.2	101	93	97
1970	100.0	100	100	100
1971	103.9	99	105	112
1972	112.0	101	111	114
1973	133.1	132	101	188
1974	169.8	206	82	273
1975	172.5	253	68	316

Source: International Monetary Fund, International Financial Statistics, Volume XXX, No. 5, May 1977.

FIG. VI-1 INDICES OF RELATIVE PRICES (P/Pm) AND INDIAN IMPORTS. (1970=100)

of the Indian economy, such casual observation lack insight. Table VI.1 shows the import price as well as domestic wholesale prices since 1961-75.

From the table it is clear that import price general index was all the time higher than the domestic wholesale price general index except in 1971 and 1972, when it was lower than the later. In 1971 and 1972 domestic wholesale price was higher because of Bangladesh War and inflow of crores of people who took shelter in India. In 1973 the import price index almost caught up with the wholesale price index. But imports (quantity index), despite higher import prices relative to domestic price, increased continuously. Only in 1968 and 1969 they were 117 and 97 respectively (1970 = 100). Again this fall was due to 'green revolution of 1967-69', which reduced imports of food grains. A steady increase of import quantum, along with import prices over wholesale prices, indicates that in India imports are price inelastic and price as a causal variable, is not significant.

If we closely watch the working of the Indian economy, then significance of relative prices will become clearer.

In India, it seems that actual imports are primarily determined not by propensity to import, but by the capacity to import which is determined by the foreign exchange

position. Out of the necessity to keep the imports within the limit of foreign exchange availabilities, Indian imports were directly regulated through import and exchange restrictions. Moreover, import controls and licensing procedures in India were such that substitution between imported goods and domestically produced goods due to price and quality differences became quite irrelevant. Foreign competition was ruled out because of the principle of 'indigenous availability': every item of indigenous production, no matter how much its cost of production exceeded the landed c.i.f. price, was automatically prohibited from imports.[6] Such policies necessarily interfered with the inflow of competitive imports.

Further most imports were price-inelastic.[7] This was so because major imports included food, machinery, and intermediary goods. No operational freedom on price variable is available on these 'maintenance and life saving imports', which are essential and non-substitutable by home production.

Moreover, 20 to 25 per cent of total imports were effected under tied foreign loans and grants.

However, despite all these facts, it would be wrong to conclude that Indian imports were absolutely independent

---

6. Bhagwati, J.N. and Desai, P. (1970), Planning for Industrialisation. London, pp. 325-26.

7. As per our estimates, elasticities of demand for imports were during the period +0.08. (See Table V.1, Chapter V).

of import prices. The direct effect of import licensing and the import quotas is on the levels and commodity composition of imports, and firmwise allocation of imports; while the indirect effects of this policy are found on the scarcity conditions and the market imperfections created by these controls, permit premium element in the domestic prices.

Once the allocators and committees hand out licences and quotas these are redistributed in 'bazzars' at will. So that whatever 'rationality' they have been able to impose on the allocation is soon swamped by the pressures of the market place.[8] The shifts in the relative price structure so introduced would in turn influence the allocation of resources and hence the level and pattern of imports along with those of domestic production and exports.

The divergence between the domestic market price and international price consists of tariffs, transport cost and premia. Higher the domestic price relative to import price inclusive of tariff duties, higher would be the premium rates, which would induce the industrialists and traders to manage nigher amount of imports. Along with the limitations of allocational principles and procedure, corruption and malpractices in the administration made it

---

8. Shouri, A. (1973), "Controls and the current situation - Why not let the hounds run", Economic and Political Weekly, August, p. 1477.

possible for them to secure higher amounts of imports and earn handsome and quick profits.[9] Lower the domestic price relative to import price, inclusive of tariff lower the imports would be effected and the use of domestic goods is encouraged, because of lower premium rates.

Higher unit values of imports would also decrease the relative prices. If the import prices, either as a result of faulty marketing policy or owing to international developments. are higher, only lower level of imports would be possible with the available foreign exchange. On the other hand lower unit values of imports will increase imports via increased purchasing power.

GNP and Imports

By GNP or national income, we mean the income received by the different factors of production from the production and sale of goods and services that these factor produce. Thus in a closed economy national income is

$$Y = C + I + G$$

where Y is national income, C is private consumption expenditure, I is gross-private-investment expenditure

---

9. Shouri, A. (1973), "Controls and the current situation - Why not let the hounds run", Economic and Political Weekly, August, p. 1469.

and G is Government expenditure on goods and services. Thus, for any given time period, the total national income and expenditure should be identical.

But in real sense not a single economy is closed. All the economies are open as exports and imports of goods and services take place. Since, in an open economy, national income (GNP) are equal

$$Y = C + I + G + X - M$$

where C, I and G now include expenditure on both domestically produced and imported goods and services and 'X' and 'M' refer to exports and imports respectively. According to this equation higher the imports, lower will be the GNP, or vice versa, ceteris paribus.

But in actual sense imports as an input into our economy affect directly the capital formation and indirectly income. In addition to their direct effect on investment, imports can influence surplus labour utilisation, improvement in the domestic technologies, activation of idle components of factor endowments in the form of natural resources and producing an "international demonstration effect" on entrepreneurship and management at home. Thus imports by influencing directly investment affect the national income, on the one hand, and are being affected by the rate of change of GNP on the other. If other things remain unchanged (such as import price, domestic price, tastes, commercial policy, transportation

TABLE VI.2 : Relationship between Import and GNP

Period	Imports* (Rs. crores)	% change over previous year	GNP (Rs. crores)	% change over previous year
1961-62	1720	- 2.8	14799	+ 5.7
1962-63	1783	+ 3.8	15727	+ 6.28
1963-64	1927	+ 8.1	17928	+14.3
1964-65	2126	+10.3	21113	+17.4
1965-66	2218	+ 4.3	21866	+ 3.4
1966-67	2078	- 5.3	25250	+15.5
1967-68	2008	- 3.4	29612	+17.2
1968-69	1909	- 4.9	30293	+ 2.1
1969-70	1582	-17.1	33521	+10.8
1970-71	1634	+ 3.3	36568	+ 9.1
1971-72	1825	+11.7	38620	+ 5.6
1972-73	1867	+ 2.3	42136	+ 9.1
1973-74	2955	+58.3	52195	+23.8
1974-75	4519	+52.9	61551	+17.9
1975-76	5159	+14.3	64168	+ 4.3

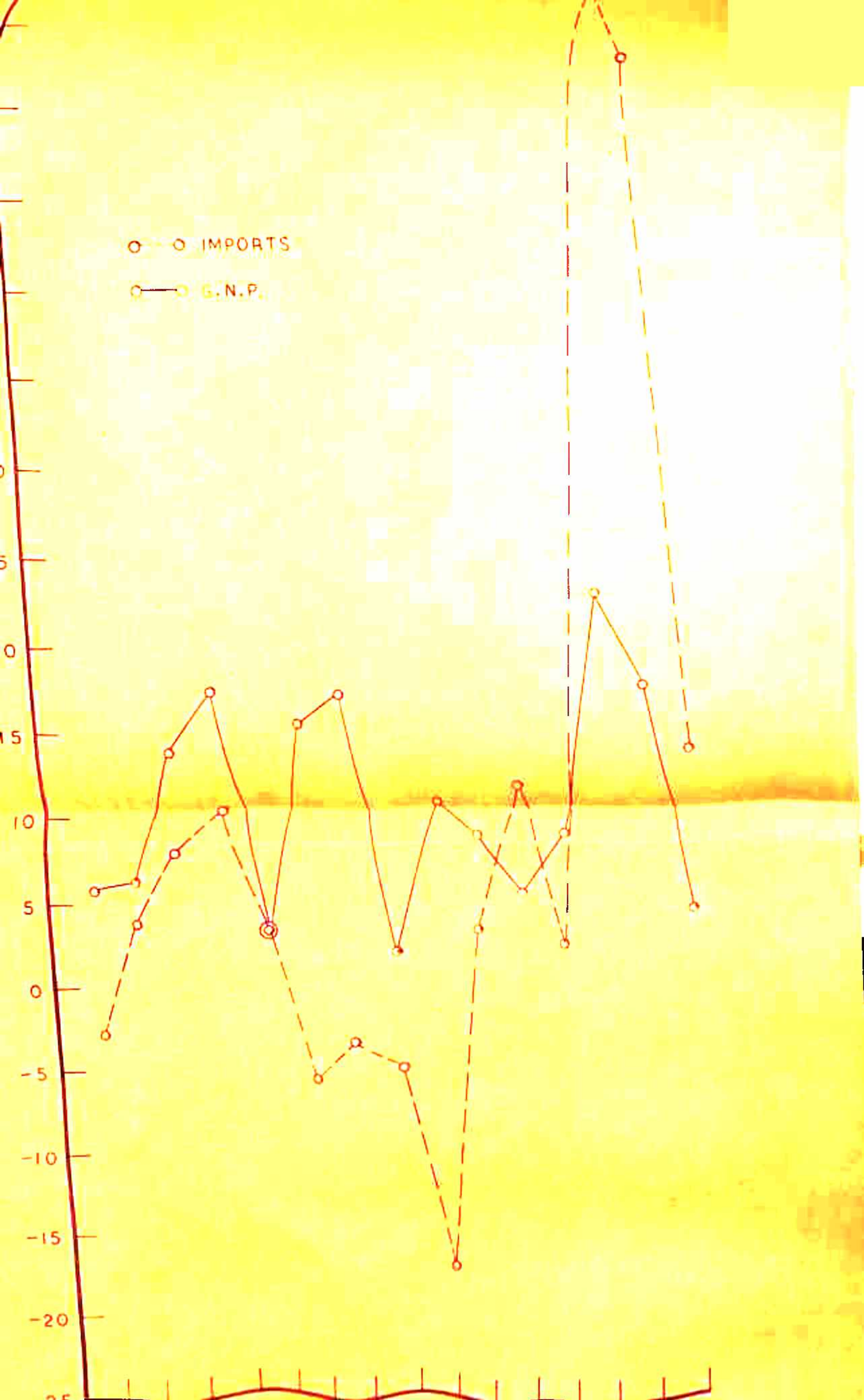
\+ Increase

\- Decrease

* In post-devaluation rate

Source: Import data from Government of India, Economic Survey.

Data on GNP from C.S.O., Monthly Abstract of Statistics, July 1977.


O - O IMPORTS
O—O G.N.P.
10
5
0
-5
-10
-15
-20

cost etc.), imports will increase with the increase in national income or vice versa if the marginal propensity to import will be above average propensity. Here we also rule out the possibility of inferior goods, where expenditure on imports will fall with increase in income assuming that all imported goods are superior.

The marginal propensity to import will depend on the nature of goods demanded and their relative prices; and the average propensity to import will depend on the economic size of the country and the degree to which its overall needs can be satisfied domestically.

Another way of looking at the relation between imports and income is in terms of the income elasticity of demand for imports. The higher the elasticity, the greater will be the demand for imports with a certain rise in income.

To see the relation between GNP and imports in India during the period 1961-75, Table VI.2 has been prepared. From the Table it is clear that national income over the period has increased by 339% and imports payments by about 155%. On this basis it can be said that national income and imports are related to each other. Averages of marginal propensity to import over this period is 0.55 i.e. for 1% increase in income there was 0.55 per cent increase in imports.

Since economic development is in initial stages dependent on imports, the rate and pattern of development must have its effect upon the pattern of imports and vice-versa. The process of development involves structural changes in the economy (that is, differences in the rates of growth of different sectors of the economy), and this naturally influences the pattern of imports, while there is considerable variation in the plans of development adopted by different countries, there is a broad uniform pattern in the relative rates of growth of various sectors associated with development. This will be clear from an analysis of the relative shares of economic sectors viz., primary, industrial and tertiary activities of different national economies.

An analysis of the data for 62 countries[10] shows that as income increases the share of primary production in the gross product falls while that of the remaining sectors increases. Of the latter, the increase in manufacturing is the highest, followed by construction, transport, and other services. The rise in manufacturing, increases from about 12% of national product in the case of countries with a per capita income of $100 to about 33 per cent where the level of per capita income is $1000. It is a long standing observation that as

---

10. Chenesy, H.B. (1960), "Pattern of Industrial Growth", American Economist Reserves, Sept., pp. 635-644.

income increases the demand for manufactured goods increases more than proportionally. Consequently the imports of machinery and equipment will also increase but if these requirements are met by indigenous supply then the demand for raw materials will increase which will be met by imports. But in the restricted trade economy, if the imports will not be allowed, this situation either curtails the exports or will create inflationary conditions, which will further restrict the growth of the economy in real sense.

A closer examination of the data shows that though there is positive relationship between GNP and imports it does not vary in the same proportion, the proportion of imports to GNP was between 5 to 6% during Third Five Year Plan, while during the Fourth Five Year Plan it was slightly less at between 4.5 to 6%.

There have been occasions when the rise in national income has been accompanied by a decline in the level of imports as happened during the annual plans i.e. 1966-67, 1967-68 and 1968-69 and in 1961-62 and 1969-70. This can be explained by the characteristics of imports which included about 1/4 of food.

There is a special feature of the relationship between imports and national income which may be taken into account while assessing the significance of imports to national income. India is primarily an agricultural

country and the agricultural output accounts for about half the national income of India. Moreover, the population in India has been growing fast, and in spite of the great emphasis laid on agricultural development in the country self-sufficiency in food has not yet been achieved. Apart from this, the yield in agricultural sector is considerably dependent upon the monsoon and other natural circumstances. On occasions, the monsoon has failed, and drought conditions have prevailed in different parts of the country. These have adversely affected the level of national income and have accentuated the need for food imports. As will be seen from Table III.3 the level of food imports declined in the years 1961-62, 1968-69, 1969-70, due to satisfactory production of food grains, which was also responsible for the increase in national income in those years. Whenever, as in 1965, 1966, 1970, 1971, the monsoon failed and the agricultural crops were damaged due to one or other reason, there was a decline in national income and increase in food imports.

But in 1966-67, in spite of increase in food imports which were about 10.4 million tonnes and 8.7 million tonnes in 1966 and 1967 respectively there was an increase in GNP and fall in overall imports. This adverse relationship was due to industrial recession in India which reduced imports of iron and non-ferrous metals, machinery and transport equipment, mineral fuels, lubricants and related materials and raw cotton.

Rate of Exchange and Imports

Basic of all foreign transactions is the rate of exchange which is price of one currency in terms of another currency. It can be defined as the number of units of one currency that will be exchanged for one unit or a given number of units of another currency.

The recent past has witnessed a succession of convulsions in the foreign exchange market. The system of fixed parities evolved at Bretton Woods which was held sacrosanct for over two decades, began to fall apart. It was ultimately given a goodbye in the Smithsonian agreement of 1971 which itself proved inadequate to tackle the basic causes of the exchange crisis. The major countries of the world adopted floating exchange rates.

Exchange Rate of the Rupee

During the period of the operation of Bretton Woods system of exchange rates, the par value of the rupee was declared in terms of gold. The Reserve Bank of India maintained the par value of the rupee within the permitted margin of 1 per cent above and below the pegged rate using pound sterling as the intervention currency. The value of rupee was fixed at 0.268601 grains of fine gold, 30.225 U.S. cents or Rs.4.76 = $1 in terms of American dollar and 1s.6d in terms of pound sterling or £1 = Rs.13.33.

The Indian rupee was devalued in September 1949 not because there was any inherent weakness in the value of the

rupee or because the Reserve Bank was finding it impossible to maintain its exchange value but because the British Government decided to devalue the £ sterling by 30.5% so did India. Since the devaluation of rupee on 18th September, 1949 the par value of rupee was fixed at 0.186621 grains of fine gold and 21.00 U.S. cents.

After a lapse of about 17 years, the rupee was again devalued on 6th June, 1966. The devaluation done was of the substantial order of 36.5 per cent. The new exchange value of the rupee in terms of gold was fixed at 0.118489 grains as against 0.186621 grains. In terms of the U.S. dollar, revised parity was Rs.1 = 13½ cents or Rs.7.50 = 1 U.S. dollar. Similarly the parity for sterling was revised to £1 = Rs.21.00 (against Rs.13.33).

But with the devaluation of pound sterling on November 18, 1967 by 14.3 per cent, the new exchange rate, one pound became equal to Rs.18 instead of Rs.21 as hitherto.

With the breakdown of the Bretton Woods system in August 1971 and the subsequent floating of the major currencies, the rupee was pegged to the U.S. dollar, at Rs.7.50 per U.S. dollar or $13.330 per Rs.100. At the time of the re-alignment of the currencies in December, 1971 the rupee was de-linked from the U.S. dollar and linked with pound sterling. The exchange rate of sterling was fixed in terms of the U.S. dollar, so also indirectly with other currencies.

With the devaluation of U.S. dollar in terms of gold by 1.9 per cent on the 18th December, 1971, the new rupee-dollar exchange rate was fixed at Rs.7.279 against the earlier rate of Rs.7.50 per dollar. The Indian rupee thus appreciated by 3.03 per cent. In addition, as a result of devaluation the Union Government fixed on Decemoer 20, 1971, the rupee-sterling rate at Rs.18.9677 per pound sterling making revaluation of pound sterling in terms of the rupee by about 5 per cent. As Indian rupee continued to be pegged to pound sterling until September 1975. During the period June 1972 to September, 1975, rupee fluctuated along with pound sterling and about 29% depreciation took place in pound sterling due to its weak position, so also happened with Indian rupee. The effective trade weighted depreciation of the rupee was as much as 18 per cent by September, 1975 from Smithsonian level.

On September 25, 1975, therefore, the rupee was linked with a basket of currencies. The external value of the rupee is now determined by the market value of the units of the various currencies included in the basket.

The over-valuation or under-valuation of currency both have their effect on the inflow of imports.

Theoretically over-valuation of currency will increase the inflow of imports. But in view of severe restrictive measures of all types-tariff regulations, import quotas, exchange rationing, internal levies etc. - it is difficult

to expand the imports to any appreciable extent. However, it can't be denied that over-valuation of currency led to various unauthorised practices for obtaining banned goods through smuggling, under-invoicing of exports and over-invoicing of imports. The backdoor effects of price differentials and exchange rate over-valuation on imports can be found to be reflected in high prices of import licences.

Moreover, the medium of import through unauthorised channels, provides another incentives to the importers in the form of saving of import duty.

Over-valuation of currency makes exports costly. All the licences are not traded, even those not traded carry a premium and the cost of such premiums are reflected back in high prices of goods to users both as final consumption or as intermediate inputs.

According to an estimate made by Prof. Shenoy at the overall rate of 75% of such imports in private trade the windfall gains on private sector imports for the year 1963-64 comes to Rs.400 crores, which are cahsed in parts through sales of licences, sales of imported goods and the rest being absorbed in the general profit of the unit importing.[11]

---

11. Shenoy, B.R. (1963), Indian Planning and Economic Development, Bombay, p. 140.

The Santhanam Committee has also confirmed the same view regarding over valuation of currency.

On the other hand under-valuation of currency making import costlier will check the illegal practices and the inflow of imports. But the inflow of imports primarily depends on the elasticity of demand for the goods imported.

To see the impact of variation in rate of exchange in Indian context, imports figures of U.S.A., U.S.S.R., Japan and U.K. have been taken. (To check the hypothesis - the higher the units of our currency we have to exchange for one unit o_ other currency, the lower will be the imports.)

U.S.A. is one of the most important trading partners of India. In 1948-49, India's trade deficit with U.S.A. was of the order of Rs.48 crores with imports at Rs.109 crores and exports at Rs.71 crores. As a result of the depreciation of rupee in terms of dollar in September 1949, India exports became cheaper to U.S.A. while imports from U.S.A. became costlier. To some extent this policy proved helpful and reduced trade deficit in 1949-50 to Rs.16 crores and later to Rs.5 crores (1950-51). Both exports and imports increased during the subsequent years of devaluation. Export boosted not only because of becoming cheaper but due to Korean war boom. (Here it is difficult to find out the boom in exports due to Korean war boom.) On the other hand, in spite of increasing the cost of imported goods

total imports from U.S.A. increased from Rs.98 crores in 1949-50 to Rs.120 crores and Rs.295 crores in 1950-51 and 1951-52. This increase was due to imports of food grains which was necessitated due to slump in agricultural production despite restrictive import policy towards dollar area.

The depreciation of rupee value by 36.5% in 1966 again made Indian goods cheaper by 67.5% and imports costly by the same extent in terms of foreign currencies. But this again could not check the imports. India's imports payments increased by 33% and 9% in 1966-67 and 1967-68. Though in 1968-69 there was a reduction of 25.8% which was followed by another reduction of 1970-71 by 18%. But this decline was not to the extent of devaluation (which was 57.5% and this was only half of that), and in 1967-68 there was boom in import bill. Imports mainly are in commodities and comprise food grains, raw cotton, fertilizers, machinery and equipment. Due to their development and life saving character, imports could not be reduced. The fall of imports in 1968-69 and following years were on account of reduced quantity of food grains, because of good harvests in 1966 and 1967, which also reduced the imports of raw cotton etc. and not because of higher value of dollar in terms of rupee.

As a result of devaluation of dollar in 1971 and 1973, the rupee in terms of dollar was appreciated. In 1970-71, India's trade deficit was of the order of Rs.246 crores, with imports at Rs.453 crores and exports at Rs.207

TABLE VI.3 : India's Trade with U.S.A. 1961-76

(Rupees in crores)

Years	Export	Imports	Percentage variation in imports over previous year
1961-62	116	265	
1962-63	114	347	+36.1
1963-64	130	450	+29.7
1964-65	147	510	+13.3
1965-66	148	535	+ 4.9
1966-67	205	712	+33.1
1967-68	207	777	+ 9.1
1968-69	234	575	-25.8
1969-70	238	467	-18.7
1970-71	207	453	- 3.0
1971-72	263	419	- 7.5
1972-73	276	234	-44.1
1973-74	346	498	+112.8
1974-75	375	729	+64.4
1975-76	508	1270	+74.2

\+ Increase

\- Decrease

Source: Reserve Bank of India, Monthly Bulletin (Various issues).

crores. Due to appreciation of rupee, the Indian exports became dearer while its imports from U.S.A. became cheaper. But from Table VI.3 it is clear that in 1971-72 the situation was different as was expected. The export increased from Rs.207 crores in 1970-71 to Rs.263 crores in 1971-72, while imports fell down from Rs.453 crores in 1970-71 to Rs.419 crores in 1971-72; a fall of 7.5%. The causes for this fall were the improvement in food grains production and the suspension of U.S. aid in 1971 following the Bangladesh war. As we know that most of our imports were based on the extent of foreign aid which was of tied character either source-tied or project-tied. The suspension of aid did not allow India to import more from U.S.A., despite their competitive position or cheaper goods for Indians.

The other important country is Japan, which increased its share in India's trade from Rs.11 crores (imports and exports) in 1948-49 to Rs.136 crores in 1965-66. This time Japan occupied the second place. Since 1966 devaluation of rupee, till 1977, Indian rupee is going on depreciated in terms of yen. This happened as yen is appreciated in terms of dollar, pound sterling in 1971 and 1973, also due to dollar devaluation and floating of pound sterling. As Indian rupee was linked to pound-sterling, yen also appreciated in terms of rupee. Yen, since 1960 has been upvalued - continuously making Japanese imports costlier in Indian market. But this increase in cost could not

TABLE VI.7 : India's Trade with Japan 1961-76

(Rupees in crores)

Years	Export	Imports	Percentage variation of imports over previous year
1961-62	41	59	
1962-63	33	65	+10.2
1963-64	59	66	+ 1.5
1964-65	61	78	+18.2
1965-66	57	79	+ 1.2
1966-67	101	99	+25.1
1967-68	136	108	+ 9.1
1968-69	158	115	+ 6.5
1969-70	179	67	-41.8
1970-71	203	83	+23.9
1971-72	182	162	+95.3
1972-73	217	179	+10.5
1973-74	359	260	+45.2
1974-75	295	453	+74.2
1975-76	427	355	-21.6

+ Increase

- Decrease

Source: Reserve Bank of India, Monthly Bulletin (Various issues).

affect the flow of goods from Japan. Table VI.4 gives the clear picture of the flow of imports since 1961. All time imports from Japan have increased except in 1969-70. From 1961-75 imports increased by 67%. Thus statistics showed a reverse relation between import and exchange rate. The main items from Japan are machinery and equipment, raw material like steel which are price inelastic in nature. As a result of economic need and their characteristic imports could not be checked by changing rate of exchange.

U.K. was the important trading partner of India in the past. But today itself it accounted fourth place. As Indian rupee was linked to pound sterling until 1975, it is interesting to see the affect of rate of exchange on imports from U.K. Since 1966, there was no change in exchange rate of pound sterling and rupee. But with 1966 devaluation the pound sterling was appreciated in terms of rupee by 57.5% but with 1967 devaluation of pound sterling by 14.3%, the new exchange rate appreciated rupee and was £1 = Rs.18 in spite of £1 = Rs.13.33 before 1960 devaluation. Imports after this new parity declined by 21.4% and 1.9% in 1968-69, 1969-70. But again picked up in 1970-71 by 23.3%. So there was a temporary effect of this change.

In 1971 also pound sterling was appreciated by 5.7%. But this was not effective as in spite of an expected fall in imports, they increased at a rate of 74% - a high rise was witnessed in the year 1971-72.

Indian currency was linked to sterling since independence (except for few months of 1971) but it was

TABLE VI.5 : India's Trade with U.K. 1961-76

(Rupees in crores)

Years	Export	Imports	Percentage variations in imports over previous year
1961-62	161	200	
1962-63	163	186	- 7.0
1963-64	164	171	- 8.0
1964-65	167	164	- 4.1
1965-66	146	149	- 9.1
1966-67	192	154	+ 3.3
1967-68	229	163	+ 5.8
1968-69	201	128	-21.4
1969-70	165	103	- 1.9
1970-71	170	127	+23.3
1971-72	169	221	+74.0
1972-73	173	237	+ 7.9
1973-74	263	252	+ 6.3
1974-75	307	213	-15.8
1975-76	404	268	+25.8

\+ Increase

\- Decrease

Source: Reserve Ban of India, Monthly Bulletin (Various issues)

delinked in September 1975. Since then Indian rupee has appreciated to a quite remarkable extent and in the month of February rate was about Rs.15 to pound-sterling.

Again in case of U.K. also, like Japan and U.S.A., rate of exchange does not prove a factor which can affect the imports, due to nature of aid and inelastic nature of imported goods (Table VI.5). Further, Government through its tariff policy can eliminate the effect. As after 1966 devaluation, import duty on some items was reduced and export duty increased to eliminate full effect.

Rupee-Rouble Exchange Rate

The exchange rate between the Indian rupee and the Russian rouble is officially determined by the gold content of the two currencies. In legal terms gold content of these currencies has remained constant for the past several years. With the breakdown of the Bretton Woods system in 1971, and with major world currencies floating, the official gold content of all the world currencies has become a fiction. This is true of the rouble also and particularly so because the exchange rate of the Russian currency vis-a-vis other major world currencies is determined by the Soviet authorities to suit the exigencies of their foreign trade.

The Soviet Union is not a member of the IMF nor is the exchange rate of its currency governed by the market forces in world currency market. The rupee, on the other

hand is a member of the floating international currency, so the rate of exchange of rupee with rouble is decided in an arbitrary manner according to the requirement of the Soviet trade.

As long as rupee was on the fixed exchange rate system the Soviet Union did not raise any question about the rupee rouble exchange rate which was fixed at 12 roubles to 100 rupees or a rouble was worth Rs.8.33. But with the advent of the floating rate system in December 1971, the Soviet Union raised the rate to 11.39 roubles per 100 rupees or 1 rouble = 8.78 rupees. The Soviet authorities have explained that the devaluation of rupee vis-a-vis the rouble related to only non-commercial transactions and that this should not adversely affect Indo-Soviet trade.

Indian rupee has been devalued against rouble to the extent of 27.8 per cent. The rouble revaluation has been more frequent since October 1974 when the State Bank of Russia started fixing unilaterally new parity rates every month. Thus the exchange rate which was Rs.100 to 12 roubles in December is now (1975) Rs.100 to 8.60 roubles.[12]

---

12. Commerce, March 22, 1975, p. 401.

TABLE VI.6 : India's Trade with U.S.S.R. 1961-76

(Rupees in crores)

Years	Export	Imports	Percentage variation in imports over previous year
1961-62	32	40	
1962-63	38	57	+47.5
1963-64	52	68	+15.2
1964-65	78	79	+16.2
1965-66	93	83	+ 5.1
1966-67	116	106	+27.7
1967-68	122	111	+ 4.7
1968-69	148	185	+66.6
1969-70	176	171	- 7.5
1970-71	210	106	-38.0
1971-72	209	87	-17.9
1972-73	305	114	+30.8
1973-74	286	255	+123.7
1974-75	418	402	+57.6
1975-76	413	296	-26.3

+Increase

-Decrease

Source: Reserve Bank of India, Monthly Bulletin (Various issues)

Impact on Imports

Though rouble is revalued against Indian rupee since 1971, yet our imports from U.S.S.R. increased steadily from Rs.106 crores in 1970-71 to Rs.402 crores in 1974-75, which was followed by a decline of Rs.296 crores in 1975-76. Our imports from U.S.S.R. increased due to rupee payment agreement where we have to pay through exports (which increased our exports also). Further, U.S.A.'s withdrawal of aid on political reasons helped in boosting U.S.S.R's import-exports in our trade.

Rate of exchange as far as rouble is concerned again proved ineffective due to its payments agreement and our dependence on imports which is price inelastic.

Foreign Exchange Reserves and Imports

Reserve position of a country concerns to the international liquidity of a currency. It is not only a predominantly liquid means of payments but also represent a store of value. It is an index of a country's solvancy in the world market.

In a developing country such as India, where due to industrialisation process imports remains higher than exports, foreign exchange reserves position plays a key role in determining the pattern and level of imports. An adequate stock of foreign exchange enable a country to import whatever she needed and wanted. But if there is shortage of foreign exchange, the country has to decide on

priority basis what to import or what not to import. Now the question arises, what is the adequate level of reserves. Let us first consider the criteria of reserve adequacy for a single country. The "need" for reserves depends upon the magnitude, duration, and distribution of expected future deficits in the balance of payments. These imbalances are dependent, in turn, on the underlying forces affecting the current and capital accounts and the speed and effectiveness with which the adjustment mechanism functions in correcting imbalances. With pegged exchange rates that are meant to be changed at only infrequent intervals when there exist a "fundamental disequilibrium", the dispersion of expected deficit is especially important, over some given period of time, assuming fluctuations, the mean expected deficit should be zero. If it is not the case, there exists a structural disequilibrium which needs correction by means other than the use of reserves.

Reserve adequacy need be looked into from an angle of welfare. The opportunity cost of alternative investment should be compared with the yield on reserves from exchange rate stability and minimisation of domestic adjustment costs, abstracting from any interest returns from reserves held, but there are difficulties in translating this into precise measurement. An alternative criterion for judging reserve adequacy is to look at how the authorities have actually behaved in given circumstances with respect to their reserve levels and policies for adjustment.

As a practical quantitative measure of reserve adequacy Triffin[13] has suggested the reserve import ratio. Triffin examined the eexperience of countries whose ratios had fallen below 10% and found their situation had been desperate, and below a ratio of 30% countries had felt compelled to adjust. Hence he concluded a 35% ratio was close to the minimum safe level. Machlup[14] worked out average ratio of reserves to imports, 1961-65 for 14 industrial countries to be 62.4% as weighted by size of imports. Reserves have also been considered in relation to trade deficits and balance of payments deficits.

One general conclusion that must be drawn from the above discussion is that adequacy of reserves cannot be judged in a vacuum and that adequacy of reserves is always related to the inherent economic strength of a country and the way it conducts its economic and monetary affairs and is affected by efficiency of the prevailing international credit system and the reality of the existing exchange rate.

Let us try to apply these measures to Indian data and see if we can throw some light on the Government of India's policy to liberalise imports, following a substantial increase in reserves in 1976-77 compared to our average reserves of past many years. Looking to figures given in

---

13. Triffin, R. (1961), "Gold and the Dollar Crisis", New Haven's Yale University Press.

14. Machlup, F. (1972), "The Alignment of Foreign Exchange Rates", London, Pall Mall Press.

TABLE VI.7 : India's Foreign Exchange Reserves (excluding Gold and SDRS*) as a percentage of India's imports of the same year

Period	Percentage
1971-72	26.3%
1972-73	25.6%
1973-74	19.6%
1974-75	13.5%
1975-76	28.9%
1976-77	65.7%

*Gold is excluded since to use our gold reserves in a contingency we have to change the law, which is time consuming, and hence not readily available. SDRS are excluded because we do not know how many and which other countries might be needing these from the IMF, and it is possible they are not readily available at a time we need them.

Source: Government of India, Economic Survey, 1976-77.

For Import figures, Reserve Bank of India, Bulletin, 1977.

TABLE VI.8 : India's Foreign Exchange Reserves

(Rupees in crores)

Year	Foreign exchange	% variations over the previous year including gold
1950-51	911.4	
1955-56	784.8	
1961-62	179.5	- 2
1962-63	177.3	- 1
1963-64	188.0	+ 4
1964-65	115.9	-15
1965-66	182.1	+19
1966-67	295.9	+61
1967-68	356.1	+12
1968-69	394.2	+ 7
1969-70	546.4	+26
1970-71	438.1	-15
1971-72	480.4	+ 7
1972-73	478.9	-01
1973-74	580.8	+13
1974-75	610.5	+ 3
1975-76	1491.7	+112
1976-77	2863.0	+79

Note: Gold is valued at Rs.53.58 per 10 grammes up to May 1966 and at Rs.84.39 per 10 grammes thereafter.

Source: Reserve Bank of India, Report on Currency and Finance (Various issues)

Table VI.7, we find the average ratio of reserves (excluding gold and SDRs) to imports during the period (1971-72 to 1975-76) to be 22.8% which is only slightly above the desperate situation of below 20% and considerably below the 30% ratio compelling adjustment. It was far below the 35% ratio deemed for industrial countries as the minimum safe level, while it may be argued that for developing countries like India, the minimum safe level ratio should be lower than for industrial countries since the developing countries are expected to receive aid from richer industrial countries to tide over their reserve shortages, apart from the fact that "aid" ought to come does not actually come when needed, a developing country like India is still largely dependent on foreign exchange reserves, to tide over its lean years of poor harvests, with reduced exports, and increased need for foreign exchange to pay for larger need of food grains, and other raw materials.

India is one of the those countries whose reserves initially at the time of her independence in 1947 were abnormally high. As shown in the Table VI.8 reserves were drawn down to the rock bottom over the Third Plan (1964-65, Rs.249.7 crores), the periodic balance of payment crisis in the Third Plan had been met by drawing from IMF. After the Third Plan, the devaluation of rupee by 36.5% increased the reserves value by 57.5% in rupee terms. As a result India's foreign exchange reserves increased from Rs.298 crores in 1965-66 to Rs.478 crores in 1966-67. Since then reserves are increasing

steadily and in 1975-76 it reached Rs. 1674.2 crores and it was estimated that during 1976-77 it will reach an all time peaks of Rs.3010.6 crores. As Prof. Raj has pointed out in an article on India's balance of payments, the increase in reserves in these years was largely due to remittances from Indians abroad, particularly from recent migrants to Kuwait and other Middle East oil-rich countries. Due to uncertainty characteristics of aid and increased debt burden, our present reserves are not at all excessive. Though our reserves-imports ratio rose abruptly to 63.7%, which, though large compared to our average ratio of preceding years, was lower than Swiss averages of 93.2% and United States ratio of 90.6% for 1961-65 (vide Machlup - Table-I, p. 7).

As has been mentioned earlier that capacity to imports depends on reserves position of the country. Additional amount of reserves, place additional purchasing power in the hands of the country and vice-versa. A shortage of foreign exchange reserves forced the Government to clamp restrictions on imports and payments and comprehensive systems of foreign exchange budgeting for the purpose of adjusting external payments to external receipts. As in India the acute balance of payments position and drawal of reserves to the minimum level has engendered a system of import control involving close scrutiny of foreign expenditure on essential items and

locally available equivalent items. Consequently, imports of consumer goods has slashed down in Indian imports where raw materials and capital goods like machinery increased.

Import Control Measures and Imports

All imports into India are regulated by import and exchange control. The main purpose of these controls is to conserve scarce foreign exchange and to ensure its utilisation for the import of goods and services which have high national priority. The ultimate administrative authority for the control of imports is vested in the Ministry of Commerce which implements the control through the Chief Controller of Imports and Exports. No goods can be imported without a valid licence or general permission to import.

Along with licences other tools of influencing import pattern and inflow of imports, used by Government are, import duty, trade and payment agreement and exchange control.

Import duty has been used to curtail the imports of consumer items, on the one hand, and, on the other, for increased use of domestic products which are unable to meet the international competition. Different rates for different commodities have been levied.

Import duty is a tax levied upon a commodity when it enters the boundary of our country. A tax on imports

raises the prices of the commodity to the extent of the rate in the country relative to the prices of domestic products or other countries. Thus under conditions of limited exchange reserves and reduced capacity to imports, tariffs have been used on increasing scale to check inflow of imports as to keep up remunerative prices for new import-substituting domestic producers.

From 1962-63 onwards, import duties were used with increasing frequency to curtail imports in favour of domestic industrial production. The vast majority of these tariff increases were selective and differential, although some reliance was placed on across-the-board increases in duties later in the period. In 1962-63, for example, import duties were raised on some iron and steel items, silk yarns, copra, cars and machine tools; but in 1963-64, import duties further on machinery, raw cotton, rubber, palm oil, iron and steel manufactures, mineral oils and dyes were raised. In addition, a "regulatory duty" was levied at 10 per cent ad valorem, but this came into effect only in 1965. In spite of this imports as a whole increased in 1965-66 over 1964-65 by 3%.

In supplementary budget of 1965-66 the average rates of nominal import duty on broad classes of commodities were: 35% on plant and machinery, 15% on agricultural machinery, 40% on basic industrial raw materials, 60% on processed industrial raw materials, 100% on consumer goods respectively. But with effect from 1966 devaluation,

TABLE VI.9 : Change in Import Duties as of June 6, 1966

(per cent)

Item	Pre-devaluation	Post-devaluation
Iron and steel	63.6	49.6
Machinery	37.4	26.1
Chemicals	37.6	25.1
Petroleum products	204.7	132.2
Raw cotton	12.9	3.2
Artificial silk yarn and thread	217.0	176.7
Wood-pulp-paper and stationary	51.1	50.9
Cinematographic films	66.4	37.0
Spirits and liquors	537.8	929.6
Spices	68.3	-
Tobacco	1330.0	600.0
All others	67.0	57.1
Total	53.9	37.6

Source: Bhagwati, J.N. and Srinivasan, T.N. (1976), Foreign Trade Regimes and Economic Development : India, p. 96.

import duties for many items as iron and steel, copper, etc. were curtailed to reduce the full effect of devaluation (Table VI.9). From time to time, in order to give impetus to import substitution, the import duty was raised. As in 1970 import duty on machinery was raised from $27\frac{1}{2}$ per cent to 35 per cent ad valorem. To set up industrial base, however, those machineries which were required for the initial set up of projects or for an expansion remained unaffected. The import duty on motor vehicle parts, pharmaceuticals, chemicals and non-electrical instruments, apparatus and applainces increased by 10 per cent ad valorem. The duty on certain plastic materials and electrical resistance wires were raised from 60 per cent to 100 per cent ad valorem.

Not only was there an increase, but some times import duty was reduced. As in 1974, duty on computer and computer subsystem was reduced from 60 to 40 per cent along with exemption of auxiliary as well as countervailing duties to increase their imports.

But most of the times increase in import duty was to match the imported items value to domestic product. For example in 1976 import duty on steel was raised from 220 per cent to 320 per cent.[13] "Imported stainless steel sheets have been commanding high premia in the Indian market,

---

13. Budget Memorandum 1976-77, Speech of Finance Minister.

TABLE VI.10 : Issue of Import Licences

(in crores of rupees)

Category	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
Estaolished Importers	171.1	83.6	44.5	43.8	41.8	40.8	55.3	38.5	42.3	46.3
Actual Users	308.7	300.4	242.4	301.2	311.9	368.3	376.0	483.4	720.1	633.3
Raw Materials for Scheduled Industries (DGTD units)	448.5	230.0	232.1	274.5	385.0	252.7	171.2	198.2	253.1	619.4
Small Scale Industries	76.2	49.8	36.7	65.6	83.3	118.0	86.4	82.9	58.8	87.5
Registered Exporters/Export Promotion Scheme	81.7	51.9	63.8	86.8	94.9	93.5	136.0	151.3	166.4	237.2
Capital Goods/Heavy Electrical Plants	435.7	164.7	83.8	73.2	127.1	252.2	268.0	261.6	269.3	566.4
State Trading Agencies	163.9	116.3	150.5	242.8	444.5	587.6	620.9	948.3	935.6	761.8
Others@	208.0	113.7	90.7	115.5	145.4	140.6	141.9	169.6	190.4	364.2
Total	1893.8	1110.4	944.5	1203.7	1633.9	1853.7	1855.7	2333.8	2636.0	3316.1

@ Includes the categories 'Ad hoc licences, Customs clearance permits, Railway contracts, Government or against Government contracts, Co-operative Societies, Sole agents, Replacement licences, Blanket licences and New comers'.

Source: Reserve Bank of India, Report on Currency and Finance (Various issues)

partly because of scarcity and partly because of a large differential between the prices of imported and indigenously produced stainless steel sheets. I, therefore, propose to raise the import duty on this item from the present level of 220 per cent to 320 per cent ad valorem and propose to increase import duty on stainless steel plates and strips from 75% to 120%, and due to gap between international price of copper and indigenous price, I propose to increase import duty on copper from 40 to 100% ad valorem".

Thus import duty since 1961-62 has increased the cost of imported items. Although it is difficult to determine the effect of price changes on the volume of imports. (Firstly, import data in this form is not available; and secondly, it depends on elasticities which further depend on a variety of factors.) But it seems that import duty with a different rate has a powerful repercussion in framing this pattern of imports. The other efficient tool is quota, where Government may directly restrict the volume of permissible imports to a certain maximum level. Along with import duty, licences have been issued for the imports of all items, specifying the limit as well as the area for imports. From Table VI.10 it is clear that the proportion of licences going to traders (the established importer licences) has steadily diminished (from over 9 per cent of all licences issued in 1966-67 to less than 2 per cent in 1974-75), and the proportion going directly to producers or the actual users has now taken over the bulk.

Further share of capital goods licences is continuously increasing along with for raw materials. To make more licences more effective, role of state trading is continuously increasing and in 1974-75 about 1/3 share went to state trading.

Import licences, on the one hand, restricted the imports of non-essential items; on the other led to increased black marketing. It has not been possiole for us to quantify any of these illegal transactions in a meaningful manner, but tnere is little doubt that they existed widely.

In India quotas are used in all sectors, for a mixture of reasons. India has to develop new industries to produce substitutes for imported goods and believes that this can be accomplished only under a protective shield of import quotas. Tariffs, even high ones, do not provide the local manufacturer with the same degree of certainty. No one knows the level of supply and demand response to price change nor, therefore how much of a foreign commodity would be excluded from the domestic market by a given tariff level.

Thus through licences pattern, level and direction of imports has been shifted, in a way which will help in industrialisation as any particular commodity cannot be extended aoove the capacity of the licences issued.

Further imports have been profoundly influenced by the various bilateral and multilateral trade agreements. In

our analysis of direction of India's imports we have seen that our imports from East European countries multiplied many times from almost a scratch. We have also made trade agreements with other countries like U.S.A., Iran, Iraq, Bangladesh, etc. for the import of rice, oil and chemicals etc. Besides most of our imports, financed by capital imports, have been tied to project and as such they are not much different from bilateral trade in so far as the capital exporting country enters into an agreement with receiving country to spend such capital on purchase of some specified goods in the capital exporting country. Thus these agreements affected the inflow of imports. For example, India's agreement under PL 480 grant to buy wheat from U.S.A. was responsible for boosting our imports of food grains and total share of U.S.A. in our imports. Thus foreign aid also played its role in determining imports.

Role of Foreign Aid in the Context of Imports in India

The foreign aid has its international character. By nature, it is explicitly the transfer of real resources between countries on concessional basis. On the other side the flow of private foreign investment is motivated by normal commercial calculus of profit and loss and does not contain an element of aid and concession by any criterion. So in the present context we are considering only those aid disbursements by Government or other official entities, whose disposition is decided outside the normal commercial frame of trade and investment.

TABLE VI.11 : Share of Grants and Untied Credits in External Assistance

(Value in crores of rupees)

Period	Total external assistance	Grants	% share of grants of col. 1	Untied* credits	% share of untied credits to col. 1
Upto First Plan	318	111	34.8	53.2	16.7
During Second Plan	2253	253	11.2	516	22.9
During Third Plan	4531	167	3.7	603	13.3
1966-67	1131	97	8.6	183	16.2
1967-68	1196	61	5.1	253	21.2
1968-69	903	65	7.2	157	17.3
1969-70	856	26	3.0	196	22.9
1970-71	791	43	5.5	161	20.3
1971-72	834	51	6.1	178	21.3
1972-73	666	12	1.8	278	41.7
1973-74	999	21	2.4	451	53.1
1974-75	1337	94	7.0	648	48.5
1975-76	1839	283	15.4	855	46.5
Total	17655	1284	7.3	4531	25.7

*Comprise mainly loans from IBRD, IDA, Sweden, U.S.A. and West Germany debt relief.

Source: Government of India, Economic Survey, 1976-77.

India received foreign assistance either in the form of grant or aid. Grants are resource transfers without any quid pro quo. The grant leaves no backlog of debit services and therefore, this is a more useful agent of aid. But the grant element is declining in total aid given by the different countries. Table VI.11 gives the idea of its sharp decline. It declined from Rs.253 crores during Second Plan to Rs.21 crores in 1973-74. But 1974-75 and 1975-76, it again picked up and was of the order of Rs.94 crores and Rs.283 crores respectively. United Kingdom in 1975-76 increased its grant element from Rs.3.9 crores in 1974-75 to Rs.241.4 crores followed by Netherland and Canada.

Inflow of aid has a direct as well as indirect impact on foreign trade. Directly available quantum of foreign assistance determines the size of the import bill. More aid increases propensity to import. Indirectly through rational channelisation of foreign aid export promotion is possible. In the long run aid may also be beneficial to import substitution, thus also affect imports.

Impact of External Assistance on Imports

In this section, we have tried to establish relationship between inflow of foreign aid and imports. For this purpose we have taken the actual utilisation amount of aid and inflow of imports since 1961-62. Instead of authorisation, actual utilisation has been taken, because there is

TABLE VI.12 : Relationship between Utilisation of External Assistance and Imports

(Percentage)

Year	Change in imports over previous year	Change in gross utilisation of aid on previous year
1961-62		
1962-63	+ 3.8	+31.4
1963-64	+ 8.1	+32.9
1964-65	+10.3	+22.6
1965-66	+ 4.3	+ 6.7
1966-67	- 6.3	- 7.0
1967-68	- 3.4	+ 5.75
1968-69	- 4.9	-24.5
1969-70	-17.1	+ 5.2
1970-71	+ 3.3	- 7.6
1971-72	+11.7	+ 5.4
1972-73	+ 2.3	-20.2
1973-74	+58.3	+50.0
1974-75	+52.7	+33.8
1975-76	+14.2	+37.4

+ Increase

- Decrease

Source: Based on C.S.O., Monthly Abstract of Statistics.

wide gap between the two, and it is actual utilisation, not authorisation, which affects the inflow of imports. The Table VI.12 depicts the relationship between utilised foreign aid and imports.

Our hypothesis states that imports will increase with the increase in utilisation of foreign aid and vice-versa.

From the Table, it is clear that except 1967-68, 1970-71 and 1972-73, there was positive relationship between the two. Imports increased with the increased amount of external aid and declined when it declined. In 1967-68 the import payments fell by 3.4 per cent while aid utilisation ratio increased by 5.75 per cent over the previous year. But the fall in imports was only in value due to fall in import prices from 150 in 1966-67 to 136 in 1967-68 (1958 = 100), while the quantity index rose from 149 to 160 in 1967-68 (1958 = 100). This shows that actually, imports increased with the increased utilisation of aid.

The only exceptions are 1970-71 and 1972-73, when imports increased despite a fall in utilisation of aid. This adverse relationship was due to increased amount of food grains, accompanied by suspension of aid by U.S.A., because of which fall in aid utilisation was recorded.

This shows that aid and imports were highly correlated to each other as most of our imports in the past

TABLE VI.13 : Purpose-wise Classification of Foreign Aid

(In crores of rupees)

Purpose	Upto First Plan			During Second Plan			During Third Plan			Annual Plans			During Fourth Plan			1974-76	
	Authorisation	Utilisation	Balance	Authorisation	Utilisation	Balance	Authorisation	Utilisation	Balance	Authorisation	Utilisation	Balance	Authorisation	Utilisation	Balance	Authorisation	Utilisation
Transport and Communication	15.6	15.6	-	229.0	159.0	70.0	281.1	291.4	59.4	133.6	176.3	16.7	477.8	371.5	123.0	104.7	169.7
Steel and Steel projects	78.7	2.7	76.7	211.6	254.1	33.5	212.2	94.2	150.5	30.9	118.7	62.7	5.6	109.8	-41.5	660.0	171.7
Power Projects	19.6	12.1	7.5	62.2	29.3	40.4	231.8	152.6	116.5	93.2	144.7	65.0	145.9	105.0	95.9	201.8	51.4
Industrial Development	19.3	2.3	17.0	739.0	255.4	500.6	1472.8	1270.4	696.2	1796.9	1421.9	1071.2	1943.9	2197.8	817.3	866.8	910.8
Agricultural Sector	3.4	3.4	-	-	-	-	61.4	22.5	38.9	41.4	70.9	9.4	466.2	174.9	300.7	635.3	225.0
Food Aid	90.3	90.3	-	15.7	15.7	-	-	-	-	127.2	109.3	17.9	192.4	211.0	-	91.2	172.7
Debt received	-	-	-	-	-	-	66.6	66.6	-	82.4	76.9	5.5	256.1	245.0	16.4	130.4	129.6
Miscellaneous	-	-	-	-	-	-	0.3	0.2	0.1	11.0	1.0	10.1	92.4	7.1	95.4	43.5	21.9
Orissa Iron Ore Project	-	-	-	12.6	-	12.0	-	10.4	2.1	-	1.3	0.8	-	-	-	-	-
Oil and Petroleum Products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	189.1	189.1
Grand Total	226.9	126.4	100.5	1270.1	713.5	657.1	2326.2	1908.3	1063.7	2316.6	2110.7	1269.6	3580.3	3422.1	1427.8	2885.7	1950.9
Total Authorisation and utilisation of aid	381.8	201.7	180.1	2533.2	1429.8	1254.1	2901.3	2867.7	1226.3	4102.2	3048.5	2280.0	3873.1	3735.8	2418.1	3017.8	2022.6

Source: Reserve Bank of India, Reports on Currency and Finance (Various issues)

were financed through aid.[16]

The other phase of the contribution of the external aid to the inflow of imports is the tiedness. Till 1975-7o, about half of the aids were either source tied or project tied or both. According to Taole VI.11, during First, Second and Third Plans, only 16.7, 22.9 and 13.3 per cent aid was in untied form. But since 1966-67, its share increased and in 1973-74 more than 50 per cent aid was of untied nature.

The tiedness of aid affects the pattern of imports as well as direction of imports. Table VI.13 gives the purpose-wise authorisation and utilisation of aid. It is clear from the Table that food grains and steel got the lions shares during First Plan. But utilisation in steel sector was negligible, only Rs.2.7 crores or 3%, while aid for food was utilised 100%. But, since the Second Five Year Plan, with the emphasis on industrialisation, foreign aid for industrial development came from all sources, and till now is the major item. Because of this also imports of machineries, and raw materials increased. Second place was of transport and communication followed by power and projects. But due to increased burden of debt services, after Second Plan, a substantial amount of the order of Rs.66.6 crores, Rs.82.4 crores and Rs.256.1 crores during Third Plan, Annual Plans and Fourth Plan respectively for

---

16. See Chapter 1.

this and almost all the amount was utilised. During 1974-75 and 1975-76 aid of Rs.156.6 crores was received for oil and petroleum products. Only with this aid we were able to import oil after such an increase in price.

Further, the direction of Indian imports has been abundantly modified by the availability of external assistance. Of the total assistance, including grants and loans authorised by the end of March 1976, the United States of America contributed 33.5 per cent, United Kingdom 9.1 per cent, Japan 3.5 per cent, World Bank 24.5 per cent and U.S.S.R. 4.7 per cent.[17] The impact of foreign aid on imports from these countries is apparent of total imports from these countries and the utilisation of external assistance authorised from them are examined together. From our analysis of direction of imports it is clear that the U.S.A. is the major exporter to India followed by U.S.S.R., U.K. and Japan, and their share of aid are the highest from other countries.

What might have been the pattern and level of imports, in the absence of such external assistance is a hypothetical question.

Thus it is concluded that the present level and pattern of imports are because of all the aoove factors playing their role together which is the basis of import policy.

---

17. R.B.I., Report on Currency and Finance 1975-76.

CHAPTER VII

SUMMARY, CONCLUSIONS AND POLICY RECOMMENDATIONS

CHAPTER VII

SUMMARY, CONCLUSIONS AND POLICY RECOMMENDATIONS

India is one of the minor trading nations of the world. In relation to the value of total international trade of the world, the value of India's external trade is rather insignificant. The value of international trade also bears a low ratio to the national income of the country. Quantitatively, international trade has never played a large role in our economy. The share of both exports and imports are declining in GNP. The declines indicate that the Indian economy is less dependent on the world economy now than it was in 1950-51.

In spite of the comparative and quantitative insignificance of international trade, it has played a propulsive role in the development of our country.[1] In

---

1. "Economists have singled out, at one time or another, a great variety of causes of the wealth of nations. Among them are three that have been accorded particular emphasis: the growth of markets, the accumulation of capital, and the progress of technology. Equally, no one doubts the propulsive role of foreign trade in the development of the countries that we now think of as advanced. Whether one thinks of Britain at the outset of the industrial revolution or of the U.S.A. in the nineteenth century or of Japan in the twentieth, the expansion of exports gave a conspicuous momentum to the economy and helped it on its way to industrialisation. Over the past century and a half the growth of international trade has continued to open up new opportunities of specialisation and development for all countries engaging in it." See Cairncross, A.K. (1964), "Factors in Economic Development", George Allen and Unwin Ltd., London, pp. 209-210.

the last 20 years, no single source has proved so rewarding and dynamic as a factor of economic growth as exports. As international trade is no longer a means for disposing of surplus raw materials, it is a potent instrument of acquiring capital goods and "know-how" for economic uplift. In India's case, three factors further add to the significance of international economic transactions to her. Firstly, India is still not in a position to manufacture herself many types of heavy machinery and capital goods which are necessary for her economic development. She will have to continue to import these for a long time to come, as she has done hitherto. Secondly, in India both domestic savings and investment constitute a small fraction of her national income. That implies that even small capital imports or exports may loom large in her industrial structure. Despite their quantitative smallness, India's imports are vital to the operation of her economy. Being a country with a large and rising population, her marginal propensity to consume domestic goods is high. This means that the multiplier effects of her enlarged or reduced exports are large on her economy on either direction.

Imports in India have been increasing with the progress of the plans, and despite severe restrictions, they were until recently, running a head of exports. Inflationary tendencies in international market and inelastic nature of our commodity imports also helped in

increasing import bill. Consequently, dependence on foreign aid increased. But the dependence of foreign aid proved harmful at times of war-time emergency when these aid-linked imports tended to fade out. Exports seem to be the best source for paying imports. Though various export promotion measures have been adopted by the Government to boost exports, yet a further increase is required to reduce trade imbalances and more steps should be taken to increase exports.

A welcome feature is the increasing share of developing countries in India's import trade. But most of the trade is still with developed countries like U.S.A., U.K., Japan and U.S.S.R. The share of East European countries are steadily increasing. But their increase is an alarming one, because as Poland has withdrawn from the non-convertibility, just like Yugoslavia; a problem will arise for the settlement of balances due to its non-convertibility character. Further, one hears the criticism as to the higher prices charged for the imported items with these countries. If this is true, it requires further scrutiny of the problem. From 1971 onwards, unilateral revaluation of the rouble against rupee indicates the bargaining position of U.S.S.R. But the gain from trade with U.S.S.R. can't be overlooked. Due to rupee payment agreement where payments have to be made in exports, it has increased our exports as well as helped us in getting necessary goods without straining our foreign exchange

reserves, which throughout the period (1961-75), were under pressure.

The foreign assistance given by the developed countries explains the cause of India's dependence on these countries for imports. Further the exports of developing countries somehow do not coincide with our import needs. Consequently, their share could not increase; except OPEC, recently with newly rich developing countries.

Despite, certain variations Indian imports are increasing steadily and a steep increase occurred in 1974-75 and 1975-76 due to steep increase in oil and other important import articles like food grains and fertilizers. The other factors which have contributed to these factors are: India is dependent on many raw material imports even now for the running of industries, shift in composition of exports from traditional primary commodities to manufactured goods have led to an increase in the imports of inputs for their production as steel, non-ferrous metals. Thus the pattern of industrialisation, influenced the level as well as pattern of imports. On the other hand domestic production of locomotives, wagons, consumer durables, machineries, like cement and sugar etc. led to reduced imports of these items.

As a consequence of partition of the pre-independent India into India and Pakistan, on the other hand, public

health measures in the eradication of epidemics reduced the death rates considerably thereby increasing the pressure of population. Food imports, thus have become quite necessary and they formed a category in itself. Not only this frequent, droughts by affecting the domestic production, led to increased imports from time to time.

The development planning in India has been based on the creation of a 'Modern sector' using the latest technology. The use of modern technology ipso facto increases the need for imports of capital goods including raw materials.

The Government has pledged itself to development planning and instituted strict import controls so as to channel the imports into directions dictated by priorities established under different plans. Consequently the structure of imports has been shifted almost exclusively towards capital goods, intermediates and raw materials. The only consumer goods imported in any significant quantity being food grains. Import licensing has been used for this purpose. Throughout the period under study, imports have been licensed. The proportion of licences going to traders (the established importer licences) has steadily diminished (from over 61 per cent of all licences issued in 1951-52 to less than 3 per cent in 1970-71) and the proportion going directly to producers (the Actual Users Licences for intermediates and the capital goods licences for equipment) has now taken over the bulk (more than half)

of available imports. The licensing has further been characterised by numerous restrictions on import specification, transferability and "indigenous clearance" to protect domestic suppliers of import substitution, licences have also varied in degree of restrictiveness. It also depends on the availability of foreign exchange position as well as aid from friendly countries and international financial institutions. The better the position of foreign exchange reserves, the less will be control on the consumption of these reserves or, in other words, the less restrictive will be import policy. Thanks to the present situation of bountiful reserves, the imports of raw materials and other consumer items like edible oils etc. have been liberalised.

Along with licences, Government used tariff as an instrument to affect the imports. But its effectiveness depends on the import demand elasticity for any commodity, which again depends on the share of imports in domestic production and consumption. The larger the share of imports, the smaller will be the elasticity.

The statistical evidence of Chapter V also shows price is not a significant variable. The price co-efficients are positive, indicating that the increase in price of imported items are not sufficient to check imports. The positive, though less than unitary, elasticity of price can be guideline for tariff policy. Increasing rate of

tariff will cause harms to the industrial growth of the economy in spite of reducing imports. As imports constitute a higher share in our consumption of lead, zinc, fertilizers, crude oil, recently edible oils, agricultural machinery etc., increases in their prices will increase industrial costs and check industrial growth. Import control policy restricted the importation of goods. Thus limiting if not entirely preventing variation in the pattern of imports.

Further to reduce strain on balance of payments due to tight position of foreign exchange reserves, imports of many items were banned and their production commenced at home. Under this policy imports of raw materials and capital goods were allowed with the long run intention that it will reduce imports as a whole. But the faulty import substitution policy increased the dependence on imports.

The programme of import substitution constituted an important part of import policy. Since Second Plan import substitution has been mainly governed by the approach that whatever cannot be imported should be produced at home. Import saving objective rather than any long-term strategy of industrialisation has been the main motive behind import restrictions spread promiscuously over a

wide range of products. An official paper[2] has tried to establish the fact that (a) all the increase in import substituting output has been called for the policy of import saving, (b) all such output contributed in its entirety to the process of growth, and (c) the increased output has resulted in saving of imports and foreign exchange. These claims are not warranted by actual facts. It is doubtful whether a programme of indiscrimate import substitution has resulted in import saving. To see how much of foreign exchange is saved by the programme it is necessary to take into account foreign exchange made available to producers of import substitutes for import of raw materials and components. The net foreign exchange saving brought about by import substitution appears to be more imaginary than real. In many cases programme of import substitution has proved to be more foreign exchange consuming than foreign exchange saving.[3]

In many cases import substitution has proved uneconomical and costly. The artificially induced acceleration of industrial production has led to mis-direction of investment resources on a massive scale into fabrication of hign cost and shoddy goods. Our thinking

---

2. "Import substitution and its impact" (1969). A Review by Director General of Technical Development for 1960-61, Government of India, Ministry of Industrial Development.

3. Minocha, A.C. (1972), "Import Substitution as a Strategy of Industrialisation in Developing Countries to Reduce Dependence on External Assistance", Indian Economic Association, December, p. 34.

is vitiated by the mercantilist policy that import suostitution saves foreign exchange, but the import substitution through its cost effect increases the difficulties of export industries and incentive to export.[4]

Import policy is governed more by availability of indigenous substitutes and access to foreign exchange resources than by actual needs of the economy. We have been just picking up current import list and started encouraging import substitutes in proportion to the importance of different items in current imports. One does not know as to how items, the imports of which are banned or restricted, are picked up and how far, apart from mere domestic availability, cost considerations are taken into account. Import licensing has been irrational and resulted in trafficking in import licences. The rates of import replenishment are invariably far in excess of actual imports contents. A number of items which hardly contain any import contents are granted attractive import entitlements.[5] A number of items like leather goods, fruit juices and handicrafts, which have haraly any import content, are granted attractive import replenishment. Also import

---

4. Johnson, H. (1967), Economic Policy towards less Developed Countries, p. 79.

5. The import policy for 1976-77 does not reveal any fresh thinking in the either import substitution or export promotion. As a part of our efforts towards self-sufficiency imports of 42 more items have been banned, in addition to banned last year and import of machineries, ferrous, drugs, etc. has been allowed on open general licence.

replenishment rate were higher than actuals for demand by 80%.[6]

Because of absence of integration between import substitution and growth strategy, import substitution has adversely affected the saving rate in Indian economy. If the total consumption expenditure is not reduced to domestically produced luxury goods, saving rate does not increase.[7] The real problem is not to extract more capital goods from foreign trade but to extract more savings out of the national income.[8]

In the case of India, a study[9] examines the growth of consumer goods industries in the context of policy of import substitution followed. The author concludes that between 1954-55 and 1963-64, policy of import substitution

---

6. Economic and Political Weekly, April 8, 1972, p. 734.

7. The World Economic Survey (1964) observes that import substitution in developing countries is "usually applied without closely geared to more general measures to raise the level of domestic savings. The consequence sometimes has been that the pressure of domestic demand on domestic output of consumer" usually applied without being closely geared to more general goods has been raised. This has often resulted in unplanned emergence of light consumer goods industries producing semi-luxury goods and substitutes for products that can no more be imported.

8. Nurkse, R. (1955). Problems of capital formation in underdeveloped countries, p. 115.

9. Desai, V.V. (1969), "Import substitution and growth of consumer industries", Economic and Political Weekly, March 15, pp. 499-504.

has resulted in (a) excessive consumption to the tune of about Rs.8000 to Rs.9000 millions, affecting the saving potential in a substantial manner, (b) diversion of investible resources to less priority and sub-optimal lines of production, (c) burdening the balance of payments with a sizeable amount of maintenance imports, and (d) creating islands of inefficiency in the production structure.

The shortcoming in our economic development can be attributed to the working of policy instruments - industrial licensing and import trade controls - due to lack of understanding on the part of planners of the implications of the basic strategy of import substitution in our plans. This is not to say that there is no place for it at all in the context of development. It is necessary to define in specific terms what are the areas wherein such production efforts have to be encouraged. To decide articles for import substitution, factor of cost, factor endowments, availability of inputs should be taken into account. Secondly, a time bound programme of adopting imported technology has to be worked out so that borrowed technology is so adopted has to be consistent with the constraints prevailing in the economy within a certain period. A fresh look towards the strategy of import substitution is needed. Inequalities in consumption should be reduced by changing the pattern of industrialisation in favour of necessaries. This means increasing the saving rate of the rich by curbing the consumption of luxury

and semi-luxury goods.

The oojectives of present import policy are more employment and economic welfare.

To provide the masses with the consumer goods at reasonaole prices, many consumer items, such as edible oils, have been imported on large scale (which became possible due to adequate reserves) and exports of some export items like sugar, tea, reduced. Import of edible oils is anti-inflationary, but it seems better to import cow 'ghee' (butter oil) from Holland, Denmark, West Germany and Switzerland, where at present its price is ruling from Rs.5 to Rs.5.50 per Kg in place of edible oils which Indians have never used before, and also for these we are paying more than 50% higher prices. Imports of cow 'ghee', on the one hand, will reduce the demand for edible oils, and thus their prices, and, on the other will, save the foreign exchange.

To generate employment emphasis has been given to laoour intensive industries which is a welcome feature. But present policy must also have to take care of those resources which are proving costly. For example, take the case of car manufactures. In the country after 30 years of effective preference this industry is not able to stand on its own feet, and also the cost of articles are also high. In spite of setting such type of industries, under import substitution, it will be better for the economy

to allow imports of these goods and use the resources for labour oriented export industries. Now in-stead of extending protection any longer, Government must allow car imports and resources steadily should be diverted (to check employment problem a complete shut down will not be useful). In some other cases, luxury goods are produced only in name, in the sense that the bulk of components are imported. Thus meaning behind import substitution should be changed and only those items should be included which have lower cost to the country in the long run.

The other drawback of the import policy is the creation of excess capacity and thus wastage of resources which result in higher cost. Many industries are not able to run to full capacity due to shortage of raw materials and foreign exchange allotted to them (though many other reasons, such as, short supply of electricity, labour unrest, are also there). In 1975, industries which were running on less than 50 per cent of their capacity were copper, fertilizers P_2-O_5 content, railway wagons and car, and below 75% were steel, steel ingots, tractors, aluminium, power transformer, heavy vehicles etc. In 1976-77, this position increased as capacity utilisation increased by some of the industries yet still there are unutilised capacity to the extent of 20% to 40%, for example copper, winding wires, railway wagons, dry batteries and transmission towers etc. In many cases excess capacity emerged due to

faulty import policy, where licences were issued despite going into the depth of detail. The new import policy in this regard is welcome in so far as it releases the imports of spare parts and raw materials for the industries, so that more capacity should be utilised.

For economic growth utilisation of capacity to the maximum extent is vital. So, there is need for a closer relationship between stocks of imported goods, amount of import licence for a period and production in previous year. It is necessary to use anticipatory bans on imports with greater efficacy to prevent newly set-up units lying idle for want of orders. Efficient implementation which is feasible as soon as consideration "on merits" is phased out.

One reason for under-utilisation of capacity in many industries is the shortage of imported raw materials which are canalised through public sector. These are mainly related to inordinate delays in getting the raw materials, irregular supplies, high prices and sometimes unsatisfactory quality. At present there is much criticism about the canalisation policy of the Government, items under which are increasing every year. Canalisation should be limited. It should be implemented in such a manner as not to hinder production and proposals in this regard are

Government should permit imports through normal channels for a period of six months from the date of

canalisation. This will enable the actual users to utilise the import licences in the pipeline for such items and also afford an opportunity to the canalising agency to gather information and experience in regard to the canalisation items.

The canalising agency should be required to place firm orders within a specific period, say, three months from date of receipts or indents by it. If it fails to do so, it should immediately upon the expiry of this period, issue a "no objection" certificate against which the import trade control authorities should permit the actual users to import their requirements direct.

If any actual user is able to furnish documentary evidence of lower prices or better deliveries than those obtained by the canalising agency he should be permitted to make direct arrangements for his import requirements.

For canalised items minimum limit value should be set and actual users should be permitted to import directly below this limit. Thus in present policy realization of canalisation items is required.

While many items such as imports of books on scientific, technical and specialised subjects, anti-cancer and life-saving drugs, watch parts, dry fruits, cloves, cinnamon etc. have been liberalised to support Government's anti-smuggling measures and for their availability to

people. At present most of the items which are smuggled seem to be consumer durables such as cameras, watches, typewriters etc. For most of them there is only one large producer as for watches in HMT, which is unable to meet the demand as wrist-watch has become an essential item for each and every one. So it will be welcome if a liberal policy towards of imports of this item is adopted. This will increase Government revenue; at the same time smuggling will be discouraged.

At present plentiful foreign exchange reserves helped the Government to release many import items. The present reserves are not, by and large, the outcome from exports. But the result of usually large volume of remittances from Indians abroad, which does not seem to be of continuing character. But Mr. L.K. Jha's is hopeful of its durable character as he says that the rising trend in our reserves is not a flash in the pan. But the question arises as to how should these reserves be utilised so that it enables the economy to be self-sufficient and also check inflation.

The growing reserves are in a large measures responsible for the revival of inflationary pressures since March 1976 as they have an expansionary effect on internal money supply. This paradox can be easily explained. Bank credit to the Government and commercial sector and external reserves have an important bearing on

money supply. A continuously growing surplus of reserves has an expansionary effect on money supply as the increase in reserves is matched by a corresponding rise in internal money supply. In order that the foreign assets have a constructive effect, they will have to be spent and not kept in reserves.

In the present context it does not look that fertilizer imports will increase in coming years as indigenous production is rapidly increasing. The Government has liberalised the import of capital goods, but these are not coming in such quantities, as was expected because of paucity of matching rupee resources. There is no point in importing capital equipment and machinery if the requisite funds for meeting the expenditure on the other components of a project like civil work are difficult to come by. The imports of components and industrial raw materials have also been liberalised, but so long as the demand recession affecting certain industries lasts, there will be very little scope for enlarging their imports.

Imports of food grains which was Rs.1300 crores in 1975-76 has been decided to be stopped except those contracted for earlier because of continuing good agricultural performance. Even so, the buffer stock of food grains went on increasing which ensures that even if drought occurs in the country next year food imports will not be necessary.

Therefore, some effective ways of spending the reserves in the immediate future is required.

Government has appointed an official committee headed by Mr. M.G. Kaul. Economic Affairs Secretary to suggest new ways (other than those of importing edible oils, cotton and such other essential items as are in short supply as well as industrial raw materials and components) by which the surplus reserves can be profitably spent.

One suggestion for utilisation of foreign exchange reserves, which surfaced at Parliament's Consultative Committee meeting addressed by Finance Minister, was to import gold in order to curb smuggling. This idea was not a new one and was also suggested by Prof. C.N. Vakil and Dr. P.R. Brahmananda in the memorandum submitted to the Prime Minister in April 1977 (popularly termed FULLMANGAL) as a means of neutralising the expansionary effect of inward remittances. To quote from the document[10]

The easiest way by means of which the economy can retain the accretion in inward remittances, but at the same time erase the monetary effect thereof would be to lift the ban on gold imports. Historically, gold imports have been a convenient way by means of which the Indian

---

10. Southern Economist, November 1977, p. 4.

economy has utilised its export surplus with nil effects on the monetary process. In fact, India had made itself immune to the effects of international inflation by the propensity of its citizens (to the dismay of western economist!) to use a proportion of the export surplus for the imports of non-monetary gold. Along with some of the measures which have been outlined earlier, the authorities may also experiment by way of lifting the ban on imports of gold. In fact, such imports can be arranged through a consortium of gold-bullion traders with public participation.

We may further make it convenient, particularly for the rural sector of the economy, to obtain loans on the collateral of gold. Thus we would have achieved two goals with the same measure; we would have insulated ourselves from the impact of international inflation and, secondly, we would have provided enormous opportunities for the expansion of rural banking operations. While the logic of such a proposal can't be questioned, yet a close scrutiny into the matter is required. Whether gold import should be allowed or not is a matter of its cost and benefit that will come to the economy. If the benefits are higher than the costs it will be useful to allow gold imports.

Benefits of Gold Imports

(1) Gold imports will prove disinflationary. When the Government will sell the gold in the open market it will

encourage the people (due to their crazy love of gold) to buy, and public will part with the money. Thus it will reduce the purchasing power in the hands of the people.

(2) To some extent import of gold will reduce gold smuggling.

(3) In case of war or economic distress (bad harvests etc.) we can fall back to this gold for buying essential goods without having to borrow from foreign countries, specially there is risk also at time of emergency loans either may not be available or will be available at a high rate of interest.

(4) The value of gold is stable and is expected to increase in future; but the value of all the foreign money is not stable. Foreign currencies can be depreciated or can be revalued and thus the import of gold from these reserves will keep the purchasing power intact preventing from being watered down by inflation or other economic distress.

(5) Import of gold is also justifiable from revenue point of view. The gold import may be canalised through the STC which can make profits arising from the difference in prices of gold abroad and in India.

But import of this kind is not without cost.

The points against the import of gold are, namely,

(1) That it is not an essential item for the country and demand for gold in India is limitless, and it is unrealistic to expect that it will stop smuggling.

(2) If import will take place and will be sold in the open market, then it will affect the saving rate thus capital formation. It is expected that capital will be blocked in gold instead of productive investment. Thus shortage of investment will occur.

Another point is the loss of foreign exchange. But this cost will be less important at the present juncture because of plentiful foreign exchange; or in any case of shortage, gold will remain in the country and it can be recovered from the people at the time of emergency.

To counteract the lack of capital for investment the Government can reduce taxes to the extent that it gets revenue from the sale of gold and thereby leave more money in the hands of the industries to be reinvested.

To conclude, it seems from above discussion that gold imports should be allowed at the present juncture and its purchases and sales should be done through STC only.

Another way of profitably spending the reserves is the acquisition of at least two million tons of ships, so that the unbearable outgo of foreign exchange on this account is minimised. Besides, our short term and medium

terms debts should be liquidated, so that debt servicing burden on our balance of payments is reduced. Priority should be given to the import of equipment and spares of machinery that is required for increasing agricultural productivity in drought prone areas. Further Government should permit generous cash participation by Indian entrepreneurs in the equity capital of joint ventures abroad. The Government has had in a few cases, departed from the practice of allowing participation only in the form of capital equipment. However, this case by case approach will not go very far in preventing the failure of joint ventures which, needless to say, has been quite considerable. As many as a 100 ventures out of over 220 sanctioned by the Government have fallen by the way side.[11] The allowance of cash assistance in this form will help in consuming the foreign exchange reserves in an anti-inflationary way.

Godowns should be made in the rural sector, to keep the buffer stock of the agricultural crops in a good harvest, with the help of better imported technical know-how. This will help in two ways. Directly at this juncture demand for building equipment will increase which will help to recover the economy from recent recession. In the long run, more quantity of crops will be saved which will help at the times of lean periods which are frequent phenomena of agriculture in India.

---

11. Commerce, October 8, 1977. P.692

If the surplus foreign exchange will be used in a manner suggested above, it will make Indian society more self-reliant and eliminate, or at least reduce, the distributive injustice caused by inflation.

There are a number of causes which explain the need of imports. In the initial stage of development we could do with a rough and ready policy of import reduction by cutting out the import of any item when even a poor substitute was produced within the country Upto a point, reduction in the absolute volume of imports saves us from facing the difficult task of raising exports. But this policy would no longer serve our needs.

As is well known, manufactured consimer goods have been cut out from India's import list for several years. Another important item on the import list has been food grains. Though import on this account has also been brought down sharply in recent years Rs.1342.7 crores in 1975-76 to Rs.878.5 crores in 1976-77. With a record crop of food grains, it would not be difficult for the Government to achieve its objective of stopping all food imports in the coming years. But in the long run, we may have to go for imports, because agriculture till now depends on uncontrollable natural forces. Much of our imports are confined to the hard core items such as crude oil, sulphur, rock phosphate, non-ferrous metals and capital equipment. Imports of these items are at the minimum possible levels and at least in the immediate future

there is no possibility of reducing imports at a substantial level. Of course, the composition of these items would change. With the production of some type of capital equipment at home, it may be possible to cut out its imports. But at the same time, some different type of capital equipment would have certainly have to be imported; this would be required partly to meet the demands of the increasing diversification and sophistication of our economy and partly to keep abreast of the new technological developments abroad. The same thing holds true for industrial raw materials. As one item goes out of the import list, perhaps two more will have to be added. Thus an item-by-item examination of the commodity composition of our imports leaves no doubt that, as our economic development picks up greater momentum in the coming years, the import bill is bound to increase.

Further it is possible that in some cases a sharp income effect on the demand side within the country may cause domestic consumption to increase (as propensity to consume in India is higher). The increase in demand indirectly increased the demand for raw material used in producing those consumer goods. If the domestic supply is insufficient or the raw material used was an imported one then import may also go up.

From the above discussion it is concluded that the stage has not yet reached where it is necessary to curtail the imports of essential raw materials and capital goods.

As Chenery has argued that development process in developing countries is limited not only by savings but also by lack of availability of imports.[12]

++++++++++

12. Chenery, H.B. and Strout, A.M. (1966), "Foreign Assistance and Economic Development", American Economic Review, Sptember, p. 681.

APPENDIX

APPENDIX

AN APPRAISAL OF ALEXANDER COMMITTEE REPORT

P.C. Alexander Committee's report came at a time when our work was almost complete. The summary of the suggestions given by this committee are given below.

Regarding import policy for raw materials, spare parts and components for industrial uses, the committee has recommended that there should be only three categories of items (a) those which are restricted, (b) those which are banned, and (c) free. Licences should be issued only for items listed in restricted category but there will be no item-wise restrictions.

Items which are not listed as restricted or banned would be permitted for free imports by industrial users without the formality of a licence. So far the policy was that any item which was not specifically indicated in the import policy book, was assumed to be banned. The change now being recommended is that for items which are not listed, import will be permitted under open general licence.

Further the committee has suggested that items permitted under open general licence need not carry an "actual user" condition. However, in order to minimise the risks the "actual users" condition, as currently in

force, may continue for one year more.

Regarding established importers it has been recommended that import licensing should be dispensed with.

The committee has suggested that a selected list of books and shapres may be put on open general licences, and the 'actual users' condition would, of course, not apply to such items. Imports should be provided for purpose of "stock and sale".

To promote export efforts, the committee has suggested that cash assistance is necessary and should be based upon three principles: compensation for indirect taxes in the production cost which are not refunded through the duty drawback system, compensation for freight differentials and differentials in other costs, and for providing initial promotional expenditure for new products and in developing new markets. The new cash assistance rates based on these criteria should be worked out and brought into effect from 1979-80.

Public sector canalising agencies may be exempted from licensing procedures for import of canalised items, and requirement of issue or release orders to actual users for canalised items should be abolished.

The committee has recommended that export houses may be given suitable facilities. They should get their usual REP benefits on their own exports. Further export

houses should be given additional import licences of the value of one third of the f.o.b. value of exports of the select products manufactured by small scale and cottage industries and 5 per cent of the f.o.b. value of exports of select products manufactured by other units, with the provision that such licences would be valid for restricted items with Rs.2,00,000 in value as a ceiling for each item.

Recognising the importance of cash assistance for the supply of imported inputs at competitive prices to small scale sector, the committee has recommended a number of special measures.

In respect of canalised items the state small scale corporations could be permitted to assemble the orders on behalf of the various small scale units and avail of the delivery on high seas and thereby avoid payment of sales tax.

The pricing policy of the canalising agencies should be such that the delivered cost of canalised materials to small industries are not higher than those for large units.

For non-canalised items small scale units could place their indents on state small scale corporations which in turn may arrange the import of these inputs on their behalf, notwithstanding the attachment of 'Actual Users' condition on the Open General Licences items.

The committee has also recommended that the designation of Chief Controller of Imports and Exports should be changed to Director General of Foreign Trade.

With a view to bringing about greater co-ordination between the licensing system and the customs procedures, the committee has recommended that the joint weekly meeting that takes place at present should be given a formal status with full authority for deciding the relevant issues. This should assist the importers and exporters by minimising the delays.

The committee has further recommended for a separate cadre of commercial representatives to be established. Recruitment for the cadre should be made from personnel belonging to all-India and central services, experienced commercial personnel of public sector organisations, export service organisations such as Indian Institute of Foreign Trade (IIFT), Trade and Development Association (TDA). The commercial representatives should be given thorough training on marketing procedures and techniques of conducting market surveys.

The major recommendation made by the committee is, that in place of the present annual import-export policy announcement, the Government should switch over to a three-year policy system, which will ensure better export planning.

Comments and suggestions

The committee has made useful recommendations for simplification of procedure, and continuing process of liberalisation, to sustain export efforts. The objective of limited canalisation, it is hoped, will help bring down prices of essential raw materials and consumer goods in the efforts to contain inflation and assist the industrial sector to utilise their production capacity fully.

In regard to registered exporters and export houses, the committee has introduced certain innovations and it is hoped that the exporting community will get all the necessary facilities to counter the handicaps which they have been facing in the past to make their products competitive in overseas markets.

The committee's recommendation divide imports into three categories - banned, restricted and free - and require the stipulation of banned and restricted items against the current practice of leaving out banned items from policy announcements. It is an open question what items are sought to be brought under each category. But this recommendation will curb malpractices in administration of import control and liberalisation will promote production.

The committee has recommended that from 1979-80 cash assistance should compensate indirect taxes in production costs, freight differentials and differentials

in other cost as well as provide for promotional expenses for new products and for developing new markets. Since the committee on indirect taxation has already recommended the lowering on such taxes on inputs, the thrust of the CIE recommendation would be seen to lie in compensation for other costs. The assumption here seems to be that Indian industry would continue to be nursed in a hothouse and that our development programmes would not result in a reduction in costs from improved utilisation of capacity or from economies of scale. Would not an indiscriminate subsidy policy tend to maintain the weakness of Indian industry and is it not also implied that the domestic market would be used to support the cost plus basis of pricing? The subsidy policy should clearly distinguish between commodities subject to international price fluctuations and products of modern industry with their administered prices.

Further, the recommendation to rename the organisation of the Chief Controller of Imports and Exports and its redesignation as 'Director General of Foreign Trade' cannot by themselves mean much unless the organisation plays a dynamic role as one totally devoted to export promotion and export production.

The three year import export policy system though ensures better export planning than the present one year basis; yet it would certainly be more desirable to have

import export policy on a five year basis in consonance with our new policy of rolling Five Year Plans. The new system of rolling plans would make it more feasible to attempt exercises in five yearly import export policies on a rolling basis, i.e., taking the available information as to the latest position of annual harvests to review and recast the next five years plan.

++++++++++

BIBLIOGRAPHY

BIBLIOGRAPHY

Achary, S.N. and Hazari, B.R. (1971), "Linkage and Imports", The Journal of Development Studies, October, pp. 107-115.

Aggarwal, R. (1970), An Econometric Model by India 1946-61, Frank Cass and Company Ltd.

Ahluwalia, I.J. and Hernandez-Cata (1975), "AnEconometric Model of U.S. Merchandise Imports under Fixed and Fluctuating Exchange Rates, 1959-73", IMF Staff Papers, Volume XXII, pp. 791-821.

Ahmed, J. (1968), "Import Substitution and Structural Change in Indian Manufacturing Industries 1950-66", Journal of Development Studies, April, pp. 352-379.

Ambegaokar, N. (1974), "India's Trade with East European Countries - Trends and Problems", Reserve Bank of India Bulletin, March, pp. 418-467.

Amuzegar, J. (1960), "Foreign Trade and the Negative Trade Effects in Underdeveloped Countries", The Indian Economic Journal, October, pp. 105-115.

Avadhani, V.A. (1976), "Imports and Capital Formation in the Less Developed Countries", The Indian Economic Journal, July-September, pp. 80-90.

Balasubramanian, V. (1973), "India in World Trade", Foreign Trade Review, January-March, pp. 374-380.

Baldwin, Robert E. (1971), "Determinants of Commodity Structure of U.S. Trade", American Economic Review, March, pp. 126-146.

Bali, K.J. (1962), "Capital Imports and Economic Development : Paradoxy or Orthodoxy?", Kyklos, Volume 15, pp. 610-623.

Behari, Bepin (1965), Imports in a Developing Economy, Vora and Company Publishers Pvt. Ltd.

Bhagat, A. and Onitsuka, Yusuke (1974), "Export Import Responses to Devaluation, Experience of non-industrial Countries in the 1960's," IMF Staff Papers, Vol. XXI, pp. 414-462.

Bhagwati, J. (1962), "India's Balance of Payments Policy and Exchange Questions", Oxford Economic Papers, February, pp. 51-68.

Bhagwati, J.N. and Desai, P. (1972), India : Planning for Industrialisation and Trade Policies since 1956, Oxford University Press, London.

Bhagwati, J. (1974), Illegal Transactions and International Trade : Theory and Measurement", North-Holland Publishing Co., Amsterdam.

Bhagwati, J.N. and Srinivasan, T.N. (1975), Foreign Trade Regimes and Economic Development, National Bureau of Economic Research, New York.

Bharadwaj, R. (1962), "Factor Proportions and the Structure of Indo-U.S. Trade", The Indian Economic Journal, October, pp. 105-116.

Bruton, H.J. (1968), "Import Substitution and Productivity Growth", Journal of Development Study, April, pp. 306-326.

Cairncross, A.N. (1964), Factors in Economic Development, George Allen and Unwin Ltd., London.

Charles, K.P. (1975), "The Energy Crisis - Reality or Hoax?", Economic Affairs, January.February, pp. 9-16.

Chenery, H.B. (1960), "Patterns of Industrial Growth", American Economic Review, September, pp. 624-654.

Chenery, H.B. and Strout, A.M. (1966), "Foreign Assistance and Economic Development", American Economic Review, Vol. 56, No. 4, pp. 679-733.

Chisti, Dr (Mrs) Sumitra (1969), "Import-Possibilities for India under Rupee Payment Agreement", Foreign Trade Review, July-September, pp. 179-198.

Chisti, S. (1974), India's Terms of Trade : 1930-68, Orient Longman Ltd.

Clark, P.B. (1970), Planning Import Substitution, North-Holland Publishing Company, Amsterdam.

Cohen, B.I. (1964), "The Stagnation of Indian Exports, 1951-61", The Quarterly Journal of Economics, November, pp. 604-620.

Da Costa, G.C. (1965), "Elasticities of Demand for Indian Exports - An Empirical Investigation", The Indian Economic Journal, July-September, pp. 41-54.

Dagli, V. (1969), Two Decades of Indo-U.S. Relations, Vora and Co. Publishers Pvt. Ltd., Bombay.

Dagli, V. (1971), Indo-Soviet Economic Relations, Vora and Company Publishers Pvt. Ltd., Bombay.

Dagli, V. (1973), India's Foreign Trade, Vora and Company Publishers Pvt. Ltd., Bombay.

Deb, K. (1976), Export Strategy in India - since Independence, S. Chand and Company Ltd., New Delhi.

Desai, V.V. (1969), Import Substitution and Growth of Consumer Industries", Economic and Political Weekly, March 15, pp. 499-504.

Desai, V.V. (1970), "Dim Light on Import Substitution", Economic and Political Weekly, March 21, pp. 518-519.

Desai, V.V. (1971), "Pursuit of Self-sufficiency - A Critique of the First Three Plans", Economic and Political Weekly, May 1, pp. 913-917.

Desai, P. (1970), Tariff Protection and Industrialisation, Hindustan Publishing Corporation (India), Delhi.

Desai, P. (1972), Import Substitution in Indian Economy 1951-1963, Hindustan Publishing Corporation (India), New Delhi.

Dorninguez, L.M. (1970), "Economic Growth and Import Requirements", The Journal of Development Studies, April, pp. 283-299.

Economic and Scientific Research Foundation, New Delhi (1966), Structure of Indian Imports . 1957-1964.

Emery, R.F. (1967), "The Relation of Exports to Economic Growth", Kyklos, Vol. 20, pp. 470- 484.

Ghosh, Dr A.K. (1970), "Export - Trends and Import Substitution vis-a-vis India's Economic Growth", Foreign Trade Review, April-June, pp. 8-21.

Grubel, H.C. (1977), International Economics, Richard D. Irwin, Inc., Ontario.

Gurtoo, Dr D.N. (1961), India's Balance of Payments : 1920-1960, Ph.D. Thesis.

Gurtoo, Dr D.N. (1968), Industrial Recession - Causes and Cures", AICC Economic Review, March 15, pp. 20-25 and April 1, pp. 13-16.

Halder, A. and Richards, J.H. (1973), "Structural Characteristics of India's Foreign Trade and its Effects on the Instability of Exports Receipts", The Indian Economic Journal, October-December, pp. 132-146.

Halder, Animesh (1976), India's Export Pattern, Minerva Associates (Publications) Ovt. Ltd.

Haring, J.E. and Humphery, J.F. (1964), "Simple Models of Trade Expansion", Western Economic Journal, Spring.

Helleiner, G.K. (1972), International Trade and Economic Development, Penguin Books.

Hazari, B.R. (1970), "Empirical Identification of Key Sectors in the Indian Economy", Review of Economics and Statistics, Vol. LII, No. 2, pp. 301-305.

Hemphill, W.L. (1974), "The Effects of Foreign Exchange Receipts on Imports of Less Developed Countries", IMF Staff Papers, Volume XXI, pp. 637-677.

Hirchman, A.O. (1958), The Strategy of Economic Development, Yale University Press, New Haven.

Holzman, Franklyn D. (1969), "The Rouble Exchange Rate and Soviet Foreign Trade Pricing Policies, 1921-1961", American Economic Review, September, pp. 803-825.

Honovar, R.M. (1970), "Tied Aid and Industrial Growth", Indian Economic Journal, July-September, pp. 47-60.

"Import Substitution and its Impact", A Review by Director General of Technical Development for 1960-67 - Govt. of India - Ministry of Industrial Development - 1969.

India and World Trade (1977), The Economic Times, Annual.

Indian Institute of Foreign Trade (1972), Trading with the World - A Country Profiles.

Indian Investment Centre (1976), Industrial Licensing and Foreign Collaboration.

Johnson, H.G. (1967), Economic Policies Towards Less Developed Countries, The Brooking Institution, Washington, D.C.

Katz, S.S. (1968), External Assistance and Indian Economic Growth, Asia Publishing House, Bombay.

Khan, A.R. (1968), "Import Substitution, Export Expansion and Consumption Liberalisation", The Pakistan Development Review, Summer.

Khan, M.S. (1974), "Import and Export Demand in Developing Countries", IMF Staff Papers, Volume XXI, pp. 678-693.

Kindleoerger, C.P. (1958), Economic Development, McGraw-Hill, New York.

Kindleberger, C.P. (1962), Foreign Trade and National Economy, Columbia University Press.

Kodli, M.C. (1976), "India's Oil Imports, Implication for Balance of Payments", Southern Economist, June 15, pp. 11-12.

Kothari, M.M. (1975), "A Note on Rupee-Rouble Controversy", Economic Affairs, May, pp. 217-221.

Kravis, I.B. (1970), "Trade as a Hand-maiden of Growth - Similarities between Nineteenth and Twentieth Century", Economic Journal, December, pp. 850-872.

Krenin, M. (1975), International Economics, A Policy Approach, Harcourt Brace Jovanovich, Inc., New York.

Lakdawala, D.T. (1964), "Aspects of Trade Policy in India", The Indian Economic Journal, October-December, pp. 89-110.

Lakshmanan, M.S. (1974), Economic Development in India, Hindustan Publishing Corporation (India), Delhi.

Lewis, S.R. (1970), Pakistan : Industrialisation and Trade Policies, Development Centre, OECD, Oxford University Press.

Little, I., Scitovosky, T. and Scott, M. (1970), Industry and Trade in Some Developing Countries, OECD, Oxford University Press.

Machlup, F. (1972), The Alignment of Foreign Exchange Rates, Pall Mall Press, London.

Madan, B.K. (1964), Aspects of Economic Development and Policy, Allied Publishers Private Limited.

Majumdar, A.G. (1972), The Indian Engineering Industry - Trends and Prospects, Economic and Scientific Research Foundation, New Delhi.

Malenbaum, Dr Wilfred (1971), "Foreign Trade in India's Development", Foreign Trade Review, January-March, pp. 426-437.

Marwah, K. (1972), "An Econometric Model of India : Estimating Prices, Their Role and Sources of Change", Indian Economic Review, April, pp. 53-91.

Meade, J. (1951), The Theory of International Economic Policy, Vol. I, Oxford University Press.

Meade, J.E. (1955), Trade and Welfare, Oxford University Press, London.

Minocha, A.C. (1972), "Import Substitution as a Strategy of Industrialisation in Developing Countries to Reduce Dependence on External Assistance", Indian Economic Association, December, pp. 32-39.

Mukherji, I.N. (1972), "Bangla-Desh Pattern of Foreign Trade 1960-70", Foreign Trade Review, July-September, pp. 115-134.

Murti, V.N. and Sastry, V.K. (1951), "Elasticities of Demand for Certain Indian Imports and Exports", Sankhya, December, pp. 309-331.

Myrdal, G. (1968), Asian Drama, Vol. II, Penguin Books.

Narasimha, N. (1956), A Short-Term Planning Model for India, North-Holland Publishing Company, Amsterdam.

Narayana, N. (1973), "Changing Pattern of Indian Industries in Plan Period 1950-70", Economic Affairs, July, pp. 338-346.

National Council of Applied Economic Research, New Delhi (1974), Maintenance Imports.

Nurkse, R. (1953), Problems of Capital Formation in Under-developed Countries, Oxford University Press, New York.

Nurkse, R. (1961), Equilibrium and Growth in World Economy, Harvard University Press, Cambridge.

Packard, P.C. (1967), "A Case Study of the Feasibility of Import Substitution in Nigeria (Shoe Industry)", Journal of Industrial Economics, November, pp. 63-72.

Panchmukhi, V.R. (1967), "Planning for Import Substitution - Some Methodological and Empirical Results", Artha Vijanana, September-October, pp. 466-501.

Panchmukhi, V.R. (1969), "Import Dependence and Productive Efficiency", Economic and Political Weekly, Special No. (January), pp. 77-86.

Patel, I.G. (1964), "Trade Policy for a Developing Economy" - in International Trade Theory in a Developing World - edited by Roy Harrod and D. Hague, pp. 305-331.

Patel, S.K. (1976), "Relative Prices in Indian Import Function", The Indian Economic Journal, April-June, pp. 380-386.

Perez-Guerrero, Manuel (1972), "International Trade and the Challenge of Growth of Developing Countries", Foreign Trade Review, January-March, pp. 363-370.

Pfouts and Spangler (1965), Effects of Import Substitution on Increased Utilisation of Industrial Capacity : Economic Problems and Benefits, AID, New Delhi (Mimo).

Prasad, Dr D.N. (1972), External Resources in Economic Development of India, Sterling Publishers (P) Ltd., New Delhi.

Rani, G. (1964), "Trade, Aid and What?", Kyklos, Vol. 17, pp. 178-195.

Rao, V.K.R.V. and Narain, D. (1963), Foreign Aid and India's Economic Development, Asia Publishing House, Bombay.

Reserve Bank of India (1963), India's Balance of Payment 1948-49 to 1961-62, Bombay.

Rostow, W.W. (1950), "The Take-off into Self-sustained Growth', Economic Journal, Vol. 66, pp. 25-48.

Sachs, Ignach (1965), Foreign Trade and Economic Development of Underdeveloped Countries, Asia Publishing House, Bombay.

Salvi, P.G. (1964), New Directions in India's Trade Policy, Vora and Co. Publishers Pvt. Ltd., Bombay.

Shah, N. (1973), "India's Foreign Trade; 1949-1971" in India's Foreign Trade edited by Vadilal Dagli, pp. 1-15.

Sharma, O.P. (1975), "Foreign Trade and Relative Prices in an Export Substituting Economy", Indian Economic Journal, January-March, pp. 201-214.

Shenoy, B.R. (1963), Indian Planning and Economic Development, London : Asia Publishing House.

Shouri, A. (1973), "Why Not Let the Hounds Run?", Economic and Political Weekly, August, pp. 1467-1488.

Singer, H.W. (1964), International Development : Growth and Change, McGraw-Hill, New York.

Singh, A.K. (1973), Impact of American Aid on Indian Economy, Vora and Co. Publishers Pvt. Ltd., Bombay.

Singh, M.P. (1977), "Foreign Trade and Economic Development", Southern Economist, March 1, pp. 63-65.

Singnand, C.D. and Sing, Y.P. (1977), "Black Money and its Impact on the Economy", Southern Economist, March 1, pp. 9-10

Soligo, Ronald and Stem, J.J. (1965), "Tariff Protection, Import Substitution and Investment Efficiency", The Pakistan Development Review, Vol. V, Summer, pp. 249-270.

Stern, R.M. (1973), The Balance of Payments - Theory and Economic Policy, The Macmillan Press Ltd., London.

Subramaniam, K.K. (1972), Import of Capital and Technology - A Study of Foreign Collaboration in Indian Industry. Peoples Publishing House, New Delhi.

Subramaniam, S. (1969), "Tariffs and Import Control Before and After Devaluation", Foreign Trade Review, April-June, pp. 39-45.

Syron, R.F. and Walsh, B.M. (1968), "The Relation of Exports and Economic Growth - a Note", Kyklos, pp. 541-545.

Taneja, S.K. (1976), India and International Monetary Management, Sterling Publishers Pvt. Ltd.

Thanawala, K.H. (1967), Statistics Relating to India's Foreign Trade 1948-49 to 1959-60, Popular Prakashan, Bombay.

The Indian Institute of Foreign Trade (1966), India's Trade with East Europe.

Tinoergen, J. (1964), Economic Policy - Principles and Design, North-Holland Publishing Company, London.

Triffin, R. (1961), Gold and the Dollar Crisis, Yale University Press, New Haven.

Upadhyaya, K.K. (1976), "Suitability of Certain Planning Models in Determining Imports in Developing Country", Southern Economist, December 15,pp. 7-8

Upadhyaya, K.S. (1976), "Import Substitution Self-reliance and India's Industrial Policy", Indian Economic Journal, Conference No. 5, pp. 257-258.

Venkatraman, N. (1972), "Under-utilisation of Industrial Capacity-Margin", Quarterly Journal of NCAER, New Delhi, January, pp. 85-91.

Venkataraman, B. (1977), "Trade with Eastern Europe", United Commercial Bank Review, July-September, pp. 15-26.

Verghese, S.K. (1976), Foreign Exchange and Financing of Foreign Trade, Vikas Publishing House Pvt. Ltd.

Wadhva, C.D. (1974), "Elasticities of demand for India's exports and imports and the question of the devaluation of the Indian Rupee", Foreign Trade Review, Nauary-March, pp. 204-277.

Wali, B.M. (1968), "Capacity Utilisation and Economic Growth", The Indian Journal of Commerce, September, pp. 1-18.

xxxxxxxxxx