CHAPTER I
INTRODUCTION

This brief introductory chapter presents the importance, scope and method of the study and also discusses the main theme underlying the study.

1.1 Background

Import of numerous products of Machinery and Transport Equipment normally referred to as "capital goods" became the keystone in the development strategy of most of the economies in the Third World including India. During the post-Second World War period the developing economies facing structural problems in foreign trade have chosen the path of development through 'Industrialization for home market' as against export-led growth. The strategy of introduction of new technology in the import sector enables the economy to retain the benefit of growth with itself which otherwise would have been exported to developed economies. The long run tendency of terms of trade to go against the developing economies which are mainly primary producers in the present international market leaves them with no choice but to restrict the volume of imports. The economy thereby becomes less susceptible to the vicissitudes of international market.
In setting priorities for import-substitution or in selecting the field or specific project, a number of factors are to be taken into account such as the stage of development, structure of the economy, size of the market and importance of the production about to be started to the national economy. However, by and large, the strategy of industrialisation through import substitution proceeds through certain specific stages. In the first stage there is a shift away from imports of manufactured goods in favour of capital goods. As an example, import of Textile machinery to manufacture textile goods which were imported earlier, would illustrate the point. The expansion of producer-goods industries and particularly those of machine industries offers the largest scope in the next stage. In the above example the domestic production of textile machinery would replace import of textile machinery. This does not mean the economy has built the industry from its basis. At this point the economy would be still dependent on the world market for the import of higher order equipment, such as Machinery producing Textile machinery, key spares, components etc. A full production cycle cannot be envisaged at this juncture. The implantation of producer goods is started by constructing assembly line plants without completing the full production cycle. The scope for import substitution gets limited as the economy moves to the higher stages. The most important factor which
restricts the scope is the 'limited size of domestic market'. Requirement of sophisticated capital equipment and technical know-how is another limiting factor. At this level it is possible to take the benefit of international divisions of labour and large scale production by resorting to import of such items rather than to go in for domestic production. A saturation point is likely to be reached at this stage when further import substitution (vertical) is not possible.

1.2 The Present Work and Its Purpose

In order to solve the most pressing problem of economic development Indian planners selected the path of 'industrialization with particular expansion of key and heavy industries'. Such a strategy involved the adoption of the advanced technology which is capital intensive in character. Since the domestic availability of capital goods then was very meagre, a larger proportion of it was secured through imports. Import capacity, therefore, became a crucial factor in the determination of the pace and nature of development. Increased imports can be financed through increased exports, reduction in foreign exchange reserves, or by foreign aid and loan.

Before the launching of her five-year plans, India had already attained a fair stage of industrialization. She had developed consumer goods industries like textile,
sugar, soap and matches. Thus the programme of industrial
development after independence, did not begin from the
initial stage, rather it was a continuation of the process
already began. Nevertheless in the process, the industrial
complex radically changed. There was a shift in the
emphasis from consumer goods industries to those of capital
goods. During the course of planned development, the tempo
of industrialization was accelerated; the importance of
capital goods increased especially since 1955. The Second
Plan assigned a crucial role to industrial expansion with
special emphasis on heavy industries. The strategy of
industrialization leading to larger imports of "Capital
Goods" was designed to reduce economic dependence in the
long run.

The Machinery and Transport industry covers a large
number of heterogeneous, but closely inter-connected group
of industries. It is primarily a metal using industry.
The main function of the industry is to process the
products of iron and steel and non-ferrous metal industries
and assemble the processed parts into final products. This
industry plays a key role in the economic development
because, in the form of metal products, machinery and
transport equipment, it makes an appreciable contribution
towards gross fixed capital formation. It helps in the
generation of new production capacities that are required
for the growth of national income. As the supplier of capital equipment, it plays a crucial role in the industrial development of the economy. When the economy produces its own means of production it is able to protect to some extent its overall rate of growth against business-cycle fluctuations abroad. The process affects the structure of imports. In fact, imports occupy such a key position that a two way relation between imports and economic development each influencing the other is observed.

Indian experience since 1951 in economic development has demonstrated the vital role of imports planning. In this study, we proposed to analyse the trends in imports of "Machinery and Transport Equipment" during the past twenty years, especially since 1960-61, and assess import-substitution that has taken place in this field. The study does not claim to have made a theoretical contribution to the various aspects of import substitution. It makes a modest attempt to verify empirically the behaviour of imports of Machinery and Transport Equipment in relation to domestic production and requirements.

1.3 Outline of the Subsequent Chapters

The layout of the Thesis is presented as in the following:

The First introductory Chapter is followed by
Chapter II, entitled "India’s Foreign Trade Statistics". It gives an account of the salient features of the foreign trade statistics in India.

Chapter III describing 'Import Control Policy' is mainly historical in nature, presenting broad features of Import Control Policy and its evolution since independence.

Chapter IV offers description of behaviour of imports since 1950-51. It reviews the main trends in Indian imports indicating changes in their magnitude and composition. The general economic factors causing these changes are discussed.

Chapter V deals with imports of Machinery and Transport Equipment during the period 1960-61 to 1970-71 in detail. A comparable time series of imports at constant prices is the first requirement for any kind of study of trends in imports. This chapter is divided into two parts. The first part deals with the method and problems arising in the construction of time series data of imports. The second part attempts to analyse trends in the imports of various groups of Machinery and Transport Equipment with a view to examine whether these trends in imports are in accordance with the trends in Import Control Policy.

Chapter VI attempts to study the growth of the Machinery and Transport Industry during the period 1960-61 to 1970-71.
Chapter VII giving 'Import Substitution in different industries under Machinery and Transport Equipment' during the period of ten years, 1960-61 to 1970-71, attempts to identify import substitution in various groups of industries producing Machinery and Transport Equipment. It requires a comparable set of data on production and imports at constant prices for each of the industry. The first section discusses the different measures used in this context. The second section deals with the method of construction of comparable series of data. The results are presented in the last section.

Chapter VIII summarises the results and offers concluding remarks on the limitation of the study.