CHAPTER SIX

EXTERNAL ASSISTANCE, IMPORT CONTROL AND SELF-SUSTAINED GROWTH OF INDIA

I. IMPORT CONTROL AND ECONOMIC DEVELOPMENT

Import control is a major plank of economic policy for the LDCs to lay down the foundations for a self-sustained growth. A number of economists have stressed upon import restriction and substitution of home goods for imports as a significant growth strategy in the process of planning. It may, however, be mentioned that import control and import-substitution are not one and the same thing. A country might restrict its import trade without resort to the establishment of import-competing industries at home and in such a case the path to self-sustained growth would rely more on export promotion than on import-substitution.

Import control policies in a developing country have a host of objectives, of which the import-substitution is an important one from the point of
view of self-generating growth. Such objectives are:

1. To reduce imports to the bare minimum by eliminating the import of inessential luxury consumption;

ii. To balance the external payments by reducing the pressure on the demand for foreign exchange;

iii. To alter the structure and composition of imports from a relative preponderance of consumer goods to capital goods;

iv. To promote domestic savings and capital formation;

v. To raise the level of domestic investment;

vi. Switching away home demand from foreign goods to domestic import-competing goods and thereby to promote industrialization.

This is known as the import-substitution objective of import control policy.

vii. To ensure an optimum use of scarce foreign exchange resources for the purpose of planned economic development; and

vii. To enable the government to have a control over organized industries in the private sector in a mixed economy, where it can determine both the level as well as the pattern of private investment.

All these objectives of import restriction policy may be broadly classified into two types, viz., the balance of payments objectives and the objective of growth. The first two objectives aim at balance of payments equilibrium and all the rest have a development character. These two types of objectives are not, however, mutually exclusive. Instead, all the policy objectives are contributive to a quick realization of the conditions for a self-sustained growth. The short-term balance of payments purpose of import control policy helps in the furtherance of the objective of

import-substitution, industrialization and growth in the long-run. In spite of the existing complementarity between them, one cannot, however, lose sight of the fact that the development bias of import control policy may come into conflict with the balance of payments objective in the short run in the sense of the "minimum import" needs of development plan. It is only the right type of priorities in the plan, right type of import-substitution policies and the right quantum of external assistance flow which will help in resolving this conflict and pave the way for a self-reliant economy.

It is not the purpose of this thesis to examine the fact whether a protectionist commercial policy or a free-trade policy would provide a more efficient and optimum development path for a developing country like India. Instead, it is assumed here that a restrictive commercial policy is a matter of economic necessity for the 1930s. As such, this chapter has two purposes:

(i) Firstly, to examine such commercial policies as

2. This controversy has been thrashed out clearly in detail in the works of the following authors: Myrdal, Heifer, Burke and Johnson, op. cit.
have been pursued by India during the plan period in the context of India's balance of payments and (ii) Secondly, the extent to which external assistance helps building up the import-competing industries at home so as to pave the way for a self-reliant growth.

Those who advocate protectionism as a means to economic development of the LDCs are aware of the limitations of such measures. When import control and import-substitution policies are carried to an extreme, they invariably result in more costly domestic production and thereby accentuate the inflationary pressure in a developing economy arising out of scarcity conditions, controls and relatively heavy doses of deficit financing. Given the exchange rate, domestic inflation will have a tendency to depress exports, stimulate imports and thereby worsen the balance of payments. This coupled with the fact of "minimum import" needs of import-substitution policy in a plan increases the pressure on external payments position, unless it is offset by the inflow of required

magnitude of external assistance. This is how a vigorous import-substitution policy could be maintained in a plan through an adequate supply of external assistance in the initial stage of economic development. A programme of import-substitution includes not merely the home production of increasing number of import-competing goods but also the replacement of increasing import of capital goods in place of consumer goods. Foreign aid thus serves the dual purpose of filling up the external payments gap as well as providing the necessary infrastructural for a successful implementation of import-substitution programmes by making available the scarce foreign exchange. Such import control policies in order to be successful, however, be supported by appropriate monetary-fiscal policies or else they would be self-defeating.

II. AN ANALYSIS OF INDIA’S BALANCE OF PAYMENTS


A detailed study of the structure and content of India’s balance of payments between 1951-52 and 1968-69 is necessary to appreciate the nature of commercial policies that India pursued during the plan.
period and their role in promoting the objective of self-reliance. India's balance of payments and the accompanying commercial policies have to be judged in the context of a long-term perspective of economic development. The balance of payments of India between 1961-62 and 1968-69 mirrors the structural changes in the economy arising out of planned economic development and the latter is determined by the very character of the development process and the type of strategy followed in the plan. As such, the problem in India's balance of payments during this period remains largely structural. The supply as well as the demand side of India's external balance sheet during this period have been subjected to sweeping changes both in terms of quantum and character. In general, India's needs for foreign exchange arising out of her increasing demand for developmental as well as maintenance imports, food imports and the debt service obligations on foreign loans are far in excess of the available supply of foreign exchange from her slowly increasing export earnings. Consequently, there occurred a rapid depletion of her foreign exchange reserves including borrowings from the I.M.F. and a rapidly increasing flow of concessional finance from abroad during the period under review.
There took place a remarkable structural change in the composition of India's export and import trade.

Table-1(A and B) indicate India's overall balance of payments position in the plan period between 1951-52 and 1968-69. Over this period of eighteen years, India had faced a persistently growing deficit in her balance of payments (Item 18 of Table-IA and Item 8 of IB), which is equivalent to the balance of India's autonomous trade and transfer transactions.

In the First Five Year Plan period, imports of merchandise averaged Rs.730 crores per annum, which represented an increase of Rs.30 crores over the annual average for the period 1949-61. In the same period, the average merchandise export was to the tune of only Rs.692 crores per annum. Consequently, the trade balance showed a total deficit of Rs.542 crores over the five year period in the First Plan. A large part of this deficit was covered by a sizable net receipts in invisibles leaving the current account deficit at Rs.151 crores (Table-1A). This coupled with the autonomous capital transactions leaves an overall deficit of Rs.392 crores in the balance of autonomous trade.

5. The items in Table-1 have been arranged in accordance with Prof. Mandel's classification of balance of payments.
and transfers in the First Plan with an annual average deficit of Rs. 60 crores. Certain extraneous factors like the Korean War boom, satisfactory food position on account of favourable monsoon, a rapid expansion of agricultural and industrial output have had a wholesome effect on India's external payment position in the First Plan period. The impact of the Plan development on the balance of payments with a sudden increase in imports was actually felt in the last two years of the First Plan than the tempo of investment increased.

Over the Second Plan period the annual average level of imports rose steeply to Rs. 1030 crores representing an increase of Rs. 560 crores over the First Plan annual average. As against this, India's export earnings during this period remained more or less stagnant at an average of Rs. 623 crores per annum which was slightly higher than the First Plan average (Table-1A). In the First two years of the Second Plan imports increased steeply with a jump in 1957-58. This was followed by a remarkable decline in imports between 1958-60 in the wake of the foreign exchange crisis in 1957-58. Imports again revived in the last year of the Second Plan. As a result, the annual average trade deficit in the said period went up to Rs. 452 crores as against Rs. 103 crores in the First Plan. The marginal increase in the net invisible receipts in the Second Plan over the First
Plan level had an extremely inadequate offsetting effect on the negative trade balance. As such, the total deficit in the current account excluding official donations was Rs.1033 crores. Taking into account the autonomous capital transactions the balance of autonomous trade and transfers shows an average deficit of Rs.333 crores per annum during the Second Plan (Table-1A). The most redeeming feature of India’s balance of payments during the Second Plan period was the impending crisis which developed right from the beginning of the Plan. This led to a heavy erosion from India’s foreign exchange reserves to the tune of Rs.431 crores in the first two years of the Second Plan (Item 15 of Table-1A). The heavy pressure on India’s external payments position during this period can be traced to a sudden spurt in domestic investment. This coupled with the fact of a relatively heavy emphasis on domestic capacity creation in basic and key industries as per the Industrial Policy Statement of 1956 were reflected in a sharp change in the volume as well as in the composition of imports in the Second Plan period.

The Third Plan total estimate for imports was Rs.3330 crores inclusive of Rs.230 crores of P.L.420 imports.
Rs.600 crores or an annual average estimated import of Rs.1270 crores (Col.15 of Table 2 of Th.2). But the actual level of imports during the Third Plan period was Rs.1305 crores per annum on an average and total imports over the five year period fell short of the target by Rs.331 crores (Col.71 of Table 19). Exclusive of the actual Rs.430 imports of Rs.355 crores in the Third Plan, merchandise imports totalled Rs.5174 crores which was less than the target by Rs.576 crores. This may be quite a healthy sign from the point of view of India's sickening balance of payments, though its full implications can be appreciated in the context of commercial policy and domestic industrialization. 

There was nevertheless a progressive increase in the value of imports with a slight exception in the year 1965-66 (Table-2). On the other hand, the value of total exports in the Third Plan was Rs.3751 crores as against the target amount of Rs.3700 crores. Thus the overall trade deficit during the plan period was Rs.2279 crores (Table-13) as against the anticipated deficit of Rs.2250 crores. A net deficit of Rs.273.5 crores on invisibles arose in the Third Plan period against the nil balance envisaged in the plan document. This together with the deficit in the trade account comes to a total of Rs.2557.4 crores as net
current account deficit in the Third Plan period. The net outflow in respect of capital transactions excluding official donations together with errors and omissions over the five year period totalled Rs.429.6 crores (Table-13) as against the plan estimate of Rs.550 crores. All these led to a persistent increase in India's payments gap from Rs.467.5 crores in 1961-62 to the peak level of Rs.205 crores in 1964-65. This again came down to Rs.753 crores in 1965-66 (Item 9 of Table-13). Thus the payment deficit in the Third Plan averaged Rs.211 crores per annum as against the Second Plan average of Rs.332 crores, which is slightly less than double.

Similar figures for the Annual Plan are not comparable with the figures of the previous plans as the former have been calculated in post-devaluation terms. Converted at pre-devaluation exchange rate\(^6\) imports, exports and overall payment deficit showed a declining trend between 1966-67 and 1968-69 compared to their levels in the last two years of the Third Plan (Table-2). The overall deficit in 1966-67 and 1967-68 converted at pre-devaluation exchange rate was

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6. It may be remembered that the par value of the rupee was reduced by 36.3 per cent on June 6, 1936 involving a rise of 57.5 p.c. in the price of foreign exchange in terms of rupee. Hence the post-devaluation figures are to be deflated by 1.375 for conversion in order to reduce them on a comparable basis.
actually higher than the Third Plan average of Rs.611 crores.

The average level of imports as percentage of net national income at constant prices increased from 7.6 per cent in the First Plan to 3.3 per cent in the Second Plan and came down to 3.5 per cent and 7.3 per cent in the Third Plan and Annual Plan period, respectively (Col.III of Table-2). A significant question may arise here: can this decline in imports relative to national income in the Third Plan and Annual Plan period be taken as a sign of progress towards self-reliance? It is true that this trend in imports emerged due to import-substitution policies at home accompanied by restrictive trade policies which were followed in the wake of foreign exchange crisis of 1957-58.

A mere decline in imports relative to national income between 1953-54 and 1963-64 (Col.II of Table-2) is not a sure indicator of self-reliance in the Indian Economy. For, in the first place, the overall payments deficit relative to national income increases from an average level of 2.3 per cent in the Second Plan to 3.3 per cent between 1951-52 and 1957-62 (Col. VII of Table-2). Secondly, the restrictive import
policies followed between 1959-60 and 1966-67 resulted in the emergence of a considerable degree of idle capacity in Indian industries. Consequently, the annual growth rate in the output of organised industries over the Third Plan period was only 7.9 per cent as against the target of 11 per cent. This rate was only 1.7 per cent in 1966-67 and there was virtually no increase in industrial output in 1967-68. In this connection, the Planning Commission observes:

"This sharp deceleration was accompanied by an increase in unutilised capacity in a number of industries. Many factors contributed to it: decline in purchasing power because of the setback on the agricultural front; stagnation in investment; shortage of foreign exchange because of the need for abnormally high imports of foodgrains and raw materials and for completion of a number of projects started earlier". (3)

It is now obvious that a less than optimum capacity utilization in Indian industries during the said period was tolerated in order to avoid a huge potential deficit in the balance of payments and an explosive situation in respect of foreign exchange.9

7. The import policies were liberalised after devaluation in 1966.
9. Estimates Committee on Foreign Exchange outlined a number of causes for India's balance of payments difficulties during the Second and Third Plan periods, op. cit., p.73-74.
This can by no means be taken as a sign of self-reliance.

On the other hand, India's export trade remained stagnant or quasi-stagnant over the period of 12 years between 1951-52 and 1962-63 and showed some degree of buoyancy only after 1958-64 (Col. IV of Table-2). But export earnings as percentage of net national income came down from an average level of 6.3 per cent both in the Second and Third Plan period and to 4.6 per cent in the Annual Plans (Col. V of Table-2). Added to this is the fact that in the first decade of planning, India's share in the total global export trade declined from 2.1 per cent in 1950 to 1.1 per cent in 1960. Such share came down to less than one per cent in the second decade of planning. This trend in India's export earnings both relative to national income and in relation to total world export during the two decades of planning is certainly not conducive to the attainment of self-sustained growth within a stipulated time period. Thus by the time the current Perspective Plan came into operation, the country was not poised for a self-sustained growth. The situation on the external front for India at the beginning of the Fourth Plan was thus a relative decline in India's exports as against a rapidly increasing foreign exchange burden.
III. FINANCING OF EXTERNAL PAYMENT DEFICITS IN INDIA'S
PLANS: 1951-52 TO 1969-70.

In order to appreciate the foreign aid
contribution to India's balance of payments and economic
development during the period under review, it is
necessary to know the numerous sources of noncooperating
finance used for bridgeg the payment gap with
their relative contributions to the total deficit
(Items 13-15 of tables-14 and 19). In the first Plan
period as a whole, foreign aid inclusive of loans and
grants contributed nearly 62.3 per cent of the total
payment deficit and the rest 37.2 per cent was covered
through a net decline in foreign exchange reserves.

A year-to-year contribution of foreign aid
to India's payment deficit reveals that in some years
like 1952-53 and 1965-66, it exceeded more than 100
per cent of the deficit leading to a net increase in
the accumulation of her foreign exchange reserves
(Item 13, Table-14). During the second Plan period,
aid contribution to India's balance of payments deficit
was nearly 60.3 per cent, which is slightly less than
that of the share in the first Plan, although in
absolute terms the inflow of external assistance in the
Second Plan far exceeds the amount in the previous Plan.
The decline in foreign exchange reserves contributed nearly 36.2 per cent and not drawings from the I.M.F. accounted for 3.3 per cent of the total deficit during the period. Thus, the relative shares of different sources of accommodating finances remained more or less the same in both the plan periods.

In the Third Plan period aid contribution to India's total external payments deficit was as high as 91.2 per cent and not drawings from I.M.F. accounted for 3 per cent of the total and the rest 0.2 per cent was financed through a depletion of foreign exchange reserves (Table-13). The predominance of the share of foreign aid in financing the external payments deficit in the Third Plan was partly due to a sharp erosion of foreign exchange reserves in the Second Plan to the irreducible local minimum and also due to a higher rate of utilisation of foreign aid in the Third Plan than that of in the Second Plan.

The external payments deficit during the period between 1961-62 and 1963-69 had to be financed almost exclusively by foreign aid including loans, grants, P.L.430 commodity aid and borrowing from the I.M.F., because of the vulnerable position of India's foreign exchange reserve during the said period.
As such, external assistance covered nearly 31.5 per cent and 37.1 per cent of the total payments deficit in the Third Plan and three Annual Plans taken together, respectively (Table-13).

The foregoing analysis reveals an increasing dependence of the Indian economy on external assistance in successive Plans as aid contribution to balance of payments deficit increased from 62.3 per cent and 65.5 per cent in the First and Second Plans to as high as 31.3 per cent and 37.1 per cent in the Third Plan and in three Annual Plans, respectively.

A better appreciation of the relative dependence of the Indian economy on external assistance during the period under review can be made from the aid contribution to India's imports and that for financing the trade deficits. Between 1951-52 to 1968-69, India's total imports amounted to Rs.13,675.7 crores and external assistance net of amortisation received during this period was Rs.5032.6 crores (Col. II, Table-3). As such foreign aid contributed nearly 27 per cent of total imports of India over this period of 18 years.

A plan-wise break-up of the average percentage contribution of external assistance to India's total imports
shows a persistent increase from 4.4 per cent in the First Plan to 16.0 per cent, 41.0 per cent and 42.5 per cent in the Second, Third and Three Annual Plans, respectively (Col.III, Table-3). Furthermore, a yearwise calculation reveals that there was a steep increase in the share of external assistance in financing India's imports from 5.6 per cent in 1957-58 to 21.6 per cent in 1958-59 and since then it had increased persistently to a peak level of nearly 45 per cent in 1965-66. The year 1957-58 being the year of worst foreign exchange crisis for India, the sudden increase in aid-financed imports in 1958-59 shows that the donors immediately responded to India's requirement for foreign exchange in her Second Plan.

Deficit in the trade balance reflecting a large import demand and a stagnant or a quasi-stagnant export was a chronic feature of India's external account during the period under review. The excess of imports over exports between 1951-52 and 1968-69 had given rise to a total deficit in India's trade balance to the tune of Rs.6328.9 crores (Col.IV, Table-3) of this amount, external assistance alone financed to the extent of Rs.5032.6 crores and the rest Rs.1296.3 crores was covered by the depletion of foreign exchange
reserves and the drawings from the I.R.F. Thus the percentage contribution of external assistance to financing the total trade deficits over the period of 18 years covering from 1951-52 to 1968-69 was as high as 79.5 per cent. That means nearly four-fifth of India's import-surplus comprising developmental, maintenance and food imports during the plan period was financed by foreign aid. In the absence of this external source of financing, the execution of Five year Plans in India would have been next to impossibility. A Plan-wise break-up reveals a continuous increase in the contribution of external assistance to India's import-surplus, which increased from the average of 30.2 per cent in the first Plan to 38.3 per cent in the Second Plan and to as high as 103.5 per cent and 123.2 per cent in the Third Plan and Annual Plans, respectively (Vol.V, Table-3). This means that foreign aid not only financed the trade deficits but also covered the net deficits of Rs.272.5 crores and Rs.436.7 crores on invisibles in the Third and in three Annual Plans and also a part of the net outflow of autonomous capital.

One should not, however, lose sight of the difficulties involved in the measurement of aid contribution.
tion to balance of payments and economic development of a country. The basic difficulties arise in this connection and they are: In the first place, there is the obvious difficulty of distinguishing the development effects of aid and that of non-aid resources. Total development resources of a country comprise both foreign aid and domestic resources and the former has both direct and indirect effect on the development process. It is difficult to quantify all these. The second difficulty relates to the question of import-saving in the process of development. Foreign aid augments the domestic capacity and thereby imports tend to decline. But then there remains the lack of firm evidence whether imports tend to decline in absolute terms or in a relative sense. If imports decline only in the latter sense so that imports as a share of national income fall, there may not necessarily be a reduction of imports.

IV. THE IMPORT CONTROL POLICY OF GOVERNMENT OF INDIA

1961-62 AND 1963-64.

(1) Objectives of Import Control Policy of the Government of India.

The import control policy of Government of India between 1961-62 and 1968-69 needs to be analysed in the context of a growing deficit in the external payments account, the increasing dependence of foreign trade sector on external assistance and the mounting external debt servicing burden. It is claimed in the official circles that India's commercial policies in general and the import control policies in particular serve as principal instruments for planned economic development. The numerous objectives of import trade control policy of Government of India are:

(i) The policy aims at the realisation of the production and consumption targets in the Plan.

(ii) It serves as a means of export promotion by ensuring an adequate supply of capital goods and raw materials to export industries. In other words, an increasing emphasis has been laid on export promotion and the maintenance of a high level of exports throughout the Plan period.

(iii) It aims at restricting the imports to commodities with highest priority in the Plan and exclusion of the imports of less essential commodities meant for luxury consumption.
(iv) It helps in correcting the imbalance in the balance of payments.

(v) Conservation of scarce foreign exchange resources by encouraging the production of import-competing goods and optimisation in the use of foreign exchange resources in so far as the policy aims at the expenditure on imports of capital goods, intermediate goods and on scarce raw materials.

In short, the import trade control policy aims at the protection of domestic industries and import substitution, the maintenance of balance of payments equilibrium, promoting a self-reliant growth and control of the pattern of investment in line with priorities in the plan.

II. Administrative scheme of the Import-Control Scheme and the General Procedure for Licensing:

The control over import and export trade by the Government of India dates back to the Imports and Exports Control Act of 1947 and since then the Act has been amended periodically from time to time, its scope

has been immensely increased during the plan period. These controls over imports and exports operate by the Chief Controller, Imports and Exports (C.C.I.& E.) through the Reserve Bank of India and through an elaborate system of licensing. At present the C.C.I. & E. and his subordinate officers like the Joint Chief Controller, Deputy Chief Controllers, Controllers and Assistant Controllers in the various regional and sub-regional licensing offices; the Iron and Steel Controller (I. & S.C.), the Development Officer, Machine Tools and the Development Wing of the Ministry of Industrial Development act as the licensing authority for regulating all private imports and a part of the Government imports. There was the bi-annual issue of import licences in accordance with the Open General Licences (O.G.L.) issued by the Government of India from January to June and July to December every year. But these dates for the bi-annual issue of import licences underwent a change to April-September.

12. The life of this Act which was due to expire on 31st March, 1971 has been extended to an indefinite period. There is currently a rumour for nationalising the entire import trade.

13. Prior to 1961, foreign exchange ceilings were fixed only for private commercial imports and there was no ceiling on Govt. imports. The first systematic and comprehensive statements of foreign exchange allocation not merely for private imports but also for those on Govt. account were introduced since 1957 with the increasing vulnerability of foreign exchange reserve position. Import licences were, however, not necessary for P.E.O. imports.
and October-March every year since 1957. The import policy of the Government is reviewed in every six months in consultation with Export-Import Advisory Council and is embodied in "the Import Cr-de Control Policy Book", more popularly known as "the Red Book". Besides, the E.I. & E. issued confidential General Licensing Instructions (G.L.Is.) to the various authorities regarding the basis of licensing and the foreign exchange ceilings allotted to them for the licensing period. Following the recommendations of the Kudalwar Committee regarding the issue of import licences, the Government of India completely changed over from the old practice of bi-annual to the annual issue of licences from 1962-63 onwards. At present the licensing period is on an annual basis which coincides with the fiscal year from April to March, although the foreign exchange allocation to the various authorities are made on a half-yearly basis on condition that 50 per cent of the licence values is to be utilised in the second half of the year with such reductions as may be imposed from time to time according to the prospects of availability of foreign exchange. This practice is in consonance with the method of foreign exchange budgeting which is done by the Ministry of Finance on a
half-yearly basis with the exception of a few items of imports like fertilizers and newsprints.

The issue of import licences based on foreign exchange allocations is governed by the following broad criteria:

(i) Availability of foreign exchange for the licensing period amongst the various competing demands for foreign exchange expenditure.

(ii) An essentiality certificate for the articles to be imported.

(iii) Clearance by the Director-General of Technical Development (D.G.T.D.) from the indigenous angle, i.e., the items sought to be imported do not have indigenous source of supply.

(iv) Whether the foreign exchange expenditure was unavoidable and could not be postponed.

(v) Whether the project requires fresh foreign exchange or the expenditure could be met from the credits available under external assistance or under the rupee payment arrangements and

(vi) Whether the project has been approved by the Planning Commission with regard to technical feasibility and priority in the plan.
Import licences are necessary both for the Public Sector and Private Sector Projects. The sponsoring authorities for import applications are the D.C.T.D., State Directorate of Industries, Textile Commissioners, various Administrative Ministries and Project Authorities, The Central Water and Power Commission and the Ministry of Irrigation and Power. Broadly speaking, there are two methods of application for import licences in the Private sector. In case of scheduled industries, the applications are routed through the D.C.T.D. and processed in the C.I. E. organisation subject to foreign exchange limitations and technical scrutiny like "essentiality" and "indigenous availability".

The second category is the import applications of small scale industries, which are sent direct to the Customs House subject to the issue of essentiality certificates by the Directors of Industries and clearance from indigenous angle by D.C.T.D. Similar tests are applied in case of the issue of import licences to Government undertakings and Public Sector projects. The only difference is that in the latter case the foreign exchange allocations are made by the Department of Economics Affairs, Ministry of Finance to the concerned Administrative Ministries which release foreign exchange for particular projects. "Essentiality" of
the import items is determined either by the project authorities like the Central Water and Power Commission in the case of State Electricity Boards and the D.C.T.D. gives the "indigenous" clearance. All the applications for import licences by the public sector are processed in the Head Quarter organisation of the C.C.I. & S. in New Delhi subject to foreign exchange clearance and C.C.T.J. clearance.

III. TYPES OF IMPORT LICENCES:

Applications for import licences both from the private and public sectors are grouped under various categories, viz., established importers (E.I.), actual users (A.U.), Capital Goods Imports (C.G.), heavy electrical plants (H.E.P.) new-comers (not covered by E.I. and A.U.), corporation and other miscellaneous imports.

ESTABLISHED IMPORTERS (E.I.)

The Established Importers are issued quota certificates which represent the value of their actual imports during the prescribed basic period. C.C.I. & S.'s licences are issued to the E.I.s on the basis of such quota certificates. The quota certificates issued on an annual basis remain valid for the purpose of licences.
unless and until there is a change in the ownership or in the basic period.

**A.U. licences (A.U.):**

A.U. licences are issued to scheduled industries, small scale industries and consumer co-operative societies in respect of raw materials, spare parts, components and machineries to be used in their own manufacturing process.

**CAPITAL GOODS (C.G.) LICENCES:**

The C.G. licences are issued for import of capital goods, viz., plants and machineries necessary for fresh installations or extensions. In this case both the C.I. & E. and the Development Officer (D.O.), Machine Tools, in the Directorate General of Technical Development are the licensing authorities. The former grants licences exceeding one lakh of rupees in value and the latter for value below one lakh. With a few exceptions, import applications for capital goods are considered in the C.I. & E. office at New Delhi by one of the other of the two committees, viz., C.G. Committee of the Ministry of Industrial Development and the C.G. ad hoc Committee in the office of the J.I.A.E. The work is distributed between these two committees.
according to the value of licences applied for.

HEAVY ELECTRICAL PLANTS (H.E.P.) LICENSES

Heavy Electrical Plants licences are issued for heavy electrical machineries and plants for installation. The foreign exchange for this purpose is not allocated project-wise; instead it is released in bulk and placed at the disposal of the Ministry of Irrigation and Power against the demands from the State Electricity Departments. The applications for imports from various S.E.Bs. are routed through the Central Water and Power Commission and the Ministry of Irrigation and Power. Central Water and Power Commission is the technical authority to process the applications and clear them both from the technical and from the indigenous angle.

MISCELLANEOUS:

The miscellaneous import licences include replacement licences, Railway Contract and Blanket licence for machineries, petroleum oil and lubricants.

IV. IMPORT LICENSING POLICY BETWEEN 1951-52 & 1963-64

The S.C.I. & S. publishes the annual import policy in the "Red Book", which comes into force from 1st. April every year. In formulating the import policy,
The C.I. takes into account the recommendations of the technical authorities, administrative Ministries and Export-Import Advisory Council and suggestions from trade and industry. The tentative import policy is then devised subject to a balance to be struck between the country's import needs on the one hand and the estimated availability of foreign exchange from export earnings and external assistance.

The import licensing policy during the plan period may be broadly divided into three periods:

1961-62 to 1965-66, 1966-67 to 1968-69 and 1969-70 onwards. It may be mentioned here that in different time periods there was a marked shift in the emphasis on the objective of import control policy of Government of India. In the first period, i.e., between 1961 to 1966 the import restriction policy was largely dominated by considerations of protectionism. Till 1947, India's import restriction policy was based on terms of discrimination, protection, which was recommended by the Ibrahim Sahistulla Commission of 1931. Subsequently, the tariff structure became broad-based with the appointment of a permanent Tariff Commission in 1968 on the recommendation of the Second Fiscal Commission of 1939-50. Until the year of foreign exchange
crisis, protective duties were treated as an important instrument of trade control for fostering the growth of infant industries. A major change in the policy objective took place after the foreign exchange crisis of 1957 and since then the main accent of import control policy was to conserve scarce foreign exchange resources and to keep the balance of payments difficulties to a minimum. This trend continued till the devaluation of the rupee in June 1968. Quantitative import restrictions substituted protective tariffs and tariffs imposed since 1957 on items became either revenue tax tariffs or tariffs for balance of payments purposes.

**IMPORT POLICY IN THE FIRST PLAN, 1951-52 TO 1955-56.**

The comfortable foreign exchange position and small external payments deficits in the First Plan with the exception of the first year had resulted in the adoption of a general policy of liberalisation of imports.

The liberal import policy during 1951-52 resulted in

14. Thus quantitative trade control envisaged in the Imports and Exports (control) Act 1947, actually came into being in 1957 as a result of shortage of foreign exchange resources with some degree of liberalisation for food imports and capital goods imports under external assistance programmes. There was a more liberalisation of imports after the devaluation of rupee on 8th June 1968.
Balance of payments deficit to the tune of Rs.520.7 crore and a decline of Rs.105 crores of reserves that year. As a result of this, import control became restrictive between 1952 and 1955. But in the last two years of the First Plan, "the import control policy was one of progressive but controlled liberalisation". The successive liberalisation policy of import control in 1954-55 and 1955-56 is an important contributory cause for the represented foreign exchange crisis of 1957-58. Thus during the First Plan period the import policy was more geared to the balance of payments objective rather than the objective of economic development. With the marked succession of liberalisation and restrictions in accordance with the payments position.\textsuperscript{15}.  

\textbf{IMPORT CONTROL POLICY DURING THE SECOND PLAN (1956-57 TO 1960-61).}  

In the first two years of the Second Plan there was a constant heavy draft on foreign exchange reserves which was in the order of Rs.481 crores and the payments situation became alarming.\textsuperscript{16}. Since then the


\textsuperscript{16} The R.B.I. in its pamphlet entitled "India's Balance of payments 1949-50 to 1961-62" mentions: "The cumulative effects of the successive liberalisations of the import policy during 1954-55 & 1955-56 were felt in the first year of the Second Plan" p.65.
shortage of foreign exchange became chronic with the result that the import policy became more and more restrictive day by day. A highly restrictive import policy was announced in the first half of 1957.

Items were reduced for 500 items including a number of consumer goods, machinery and raw materials. Facilities given to the new concerns were withdrawn. On the other hand, the import facilities given under the export promotion scheme were liberalised. There had been either drastic cuts or ban on the import of the non-essential consumer goods in general, though in the second half of 1953-54 the policy was liberalised to permit imports of some consumer goods. In the same year there was some liberalisation in the issue of import licenses for capital goods in view of a sharp increase in the availability of external assistance, for example, the percentage of aid-financed imports of India increased from a mere 6 per cent in the first two years of the Second Plan to nearly 33 per cent in 1955-56 (Table-3).

Thus the restrictive import policy of the Second Plan was geared to the development needs of the economy. Nevertheless, it aimed at reducing imports to a minimum consistent with an adequate supply of development and maintenance imports necessary to sustain a high level of industrial activity. Imports of capital goods for
new projects in the Second Plan were, however, allowed only under deferred payment arrangements. Currency discrimination in respect of imports from the dollar area was eliminated in December 1959 consequent upon an improvement in the balance of payments position with the dollar area. An important feature of the import policy during the Second Plan was the import-linked export-promotion measures, which were of two varieties. In the first place the import policy aimed at "ensuring normal supplies of imported raw materials and thereby insulating export production from the rigours of import control". The second category, which is of the more important type, deals with "import entitlements". Import entitlements offer a monetary incentive to the exporters which they can use either to expand their domestic production or sell away the surplus entitlements in the domestic market at a price higher than the international price. The rationale of the "import entitlement" scheme is to compensate the exporters for their loss in the foreign markets through higher prices on internal sales.

The Venkataraman Committee on "Foreign Exchange" notes with regret that during the year 1948-61, there was the absence of a "purposive import
policy" aiming "at ensuring the most beneficial use of available foreign exchange resources in accordance with well-defined priorities which are indispensable for a country engaged in bringing about rapid development in a planned manner with scarce resources .........

...... the import policy was frequently changed from "rigid" to "liberal" and vice versa.17.

In the opinion of this Committee the current account deficits "were due mainly to failure to evolve and implement a consistent trade policy which would maximise exports and minimise imports"18. The Committee also observes with regret that substantial amount of scarce foreign exchange resources were dissipated on the import of consumer goods other than food, mostly non-essential, between 1951-61. During the First Plan period the average value of such imports was Rs.176 crores per annum which was nearly 25 per cent of total imports. The average value of consumer goods imports in the Second Plan was Rs.60.2 crores per annum which was nearly 6.2 per cent of the total.

IMPORT POLICY DURING FIRST 5-YEAR PLAN, 1951-61.

The 'Advisory Committee'19 explained on the

formulation of a pragmatic and selective import policy
to dispense and diversify the economy and to stimulate
the dynamic spread of the cumulative process of growth.
This Committee recommended that the import policy should
be such so as to ensure a steady supply of mainte-
ance import like essential raw materials, components
and spares to all industries subject to a priority
treatment for certain types of industries like export-
oriented industries, power and transport, industries
producing raw materials and components which are curren-
tly being imported and industries using indigenous raw
materials but arranging their own foreign exchanges
for the import of plants and machineries. In recom-
manding a preferential treatment of the aforesaid
industries, the Industrial Committee thus combines the
export-promotion and import-substitution as the twin
objectives of 'practical' import policy to be pursued
during the Third Plan period. On accepting the recom-
mandations of the Industrial Committee, Government of India
implemented an import policy during the Third Plan
period in accordance with the plan-priorities and
import quotas for some low-priority industries were
reduced. The import restriction policy was progres-
sively tightened year after year during the Third
Plan period. The tariff structure was rationalised
in the context of the needs for planned development;
the cost of import was put up by progressive increase in import duties. Towards the end of the Third Plan, the accent of import restriction policy gradually changed from export-promotion to import-substitution objective as export earnings remained stagnant for more than a decade between 1961-62 to 1962-63 and picked up slowly from 1963-64. Despite the restrictive nature of import policies, the balance of payments position worsened from 1964-65 onwards. Added to this was the difficult foreign exchange position created by the sudden pause in external assistance soon after the outbreak of Indo-Pakistan conflict in 1965. This led to a drastic reduction in the many import quotas of many industries and a complete ban on about 60 items with indigenous supply. The import policy which was due to be announced in April 1966 was postponed till July of the same year and the issue of fresh licences against free foreign exchange resources was severely curtailed. Increasing emphasis was laid on import-substitution in 1966 and with this end in view a committee was set up in the same year under the chairmanship of Dr. V.P.R. Rao.


The devaluation of rupee on 5th. June 1936
had far-reaching consequences on India's trade policy in general and import control policy in particular. Import entitlements and tax credits for exports were abolished. Import duties were slashed and import policy was liberalised with the help of increasing quantum of non-project aid from the Consortium countries to stimulate the domestic production of both agricultural and industrial goods. A special import scheme for registered exporters was introduced in August 1968 to import raw materials, components and spares against the exports of certain specified products along with a liberal import policy for 50 priority industries and a complete elimination of quotas for certain non-essential and low-priority items. The import policy during this period aimed at a rationalisation of the licensing system and for the first time some degree of manoeuvrability was introduced into the system of import control and licensing policy. The import policy for the LIC imports provided for the import of certain items of steel against the licenses for raw materials, components, spares and non-ferrous metals and vice-versa. The import policy for small-scale industries was also liberalised. The licensing system for the private industries was
further simplified in 1967-68 with an element of continuity in the import of certain essential articles as and when necessary. Some significant changes in import duties took place after devaluation of rupee 20.

V. 

AN APPRAISAL OF OUR IMPORT CONTROL POLICY

The import trade control policy between 1961-62 and 1962-63 catered to the needs for planned economic development with due emphasis on the twin objectives of export-procurement and import-substitution. Imports have been liberalised on a selective basis and some items in the import list were banned to promote self-reliance. The recent trend is a progressive channelisation of imports through the public sector. The licensing of imports to AUs engaged in the priority


( Ad-valorem - pc cent )

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<td>2. Other machinery</td>
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<td>3. Primary raw materials</td>
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<td>5. Consumer goods</td>
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industries was liberalised and became need-based with
the dual aims of exploiting new opportunities for
import-substitution and export-promotion. But so far
as the first decade of planned economic development
is concerned, the import control policy, besides
not being purposive to ensure an optimum use of scarce
foreign exchange resources, had a serious incidence in
permitting the import of a sizeable quantity of non-
essential consumer goods, as shown in Table-4, the value
of the import of consumer goods other than food (mostly
non-essential goods like luxury housing equipments,
motor cars, bicycles, watches, fountain pens, tobacco
manufactures, etc., for most of which the indigenous
source of supply was available) was Rs.176 crores per
annum between 1951-56 and Rs.60.2 crores per annum
between 1956-61. Such imports as a percentage of
total imports came to about 21.3 per cent and 6.36
per cent on an average in the First and Second Plan
periods respectively. To this extent the import policy
failed to cater to the needs of industrialisation and
a self-reliant growth.

Precise data regarding the expenditure of
foreign exchange on non-essential consumer goods
between 1951-2 are not available.\(^2\) One source, however, estimates this to be as low as 1.1 percent of total imports.\(^2\) But the value of such imports was actually much more than this. The "Brochure of Statistics on imports and exports - Third five year Plan" reveals that certain non-essential consumer goods like cosmetics and toilet preparations, perfumery, glassware, cutlery and pottery, photographic cameras, television receiver sets, radios and transistors, refrigerators, antiques and clocks, toys, games and baby carriages etc., were listed under the category of "Essential finished goods." Besides a sizable sum of foreign exchange was also spent on the import of certain raw materials and components for the low-priority industries.

An examination of India's import control policy during the plan period reveals that three basic

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21. The representative of the Ministry of Finance stated before the Venkatasubbaiah Committee that figures of foreign exchange spent on non-essential consumer goods are not available. However, due to difficult foreign exchange situation imports of non-essential consumer goods have been reduced to the minimum. Cf. Estimates Committee, "Foreign Exchange", op. cit. p. 75.


Factors were responsible for shaping the import policy, viz., the needs for protection of domestic industries, planned development of export-promotion and import-substitution, the domestic supply of food staples and year-to-year availability of external assistance and balance of payment position. Two types of counter-vehilling forces operated in shaping the import policy between 1961-62. One of the factors like favourable balance of payments position, increasing authorization of external assistance, increase in the domestic availability of food supply and the import needs of the export and export-oriented priority industries had in the past contributed to a more liberal import policy. On the other hand, the import policy was tightened in the years of foreign exchange crisis and deterioration in the domestic supply of food-grains, requiring heavy food imports either under supply payment arrangement or by spending free foreign exchange and also in consonance with the needs for import-

24. Failure to obtain self-sufficiency in food-grains and the consequential need to import food grains both under R-430 and with free foreign exchange resources were partly responsible for a restrictive import policy during the Second and Third Plan periods. As a result there was some under utilisation of capacity in the Third Plan period.
substitution, another contributory factor is the wage parity. The maintenance of an artificially high exchange rate, which was out of line with changes in the domestic price level during the Second and Third Plan period, necessitated the continuance of an increasingly restrictive import control policy during the period and the devaluation of rupee in 1966 led to a liberalisation of imports.

The Government of India appointed a Study Team under the Chairmanship of Sir A. C. Muthu in August 1964 to review the working of the import and export trade control organisation and to suggest measures to streamline the procedures for licensing. The Study Team submitted its report to the Government in two installments. The first part of the report covering the import licensing procedure, the working of the S.I.I. and E.E.C. organisations was submitted in March 1965 and the second part pertaining to the licensing of the import of capital goods to the private sector and public sector, licensing of exports and export promotion and organisational aspect of S.I.I.'s office in and out, was submitted in December 1965. The Study Team observes: "licensing is, at least, a necessary evil. It cramps the licencee as also the
licensees. The committee felt that the import licensing procedure was extremely cumbersome and has 
"negative impact on trade" and as such it recommended certain measures to mitigate this evil. Important 
among the recommendations were:

1. There should be no mid-year endorsement in the issue of the annual licenses.
2. With a view to having continuity in industrial planning, the licensees should be allowed to place 
orders upto 75 per cent of the total value of licences during the first half of the licensing year provided the foreign exchange payment does not exceed 50 per cent of the value in the same 
period.
3. The prevalent practice of obtaining the "Essentially certificated" from the C.E.T.O. in case of 
scheduled industries and that from the Directors of Industries in case of non-scheduled industries 
should be dispensed with.

25. Government of India, Ministry of Commerce, 
"Study Tour on the Import and Export Trade 
26. Ibid, Part-I, Ch. V or Part-II, Ch. VIII.
4. In the small-scale sector the import policy should provide for any two categories of items namely, 'basic' and 'open' and the 'restricted' list should be scrapped though it may continue for the scheduled sector.

5. The existing practice of licenses upto Rs.5000.00 to be issued in one lot shall be allowed to continue.

6. All applications for import of capital goods are to be considered either by the S.C. Committee or by the S.C.C. Ad hoc Committee.

7. In respect of maintenance imports in the public sector the project authority should be delegated the power to operate within the foreign exchange allocation rules by the Department of Economic Affairs subject to periodical information from the Administrative Ministries.

VI. THE ROLE OF EXTERNAL ASSISTANCE IN SHAPING INDIA'S IMPORT POLICY

This section aims an attempt to examine India's import policy in the context of a self-sustained growth. As the latter requires effective export-promotion and import-substitution policies for both external viabilities and domestic self-reliance, an
analysis will be made here with regard to the impact of import control policies on import-substitution and the contribution of external assistance in that regard. The question of export-promotion will be discussed in the next chapter.

The fact remains that India had to go in assistance for external on an extensive scale between 1956-69 to meet the net foreign exchange gap arising out of an excess of imports over exports. The net external assistance received including I.L.F. borrowings between 1956-69 was Rs.7,173 crores as against India's total current account deficit of Rs.6907.7 crores in the said period. In the same period net external assistance receipts alone contributed to nearly one-third of India's total imports. The said sum of Rs.7173 crores includes Rs.4,583 crores as borrowings from I.L.F. and a sum of Rs.2,517.5 crores in F.L.490 commodity assistance between 1956-69. This external assistance receipts net of I. L. F. borrowings and F. L.490 commodity imports comes to about Rs.4600 crores in the said period. This amount of foreign aid was primarily utilised for the import of capital goods, raw materials, spares and components for industrialisation and planned development in India. In the same period, India imported foodgrains
not merely under Rs.1,430 arrangements but also with the help of free foreign exchange and the total value of food imports between 1956-69 was Rs.3537 crores. The value of India's total imports net of food imports was Rs.1,3770 crores in the same period and when the consumer goods imports of about Rs.1420 crores is deducted the rest Rs.1,2350 crores comprise both developmental and maintenance imports, which were badly needed for industrialization and self-reliance. Thus external assistance net of Rs.1,430 aid contributed nearly 27.8 per cent of India's total developmental as well as maintenance imports between 1956-69. All this clearly indicates the strategic role that external assistance had played in building up India's import-complementing industries and promoting her export capacity. The twin objectives of India's import policy between 1956-69, viz., export-promotion and import-substitution, provide the necessary inputs for a self-sustained growth in so far as they ensure both conditions of domestic self-sufficiency and external viability. It is but obvious that India's import policy would have been highly restrictive to the extent of being virtually regimented in the absence of external assistance flow and she could not have satisfied her
demand for essential imports in the Plan period to provide the necessary wherewithal for a self-sustained growth. In the absence of aid inflow, the foreign exchange receipt arising out of current exports plus the foreign exchange reserves would not have been sufficient for India's massive food import, maintenance import and capital goods import needed for economic development. In this connection, the Pearson Commission maintained that one of the principal difficulties in the process of Indian economic development is the financial bottlenecks, which are both domestic as well as foreign. The high component of investment Plans have warranted an acute shortage of foreign exchange which effectively inhibited the growth process.

The Commission observed:

"...the inflow of aid resources made a very substantial contribution to Indian growth and industrialisation principally by relieving the foreign exchange constraints and permitting higher investment levels and better utilisation of capacity than would otherwise have been possible" (284).

The import-substitution policy as has been followed by India has dual objectives of helping to wipe out the external payment deficit with the conservation of limited foreign exchange resources on the one hand and to hasten the process of a self-reliant growth on the other. It may, however, be remembered that a policy of import substitution leads to an increase in the requirement for imports in the process and as such, it calls for an increasing dependence on the import of capital goods, materials, spares and components and this in its turn leads to an increase in the dependence on external assistance. The increasing import needs of a planned economy could not be met from normal foreign exchange receipts arising out of exports or/and the foreign exchange reserves. The dependence of India on external assistance flow is crucial in as much as the very existence of some of our industries will be undermined in the event of a diminution in A imports necessi-
tated by a reduction in the quantum of external assistance flow for the aid-financed imports were slightly more than one-third of the total. The changes in the composition of imports are closely associated with the level and progress of industrialisation. The changes in the structure of imports were in tune with the requirements of planned economic growth of the country. Changing pattern and composition of India's import trade (Tables-5A & 5B) reflect the import control policy as was followed by India during the Plan period. In general it can be said that the import policy was directed to reduce the import of non-essential consumer goods to the barest minimum. The percentage of consumer goods imports in total imports was consistently reduced from an average of 7.5 per cent in the first Plan to 4.9 per cent, 1.8 per cent and 1.7 per cent in the Second, Third and Annual Plans, respectively. Imports of cereal and cereal products in total imports exhibit a marked rise from 1954-55 onwards, which increased from the lowest level of 0.2 per cent in 1955-56 to the highest level of 31.2 per cent in 1966-67.

Besides these two items, other items in the import list like capital goods, raw materials and intermediate goods and miscellaneous imports, all taken
together constitute the developmental imports. Import of capital goods including transport equipments, base metals, iron and steel in total imports registered a sharp increase from an average of 23.5 per cent in the First Plan to 42 per cent and 43.7 per cent in the Second and Third Plans respectively and thereafter declined to 27.9 per cent in the Annual Plan period. But the share of raw materials and intermediate goods in the total imports did not increase in the same proportion; instead it declined from 23.9 per cent in the First Plan to 17.2 per cent and 20.7 per cent in the Second and Third Plans respectively. This reveals the basic lacuna in our development-oriented import-control policy during the Plan period. This was one of the chief contributory factors for the occurrence of excess capacity in the industrial sector between 1963-64 and 1966-67. There was recession in the midst of inflation, for the import control policy primarily

27. The available evidence indicates that there was an excessive underutilization of installed capacity in India between 1963-64 and 1966-67. In this connection Dr. 'Bhushan Singh observes: “Import Controls ........ must not be allowed to impair on essential import of capital goods, industrial raw materials, and consumer goods such as are needed for the fulfilment of the five-year plans. As operated at present, import-controls in India are so stringent as to involve a considerable under-utilization of even the available capacity in the industrial sector” cf. op. cit. p.333.
aimed at the enlargement of capacity in basic, heavy and consumer goods industries without promoting a simultaneous growth of sufficient number of secondary and ancillary industries to produce intermediate products, spares and raw materials. There is no evidence of a phasing of the import control policy in so far as excessive weightage was placed on the import of capital goods and enlargement of capacity without due regard for maintenance imports during the Second and Third Plan periods. Economic development normally implies a sharp fall in the import of consumer goods and a rapid rise in the import of capital and intermediate goods including raw materials. But it has not so happened in case of India and the diversification of industries realised in the first two plans generated a large scale demand for raw materials, components and other intermediate products in the Third Plan period. It was not until the formulation of the Third Plan, that due weight was given to the requirement of maintenance imports in the plan period in as much as the Third Plan provided for maintenance imports of Rs.3650 crores as against the import of machinery and equipment estimated at Rs.2100 crores. But, the structure of actual imports during the Third Plan period reveals that the import of machinery and transport equipments excluding
base metals amounted to Rs.2180.8 crores, whereas the value of raw materials and intermediate goods was only Rs.1275 crores (Table-3B), which was much less than the amount stipulated in the Third Plan. All this has had a devastating effect on the industrial sector, which frustrated planned growth and to this extent there was a positive vantage of the country's limited foreign exchange resources. In spite of the fact of a relatively heavy emphasis on maintenance imports, the proportion of raw materials and intermediate goods in total imports registered a marginal increase from the Second Plan average of 17.2 per cent to 20.7 per cent in the Third Plan. This proportion increased to 32.9 per cent in 1968-69 with an average of 28 per cent in the initial plans (Tables-51 & 52).

Three plausible explanations may be adduced in favour of such wasteful and excessive import of raw materials to a relative neglect of maintenance import during the Second and Third Plan periods. In the first place, the foreign exchange crisis of 1957-58 had adversely hit the import of raw materials and intermediate products. In Table-51 show that the ratio of such imports to total imports decline from 18.6 per cent in 1955-57 to 14.1 per cent and 12.2 per cent in 1957-58 and 1958-59 respectively and from
1958-60 it gradually picked up. Recently, the somewhat liberal import licensing policy in respect of the import of capital goods during the Second and Third Plan period had been possible both due to increasing flow of external assistance between 1958-59 and 1965-66 and also partly due to the fact of the particular composition of assistance flow to India. The predominance of capital goods imports in India's import list may have been caused by the fact that an increasing proportion of external assistance was aimed in the form of project aid. External assistance and affected the structure of India's import. During the Second and Third Plan periods in two ways, viz., increasing quantum of project aid automatically resulted in a predominance of capital goods imports and disposal of surplus food grains under Title(1) of U.R.R. 1930 arrangement, which accounted for a relatively increasing proportion of food grain import in the decade between 1957 and 1966. A basic point of distinction between project and non-project assistance is that while the former enables the recipient to import machinery and equipments needed for specific projects, the latter comes either in the form of balance of payments assistance or for the purpose of import of raw materials, components and spares. As between 1951-1966, project assistance was as high as 73 per cent of the total external assistance.
utilised by India exclusive of U.S.P.L. commodity
aid. As India received nearly one-fifth of total
external assistance in the form of non-project aid
in the first three plan periods, it is but obvious that
the country's import policy during the same period
was primarily geared to capital goods imports for
capacity creation to a relative neglect of maintenance
of the economy. This trend has, however, changed
since 1964-65 which permitted a higher level of such
imports in the Annual Plans.

Commodity assistance under U.S.P.L. accounted
for nearly 25 per cent of the total external assistance
(net) utilised by India between 1961-69. A relative
proportion of commodity aid in the total external assistance of project aid and commodity aid in
the total external assistance flown had, no
doubt, helped India in diversifying her industrial
base with a significant expansion of capacities in
the plan period, though it had very little to contrib-
ute to the maintenance of industrial progress. This

23. L.M. Little and J.L. Clifford also maintain the same
view when they observe: "Despite the higher aid
level in 1964/65, India at the beginning of 1965/66,
suffered one of her worst balance of payments
crises, and there was at the same time considerable
excess capacity in some industrial sectors, for
lack of imported raw materials and components.
The inference is plain: that aid and financing were
still too much devoted to the creation of output
capacity, and not enough to promoting current output

op. cit. p. 323.
part of the task was left to the Indian planners and authorities to find out the necessary foreign exchange resources to finance the increasing maintenance imports bill and other essential consumer goods including a part of the import of foodgrains out of free foreign exchange. But with a stagnant or quasi-stagnant export trade and with mounting foreign exchange difficulty, India was forced to adopt a progressively restrictive import licensing policy for nearly a decade between 1957-66 till the devaluation of the rupee. Contrarily, there is ample evidence to indicate the detrimental effect of the flow of massive food aid on Indian agriculture 29.

The third factor of some importance to India which also contributed to the restrictive import policy even to the point of frustrating her industrial progress was the high prices that she had to pay for aid-financed imports. Machel Kidron in this connection observes:

"The form it takes - tied to individual projects, individual supplier and specific commodities - to the extent of 96.8 per cent of all loans authorized until the end of March 1982 - makes it expensive; estimates vary, but suggest that India might normally

be paying anything between 6 and 15 per cent, some times as much as 20-30 per cent, above ruling prices for aid-supported imports". (30).

VII. **EXTERNAL AID, IMPORT-SUBSTITUTION AND SELF-SUSTAINED GROWTH OF INDIA.**

There are many ways by which saving in foreign exchange is possible and India has pursued the import-substitution policy through the following measures:

1. Substitution of indigenously produced goods for imported raw materials, components and spare parts.
2. Reduction in the consumption of imported raw materials and components per unit of production.
3. Change-over of production of chemical and chemical products from intermediate to their production from basic raw materials.
4. Substitution of imported raw materials or components by suitable alternatives with consequential changes in the specifications of the end products and
5. Acceleration of the phased manufacturing programmes to achieve greater indigenous content in the shortest possible time.

The Venkatasubbaiah Committee on "Foreign Exchange" opines that the greatest scope for import substitution lies in the field of agriculture. The actual trade deficit in the Third Plan period being in the order of Rs.3270 crores included Rs.1229 crores of import of cereals, cotton, and raw jute during the same period. Had these imports been avoided, the magnitude of trade deficit would have been only Rs.940 crores. It is, therefore, obvious that the continuing balance of payments difficulties was largely due to the failure in the key sector of agriculture. In the opinion of the Venkatasubbaiah Committee, the shortfall in agriculture is deplorable and can not be explained away as an inevitable feature of economic development. The Committee, therefore, urges upon the Government to realize "the urgent need for all-out efforts to develop agriculture so that the country may be able to dispense with imports of cereals and other agricultural commodities, such as cotton, jute and oil-seeds etc. at an early date."

Maintenance imports valued at Rs.3811 crores accounted for nearly 60 per cent of total imports during the Third Plan period. Such maintenance imports...
components, besides raw materials and intermediate goods, the import of non-ferrous metals, imports from machine building industries, iron and steel and fertilizers. Even this was not sufficient to sustain the installed capacity. In the Fourth Plan, the maintenance imports have been placed at Rs. 7840 crores out of a total estimated import of Rs. 9730 crores, which seems nearly 80.5 percent of the total. The volume of maintenance imports to total imports is fast increasing in recent years to keep the country's industries running and targets fulfilled. The major items of such imports are fertilisers and fertiliser materials, chemicals, non-ferrous metals, special varieties of steel, petroleum and petro-chemical products, components and spare parts of machinery.

This acts as a positive deterrent on the path of self-sustained growth for India, as the growing recent increase for maintenance imports puts increasing pressure on the country's balance of payments and difficult foreign exchange position. The Venkatasubbaiah Committee ascribes this position to "faulty Planning". The Committee in this connection observes:
"Had greater priority been given in the Five year Plans to the development of basic raw materials, intermediates and ancillary industries concurrently with the setting up of basic and heavy industries on a phased basis, the country's industrial growth would have been basically sound and the requirements of maintenance imports would have been much lower". (33).

The Committee notes a serious anomaly in planning, and as an example of bad planning, it cites the case of steel industry. During the Third Plan period, when there was the difficult marketing problem for the indigenous steel industry, India spent a sizeable amount of foreign exchange on the import of special grade steel. The Committee, therefore, urged upon the Government to rectify those anomalies in planning and to initiate "imaginative import-substitution measures with a view to minimise imports of iron and steel, non-ferrous metals, components and spares for machinery and transport equipments, fertilisers and petroluem and petro-chemical products". (36).

The foregoing analysis reveals that the expanding and nascent industrial sector of India was

beset with two formidable problems since the beginning of the Third Plan period and they are: (a) The problem of shortage of imported raw materials, components, spares and other intermediate products on the one hand and (b) The problem of insufficiency in demand for the capital goods industries. All these hampered the growth of industrial production and caused the emergence of idle capacity.

Bad planning is, however, not the only reason for a rapidly increasing volume of maintenance imports and growing difficulties in India's balance of payments. There is also a more important reason, i.e., the types and character of external assistance flow during the plan period about which a detailed discussion is made in Chapter 9. It is sufficient to mention here that the pattern of external assistance flow with the predominance of project aid to India unto the end of the Third Plan aimed at creating capacity without due regard for utilization of such capacity. The Venkatasubbaiah Committee which points out a slow utilization of external assistance observes in this connection:

"It is well known that large capacities created in a number of complex industries with foreign assistance, require maintenance imports of considerable magnitude. It is, therefore, imperative that as much
of non-project aid as possible should be procured in the interest of keeping these industries in production.

The Committee have no doubt that Government would impress upon the aid-giving countries that it would be in mutual interest if the element of non-project aid in external assistance is increased" (35).

The Director General of Technical Development (D.G.T.D.) in its report "Import Substitution and its Impacts" also upholds the same view. "There exists a strong prejudice, in favour of equipment and stores of imported origin, which bias unfortunately still persists in certain quarters" (36). As the ratio of project assistance to total loans authorized was 78 per cent and 60 per cent during the Second and Third Plan periods respectively, the planners wield but a limited degree of manoeuvrability in the choice of a correct strategy in planning. Moreover, such a project preponderance of non-project aid in the total external assistance program has produced a built-in preference for foreign sources of supply of equipments, spares and components rather than indigenous sources of supply (37).

The Venkatasubbaiah Committee on "utilisation of External Assistance", "regrets to note that inspite of


36. op. cit., p.2.

the difficult foreign exchange situation, there have been many instances where public undertakings have placed orders for items which (or whose close substitutes) are indigenously available for government's policy of accelerating the pace of self-reliance or import-substitution can have little meaning if their own undertakings are allowed to fritter away scarce foreign exchange on available imports.

Despite the fact that the form of external assistance flow to India during the period under review was not very conducive to the import requirements of a planned economy, it can not be denied that external assistance net of amortisation alone has contributed 37 per cent of total imports, 13 per cent of total plan outlay and nearly four-fifth of her import surplus (Table-3). The fact, therefore, remains that external assistance provided a cushion to India's foreign exchange requirements in the plan period and permitted a massive import of capital goods and food grains much-needed for planned development. In the absence of this, either planning would have entailed a much greater domestic sacrifice in order to be feasible or else it would have been scrapped in view of

32. Eleventh Report, Fourth Lok Sabha, op. cit. p. 263.
her stagnating exports and difficult foreign exchange position. Or alternatively, the plan strategy might have been shifted from the establishment of basic and key industries with a relatively high import-content to projects with low import-content or/and to agricultural development.

Whether or not the import control policy pursued during the plan period and the part played by external assistance in it promoted a self-reliant growth can be better known from the degree of import substitution which actually took place during this period both with a view to augmenting the domestic supply and saving the scarce foreign exchange resources. The import control policy is geared to development needs and provides the necessary impetus to import-substitution particularly in the field of production of capital and intermediate goods. Import substitution is an appropriate index of self-sustained growth in so far as it fulfills the twin criteria of a reasonable degree of domestic self-sufficiency and external/ viabilty. It provides impetus to industrial growth more than the expansion of domestic demand or exports.39

The importance of import substitution in conserving foreign exchange and accelerating economic development

hardly be exaggerated. Import substitution may be construed to mean either in an absolute sense or in a relative sense. As an absolute magnitude, import substitution means any replacement of imports by the production of domestic output of corresponding amount. This is a mere tautology and is true only in a static sense. But since economic development implies structural changes of a dynamic nature, import substitution in a relative rather than an absolute sense has a better operational significance for self-sustained growth. The measuring rod for the degree of import substitution in a relative sense is the ratio of imports to total domestic supplies or the import content of total supplies. A downward trend in this implies a positive import substitution, an upward trend shows negative substitution and constant trend implies neutral substitution. In other words, a positive degree of import substitution occurs when the domestic industrialization programme results in a more than proportionate increase in production than in home consumption of manufactures. In an absolute sense import


41. Haisel measures import substitution as the difference between actual imports of manufactures at the end of the period and what they would have been had they formed the same proportion of total consumption as at the beginning of the period", cf. Ibid, Ch.6, p. 150.
requirements are bound to go down as the economy develops; though they may also decline in relative terms, i.e., in relation to the increase in total supplies. In this relative sense the extent of import substitution may be measured by changes in the percentile points of import content in the domestic supplies of manufactures, as shown in Tables-5A and 5B, although the values of all imports excluding consumer goods and unclassified imports increased absolutely between 1950-72, the import-content of domestic supplies of all commodities declined during the same period. Table-6 which relates imports of particular commodities to estimated supplies shows that the share of imports in domestic supplies of all commodities declined over the period 1950-72. Such a declining trend in the import-content of domestic supplies in almost all fields of production clearly indicates that domestic production increased in a greater proportion than the increase in home consumption between 1950-72. There has been a marked improvement in this direction since 1955-56. Table-7 shows the percentile point change in the import-content of domestic supply of goods classified under three categories, viz., consumer goods, raw materials and intermediate goods and capital goods. Import substitution is most pronounced in case of all consumer goods excepting food grains and also in case of raw jute, aluminium, soda-ash, caustic soda, bleaching
progress in import substitution though of a lesser degree in the field of other intermediate and capital goods also took place in recent years excepting in newsprint. All this clearly indicates a positive move on the part of India towards a self-reliant growth. It is only in the production of cereals that India had failed to attain self-sufficiency during the period under review both on account of a lack of proper emphasis on the strategy of agricultural development on the one hand and also due to certain extraneous reasons like bad monsoon and a relatively fast rate of growth of population on the other.

Import substitution being one of the many facets of import saving, "aims at achieving the maximum possible degree of self-sufficiency in the industrial field by augmenting the foreign exchange resources on the one hand and stretching the available foreign exchange for ensuring the maximum rate of industrial growth on the other."

42. It is only in 1971-72 that the share of some imports, viz., machine tools, iron and steel, aluminium, newsprint and ammonium sulphate, increased in total supplies.

Technical Development in the Ministry of Industrial Development, Internal Trade and Company Affairs which gives indigenous clearance to the import applications routed through it, is the institution entrusted with the task of promoting measures for import substitution. Two studies have been made by this Directorate so far in the field of import substitution and its impact, viz., the first covering a period of seven years from 1950-57 and the second for the years 1968 and 69. The former study, which covered 79 industries, showed that during 1950-57, foreign exchange expenditure as related to production was reduced by 40 per cent while the index of industrial production increased to 219.4 per cent for the engineering and to 193.1 per cent for the chemical industries (Base year 1960 = 100). This led to a saving of foreign exchange by about Rs.689 crores or Rs.33.6 crores per annum. The total value of industrial production increased by about two and a half times in the years between 1951-57, though the foreign exchange expenditure was substantially less at Rs.311 crores. Thus, the import-content (foreign exchange components) of domestic manufacture has been reduced from 30 per cent in 1960 to 17.4 per cent in 1967. The sizeable increase in

44. Ibid, p. 2.
45. Ibid, p. 3.
The value of industrial production (i.e., Rs.637.50 crores in 1960 to Rs.1634 crores in 1967) far outstrips the expansion in the demand for imports between 1960-67 that arose out of fresh programmes of industrialization. In the absence of a positive import-substitution policy, the B.C.T.P. estimates that India's import bills for essential goods would have gone up by at least 70 per cent of increased production between 1960-67 and on this basis the saving in foreign exchange of Rs.408.4 crores was calculated for the said period. But when account is taken of the full value of increase in production (Table-9), the saving in foreign exchange over the 7 year period is Rs.335.50 crores, i.e., Rs.120 crores per annum.

Table-8 shows that the absolute level of foreign exchange expenditure increased from Rs.150.7 crores in 1960 (i.e., Rs.210 crores at post devaluation rate) to Rs.311 crores in 1967, i.e., an increase by 29 per cent, though there was a 40 per cent reduction in relation to the value of total industrial production in 79 industries included in the survey. The total saving in foreign exchange of about Rs.630.2 crores between 1960-67 includes two elements (Table-3). In the first place, there was a saving of Rs.210.3 crores on account of direct import substitution programmes in
the field of engineering industries. Secondly, the residual sum of Rs. 403.4 across foreign exchange saving was made possible through a sizeable increase in production mostly in chemical industries.

Another notable achievement in the field, besides the large increase in production in chemical industries and substantial reduction the import content of the engineering industries in the period under review, was the production of several essential and new items and new ranges of production, which prevented the import bill to rise. The subsequent study by I.G.T.A. published in July 1970 in respect of import-substitution and its impact for a period of two years, viz., 1968-69 reveals a remarkable progress in the field of production and saving in foreign exchange. This report surveys the position in 112 industries including the 79 industries covered in the earlier study. This study shows that industrial production in 1968 and 1969 had increased by an average of about 5.5 per cent per annum.

46. The import-content of many engineering industries like sugar and cement making machinery, drilling equipments, conveyors, LPG gas cylinders, Medical and Pharmaceutical machinery, weighing machines, tea machinery, diesel engines, air-conditioning and refrigeration equipment, lifts, several types of cranes, steel structures, steel casting and forging was 10% or less in 1967.

47. Sophisticated machine tools, precision dies, silicon transistors, tungsten carbide cores, scientific and surgical instruments, iron oxides, insulin, fibre glass, industrial furnaces, some basic and activated clays, edible gelatin are a few examples.
the most remarkable rise being registered in chemical industries where it went up by 9 per cent. The value of production in the 72 industries examined in the earlier study rose from Rs. 1814 crores in 1957 to Rs. 1950 crores in 1959 and Rs. 2032 crores in 1960—an increase of about 12.5 per cent per annum during the same period the foreign exchange allocated totalled 13.4 per cent of the value of production in 1957, 9.6 per cent in 1959 and 10 per cent in 1960. In the additional 33 industries covered in the latter study, it is observed that production was higher by 16.3 per cent in 1959 over 1958 while the foreign exchange allocation was reduced by 23.5 per cent. Taking all the 115 industries together, the study reveals that production in 1960 was higher by 13.3 per cent than in 1959 while the foreign exchange allocation fell by over 40 per cent.

All this clearly shows that India's foreign exchange saving over the decade 1950-59 arising out of direct import substitution and expansion in import-substituting industries was considerable. This shows a remarkable stride in the field of self-sustained growth and had this been coupled with self-sufficiency in food grains, the saving in foreign exchange during the period 1950-59 would have been up approximately equal to
half the total external payments deficit during the period.

External assistance played a more important role in India's economic development during the 1960's than during the previous decade. After a substantial decline in the foreign exchange reserves during the Second Plan, the main burden of meeting the foreign exchange gap of rudimentary planned economic development fell on external assistance. The net inflow of external assistance financed a larger share of domestic capital formation (Tables-5A and 5D, Chapter-5) and commodity imports between 1961-62 than in the previous two Five Year Plans. As for example, net external aid inclusive of Rs.430 commodity aid financed slightly more than 40 per cent of India's commodity imports between 1961-62 as compared to zero 5 per cent and 16 per cent in the First Plan and Second Plan respectively. As a proportion of public sector plan outlay, net budgetary receipts from external assistance rose from about 20 per cent in the Second Plan to 23 per cent in the Third Plan. On a per capita basis, the net assistance inflow increased from Rs.6.34 (3.33) in the Second Plan to Rs.9.71 (3.04) during the Third Plan.
Excepting the case of food aid, net flow of external assistance had in the past permitted a visible change in the pattern and structure of India's import trade. The structural change, being predominantly producer-oriented and been conducive to the growth of industrial capacity both directly and indirectly particularly since 1956-57 onwards. For, in these two plan periods the import of capital goods and related items constituted nearly 63 per cent of the total imports exclusive of the import of foodgrains. With her current foreign exchange earnings, India would not have been able to import that amount of capital goods, after meeting her more urgent demand for food, defence and maintenance imports, but for external assistance. To be more precise, exclusive of food aid and food import, external assistance flow not of amortisation contributed nearly 31 per cent to total commodity imports between 1956-60 in the form of capital goods, raw materials, spares, components and technical know-how. A purpose-wise utilisation of external assistance in the Indian Economy (Table-3) reveals that between 1951-55, 73.2 per cent of the total foreign loans was directly devoted to the development of industrial capacities including that of iron and steel projects. Another one-fifth was used for promoting infra-structure projects which indirectly helped
acceleration of industrial growth. Both those items taken together consumed virtually 93 per cent of total foreign credit during the period under review. Table 3 shows that foreign loans for purposes of agricultural development in the same period were virtually negligible at merely 3.1 per cent of the total. From this it is obvious that the donors in their scheme of financing India's economic development in the past did not pay due attention to the development of her primary sector, viz., agriculture.

The fact cannot, however, be lost sight of that a firm foundation for an overall self-generating growth of India is primarily dependent on the pace of development of this basic sector along with the attainment of a self-sufficiency in food grains. That the whole prospect of overall growth of the economy is vitally dependent upon the performance of this key sector could be well observed from the following paragraph:

"The economic situation during 1966-67 was overshadowed by severe drought for the second year in succession. While agricultural output was somewhat higher than in 1965-66, it was below the record level of 1964-65. Imports of food grains had to be substantially increased and it was necessary to intensify procurement and distribution controls. Production actually declined in May
industries based on agricultural raw materials, and the growth rate of industrial output was rather low. The levels of public and probably of private investment in the economy were lower than in the previous year. There was, nevertheless, a marked rise in the price level, particularly of food grains. The balance of payments came under severe pressure because of lower exports of agriculture-based products and larger payments from export earnings on account of food and fertilizer imports and debt servicing.(49).

While judging the external assistance contribution to India's import substitution measures and the concomitant steps towards a self-generating growth, the official opinion(49) is that one should not take a narrow view of the matter by using quantitative assessment that aid has contributed so much to domestic investments, promoted industrial capacities and reduced the import-content of domestic supplies by a certain percentage, saved foreign exchange expenditure by a certain amount and so on. One may feel that the benefit of external assistance is that it bridges the gap between what the country is able to save and what it is investing. But the representative of the Ministry of Finance in his evidence before the Venkitasubrahmaniam Committee stated(50) that the contribution that the foreign aid makes is somewhat larger than what this

50. Ibid., p. 233-24
formulation suggests. In the absence of foreign aid, it would not have been possible for India to have converted her domestic savings into foreign exchange, even if the former is available as per investment requirement. It is not that our domestic effort is a complete substitute to what we can get from abroad. Foreign exchange is still the biggest bottleneck. Regarding the impact of foreign aid, it is said that by itself it is not an instrument of progress or regress. In the scheme of planned development certain effects like the declining proportion of imports in various categories are the result of the sum-total of investment and all economic actions and foreign aid is only a part of it. Therefore, it is not possible to isolate the effect of foreign aid as it is a problem of total resources. Foreign aid is, therefore, a consequence of a set of other deterrents, not a concomitant or a precedent.

The disquieting economic situation occurred due to a shortfall in agriculture and that "a return to growth with stability" would be possible "as soon as weather conditions permitted". But the emphasis in the plan strategy, from its very inception, been on the

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attainment of self-sufficiency in food, raw materials and other intermediate products, the sky-rocketing of maintenance imports to perpetuate the tempo of industrial development, growing balance of payment deficits, the tenor of inflationary rise in prices and increasing dependence on external assistance could have been kept within limits and a solid foundation for self-reliance in the Indian economy could have been laid much earlier. The strategy of unbalanced growth with its relatively heavy emphasis on the development of basic and key industries beginning from the Second Plan, quite well fitted the pattern of external assistance flow but it was responsible for the imbalances that developed later on. The plan strategy that India had followed could have been well maintained with minimum obstacles, had her export tradeintro a breakthrough in the past. But with her quasi-stagnant export trade for nearly two decades coupled with fast increasing debt servicing liabilities, India is now facing enormous difficulties to sustain her development programmes.

The official view that external assistance is merely a part of the overall financing process and as such, its impact on building of capacities in different sectors, creation of technical skills and indigenous know-how and its impact on country's balance
of payments cannot be strictly assessed. This is generally true.

More or less, similar views are expressed by V.K.R.V. Rao and Harun Harun when they say that the quantification of the contribution of aid to the productive capacity of a country is for obvious reasons, an elusive task. The Venkatasubbiah Committee, however, recommends that a study of the impact of the external assistance on the development of the various sectors of the country's economy by an independent panel of economist and financial experts would be of definite advantage in so far as the conclusions that might be drawn could provide guidelines for future policies in this direction.


knowing fully well the various limitations involved in making a quantitative assessment of the impact of the external assistance on the growth of industrial capacities, import substitution and saving in foreign exchange, an attempt has been made here to assess it on a selective basis. The difficulties of such an aggregative approach arise primarily due to the

52. op. cit., p. 39
53. op. cit., p. 227.
fact that external assistance promotes both directly as well as indirectly the growth of capacities in any sectors. In countries where foreign exchange is a major operative constraint, its availability through aid not only directly overcomes the obstacles to growth in certain particular sectors in which they are being utilised, but it also indirectly bolsters up the productive capacities in some other sectors. That is why, it is said that a mere reckoning of the direct or proximate contribution of aid does less than justice to its true contribution. Such indirect impact of external assistance on capacity creation may well be summarised through Jiroucham's backward and forward linkages, which are again not strictly quantifiable.

A somewhat rough estimate of the direct contribution of foreign aid to the growth of industrial capacities can be made from the operation of a few selected major engineering goods industries in the public sector. As shown in Table-10, total foreign exchange utilisation in 23 heavy and engineering goods industries in the public sector up to the end of March 1967 was Rs.1022 crores including a sum of Rs.631 crores as foreign loans. Consequently, the growth of

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capacities and output in such industries had resulted in a saving of foreign exchange to the tune of Rs. 234 crores in the same period. If foreign aid accounted for nearly 65 per cent of the total foreign exchange requirements of these industries, it can, therefore, be said that all contribution to the saving of foreign exchange is to the tune of Rs. 105 crores during the period under review. As has been discussed earlier, foreign exchange being the real bottleneck, India could not possibly have realised the capacity creation in these industries, but for the fact that foreign aid contributed nearly two-thirds of the total foreign exchange needs of such undertakings. In the case of some industries, aid contributed nearly the whole of foreign exchange requirement or a major portion of it.

Most of these undertakings in the public sector, with the exception of a few, operated much below their capacities in 1962-67, i.e., the average capacity utilisation was only 53 per cent. A fuller utilisation of the increased productive capacity in

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56. Ibid.
those industries can be sustained through an appropriate increase in the rate of investment, increasing provision of maintenance imports and through an increase in the level of non-project assistance. The degree of foreign exchange savings, however, depends on the rate of capacity utilisation in these industries. With the existing productive capacity and on the basis of prevalent shift working, it is possible to attain the target growth rate of 3 to 10 per cent in industrial output during the Fourth Plan period and with multi-shift working this rate may increase up to 14 to 15 per cent per annum. There was a sharp deterioration in the rate of growth of industrial output in India for a period of six years, i.e., 1966 and 1967. This may be illustrated with reference to the index of industrial output as has been given below.

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### Industrial Output

<table>
<thead>
<tr>
<th>Year</th>
<th>General Index</th>
<th>Percentile change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>103.2</td>
<td>+ 9.2</td>
</tr>
<tr>
<td>1962</td>
<td>119.7</td>
<td>+ 9.1</td>
</tr>
<tr>
<td>1963</td>
<td>129.7</td>
<td>+ 3.4</td>
</tr>
<tr>
<td>1964</td>
<td>140.0</td>
<td>+ 5.6</td>
</tr>
<tr>
<td>1965</td>
<td>152.7</td>
<td>+ 3.1</td>
</tr>
<tr>
<td>1966</td>
<td>152.4</td>
<td>-19.0</td>
</tr>
<tr>
<td>1967</td>
<td>151.6</td>
<td>-29.0</td>
</tr>
<tr>
<td>1968</td>
<td>151.1</td>
<td>+ 3.3</td>
</tr>
<tr>
<td>1969</td>
<td>172.3</td>
<td>+10.7</td>
</tr>
</tbody>
</table>

**Sources:**

Among many reasons for a decline in industrial output in those two years, two very prominent factors are shortage of raw materials and a decline in non-project assistance during 1966-68. The prospects for a fuller capacity utilisation in the industrial sector during the Fourth Plan period appear somewhat remote because of certain obvious reasons. Firstly, the investment-income ratio declined from a peak level of about 15 per cent in 1963-64 to a mere 10 per cent in 1966-67. On the other hand, not external assistance as percentage of national income.
tends to decline from 1.6 per cent in 1956-57 and 1967-68 to only 1 per cent during the remaining period of the Fourth Plan. Coupled with this is the under-estimation of imports by the planners in the Fourth Plan period. The Planning Commission envisaged a growth rate of imports at only 5.5 per cent per annum as against the average annual growth rate of 7.5 per cent between 1954-55 and 1964-65.

In his survey of the current situation in the Indian Economy, Dr. V.V. Shat has highlighted the basic imbalances which have resulted out of India's growth efforts in the past. Dr. Shat's contention is that the policy makers in India face a curious dilemma today. "Investment rate cannot be stepped up with the shortage of resources and a decline in external assistance; resources cannot materialise via fuller utilisation of productive capacity in the industrial sector without an appropriate rate of investment." There is ample evidence to suggest that there was a severe cut back in domestic investment and the level of imports resulting in excess capacity and slowing down of growth rate.

82. Ibid., p. 304-5. Dr. Shat points out two types of imbalances in the Indian economy currently which were reflected in severe inflationary pressures. They are: the saving-investment imbalance and the imbalance between the growth rate of agriculture and that of industry.

89. Ibid., p. 305-306.
due to the recurring foreign exchange crises between 1964-65 and 1967-68. According to Dr. Watt, this period marks a phase of development which necessitated a very painful "adjustment of the imbalances that occurred in the Indian economy."

The foregoing discussion clearly reveals that a quick realisation of India's objective of a self-reliant growth could be feasible only if determined efforts are made to remove these imbalances. The growth of saving-income ratio and that of the investment-income ratio should be stepped up to an appropriate level to sustain the target rate of growth of 5.5 to 6 per cent per annum in the Fourth Plan. Estimates of imports in the Fourth Plan needed an upward revision in order to liberalise the imports of raw materials, spares, components and other intermediate products with a view to permitting capacity utilisation in the industrial sector. A relatively fast rate of growth of exports could serve this purpose and the next chapter deals with the problem of export promotion from the point of view of a self-sustained growth. The current level of net external assistance flow is not adequate for the purpose of eventually sustaining a 5.5 to 6 per cent rate of growth in.

60. Ibid, p. 804.
India's Perspective Plan and for some more time to come this level should increase if the basic purpose of foreign aid is to be fulfilled. The proportion of general purpose non-project aid in the total external assistance should increase to enable India to meet her mounting debt service obligation and badly needed maintenance imports. Last but not the least, from the point of view of an externally viable rate of growth of the Indian economy, is the availability of foreign loans and credits on relatively easy terms and this aspect of the problem is examined in Chapter-2.