INTRODUCTION

This thesis attempts to examine the impact of liberalization of import control policy on industrial development in India in the light of the experience of the heavy electricals industry in India. The thesis is divided into the following chapters: (i) Evolution of import control policy and its liberalization in India; (ii) Evolution of heavy electricals industry in India; (iii) Growth of output and capacity utilization in heavy electrical industry; (iv) Technological collaboration and indigenous technological development in HE(I)L and BHEL; (v) Profitability and competitiveness of HE(I)L and BHEL; (vi) The relationship between aid and import; (vii) The impact of liberalization of import control policy in 1978-79 with regard to the import of capital goods in the power sector on BHEL. The basic argument of the thesis can be summarized as follows.

In the first chapter we discuss the evolution of import policy and its liberalization. Import control policy implies all the policies of a Government e.g. quantitative restrictions, tariffs etc. to control import. However, we are using import control policy in a narrow sense. In this narrow sense, import control policy means quantitative restrictions on import. Quantitative restrictions are used by the Government of a country to ensure that the upper limit of value of import is decided by the Government.
Assuming that actual value of import is not less than the upper limit decided by the Government, it implies that within the same quantitative restrictions regime there can be different levels of import depending on what the Government of a country considers desirable in a certain period say a year. In this context we find the concept of import permissiveness quite useful. Import permissiveness means the extent to which the Government of a country permits import. Thus greater import permissiveness implies the willingness on the part of the Government to allow larger import. The import permissiveness depends on so many factors such as development perspective of a government, its domestic resource position, balance of payments position etc. The concept of import permissiveness is a useful concept because it helps us to understand why the value of imports may vary within a given import control regime. We feel that import control policy was liberalized in India in 1976 onward mainly as a result of fiscal crisis of the State. In India, a large part of import in general and import of capital goods in particular has been financed by official foreign aid. A major share of official foreign loan comes from IDA and IBRD which allow international competitive bidding - in which the domestic firms can participate and they are given 15% price preference. So the impact of greater dependence on aid on domestic
industry will be dependent on (depending on share of IDA/IBRD loan in total loan) the competitiveness of the domestic firms. Thus the question of competitiveness of domestic firms which were established during the control regime is involved. In our contention, this question can be properly answered only when we look at the development of the industry or firm concerned in a historical perspective. To put it differently, we have to examine the rationale of the decision to establish a particular domestic industry/firm, technical collaboration and indigenous technological development, growth and capacity utilization, the determinants of profitability etc. This is what the theses does in the following chapters in the context of the heavy electricals industry in India; for this purpose we take BHEL which has near monopoly in major products of heavy electricals industry in India.  

In the second chapter we discuss the decision to establish Heavy Electricals India Ltd. Whether the Government of India considered questions such as the size of the market or not which have a bearing on the competitiveness of the firm. We also discuss the causes of the delay in the establishment of HE(I)L because delay raises the capital cost which has a negative effect on the competitiveness

1. See Chapter 3.
of the firm. We also discuss the projected capital-output ratio of the HE(I)L when it was established. The conclusion of the chapter is that the decision to establish HE(I)L did take into account the size of the market - and the expected size of the market was found to be sufficient to have an optimum size plant. Second, the delay in the establishment of HE(I)L was not due to the import control regime but first, because of the conflicting opinions of Ministry of Commerce and Industry and Ministry of production on the question of establishing a new factory for producing heavy electrical equipments in the public sector and later because of the lack of foreign exchange. About high marginal capital-output ratio the conclusion of the chapter is that though it was initially high, this was more because of inexperience, and later it was brought down.

In the third chapter we discuss the growth and capacity utilization of HE(I)L, and BHEL. The conclusion of the chapter is that in the period 1962-63 to 1972-73 the rate of growth of output of HEL was quite high and this was significantly correlated to import as percentage of total availability. In the second period 1974-75 to 1984-85 the rate of growth of BHEL was quite low and it was more significantly correlated to the addition to capacity in the power sector than to the import as % of total availability. These conclusions are also valid for heavy electricals
industry in India as a whole.

In the fourth chapter we discuss the technological collaboration and indigenous technological development in HE(I)L and BHEL. The conclusion of the chapter is that while significant indigenous technological development took place in the period 1962-63 to 1972-73, this process was thwarted in the second period i.e. 1974-75 to 1984-85 because of too many collaborations. While we cannot rule out the possibility of BHEL going for these collaborations to increase export, it seems rather unlikely to us. We think that more important reason for BHEL going for these collaborations was to get tied aid from West Germany.

In the fifth chapter we discuss the profitability and competitiveness of BHEL and HE(I)L. We find that in the period 1962-63 to 1972-73 there was a strong positive relationship between profit margin and capacity utilization. This will be so particularly in the initial phase when capacity utilization is low. In this phase (assuing relative prices to be constant) 1% increase in capacity utilization will lead to much higher increase in profit margin. On the other hand in a situation when capacity utilization is fairly high one per cent increase in capacity utilization will lead to much lower increase in profit margin. This explains why there
was a strong positive relationship between capacity utilization and profit margin in the initial period i.e. 1962-63 to 1972-73 in case of HE(I)L while the relationship was insignificant in the case of BHEL in the period 1974-75 to 1984-85. This positive relationship between profit margin and capacity utilization could not be observed in the second period i.e. 1974-75 to 1984-85. The reason is probably that relative prices did not remain unchanged during the period. Secondly, from a loss making concern, BHEL developed into a profitable concern. Thirdly, BHEL has been competitive in international competitive bidding but it has faced losses on these jobs because it has been quoting too low a price. Finally the chapter concludes that the quality of BHEL's products are not necessarily worse than that of imported equipment. Quality of BHEL's equipments, measured in terms of plant load factor has improved in recent years.

In the sixth chapter we go back to the question of relationship between import and aid. The conclusion of this chapter is that both aid and import have been increasing in the power sector since 1974-75 and particularly since 1978-79. The greater dependence on aid is because of growing fiscal crisis and not because of capacity constraints in the power equipment sector. A large part of import has been financed by bilateral aid. In the case of bilateral aid the competitiveness of the domestic
firm does not matter because bilateral aid is source tied. However, increase in IDA/IBRD aid has not led to larger import because BHEL has been able to win a majority of the global tenders.

In the final chapter we discuss the liberalization of import control policy in 1978-79, which allowed global tendering in capital goods for power sector even if these products are indigenously available. The conclusion of the chapter is (1) the significance of liberalization is limited because (a) in case of IDA/IBRD aid global tendering was the practice even before liberalization in 1978-79, (b) even before the liberalization and after it bilateral aid has been sources tied, (c) increasing dependence on IDA/IBRD aid has not hurt BHEL, much because BHEL, being competitive, has been able to win majority of the global tenders. However increasing dependence on bilateral aid has hurt BHEL.