A B S T R A C T

The term import substitution has recently gained vitel importances in development literature. The developing economies are faced with structural problems in the realm of international trade. Severe foreign exchange crisis, adverse terms of trade and stagnation in their export earnings have resulted in a threat of their overall economic development. To overcome these problems they have chosen the path of development through industrialization for the domestic market. Import substitution in these economies has been inspired by the need to relieve pressure on their balance of payments.

One of the prime concern of the developing countries is to raise the per capita incomes and living standard of people. The successful pursuit of this aim involved planning for the efficient and coordinated development of the major sector of the economy. Industrialization is seen as a means towards this end and so is economic diversification. Their role in raising income and reducing dependence upon hard hit traditional lines of production and exports as well as in nurturing new skills and techniques, is clearly recognised by the developing countries in their growth strategies. The twin techniques of import substitution and export diversification
are being vigorously used to assist in achieving these aims. Most of the developing countries are moving in this direction and have been doing so for the last two decades with varying degree of success.

A number of economists advocated industrialization based on import substitution, also known as the import-substitution industrialization because of benefits associated with the pursuit of the policy. Under this policy industries are established to produce goods that were previously imported. These industries mainly cater to the domestic market and they are protected against foreign competition through tariffs, quotas and other restrictions. Hence the policy also came to be known as inward-looking strategy. Import substitution policy has been observed as a device to overcome the balance of payment problem and to escape from economic stagnation due to stagnant export earnings and on traditional structure of the economy. Import substitution policy is sometimes considered to be essential for successful export promotion and export diversification programmes as well.

Import-substitution policy has been recognised as an effective instrument for industrialization in developing countries with long term objectives. Indigenous research and
development capabilities could also be encouraged through the policy of import substitution for further growth of industrialization. The policy was expected not only to promote economic growth but also to initiate a self sustaining growth mechanism through the cycle of import saving-reinvestment increased productivity-higher profits etc.

Nevertheless, planning for import substitution should be undertaken with extreme care, in order not to waste scarce resources or lead to frustration and disappointment and reduce the initiative and momentum for future growth. The cost and quality should be paid proper attention in case of import substitution. One of the criticism levelled against import substitution is that, it diminishes and retard the growth after an initial expansion, which has been found correct in Indian economy. The other criticism are, the incompetitiveness of exports, due to high cost and inferior quality of import substitutes. These consideration emphasize the necessity for close scrutiny of proposals for domestic production of imported good.

The inducement of structural changes, accompanying a policy of import substitution has been a fairly important criteria in guiding the allocation of investible resources for industrial development in the Indian economy. Since the beginning of five years plans in 1951, the domestic production
of hitherto imported (and importable) goods has been attempted over a broad range of industrial products with varying degree of success. The organised industrial sector of the country grew very rapidly under the policy of import substitution.

The structural changes accompanying and resulting from such policies are being induced within the general context of development plan and indeed constitute an integral and important part of these plans. Thus a study of process of import substitution and of their implication and repercussion on industry and trade and upon basic economic aggregates such as employment, production, income, capital formation, research and development etc. is essential.

One of the basic objectives of this study is to examine the role of import substitution policy in Industrial Development of India. The impact of import substitution on pattern of industrial development and the foreign trade has been discussed in detail in this study. It was essential to study the relative importance of import substitution in sources of output growth to highlight and analyse the role played by import substitution in output growth in Indian manufacturing sector during 1960-80. Various measures of import substitution have been used in analysing the above purpose.
It has been observed from this study that import substitution permitted an initial spurt in growth of manufacturing industry. Indigenous producers moved in rapidly to take over the existing domestic markets that had been previously been created by imports, and the national income was observed to increase relatively rapidly until the mid 1960's. By this time the limits of imports were reached. Industrial development proceeded at an increasing pace through first three plans.

Due to set back to import substitution, capital goods industries suffered a set back, reflected in a negative rate of growth during the remainder of 1960's and a substantial fall in their capacity utilisation. Industrial production declined sharply during seventies indicating a stagnation in industrial growth.

The decline in industrial growth cannot be blamed only due to import substitution itself, but it was due to faulty implementation of policies and indigenous causes. Otherwise, import substitution in Indian economy have been successful in altering the economic structure in Indian economy. Structural changes have been observed in composition of exports and imports. India is a major exporter of engineering
goods industries during the last thirty years. Import dependence of consumer goods and intermediate goods has declined significantly. Import substitution in capital goods industries has been observed as a significant one, exports and imports has become more diversified due to import substitution.

It has been observed that despite the progress in import substitution, it has not been able to reduce trade gap. The foreign exchange cost of import substituting activity is still high and exports of manufacturers are not increasing due to tough competition in international market. Import substitution has been criticised by many economists for stagnating exports earnings.

It has been observed that import substitution has helped in reaching Indian economy at the mature and advanced stage of industrialization. It has brought structural change in industrial production and imports. The non-traditional industries grew at a significant rate during the last thirty years. It has generated employment, income and capital formation in Indian economy. But still capital output ratio and capital labour ratio is high which indicates a low rate of return and the increasing capital intensity in manufacturing industries.
Relative importance of import substitution has declined over the period under study since 1965. Many industries during seventies indicated negative import substitution (increasing imports). It shows it has been responsible for retarding the growth in industrial sector. In some of the industries import substitution is nearing self sufficiency due to zero import availability ratio.

Domestic demand expansion emerged as a potential factor for industrial growth in India. It was realized that indigenous factors are more growth-oriented relative to exogenous factors.

The significant export growth emerged during seventies indicating shift in trade policy.

Finally, the study as a whole, under lines, the fact that the major stimulus behind the acceleration of the process of industrialisation has been provided by the autonomous and indigenous growth of the Indian economy. It has been observed that industrialization is largely due to the emergence of new, modern, dynamic and growth oriented industries, in which import substitution policy played a key role.