

A STUDY OF FACTOR INTENSITIES IN INDIAN MANUFACTURING SECTOR WITH REFERENCE TO IMPORT SUBSTITUTION

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INDIA'S industrial development has taken place within the framework of extensive economic planning wherein a major role has been assigned to industrialisation via import-substitution. This has ushered in the pattern of industrial growth which has encouraged the growth of capital intensive industries. To support such a pattern a vigorous policy of tariff and non-tariff protection was pursued. The overall impact of this strategy of industrial growth on factor-use has been noted at various places. However, different industries respond differently in reacting to the policy frame. Such a response at the disaggregative level has evoked a keen research interest in recent years. This has taken the form of industrywise studies of factor-use by means of aggregate production functions. We propose to analyse the changes in factor intensities for the whole set of 3-digit level industries and connect it to factor intensities of imports.

For the estimation of factor intensity or proportions one of the ways is to estimate the direct and indirect requirement of labour and capital within input-output frame. It can also be studied as noted above by means of production function.¹ This study does not make use of any of these methods. Instead we take recourse to a different but easier method for the problem at hand.

For the estimation of factor intensity we shall make use of value added per employee as a proxy for an industry's capital intensity a measure proposed by Hal Lary.² According to this method differences from industry to industry are here assumed to measure differences

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- 1 (a) R. Bharadwaj, "Structural Basis of India's Foreign Trade", Bombay, 1962.
- (b) B. S. Minhas, "An International Comparison of Factor Costs and Factor-use", Amsterdam, 1963.
- (c) Asit Banerji, "Capital Intensity and Productivity in Indian Industry", Delhi, 1975.

² Hal Lary, "Imports of Manufactures from Less Developed Countries", National Bureau of Economic Research, New York, 1968.