

NO-6

**A Structural Study
of
India's Trade Dependence
(1956-75)**

**S. V. BOKIL
VIDYA PITRE
R. MURTHY**

**GOKHALE INSTITUTE OF POLITICS AND ECONOMICS
PUNE 411 004**

Artha Vijnana Reprint Series No. 6

A STRUCTURAL STUDY
OF
INDIA'S TRADE DEPENDENCE
(1956-75)

**A Structural Study
of
India's Trade Dependence
(1956-75)**

**S. V. BOKIL
VIDYA PITRE
R. MURTHY**

**GOKHALE INSTITUTE OF POLITICS AND ECONOMICS
PUNE 411 004**

• Gokhale Institute of Politics & Economics
Pune 411 004

Reprinted from *Artha Vijnana*
Vol. XXIII No. 1, March 1981

Rs. 50

PRINTED IN INDIA
by N. Rath at Aksharchhaya, 2035 Sadashiv Peth,
Tilak Road, Pune 411 030 and Edited and Published by him at
Gokhale Institute of Politics and Economics, Pune 411 004

FOREWORD

The present study is a Phase-I report on India's Trade Dependence where the authors analyse the case of imports. Their main contention is that the over all indicator of trade-dependence in the form of Export/GNP and Import/GNP ratios conceals the closer interdependence that exists between imports on one hand and the manufacturing sector on the other. Since input relations from imports to industrial output are not known, because imports are not classified according to use, the authors thought it best to study the pattern of imports vis-a-vis the pattern of industrial output. But they discovered the lack of comparability in the data on imports and the data on industrial output because of the different schemes of classification followed by the respective agencies collecting these data. A scheme of correspondence was devised to overcome the difficulties of comparability in the data and it thus became possible to reclassify the data on imports in line with the ASI's 2-digit and 3-digit industry classification. Since such a correspondence is being used for the first time, it seems that the results obtained are not only new but also useful. Thus armed with comparable series of industrial imports and industrial output for 1960-75 the authors proceed to study systematically a number of questions.

First, they take up the question of structural change in industrial production and industrial imports and succeed in showing the vast structural changes that have swept the manufacturing sector and the import sector in India over 1960-65. The authors next take up the question of inter-dependence between industrial production and industrial imports and established how import/availability ratios and other measures of import substitution, including those furnished by Chenery, throw light on this inter-dependence. Their results show that the process of import substitution provided a major stimulus behind industrial growth during 1960-70 and that it turned to be a negative factor during 1970-75. In the remaining part of the study the authors gather further evidence in support of these findings. Thus they obtain estimates of structural parameters in the form of production and import elasticities by two different methods. The real GNP per capita and the volume of industrial output are used alternatively as independent activity variables. To capture the policy impact of import control measures the capacity to import, properly defined, is used as a proxy variable. The notable result in these exercises is that the trade policy variable did not indicate any significant impact on imports and industrial production.

Thus, the study supports the well known finding of Chenery and his associates relating to structural change and industrialization ; namely, that size and the resource base and not trade policy are the major factors that determine the pattern of industrial growth.

The study received generous financial support from the Indian Council of Social Science Research, New Delhi and we are grateful to them for this assistance.

Gokhale Institute of
Politics & Economics
Pune 411 004
April 12, 1979

V. M. Dandekar
Director

CONTENTS

| | |
|--|------------|
| Foreword | v |
| 1. Introduction | 1 |
| 2. The Trade Development Nexus | 4 |
| 3. Developments in Industry and Foreign Trade | 9 |
| 4. An Analysis of Structural Change in Industrial Production and Industrial Imports | 21 |
| 5. India's Import Substitution 1960-75 | 51 |
| 6. Import and Production Elasticities-I | 91 |
| 7. Import and Production Elasticities-II | 102 |
| 8. Summary and Conclusion | 120 |