

Import-Substitution in Indian Engineering Industry, 1970-84

Abdul Kareem P.

This paper studies in detail the degree and magnitude of import substitution [IS] that has taken place in the Indian Engineering Industry during the period 1970-84 and the relative contribution of IS to output growth in the engineering industry during the same period. For the purpose of rigorous study engineering industry's experience with IS is reviewed with much quantitative techniques. The IS policy had been the messiah of prosperity in Indian industry for nearly two decades. In view of attaining the objectives of indigenisation and self-sufficiency various protective measures have been taken, but the vigour with which these policies were initiated did not seem to last. As a dynamic economy demanded an alternative mixture of policy programmes serious basic changes have taken place in the trade front in the Indian engineering industry also. The shift in policy emphasis towards import liberalisation so as to improve the modernisation and competitiveness of domestic industry has been one of the thrust areas of interest in 1980s. But, as the implications and impact of such policy changes are beyond the scope of the present study we restrict our analysis to the pattern of IS observed and its contribution to output growth in the engineering industry.

The phenomenon of IS is commonly understood as the substitution of imports by domestic production. There are a number of studies [Lewis and Soligo, 1965; Clark, 1970; Bhagwati, Desai, 1970; Steur and Voindas 1965] attempting measurement of IS. Indian engineering industry's experience with regard to IS is here measured following the methodology one developed by Padma Desai [Desai 1972]. In that study she measures IS by choosing four years i.e., 1951, 1957, 1961 and 1963 for three important groups of commodities namely, consumer goods, intermediate and investment goods. Padma Desai ranks industries according to the degree of IS on the basis of measures described below:

- 1) Change in the proportion of imports to supply:

$$\frac{M_1}{S_1} - \frac{M_2}{S_2}$$

where M_1 and M_2 = Imports in the period 1 and 2.