

CHAPTER I

INTRODUCTION

The period beginning with 1951 happens to be a crucial one in India's economic history. It marks the beginning of the era of planning. A popularly elected government went in for massive development effort allocating public resources and directing private resources in accordance with pre-determined social priorities. This process has continued for nearly thirty years. It is important to know the impact of the pattern of economic growth during this period on the external trade relations. This is the main focus of this study.

Until now, no systematic attempt has been made to unearth this relationship of India's economic growth with her foreign trade — partly because of the widespread belief that foreign trade is an unimportant sector in India's total economic set up. The support for this view is sought in the fact that large countries tend to have a deep and wide market, and a diversified resource-base. This allows their growth to be inward oriented and consequently less dependent on foreign trade as revealed by the low ratios of exports and imports to their gross national product (GNP). India is thus shown as a large country and a large economy characterised by low export/GNP and import/GNP ratios. Moreover, it is further shown that over 1951-72, these ratios have declined from 10 per cent to 4 per cent. From this it is naturally concluded that in India foreign trade has played a small and declining role in the economic development during 1951-75. However, this would be a rather superficial view. A proper understanding of the role of foreign trade in India's post-war economic development requires disaggregative analysis. It is our conjecture that the disaggregative analysis may delineate a subset of foreign trade and industry where their mutual interdependence may be quite high. This means trade after all is not an unimportant factor in relation to industrial growth. The reason why we think this interdependence might be high is that during the last thirty years the developmental effort has taken the form of pushing ahead broadly on the industrial front. Like in many countries, in India too, industrialization and economic development have been treated as synonymous. As a consequence, massive public sector and private sector investments in the industrial sphere have turned the manufacturing sector into the position of a leading sector. This role for the industrial sector must imply that, wherever possible, the foreign trade sector must perform the role of a