Chapter - I :

INTRODUCTION

Importance of the Study :

Foreign trade occupies a place of strategic importance in the Indian economy. It indicates through imports what types of goods a country lacks and how much of them it needs or is able to buy.

The impact of industrialisation on imports in a developing economy is significant. In a developing economy one fact has tobe recognised and constantly borne in mind viz., imports will continue to increase rather than decrease inspite of the best efforts made at import substitution. Moreover, developing countries are often faced with the problem that in some cases import substitution may be physically impossible for want of a sufficient diversity of natural resources, while, in some other cases, it may be economically unduly wasteful. There is, however, a danger that import saving might reduce the very tempo of development and an indiscriminate import substitution could increase the import bill. Prof. G.A.D. MacDougall[1] has been

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MacDougall, G.A.D. "India's Balance of Payments". The Bulletin of the Institute of Statistics, Oxford, May 1961.

right in suggesting that indiscriminate effort to produce everything might lead to serious economic troubles.

In terms of the contribution of imports to India's economic development, the Indian economy, being unable to produce locally all the machinery, components and materials needed for the implementation of its development plans, has of necessity to look to the imported supplies. The availability of such supplies from abroad means that the pace of development need not be held up by the bottlenecks in the domestic sources of supplies. Imports, therefore, are being called upon to provide some of the most vital and strategic goods for India's economic development and their availability has not only added to the supply of investible resources but has also imparted a much needed element of flexibility to India's planning effort.

Objectives :

As pointed out above that imports play an important role in the development of an economy, the present study attempts to analyse various aspects of Indian imports from the following angles :

I (A) For almost each and every country the recorded aggregates of imports are in terms of imports at current prices. If aggregates are used over a period of years, they show only the combined effects of changes in the volume of imports and of prices. However, one of the essential problem is to separate out the effects of two factors to determine how much of change in value is due to changing prices and how much change in value arises because of changes in the volume of imports.

Imports aggregates comprise a heterogeneous group of commodities for there is no significant quantity measure common to all. It is only through the construction of index numbers that it is possible to get any measure of changes in volume and prices of imports.

So far as the price and quantity indices are concerned, the Central Statistical Organisation, Government of India, has published for different commodity groups and for different years. But these indices are available only for 29 groups of commodity imports. Added to this point is the fact that these indices are not available with the same base year for the year 1950-51 to 1976-77. Another limitation of these available indices is that for certain years these are available for financial years, while for others in calendar years. All these limitations make it difficult to compare these indices for different years of the same commodity group.

In order to examine variation and trend in the price and quantity indices, this study attempts to construct price index number according to Paasche Formula and quantum index number according to Laspeyres Formula.

Though this study has followed the same formula which is used by the Central Statistical Organization, Government of India, it has improved the methodology with regard to the number of commodities included in the construction of the index number and with regard to the adjustment for incomplete coverage of different commodity imports.

With the above improvement in the construction of index number over the methodology followed by the Central Statistical Organization, this study has constructed price index number and quantity index number for 173 commodities (i.e. all the commodities which are classified at 3 digit level of the RITC 1965 group) as against 29 different commodity groups provided by the Central Statistical Organization for the years 1950-51, 1955-56, 1960-61 and 1965-66 to 1976-77 at the 1970-71 price level.

(B) Another problem is to analyse the trend in the relative prices of imports of agricultural products and manufactured products. The conviction has been widespread that compared to prices of manufactured goods, prices of agricultural products inexorably decline. As Singer argued "it is a matter of historical fact that ever since the seventies the trend of prices has been heavily against sellers of food and raw materials and in favour of the sellers of manufactured articles".[2]

II To start on the path of progress under developed countries need large imports of capital goods, intermediate goods and even consumer goods for subsistence. Until 1947, India had a pattern of trade which was substantially that of a colonial and agricultural country. However with the impressive industrial development since independence India's foreign trade has undergone a complete metamorphosis and it is no longer confined to a few countries trading in a few commodities. India has been importing all these commodities i.e. consumer goods, capital goods and intermediate goods for setting up of economic infrastructure, heavy industries and import substitution.

It is, therefore, essential to examine the extent to which magnitude of imports as well as structure of imports have undergone a change. The use of current prices and constant prices is not a matter of indifference. Divergence

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2 Singer, H.W. "The Distribution of gain between investing and borrowing country. <u>American Economic Review</u>, May 1950.
pp. 473 to 485

in relative price of different commodity groups results in shift in commodity share. Therefore, this study attempts to examine the magnitude of imports and structure of imports at micro level and at macro level in money term as well as in real term.

In the macro analysis, salient features of imports and changes in imports have been examined in terms of following parameters :

i) Share of imports to NNP.

ii) Share of Indian imports in world total imports.

iii) Growth Rate of Imports : In order to find out growth rate of imports of different commodities, we have fitted the semilog function to the imports of different commodities at the three digit level of RITC group at constant prices from 1965-66 to 1976-77. Algebraically, it may be written as $Y = ae^{bt}$ where b denotes the growth coefficient.

iv) Instability Coefficient for imports of different commodities: After analysing and reviewing the various methodology for estimating instability coefficient, this study has followed the methodology given by J. Coppock. This Coppock log variance method of calculating instability coefficieht is as follows :

$$V \log = \frac{1}{N-1} \sum \left[\log x_{t+1} - \log x_t - \frac{1}{N-1} \sum (\log x_{t+1} - \log x_t) \right]^2$$

Where N and x are the numbers of years and value of import payments respectively and subscripts indicate the date.

Apart from the macro behaviour of trade activity, structural changes have been examined at the micro level. This micro level of trade structure mainly refers to commodity composition of imports. In regard to structural changes in the commodity composition, this study has examined the following hypothesis :

(i) What is the degree of concentration in the commodity composition of import? Has there been any change in the degree of concentration over time?

This concentration index is useful to analyse as to what extent the economic fortune of a country depends on one or few commodities. Following Michaely Michael commodity concentration index is defined as $C = \sqrt{\sum (x_i/x)^2} \cdot 100$ where x_i refers to imports of i^{th} item in India and x refers to total imports in India in some specified year. Following the above formula, we have calculated commodity concentration index both at current prices as well as at constant prices at the three digit level of the RITC group for the years 1950-51, 1955-56, 1960-61 and 1965-66 to 1976-77.

(ii) (a) Is there any shift in the share of different commodities in the total imports of a country?

We have examined this question for different groups of commodities viz., consumer goods, capital goods, intermediate goods for producing consumer goods, intermediate goods for producing capital goods etc. in money term and in real term.

(b) It is argued that the development of the economy generally affects the pattern of imports of a country. In order to find out whether there is or not a relationship between the share of different commodity imports to total imports and level of development of a country. We have fitted a bivariate regression model of the form $y = \alpha + \beta x$ (where y and x refers to the percentage share of commodity imports to total imports and per capita income respectively) to the time series data for the year 1965-66 to 1976-77.

(III) This study has also attempted to examine various aspects of oil price hike in relation to Indian imports i.e. to say impact of tremendous increase in oil price on the India's balance of payments, impact of increase in oil price on the share of imports of crude oil and petroleum products in total imports, share of imports of crude oil and petroleum products in India's total export earnings and share of oil in total energy consumption in India.

(IV) Bilateralism and Indian Imports :

Trend and structure of imports among other things depend on the trade policy adopted by the country concerned. Since the installation of the national government in 1947, India's trade policy underwent basic changes to suit the objectives of her rapid development. Among the important features of post-independence trade policy, three of them may be mentioned. These are related to control of imports, promotion of exports and organization of trade. In the sphere of organization of trade two major things need to be mentioned: (i) State trading and (ii) bilateral trade agreements with many countries particularly with socialist countries.

Since independence, government of India has entered into a number of bilateral trade and payment agreements with different countries of the world. This study attempts to examine following aspects of the bilateralism in relation to Indian imports for the period 1966 to 1977.

(1) Why India has entered into a number of bilateral trade and payment agreements with different countries of the world.

(2) It is argued that the use of bilateral trade and payment agreements for trade promotion violates well set tenets of international trade which can be achieved in

international trade, i.e. buying from cheaper sources and selling to dear markets and economical utilization of resources. This brings up the question of comparative price advantage which India obtains on her imports from countries having commodity agreements vis-a-vis other countries.

(3) It is also interesting to examine the total amount of gain or loss involved for different commodity group by importing bilaterally from the countries which have included these commodities in their list of goods to be traded as against other countries of the world. Here we have applied unit import price realized from the other countries of the world to the quantity imported on the bilateral basis from the countries which have included these commodities in their list of goods to be transferred. If this value is higher than what was realized on the bilateral basis, we can say that India is in the advantageous position to import on the bilateral basis and vice-versa.

(4) It is also proposed to examine whether there is or not a definite trend towards the proportion of total imports of the particular commodity from the country having commodity agreement with India.

(5) Whether also countries under commodity agreements remain the same through out the period under consideration for different commodities or not.

(6) India has imported different commodities bilaterally not only from the countries which have included these commodities in their list of goods to be traded but also from the countries which have not included in their indicative list of goods to be transferred. In This context, it is significant to examine whether India has comparative price advantage in importing bilaterally from those countries which have included these commodities in their list of goods to be exchanged or not in comparison to the countries which have excluded these commodities from their list of goods to be traded.

(7) Herein is also examined whether or not commodity agreements with different countries has indeed helped India to stabilize her unit import price relative to other countries of the world over a period of time. In order to analyse the relative stability of unit import price realized from these two areas, this study has employed mainly ~~three~~ tools viz., coefficient of variation, ~~Coppock's log variance method~~ and the arithmetic mean of the yearly relative deviations of the actual unit price of imports from their estimated values.

(8) It is quite obvious that the unit price paid by India for imports of the same commodity from different countries are not identical, The variation in the unit import price paid by India for imports of different commodities from different countries may differ. Hence it is significant to examine in which commodities this variation is higher and in which commodities this variation is lower during different years under consideration. It is also essential to examine the trend in this variation for different commodities over a period of time.

(9) At a seminar held at the Indian Institute of Foreign Trade (Delhi), the view that emerged from the deliberation was that on the whole there was a tendency towards equalisation of export price realisations from the East European countries (i.e. bilateral agreement countries) and other areas.

So far as the question of unit value payments for imports into India from these countries is concerned, this seminar has not provided any answer. This study, therefore, attempts to examine whether there is a tendency towards equalisation of import price from the bilateral agreement countries and other countries of the world and in order to examine this argument, the present study has fitted the following trend equation.

$$\frac{P_{(AC)}}{P_{(OC)}} = ae^{bt}$$

Or

$$\log \left\{ \frac{P_{(AC)}}{P_{(OC)}} \right\} = \log a + bt$$

where

P_{AC} = Unit import price charged by the countries which have included these commodities in their list of goods to be traded.

P_{OC} = Unit import price charged by the other countries of the world.

(10) An attempt is also made to analyse some of the above aspects with respect to Indian exports for the year 1975.

Sources of Data :

(A) The Foreign trade statistics of India are available in two series. The first one published by the Director General of Commercial Intelligence and Statistics, Calcutta, related to the foreign trade as registered by the customs authorities at Indian seaports, airports and at land customs stations. The second series, published by the Reserve Bank of India is based on data collected from the information provided to the Reserve Bank of India in the course of administration of exchange control. The statistics published by the Director General of Commercial Intelligence and Statistics in Monthly Statistics of Foreign Trade of India relate to the physical movements of goods into and out of the customs territory of India, irrespective of when payment is made or received. In the exchange control data, an attempt is made to record the value of current transactions when a payment is made or received - thus stocks bought and accumulated by Foreign buyers in India and by India overseas, would figure in the exchange control data but not in the customs data. On the import side customs data do not correctly record even the physical movements of goods into the customs territory of India. This is because under the 'note pass system' Government imports are cleared without any customs formalities. An attempt is made however to record such transactions as and when information becomes available.

Over a period, the two sets of figures should give the same picture. But for particular periods discrepancy arises either because of limitations of recording or reporting on a change in the procedure in regard to payments in or out of India.

In the present study, we have relied on the data published by the Director General of Commercial Intelligence and Statistics in the Following publications as the detailed quantitative break-down of Statistics is available.

(1) Monthly Statistics of Foreign Trade of India Vol.I Exports and Vol.II Imports.

(2) Accounts Relating to Foreign Trade and Navigation of India (Sea and air borne).

(3) Accounts Relating to Foreign Trade of India by Land with Foreign Countries.

(B) Moreover, data relating to different commodities included in the indicative list of goods to be traded by different countries of the world which have entered into the bilateral trade and payment agreements, the present study has relied on the data published by Reserve Bank of India in 'Report on Currency and Finance Vol.I' and 'India's Trade Agreements' published by Ministry of Commerce, Government of India.

Moreover, this study has also utilized the data published in 'Economic Survey' Ministry of Finance, Government of

India, 'National Account Statistics', Ministry of Planning, Government of India and 'Indian Petroleum and Petro-Chemical Statistics', Government of India.

Plan of the Study :

Chapter II deals with price and quantity trends in Indian imports.

Chapter III examines the structure of imports at micro-level as well as at macro level both in money term and in real term.

Chapter IV studies the oil price hike in relation to Indian imports.

Chapters V and VI are devoted to examine various aspects of bilateralism in relation to Indian imports.

Chapter VII summarises the main results and conclusions of the present study and indicates the scope for future research.