Chapter VII :

CONCLUSION

In the foregoing chapters we examined various aspects of Indian imports during 1950-51 to 1976-77 i.e. price and quantity trends in Indian imports, structure of Indian imports at micro level as well as at macro level in money term and in real term, oil price hike in relation to Indian imports and various aspects of bilateralism in relation to Indian imports. In this chapter the main findings of the study and the area for further research are presented and suggested respectively.

The consideration of 'Price and Quantity Trends in Indian Imports' (Chapter II) yields the following two important results :

As the total value of imports is partly affected by the change in the price of imports and partly by the change in the quantity of imports, this study has shown that price effect is more powerful than the quantum effect on the value of imports e.g. 206.88% increase in the value of total imports is due to 158.47% increase in price and 18.73% increase in quantity during 1970-71 to 1976-77.

This result is supported by the different groups of commodity imports i.e. consumer goods, raw materials for producing consumer goods, raw materials for producing capital goods and capital goods during 1950-51 to 1970-71 and 1970-71 to 1976-77.

The present study shows that though the trend of prices has been in favour of almost all commodities, it is more favourable in case of capital goods than other commodity groups, thus this study strengthens the argument provided by different economists in regard to the trend in the relative price of agricultural products and manufactured products.

The study of 'structure of Indian Imports' (Chapter III) leads to the following main results :

So far as the magnitude of total imports is concerned, it has to be observed that the total imports have increased by 389.26% during 1950-51 to 1976-77 in money term, inspite of the fact that total imports have declined by 85.44% in real term (i.e. at constant prices) during the period under consideration.

The structure of imports has been examined here at micro level as well as at macro level. The main findings of the macro aspects of structural changes are as follows :-

(1) The proportion of imports to NNP has declined both in money term and in real term though this proportion is higher at constant prices than at current prices. It has declined from 11.21% during the first Five Year Plan to 7.5% on an average of the First three years of the Fifth Plan. However, at constant prices it has declined from 19.34% in 1950-51 to 4.87% on an average during the first three years of the Fifth Plan, which indicates that Indian economy is now becoming self reliant and less dependent on world economy.

The above proposition (i.e. the proportion of imports to NNP) is also tested here for different countries of the world for the years 1950, 1955, 1960, 1965, 1970, 1975 and 1978. The proportion of imports to NNP has declined with the process of development in the case of India. However, this proposition is not supported by the cross section analysis; e.g. during 1950 proportion of imports to NNP was lowest (8.028) in the case of Brazil which is classified as the underdeveloped country of the world, while it was highest in the case of Newzealand which is classified as the developed country of the world. Similar is the picture during 1955, 1960, 1965 and 1970. During 1975 the picture is entirely reversed in comparison with all those previous years. Lowest proportion of imports to NNP was represented by the USA (7.56), while it was highest in the case of Malta (80.875), an underdeveloped country.

Considering the time series analysis, 38 countries out of 55 countries show the rising trend in this proportion over a period of time. The classification of above countries into highly developed, intermediate and underdeveloped countries shows that the proportion of imports to net national product has a rising trend in the case of underdeveloped countries and intermediate countries. However this share has declined in the case of highly developed countries during the period under consideration.

(2) India's share in the total world imports has declined over a period of 28 years i.e. 1951 to 1978 from 2.1% in 1951 to 0.51% in 1978.

(3) As far as the growth rate of imports is concerned, about 2/3 of the commodities show the negative growth rate in real term during 1965-66 to 1976-77. Iron & Steel and Fertilizers only show the positive growth rate of imports and this positive growth rate of Iron & Steel imports is quite obvious because of the rapid industrialization taking place in the Indian economy. However, the growth rate of total imports turns out to be negative at constant prices.

(4) Import instability refers to short term fluctuations in import payments corrected for trend. With the help of the Coppock's log variance method it is found that the total imports

and even the different group of commodity imports are more stable at current prices than at constant prices except the imports of fertilizers, e.g. instability index for total imports at constant prices turns out to be 34.61 during 1965-66 to 1976-77 as against instability index to be 21.22 at current prices during the same period.

With regard to the inter commodity variation in instability index, results turn out to be different for real term and for money term. At current prices, it is found that imports of primary commodities are more unstable as compared to manufactured commodities, while reverse is the case at constant prices.

It is necessary to note here that with the process of the development of the economy, this instability index has declined at the constant prices.

Over and above the macro level changes mentioned above, the structural changes at micro level yield the following results :

(1) In order to analyse whether the imports have diversified or not on more commodities over a period of time, the concentration index is calculated in current rupee and in constant rupee at the three digit level of the RITC 1965 group. The present study shows that with the fluctuations in concentration

index, this index has declined over a period of 27 years at current prices as well as at constant prices i.e. to say this index has fallen from 23.3 in 1950-51 to 18.35 in 1976-77 at current prices and it has declined from 34.18 in 1950-51 to 23.55 in 1976-77 in real term which indicates a fair increase in the diversification of imports over a period of time. However, this diversification is not more in money term than in real term during all the years under consideration. For certain years imports are more diversified at current prices than at constant prices, while for other years reverse is the case.

Considering the commodity composition of imports, it should be mentioned here that the share of capital goods in total imports was highest i.e. 67.51% during 1950-51 as compared with consumer goods and intermediate goods during 1950-51 at constant prices; but at current prices it is the intermediate goods that accounted highest percentage share in total imports i.e. 53.5% during 1950-51. However, over a period of time, this position has changed at constant prices, though at current prices intermediate goods continues to occupy the highest percentage share in total imports during 1976-77. During 1976-77 intermediate goods accounts for the highest percentage share in total imports i.e. 55.91% at constant prices.

On the triennial average, the trend in the share of consumer goods, capital goods and intermediate goods in total imports has been identical from 1965/66-1967/68 to 1974/75-1976/77 in current rupee and in constant rupee. The share of consumer goods in total imports has declined from 36% during 1965/66-1967/68 to 26% during 1974/75-1976/77 at current prices, while it has declined from 37% to 27% during the period mentioned above at constant prices. Moreover, the share of capital goods has fallen from 29% to 18% in current rupee and from 32% to 18% in constant rupee during the above mentioned period.

In order to analyse the relationship between ~~Since 1965-66 on the triennial average, the~~ share of different commodity groups and level of development of the economy, a bivariate regression analysis is carried out in money term and in real term and it shows the inverse relationship between these two variables in case of consumer goods and capital goods at current prices as well as at constant prices. This relationship seems to be positive in money term and in real term in the case of intermediate goods for producing capital goods. However, in the case of intermediate goods for producing consumer goods, there is an inverse relationship at current prices and a direct relationship at constant prices. Out of these four different commodity groups, this relationship is statistically significant at 5%, For capital goods in money term and for intermediate goods for producing capital goods in money term and in real term. However, for consumer goods in money term and for intermediate goods for producing consumer goods, it is statistically significant at 10% level.

The analysis and study of oil price hike in relation to Indian imports (Ch.IV) brings out the fact that the increase in oil price has adversely affected India's balance of payments. India's deficit in the balance of payments with the OPEC countries accounts for more than 40% during 1970-71 to 1978-79 of India's overall deficit in the balance of trade. India's deficit with the OPEC countries accounts 99.5% of India's overall deficit during 1977-78.

The tremendous increase in the oil price has also affected the share of imports of crude oil and petroleum products in total imports. At current prices, the share of imports of crude oil and petroleum products in total imports has increased by more than 200% after 1972-73 i.e. to say this share has increased from 7.75% during 1972-73 to 26.16% during 1976-77. But when this share is considered at constant prices, it shows that this share has declined from 10.09% during 1972-73 to 3.12% during 1975-76 and to 9.85% during 1976-77.

India's petroleum imports as a proportion of its total export earnings has increased significantly after 1972-73. This proportion has increased from 8.9% during 1970-71 to 29.8% during 1978-79 and it was highest i.e. 33.3% during 1974-75. In other words, a smaller and smaller proportion of total export earnings has been available for the payments of other essential imports.

This study shows that a tremendous price increase of oil has not adversely affected the importance of oil in total energy consumption in India. The share of oil in total energy consumption has increased from 12.8% during 1953-54 to 26.6% during 1976-77 and this increase is due to the fall in the ratio of imports of crude oil and petroleum products to total consumption of crude oil and petroleum products in India.

The various aspects of bilateralism in relation to Indian imports (Chs.V and VI) bring out the following main results :

India has entered into a number of bilateral trade and payment agreements with different countries on account of (i) political reasons (ii) the planned nature of the Indian economy and (iii) the country's foreign exchange constraint and character of its foreign trade regime.

As far as the theoretical basis for bilateral agreements with different countries is concerned, it should be noted here that in the recent economic literature, bilateral trading is treated as the simple extension of the theory of discriminating monopoly in the general equilibrium framework. The arguments underlined in this theory show a remarkable consistency with the evidence available from the trade agreements involving partners with power of monopoly or monopsony. According to this theory, there are valid reasons why a monopolist may exercise his discriminating power through bilateral trading agreements. This might be due to persuading the trading partner not to resell the commodities or it might be on account of an attempt to maximise its profit by bulk trading or to improve the overall terms of trade.

India's bilateral trade and payment agreements with different countries differ according to mode of payments involved and the degree of their bilateral content. India's trade relation with socialist countries is barter like, involving such features as bilateral balancing of trade, clearing accounts and payments in rupees. Bilateral trade agreements with some developing countries (e.g. Afghanistan, Bangladesh, Tunisia, Nepal etc.) have taken various forms involving frequently barter like characteristics. Finally there are trade agreements with many developed and developing countries (e.g. Argentina, Austria, Chile, Colombia, Finland, France,Japan, Uganda, Thailand etc.) featuring payment on a convertible currency basis. These agreements do not display any barter like characteristics, but are aimed principally at expanding trade on Most Favoured Nation basis.

It is found that over a period of time not only the number of commodities imported on the bilateral basis has increased but has also resulted in change in the composition of imports.

The analysis of comparative price advantage, that India obtains on her imports from countries having bilateral trade agreements vis-a-vis other countries, reveals that India had to pay higher prices for more than 50% of commodities for majority of years during 1966 to 1977. Considering the various commodity groups, the study indicates that the unit price realized on the bilateral agreement basis was higher for majority of the commodities falling under the groups of chemicals, drugs and pharmaceutical products and non-ferrous metals as compared to other countries of the world during the period under consideration. Moreover, it was lower for majority of the commodities belonging to fertilizers, rock phosphate, ball roller and taper bearings, printing machinery pumps, textile machinery and other capital goods as compared to the rest of the countries. However, a mixed picture arises mainly for primary commodities viz., fruits, dates, arabic gum, raw cotton etc.

The consideration of the net position obtained by India by importing on the commodity agreement basis, our study shows that during 1966 to 1977, India has obtained a gain of Rs.603,150,018 on the commodity agreement basis as compared to other countries of the world, taking all the 53 various types of commodity groups. Out of these 53 different types of commodity groups India was a loser on commodity agreement basis for only 19 commodity groups viz., dyes, non-ferrous metals, drugs and pharmaceutical products, news print paper, fertilizers, seamless pipes and tubes, agricultural machinery, copra, sulphur, hides and skins, wood pulp, x-ray generator, synthetic rubber, gums and resins, industrial explosives, viscose, wood and metal working machinery, laboratory and testing equipment and petroleum products. However, the gain obtained by India for the rest of the 34 commodity groups exceeds the loss realized on the above mentioned 19 commodity groups by importing on the commodity agreement basis, which in turn resulted into the net gain obtained by India on commodity agreement basis during the period under consideration.

Considering the net position obtained by India on year to year base, it shows that India is in the gainful position by importing on the commodity agreement basis for all years except the year 1975 during 1966 to 1977.

Hence, it may be argued that India is in a beneficial position, if it imports bilaterally from those countries which have included these commodities in their list of goods to be traded.

This study brings out the fact that, the proportion of imports from the countries having commodity agreements with India, has increased in case of fertilizers, organic chemicals, dates, raw cotton, news print, rice, fruits and ball, roller and tapper bearings. However, non-ferrous metals, inorganic chemicals and rock phosphate have shown the declining trend in the proportion of imports on the commodity agreement basis.

In the context of India's entering into a number of bi-lateral trade and payment agreements with different countries of the world over a period of time, this study throws light on whether countries under commodity agreements remain or not the same through out the period under consideration for different commodities. It becomes obvious from our study that countries, which have included different commodity groups in their indicative list for different years during 1966 to 1977, do not maintain the same uniform policy during the same span of the period.

In this study the commodities, which were imported bila-terally only from those countries which have included these respective commodities in their indicative list of goods to be traded and multilaterally from non East European countries are separated out. This points out that India's terms of imports were superior on bilateral basis only for Fertilizers in contrast to chemicals, non-ferrous metals, dyes and drugs and pharmaceutical products.

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. It is found that India is in an advantageous position by importing bilaterally from the countries which have included respective commodities in their indicative list of goods to be traded in relation to the countries which have excluded these commodities from their commodity list to be transferred.

This study has also attempted to examine the trend in the relative unit import price realized from these two areas for 83 commodities. It is seen that for 66 commodities out of 83 commodities, basically the unit import price realized has been identical. Out of the rest of the 17 commodities, for 2922113, 5127412, 7197106, 7197303, 7197304, 7197305 and 0520101 basically the unit import price realized was lower on agreement basis as compared to the other countries of the world. Moreover, 5125207, 5124108, 5127113, 5121413, 2922113, 7197304, and 7197305 show the trend in the equalisation of unit import price realized from these two areas.

It is also attempted to examine whether or not the commodity agreements with different countries has indeed helped India to stabilize her unit import price relative to other countries of the world. Our study shows that, out of ~~19~~ 86 different commodities, relative degree of instability is seen to differ for ~~5~~ 28 commodities among the ~~three~~ two various methods employed. Out of the rest of the ~~14~~ 58 commodities, unit import price for 28 commodities was more stable on the commodity agreement basis vis-a-vis other countries, while reverse is the case for rest of the 30 commodities.

Hence the mixed picture arises concerning the relative stability of unit import price realized on the commodity agreement basis.

It is well known that on the usual assumption of perfect competition and absence of transportation cost and taxes, commodity prices are bound to be equal under free trade. However, in the absence of free trade, commodity prices are bound to differ. Hence, we have examined the extent to which this unit import price realised for the same commodity from different countries differ and the trend in the variation in unit import price. It is found that the variation in the unit import price realized for the same commodity from different countries is smaller for primary commodities, dyes, chemicals, drugs and pharmaceutical products as compared to various types of machineries.

In addition to the foregoing aspects of bilateralism in relation to Indian imports, this study has also examined some of the aspects of bilateralism in relation to Indian exports for the year 1975. It points out that India has exported primary goods as well as manufactured goods worth of Rs.589 crores on the bilateral basis to those countries which have included these commodities in their list of goods to be transferred during 1975. Out of the 189 various commodities, India has obtained favourable unit export price for 101 commodities (i.e. for more than 50% of the commodities). Moreover, considering the net position obtained by India on the commodity agreement basis during the year 1975, India has to lose Rs.7.39 crores by exporting the different commodities on the commodity agreement basis.

Area for Further Research :

Our present study indicates some areas of further research which are suggested herebelow :

(1) As the foreign trade of a country mainly refers to exports and imports of a country, a similar study on these lines in the context of Indian exports would provide important results

as a study on imports does, and this would be useful for a comparative study of Indian exports and imports.

(2) When a country depends upon the different countries of the world for various purposes, it is significant to examine how far the two trading countries concerned have complementarity between them. Such a detailed analysis would be useful in preparing the strategy for trade cooperation with different countries.

(3) Underinvoicing of imports (i.e. a discrepancy between the stated value of imports and their actual value) arises because of import policy adopted by government with respect to various commodities, e.g. tariff duty, strict control of different commodity imports etc. It is, therefore, significant to investigate the presence of underinvoicing of imports of various commodities (e.g. synthetic rubber, watch, luxury items, gold etc.) and its possible cause and effects.