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Chapter Title: Issues Relating to the Growth Effects of India's Foreign Trade Regime

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Part IV

Growth Effects

Chapter 12

Issues Relating to the Growth Effects of India's Foreign Trade Regime

In Part III we examined the issues raised by India's attempt at liberalizing the foreign trade regime (in its widest sense) since the mid-1960s. And earlier in Part II we examined the workings of the exchange control regime within the framework of domestic policies (such as industrial licensing), and highlighted certain of the inefficiencies and adverse economic consequences resulting therefrom. Our analysis in Part II, however, was mainly confined to the kinds of effects that are handled under the rubric of static efficiency effects. We now propose to extend our analysis to several issues that are raised more routinely in the context of the growth effects of foreign trade regimes.

1. The static efficiency effects are, in our view, a major aspect of the growth effects of any policy framework, insofar as efficiency must affect the productivity of given investments. We can therefore hardly emphasize more pointedly the importance of these effects than by drawing together in Chapter 13 the principal conclusions of our analysis in Part II. At the same time, we extend our analysis by developing in Chapter 13 statistical measures of the adverse resource-allocational effects of the Indian foreign trade regime and by examining more intensively the question of excess capacity in Indian industry in relation to this regime.

2. Since we have shown that India's export performance could have been improved by the pursuit of different trade and exchange rate policies, it is pertinent to ask whether the impact of this improvement would have been to better India's economic performance in general and, if so, to a significant extent. There are two broad ways in which this question may be approached: (a) If we take the techniques and efficiency of production within activities

as given, and also consider savings and foreign resource inflow to be determined by overall policy exogenous to the export performance, then the gain from improved export performance really must come through its impact on the overall allocation decisions in the five year plans. To investigate this issue, therefore, we should really put the question into the planning context (which, for India, needs to be taken as institutionally given if our exercise is to be meaningful); and we also need to have a macro-planning model within which to assess this question. This is precisely what we attempt, in Chapter 14, by using the well-known Eckaus-Parikh multi-sector planning model in one of its versions. (b) On the other hand, it is quite possible to argue that the techniques and resources need not be taken as given and that an export-growth-oriented strategy would have led to improved technology by increasing research and development and faster growth of savings. We examine these issues in Chapters 15 and 16 respectively.

3. The impact of India's foreign trade regime on productivity change in her industries, through the encouragement or discouragement of research and development, is an important issue and one to which we address ourselves in Chapter 15 at some length. In this connection, we will distinguish the research and development issue from the rather different issue of cost-consciousness and so-called X-efficiency: could a regime less reliant on automatic protection, of the kind described in this study as characteristic of Indian policy, have led to increased efficiency and cost reduction by promoting international competition, even if the *degree* of protection had not been reduced?

4. We also briefly address ourselves (in Chapter 15) to the relatively intractable problem of whether the foreign trade regime, in conjunction with the domestic policies, encouraged the growth of domestic entrepreneurship, and what effect it had on the quality thereof.

5. Finally, we treat at some length in Chapter 16 the question whether the foreign trade regime had any impact on the savings effort. Here, we can approach the issues at different levels. (a) Assuming that the policy of automatic protection by means of licensing and exchange controls, administered in the manner studied earlier in this volume, did encourage successfully the growth of modern import-substituting industries, we may ask if these exhibit different savings rates from the traditional and export-oriented industries. (b) Assuming that industry as a whole benefited from the import-substituting strategy, as against agriculture, we may ask whether the relative rates of saving are different between the two sectors. (c) Since the liberalization package of 1966 was linked directly to significant aid resumption, though at substantially lower levels than in the early 1960s, it is also worth asking what the impact of foreign aid is on domestic savings efforts in India.