India's Postwar Demand for Imports

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IN EXAMINING, with the help of such statistical material as is available, the behavior of imports into India during the five post-partition years 1948–49 to 1952–53,[1] it is possible to trace the relationship of imports to developments in the rest of the economy and, in particular, to national income movements. The ratio of import prices to the domestic cost of living is also commonly regarded as an important factor in determining the level of imports.

On the whole, the income-import relationship in India in the postwar years shows no clear pattern of the usual type. This is to be attributed in part to import controls. Moreover, the reaction in India to increases that raise incomes above the current low level is rather to expand consumption of types of goods produced domestically than to increase consumption of quality goods which would be imported. In fact, as domestic production has increased along certain lines, imports of similar goods have tended to decline. For example, there is an inverse relationship between agricultural production and agricultural imports. Imports of consumer goods have also tended to vary inversely with industrial production. On the other hand, imports of goods required for development have tended to vary directly with domestic investment.

Owing to many erratic factors, there is no clear evidence of the usual positive relationship between industrial production and imports of raw materials and intermediate goods on the one hand, or of the inverse relationship between imports and the ratio of import to domestic prices on the other.

An analysis of the composition of India's imports in the five postwar years shows that foodgrains and basic consumption goods accounted for about 35 per cent of the total, while raw materials and intermediate products, chiefly raw cotton, raw jute, mineral oils, and artificial silk yarn, amounted to another 35 per cent. The remainder consisted mostly of development items, such as machinery and equipment. Items that may be termed luxuries accounted for no more than 5 per cent of the total. With the exception of raw jute and mineral oils (excluding kero-

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[1] The Indian fiscal year begins on April 1. Fiscal years have been used in this study mainly for statistical convenience. Although foreign trade figures could be easily obtained on a calendar year basis, most of the other statistical material required to study the import demand is available only on a fiscal year basis.

sene),[2] consumer goods and other goods eventually to be used in the production of consumer goods amounted to slightly under 60 per cent of total imports. Most of these imports, together with raw jute, supplement domestic production of the same commodities. Frequently, changes in these imports are inversely related to the domestic production of the items concerned. This is especially likely for such agricultural imports as food, raw cotton, and raw jute, which together accounted for 40 per cent of imports. This distribution of imports is partly the result of the operation of import controls in the postwar period. But it is also in part determined by the character of the Indian economy and its consumption standards.

In an underdeveloped country like India, where goods are to a considerable extent produced for direct consumption by their producers and the economic activities of the community are confined largely to the satisfaction of minimum wants, the conventional approach to imports as a function of income can be accepted only with reservations. Under certain conditions, the imports of an underdeveloped economy, far from rising with an increase in national income, may actually show a decline. In contrast to the situation in a developed economy, where increased production brings with it a more or less proportionate increase in payments in money terms, a large part of any increase in farm production in India, where agricultural production takes place on millions of small farms, is absorbed by the farmers to improve their own low consumption standards, and only part of their increased product is exchanged for money. To the extent that the surplus is marketed, the rest of the domestic community might reduce its demand for imports. Furthermore, the money incomes that the agriculturists obtain from the rest of the community are likely to give rise to additional demands for basic nonfarm consumption goods, which will be met mainly by increased production of domestic industries and to a much lesser extent by imports. It is thus possible for the increase in imports resulting from higher agricultural production exchanged for money to be actually less than the decrease in agricultural imports for the nonfarm community. This would be all the more likely if the domestic nonfarm production of consumption goods tended to increase almost as fast as the demand from the agricultural community for such goods expanded. In India, nonfarm production is mostly concerned with consumer goods, such as textiles. The conditions of the economy of India, where the problem of poverty is extremely acute, make possible substantial simultaneous increases in industrial and agricultural production, producers in either sector using

[2] Raw jute is imported mainly for export production. Mineral oils are used partly for consumer production and partly in connection with investment production.

part of their increased income to purchase more from the other, without any marked increase in demand for imports.

In addition to these general characteristics of India's demand for imports, there have been some influences affecting the import function which have been peculiar to the postwar period. The partition between India and Pakistan in 1947 called for painful adjustments in the economy. During 1948–49, the first year after partition, imports of raw jute and cotton from Pakistan had to be maintained at a high level, owing to temporary difficulties in expanding domestic production. Also, during most of the period under consideration in this study, India's import demand was dominated by shortages at home and abroad. At the end of the war, there was a large pent-up demand for consumption and investment goods. Restrictions on consumption and on imports, which were continued even after the war, created pressures on the economy. The difficulties were aggravated by internal production failures. Agricultural output was below normal in three of the five years being studied. In two successive years (1950–51 and 1951–52), food production was affected adversely by failure of the monsoon and other natural calamities. There was also a check to expansion of industrial production, and in 1948–49 and 1950–51 output fell below wartime levels. Since the pressures of latent inflation inherited from the war and the inadequacy of production were causing an excess of demand over supply generally throughout the world, it was not easy to obtain foreign supplies. In the early postwar years, and until after 1948, the availability of supplies rather than their prices was the main consideration for importers. The influence of prices on imports was thus to a large extent inoperative. The postwar import controls and state trading in items such as food were also a major factor influencing imports. By the end of the war India had accumulated large amounts of sterling, but these sterling assets were not freely available. A large part of them was blocked, and withdrawals from the accumulated balances were limited by agreements. Also, as a member of the sterling area, India had to observe great restraint in making demands on the area's hard currency holdings. Under these circumstances, India had to control both over-all and hard currency imports. Import controls were frequently adjusted, particularly in the early postwar years, and policy alternated between liberalization and intensification of restrictions, depending on the availability of sterling for current use and the general sterling area policy in regard to hard currency imports. Restrictions controlled the behavior of imports in three ways. The over-all demand for imports, particularly of consumer goods, was restricted, and their flow varied with the current intensity of import controls. Secondly, the discriminatory application of import controls and the official preference for soft currency imports introduced considerations other than price into the importer's choice of purchases abroad. Thirdly, frequent changes in import policy created uncertainty in regard to supplies of imported goods and, under conditions of excess liquidity in the economy, brought forth speculative anticipations on the part of importers. Wherever temporary liberalization of imports permitted, overimportation of certain items was not uncommon.

National Income and Imports

In an open economy, national income and imports tend to move in the same direction. An increase in the national expenditure on consumption and investment goods will raise the demand for imports to some extent. The amount of extra income spent abroad will vary, depending on the degree of self-sufficiency in the economy and average real income. The Indian economy is largely self-sufficient. The average propensity to import (i.e., imports expressed as a percentage of national income) in India is only about 9 per cent. The continental size of the country, its varied agriculture, and its fairly high level of industrial production in comparison with that of other underdeveloped countries, together with its low income levels, have all operated to keep down the average propensity to import. It has not been possible to estimate the marginal propensity to import. The reservations that should be borne in mind in applying the usual concepts of income-import relationships to India have been mentioned earlier. Until the problem of Indian poverty is solved, increases in consumption needs are likely to follow increases in income, but this increased demand is likely to be mostly for basic consumption items produced at home. Only when income standards reach a sufficiently high level will the community begin to change its consumption requirements qualitatively and thus demand more imported consumption goods.

The estimates of national income at constant prices used in Table 1 for

TABLE 1. INDICES OF NATIONAL INCOME AND THE VOLUME OF IMPORTS IN INDIA

(1948–49 = 100)

Year (April-March)	Real National Income	Volume of Imports			
		Total	Food	Consumption goods	Raw materials and intermediate goods[1]
1949–50	103	98	97	101	92
1950–51	99	92	90	81	110
1951–52	103	112	160	81	133
1952–53	111	77	97	60	91

[1] Excluding raw jute.

comparison with the physical volume of imports are very crude, being based on movements in the production of 17 major agricultural commodities and in industrial production, weighted with reference to their contributions to national income during 1948–49.[3] Imports have been subdivided with a view to observing whether national income has had any perceptible influence on the component groups separately, even if no relationship between national income and total imports can be discerned.

The behavior of imports in relation to income has been erratic. All food imports into India are on government account. Consumption of foodgrains has been controlled to a considerable extent by procurement levies on agriculturists and by urban rationing. Under these circumstances, no sensitive relationship between food imports and national income is to be expected. In fact, there should be a good inverse relationship between domestic food production and food imports (adjusted for movements in stocks). Statistical difficulties limit any examination of the relationship between production and imports of food. Food production figures are collected for July–June years, while the only set of import figures which can be corrected for stock movements refers to calendar years. However, an approximate relationship between the two series is indicated by the data on Chart 1, Section A.

A similar inverse relationship between production and imports is obtained by comparing agricultural imports as a group with agricultural production (Chart 1, Section B). Domestic production of nonfood agricultural items (mainly cotton and jute) is to a large extent substitutable for imports, and government import policy takes into account changes in the domestic availability of imported goods.

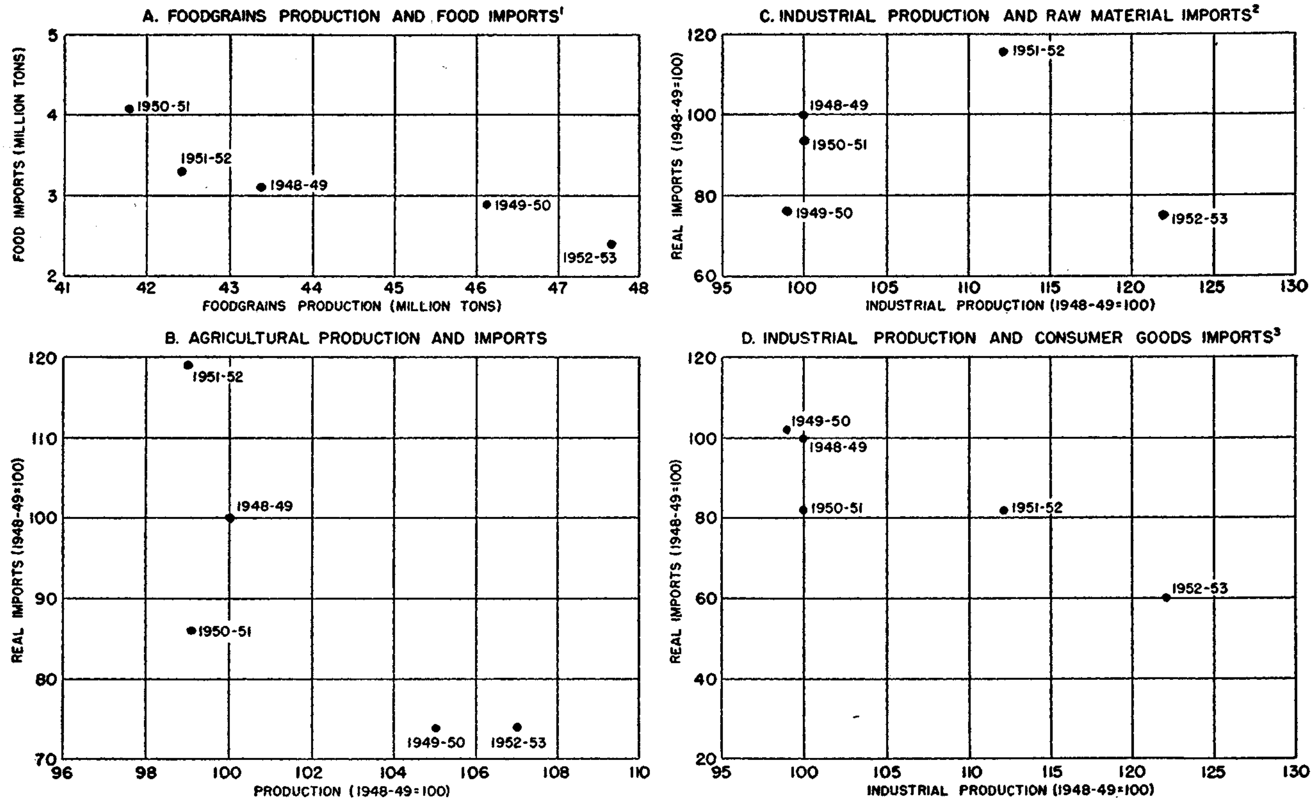
Total Imports as a Dependent Variable of Relative Prices

Under normal conditions, when importers have a free choice in purchasing supplies from abroad, movements in import quantities tend to show an inverse relationship to the prices of imports. An excessive rise in import prices relative to domestic prices and the cost of living should discourage imports, and the opposite would be true when import prices become relatively lower. The relationship between relative import prices and quantities in India is shown in Table 2. Two indices of relative prices have been computed: one has been based on the ratio of import prices, adjusted for duty collections, to the domestic cost of living; the other has been based on the ratio of adjusted import prices to wholesale prices.

It is not surprising that no constantly meaningful relationships can be

[3] The only set of national income figures published in India is based on industrial origin of income for the three years 1948–49 to 1950–51.

Chart 1. Relationship Between Production and Imports in India



[1] Food imports are adjusted for stock movements.
[2] Imports of raw materials and intermediate goods.
[3] Consumer goods imports other than food.

TABLE 2. RELATIONSHIP BETWEEN PRICES AND THE VOLUME OF IMPORTS IN INDIA[1]

(Index numbers; 1948–49 = 100)

Year (April–March) (1)	Import Prices Adjusted for Duties (2)	Cost of Living (3)	Wholesale Prices (4)	Import Prices Relative to Cost of Living[2] (5)	Import Prices Relative to Wholesale Prices[3] (6)	Volume of Imports (7)
1949–50	93	103	102	90	91	98
1950–51	106	103	109	103	97	92
1951–52	127	107	116	119	109	112
1952–53	131	106	101	124	130	77

[1] The calculations are approximate. The import prices and quantities shown in the table include corrections for unrecorded transactions of the published figures of the Reserve Bank of India. Domestic cost of living data for the first two years are available only on a calendar year basis, and are therefore somewhat out of line with the rest of the data, which are on an April–March basis.
[2] Column 2 divided by column 3.
[3] Column 2 divided by column 4.

observed in Table 2.[4] Any effects of changes in relative prices on the volume of imports during the early postwar years were obscured by the influence of world shortages of internationally traded commodities, the fact that imports were governed largely by the timing of the relaxation or intensification of controls, and the prevalence of state trading in respect of items like food imports.

Industrial Production and Imports

Increases in industrial production may react on imports in three ways. In the first place, the associated increase in incomes may create demand for additional imports. As already explained, it has not been possible to obtain statistical verification of this for postwar India.

Secondly, insofar as industry draws part of its raw materials and supplies of intermediate goods from abroad, an increase in industrial production should directly cause an increase in the import demand for these items. As shown in Chart 1, Section C, imports of raw materials and intermediate goods in India tended, on the whole, to increase with industrial production. However, this trend was abruptly reversed in 1952–53. This was the effect partly of the substitution of domestically produced raw materials and intermediate goods for imports, a process which has been continuously in operation but was strongly in evidence in 1952–53. During that year, an improvement in the raw jute supply position permitted a substantial reduction in imports; in addition, inventory movements appear to have exercised an important influence on imports of raw materials and intermediate goods. Imports of these

[4] Because of the absence of any clear relationship between imports and income, and of the small number of observations available, it was not thought worth while to compare relative prices with volume of imports corrected for income effects.

items in the previous year were somewhat heavy, probably exceeding normal annual requirements. Apart from this, the easing of inflationary pressures and the general improvement in the world supply situation may have reduced overtrading and overaccumulation of stocks. Changed ideas in regard to the safe level of stocks may have permitted a running down of inventories and, temporarily, a fall in imports of raw materials.

Finally, an expansion of domestic industrial production may help to substitute for imports of consumption and investment goods. Industrial production in India caters mainly to consumer needs. Except for the iron and steel and the cement industries, industries producing investment goods are still in an early stage of development. The fact that, on the whole, imports of consumer goods appear to have declined with increases in industrial production is shown in Chart 1, Section D. The relationships were accentuated, however, by import controls, which are themselves adjusted periodically to take into account domestic production developments.

Domestic Investment Activity and Imports

It is generally believed that development items, being directly associated with a dynamic element in the economy, are the most sensitive group of imports. There are, however, exceptions to this rule. Variations in the demand for development imports will depend not only on the size of domestic investment but also on its composition. The calls on local resources made by building and agricultural development are greater than those made by industrial and transport development. Labor and construction materials, which necessarily have to be drawn largely from within the country, play a major part in building and agricultural investment. The very scanty information available on investment in India[5] suggests that postwar investment activity has had two phases. The first, which may be said to have lasted until 1949–50, was characterized by relatively low government investment and by large private investments in industrial rehabilitation and expansion. The second phase may, for convenience, be regarded as having commenced in 1950–51. During this second phase, private investments appear to have declined somewhat, while government outlay on investment increased markedly. At the same

[5] The only consistent detailed information on private and government investment is provided in the Central Government capital budget and in private capital issues approved by the Government. The record of private capital issues approved by the Government is available only on a calendar year basis and is subject to two limitations: there may be a lag between approvals and actual investment, and some of the approvals may not materialize in investment. For this study, a time lag of three months has been assumed, and the figures for 1948–49 and 1949–50 have been arbitrarily raised by Rs 0.2 billion for investments approved prior to 1948, which were likely to have been carried over because of early postwar shortages. It has also been assumed that unutilized approvals did not affect import-investment relationships significantly.

TABLE 3. INDICES OF THE VOLUME OF IMPORTS FOR DEVELOPMENT PURPOSES AND OF TOTAL INVESTMENT IN INDIA

(1948–49 = 100)

Year (April–March)	Volume of Imports for Development	Government and Private Investment[1]		
		Total	Government	Private capital issues
1949–50	116	113	150	76
1950–51	114	113	180	49
1951–52	106	95	155	35
1952–53	85	75	122	30

[1] The index numbers are stated in real terms. Money investment has been deflated by an average of the cost of living indices and the indices of prices of imports for development purposes.

time that the composition of investment changed in this way, total investment activity appears to have diminished. Building activity and self-financed industrial investments are believed to have involved sizable development expenditure, but no information could be obtained on the exact magnitudes involved.

The relationship between development imports, during the five years covered by this study, and domestic investment, as indicated by Central Budgets and capital issues on private account, is shown in Table 3 and

CHART 2. DOMESTIC INVESTMENT AND DEVELOPMENT IMPORTS IN INDIA

(1948–49 = 100)

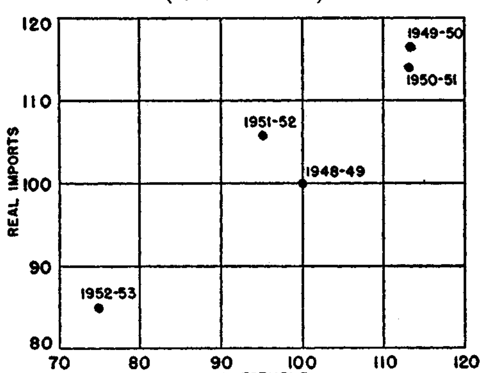


Chart 2. Imports and investments tended to move together rather closely. Increases in investments led to proportionally larger increases in imports. On the downward phase, imports showed a somewhat smaller decrease than investment. These results have to be interpreted with caution, in view of the incomplete coverage of the investment data.