ECONOMICS (CLASS—12)

INDIAN ECONOMY

1950–1990

Topic---- Trade Policy

Industry and Trade are both closely related in an economy. After independence, the leaders had to focus on the industrial growth of our country. So they framed the trade policy to achieve this objective.

India's trade policy has been through many stages over the last few decades. There were transitory phases and some short-term policies to deal with the changing economy. But overall the trade policy followed some basic themes spread over three specific periods.From independence until the 1980's there was the general policy of planned regulation and import substitution. After the 1980's the government started to focus on some partial form of liberalization. And then came the phase after 1991 which focused on

liberalization, privatization, and globalization (LPG Model).We will be focusing on the trade policy formation of a few years just after independence and how they shaped our economy and promoted industrial growth as well. Just after independence, the government was looking to boost trade and industry in the country. We were an economy heavily dependent on the agricultural sector, and to change that the development of trade and industry was of the essence. So for many years, the first seven Five-year plans precisely, India adopted the trade policy of inward-looking, or better known as Import Substitution. The policy was simple, we were going to substitute the imports of our economy with domestic production. This trade policy was applied to almost all sectors of the economy. The aim of this policy was to boost domestic production and also protect domestic goods from international competition. In a way, this policy closed off our economy from the world. But during the initial stages of development, this was secondary to our main aim of boosting domestic production.

Such a protection of imports was done through two steps.

i. **Tariffs: Firstly tariffs were imposed on imports. Such tariffs make imports costlier. This, in turn, will help the production as well as the sale of domestic products.**
ii. **Quotas: Another measure was to impose quotas on imports. This means only a specific quantity of goods can be imported. And hence the domestic market will have to make up to meet the demand.**

Trade Policies and Industrial Development

We already saw that one of the aims of any trade policy is to influence industrial development in the country. The trade policies of the first seven plans had a profound effect on the GDP of the country and the industrial growth as well.

The contribution of the industrial sector was only 11.8% in 1950. By 1991 it had more than doubled and was now at 24.6% of the GDP. And it was not just growth, but the industrial sector also saw great diversification. Initially, the main contributors of the sector were the cotton and the jute industries. But the trade policy of the plans promoted many other small-scale industries. Protecting the domestic market from foreign imports really helped the small and medium scale industries boom in the economy. It even assisted indigenous industries, especially in the automobile and electronics sector.

Public Sector Enterprises

We saw earlier, that India adopted a mixed economic system. It had ideologies of both socialism and capitalism. One feature of the earlier five year plans was the massive development of the public sector. Most of the major industries like telecom, air travel, railways, defence etc were

entrusted to the public sector. And for many years they were successful in ensuring that all members of the public got access to these products. However, some economists and academics have been critical of this over-dependence on the public sector. Some were even critical of the performance of such public companies. During the initial few years after independence, these companies were essential. But some economists were of the opinion that after a few years they were actually blocking the entry of private players into the market. We have now come to the realization that state and national enterprises may have overstayed their welcome. They continued with the production and the monopolization of certain goods and services even though their services were no longer of any requirement. The best example here is the telecom industry. The government had a monopoly over this industry until the 1990's. The private sector was capable of providing this service, but the government never granted any licenses. This lead to slow and poor service by the

public company. There are many such examples where public companies continued to function despite being loss-making operations. Closing a public company is a huge task and usually leaves a hole in the market. And so the government just allowed these companies to run inefficiently, sometimes for decades. There were no checks to ensure the quality of products or services and the public companies became insensitive to the consumer demands.

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