

Indian Entrepreneurs in Import Substitution – Need of the Hour for Indian Economy

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ABSTRACT

In the present era, where Multi National Companies are trying to capture the Indian market, Indian entrepreneurs play a motivational role to establish their own enterprise and make opportunities for Indians to solve the problem of unemployment and contribute in the economic growth of India. Entrepreneurs serve as the catalysts for the process of rapid Industrialization and economic growth. It is an entrepreneur who collects the natural, economic, human and technical resources of a country and uses them in the economic growth of a country.

According to Joseph Schumpeter, “The rate of economic progress of a nation depends upon its rate of innovation, which in turn depends upon distribution of entrepreneurial talent in the population.”

India is facing a problem of Balance of Payment, so to solve this major problem, it is very essential to make policies for the benefit of the country. India must adopt a policy of self- reliance based on import substitution for economic as well as social growth.

Import Substitution meant protection for domestic industry behind high tariff walls. It implied a policy of high profits. Import substitution is the process of getting self- dependence by manufacturing those products which can be produced by internal resources of country. It is an inward – looking type of industrialization. Import substitution strategy leads to high levels of effective protection. The currency becomes over – valued and exports are discouraged. Under this strategy relatively capital intensive and intermediate input intensive techniques of production are encouraged.

The main objective of this paper is to represent the position of an entrepreneur in import substitution, actually it is ‘Need of the Hour’ and a great challenge for Indian economy to compete with other countries.

Key Words – Entrepreneur, import substitution, economic growth.

I. INTRODUCTION

Economic development essentially means a process of upward change whereby the real per capital income of a country increased over a long period of time through growth and development of business enterprises. It involves initiating and constituting change in the structure of business and society. This change is accompanied by growth and increased output, which allows more wealth to be divided by the various participants. Innovations play vital or key role in economic development. The developing countries like India, tends to support the fact that the economy is the effect and the entrepreneurs are its cause. It is only the active and enthusiastic entrepreneurs who fully explore the potential opportunities existing in the country's available resources- capital, labour and technology.

This is an era of entrepreneurship. Entrepreneurs have played a significance role in the growth and development of small scale enterprises which help in economic growth of a country. Economic growth is a process by which the per capita income and total income of a country increases during a given period. Entrepreneurs serve as the catalysts in the process of rapid industrialization and economic growth. It is the entrepreneur who collects the natural, economic, human and technical resources of a country and exploits them

in the economic growth of a country. They have increased the pace of economic development in countries all over the world. It has facilitated employment generation, regional balance rural development and import substitution in many countries.

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II. ENTREPRENEURS IN IMPORT SUBSTITUTION

Every developing country is facing the problem of adverse balance of payment. Entrepreneurs are able to solve this problem through import substitution. Entrepreneurs can take up production of such goods and services which can be used as import substitution. In simple words they can produce such goods and services which can be used in place of similar goods imported from outside.

Government is making all out efforts in the direction of import substitution. It is encouraging entrepreneurs to undertake production of goods and services which can be used as substitutes for imported goods to reduce imports. Needless to emphasize that reducing import by producing goods is as good as increasing exports. The purpose of increasing export and reducing import is to conserve scarce and valuable foreign exchange reserves.

Import substitution means production of those goods which are imported from foreign countries. Import substitution is essential for achieving self- sufficiency. Import substitution is regarded by many developing nations as an important means to reduce trade gap and to develop the economy. It may be defined, as the substitution from domestic source of supply to a foreign source of supply.

It is clear from this definition that import substitution implies:-

- (a) The development or creation of new source of supply or productive capacity, if there is no domestic supply.
- (b) The expansion of the domestic production / supply if the domestic supply is insufficient.
- (c) The production of domestic industries against foreign competition is the competitive disadvantage of the domestic industries, especially the infant ones, is encouraging the foreign source of supply. Import substitution is one of the important planks of the commercial economic policy of developing countries. The foreign exchange scarcity created by the import-export gap has prompted these countries to lay emphasis on import substitution in a bid to reduce their import requirements and thereby to narrow or remove the trade deficit.

III. CONSIDERATIONS FOR EFFECTIVE IMPORT SUBSTITUTION

Import substitution cannot be followed indiscriminately in future plans. Following considerations would have to be given weight in any effective judicious choice of import substitution:-

- (a) The guiding principle, which should out weight all others, is whether import substituting industries will make a contribution to India's economic development through efficient utilization of local resources and also realize foreign exchange for more essential uses.
- (b) Those industries should be included in the program of import substitution where a clear cut cost advantage could be established.

- (c) Only those industries should be included in the program of import substitution whose products have adequate domestic or international demand existing or potential.
- (d) Import substitution program should be chalked out in totality rather than in terms of fragments and the growth of selected industries should be assisted through appropriate investment policy and promotional measures.
- (e) Cost and quality control should be the keynote of future policy.

IV. IMPORTANCE OF IMPORT SUBSTITUTION

By and large the import substitution was undertaken for very important reasons. Some important objects of this strategy are as follows:-

- (a) Promotion of Domestic Industry: - The most important aim of import substitution is to promote domestic industry at the expense of foreign industry. It aims to protect the domestic manufacturing sector. The effect of this is to transfer domestic income distribution in favour of entrepreneurs and workers within industry at the expenditure of farmers.
- (b) Employment Generation: - The basic objective of import substitution is to create employment in the setting up of industries. Unemployment is one of the basic problems. An entrepreneur is a person who helps to solve this problem.
- (c) Promotion of Industrialization:- The basic reason for import substitution is to industrialize the country. This promotes industrial development. Domestic producers take over markets which are already established in the country. Thus by shutting off imports, domestic producers can get a flying start in certain, already established lines of production.
- (d) Production of consumer's goods: - In the present era it is very important that a manufacturer must produce those goods which are consumers oriented. Import substitution is effective in producing consumers' goods. Here technology is often rather simple and the demand for the product is easily identifiable.
- (e) Improvement in Balance of Payment:- Replacing imports can bring better term of trade effects than expansion of export industries. This strategy aims at saving foreign exchange. The reduction in import of industrial goods meant less expenditure on the imports. This condition helps to reduce deficit in Balance of Payment which improves economic condition of a country.
- (f) Benefits from industrialization: - There can be large economic and social benefits from industrialization. These benefits are – gains in

technological knowledge and worker skills, new attitudes more conducive to growth, national pride and perhaps self- sufficiency.

- (g) Convenient market information:- Replacing imports of manufactures is a way of using cheap and convenient information. A developing country may lack the expertise to judge just which of the thousands of heterogeneous industrial goods it could best market abroad. But central planners have an easy way to find which modern manufactures would sell in their own markets.

V. MEASURES FOR IMPORT SUBSTITUTION

For import substitution the entrepreneur can use the following measures and devices:-

- (a) Import Licenses: - an Import license is an important instrument. There can be a large variety of licenses- for users or for wholesalers they can be obtained by direct permission from some ministry or the central bank, or they can be sold at official auctions, they can be combined with specific import programs and they might be combined with lists of prohibited import products.
- (b) Guarantee Deposits: - other means are guarantee deposits which have to be made by the importer for the right to import an item. Foreign firms can be restricted in their right to repatriate dividends and profits. Domestic exporters, on the other hand may be allowed to resell part of their foreign earnings at advantageous exchange rates.
- (c) Tariff Walls: - tariffs are at the heart of import substitution. There exist many types of restrictive measures. They differ between countries. They usually also vary over time. It is, however important to get some grasp over the means used. It is also convenient to characterize a country's control over foreign trade according to the policy instruments used. Thus tariffs and surcharges are common protection devices.
- (d) Physical Restrictions:- The method of physical restriction on import or even outright banning of import is used in cutting out imports. Reduction in imports is brought out by such devices as quotas, licensing, ban on certain imports etc. It is a sure way of protecting the domestic producers from the foreign competition.

VI. ROLE OF ENTREPRENEURS IN IMPORT SUBSTITUTION IN INDIA

India opted for a strongly inward oriented strategy in the early decades of economic planning. The basic rationale for adopting this strategy was that it would help rapid industrialization through import substitution and at the same time save valuable foreign exchange. The policy succeeded in achieving both these objectives to a considerable degree. The large imports necessitated by the development requirements of the nation gave rise to what may be called development disequilibrium in the balance of payments. Export promotion and import substitution are the two important measures for narrowing down and ultimately wiping out the balance of payments deficit. Industries and other sectors with a potential for import substitution have been given importance in our development programs.

There are some points which show the success of entrepreneur in import substitution as follow:-

Most programs involving import substitution facts have been considered successful enough to continued or renewed.

Import substitution in the long run is a relatively cost-effective strategy for economic development, creating jobs and economic growth for far less monetary cost than most other economic development strategies.

Areas with a ready supply of capital and willing entrepreneurs tend to have more success with import substitution.

Some theorists argue that the long –term vitality of certain cities and regions and stagnation and depression of others can be attributed to the success or failure of import substitution efforts.

VII. CONCLUSION

The policy of import substitution is well- suitable for a country like India because India has a large variety of resources for industrial growth. Its domestic market is small. Hence it is necessary to expand the domestic market by curtailing the imports. It is necessary to protect infant industry from the competition of foreign efficient and well established industrial producers. India needs and can afford a large – sized sector of capital goods industries. These are also needed for security purposes. India needs to self- sufficient and dynamic in the industrial field. India needs technological upgradation. This policy can enable the government to plan the allocation of resources as per its priorities.

At the end of this paper, we can say that the position of an entrepreneur in import substitution, actually 'Need of the Hour' and a great challenge for Indian economy to compete with other countries.

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