Problem And Prospects Of Industrialisation In India

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Abstract :

Before Independence, India as an important colony of U.K., had been an active partner of the development of capitalistic production, but without sharing the benefits. The foreign ruler seldom cared for its over all or sectorial development. After Independence, a genuine need was realised as to how to encourage the stagnant sectors' into moving ones' and as such first emphasis was laid on the growth of Agriculture (the First Five Year Plan) and then to Industry (the Second Five Year Plan). Resource constraints caused for differential treatment, and in the means of factors that abuse industrial development on the nation-basis or state basis. Even today, 'resource-constraint' occupies the central position. However, before travelling into the negative-zone i.e. achievement gaps and problems, it is proposed to focus on the nature and extent of industrialisation, and its problems in the second and third subsections. Then, in the last subsection the prospects are to be analysed.

Keyword **:** *Development, Genuine, Agriculture, Resource, Constraints, Treatment, Factors, Industrialisation*

The first phase of industrial growth covers the period of the first three plans. As noted earlier, this period was significant in the sense that it laid the basis for industrial development in the future. The Second Plan, based on Mahalanobis model, emphasized the development of capital goods industries and basic industries. Accordingly, huge investments were made in industries like iron and steel, heavy engineering, and machine building industries. The same pattern of investment was continued in the Third Plan as well. As a result, a shown in Table 1, there occurred a noticeable acceleration in the compound (annual) growth rate of industrial production over the first three Plan periods upto 1965 from 5.7 per cent in the First Plan to 7.2 per cent in the Second Plan and further to 9.0 per cent in the Third Plan. What is significant from the point of view of long run industrial development is the fact that the rate of growth of capital goods industries shot up considerably from 9.8 per cent per annum in the First Plan to

12.1 per cent per annum in the Second Plan and further to 19.6 per cent annum in the Third Plan. Another important group of industries from the point of view of industrial development is 'basic industries'. The rate of growth of this group also registered a significant increase from 4.7 per cent per annum in the First Plan to 12.1 per cent per annum in the Second Plan and stood at 10.4 per cent per annum in the Third Plan. This shows that a strong base for industrial development was laid during the first three plan periods. The credit for this undoubtedly goes to the massive expansion of investment that took place in the public sector.

But the period 1965 to 1976 was marked by a sharp deceleration in industrial growth. The rate of growth fell steeply from 9.0 per cent annum during the Third Plan to mere 4.1 per cent per annum during the period 1965 to 1976. It is also important to point out that even this meagre rate of industrial growth does not express the true situation as there was a sharp increase of 10.6 per cent in industrial production in the year 1976-77. If this year is left out then the rate of industrial growth over the ten year period 1965 to 1975 declines further to meagre 3.7 per cent annum. In a similar way, the rate of growth of 6.1 per cent per annum during the Fifth Plan owes considerably to the 10.6 per cent increase recorded in the year 1976-77. If this year is left out, the rate of industrial growth for the remaining four years comes down considerably. Even if 1976-77 is included, the rate of growth during the Fifth Plan period at 6.1 per cent annum is nothing much to boast of. It is less than the rate of growth achieved in the Second and Third Plans and is only slightly higher than the rate of growth achieved in the First Plan.

Table-1

Annual Compound growth Rates in Index Numbers of Industrial Production, 1951 to 1980

Use Based or Functional Classification	1951 to 55 (4 yr.)	1955 to 1960	1960 to 1965	1965 to 1976	1976 to 1979 (Fifth Plan Average)	1979-80
1. Basic Goods	4.4	12.1	10.4	6.5	8.4	-0.5
2. Capital goods	9.8	13.1	19.6	2.6	5.7	-2.3
3. Intermediate goods	7.8	6.3	6.9	3.0	4.3	1.9
4. Consumer goods	4.8	4.4	4.9	3.4	5.5	-4.4

(a)	Consumer durable goods	-	-	-	6.2	6.8	5.6
(b)	Consumer nondurable goods	-	-	-	2.8	5.4	-6.1
5. General Index		5.7	7.2	9.0	4.1	6.1	-1.6

Source : S.L. Shetty, "Structural Retrogression in the Indian Economic and Political Weekly, Special Supplement, 1978, Table 4, p. 9 and Government of India, Hand Book of Industrial Statistics, 1989, Table 75, p. 114.

In a addition to the phenomenon of deceleration in industrial growth during the period 1965 to 1980, Table 1 also brings out clearly the phenomenon of structural retrogression that plagued the industrial sector during this period. From the point of view of long run industrial development, the most important group of industries is the group of capital goods industries. This group registered a consistent and considerable increase from 9.8 per cent per annum in the First Plan to 13.1 per cent in the Second Plan and further to phenomenal 19.6 per cent per annum in the Third Plan. However, in the next eleven years (1965 to 1976), the capital goods sector grew at an annual rate of only 2.6 per cent. If we consider the Fifth Plan period, the rate of growth of capital goods industries goes up to 5.7 per cent per annum but, as would be clear from Table 1, even this is substantially lower than the rates of growth recorded in the first three plans. The same story is found in the case of basic industries. In fact, as shown by S.L. Shetty in the case of many industries of crucial importance, the growth between 1965-66 and 1976-77 was almost insignificant compared with the average from the previous five-year period.

Decline in the growth rate of capital goods industries and basic industries in the period after the Third Plan clearly represents the phenomenon of structural retrogression. Shetty also points out a second aspect of this structural retrogression. He shows that where growth has been moderately high, a majority of the industries belonged either directly or indirectly to the elite-oriented consumption goods sector. This is illustrated by the disproportionately large increase in the output of man-made fibres, beverages, perfumes and cosmetics, commercial, office and household equipment, watches and clocks and fine varieties of cloth.

Now some economics blame the wrong industrial polities, complex bureaucratic system of licensing, irrational and in-efficient system of controls etc. for industrial deceleration. Most notable belonging to this school are Jagdish Bhagwati, Padma Desai, T.N. Srinivasan and Isher Judge Ahluwalia. Bhagwati and Desai are highly critical of the industrial planning in India.

They state : "It seems to us that, even though policy analysis in economic questions can rarely be as definitive as in the natural sciences, that Indian planning for industrialization suffered from excessive attention to targets down to product level, along with a generally inefficient framework of economic policies designed to regulate the growth of industrialization." According to Bhagwati and Srinivasan, "India's foreign trade regime, in conjunction with domestic licensing policies in the industrial sector led to the economic inefficiencies and impaired her economic performance... Recently Isher Judge Ahulwalia has lent support to above arguments. She asserts, "The industrial policy regime was operated in a manner calculated to influence the pattern of investment down to product level, the choice of technology with its implications for scale, expansion, location, direct import content as well as the terms of foreign collaboration in finance and know how. Thus, not only was foreign competition ruled out through opened import substitution oriented policies, but domestic competition was also severely curtailed. The growing complexity of the industrial system over time required a constant review and suitable reorientation of the industrial policy framework. In fact the latter became more and more regulatory and less development, thus belying the original promise of channeling growth in the desired direction."

The period of 1980s can broadly be termed as a period of industrial recovery. This is clearly brought out by a study of the revised Index of Industrial Production (base 1980-81). Rates of Industrial growth based on this index are presented in Table 2.

Table-2

Rate of Growth of Industrial Production (Use-Based) During Elighties (Using Revised IIP)

Use Based or Functional Classification		1981-85	1985-90	1990-91
1. Basic Goods		8.7	7.4	3.8
2. Capital Goods		6.2	14.8	17.4
3. Intermediate Goods		6.0	6.4	6.1
4. Consumer Goods		5.1	7.3	10.4
(a)	durables	14.3	11.6	14.8
(b)	Non-durables	3.8	6.4	9.4
General Index		6.4	8.5	8.3

Source : Computed from Government of India, Hand Book of Industrial Statistics, 1992, Table 50, p. 50 and Table 54, p. 155.

As is clear from this table, the rate of industrial growth was 6.4 per cent per annum during 1981-85, 8.5 per cent per annum during the Seventh Plan and 8.3 per cent in 1990-91. As noted by Vijay L. Kelkar and Rajiv Kumar, "This is a marked upturn from growth rates of around 4 per cent achieved during the period of the sixties and the seventies. This performance is also important upon the growth rates achieved during the First and Second Plan periods. It perhaps also marks a beginning of a new period of industrial growth in the country..."

Similar trends of industrial recovery in eighties are noted by some other economists as well as well. In her study spanning the period 1959-60 to 1985-86, Isher Judge Ahluwalia noted that the period 1980-81 to 1985-86 (i.e. the first half of the eighties) was "marked by significant acceleration in the growth of value added in the manufacturing sector and all its use-based sectors". The value added in the manufacturing sector and all its use-based sectors". The value added in the manufacturing sector grew at the rate of 7.5 percent per annum in the first half of eighties as against only 4.7 to 5 percent per annum in the period 1966-67 to 1979-80. According to Ahluwalia, a very important aspect of the growth revival during the first half of the eighties was that it was not associated with an acceleration in the growth of factor inputs but was, rather, based on better productivity performance. Thus, total factor productivity which registered a negative and negligible growth of -0.2 to -0.3 per cent per annum in the period 1966-67 to 1979-80 showed a marked improvement in the first half of the eighties when it registered a growth of 3.4 per cent per annum.

It would also be useful here to consider the results of Nagaraj's study published in 1989. R. Nagraj presented growth rates in value added in registered manufacturing for three times periods, 1959-60 to 1965-66 (period-I), 1966-67 to 1979-80 (period II) and 1980-81 to 1986-87 (period III). Growth rates in value added for the three periods come out to be 7.6 per cent per annum in period I, 5.5 per cent per annum in period II and 10.4 per cent annum is period III. This shows clearly that the industrial growth in period III is substantially higher than the industrial growth in the earlier periods. This is a clear sign of industrial recovery in the eighties. In fact, a study of the growth rates at disaggregated level shows that growth rate in period III is higher than the growth rate in period II in all industry groups except textiles, wood and furniture, and basic metals.

But the year 1991 ushered in a new era in economic liberalisation. Major liberalisation measures designed to affect the performance of the industrial sector were-wide scale reduction in the scope of industrial licensing, simplification of procedural rules and regulations, reductions of areas exclusively reserved for the public sector, disinvestment of equity of selected public sector undertakings, enhancing the limits of foreign equity participation in domestic industrial undertakings, liberalisation of trade and exchange rate police, relationship and reduction of customs and excise duties and personal and corporate income tax, etc. A questions that has engaged the attention of the economists in recent times is : What has been the effect of these liberalisation measures on the performance of the industrial sector in the post-measures on the performance of the industrial sector in the post-reform period ? To answer this questions we consider the figures contained in Table 3 which compares the performance of the industrial sector during the pre-reform decade and post-reform decade.

Table-3

Average Annual Growth Rate of Industrial Production (Use Based) in Pre-Reform Decade and Post Reform Decade

Use Based or Functional Classification		1980-81 to 1991-92	1992-93 to 1999-2000*
1. Basic Goods		7.4	6.1
2. Capital Goods		9.4	5.9
3. Intermediate Goods		4.9	9.1
4. Consumer Goods		6.0	6.3
(a)	Durables	10.8	11.2
(b)	Non-durables	5.3	5.1
General Index		7.8	6.0

*Simple average of the annual growth rates

Source : (i) Government of India, Economic Survey, 2000-01 (Delhi, 2001), Box 7.1 p. 130.

As is clear from this table, the rate of growth of Industrial production which was 7.8 per cent per annum during the pre-reform decade fell to 6.0 per cent per annum during the post-reform decade. This disappointing performance is basically due to a step fall in the rate of growth of capital gods sector. From 9.4 per cent per annum during the pre-reform decade, rate of growth of this sector fell to only 5.9 per cent per annum in the post-reform decade. The basic goods sector also registered a decline with its rate of growth slipping from 7.4 per cent per annum to 6.1 per cent per annum over the period. On the other hand, the intermediate goods sector and the consumer goods sector put up a better performance in the post-reform decade. Particularly robust has been the growth of the consumer durables' sector. In fact, this is the only sector to have witnessed double-digit growth both in the pre-reform decades and the post-reform decade.

To examine the reasons for the slowed down in industrial growth during nineties, it is more useful to study data pertaining to different years. The problem that one encounters in this respect is that the Central Statistical Organisation has recently shifted the base period from 1980-81 to 1993-94. In Table 4 we present data for 1991-92 and the Eighth Plan Period (i.e., 1992-93 to 1996-97) on base 1980-81=100 while data for years (1997-98 to 1999-2000) are presented on base 1993-94-100. Partik Kumar

Table-4

Rate of growth of Industrial Production in Nineties (Use Based)

Percent per annum

Used Based or Functional Classification		Base 1980-81=100			Base 1993-94=100	
		1991-92	Eighth Plan	1997-98	1998-99	1999-2000
1		2	3	4	5	6
1. Basic Goods		6.5	6.8	6.9	1.6	5.3
2. Capital Goods		-8.5	8.9	5.8	12.6	6.9
3. Intermediate Goods		-2.1	8.5	8.0	6.1	8.8
4. Consumer Goods		1.0	6.6	5.5	2.2	5.7
(a)	Durables	-10.9	13.4	7.8	5.6	14.2
(b)	Non-durables	4.0	4.8	4.8	1.2	3.2
General Index		0.6	7.4	6.7	4.1	6.6

*Simple average of the annual growth rates over the Eighth Plan period (1992-93 to 1996-97).

Source : (i) Date in columns (2) and (3) from Reserve Bank of India Handbook of Statistics on Indian Economy, 2000 (Mumbai, 2000), Table-199, p. 409 and Table 200, p. 410 (ii) Data in columns (4), (5) and (6) are from Government of India, Economic Survey, (2000-01), Delhi Table 7.3, p. 132.

As can be seen from Table 4, the industrial sector registered a dismal performance in 1991-92 with its rate of growth being just 0.6 per cent. The average annual rate of growth of the industrial sector in the Eighth Plan was 7.4 per cent per annum, the same as the targeted rate of growth. However, there are two points worth nothing in this context, First two years of the Eighth there Plan there was merely 2.3 per cent and 6.0 per cent respectively. In 1995-96, however the rate of growth was as high as 12.1 per cent. What is more, the different sectors registered marked upheavels. For example, the capital goods sector registered a negative growth of -0.1 per cent in 1992-93 and -4.1 per cent in 1993-94. However, in 1994-95, it registered a strong positive growth of 24.8 per cent. Other sectors also exhibited highly fluctuating trends. This total lack of consistency in industrial growth performance is a cause of concern and does not instill confidence about industrial buoyancy in years to come. Second, although the Eighth Plan could achieve the targeted rate, the accomplished rate was very much lower as compared with the 8.5 per cent per annum rate of industrial growth registered in the Seventh Plan. According to the Planning Commission, the most important reason for lower growth rate during Eighth Plan period as compared to the Seventh Plan period seems to be that the industrial sector, which had been almost totally protected from both industrial as well as external competition during the previous four decades, was suddenly exposed to foreign competition through a significant liberalisation of imports and a drastic reduction in import duties. The industry was hardly prepared for it and the slow down was only to be expected as is reflected in the very low growth rates realised in the first two years of the Eigth Plan. The worst affected in the early post-reform period was the capital goods sector. First, the user sectors now had the option of importing the most modern capital goods and equipment instead of buying them from the domestic industry an option which the new liberal import policy had now opened up. Second, with a progressive reduction in import duties, many of the user sectors adopted a 'wait and watch' policy and postponed their investment plans. A number of industries were not able to meet external competition due to a variety of reasons, an important one being their historical background. Ninth Plan cites the case of copper industry and paper industry in this regard. In the hydrocarbon sector, a number of petroleum intermediates were imported while the domestic capacity languished. A number of commodities faced the problem of dumping. The machinery for investigation of dumping was not adequate to deal with the increasing number of cases.

Some Problems Of Industrial Development In India :

1. Gaps between targets and achievements- Excepting the period of the eighties when targets of overall growth in industrial sector were achieved, in the entire period of planning, achievements were below the targets. It has been estimated that the average shortfall in industrial achievement has been about 20 per cent in each plan period. According to Rakesh Mohan, "The average industrial growth rate achieved over thirty-five to forty years has been about 6.2 per cent relative to the average of about 8.0 per cent projected. On an approximate basis, also accounting for higher associated growth in the primary and tertiary sectors, this would come to about 1.2 to 1.4 per cent lower annual growth in the per capita GNP on a cumulative basis over thirty-five to forty years. If at current prices, the per capita Indian income in around USs 300, it would have been about US $ 500-550 has these consistent shortfalls in industrial and other not taken place.

2. Under-utilisation of capacity - A large number of industries suffer from substantial under-utilization of capacity. Because of the difficulties in defining "capacity". There are vast differences in estimates of under-utilization of capacity in Indian industries. The estimates very from 20-30 per cent to 60-70 per cent. However, it can be safely assumed that the average level of utilization in a number of industries in India fluctuates around 50 to 60 per cent. The causes of this state of affairs are multifarious and range from technical to raw material shortages, frequent power failures, governmental policies, labour disputes and demand factor etc.

3. Performance of public sectors - We have noted earlier in this chapter the phenomenal growth of public sector in the planning period. However, the performance of public sector enterprises has raised many eyebrows. Undoubtedly, the performance of the public sector units cannot be judged by the yeard stick of profits since their justification lies in fulfilling certain broader socio-economic objectives. But accumulation of large losses in the public sector units is indeed a serious matter and calls for immediate corrective action. The unremunerative pricing policies which these enterprises have been forced to follow have amounted to indirect subsidization of the private sector. Thus private profits have expanded at the cost of the public exchequer.

4. Growth of regional imbalances - Industrial development in India has remained concentrated in a few States while other States continue to lag far behind. For instance, the three industrially advanced States of the country-Maharashtra, Gujarat and Tamil Nadu-accounted for 39.3 per cent of the total factories, 41 per cent of invested capital and 43.3 per cent of the value of output of the industrial sector in India in 1996-97. Since the processes of economic development are closely linked with the processes of industrial development, it would not be illogical to argue that the process of economic development has more or less bypassed a number of poor States.

Though substantial investments in public sector were made in the relatively backward States of Bihar, Orissa and Madhya Pradesh, the expected 'trickling-down effects' of development were in no way evident and large tracts of these Stats remained untouched by planning. Schemes of developing backward areas were no more successful. Capital subsidies, fiscal incentives and other measures initiated to develop industries in backward areas were directed towards developing the backward areas of developed States and the demands of backward States were glossed over. Effective steps to reverse this process are called for urgently.

5. Industrial sickness- A number of industries are plagued by 'sickness' which in some cases in due to bad and inefficient management. Also, as noted by the Sixth Five year plan, 1980-85, "The pattern of industrial development has not been sufficiently guided by cost considerations. In a regime of protection from international competition, industries have tended to get established at sub-optional capacities, leading to a high cost industrial structure. Adequate attention has also not been given to improvements in technology and quality of products. Some of these factors have led to the emergence of sickness in certain industries particularly when market conditions tend to generate a measure of competition within the economy. At the end of March 1999, the latest period for which data are available, there were 3.09 lakh sick industrial units involving an outstanding bank credit of Rs. 19,464 crore."

6. Emerging Challenges - As a founder member of the World Trade Organisation (WTO), India has withdrawn all quantitative restrictions on imports. This is bound to result in intense competition with imports in coming years forcing a number of industrial units to close down. The 'pressure of competition' will be particularly harsh on many small-scale units as they simply cannot withstand competition from resource rich and the technologically advanced multinational companies. In fact, even our large private sector companies are just pygmies vis-a-visMNCs and many of them also may find the goint tough. So far as the basic goods and capital goods industries are concerned, they might receive a set-back as the end-use industries will now have full access to cheaper imports. Things will not be easy for the end-use industries as well as they will have to complete with foreign goods on both price and quality fronts. In fact, some consumer goods industries are already feeling the heat of cheaper imports of Chinese goods in the Indian market.

Prospects :

Since the beginning of the last decade, through changes in its policy parameters favouring 'market-based economy'-India has entered a more competitive environment which contains not only negative but even strong positive points for industrial development in future.

The Industrial policy statement of 1991 initiates far-reaching structural reforms to lead Indian industries away from a regulatory and protective regime to a free market orientation and globalised environment. The policy deregulates the industrial economy in a substantial manner. It will reduce delays in project implementation. Increased competition will lead be enhanced pressure on enterprises to reduce their costs and to improve quality. The new policy measures aim at correcting the destortions and weakness that had crept in the regulatory and protective Indian economy. The libralised industrial policy will maintaing sustained growth in productivity and gain full employment. It will encourage growth of enterpreneurship and upgrade technology in order to complete in the world market.

The disinvestment of a part of the equities of some selected undertakings has helped to raise non inflationary finance for development. The policy of disinvestment will also bring a greater public accountability and improve the efficiencies of these enterprises. By amending the sick industrial companies Act to bring a public sector undertaking also within its purview, the public sector units will be subjected to the same discipline as private sector units.

The policy of liberalisation of foreign investmet will help facilitate the inflow of direct foreign investment. These non-debt creating inflows will reduce reliance on fixed interest debt and also bring in new technology, marketing expertise and modern managerial practices.

The policy relating to tiny and small industries will impart mor vitality and encourage the growth of employment and exports.

Thus the industrial policy statement of 1991 is a desire improvement over the earlier policy statements. It will help galvanise the economy, increase industrial productivity and production and make it more competitive and outward-oriented.

Ways to prosperity of the industrial sector may also be opened through spread effect of global development and enhancement of the knowledge frontier of the human factor.

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