

Industrial Sector in India: Policies and Performance

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ABSTRACT

After the British left, India was left with a slew of structural and economic problems that almost halted industrial progress. The remainder of the economy was seen as the driving force for industrialization by policymakers. In addition, India has implemented several measures to promote industrial growth since 1948, but the regime altered its aspect in the aftermath of economic liberalisation and deregulation towards the start of 1991, which had a favourable impact on industrial performance. The industrial sector's performance from 1950-51 to 2016-17 was examined. During the reforms, however, both the industrial and manufacturing sectors stayed at comparable levels after the research's second period of observation, i.e. 1980-81 to 1991-92. (1991-92 onwards). Over 17% of the workforce in India is employed in the industrial sector, which contributes about 27.6% of the country's GDP. In 2015–2016, the industrial sector's contribution to India's GDP increased by around 5.3%. Within this year's India GDP, the manufacturing sector provided around 5.6 percent, the power, water supply, and gas sectors contributed 2.7 percent, and the mining and quarrying sector contributed 4.2 percent. The massive investments being made in this area, which have aided in the expansion of the industries, are to blame for the increased industrial growth rate in the Indian GDP. Indian industrial sector is facing a lot of problems including lack of proper planning and investment, infrastructure, skilled workers and others which is responsible for the poor industrial growth in India. It may be accelerated by Long-term rational and stable fiscal policy, Optimum utilization of resources, Equal distribution of income, Policy for sick units, Favourable industrial climate, Removal of Bottlenecks as well as by modernisation and technological upgradation. It has provided a most significant boost to the Indian economy. The government of India is making efforts regularly to boost the industrial sector in the country which will be resulted into the economic growth of India.

INTRODUCTION

Indian industry was often behind the times until the first part of the 20th century, when the British government colonised and exploited the country. In order for the socioeconomic benefits to reach the majority of the population, the new administration faced the enormous challenge of reforming and strengthening its industrial base via planning and strategy. In this time, government planning of the sector via licencing and other mechanisms continued to play a significant role in India's highly closed economy. The de-licensing changes implemented by Rajiv Gandhi's administration in 1985, however, marked the beginning of a new chapter in the history of policymaking that would be followed by significant reforms and liberalisation in 1991.

The Pre-Independence Period: Before the British took over, India had a healthy economy with a variety of industrial activities, albeit its primary industry was agriculture. The nation was mostly well-known on the international market for its handicraft industries in textiles made of cotton and silk, jewellery made of precious stones, and metalwork. However, rather than focusing on the growth of the Indian economy, the

colonial government's economic policies were primarily designed to safeguard and advance the economic interests of their home nation. While unemployment increased dramatically over the lengthy period, per capita income remained stagnant or may have even decreased.

Policies: There are a number of industrial policies adopted by government of India, however some of the significant are detailed here [8].

Industrial policy 1948: Industries were divided into four broad categories:

- Defense businesses and nuclear energy control: The Central Government had sole control and ownership of these industries.
- Coal, iron, steel and telephones and telegraphs were to be held by the government.
- A number of basic industries, including woollen textiles and fertilisers as well as electron chemicals and non-ferrous metals were regulated by the Central Government.
- The private sector was allowed to operate in industries other than those listed above.

Industrial Policy 1956: It facilitated the fresh announcement of industrial policy.

i. New classification of industries:

- Schedule A: Scheduling A industries are the exclusive responsibility of the state in where they are located.
- Schedule B: The private sector has the potential to complement the efforts of the state, as shown in Schedule B, which includes state-owned businesses.
- Schedule C: The remainder of the private sector-owned industries.

ii. The private sector's fair and non-discriminatory conduct.

iii. Village and small-scale enterprises are encouraged to grow.

iv. Elimination of geographical differences.

v. The provision of adequate working conditions.

Industrial Policy 1977: The next Industrial Policy was introduced to make radical changes in the existing policy as follows: In 1977 the Janata Party assumed power,

- i. Development of small-scale sectors Viz: Cottage and household industries., Small sector with less than 1 lakh investment and small-scale sectors with investment upto 10 lakhs.
- ii. District industrial centres were to setup in each district to support small scale industries.
- iii. Programmes to expand the areas of operation of Khadi and village industries.
- iv. Application of technology to the advancement of productivity of small and village industries.
- v. Large scale sectors should formulate the programme for small scale and village industries.
- vi. Sick units should be selected and public funds should be pumped into unwell units.
- vii. Framing policies for encouraging worker's participation in management.

Changes were made to the current Industrial Policy in the following ways:

- i. Development of small-scale industries was the main focus of the Janata Party's rule in 1977. Viz: Small-scale and home-based businesses. Modest businesses with an investment of up to ten lakhs rupees might be considered small.
- ii. To assist small businesses, district industrial centres were to be established in each district.
- iii. Khadi and village industry expansion programmes.
- iv. Fourth, using technology to boost the output of small and rural businesses
- v. Small and village industries should have a programme developed by large sectors.

vi. Unwell units should be prioritised, and public monies should be used to improve the quality of care for the sick.

vii. Incorporating rules that promote employee involvement in management [11].

Industrial policy 1980: Congress made the announcement. The primary goal of this programme was to improve the economic infrastructure. Features:

- i. Socio-economic goals for optimum installed capacity utilisation, increased job creation and productivity, output maximisation, correction of regional imbalance, preferential treatment for agro-based sectors, and promotion of economic federalism.
- ii. The Indian economy's recovery.
- iii. Successful operational management of industries in the private sector.
- iv. Including industrial growth in the free market.
- v. Supporting businesses established in rural regions.
- vi. The elimination of industrial sector regional disparities.
- vii. State policy and industrial sickness.

According to the Industrial Policy, companies that were proven to have mismanaged their operations and caused illness would face harsh punishment. All of the industrial strategies mentioned above acknowledged the need of encouraging foreign capital involvement. However, there was no support for foreign control and ownership. These measures fell short of the fundamental requirements for a liberalised economy and foreign direct investments. Consequently, the new strategy was developed in 1991.

INDUSTRIAL POLICY OF 1991:

1. Structural reforms: A significant programme of deregulation has been started with the introduction of the new industrial policy [13]. Except for a select group of six industries—aerospace and defence equipment, drugs and pharmaceuticals, industrial explosives, alcoholic beverage distillation, cigars and cigarettes, and hazardous chemicals—all forms of industrial licencing have been eliminated. The MRTP Act has been modified to make it unnecessary to seek government clearance before expanding existing industrial units and establishing new businesses. All sorts of industry have a significant portion set aside for the private sector. Arms and ammo, nuclear energy, defence aircraft, and rail transportation are among industries that are only allowed to be operated by the public sector.

2. Foreign Direct Investment: The Indian government has made a commitment to encouraging the industrial sector's rapid expansion. The function of foreign direct investment (FDI) as a means of assisting

domestic investment in order to achieve a high degree of economic growth [14]. By offering chances for technical advancement, access to international management skills and practises, etc., FDI benefit both the native business and the Indian consumer.

3. Initiatives:

The subsequent for industrial growth, significant steps have been done.

- a) Delicensing of the bulk pharmaceutical, sugar, coal, lignite, and petroleum sectors.
- b) Foreign ownership of the provision of electricity up to 100%.
- c) The need of previous RBI clearance for bringing in FDI, OCB, or NRI investment.
- d) The RBI granting authority to a regional office.
- e) Private sector scope: Entry level obstacles have been lifted, and a smaller number of the enormous industries formerly protected for the public sector.
- f) Current account transaction restrictions have been removed.
- g) Integration with the world economy
- h) Reforms have been brought about through industrial policy in sectors like export and import, among others. Import tariff fees have been decreased.

Performance Of the Industrial Sector in India: After 70 years of our independence, the performance of the industrial sector of India is examined time to time [15]. The Indian expenditure on Industrial sector (2016-17) is depicted below:

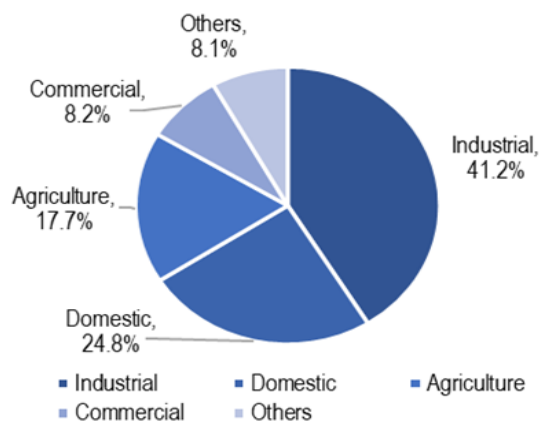


Fig 1 : Pie Chart Showing Indian expenditure on Industries and allied fields (2016-17).

Fig 1 reveals the total Indian expenditure on Industries and allied fields. The above pie chart clearly indicates that the major expenditure (41.2%) was made for industrial development which is followed by domestic sector (24.8%), Agriculture fields (17.7%), and commercial sectors (8.2%). Rest 8.1% of the entire budget (8.1%) was spent for other sectors.

Industrial policy in India have been changed during the whole period from 1950-51 to 2016-17. It may be categorized as follows:

- Initial Period of Planned Development (1950-51 to 1980-81)
- Middle Period of Limited Liberalization (1980-81 to 1991-92)
- Latest Period of Post-Reform (1991-92 onwards).

Table 1: Comparative CAGR in different Periods (Percent).

Periods of Development	Industry Performance	Manufacturing Performance	Mining & Quarrying	Electricity, Gas & Water Supply
Total Period: 1951-52 to 2016-17	5.62	5.41	5.40	8.32
Initial Period of Planned Development 1951-52 to 1980-81	5.46	5.28	4.61	9.98
Middle Period of Limited Liberalization 1980-81 to 1991-92	6.31	5.75	7.72	8.76
Latest Period of Post-Reform 1991-92 to 2016-17	6.33	6.69	4.74	5.49

According to the aforementioned table, the manufacturing and industrial sectors began to rise in the 1980s but really took off in the 1990s and the years after the reform [16]. Electricity, gas, and water supply had the highest rate of industrial development overall throughout the limited liberalisation period (1980–81 to 1991–92), whereas manufacturing had the lowest rate of growth during the post–reform period (6.69%). Mining and quarrying had substantially greater growth rates—7.72 percent—during the second phase of the research, or the short time of liberalisation, than throughout the previous decades. In

contrast, the government's substantial investment led to consistent growth in the power, gas, and water supply sectors of the economy over the projected development period of 9.98 percent. Both sectors had reached maturity by the time of the 1990s' liberalised reforms, which is why they performed poorly.

Industrial contribution to GDP: India's GDP is a measure of its economic health. Many different industries have contributed to it. With 96.54 lakh crore in gross value added at current prices in 2016–17, the service sector is India's largest

industry. Currently, the service sector makes up roughly 54 percent of India's GVA, which is currently at 179.15 lakh crores. With a contribution of 25.92 percent, the industry sector trails behind it, and the third-most prevalent industry, agriculture, comes in at 20.19 percent. If we compute using 2011–12 prices, the agriculture & allied, Industry, and Services sectors' respective compositions are 16.39%, 29.35%,

and 54.28%. If we compute from 1950 to 1951, the proportion of the services sector has increased to 57.04 percent after looking at the GDP contributions of the service sector and each division. The industry sector now has a 24.78 percent participation rate. According to the sector's contribution [17], the current status is as follows:

Service Sector Divisions	Percentage Contribution
Primary (Agriculture, mining & quarrying, forestry, and fishing, etc.)	21.82 %
Secondary (Manufacturing Industry, gas, water supply, electricity etc.)	24.29 %
Tertiary (service sectors)	53.89 %

Problem Facing:

The following are some of the major issues and challenges that the nation's industrialisation process is now facing [18]:

1. Poor Capital Creation: India's slow industrial progress has been attributed in part to poor capital formation, which is one of the main obstacles.
2. Political factors: India remained a primary producer for 200 years under British rule, which slowed the nation's industrialization.
3. Lack of Infrastructural Facilities: India currently lacks enough infrastructural facilities, which is a major barrier to the nation's economic development.
4. The agricultural sector performs poorly. In addition to providing raw materials, agriculture also creates demand for the goods produced by the industrial sector. As a result, India's industries are not developing as quickly as they could.
5. Gaps between Aims and Achievements: With the exception of the 1980s, the industrial sector was unable to completely meet its targets over the planning era. The industrial sector was able to accomplish its goals throughout the Sixth and Seventh Plans. This pattern has consistently worked against the nation's orderly industrial growth.
6. Lack of Skilled and Efficient Workers: Handling such extremely complex computerised machinery that is required for our nation's industrial growth is very difficult in the absence of adequately trained and skilled personnel.
7. Elite Oriented Consumption: Indian industries' "distortion of output structure" is evident from the sluggish development rate of "white goods" like air conditioners, refrigerators, washing machines, etc. that are produced for mass consumption.
8. Wealth Concentration: The country's current industrialization pattern has resulted to a concentration of economic power in the hands of a select few large industrial firms, who have struggled to acquire that economic dominance.
9. Poor Public Sector Performance: Poor public sector investment performance failed to provide economic advantages for more investment in the nation's industrial sector.
10. Regional Imbalances: The concentration of industrial growth into a select few states has brought to light a new issue of imbalances in India's industrial growth. For the industrial development of underdeveloped states, several capital subsidies, financial incentives, and other facilities have been established.
11. Industrial Disease: Because of poor management, the nation's industrial growth is facing a serious obstacle as a consequence of the industries' developing sickness.
12. State Control Regime: Regional state controls and regulatory practises that are sustained by industrial inefficiencies are impeding the industrialization of the nation. In recent years, the Indian government has made some significant actions to implement the essential economic changes in the nation's industrial structure.

Although these efforts are difficult in nature, it is anticipated that they will make significant progress in reducing the numerous barriers stated above and also in achieving greater industrial growth of the nation in the years to come.

Suggestions for Improvement: Even after substantial progress toward industrialisation, India remains an agricultural country, with land accounting for 38 percent of national GDP and 71 percent of the population. According to Dr. Manmohan Singh, following suggestions will be a long way to overcome above stated problems [19]:

1. Suppression of Industrial Disputes: The Industrial Disputes Act of 1947 makes attempts to promote industrial concord, however it is insufficient. The causes of the disagreements should be investigated, and appropriate means for their resolution should be devised.
2. Research and Technology Development: New channels of research on scientific and technological

matters should be created to facilitate fast industrial development.

3. Increase in Power Resources: Because India lacks adequate power resources, it is necessary to expand power resources and construct new units.
4. Appropriate Use of Natural Resources: India has a large number of natural resources that should be utilised for industrial growth.
5. Establishment of Specialized Institutes: A number of institutions for the development of extraordinary industries have been created in many states.
6. Efficient Industrial Management System: To handle the complex difficulties of industrialisation, educated and professional managers are necessary.
7. Encourage Capital Creation: Savings should be encouraged in order to increase capital formation, since finances are critical for industrial growth.
8. Encouragement of the Private Sector: The government should offer more facilities to the private sector in order to build new enterprises and upgrade existing ones.
9. Earnings in Foreign Cash: In order to grow industries, foreign investors should be invited in order to minimise unemployment and earn foreign exchange.
10. Rational Taxation Policy: Inappropriate taxation affects the growth of industrial organisations and should be liberalised.

Conclusion:

Apart from agricultural sector industrialization of a country includes manufacturing industries to develop the country. To develop the economic status, it plays an influential role in bringing the economical shift in numerous countries across the globe and the same shift occurred with industrialization in India. There was no change in the economy's growth rate. The first three decades of planning after independence. According to Virmani (2004), the 1980s

were marked by a 'Bharatiya rate of growth' that was characterised by a recognition of the damaging effects of industrial and other joysticks on distribution, production, and investment, and the need to remove the distortions created by government policy on industry and exports. Indian expenditure on Industries and allied fields indicates that the major expenditure (41.2%) was made for industrial development which is followed by domestic sector (24.8%), Agriculture fields (17.7%), and commercial sectors (8.2%). Rest 8.1% of the total budget (8.1%) was spent for other sectors. The process of fully liberalising the economy started in 1991, after economic reforms, the balance of payments crisis, and macroeconomic instability. Trade restrictions were reduced, the licencing raj was abolished, and privatisation got underway. Foreign investment was encouraged. As a result, the economy began to grow at about 7 to 8 percent. However, after more than 50 years of independence, there has been no change in the job situation. Small-scale enterprises are expanding reasonably. The main issues that Indian industries face include poor capital formation, political factors, a lack of infrastructure, poor agricultural sector performance, gaps between targets and achievements, a shortage of skilled and effective workers, elite-oriented consumption, wealth concentration, poor public sector performance, regional imbalances, industrial sickness, and a system of state controls. Suppression of Industrial Conflicts, the Advancement of Research and Technology, the Increase in Power Resources, the Proper Use of Natural Resources, the Establishment of Specialized Institutions, the Efficient System of Industrial Management, the Encouragement of Capital Formation, the Encouragement of the Private Sector, the Earnings in Foreign Exchange, the Rational Taxation Policy, and some other Important Measures which will be Beneficial for Industrial Development in India. It is possible to draw the conclusion that although though India's industrial sector has expanded since independence, the pace is below expectations, particularly after liberalisation.

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