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Role of State government in Industrial development

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Abstract

This research paper communicates information about industrialization in India; which is a massive topic and may develop into a dissertation; but the researcher has limited this topic. It has shed light on a few key aspects of India's industrialization. Two distinct time periods, Pre-British period and the Evolution of Modern History cab be identified in India's industrialization aspects. Industrial initiatives have been created inside the country with a primary goal of improving people's and the country's standard of life.

Keywords: Industrial development, Industrilization,Industrial development in India, Economic development.

1. INTRODUCTION

The development of India into a modern industrialized country is a slow but continuing process. The industrial sector with its forward as well as backward linkages and its high employment potential holds the key to the economic growth of a nation. Since independence, a reasonably well level of self-sufficiency in manufacturing the capital goods is achieved by India. If the industrial sector expands, it might pull many Indians out of the poverty by taking them away from the low-paying agricultural sector. This will make a more stable and prosperous India and, in turn, attract more business. It’s no secret that India is an emerging manufacturing power to be reckoned with. Its manufacturing sector grew more than 10 % in the second quarter of 2005 alone. India is becoming the premier manufacturing location for companies around the world

1.1. Industrialisation and foreign trade

Economists and policymakers in the developing countries have long agreed on the role of government in providing infrastructure and maintaining stable macroeconomic policies. But they have disagreed on policies toward trade and industry. The form of government intervention in this area is the distinguishing feature of alternative development strategies. Setting particular trade policies within the framework of a wider strategy of seeking validation or inward for the Less Developed Countries is a helpful and illuminating method to tackle the complicated concerns of suitable trade policies for the development. Free trade is only one aspect of the open system of communications and other economic liberties favoured by outwardly focused development plans. On the other hand, inwardly focused development strategies advocate for LDCs to establish their own unique approaches to growth and to take charge of their own futures. Within these two broad philosophical approaches to development, a lively debate has been carried out between the free traders, who advocate outward-looking export promotion strategies of industrialisation, and the protectionists, who are proponents of inward-looking import substitution strategies.

The advocates of import substitution (IS) – the protectionists – believe that LDCs should substitute the domestic production of previously imported simple consumer goods and extend this later to a wider range of more sophisticated manufactured items – all behind the protection of high tariffs and quotas on imports. As a result of low labour costs, economies of scale, and positive externalities for learning by doing, local pricing become increasingly competitive with international prices, which is an advantage cited by IS proponents as well as the eventual potential to export formerly protected manufactured products.

In contrast, proponents of "export promotion" (EP) of both primary as well as manufactured goods point to the efficiency and also the growth benefits of free trade as well as competition, the significance of substituting large global markets for the narrow domestic markets, the grossly distorted price as well as cost effects of safety, as well as the huge success of the "East Asian export-oriented economies" of Singapore, South Korea, and Hong Kong. The protectionists held sway in the 1950s & 1960s, but the export boosters, led by "Western and World Bank economists", gained ground in 1980s & 1990s.

1.2. Indicators for measuring economic development

Naturally, the economic growth that is the result of every program for development must be measured. On the 14th of August 1947, the day before India gained independence from Britain, Jawaharlal Nehru, the country's first prime minister, said that one of India's future goals will be "the abolition of poverty and illiteracy and sickness and inequality of opportunity."

These measures will be used to determine the success of the inward-looking policies he initiated, as well as to compare their success with the success of the reform policies. Therefore, growth of income per capita, alleviation of poverty and reduction of income inequalities are amongst the most important indicators.

To measure advances regarding inequality of opportunity and ignorance, several indicators pertaining to education and health will be used. These are two important public goods to which every individual is entitled; both for their intrinsic importance and for their enhancement of instrumental personal, social and process roles, and also empowerment and distributive roles.

1.3. History of Industrialisation in India

This section gives a rough overview of the history of industrialisation in India. Several areas will be discussed in more detail in the following section. Colonial rule under colonial rule, India, as with most other developing countries, followed a non-industrial model. But many Indians believed that progress was retarded by this. It was believed that true economic progress lay in industrialisation; Smith's and Ricardo's ideas of international specialisation and mutually advantageous free trade were rejected, at least until India became an exporter of more sophisticated goods.

Industrialisation since Independence

India's first Prime Minister, Jawaharlal Nehru, Premier from 1947 to 1964, saw industrialisation as the key to alleviating poverty. His country had just achieved its political independence, and industrialization held the promise of both internal self-sufficiency and the exterior economic benefits of technological advancement. Believing the potential of agriculture and exports to be limited, Indian governments taxed agriculture by skewing the terms of trade against it and emphasising import substitution, thus giving priority to heavy industry.

Nehru argued that fast industrialization in India required a strong national government and a centrally planned economy. This kind of administrative control over industrial capacity dates back to 1951, when the "Industries (Development and Regulation) Act" (IDRA) was enacted. With the passage of time, however, the licencing requirements got stricter, and with them came a slew of processes that needed approval from a plethora of separate and uncoordinated ministries. The "Import Trade Control Order" of 1955 imposed quantitative limits in a form of import permits on almost all the imports in an effort to achieve IS. On top of that, there were tariffs with some of the highest rates in a developing world.

Indian state intervention in industrial development has been extensive. Unlike many East Asian countries, which used state intervention to build strong private sector industries, India opted for state control over key industries. Chemicals, electricity, steel, insurance, transportation, a chunk of textile as well as coal industries, and even the banking sector have all been nationalised at various points in history. To promote these industries the government not only levied high tariffs and imposed import restrictions, but also subsidised the nationalised firms, directed investment funds to them, and controlled both land use and many prices.

Under Prime Minister Indhira the state's role saw two significant changes under the Gandhi administration (1966–1977). As a first step, the state became actively involved in agriculture by subsidising new seeds as well as fertilisers, agricultural finance, and rural electricity, therefore ending decades of neglect. Indian farmers were able to produce all the food they needed by the mid-1970s because to the success of green revolution. The state's grip over an economy was tightened in a second change. Banks were nationalised, commerce was severely curtailed, prices for a plethora of goods were regulated, and influxes of the foreign investment were stifled.

The "Foreign Exchange and Regulation Act" was enacted in 1973 to govern transactions involving "foreign exchanges and foreign investment" (FERA).The act virtually shut out the inflow of new technology from abroad in the 1970s and 1980s, particularly when these involved large equity participation.

When compared to the typical industrialization strategies used by emerging nations in the decades after World War II, India's system of the state planning was strikingly outward-looking. Borrowing, investing, capacity utilization, pricing, as well as distribution were all heavily controlled by the government for businesses above a certain size.

By the late 1960s and early 1970s, the excessively rigid and sometimes self-defeating character of the regulatory system had become apparent. Comprehensive planning came under fire since it failed to achieve its goals and many of its initiatives were never carried out. The lack of success in some dimensions led to a new and more restrictive set of regulations. One example is the attempt to reserve sectors for small industries and to restrict the growth of large firms.

Beginning in the early 1980s, a mild trend towards deregulation started. Economic reforms were introduced, starting to liberalise trade, industrial and financial policies, while subsidies, tax concessions, and the depreciation of the currency improved export incentives. These measures helped GDP growth to accelerate to over 5% per year during the 1980s, compared to 3.5% during the 1970s, and reduced poverty more rapidly. However India’s most fundamental structural problems were only partially addressed. Tariffs continued to be among the highest in the world, and quantitative restrictions remained pervasive.

Moreover, a significant government influence continued in the allocation of credit to firms and a discouragement of foreign investment. Relatively inefficient public enterprises, controlling nearly 20% of GDP, remained a drag on economic growth.

Government antipoverty programmes were increased, particularly rural employment programmes, but growing subsidies went mostly unutilized. At each election, the level of subsidy competition between the major parties increased. A growing current account deficit was exacerbated by the accompanying budgetary deficits ("8.4% of GDP in 1985"). By the time a new administration led by Narasimha Rao took office in India in the middle of 1991, the country's foreign currency reserves were almost depleted.

In July 1991, India launched a second major economic reform program. The government committed itself to promoting a competitive economy that would be open to trade and foreign investment. Measures were introduced to reduce the government’s influence in corporate investment decisions. Much of the industrial-licensing system was dismantled, and areas once closed to the private sector were opened up. These included electricity generation, areas of the oil industry, heavy industry, air transport, roads and some telecommunications. Foreign investment was suddenly welcomed.

Subsidies for the exports were done away with, the usage of import permits was cut in half, tariffs were reduced from 400% to 150%, and a foreign currency market was established to stimulate more global integration. It has not been necessary to seek a licence or authorization to engage in import-export commerce since April 1992. Since April 1st, 1993, all commerce has been unrestricted except for a short list of items that may be imported or exported. In 1993, the WTO calculated the average import duty of 71%; by 1995, that figure had dropped to 40%. Following a series of subsequent monetary reforms beginning in 1995, the rupee is now virtually completely convertible at market values. In recent years, India's government has taken steps to liberalise the country's economy.

1.4. The State and Economic Development in India

Unlike several East and Southeast Asian republics, the Indian state is more permeable by the social actors. India, in contrast to China, was unable to do away with private business or embrace globalisation at the same breakneck pace. A state, with considerably more control over interest groups such as industrialists, farmers, as well as trade unions, would be necessary for

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either full nationalisation or full globalisation pushed by the state. Building societal agreement on measures that would promote economic growth as well as development in India required a methodical and lengthy process. This interaction between the society and state served as the impetus for this model of growth, in which the state's power was always tempered by that of the social actors, even at its most dominant periods.

The state engaged in heated dispute over various theories of development. To make significant changes to economic policy, we would need to build on the historical trajectory of incremental shifts in thought and policy, interspersed by the economic crises. This study shows how this dynamic is essential for making sense of India's continued globalization after 1991 and for comprehending the politics behind green revolution and its resultant food grain self-sufficiency. It's a tale of how different groups of people came together to reach a consensus on the economic policy and then work together to boost growth rates over time. The new consensus was facilitated by the occurrence of economic crises.

It's common knowledge that Indian democracy is convoluted and that the country's development agenda is haphazard. To a considerable extent, the literature "East Asian development state" has focused on the significance of autonomy, or East Asian state's capacity to preserve its independence from strong social actors.

But India was portrayed as a nation whose industrialization as well as prosperity were stymied by politics and favoritism.

1.5. Impact of Industrialization on the Indian Economy

Industrialization has caused a negative impact upon the ecological management of the country; there have been severe problems such as pollution of various kinds, air, water and sound with discharging of harmful gases such as carbon dioxide. There has been an increase in population, where people are coming from rural areas in search for jobs, speedy industrialization, industrial employment, increase in number of vehicles as a result of very high economic growth have been considered as the major powers that are having higher energy consumption With the impact of industrialization, there has been advent of machines and equipment, which has reduced the status of personnel to merely that of a component in a machine.

In the production of goods and services, machines are made use of and most of the work is done by the machines, personnel are merely needed just to operate the machine. In rural areas, industries are closing down with the impact of industrialization in urban areas and villagers are becoming jobless, some have a low level of education, whereas others do not have any education at all and in order to sustain their living they are moving to urban areas in search for jobs. Some of the rural people are able to find work in industries and other sectors of the economy, whereas some are unable to find work and sustain in poverty. With the advent of industrialization industries such as production, marketing, telecommunications, media, technology have come into being and changed the lifestyles of people. Industrialization has been positive in some cases, whereas negative in others.

2. LITERATURE REVIEW

(Hotta et al., 2012) Economic development of any country is largely dependent on its industrial development. Thus the small-scale industries sector assumes a vitally critical role in the economic growth, rural industrialization and employment generation in the nation. Three major sectors of the economy that are largely being affected by SSI's are manufacturing output, employment, and exports of the nation. SSI's are globally accepted as a potential driver for economic growth. The biggest benefit of SSI's is their huge employment potential and high labor intensity at a significantly low capital cost. SSI Sector contributes around half of the total Indian export. SSI's holds huge potential in terms of economic activities and hence will ultimately assist in the development of assets of the country's economy. However due to rapid changes in economy, SSI's are facing challenges like increasing population, scarcity of jobs and capital resources, etc.

(Chaitanya V., 2011) The purpose of this paper is to examine whether the decline in environmental quality in India, China and Brazil is due to release of toxic gases which is an effect of high energy consumption? If so, the increase in energy consumption is due to rapid economic growth led by industrialization? Effects of rapid economic expansion on energy use are also analysed. The methodology adopted is a Log-linear model to estimate the environmental degradation caused by the increase in energy consumption. Followed by, regression analysis to estimate the relationship between energy consumption and growth variables. The use of the threshold regression analysis allows researchers to examine how rapid economic expansion affects energy usage. There is an expanding literature on emission, energy consumption and growth relationship, mostly in theoretical and research form. This paper provides the essentials in a unique format by first studying the interrelationship between emission and energy use. Based on those results, the paper then examines the relationship between energy use and economic & industry growth variables. Research then uses "threshold regression analysis" to see whether higher-than-average economic growth rates are associated with increased energy use and subsequent environmental deterioration. To the best of the author's knowledge, this is first such attempt.

(Kiran & Kaur, 2008) This research looks at the evolution of manufacturing in India from both a macro and micro perspective, breaking down the sector into 22 distinct industries and analysing its output (value added) as well as inputs (labour, capital) in both aggregate and disaggregated forms. The research covers the years 1980–1981, the year before the reforms were implemented, and the years 1991–2002, after the reforms were put in place. The purpose of the research is to compare the increase of production, inputs, as well as productivity before and after the reform. Both aggregate and disaggregated (by industry) data show weaker development in the India's manufacturing sector in post-reform era compared to the time before liberalisation.

(A. Singh, 2008) India may have been the first non-communist emerging nation to have a comprehensive industrial strategy in the era after World War II. The plan's goal was to coordinate governmental as well as private sector investment choices and to take control of economy's "commanding heights" by nationalising key industries and companies. From 1950 to 1980, the conventional paradigm of state-directed industrialization was the norm. In the 1980s, cracks started to appear in the model. The model underwent significant revisions in the wake of a severe external financial crisis in 1991. "India's five-year plans", which outlined the country's industrial strategy from 1950 - 1980, have been roundly criticised by influential neoliberal opponents of the country's growth for decades. This paper takes a broad view of the industrial policy, emphasising t government's continuing coordination role in numerous spheres, and argues that the shift away from the "India's traditional industrial policy" towards liberalisation, de-regulation as well as market orientation in the year 1991 ushered in the new era of rapid economic growth. " Mainstream political parties" on the left and right (such as the "Bhartiya Janata Party" and the "Indian People's Party") nevertheless recognise the Planning Commission's role in developing industrial policy in a narrow sense and in directing India's continuing industrial revolution in the wider sense. This study argues that a deregulation of India's conventional investment regime in year 1980s and 1990s did not mark the end of the industrial policy as well as planned economic growth in the country. During this time, industrial policy has taken up new challenges and revised some of the previous ones it had been addressing. A key challenge for "Planning Commission" today, according to this paper's analysis, is to increase India's current 8% trend rate of development to the "double-digit numbers" while maintaining the equitable distribution of fruits of economic growth by capitalising on the country's lead in ICT and its 'institutional surplus' . To achieve this goal, India has to adopt an industrial strategy that differs from the one pursued during the Nehru-Mahalanobis period and the one that has been implemented afterwards.

(N. Singh, 2006) the contribution of service sector to recent growth in India's economy is examined in depth in this study. It explains what services are, how they differ from goods, and how they may be categorised. It surveys India's economic expansion as a whole and dissects the role of the service industry in that expansion in great depth. Impacts from other service industries, such financial services industry, are also analysed in this report, to the rest of the economy, drawing on econometric work, as well as input-output analysis of linkages to understand these possible spillovers and growth potentials. Based on this evidence, it appears that India's manufacturing sector development may have been constrained in part by weaknesses in key service sectors such as transportation and electricity. The paper also considers the particular role of international trade in services, which is of growing importance. It discusses the consequences for employment of different growth paths, the challenges of education and manpower training to support and sustain India's development path, and social and environmental issues, including regional inequality issues. The Indian experience is related to recent discussions of industrial policy, and development policy more generally.

(MAHMOUD, 1990) This study makes an effort to shed light on how governments may better encourage manufacturing in low-income nations. It addresses: I the circumstances under the governments are most likely to contribute to industrialization in the market-oriented economy, with a focus on services which governments offer directly; ii) to consider taking the preliminary look at governments' implicit role of trying to intervene to affect the way businesses operate; iii) to draw the lessons from various countries' experience; and iv) to summarise the main findings of a paper.

(Mishra, 1978) India's transformation into a sophisticated industrial power is a long-term endeavour. In this article, Jana Hambrock as well as Sebastian Hauptmann examine the Indian economy in depth, discussing its past, present, and potential.

(Vidya Mahambare#, n.d.) Several studies have analysed the impact of India's economic reforms initiated in 1991 on the productive efficiency of India's manufacturing sector (Rajan and Sen 2002, Forbes 2001, Joshi and Little 1998, Srinivasan 1996). The results of these analyses provide light on the effects of the liberalisation, particularly the lowering of trade restrictions. However, such studies only look at the effects of the trade liberalisation on an aggregate industry or broad sector levels. Examining industries or sectors as a whole misses the nuance of how individual companies react to changes in the trade policy. Such reactions could vary from business to business based on factors including industry, ownership structure, and company age. This research aims to examine how liberalisation has affected production efficiency in Indian small and medium-sized enterprises (SMEs) by taking into consideration the unique features of businesses operating in India's many primary industrial sectors. The changes' breadth and magnitude are outlined in section 1 of the document. In Section 2, we draw on literature on the economic liberalisation to formulate a list of hypotheses.

(Krueger, 2008) India's economic policies have undergone major reforms since the early 1990s. Before that, government regulation and control of economic activity was pervasive, and the trade sector did very poorly. One consequence was that imports were highly restricted and their scarcity was itself a major constraint on growth. The early 1990s crisis prompted widespread liberalisation of trade policies. Early on, this study provides a high-level overview of the status quo before 1990s. In what follows, we will discuss the economic policy changes which had the greatest direct impact on the commercial sector, and how exports as well as imports reacted to these shifts. Exports have grown rapidly, from about 5% of the gross domestic product to around 15%, and they continue to grow at an average annual rate of 20%. Improved performance of the trade sector has been a major contributing factor to India's dramatically accelerated growth performance. A final section of this paper assesses the current situation, and sets forth the major policy challenges that will need to be met if that performance is to be sustained, if not improved upon.

3. CONCLUSION

The process of the industrialization cannot be successful without some economic services which can only be provided by governments. These services include specific central economic functions, such as monetary, legal, and fiscal oversight, as well as a safety net for those who are less fortunate. The governments of the market economies that have successfully completed the process of industrialization contributed to the acceleration of industrial development by establishing the clear rules of a game, contributing thoughtfully to construction of such an industrial infrastructure, and, in all other respects, intervening infrequently and with restraint.

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