© INTERNATIONAL JOURNAL FOR RESEARCH PUBLICATION & SEMINAR
ISSN: 2278-6848 | Volume: 04 Issue: 01 | January - June 2013
Paper is available at www.jrps.in | Email : info@jrps.in

The Impact of Industrial Sector on Economic Growth

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Abstract

This study explains how India's transformation into a sophisticated industrial power has been a long and winding road. The Indian economy in a comprehensive and well-researched study presented in this paper. From what we can see in advanced industrial countries, growth and industrialization go hand in hand. However, it is believed that the industrial sector provides spillovers that assist other activities, such as the improvement of skills, training of the managers, the dissemination of technology, etc. Worries over food and the raw material supplies have led many nations to see exporting their own manufactured commodities as the best bet for economic growth.

Keywords:.Industrilization In India, Economic growth, Indian economy. Industry.

1. INTRODUCTION

1.1. Evaluation of Industrialization in India

The indicators named above will be used to evaluate the success of Indian industrialization policies. A distinction will be made between the period from Independence until 1980, characterised by inward-looking policies such as IS, and the period from 1980 until today, characterised by reforms and the opening up of the Indian economy. Only the accomplishments of such two time periods will be compared in the following study, which uses indicators. Absolute affirmations of Indian accomplishments are presented in the next section.

It is imperative that this point be emphasised: the data that was analysed hides huge inequalities within the India between the”development-oriented states" and "laggards",between adults and children, between men and women and also between the city and the rural. Different states have progressed at differing paces and, even within states, different regions have achieved markedly varied results. Even more noticeable than geographic differences in poverty reduction are the inequalities that persist across gender, caste and ethnic groups. Social indicators for women – literacy, for example – are distinctly lower than for men, and the level of scheduled castes and tribes in both economic and social achievements is still well below the national average.

- **Growth of national income**

Growth of national income in GNP per capita in India was about 1.4% in the years from 1960 to 1980. The effects of the reforms of the 1980s are reflected in growth figures: the average GNP per capita growth increased to 3.25%. And with further opening up in the 1990s, the GNP per capita reaches new heights with 3.8% average growth in the period from 1987 to 1997.

- **Alleviation of poverty**

In the early 1950s, about half of India's population was living in poverty. Since then, poverty has been declining slowly. The poverty reduction was given new impetus by the reforms: falling from around 55% in 1974 to just under 35% in 1994 by a headcount index. In the 1980s and 1990s, poverty reached historically low levels. Still, because of India's rapid population growth rate, the relative reduction of poverty has not been sufficient to reduce the absolute number of poor which increased from about 164 million in 1951 to 312 million in 1993-94.

1.2. India's current problems regarding industrialization

After evaluating important indicators for industrialisation and giving a summary of industrialisation since independence, we will now take a more detailed look at some specific areas for future industrial development in India.

- **Infrastructure**

Perhaps the biggest problem for doing business in India is the woeful state of its infrastructure. Consider this: it takes four days for a truck to travel the 900 miles between India's national capital New Delhi and its commercial capital Bombay. It takes months to get connected to the power supply in any Indian city, and several years to get a telephone connection in large cities.

Poor infrastructure is acting as a drag on the Indian economy, and the Indian government is now attracting private domestic and foreign investment to build the backbone of a modern economy. A recent report estimated that investment in infrastructure would rise from 5.5% of GDP in 1997, to about 7% in 2000/01. This includes massive improvements in telecommunications, power, energy, and transport.

India has recognised the vital role telecommunications play in the growth of the economy. The Indian telecom sector was wholly under government ownership and control until recently and was characterised by under-investment and outdated equipment. There is a tremendous opportunity to expand such services in India that has one of the lowest telephone densities in a world at 1.3 per 100 people, in comparison to average of 10 per 100 people for a globe. Advanced communication services such as fax, data transmission, and leased circuits are becoming increasingly common. Foreign collaboration is also being encouraged in cellular phones and paging systems. In the telecommunications sector, estimates for regional investment needs range from $40 billion a year, to as high as $70 billion a year by the end of the century.

The power problems are severe in India with three-hour-a-day power cuts and damaging voltage fluctuations that require companies to generate their own power. Investment in energy is a sound way of increasing manufacturing activity. If all 49 proposed private sector power projects are implemented, these would add a total of 20,000 megawatts to India's current capacity of 66,000mW. However it should be noted that India's energy demand is growing at 8-10% a year.

As part of India's liberalisation efforts, the transportation sector has been opened to private investment. The government is offering incentives to invest $4.7 billion to construct and operate bypass roads, highways, bridges, railways, and ports.

- **Health and Education**

HIV/AIDS is a newly emerging threat to India's public health. About 3 million people in India may be affected. Malnutrition also continues to impede India's development. Prejudices against women and girls are reflected in the demographic ratio of 929 females for every 1,000 males.
To support India's goal of achieving universal primary education, the World Bank is supplementing increased state government expenditure. This has boosted school enrolment, particularly among girls and disadvantaged children, and is improving the quality of instruction and learning achievement. Amartya Sen reckons that India could enroll all its children in primary school by spending an additional 0.5-1% of GDP. Providing basic health and education is not expensive where labor is cheap. But health and education indicators, while showing some progress, still remain among the world's lowest.

- **Public sector**

Another big problem is India's notoriously bloated and inefficient public sector. The World Bank has turned down applications for power loans worth $750 million for projects in some states because of mismanagement in their government. Many electricity boards have become insolvent as a result of providing electricity at extremely subsidized rates and ignoring large-scale thefts of electricity. State governments have been unable or unwilling to take the politically unpalatable decisions needed to make their electricity boards viable. The sheer amount of work that businesses required to put forth in order to navigate the maze-like bureaucracy that exists inside the nation is the most compelling proof of the cost of postponing change. For example, foreign investors continue to seek permission from the Foreign Investment Promotion Board, even though their plans are covered by the automatic approvals system.

- **Corruption**

An immediate threat to India's governance is not the tottering coalition governments or the BJP, but corruption. The combination of a state-run economy and weak political institutions created all too many opportunities for crooked politicians and bureaucrats. Worse still for the business community is that the government itself is the fountain-head of corruption. This is particularly serious in view of the huge importance of the government sector in India's economy.

Corruption has become ubiquitous at all levels and is accepted by everyone. Many Indian businessmen feel that liberalization of the economy will have no impact on reducing the corruption that has become so well entrenched. The influx of foreign companies is already unleashing a new wave of even greater corruption. A survey of 183 US firms conducted by the US embassy in 1995 revealed that US investors rated corruption in India as the third worst problem they faced after red tape and a lack of electric power.

The blame for the deluge of corruption in India lies in the lack of transparency in the rules of governance, extremely cumbersome official procedures, excessive and unregulated discretionary power in the hands of politicians and bureaucrats, who are prone to abuse it, and a lax judiciary.

- **Tax Problems**

Tax reforms have been seeking to transform India's tax system from one with high differential tax rates falling on a narrow base, into one with tax rates at moderate levels falling on a broad base. The 1995

fiscal budget reduced taxes on corporate income, and a major reform of excise taxes has been implemented to make it resemble a value-added tax more closely.
But the government's income is also constricted by an inefficient taxation system. Rural areas are not taxed because they contain such a large pool of voters and no government has had the political will to change this. Income tax is skillfully dodged.
This leaves the government with excise and customs duties, which represent two thirds of all taxes.

- **Labour market**

India needs greater labour market flexibility to make its companies more competitive and its economy more productive. Politically powerful labour unions have stifled most efforts at serious reform or privatisation of India's largest public sector enterprises, including most banks, all insurance companies, and many major industries, even though privatisation would probably cost the jobs of no more than 1.1% of the urban labour market. India's labour laws hinder efficiency and growth.

- **Financial sector**

India's financial sector still cannot effectively mobilise and mediate capital to respond to economic changes. The resulting high cost of capital makes Indian industry and exports less competitive. In spite of recent improvements, India's equity markets are still too thin and volatile to inspire great confidence on the part of domestic or foreign investors. Bond markets are practically non-existent. Liberalisation of the insurance industry, which would greatly improve the investing of India's substantial savings, now 26% of GDP, has been stymied. India's banking system remains flawed, with the dominant state-owned banks still carrying bad loans amounting to 15 to 25% of their total.

1.3. Special areas of economic policy

After giving a rough overview of the history of industrialisation, this chapter provides more detailed information about the areas of human factors for industrialisation, structure of foreign investment, and the process of privatisation.

- **Human Factors for industrialization**

Investing in the human capital is an extremely important component that must be present in order to foster technological advancement and industrialization. The current average literacy rate for adults in India is very low 52%.There are large inequalities between males (literacy: 64%) and females (literacy: 39%), between urban and rural areas, and between different social classes. Low levels of female education in India are due to the gender division of labour. Females are expected to spend most of their life in domestic work and child rearing. Secondly, the practice of dowry and the ideology of hypergamous marriage can turn female education into a liability. An educated girl is likely to be more expensive to marry off, thus female education tends to be a threat to the social order. Illiteracy is widespread not only in older groups, but also among young boys and girls, particularly in rural areas.

The shocking lack of attention paid to primary education in India is all more perplexing when one considers the broad understanding, in today's globe, of the significance of primary education for advancement of economic growth. In India, children are not required to attend primary school. However those who receive primary education and make it through secondary school have an excellent chance of getting a high-class University education. India has a huge supply of people with more education than they can use.

- **Foreign Investment Policy Instruments**

Since independence, new foreign investment has been rigidly controlled in line with established development thinking. Investment was mostly restricted to industries where it was felt that the acquisition of foreign technology was important, or where the promise of exports was convincing. The FERA was a landmark. In most industries, foreign shareholdings in rupee companies had to be reduced to 40%. The relative importance of foreign ownership in the private corporate sector fell significantly in the next decades. The attitude towards foreign investment began to change in 1985 as a part of Ghandi's drive for advanced technology. Despite this, looking at 1988 shows how poorly India fared in attracting private foreign investment.

Foreign direct investment is nearly 25 times higher than it was before the economy was liberalized. The government in New Delhi is continuing to work toward reforming long-standing policies to make the country more "investor friendly"; a move that continues to heighten US interest in the country. A growing number of US companies, motivated by an increasingly favorable investment climate and the country's huge reserves of both human and natural resources, have seriously begun to consider investing there. US investment has been more than 24% of the total investment since 1991. In 1995 approximately $3.5 billion of US foreign investment flowed into India.(Mishra, 1978)

1.4. Industrization and economic growth in India

The economic development strategy that India chose after the Second World War was very similar to China's – near autarky, industrialization and the dominance of the state in the economy. Development was considered synonymous with industrialization and industry was concentrating mainly on basic goods like steel and machinery. Private capital was not seen as an efficient motor for development, and it was considered to have a tendency towards monopolization. Because of that, state control was considered to be essential. The chosen development strategy was one of import substitution. Development policies included licensing of industrial activity, the reservation of key areas for state activity, controls over foreign direct investment, and interventions in the labour market.

As the chosen strategy turned out to be ineffective, bureaucratic and conducive to rent-seeking behaviour, policy reforms were started in the 1980s, and some provisional moves to encourage capital-goods imports, rationalize the tax system and relax industrial regulations were made. In the 1980s, however, reforms were less consistent than in China, and they only became systematic and broader at the beginning of 1990s, following a severe macroeconomic crisis. Acceleration of economic growth, however, started already in the 1980s.

The reforms and attitudinal changes of the 1980s as important reasons for India's current success. The state continued to play an essential allocative role in India's industrialisation during the 1980s. It wasn't until after reforms in 1991 that the market took over as the primary factor in determining how resources were distributed. The reforms undertaken in 1991 and thereafter included relaxation of the licensing system controlling internal production, currency devaluation, relaxation of restrictions on the inflow of foreign capital and technology transfer, abolition of quantitative restrictions on imports of raw materials, intermediates and capital goods, reduced tariff levels, relaxation of rules restricting large companies to expand existing units and construct new ones, and simplification of exchange controls.

Furthermore, reforms included breaking public sector monopolies, reducing foreign currency debt dependence and tax reforms. However, most of the restrictive labor legislation was left intact and, in addition, the agricultural sector was left largely untouched. In general, the approach to liberalization in India has differed from the standard, Washington consensus, approach. Liberalization has been gradual and controlled, slow liberalization of trade and very gradual privatization have been emphasized, and capital account liberalization has been avoided thus far.

There has been a significant amount of research conducted on the effect that manufacturing has on the economic growth. Very few nations have indeed been able to develop and amass riches without investing in manufacturing industry, and also industrialization is often the result of the manufacturing sector that is robust and prospering. It is generally agreed upon that manufacturing sector is the most suitable industry to propel India's economic growth. This is because the sector is heavily dependent on human labor and is primarily concerned with exports. There is a one-to-one relationship between a nation's degree of economic performance and the amount of money it brings in via exports. By increasing the amount of value that is added to items before they are sold, it is possible to increase revenues, which in turn raises the average profits per input. In addition, the manufacturing industry is more sustainable and far less susceptible to the effects of shocks from the outside than the commodity market.

The use of contemporary equipment, technology, and machineries for the creation of products and also services to alleviate human suffering and to assure continual progress in their welfare is what we mean when we talk about the industrial development. The modernization of industrial processes is defined by a high level of the technological innovation, the growth of management and also the entrepreneurial abilities, and also the improvement in the technical skills. All of these factors generally encourage increased productivity and improved living circumstances. In acknowledgement of this fact, successive administrations in India have continued to outline policy initiatives and programmes in an effort to promote industrial growth as well as development. This is something that cannot be accomplished unless the production capacity is employed to a sufficient degree.

2. LITERATURE REVIEW

(Hsieh, 2012) The dramatic drop in exports that has coincided with the ongoing crisis in the world economy poses a challenge to the export-driven economic expansion of a four Asian dragon economies. This study first analyses an economic structural changes which have taken place in China; Hong Kong, Singapore; the Republic of Korea; and Taipei, China, in addition to the steady movement of sources of an economic development away from manufacturing sector and also toward a service sector. The goal of this examination is to get a better understanding of both the past economic performances of 4 dragons and also their potential for the future. Following this, a panel data set for the four dragons for the period 1995–2008 is constructed and a fixed-effects model applied to the data. The estimated coefficients deriving from the application of the model indicate that growth in the service sector, exports, and gross fixed capital formation each have a positive and statistically significant impact on economic growth. While the estimated coefficient is not significant, there is also a hint of a positive causal relationship between manufacturing sector growth rates and GDP. The empirical results confirm the

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ISSN: 2278-6848 | Volume: 04 Issue: 01 | January - June 2013
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shifts observed in industrial structures and the contribution of the service sector to economic growth. Government policymakers in four Asian dragons should pay greater attention to "new service development" (NSD), which combines industrial output with the high value-added services because of its potential to boost economic growth

(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? Additionally, the impact of rapid economic expansion on energy use is 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.

(Das, 2009) Based on those results, the paper then examines the relationship between energy use and economic & industry growth variables. The next step of the research is to use threshold regression analysis to determine whether greater economic growth rates cause increased energy consumption that contributes to environmental deterioration. According to the author's research, this is the first effort of its kind.

(Kiran & Kaur, 2008) The research then uses these findings to analyse the connection between economic and industrial growth indicators and energy consumption. The next step of the research is to use threshold regression analysis to determine whether greater economic growth rates cause increased energy consumption that contributes to environmental deterioration. According to the author's research, this is the first effort of its kind.

(Thomas, 2002) India's industrial policy framework began to be liberalized from the late 1970s, and this process accelerated with the major economic reforms initiated in the year 1991.Industrial deregulation and liberalization have opened up opportunities for growth, but at the same time have raised many apprehensions. How has Indian manufacturing performed during this period of policy changes? What are some of the distinguishing characteristics of this growth? In this part, we go into these topics and more. This study relies heavily on findings from an examination of "Annual Survey of Industries" (ASI) data covering the years 1979–1980 through 1997–1998. Earlier research indicated that the studied time period, beginning in the late 1970s or early 1980s, was one of the growth rebound in Indian industry.

(Mahambare & The, 2001) India's economic liberalisation program began in 1991, and its primary features were the elimination of the industrial licencing system, a considerable liberalisation of international trade as well as the foreign direct investment regulations, removal of the interest rate restrictions, and related changes in a financial sector. The effects of the changes on investment finance and also productive efficiency of India's key industrial sectors are analysed in this research.

Section 1 of the paper briefly sketches the scope and scale of the reforms. Section 2 identifies a set of testable hypotheses based on the literature on economic liberalisation. Section 3 discusses the methodology and data utilised in the statistical exercise designed to assess the impact of liberalisation on the manufacturing sector. Section 4 discusses the results of the exercise. Section 5 pulls together the conclusions of the paper.

(Mishra, 1978) The following paper is broken up into sections to address "The Indian Approach to Industrialization." Firstly, the reasons for, and policies of industrialisation are discussed. The theoretical framework is finished by identifying indicators to be used in the evaluation of the success of such policies. The second section gives a rough overview of the development of industrialisation in India since independence. The third section goes into more detail and provides information about some specific and important areas for industrialisation. The fourth section uses the defined indicators to measure the success of India’s two main approaches to industrialisation and evaluates the results. The fifth section describes the main problems India faces today and in the future. Last but not least, the sixth section informs about current trends in Indian policy.

3. CONCLUSION

In an attempt to explore the impact of industrial output on the economy with the inclusion of other variables affecting the economy (GDP) in India such as savings, inflation. Health and education including labour market etc. Indian economy was not fully open to the foreign enterprises and strict regulation, licensing for domestic businesses. Balance of trade was always negative for India. Inefficient economy and high balance of payment made the situation further critical for India.

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