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Role of Industrialization and its Influence on Indian Economy

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ABSTRACT: Industrial sector plays a crucial role in the development of Indian economy because they can solve the problems of general poverty, unemployment, backwardness, low production, low productivity and low standard of living etc. These reforms mainly aimed at enhancing the efficiency and international competitiveness in Indian industry. After nearly more than two decades of reforms, a question that has engaged the attention of the economists in recent times is what has been the effect of these economic reforms measures on the performance of industrial sector in the post-reform period in India. To know the answer the present paper attempts to present the industrial development of India in pre reform and post reform period, and investigate the impact of globalization on industrial sector in India.

Keywords: urban, development, globalization, urbanization, planning etc.

INTRODUCTION

Indian economy

The economy of India is the seventh-largest in the world measured by nominal GDP and the third-largest by purchasing power parity (PPP). The country is classified as a newly industrialized country, and one of the G-20 major economies, with an average growth rate of approximately 7% over the last two decades. Maharashtra is the wealthiest Indian state with an annual nominal GDP of US$330 billion, roughly equivalent to those of Venezuela and the United Arab Emirates, and accounts for 13.4% of India's GDP followed by the states of Tamil Nadu (US$170 billion) and Uttar Pradesh (US$150 billion). India's economy became the world's fastest growing major economy in the last quarter of 2014, surpassing the People's Republic of China.

The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the two largest economies by mid-century. And the outlook for short-term growth is also good as according to the IMF, the Indian economy is the "bright spot" in the global landscape.

India also topped the World Bank's growth outlook for 2015-16 for the first time with the economy having grown 7.6% in 2015-16. Growth is expected to decline slightly to 7.1% in the 2016-17 fiscal year. India has one of the fastest growing service sectors in the world with annual growth rate of above 9% since 2001, which contributed to 57% of GDP in 2012-13. India has become a major exporter of IT services, BPO services, and software services with $167.0 billion worth of service exports in 2013-14. It is also the fastest-growing part of the economy.

The IT industry continues to be the largest private sector employer in India. India is also the third largest start-up hub in the world with over 3,100 technology start-ups in 2014-15 The agricultural sector is the largest employer in India's economy but contributes to a declining share of its GDP (17% in 2013-14). India ranks second worldwide in farm output. The Industry sector has held a constant share of its economic contribution (26% of GDP in 2013-14).

The Indian auto mobile industry is one of the largest in the world with an annual production of 21.48 million vehicles (mostly two and three wheelers) in FY 2013-14. India has $600 billion worth of retail market in 2015 and one of world's fastest growing E-Commerce markets.

Factors Affecting Indian Economic Growth

India is one of the fastest growing economies. Since introducing the concept of free market in 1991, the Asian country has experienced rapid growth and is predicted to grow even further. As at 2011, India was ranked 11th in terms of nominal GDP and fourth in terms of GDP purchasing power parity (PPP). India has one of the highest populations in the world and a bustling manufacturing sector. In addition to this the country has changed its economic policies since independence in order to propel economic growth further. It is also known to save a lot and this has helped it to stabilize and grow. All in all there are several factors that currently affect the Indian economic growth and these include:

a) **Capital flows and Stock Exchange Market**: India has had a very steady flow of capital from both foreign and local investors. In addition to this, the country also has a thriving stock market and this has helped it gain capital. With this amount of capital, India has less to worry about in case the GDP rates fall. This is because its currency can still get overvalued given its steady flow of capital.

b) **The RBI Banks:** The currency of India largely depends on the rankings by RBI. The RBI is in charge of managing the balance of payments for India. Slight changes in the RBI assessments can have a huge impact on the currency of India and lead to either over assessment or under rankings of the country's economy.

c) **Global currency trends of economically powerful countries:** India like many other countries has economic and currency links with powerful countries such as US, UK, Japan, Canada and others. When the currencies of these countries are undervalued, India's currency is also likely to depreciate. On the other hand an appreciation of these currencies has similar effects on India's currency. These global currency trends therefore influence India's economic growth.

d) **Political changes. Political setup in India also influences its economic growth:** A change in the country governance often leads to changes in economic policies especially with regard to importation and exportation of goods and services. Political changes also impact on the tax rates and may affect the investment climate which ultimately influences the economic growth rate of the country.

e) **Energy and oil. India imports oil in large quantities:** This is an essential commodity and it affects India's economic growth rate. When crude oil prices in the world market fluctuate, India's currency cannot remain stable. High oil prices result in high inflation rates hence overvaluing of India's currency.

f) **Demographics and poverty rates:** India is one of the most populous countries in the world and economists predict that its population will rise by over 300 million by 2030. In as much as this population growth may be good in terms of larger markets, it is costly to maintain and can only be fruitful if India puts in place measures to provide its citizens with social, educational and economic needs. Otherwise poverty rates which are already high will increase with this population and drag the economic growth rate of the country.

g) **Industrialization:** Industrialization plays a vital role in the economic development of an underdeveloped country. The historical facts reveal that all the developed countries of the world broke the vicious circle of underdevelopment by industrialization. Pakistan being a developing country also wants to achieve higher standard of living for its masses. It has therefore, embarked upon various programmers of industrialization.

Industrialisation since Independence

India's first Prime Minister, Jawaharlal Nehru, Premier from 1947 to 1964, saw industrialisation as the key to alleviating poverty. Industrialisation not only promised self-sufficiency for his nation that had just regained political sovereignty, but also offered external economies accruing from technical progress. 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 believed a powerful state with a centralised planned economy to be essential if the country was to industrialize rapidly. The Industries (Development and Regulation) Act (IDRA) in 1951 laid the foundations for this administrative control on industrial capacity. But, over time, the licensing requirements became increasingly stringent and were accompanied by a gamut of procedures that required clearance by a number of disparate and uncoordinated ministries. In order to pursue IS, the Import Trade Control Order of 1955 subjected almost all imports to quantitative restrictions in the form of import licenses. These were supplemented by tariffs at rates that were among the highest in the 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. At different times, nationalized industries included chemicals, electric power, steel, transportation, life insurance, portions of the coal and textile

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industries, and banking. 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 Indira Gandhi (1966-77), two major shifts took place in the role of the state. First, the neglect of agriculture was reversed through state activism in subsidising new seeds and fertilisers, agricultural credit, and rural electrification. The green revolution took off and by the mid-1970s India was self-sufficient in grain. The second shift was the further tightening of state control over every aspect of the economy. Banks were nationalised, trade was increasingly restricted, price controls were imposed on a wide range of products, and foreign investment was squeezed. In 1973, dealings in foreign exchanges as well as foreign investment came to be regulated by the Foreign Exchange and Regulation Act (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. The Indian system of state planning went far beyond the usual inward-looking industrialisation policies that most developing countries pursued after World War II. The government regulated the most basic business decisions for all firms above a certain size: borrowing, investment, capacity utilisation, pricing and distribution. The over-restrictive, and often self-defeating nature of the regulatory framework, began to become evident by the late 1960s and early 1970s. Comprehensive planning was increasingly criticised as planned targets were not met and many plans were not even implemented. 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 4 of 13 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.

The government expanded antipoverty schemes, especially rural employment schemes, but only a small fraction of the rising subsidies actually reached the poor. Competition between political parties drove subsidies up at every election. The resulting fiscal deficits (8.4% of GDP in 1985) contributed to a rising current account deficit. India’s foreign exchange reserves were virtually exhausted by mid-1991 when a new government headed by Narasimha Rao came to power. 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. Greater global integration was encouraged with a significant reduction in the use of import licenses and tariffs (down to 150% from 400%), an elimination of subsidies for exports, and the introduction of a foreign-exchange market. Since April 1992, there has been no need to obtain any license or permit to carry out import-export trade. As of April 1, 1993, trade is completely free, barring only a small list of imports and exports that are either regulated or banned. The WTO estimated an average import tariff of 71% in 1993 which has been reduced to 40% in 1995. With successive additional monetary reforms, the rupee, since 1995, can nearly be considered a fully convertible currency at market rates. India now has a much more open economy.

Evaluation of Industrialisation in India

The indicators named above will be used to evaluate the success of Indian industrialisation 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. The following analysis with indicators compares the achievements of these two periods only. Absolute statements of Indian achievements follow later on. It must be emphasised that the analysed data conceals sharp disparities within India between development-oriented states and laggards, between women and men, between adults and children, and between city and countryside. 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. Reduction of income inequalities

The reduction of income inequalities has only made slight advances. The biggest 7 of 13 advances were made mostly before the reforms. On the other hand, one of the biggest increases in inequality happened in the late 1970s, and the developments for the late 1980s / early 1990s in Figure 1 look promising. Compared to other low-income economies, the inequality is relatively low. Education From 1960 to 1977 the reduction of illiteracy was only 11%. From 1978 to 1995, it was 25%, thus much higher. Of course, there are also long-term developments involved here, so that the higher reduction in the second period might be partially due to actions taken in the first period. Health Life expectancy, used as an indicator of health, has increased constantly since independence. During the period from 1960 to 1980, it increased from 43 years to 52 years, which is an increase of 21% in 20 years. From 1980 to 1995 it grew to 62 years, which is a 19% increase in only 15 years. This means that the growth of this indicator has increased by a rate of 24% compared to the previous period. Even clearer is the improvement in the reduction of infant mortality. This was reduced by 25% in the period 1960 to 1995 and a further reduction of 45% took place from 1980 to 1995. This is partially due to better education of mothers, as well as to an improved economic situation of parents.

IMPORTANCE OF INDUSTRIALIZATION

Industrialization has come to be regarded as synonymous with economic growth and development. No country desirous of rapid economic progress can afford to neglect industrialization. Industrialization can help the progress of agriculture, trade, transport and all other economic activities. Industrialization is the key to economic development. All advanced countries of the world are industrialized. In the interest of economy, rapid industrialization is important for generating employment opportunities, utilization of all types of resources, promotion of education, training and research, improving the productivity of labor and balanced regional development.

a) Industrial growth brings a rapid increase in the national income of the country.
b) In order to reduce the continued increasing pressure of exploding population on our developing economy, rapid industrialization is a must.
c) Land is limited in area but industrialization has unlimited scope.
d) To set up large number of industrial units we can create more employment opportunities and absorb a large number of unemployed youths.
e) Agriculture cannot use all resources. So, industrialization is a must to make use of our resources.
f) Industry can make use of waste materials.
g) Industrialization widens horizon of our understanding and enables us to go through education and researches. Thus it will prove the quality of our manpower.
h) We can use more capital and technologies.
i) We can have division of work and specialization in the industry.
j) This will result in the improvement of productivity of labor.
k) Industrialization is capable of removing regional disparities because barren lands can be used for this purpose.
l) No fertile land and means of irrigation are needed for industrialization.
m) Industrialization will raise the standard of living of our people.

Impact of Industrialisation on Indian Economy

Industrialization plays a vital role in the economic development of an underdeveloped country. The historical facts reveal that all the developed countries of the world broke the vicious circle of underdevelopment by industrialization. Pakistan being a developing country also wants to achieve higher standard of living for its masses. It has therefore, embarked upon various programmers of industrialization. The policies of privatization, deregulation and liberalization of the economy are being pursued. The role of industrialization in economic development is summed up as under:

1. **Stimulates progress in other sectors:** Industrialization stimulates progress in other sectors of the economy. The developments of a industry leads to the development and expansion of other industries. For instance the construction of a transistor radio plant develops the small battery industry (backward linkage). The construction of milk processing plants adds to its line of production ice cream cone cream plants etc.. (forward linkage).

2. **Increased employment opportunities:** Industrialization provides increased employment opportunities in small and large scale industries. In an agrarian economy, industry absorbs underemployed and unemployed workers of agricultural sector and thereby increases the income of the community.

3. **Promotes specialization**: Industrialization promotes specialization of labour. The division of work increases the marginal value product of labour. The income of worker in the industrial sector is therefore higher than that of a worker in agricultural sector.

4. **Rise in agricultural production**: Industrialization provides machinery like tractors thrashers harvesters, bulldozers, transport, aerial spray etc, to be used in the farm sector. The increased use of modern inputs has increased the yield of crops per hectare. The increase in the income of the farmers has given boost to economic development in the country.

5. **Large scope for technological progress:** Industrialization provides larger scope for on the job training and technological progress. The use of advanced technology increases the scale of production, reduces cost of production, improves quality of the product and helps in widening of the market.

6. **Reduction in the rate of population growth**: Industrialization leads to migration of surplus labour from farm sector to the industries mostly situated in urban centers. In cities improved facilities of sanitation and health care are available. People through the adoption of family planning measures, reduce the rate of population growth.

7. **Increased saving and investment:** Industrialization increases the income of the workers. It enhances their capacity to save. The voluntary savings stimulate industrial growth and by cumulative effect lead to further expansion of industry.

8. **Provision for defense:** If a country is industrialized, it can manufacture arms and ammunition necessary for the defense of the country. A nation which depends on other countries for the supply of ammunition will eventually suffer and may face defeat. The two wars with India should be an eye opener for Pakistan.

9. **Increase in national income**: Industrialization makes possible the optimum utilization of the scarce resources of the country. It helps in increasing the quantity and quality of various kinds of manufactured goods and thereby make a larger contribution to gross national product. (GNP).

10. **Higher standard of living:** Industrialization helps in increasing the value of output per worker. The income of the labour due to higher productivity increases. The rise in income raises the living standard of the people.

11. **Improvement in balance of payments**: Industrialization brings structural changes in the pattern of foreign trade of the country. It helps in increasing the export of manufactured goods and thus earn foreign exchange. On the other hand the processing of raw material at home curtails the import of goods and thereby helps in conserving foreign exchange. The export orientation and import substitution effects of industrialization help in the improvement of balance of payments. In Pakistan, the exports of semi manufactured and manufactured goods showed favorable trend.

12. **Lesser pressure on land:** The establishment and expansion of industries lessens the excessive pressure of labour force from the agriculture sector.

13. **Economic stability:** Industrialization is the best way of providing economic stability to the country. A nation which depends upon the production and export of raw material alone cannot achieve a rapid rate of economic growth. The uncertainties of Nature, the restricted and fluctuating demand of the agricultural raw material hampers economic progress and leads to an unstable economy.

14. **Easy to control industrial activity:** The industrial activity compared to agricultural is easy to control. The industrial production can be expanded or cut down according to the price cost and demand of the product.

15. **Development of markets:** With the development of industries the market for raw materials and finished goods widens in the country. 16. Increase in the Government revenue. Industrialization increase the supply of goods both for internal and external markets. The export of goods provides foreign exchange. The customs excise duties and other taxes levied on the production of goods increase the revenue of the State.

CONCLUSIONS

In this paper, the author has discussed about the role of industrialization and its influence on Indian economy. India has one of the highest populations in the world and a bustling manufacturing sector. In addition to this the country has changed its economic policies since independence in order to propel economic growth further. It is also known to save a lot and this has helped it to stabilize and grow. There is a rapid and positive progress towards society. Rural economy is the pillar of through its agricultural activities. In the interest of economy, rapid industrialization is important for generating employment opportunities, utilization of all types of resources, promotion of education, training and research, improving the productivity of labor and balanced regional development.

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