

# Rate and pattern of industrial growth

# Role of Industrialisation

Industrialisation is important for the overall growth of a country due to the following reasons

- Meeting ever increasing demand
- Raising peoples' income
- High potential for growth
- Key to high volume of exports
- Leads to self sustaining development
- Promotes regional balance
- Provides employment
- Leads to modernization
- Helps to modernize agriculture

# Determinants of industrial growth

- Demand factor
  - Size of market
  - Income distribution
- Supply factors
  - Level of resource mobilisation
  - Pattern of resource allocation
  - Potential for resource creation
  - Mode of resource utilisation
  - Availability of supporting infrastructure
- Industrial and trade policies

# Phases of industrial growth

- Phase I: High growth phase (1951-66)
- Phase II: Low growth Rate (1966-74) and recovery phase (1974-79)
- (Phase III: High growth phase (1980-90)
- Phase IV: reform phase (july 1991 onwards)

# Reasons for high growth rate were

- Extension of green revolution
- Shift in barter terms of trade in favour of industry
- Distinct increase in the share of public sector in gross domestic capital formation
- Improvement in infrastructural performance

# Economic reforms of 1991

## **Economic reforms 1991**

- The year 1991 has a special significance in the Indian economy. Many economic measures were introduced to achieve the objectives of new economic policies of the government. The economic reforms aimed at rapid industrialization. For this, the abolition of industrial licensing, allowing foreign investment, encouragement to the private sector and coexistence of public sector and private sector were taken by the government.

# Economic reforms of 1991

The main aspects of economic reforms are as follows

**(1) Liberalisation** - Liberalisation means movement towards a free market system. Liberalisation otherwise known as withdrawal of regulation and restrictions for private sectors. Private sectors are encouraged to enter into core industries which are reserved for the public sector

**(2) Privatisation** - Privatisation generally means transforming all economic activities from public sector to private sector. It also refers to the setting up of private units in public utility services.

**(3) Globalisation** - Globalisation refers to where a country draws raw materials from any source of the world and manufacture goods and services. The finished goods also find a place in the global market. Thus globalisation is the linkage of nation's markets with global markets.

# Aspects of industrial change since reforms in 1991

- Greater autonomy to profit making public sector units-areas retained for public sector earlier were made open for private sector. Similarly the public sector was also allowed entry in areas not reserved for it.
- Research and development-development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man.



# Aspects of industrial change since reforms in 1991 (contd.)

- Development of biotechnology industry
- Global competitiveness-Optimal utilisation of global resources including competitive sourcing of inputs for achieving cost competitiveness in production, economies of scale in operations and efficient technology utilisation.
- Increased competition
- Rise in labour productivity
- Increased innovation
- Growing strength and stature of Indian economy

# Challenges of industrial development in India

R Nagaraj in his paper “Industrial Performance 1991-2008- A Review” writes that main reasons why the speeding up of the reform after 1991 did not yield faster output are:

- Labour market rigidity hypothesis- Labour laws are most protective for labour
- Infrastructure bottlenecks
- Attributing to these problems to public ownership, the reforms have encouraged entry of private and foreign capital in these industries.