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INDUSTRIALIZATION IN INDIA DURING PRE-REFORM AND POST-REFORM PERIOD

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Abstract

Industrial sector has important role in India's economic development as it can tackle with the problems of poverty, backwardness, unemployment, low productivity, low production and low level of living. Reform policies started in 1980s but actual reform policies took place in 1991 after global economic crisis. The new economic policy of 1991 made relaxations on government licences and made industry work globally. The impact of reforms on the industries are presented in this paper.

Keywords: - Industrial development, Pre reform, Post reform, Industrialization, Economic reform, Liberalisation , Globlisation , Privatisation

I. Introduction

Industrialization plays important role in the development of undeveloped and developing countries as it tackles with the problems of unemployment, poverty, backwardness, low productivity, low level of living and so on. The rapid growth and development of economy has become matter of concern for policymakers. Industrialization is equally important for developed countries as it help to maintain existing growth and further flourish and upgrade standard of living.

Prime Minister of India in 1951 announced industrialization the major objective of planning in India as it can bring substantial growth in India. According to Soviet Union before 1980 development was based on improvement of heavy and large industries under control of state government and planning of central government. The plan focused on price control, import substitution, restriction on privatisation.

Since 1980 industrial policies saw pragmatism with decrease control and increased willingness to import technologies to modernise manufacturing sector.

Rajiv Gandhi in his slogan said 'taking the country to the 21st century' which reflected through relaxation of industry licences and import control. Expansion of production scale was noticed by many manufacturing units like automotive, cotton, cement, polyster and food processing.

Although India took initiative through reform policies in 1980 but it occurred in 1991 after global economic crisis where rupee depreciated to expand export.

To overcome the crisis relaxation on import licences and rate of import duties decreased. Canalization and foreign investment was liberalised. 51% equity of foreign direct investment in high priority industries was allotted. Liberalisation and deregulation of foreign investment restrictions increased competition. Further, globalisation made Indian industries work throughout world.

The present paper is based on secondary data of industrial production and studies development in industrial sector with various reform policies. The time is divided into two period pre reform (1951-52 to 1990-91) and post reform period (1991-92 to 2019-20).

II. India’s industrial performance during Pre and Post reform Period.

Period I: Pre reform period (1951-52 to 1990-91)

Table No. 1

YEAR	INDUSTRIAL PRODUCTION (IP)	GROWTH RATE
1951-1955	1493.32	--
1955-1960	2185.8	46.37
1960-1965	3862.6	76.71
1965-1970	6456.4	67.15
1970-1975	11231	73.95
1975-1980	21475.4	91.22
1980-1981	30900	43.89
1990-1991	127079	311.26

Source: Economic Survey

India was industrially advanced country as compared to western European countries at the time of Pre-british rule. With the coming of british rule industries were destroyed. At the time of independence India had weak industrial base, since then policymakers are trying to build up a strong industrial base.

Various industrial policy resolutions were passed such as 1948, 1956, 1973, 1977, 1991 all these aimed to accelerate industrial growth and productivity to promote technology and generate employment level. Major change came in Indian economy due to new economic policy of 1991, which promoted liberalisation, privatisation and globalisation. The five year plan helped in industrial development. The objective of second five year plan gave thrust to industrial growth and development. Under this plan expenditure on industry and mineral moved to 938 crore which was 20.1% of total expenses of 4672 crore. Moreover, According to Mahalanobis Model, basic and capital good industries were established on large scale to build strong industrial base. According to Vijay L. kelkar and Rajiv Kumar, the upward growth rates are achieved during later half of 1960s and 1970s. The accelerated growth in 1990-91 was 9.0% against 8.6% in 1989-90 in manufacturing sector.

The major reasons for industrial recovery in 1980s were:-

New policies and Liberal Fiscal Regime

Ahluwaliya said that the major change in relation to relaxation in domestic barrier to entry and expansion has brought competition in domestic industries. The upgradation of technology and intermediate material import with the flexibility in the use of installed capacity with easier supply responses to changing demand condition. These factors operate in supply side which is termed as liberal fiscal regime.

Features of liberal fiscal regime are:

1. High budgetary deficit maintained year after year

2. Massive borrowing at high rates.

3. Supporting dissaving.

These aspects help to extend demand for manufactured goods.

Contribution of agricultural sector and growth of service sector

Economist suggest that increased propensity of big farmers help creating additional demand for industrial goods in certain region. R.Thamarajakashi said that rural sector demand for non- agricultural consumer goods. Moreover demand for certain range of manufactured inputs per unit of cultivated area are increased.

On the other hand, Dalip S. swami said about increase of expenditure on services in 1980s. The consumption pattern of service class was based on consumer durable goods and not food intensive. As a result fast industrial growth was pushed upward through growth of consumer durable goods.

Period II: Post reform Period (1991-92 to 2019-20)

Table 2.

YEAR	INDUSTRIAL PRODUCTION IN CONSTANT PRICE (IN CRORE)
1991-1992	325150
1995-1996	436863
2000-2001	570571
2005-2006	824272
2010-2011	1262722
2015-2016	2993343
2019-2020	3600649

Source: Economic Survey

The new economic policy came in 1991 with Liberalisation, Privatisation and Globalisation. Through liberalisation licence control raj was abolished which were barriers for entry. Moreover government permissions were required for extension, expansion, utilisation of surplus capacity were removed. The monopolies and restrictive trade practises (MRTP) Act were removed and FERA was replaced by FEMA. Since then industry sector experienced higher growth rate. In 1991-92 amount was 325150 crore and with little downfall compared to previous year in 2019-20 the amount was 3600649 crore.

The major reasons for slow growth was gap between target and achievement, underutilisation of resources and unsatisfactory performance of public sector, high cost infrastructure.

Some other reasons were:-

- **Exposure to external competition**

Planning Commission tool that the sudden exposure due to significant liberalisation of import and drastic reduction in import duties is the major cause of decreased growth rate in eight five year plan in comparison to seven five year plans. The industries were not prepared for such competition which ultimately reduced growth rate.

- **Reduction in Investment**

The capital formation in public and private sector help fulfil direct and indirect demand but due to adoption of micro economic adjustments programmes of IMF in 1991 public expenditures were cut down drastically.

India withdrew all quantitative restrictions on import being found a member of WTO. The basic capital good can receive set back as end use industries can have full access to cheaper imports and will have to compete with foreign goods on the basis of both price and quality.

Industrial growth and finance in India

Availability of adequate finance is important element for any business without it industrial development cannot be attained. Finance help to meet both fixed capital and working capital needs. The sources from which industries meet their needs are fixed investment (machinery and buildings) are met through equity or shares like ordinary, cumulative and non-cumulative preference share. Now a days shares are issued in small denomination of rupees 10 to attract large number of people to participate in providing long term finance.

Other sources are:-

Gross domestic formation (GDCF) which is important source of industrial finance. The more capital formation will lead to increased industrial output

Foreign direct investment (FDI) and foreign portfolio investment are foreign investments.

III. Conclusion

Industrial growth and development became satisfactory after liberalisation, privatisation and globalisation. Gross domestic capital formation and bank credit were important sources of finance which helped in building strong industrial base.

The period from 1965 to 80, was of industrial decoration and structural retrogression after that in 1981 to 1991 it was time of industrial recovery and after 1991 industrial reform brought development in Indian economy. Although due to COVID-19 growth was disturbed but slowly it maintained its old competition with the world.

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