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INDUSTRIAL DEVELOPMENT IN INDIA

By: *Kshyama Sagar Meher*

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of the
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QUESTION PAPER

(June – 2019)

(Solved)

INDUSTRIAL DEVELOPMENT IN INDIA

Time: 3 Hours] *[Maximum Marks: 100*

Note: *Attempt questions from each section as per instructions.*

SECTION-A

Q. 1. Compare the theories of Sargent and Weber on Industrial location.

Ans. Ref.: See Chapter-23, Page No. 139, 'Theories of Location', Weber's Deductive Theory' and 'Sargent Florence's Inductive Analysis'.

Q. 2. What is the role of large scale industries in the economic development of India?

Ans. Ref.: See Chapter-8, Page No. 42, 'Introduction', 'Textile Industry', Page No. 43, 'Sugar Industry', 'Iron and Steel Industry' and Page No. 44, 'Engineering Industry'.

Q. 3. Discuss the structure of Indian industrial sector at the time of independence.

Ans. Ref.: See Chapter-3, Page No. 12, 'General Structure of the Industry'.

Q. 4. What problems do Indian industries have to face due to foreign competition? What are the measures to improve competitiveness of Indian products?

Ans. Ref.: See Chapter-13, Page No. 78, 'Some Issues in Competition Law'. Page No. 80, 'Competition Policy in Dynamic Markets and the Indian Context' and Page No. 77, 'Different Approaches'.

SECTION-B

Q. 5. Discuss the role of Joint sector in the Indain economy

Ans. Ref.: See Chapter-12, Page No. 71, 'Joint Ventures (JVs)'.

Q. 6. Identify the areas in which India has a competitive advantage over other countries.

Ans. Ref.: See Chapter-13, Page No. 80, 'The Indian Context'.

Q. 7. Explain the problems of under-utilisation of capacity of industries in India.

Ans. The Problem of Capacity Under-utilisation in Indian Industrial Sector

The industrial licensing framework under the Industries Development and Regulation Act (IDRA) of 1951 is one of the major features of Indian industrial strategy. It controlled not only entry into an industry and expansion of capacity but also technology, output mix, capacity location and import content. It was characterised by over-conservatism and administrative delays.

This problem was recognised in all the five-year plans. In a study covering about 80 industries, during 1946 to 1953, Prof C. N. Vakil found that nearly half of the industries had about 50 per cent of under-utilised capacity. The plausible reasons included: *(a)* some industries keep certain reserve capacity to meet sudden demand, *(b)* the indivisibilities in creating capacities and *(c)* the difference between expectations and results.

The First Plan (1951-56) stated that the capacities in industries producing essential goods was adequate and there was a need for improving the efficiency of existing plants. The Second Plan (1956-61) also talked about "fuller utilisation of existing installed capacity in industries where there are wide gaps between capacity and production" The Third Plan (1961-66) mentioned that " fuller utilisation of existing installed capacity must take precedence over expansions or the setting-up of new units."

During the Fourth Plan (1969-74) period, additional capacity of considerable magnitudes was sought to be created in fertilisers, finished steel, aluminium, electricity generation and mechanisation of agriculture and in some select industries. However, the effort was quite partial and there were many lags in the creation of additional capacity in certain other industries, especially due to lack of funds. The Fifth Plan (1974-79) was marked by slackening of real investment in the public sector and a deceleration in the rate of industrial growth.

According to T. N. Srinivasan, the stagnation of real investment, especially public investment was among the principal causes of sluggish industrial development. This led to the process of policy reorientation in the late 1970s. In the 1980s, focus was given on deregulation of Indian industry and freeing it from bureaucratic procedures. According to the Sixth Plan (1980-85) document, the expansion and diversification of industrial capacity was there within a few sectors reflecting the distortions in the system.

Q. 8. Examine the impact of economic reforms on the Indian corporate sector.

Ans. Ref.: See Chapter-12, Page No. 69, 'Introduction' and Page No. 73, Q. No. 1, 2 and 3.

Q. 9. Discuss the main mechanisms of industrial dispute resolution in India.

Ans. Ref.: See Chapter-27, Page No. 172, 'Legislation for Industrial Dispute'.

Q. 10. Explain the reasons for low rate of Total Factor Productivity (TFP) growth in India.

Ans. Ref.: See Chapter-16, Page No. 95, 'Total Factor Productivity' and Page No. 97, 'Limitations of Total Factor Productivity'.

Q. 11. Examine the impact of foreign direct investment on Indian Economy.

Ans. Ref.: See Chapter-21, Page No. 127, 'Benefits of Foreign Investment' and 'Limitations of Foreign Investment'.

Q. 12. Explain the concept of 'Jobless Growth'.

Ans. Ref.: See Chapter-26, Page No. 164, 'Unemployment, Joblessess and Informalisation'.

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Sample Preview
of
The Chapter

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INDUSTRIAL DEVELOPMENT IN INDIA

Indian Industry and Economic Development

Industry and Economic Development

1

INTRODUCTION

Industry is generally identified with development. Most of the developed countries are industrialised. History also shows that with the economic development of a country the share of agriculture sector in the national income decreases. It is also recommended that industrialisation is necessary for economic development.

CHAPTER AT A GLANCE

INDUSTRIALISATION AND ECONOMIC DEVELOPMENT

Industrial development leads to agricultural development and agricultural development contributes to industrial growth. Agriculture and industrial sectors are interdependent. They are complementary and not competitive. Agricultural development is possible if the surplus working force on the land is diverted to industries and service sectors.

Agriculture sector gets inputs such as tools and machinery from industries. Thus, industrial development means agricultural development.

Meaning of Economic Development

Development is multidimensional as it includes major changes in social structures, popular attitudes and national institutions and rise in economic growth, eradication of poverty and reduction in inequality. Development is both a physical reality and a state of mind. It provides the means for obtaining a better life. Development must have the following objectives:

(i) Increase and widen the availability of life-sustaining goods.

(ii) Raise levels of living by increasing incomes.

(iii) Expand the range of economic and social choices.

Meaning of Industrialisation

Industrialisation transforms predominantly agricultural economy into an industrialised economy. It brings the following changes:

(i) Country's Gross Domestic Products (GDP) rises from the manufacturing sector.

(ii) Manufacturing activities increases.

(iii) The share of labour force in industrial sector increases.

Industrialisation increases the industrial methods of production. National resources are used to develop a technically up-to-date diversified national industry. Developed countries refer to stages of industrialisation while for developing countries industrialisation means the growth of small scale industry and consumer goods sector.

Industrialisation implies:

(i) Application of advanced techniques of production.

(ii) Use of modern managerial and organised skills.

POSITIVE EFFECTS OF INDUSTRIALISATION IN DEVELOPING COUNTRIES

Industrialisation plays the following role in developing countries:

Raising Income

Industrial development provides a firm base for increase in per capita income.

Changing the Structure of the Economy

Industrialisation leads to development in agriculture as well as services bringing changes in the economic structure.

Meeting High-income Demands

With increase in income, people's purchasing power increases and industrialisation meets high-income demands.

Overcoming Deterioration in the Terms of Trade

Industrialisation makes countries less dependent on primary products and export manufactured goods.

Absorbing Surplus Labour (Employment Generation)

Industrialisation generates employment opportunities and thus absorbs surplus labour.

Bringing Technological Progress

Technological development happens as the country targets increase in production and invest in research and development.

Strengthening the Economy

Industrialisation strengthens economy in terms of the following:

(i) It improves economic infrastructure like dams, roads and railways.
(ii) It changes country's comparative advantage to suit its potential and resources.
(iii) It meets the needs of agricultural development.
(iv) It makes the economy dynamic for a rapid growth and a diversified economic structure.
(v) It helps the country achieve self-reliance in defence materials.

Linkage Effects

It establishes strong backward and forward linkages between different sectors and they become interdependent. Industrialisation also has links with country's trade. Further, it leads to development in transportation.

CRITICISM OF INDUSTRIALISATION

Rapid industrialisation has been criticised in the following way:

(i) Industrialisation is not the only panacea for economic stagnation. Agricultural sector cannot be ignored.

(ii) The extent of manufacturing activities cannot be regarded as the cause of a high level of real income.

(iii) Surplus population can be absorbed more profitably in the extension of agriculture than in the establishment of new industries.

Industrialisation has the following negative impacts:

Unemployment

Computers and machines replace people causing increase in employment. Companies also hire very few local workers and outsource their jobs via the internet as they aim to lower production cost.

Health Risks

Use of computers and machines make people lazy. People gain weight and their immune system gets weaker. People become more vulnerable to lifestyle diseases like obesity, diabetes, kidney failure, cardiovascular ailments and many more.

Pollution

Industrialisation increases air, water and land pollution. Factories smoke pollutes the atmosphere and industrial wastes pollute water and land.

Nature of Industries

Industrialisation provides different conflicting choices:

(i) Export and domestic industries, and
(ii) Consumer and capital goods industries.

Export industries are required to finance the import needs of development. Investment in capital goods industries helps to raise productivity.

FACTORS HINDERING INDUSTRIALISATION IN DEVELOPING COUNTRIES

The forces and circumstances which pose as obstacles to the industrialisation of developing countries may be categorised as:

(i) Economic factors
(ii) Socio-demographic factors
(iii) Administrative factors
(iv) International factors

Economic Factors

Developing countries lack certain basic economic facilities. Inadequate transport system is one such factor. Development of industries is very much dependent upon the availability, cost and effectiveness of the transportation system. Power is another basic requirement for industrialisation.

The development of domestic industry also depends very largely upon the size of the local market and this in turn depends partly upon machinery for taking the products to the potential consumer. Absence of educational and training facilities to improve the skill of the labour force and facilitates for raising capital adversely affect industrial economy.

Socio-Demographic Factors

Social and demographic factors can be examined under two heads:

(i) the demographic aspect, and
(ii) the social aspect.

***(i)* Demographic Aspect:** Excessive rapid growth of population may hinder industrialisation. A country which has a low per capita income and severe shortage of capital, rapid growth of population will add to the difficulties of saving and investing enough funds for the industrial development. A large part of the new capital will be required only to maintain the existing level of capital assets per person.

***(ii)* Social Aspect:** Certain elements in the special organisation of the subsistence sectors of developing countries are not conducive to the internal growth of industrial production. They pose serious obstacle to the introduction of new forms.

Administrative Factors

Administrative factors that hinder industrialisation in developing countries are:

(i) Administrative inefficiency causing mismanagement and loss in public sector undertaking.
(ii) Frequent changes in policy related to tax, foreign exchange rates, trade controls and licensing policies create uncertainty among investors and they get reluctant to undertake new investment.
(iii) Faulty labour law also creates tension in developing countries.

International Factors

Competition from imported goods, imposition of customs barriers by the developed countries and high costs of imported raw materials, technological know-how and machinery affect industrialisation in developing countries.

CHECK YOUR PROGRESS

Q. 1. What do you mean by 'economic development'?

Ans. Development means significant changes in social structures, popular attitudes and national institutions as well as the acceleration of economic growth, the reduction of inequality and the eradication of poverty. Development brings change by which an entire social system, tuned to the diverse basic needs and desires of individuals and social groups within that system, moves away from a condition of life widely perceived as unsatisfactory towards a condition of life regarded as materially better. Development is both a physical reality and a state of mind in which society has, through some combination of social, economic and institutional processes, secured the means for obtaining a better life. The objectives of development in all societies are:

(i) To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection.

(ii) To raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education.

(iii) To expand the range economic and social choices available to individuals and nations by freeing them from dependence in relation to other people and nation-states.

Q. 2. How does the concept of 'industrialisation' differ for developed and developing countries?

Ans. Industrialisation refers to the transfer of the economy to industrial methods of production. Industrialisation begins with the setting up of the heavy industries for the production of the means of production. For developed countries, this approach refers to the stages of industrialisation. Developing countries have small and their home markets are extremely limited. Besides, their social and economic systems are backward and are not conducive to large-scale industrialisation programme. The growth of small scale industry and consumer goods sectors are thus relevant for developing countries.

Q. 3. How does the benefits of industrialisation 'trickle down' to other sectors?

Ans. The benefits of industrialisation 'trickles down' to the other sectors of the economy in the form of the development of agricultural and service sectors leading to the rise in employment, output and income. Industrialisation makes possible the production of goods like railways and dams. These economic infrastructures are essential for the future growth of the economy. Industrial sector lends strong stimulus to the setting up of new activities through linkage effects. There is a strong linkage between industrialisation and transportation since rapid industrialisation is facilitated and in turn promotes efficient transportation.

Q. 4. How can deterioration in terms of trade be taken care of ?

Ans. Developing countries have to shake off their dependence on primary products. They should adopt import substituting and export-oriented industrialisation. Developing countries mainly export primary products and import manufactured goods. The prices of primary products have been falling or are stable whereas the prices of manufactured products have been rising. This led to deterioration in the terms of trade of the LDCs.

Q. 5. How does industrialisation of a country help in strengthening the economy?

Ans. Industrialisation can help in strengthening the economy:

(i) Industrialisation makes possible the production of goods like railways and dams which cannot be imported. These economic infrastructures are essential for the future growth of the economy.

(ii) Establishment of industries can impart elasticity to the system and overcome the historically given position of a primary producing country. Industrialisation can change the comparative advantage of the country to suit its potential and resources.

(iii) Industrialisation meets the requirements for the development of agriculture. Improved industrialisation provides deter farm-implements, chemical fertilisers, storage and transport facilities appropriate.

(iv) The industrial development makes the economy dynamic by providing rapid growth and a diversified economic structure.

(v) Industrialisation makes the country secured. Industrial development helps in achieving the national objective of self-reliance in defence materials.

Q.6. What are the criticisms of rapid industrialisation?

Ans. Industrialisation has been criticised in the following way:

(i) A country which may have special advantages in agriculture is not suitable for manufacturing industry. Simultaneous development of agriculture and manufacturing industry is required to restore balance in the economy.

(ii) Industrialisation cannot be regarded as the cause of a high level of real income. The higher level of real income and the higher degree of industrialisation are both results of the same causes or influences like the possession of or access to, cheap sources of power, rich mineral ores, accumulated capital, skill, technical or managerial ability.

(iii) Industrialisation cannot be said as the only solution to the population pressure. Surplus rural population can be absorbed more profitably and with less expenditure of capital in the extension of agriculture than in new industries.

Q. 7. Mention three problems associated with the process of industrialisation.

Ans. Industrialisation causes the following problems:

(i) Industrialisation leads to use of more machines and more and more people getting jobless.

(ii) Industrialisation causes numerous health risks. People become more prone to lifestyle diseases like obesity, diabetes, kidney failure and cardiovascular ailments.

(iii) Industrialisation pollutes water, air and land.

Q. 3. Mention some important factors that hinder industrialisation in developing economy.

Ans. The factors that hinder the industrialisation of developing countries may be categorised as:

(i) Economic factors

(ii) Socio-demographic factors

(iii) Administrative factors

(iv) International factors

(i) **Economic Factors:** Absence of economic facilities is one of the major obstacles to profitable investment in secondary industries in the developing countries. The exact nature of such deficiency, however, may vary from country to country and even from region to region within one country.

(ii) **Socio-Demographic Factors:** Rapid population growth affects the growth of population since a large part of the new capital formed each year may be required merely to maintain the existing level of capital assets per person.

The special organisation of the subsistence sectors of under-developed countries invariably contains elements which adversely affect new forms of industrial production.

(iii) **Administrative Factors:** Administrative inefficiency causes mismanagement and loss in public sector undertaking. Frequent changes in policy create uncertainty in the minds of investors who may be reluctant to undertake new investment. Faulty labour legislation sometimes causes tension in developing countries.

(iv) **International Factors:** Competition from imported goods, imposition of customs barriers, high costs of imports of scarce raw materials, technological know-how, machinery and equipment etc. hinder industrialisation in developing countries.