India is not only an attempt to fill up the above mentioned research gap but also a valuable contribution to the existing knowledge about FDI and the new dimension to the role of FDI in the industrial production in India.

2.4 Summary

In this chapter, the researcher has reviewed various literature related to Foreign Direct Investment, growth, determinants, impact of FDI in various developed and developing countries, problems of FDI, FDI and host country’s economic policies, flow of FDI under the RTA condition, FDI and its behavior towards various components of the economy, and some of the theories related to FDI for the effective insight of the study in precious manner.

CHAPTER III

THEORETICAL BACKGROUND OF FDI AND PERSPECTIVE OF INDUSTRIAL DEVELOPMENT

3.1 Introduction

3.2 A Brief History of FDI

3.3 Definitions on FDI

3.4 Types of Foreign Investment
3.1. **Introduction**

The last two decades of the 20th century witnessed a marked change in the attitude of global market and there was a dramatic worldwide increase in Foreign Direct Investment (FDI). Indian economy, which initiated the progressive liberalization in July 1991, witnessed consistent expansion in the role and functions of the Department of Industrial Policy and Promotion. From formulation of
regulation and administration of the industrial sector, the role of this Department has moved to facilitation of foreign technology and foreign investment flows and promotion of industrial development in the liberalized environment. In this chapter researcher discusses the theoretical framework of the FDI and industrial development in India with its historical perspective in detail.

As against a highly suspicious attitude of developing countries towards inward FDI in the past, most countries including some of the developed countries now regard FDI as beneficial for their economic development effort and compete with each other by offering incentives and entering into a trade agreement with other nations to attract them. The countries changed their political and economic system in such a way to attract more and more FDI. Many countries have abandoned socialism in its various forms and embraced the market economy. In order to facilitate the flow of capital among the European countries, they have introduced changes in their currency as Euro by consolidating its financial systems. Many developing and developed countries signed many bilateral trade agreements in their respective region. Asian countries including China, South Korea, Singapore, Thailand, and Malaysia are largely attributable to a high level of Foreign Investment and export promotion. TNCs identified Asian countries as the most attractive location for making investment. Foreign
private investors pointed out that, India is one of the most transparent and liberal FDI regimes among the developing countries with strong economic fundamentals. But, still India suffers from weaknesses and impediments, in terms of policy and regulatory framework which are the major constraints for attracting more FDI. Table 3.1 shows the FDI flows by region and economy.

Table 3.1

FDI flow by Region & Economy 2005-07 (US $ million)
It is clear from table 3.1, that the inflow of the FDI to India is merely 2.40 percentage of the total FDI inflow to developing economy in the year 2005 and it increased to 4.59 percent in 2007. The outflow of the FDI from India in the year 2005 is US $ 2,978 (2.53 percent) and it increased to 6.05 percent in 2006 and decreased to 5.39. But the inflow of the FDI to Asia amounted to US$ 210028 million in 2005 against an outflow of US$ 79412 million, which is less than the inflow to the Asian country. This trend has increased to an inflow of US$ 319333 million in 2007 and an outflow of US$ 194663 million.

Due to centralized planning, basic and key industries were governed by the government. Excessive regulation and control of private enterprises, trade protection, and government preferences towards industrial protection, lead to foreign capital cautious and it uses a selective approach during 1950-80. Because of this, the country’s
average GDP growth rate was at 3.5% p.a.. On the other hand the average population growth rate was about 2%p.a.. Thus the rate of growth in terms of per capita income was around 1.5% p.a.. By mid 1980s it was clear that a drastic shift in policy was needed to speed up the growth rate. The economic reform programme got a big boost when the government declared a new economic policy towards industries in the parliament on July 24, 1991. Through this, the Government of India provided a new environment for Liberalization, Privatization and Globalization. The government’s encouragement of foreign investment, particularly Foreign Direct Investment (FDI) is an integrated part of the ongoing economic reform in India.

3.2 A Brief History of the FDI

The idea to produce abroad goes back a long way. As a matter of fact, similar to nowadays, the FDI took place in the remote past. During the third millennium before Christ, Sumerian merchants, established in the southern part of Mesopotamia (Current Iraq) realized the necessity of having representation based abroad to receive, to stock and to sell their commodities. During the 14th century, the hanseatic league which was a guild of merchants of German cities set up for trading posts in Bergen (Norway) Bruges (Belgium) London (UK), and Novgorod (Russia). During the same period there were about one hundred Italian banks involved in multinational operation. The 17th and 18th centuries
witnessed the emergence of colonial companies such as the Dutch, and British East India companies, the Muscovy Company, the Royal Africa Company, the Hudson Bay Company, and the Virginia Company. The Virginia company was chartered in 1606 by King James I to establish the first permanent English settlement in James Town (State of Virginia in the current USA).

By the end of the 19th century to the first two decades of 20th century, quite a few European companies were enjoying extracting minerals, running farms, manufacturing goods in overseas territories in Africa, America, Asia, and Australia. Some American and European operating affiliates abroad before the First World War were: Lever, Singer, General Electric, Coustaulds, Nestle, Michelin, Hoechst, Orenstein and Koppel and Edison. It is worthwhile to stress here that before World War I, Direct Investment abroad was an actively less important than the FPI. In 1914, this accounted for 90% of all international capital movements (FBC, FDI, FPI, Government Loans and grants).

The major providers of the £ 9500 million invested abroad in 1914 were Great Britain (43%), France (20%) and Germany (13%). The main recipients of these Funds were other developed countries in North America and Europe. The only main determinant of Investment capital movements was interest rate differences. Investments
(especially Portfolio Investment) were made in countries offering high interest rates. US investors, contrary to other capital exporters, leaned towards direct investment. The depression of 1929 and World War II caused downturns in international business activities. After the World War II official gifts and loans, followed by direct investment made up the most important international capital flows. The remarkable global economic shift to their policy to market orientation and liberal economic policy environment has created new profit opportunities for the firms in the industrialized countries and they have gained access to the hitherto closed markets and also to so many relatively cheaper locations of production for the first time.  

3.3 Definitions on FDI

In general the FDI is the process whereby residents of one country (the home country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country). Or Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor.  

3.3.1 IMF Definition


According to the BPM5, Foreign Direct Investment is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise.

3.3.2 UNCTAD Definition

The WIR02 defines the FDI as ‘an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the FDI enterprise, affiliate enterprise or foreign affiliate. The FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. Individuals as well as business entities may undertake the FDI.

3.3.3 OECD Benchmark Definition of Foreign Direct Investment

The FDI reflects the objective of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident in
an economy other than that of the investor (direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.84

3.3.4 OECD Definition

OECD recommends that a direct investment enterprise be defined as an “incorporated or unincorporated enterprise in which a foreign investor owns 10 percent or more of the ordinary shares or voting power of an incorporated enterprise. The numerical guideline of ownership of 10 percent of ordinary shares or voting stock determines the existence of a direct investment relationship. An effective voice in the management, as evidenced by an ownership of at least 10 percent, implies that the direct investor is able to influence or participate in the management of an enterprise; it does not require absolute control by the foreign investor”.

3.3.5 Balance of Payments Manual Definition

A direct investment enterprise is defined in the IMF Manual as an incorporated or unincorporated enterprise in which a direct investor, who is resident in another economy, owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). Direct investment enterprises comprise those entities that are subsidiaries (a non-resident investor owns more than 50 percent), associates (an investor owns 50 percent or less) and branches (wholly or jointly owned unincorporated enterprises) either directly or indirectly owned by the direct investor. Subsidiaries in this connection also may be identified as majority
owned affiliates. Although the 10 percent criterion is specified in the Manual, some countries may choose to allow for two qualifications that involve a degree of subjective judgment.

3.4 Type of Foreign Investment

Foreign capital can be classified as

a) External assistance or Official sources: in these both concessional and non-concessional flows from official sources like Official Development funds through bilateral agreement from IMF, World Bank, ADB and the like which includes Grants, Concessional Loan and Non-concessional loan flows; sometimes it may be provided by developed countries to developing country with the objectives of assisting economic development.

b) Private Capital flows or Non Official sources: these flows of investment from Multinational Corporations (FDI), Foreign Institutional Investors (FII), the Non-Resident investment, external bank loans, and other credits like buyer credit, supplier’s credit, floating bonds and fixed bonds.

3.5 Forms of Foreign Investment

Foreign investment can take many forms, depending on the type of investor, the investor's investment objective, and the degree of risk the investor is willing to assume. Vehicles for foreign investment have multiplied in recent years because advances in computer and
communication technologies have forged closer links among financial markets around the world and have allowed for greater innovation in the development of different investment instruments geared toward investors' needs. Here is a look at the types of investment currently being practiced in developing countries, also known as emerging markets, as well as in many developed countries.

a. Country Funds

This vehicle has been developed to allow investors to participate in the booming stock markets of certain countries. These funds collect pools of investment capital and invest them in the shares of foreign companies available on local stock markets. The funds may be country-specific or may cover entire developing regions, such as Asia or Latin America, so as to diversify and thereby minimize the risks particular to a single country.

b. Foreign Direct Investment

In making direct investments in foreign companies and countries, investors are foregoing the advantage of rapid exit, which investors describe as liquidity. They are willing to make a longer-term commitment, which involves a higher degree of risk, because they anticipate returns on their investment to exceed the costs implied in the
higher risk. The FDI usually involves greater amounts of capital than indirect investment (such as through country funds). These types of investment usually bring greater benefits for host countries than indirect investments and, therefore, are the investments that recipient countries are most eager to attract. The FDI can take many forms:

i. Licensing Agreements with Host-country’s Firms

The MNC may transfer the rights to use a specific technology to a local firm, which would be responsible for production and marketing in the local market. The local firm would pay the MNC for the right to use its technology. This type of arrangement offers the MNC a low-risk means of entering a foreign market. The MNCs sometimes acquire shares of local firms with which they enter into licensing agreements.

ii. Joint Ventures (JV)

JV are firms that are established and jointly owned by foreign investors in conjunction with local partners, usually private firms, but sometimes state-owned enterprises or even government agencies. Foreign investors may assume minority or majority positions as well as varying degrees of operational control. Combinations of foreign
investors sometimes establish joint ventures in host countries to reduce the start-up costs of establishing solely-owned operations.

Joint ventures give foreign investors the advantage of a larger presence in the local market, but with less risk than would be involved in the outright purchase of a local firm or the establishment of a wholly-owned subsidiary in the host country. Joint ventures are often used by MNCs to enter new markets that are perceived as having great potential, but also as having relatively high risk. They give MNCs a chance to gain firsthand knowledge and experience in local markets as the basis for deciding whether they want to make a full-scale commitment.

iii. Share Purchases, Privatizations, Debt-equity Swaps, or Other Techniques

Majority stakes in host-country firms are through share purchases, privatizations, debt-equity swaps, or other techniques. This option requires a greater level of commitment from the foreign investor as well as a longer time horizon regarding expected returns. The MNCs that invest in local firms provide major benefits for the firms and an economic stimulus for host countries as well. Usually, such investments will reflect the MNC's global production and distribution strategy and, as such, will accelerate the host country's efforts at integration into the global economy. The foreign investment through
preference shares are also treated as foreign direct investment. Proposals are processed either through the automatic route or FIPB.

iv. Wholly-owned Subsidiary in the Host Country

This option represents the highest level of risk and commitment by the MNCs and is usually reserved for the local markets seen as having the greatest profit potential. Major multinationals usually have large presences, primarily through wholly-owned subsidiaries, in the major emerging markets. These operations are usually vital components in their global production and distribution strategies.

v. Turn-Key Project

The multinational companies undertake to complete the project from scratch to the operational stage. When the project is ready, it is handed over to the host country. Frequently underdeveloped countries invite tenders for the construction of certain projects requiring a high level of technical skills. With their huge resources and managerial and technical expertise the MNCs are best suited to carry out such jobs.

The Government of India differentiates foreign capital inflow into various categories like the Foreign Direct Investment (FDI), the Foreign Institutional Investment (FII), the Non-Resident Indian (NRI), and the Person of Indian Origin (POI) investment.

3.6 Components of Foreign Direct Investment
Flows of the FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor. The FDI has three components, viz., equity capital, reinvested earnings and intra-company loans.

i. Equity Capital

Equity capital is the foreign direct investor’s purchase of share of an enterprise in a country other than his own.

ii. Reinvested Earnings

Reinvested Earnings comprise the direct investors’ share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.

iii. Intra-company Loans or Intra-company Debt

Intra-company Loans or Intra-company Debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

Thus, FDI = Equity Components + Reinvested Earnings + Other short term and long term borrowings.
3.7. Types of FDI

Types of Foreign Direct Investment can be categorized according to its nature, direction, target and motive which are discussed below.

3.7.1. By Direction

FDI can be categorized by direction as inward and outward as follows.

i. Inward FDI

Inward foreign direct investment is when foreign capital is invested in local resources. Inward FDI is encouraged by tax breaks, subsidies, low interest loans, grants, lifting of certain restrictions and the long term gain. It is restricted by ownership restraints or limits and differential performance requirements.

ii. Outward FDI

Outward foreign direct investment, sometimes called "direct investment abroad", is when local capital is invested in foreign resources. It is encouraged by the Government-backed insurance to cover any risk. Outward FDI is restricted by Tax incentives or disincentives on firms that invest outside of the home country or on repatriated profits and Subsidies for local businesses.
3.7. 2 By Target

i. Greenfield investment

Direct investment in new facilities or the expansion of existing facilities, Greenfield investments are the primary target of a host nation’s promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. The Organization for International Investment cites the benefits of Greenfield investment (or in sourcing) for regional and national economies to include increased employment (often at higher wages than domestic firms); investments in research and development; and additional capital investments. It leads to loss of market share for competing domestic firms.

ii. Mergers and Acquisition

Transfer of existing assets from local firms to foreign firms takes place. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations are transferred from a local company to a foreign company, with the local company becoming an affiliate of the foreign company. Unlike Greenfield investment, acquisitions provide no long term benefits to the local economy even in most deals, the owners of the
local firm are paid in stock from the acquiring firm, meaning that the
money from the sale could never reach the local economy.

iii. Horizontal FDI

Investment in the same industry abroad as a firm operates in at
home. It occurs when the foreign firm enters into outside the country
to produce the same product or the types of products that have been
producing already in its home country.

iv. Vertical FDI

The investing firm enters into foreign countries to produce
intermediate products that are intended for its domestic production
process. There are two types of vertical FDI a) Backward Vertical FDI:
Where an industry abroad provides inputs for a firm’s domestic
production process. b) Forward Vertical FDI: Where an industry abroad
sells the outputs of a firm’s domestic production.

3.7.3. By Motive

The FDI can also be categorized based on the motive behind the
investment from the perspective of the investing firm.

i. Resource Seeking

Investments which seek to acquire factors of production that is
more efficient than those obtainable in the home economy of the firm.
In some cases, these resources may not be available in the home
economy at all (e.g. cheap labour and natural resources). This typifies
the FDI into developing countries, for example seeking natural resources in the Middle East and Africa, or cheap labour in Southeast Asia and Eastern Europe.

ii. Market Seeking

Investment is the aim to either penetrating new markets or maintaining existing ones. FDI of this kind may also be employed as a defensive strategy. It is argued that businesses are more likely to be pushed towards this type of investment out of fear of losing a market rather than discovering a new one. This type of FDI can be characterized by the foreign Mergers and Acquisitions in the 1980s by Accounting, Advertising and Law firms.

iii. Efficiency-Seeking

Investments which firms hope will increase their efficiency by exploiting the benefits of economies of scale and scope, and also those of common ownership. It is suggested that this type of FDI comes after either resource or market seeking investments have been realized, with the expectation that it further increases the profitability of the firm.

iv. Strategic Asset Seeking

Tactical investments are to prevent the loss of resource to a competitor. Many resources are limited in their limited availability. There may be a market for the goods. For instance, the oil producers,
whom may not need the oil at present, but look to prevent their competitors from having it.

3.8 FDI Vs. Portfolio Investment

The FDI is generally, as a long term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control / participation in the management of a foreign firm and by profit motive. On the other hand portfolio investment occurs when individual investors invest, mostly through stock brokers, in stock of foreign companies in host the country in search of profit opportunities. The portfolio investors invest their resources in host the country mainly for speculative purpose and highly volatile than the FDI. “As a matter of fact what has become highly mobile across the world is not productive capital, but financial capital especially in the form of hot money” 85

3.9 Benefits of FDI

The FDI is widely considered as an important element for achieving sustainable development in the host countries. It provides stronger stimulus to income growth in the host countries than other types of capital inflows. After the recent financial crises in Asia and Latin America, developing countries are strongly advised to rely

primarily on the FDI in order to supplement national savings by capital inflows and promote economic development. Apart from that it provides the following benefit for the host country.

**i. Increase the level of Investment**

The share of the FDI in Gross Domestic investment in developing countries was only 3.2% in 1992 and in 2001 it stood at 27.9 %.\(^6\) The foreign investment can stimulate domestic saving and investment through forward and backward linkages. Output of a foreign firm can be an input for domestic industries vice versa. In this, foreign firms create demand for industrial producing goods purchased by them. In the absence / less development of local capital market, they cannot supply the required volume of capital for large investment proposals.

The foreign (investment) capital can fill up the gap between desired investment and locally mobilized savings, besides it provides hard currency or foreign (resources) currency to purchase capital goods, which may not be available in the domestic market.

**ii. Economic Scale and Scope**

Economic scale and scope can be developed in production, marketing, finance, research and development, transportation and purchasing. In each of these areas, there are significant competitive advantages to being large. Economic productivity can come from the

---

5. World Investment Report 2002 of UNCTAD.
use of large scale automated plant and equipment or from an ability to rationalize production through worldwide specialization. For instance, some of the automobile manufacturers, rationalizing manufacturing by producing engines in one country, transmission in another country and bodies in another. In this way the country can achieve the productivity of their economy.

Marketing economics can be achieved by large enough to use the most efficient marketing technique (advertising media) brought out by the foreign MNCs to create worldwide brand identification. Financial economics can be achieved from access to the full range of foreign financial instruments and sources of funds, and purchasing economic comes from quantity discounts and market power.

iii. Advanced Technology

Advanced Technology includes both scientific and engineering skills. It is not limited to the MNCs. Production units in less developed countries use outdated equipment and technologies that can reduce the productivity and lead to the production of goods with lower standards and increased cost. So, the domestic producers cannot compete abroad in the export market and it contributes to the difficulties to earn hard currencies. The FDI can solve these problems because Foreign Investment can supply a package of required resources such as management experience, entrepreneurial abilities, organizational and
technological skills and bring with it technological knowledge while transferring machinery and equipment to developing countries. Empirical studies have supported the importance of technology as a characteristic of MNCs. Similarly, the domestic firms are forced to improve their technology and stands of product quality.

iv. Competitiveness of the Export Market

The FDI makes a positive impact on the host country to improve its export performance, by raising the level of efficiency and the standards of product quality and with better access to foreign markets. The FDI contributes to exports directly by achieving and maintaining a global cost and availability of cost of capital. Enhanced export possibility contributes to the growth of the host countries by relaxing demand side constraints on growth, especially the country which have small domestic market and must increase export vigorously to maintain their economic growth.

v. Job Creation

Countries with economies in transition often have high rates of underemployment or outright unemployment. Attempts to combat unemployment through such measures as the creation of public-sector jobs often prove to be unsustainable. Direct investment by the MNCs creates jobs. Moreover, through the learning process described above, these jobs will provide important benefits for the local economy.
vi. Balance of Payments Effect (BoP)

The effect of the FDI on a country’s balance-of-payments accounts is an important policy issue for most host governments. A country’s balance-of-payments account is a record of a country’s payments to and receipts from other countries. The current account is a record of a country’s export and import of goods and services. Governments typically prefer to see a current account surplus than a deficit. There are two ways in which FDI can help a country to achieve this goal. First, if the FDI is a substitute for imports of goods and services, the effect can be to improve the current account of the host country’s balance of payments. A second potential benefit arises when the MNC uses a foreign subsidiary to export goods and services to other countries.

3.10 Potential Pitfalls of the FDI

The FDI is not an unmixed blessing to the world. The respective government in developing countries has to be very careful while deciding the magnitude, pattern and conditions of the foreign investment. India had a very bad experience. British, Dutch and other European countries’ MNCs, came to India for business purpose and ruled India for more than several decades. During that period foreign investors came and exploited Indian resources and killed many Indian traditional business and firms. Because of this most of the political
parties in India are against foreign Investment. Though it benefits the
country by offering advanced technology, capital, technical know-how,
management expertise, it has the following possible adverse
implications in the host country.

a. Domestic Industries Destroyed

Due to foreign investors and their expertise in manufacturing
and marketing, the domestic firms could not compete with them. When
foreign investors are competitive in nature competing with domestic
firms, profit in domestic industries fall, leading to fall in domestic
savings and in the long run domestic firm will not have any more
opportunity to survive in the country. The foreign investors create a
monopolistic market in the host country.

b. Less Contribution to Public Revenue

In order to attract more FDI, host countries especially
developing countries offer more attractive benefits to foreign investors
including tax benefits. Therefore, the contribution to public revenue by
foreign firms through corporate taxes is comparatively less. This is due
to liberal tax, concession, investment allowances, distinguished public
subsidies, concessional rate of infrastructure facilities and tariff
protection provided by the host country.

c. Unbalanced Development
The foreign direct investments are location specific, resource specific and industry specific. Foreign investors prefer to have their establishments in urban areas rather than in rural areas. As they are located in urban areas, they create imbalance between rural and urban opportunities, accelerating flow of the rural population to the urban areas. For instance, foreign investment in computer software and hardware prefer leading metro cities like Bangalore, Chennai and the like. These movements lead to an imbalance in the distribution of employment, wealth creation and overall imbalance development of the country. They divert resources away from the primary sectors to manufacturing of sophisticated products for the consumption of local elite.

d. Income Inequalities

Foreign firms reinforce dualistic socio-economic structure and increase income inequalities. The MNCs prefer expert knowledge in a particular field. This creates more gap between the labour groups by Difference in incentives leading to income inequalities. For example people working in the MNC software companies are getting more payments than people in other firms.

e. Inappropriate Consumption

Foreign firms stimulate inappropriate consumption pattern through excessive advertising and monopolistic/oligopolistic market
power. The products made by foreign investors for domestic market are not necessarily low in price and high in quality. Their technologies are generally capital-intensive which does not suit the needs of the labour-surplus economy.

f. Less Social Benefits

Foreign firms are able to extract sizeable economy and political concession from competing government of developing countries. Consequently, private profits of these companies may exceed social benefits.

g. Profit Motive in Nature

Continuous outflow of profits from the host country is too large in many cases. This leads to exerting pressure on the host country’s foreign exchange resources. The Foreign Investors are very particular about profit repatriation facilities in the host country.

h. Influence in Political Decisions

Foreign firms may influence political decision in developing countries. In view of their large size and power, national sovereignty and control over economic policies may be jeopardized. In extreme cases, foreign firms may bribe public officials at the highest level to secure undue favours. Similarly, they may contribute to friendly
political parties and subvert the political process of the host county. For example, the historical experiences of the British East India Company.

Therefore the important lessons to host countries, have to minimize the possible negative impacts/effects on their national integrity, domestic firms and their survivals, political dominance and influence and maximize the positive effects of the FDI through appropriate strong policies, procedures and regulations.

3.11 Industrial Development in India

Industrial development in India divided into two phases like during the British period and after independence. Industrial developments have been accelerated in India after independence by introducing five year plan with specific objectives or sectors in each plan periods. The industrial growth was stagnant before introducing globalization, later there were dramatic growths in various sectors including public sector industry. The performance of each sector has been showing a remarkable achievement after opening economy to foreign investors.

3.11.1 Industrial Growth during British Period

The introduction of the new industrial policy of deregulation, relicensing and disinvestment has opened a new environment in the country. A significant number of industries in the public sector are now in the private sector. The Foreign Direct investments set new trends on
a competitive field in Indian industry. During the British period as a matter of policy, the alien government did not encourage the growth of heavy industries. But, during the post independence period, the government decided to give prime importance to develop heavy industries as to boost the Indian Economy. On account of the Chinese invasion in 1962, India realized the weakness in defence preparedness and thus switched over to investment in favour of defence industry. Thus the percentage of investment in wage goods sector fell from 41 percent in 1950-51 to 31 percent in 1974-75. “The supply of wage goods sector rose just 2 percent per annum against over 4 percent in the nonwage goods sector.” Now the economy has been able to build a reasonable industrial base. It is imperative that the imbalance between the heavy industry and wage goods sector be corrected by shifting investment policies in favour of wage goods, as, the wage goods sectors could bring the balanced development of the economy. During the British period, textile was a chief industry spread over the whole country. The Indian industries “not only supplied all local wants but also enabled to export its finished products to foreign countries.” Indian exports consisted manufactures like cotton, silk, fabrics,

6. Professor P R Brahmanada “An Analysis of Indian Economy during 1963-76”.

celicons, artistic weaves, woolen cotton, besides pepper, cinnamon, opium, indigo etc. during the 17th and 18th centuries. Indian industries were in the superior industrial status during the pre-British period that promoted the industrial commission in 1916.

Before the beginning of industrial revolution in England, the East India Company concentrated on the export of Indian manufactured goods like textile, spices and the like to Europe where these articles were in great demand. Tremendous expansion of productive capacity of manufactures resulted in increased demand of raw material for British industries and the need to capture foreign market.

As a first step, attempts were made to restrict and crush Indian manufacturers. The Indian textile and handicraft were the first to be hit. The decline of this industry started a chain reaction leading to the speedy decline of the other that is handicraft. The war of 1914-18 created enormous demand for factory goods in India. Imports of factory goods from England and other foreign countries fell substantially due to less availability of these industrial inputs in their country. Besides, the government demand purpose increased considerably. As a result, great stimulus was given to the production of iron and steel, jute, leather goods, cotton and woolen textile. But in the absence of heavy industries and the machine tools industry, they could not develop fast enough. In 1923, the Government of India accepted the
recommendation of the first fiscal commission and gave protection to selected Indian industries against foreign competition.

The outbreak of Second World War created very urgent demand for manufactured goods in all the countries. The imports from foreign countries declined while the government demand for them increased. As a result existing industries expanded rapidly and the industrial output during 1935-45 increased about 20%.

The British were not interested in developing India as such. The growth of railway or the spread of irrigation or the expansion of education or the creation of revenue settlement were all initiated with the supreme goal of accelerating the process of economic drain from India. In the first half of the 18th century, the British used tariff with the object of protecting their woolen and silk manufacturers on the one hand and of raising additional revenue to finance continental war on the other. The period from 1882 to 1894 was one of complete free trade policies in India. By this time, England had developed industrially unrestricted British manufactures with Indian handicrafts leading to a decline. It was only when England rose to position of industrial supremacy that free trade was advocated by the British economists and administrators. Thus, the British manufacturers employed the arms of political injustice in order to exploit the Indian market. The selfish
policy of the British crushed Indian industries and helped the process of industrialization in Britain.

**a. Competition of Machine Made Products**

Because of heavy industrial revolution, the machine made goods began to compete with the products of Indian industries and handicrafts. This led to the decline of textile handicraft, the largest industry of India whereas the British emphasized the free import of machine made manufactured goods and they did not allow importing machinery. The decline of Indian industries output created a vast gap in Indian market which could be filled by the import of British manufactures only. Thus India became a colonial country supplying raw material and market for the British manufacturers. The development of roads, railway telegraphs and other infrastructures facilitated the British to exploit the Indian market easier. The opening of the Suez Canal in 1869 reduced the transport cost to the British. The British destroyed the Indian industry and did not care to provide an alternative source of employment. The unemployed people from industry especially craftsmen and artisans shifted to agriculture and increased the portion of population who depended on land. Because of this in the middle of 19th century about 55% of the population was in agriculture, in 1901 it was about 68% and went to about 72% in 1931. It led to an increase in land rents charged from tenants. It meant an
increase in the number of landless labours and crippled Indian agriculture.

b. Impact of Colonial Rules

Colonialism had a deep impact on the industrial development in India. The destruction of the Indian handicrafts increased unemployment in the rural areas, where as in England, surplus labour from rural areas was quickly absorbed in the new industries created in the process of industrialization. Nothing of this kind happened in India. India became a ready market for England goods and so the colonial interests were opposed to the development of industries in India. The cost of imperial wars in Burma and Afghanistan, the depreciation of the value of Indian currency since 1873, and the growing burden of home charges were to be paid by the Indian people. The major taxes were land revenues, excise, salt tax, stamps and opium. Income tax which was levied in 1886 was withdrawn because its yields were too poor. Apart from opium, all the other taxes fell on the rural people. Land revenue was chief fiscal engine and this increased the burden on the peasantry. For these factors, India was forced to keep favourable balance of trade with England. India mainly exported food and agricultural raw material. The surplus supply of labor wages in agriculture remained highly depressed, while the prices of goods rose in
times of scarcity. The colonial government did provide some relief, but nothing was done to remove the problem of rural people.

3.11.2. Industrial Transition in India

The process of industrial transition during the British period can be divided into industrial growth during the 19th century and industrial progress during the 20th century. The industrialization in India was mainly initiated by the private sectors.

i. Industrial Growth in the 19th Century

The outstanding industrial events in the 19th century were the decline of indigenous industries and the rise of large scale modern industries which were brought by private enterprises. The rise of large scale industries was slow in the beginning but by the end of the nineteenth century the movement was rapid. During 1950-55, the first cotton mill, jute mill and coal mine were established and the first railway line was also laid in India. By the first quarter of the 19th century there were 194 cotton mills and 36 jute mills and the coal production had risen to over 6 million tonnes. The foundations for the development of modern industries for the utilization of coal and iron resources were laid by the end of 19th century. India was being gradually converted into an agricultural colony of the British. By 1900,
India had become a great exporter of rice, wheat, cotton, jute, oil seeds, tea and the like and an importer of manufacturing. In this way India had become an appendage of the British colonial system. During the 19\textsuperscript{th} century, the British businesses were pioneer industrial enterprises in India, because they had experience of running industries at home and received maximum state support. Though industrialization was started by the British in the 19\textsuperscript{th} century, they were more interested in their profit and not in accelerating the economic growth of India. Apart from the British, the Parsees, the Jews and the Americans were also prominent first as merchants and later as industrialists.

When the factory system was introduced in India by the British, the merchant class found greater opportunities for trade. The development of shipping and the building of railways resulted in large trade, both internal and external. But the Indian merchants and craftsmen did not possess large capital and proper training and education; hence they were not able to play like western merchants with large capital, marketing ability and capacity to manage labour. However, Indians joined the ranks of industrialists early in the middle of 19\textsuperscript{th} century and their role grew throughout the period, continuously and steadily. They used the same managing agency system as the Britishers. They were becoming increasingly important members of companies, established by the Britishers.
ii. Industrial Growth in the First half of the 20th Century

In 1905, the swadeshi movement stimulated Indian industries, and there was a slow but steady growth of industries. The foundation of iron and steel industry was laid during this period. The war of 1914-18 created much demand for industrial goods in India. Imports from England and other foreign countries fell down substantially. On the other hand government demand for war purpose increased considerably. As a result, great stimulus was given to the production of iron and steel, Jute, leather goods, cotton and woolen textile. Indian mills and factories increased their production and were working to full capacity. But in the absence of heavy industries and machine tool industry, they could not develop fast enough.

iii. Tariff Production to Indian Industries

In 1923, the Government of India accepted the recommendation of the first fiscal commission and gave protection to selected Indian industries against foreign competition. Between 1924 and 1939 the government gave protection to several industries including iron and steel industry, cotton textile, Jute, sugar, paper and pulp industries, matches and the like. Indian industrialists took advantages and were able to capture the entire Indian market and eliminate foreign competition. The outbreak of war in 1939 created very urgent demand for manufactured goods, because of this, the industrial output increased
about 20% during 1939-45. The conditions of shortage created by the Second World War continued in the post war period, but the overall index of output went up by only 5% between 1945 and 1950.

**iv. Decline in the Share of Foreign Enterprises**

By the beginning of the First World War the British controlled at least half the production in India’s major industries, but this control steadily declined. According to estimates, the British controlled 43% of gross assets in 1914, 10% in 1935 and only 3.6% in 1948.

**3.11.3. Reasons for Slow Growth of Private Enterprises in India’s Industrialization (1850-1957)**

Indian industries did not expand significantly relating to the rest of the economy over the hundred years before independence. The basic reasons were.

**i. Unimaginative Private Enterprises**

Indians did not show much importance to enter into industry field, because they were highly secure with sufficient profit from which they existed in trading and money lending. Lack of entrepreneurial ability and awareness were also important reasons for the slow growth of enterprises in India. Few existing Indian industrialists also least/rarely bothered about the future and very little cared for introduction of new and innovative technology and replacement in industry. Indian industrialists were also influenced by the British
trading system of high price and high profit margin rather than low price; because of this they emphasized sales than production.

ii. Absence of Banking System

In the 19th and 20th centuries, India had suffered a lot because of lack of adequate capital to promote modern industries. The British enterprise was prominent so also the British capital was significant in India’s industrialization. A large part of the total invested capital in modern enterprises in India was improved from Britain. There were no government loans or company stocks and debentures in India. The people also were very much interested to hold their wealth in the form of gold and silver. There was complete absence of financial institution to help the transfer of public savings to industrial investment. The indigenous financial institution concerned them with rural money lending and financing of internal trade.

In the absence of regulated banking system, people were hesitant to entrust their savings to company promoters in the early industrialization period. Even the existing banks were more concerned with trade than industry. India had only 2 joint stock banks of more than Rs 5 lakhs capital each by 1870. The number was increased to 9 such joint banks in the beginning of 20th century. Because of failures of large number of banks during swadeshi movement period, they never took any effort for further examination. The existing private and joint
stock banks were given funds to limited, well-established industrial enterprises only. The investment to the Indian industry came from rulers and princes, who were wealthy in trade, wealthy professionals like doctors and lawyers and government officials. These people participated in starting industrial enterprises by investing part of their wealth and investment. The textile mills from Ahmadabad, Bombay and Sholapur attracted deposits from public.

iii. Lack of Support from Government

The important reason for the slow growth of industrial development in India was mainly due to lack of support from the government. Especially, during 1850 – 1947 the Indian industries were under the control of foreign government, they had shown injustice to Indian private enterprises. The foreign government refused to impose custom duties till 1924 on the imported goods. They imposed less amount of duties on some selective imported goods for the purpose of collecting revenue. The government policy did not give protection to all industries but only to a few selected industries which fulfilled certain specified condition. The British government was not in favour of large purchase of equipments for public utility in health, education, railway and military supplies.

iv. Colonial Exploitation and its Impact on Industrial Development
The British government exploited India and the trade policies were aimed at developing a colonial pattern of trade in which India would become an exporter of raw materials and importer of manufactured goods. The British government encouraged direct investment by the British capital in Indian consumer goods and they became a managing agency of Indian industry and took a major portion of profits through malpractices. They forced the Indians to pay the cost of British administration in the form of home charges as well as finance the wars. It included salaries of the British officers both civil and military, payment of pensions and other benefits.

v. Trade Policies of alien Government

The British government used the trade policies against India and made it favourable to the East India Company and the latter took away wealth from India to feed the expanding British industry with raw materials. The Indian farmers were forced to sell their agricultural products at low price to the British agents for exports. The Indian cotton and silk fabrics were reputed worldwide. The East India Company wanted to benefit from that. Hence they made Indians as Gomastas in their company. These Gomastas would go to the villages and force the artesian to sign a bond to deliver a part of their product at a specified price. The price was fixed by these Gomastas which was 40% less than market price. In this way, the East India Company was
able to procure more and more quantity of cotton and silk fabrics at very a low price. The East India Company got a huge amount of profit by exporting the Indian cotton and silk fabrics worldwide. To eliminate the competition from British market by Indian manufactures, England was banned import of Indian printed cotton fabrics after 1700.

The British government imposed very nominal import duties on the British manufactured goods to India. On the other hand for Indians heavy duties were imposed except for raw materials. The East India Company declared a policy which was to encourage the production of raw cotton, raw jute, sugarcane, groundnuts, raw silk and other raw materials and to discourage the production of manufactures in India and forced this unequal trade policy on India. According to Ramesh Chandra Dutt citing the famous historian H.H.Wilson “ Had this not been the care, had not such prohibitory duties and decrease existed, the mills of Paisley and Manchester would have been stooped in their outset and could scarcely have been again set in motion, even by the power of the steam. They were created by the sacrifices of the manufacturer. India had been independent, she would have retaliated would have imposed prohibitive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self defence was not permitted to her; she was at the mercy of the stranger. British goods were forced upon her without paying any
duty and the foreign manufacturer employed the arm of political
injustice to keep down and ultimately strangle a competitor with he
could not have contended on equal terms.”

vi. Industrial Protection - A Discriminatory Process

In the beginning of 20th century, because of the strong demand
by the Indian National Movement, the British Government decided to
grant discriminatory protection to Indian industry. During the process
of implementation only those industries were granted protection in
which the Indian industry had to face competition with some other
countries and not Great Britain. Match industry was given protection
because Sweden happened to be the competitor. But woolen industry,
heavy chemicals, and an industry of national importance, the protection
was denied because there was a clash between British and Indian
interest. Cement industry also the protection was denied for, in this
case, the UK was the only competitor.

Within the Industrial protection policy, the Great Britain got the
closure of imperial preference. In this policy, any imports from Great
Britain and exports to Great Britain should enjoy the most favored
nation treatment. The policy of imperial preference was, charging much
lower import duties or no duties at all on goods imported from Britain,

8. Cited in Ramesh Chandra Dutt, "The Economic History of India”,
similarly the preference was used to eliminate competition from the Indian market, so that Great Britain could have full control to exploit it though its trade policies.

**vii. British Capital to India – An Exploitation of Trade**

In the early phase of colonialism, the chief instrument of exploitation was trade but the British thought of encouraging investment in India. The following are the principal purposes of British investment.

a. After the first war of independence (1857), it was realized that the importance of an efficient system of transport and communication should be developed, so the government could have effective control and administration of the country.

b. It was essential to develop public utilities like generation of electricity and water works in order to effectively exploit the natural resources of India.

c. The British government thought it necessary to link railways with major ports on the one hand and the marketing centers (mandis), on the other hand to promote foreign trade, so that food and raw material collected in mandis are quickly
transported abroad and the manufactures imported into India and quickly distributed to various markets.

3.11.4. Foreign Investment in India during Pre-independence British Government period

The British government showed more interest to promote foreign investment in India, to develop economic infrastructure during the pre-independence period in order to facilitate and administer the country properly and help to promote trade activities. The British foreign investments were taken by British multi-nationals operating through their subsidiaries. They invested their investment mainly in consumer goods industries, and those concerned with the processing of primary meant for export. The following the major fields of the Direct Foreign Investment in India.

a. Economic infrastructures like railways, ports, shipping, generation of electricity, roadways transportation, communication, water works.

b. For promoting mining of coal, gold, petroleum and metallurgical Industries.

c. For promoting commercial agricultural investment in tea, coffee, rubber plantation and other spice cultivation.
d. To undertake investments in consumer goods industries like silk and cotton, jute textile, matches woolen textile, paper, tobacco, sugar etc.

e. Investments in banking, insurance and trade.

f. Some investments were made in machinery industries and chemical industries.

Parts of the investments were given to the British government in the form of seed loans to undertake investment in India in major economic infrastructure fields. According to the estimates, the British Associated Chamber of Commerce revealed that nearly 38% of the foreign investments were in the form of sterling loan of the government, 50% in companies registered outside but operating in India and only 12% in companies registered in India and rest. According to estimation, the British Foreign Direct Investment was nearly £4000 million during the pre-war period. Out of this nearly 20% were made in India. This shows that the British Empire gave importance in India.

According to the RBI first census on India’s foreign liabilities and assets as on 30th June 1948, the total foreign business investment aggregated to Rs.302 crores, out of which British investments were Rs.230 crores, i.e. 72% of total British government did not take any care to establish heavy industries in India. Table 3.2 shows the estimated foreign capital in India during the British period.
Table 3.2
Estimates of Foreign capital in India

<table>
<thead>
<tr>
<th>S.No</th>
<th>Source</th>
<th>Reference year</th>
<th>Amount (£ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Parish</td>
<td>1911</td>
<td>365</td>
</tr>
<tr>
<td>2.</td>
<td>Findlay shirras</td>
<td>1929</td>
<td>500</td>
</tr>
<tr>
<td>3.</td>
<td>British Associated Chamber of commerce</td>
<td>1933</td>
<td>1000</td>
</tr>
</tbody>
</table>

Source: Various Issues of RBI report.

From table 3.2, it is clear that foreign investment in the year 1911 was £ 365 millions and it increased to £ 1000 Millions in 1933. The Post independence Indian Industry suffered very much because of lack of financial resources and experience in managing the organization. Indians were occupied with their traditional business which was not modernized. On the other hand British merchants had possessed experience of managing modernized industry by setting up joint stock companies. These British merchants called as managing agents acted as pioneers and promoters in several industries like jute, tea and coal which required more money. These managing agents were responsible for floating new concerns, provided their own funds and also arranged for by acting as the guarantors, and marketing of products and acted as agents for the purchase of raw materials, stores, machinery.
and equipments and were responsible to manage the affairs of the business.

Messer’s Andrew Yule & Co, Martin Burns, Bird & Co., Duncan Brothers and Williamson Mages were the leading managing agents. Those European managing agents were the real pioneers of Indian industry. In the post Independence Period there was no well regulated banking system in India to provide adequate financial services to industrial sector. These managing agents filled that gap by supplying finance to set up large scale industries. Because of absence of developed banking system, Indians accepted these managing agents as an alternative source of finance.

Instead of working under the control of the Board of Directors, those agents as financer were more powerful than the Board of Directors. The managing agents received remuneration in the following form:

a. The managing agents appropriated about one – half of accrued profit to share holders. That is, the total remuneration to these agencies was nearly 50% of the gross profit of the company.

b. They received heavy office allowances for managing the affairs of the company.
c. They charged commission on their services like arranging of funds, 
purchase of raw material, equipments, machinery and marketing of 
products.

d. They paid heavy allowances for managing the affairs of the 
company and received share on the profits of the concerns ranging 
from 12 to 14 percent. If the BOD refused to pay, these agents 
would withdraw their finance and the company would go into 
liquidation.

e. They forced the company to pay a minimum remuneration, even if 
the company suffered a loss.

f. These agents appointed themselves as managing agents for many 
companies and they were not able to devote personal attention to 
each concern. In this system, they were paid heavy remuneration for 
their inefficient and less attentive work.

a. Taxation Enquiry Commission Report during 1946 and 1953

India basically is an agricultural country and as a servant of 
interest of Great Britain, exported agricultural production besides other 
raw materials. India was industrially advanced country during the 16th 
and 17th century and had customers for silk and cotton jute and woolen 
products in the world market. During 18th and 19th centuries it was not 
permitted to modernize the industry and became an importer of 
manufactured goods. The British government developed infrastructure
facilities which would facilitate to exploit the Indian resources. Direct Investment was made in consumer goods, in industries like tea, coffee and rubber plantation by the British but no effort was made to develop heavy and basic industries. The British exploited Indian economy through hoarder charges which were used to pay higher salary for their large number of British officers and civil administration. Indians were denied top ranking positions and this was monopolized by the British officials.

The pace of industrialization during 1850-1947 was very slow. The following are the features of Indian industrial economy at the end of the British rule in 1947.

i. Industrial development was totally absent and the Indian industry was heavily depending on imports from foreign manufacturers.

ii. The role of public sector enterprise was limited and only a few private sectors were confined to the industrial activities in India.

iii. Only Parsees, Jains, Marwadis and British themselves were engaged in modern industrial activities.

iv. Few business communities and private sectors were interested in only limited industrial activities like sugar, paper, textile and cigarettes and they totally ignored the capital goods.
v. Industrial activities were processed in the place which is nearer to port or to capital areas, resulting in regional imbalances in industrial development.

vi. Industrial development depended on the British than on its own.

In 1947, when the British transferred power to India, it was left with poor technological and scientific capabilities. Industrialization was limited, significant agriculture resulting into low productivity, underdeveloped transport and communication, inadequate educational and health facilities, nonexistent social security. In brief, poverty and unemployment was widespread and totally India was backward in every respect.

3.11.5 Foreign Firms Prior to 1947

The British investment grew due to the deeper commitment of the British companies in India prior to 1947. In addition, there were new entrants like Cadbury Chocolates, Tube Investment, Reckitt & Colmen and Horlicks. New entrants from the US were Pfizer, Park Davis, Otis Elevator, Coke, Pepsi, Vicks products and the like. Nestle, Siemens, Pharmacia, Hoechst, BASF and the like came from Europe. Although Japanese trading firm had stopped cotton yarn trading in 1942 a few Japanese manufacturing companies like Asahi Glass,
Shimada Glass, Nippon Chemicals, Hitachi and Nichimen came to India in this period.

The government also informally invited large companies both foreign and domestic, to invest in industries to promote development in India. This includes Glaxo, Unilever, K1, General Motors, Ford Motors, Pepsi Drinks and the like. T.T.Kurishnamachary formerly an agent of Unilever and a businessman who was finance minister of India from 1956-58 informally asked the foreign firms to invest in new venture and include local equity and local management. Some companies that found this request impalatable quit India. For example, General Motors and Ford, which enjoyed monopolistic position in India for more than twenty years, wound up operation in 1953. Pepsi Drinks, unwilling to abide by the government regulation to include local equity ceased its operation in India in 1961. The government of India had been informally suggesting to the foreign companies to include Indian equity. However, during the period of 1962-77 these issues were formalized through legislation.

The Foreign Exchange Regulation Act (FERA) came into force in 1973. The Government of India included foreign companies under Monopolies and Restrictive Trade Practices (MRTP) Act 1969, during the same period. Due to this, as many as 54 companies applied to windup their operations by 1977-78 and nine companies applied in
1980-81, including Coca Cola (1977) and IBM (1978). The amount of the FDI and the number of the Foreign Joint Ventures declined drastically in 1962 and an erratic trend from 1969-77. The number of foreign collaboration declined from 464 in 1961 to 131 in 1968.

3.11.6. Industrial Development in Post Independence Period

Indian industrial development during the British period was very limited. The British government exploited Indian economy in many ways including trade policies, British capital, British administration, industrial policies and the like. Apart from these reasons, per capita income and household savings were less. Transfer of saving from people to investment was limited.

During the British period, there was no financial institution to help the transfer of saving to industrial investment. The people who were rich in trade and wealthy transferred some few part of their excess money to industry. Because of absence of banking system, people invested their money in gold and some precious products. On the other hand per capita income was very less, which had direct effect on household saving. J.R.Hick, M. Mukherjee and S.K.Ghosh have calculated the rates of growth of per capita income for the period 1860-1945 at 1970-71 prices. Table 3.3 illustrates the growth rates of per capita income during 1880-1950.

Table 3.3

Growth Rates of Per Capita Income during 1880-1950

<table>
<thead>
<tr>
<th>S.No.</th>
<th>The period</th>
<th>Rate of growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1860-1885</td>
<td>1.1</td>
</tr>
<tr>
<td>2.</td>
<td>1885-1905</td>
<td>-0.3</td>
</tr>
<tr>
<td>3.</td>
<td>1905-1925</td>
<td>1.3</td>
</tr>
<tr>
<td>4.</td>
<td>1925-1950</td>
<td>-0.1</td>
</tr>
<tr>
<td>5.</td>
<td>1860-1945</td>
<td>0.5</td>
</tr>
</tbody>
</table>


Table 3.2 shows that, during the British period the per capita income growth rate was mere 0.5% during 1860-1945. “The low growth rate during the independence years seems to owe its origin to the decline in per capita income during 1885-1905 and 1925-1950. Occasional periods of stagnation are noticeable, for instance, the periods between 1860 to 1865, 1930 to 1935 and 1945 to 1951 and the like.

In the beginning of 20th century the investment and capital in India was low. The capital formation is considered to be an important factor for industrial development. During pre independence, there were no well regulated financial systems and banks to collect the poll of money from the public to form a capital and invest it in productive use. After independence the Government of India regulated all the financial
institutions and banks to collect savings from public by establishing branches of National Banks in rural and urban areas. The creations of adequate banking and financial institutions to mobilize the savings of the public increased the volume of domestic savings that would have been drained to industrial investment. The Government of India realized the importance of domestic savings, (which includes household savings, private and public sector savings) as a major part of investment for economic development and other part by inflow capital from abroad. Table 3.4 presents the Gross Domestic Savings (GDS) and detailed data on financial and physical savings by household sector for the Indian economy from 1950-51 to 2001-02 at market prices are given below.

### Table 3.4

**Break-up of Household Sector Savings (Rs. In crores)**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Year</th>
<th>Financial savings in assets</th>
<th>Physical saving in assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1950-51</td>
<td>62 (0.6)</td>
<td>550 (5.5)</td>
<td>612 (6.2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(11.3)</td>
<td>(88.7)</td>
<td>(100)</td>
</tr>
<tr>
<td>2.</td>
<td>1960-61</td>
<td>456 (2.7)</td>
<td>798 (4.6)</td>
<td>1254(7.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. 1995-96 105719 (8.9) 110421(9.2) 216140 (18.1)

7. 2000-01 217841(11.2) (48.0) 235800(12.4) (52.8) 453641 (23.4) (100)

**Note:** Figure in brackets is % of GDP at market price.

**Source:** EPW. Research Foundation (2002) op cit and CSO National Accounts statistics, India (2003)

The household savings include financial and physical savings. Financial savings include bank deposit shares and debentures, life insurance, provident and premium funds and the like. On the other hand physical savings include construction of houses and equipment in possessing households. The Financial savings in assets and physical savings in assets were less in the year 1950-51 with Rs.52 crores and Rs.550 crores respectively. The trends changed the savings and increased to Rs. 217841 and Rs. 235800 in financial and physical savings in assets respectively in the year 2000-01.

**3.11.7 Infrastructure – A base for Industrial Development**

The development of the industrial production depends on the infrastructure facilities of the country. Infrastructure provides basic facilities for manufacturing, marketing of industrial and agricultural products. Infrastructure facilities include power, machinery,
equipments, skilled manpower, management energy, banking and insurance facilities, communication facilities, research and development activities and the like.

After independence India had various issues relating to industrial development on one side and poverty on another side. There was no prescribed industrial policy for the economy and India did not have sufficient technology to develop large scale as well as technological oriented industries. The other issues like government policy towards foreign participation in technology oriented industrial initiatives, determination of role of public and private sector in industrial development, relative emphasis on consumer goods and capital goods, location of industries, licensing policy, rules and regulation to control industrial activities, role of large and small scale industries, capital investment and investment formulation and the like.

3.11.7 Industrial Policy Revolution, 1948

India declared its nature of economy as a mixed economy, as highlighted in the industrial policy revolution of April 1948. In that public sector would play an effective and dominant role in the future economic development of India. Particularly the significant role of the public sector was to promote and establish heavy and basic industries, which is necessary to develop other industries. Jawaharlal Nehru, the first prime minister of India stated “if we are to industrialize, it is of
primary importance that we must have the heavy industries which build machines”. 91 Again “There are some who argue that we must not go in for heavy industry but for lighter ones, of course, we have to have light industries also but it is not possible to industrialize the nation rapidly without concentrating on the basic industries which produce industrial machines which are utilized in industrial development”. 92

In the industrial development certain crucial sectors are reserved for the government initiatives, which include manufacture of arms and ammunition, production and control of atomic energy, ownership and management of railways. In addition, six basic industries were to be developed by the government which is mainly iron and steel, coal, aircraft manufacture, ship building, mineral oils, manufacture of telephone, telegraph and wireless apparatus.

The government recognized the importance of foreign capital as well as technology and knowledge to rapid industrialization of Indian economy and it was very clear that “as a rule, the major interest in ownership, and effective control, should always be in Indian hands.” 93


The mixed economy in which, the co-existence of both the private enterprises and the public enterprises is possible.

3.11.8 Industrial Policy Revolution 1956

The second industrial policy was adopted in April 1956 on the eve of launching of the Second Five Year Plan (1956-61). India achieved significant development since the adoption of the first industrial policy. Important provision were made based on the first industrial policy which includes,

i. Classification of Industries

The historic important features of the second industrial policy revolution were, industries were defined very sharply and classified in broader coverage. The industries were classified into three categories. In the first category (Schedule A Industries) included 17 industries which included arms and ammunition, atomic energy, iron and steel, heavy electrical, coal, mineral oils, airport, railways and generation and distribution of electricity.

These industries were reserved and developed as central government monopolies. The second categories (Schedule B industries) included 12 industries like aluminium, machine tools, fertilizers, road transport and sea transport. The state will increasingly establish new undertaking in these industries. At the same time, private sectors also
have the opportunity to develop in this field, either unit of its own or with state participation.

All the remaining industries will fall in the third category (Schedule C industries) and their future development and initiatives would be left to private sector enterprises and also open to state, to start any industry even in this category also. But it will be the policy of the state to facilitate and encourage the development of these industries in the private sector in accordance with the programme formulated in the five year plans and by ensuring the development of transport, power and other services. In suitable cases, the state may grant financial assistance to the private sector.

ii. Encouragement to Small Scale Industries

The Government of India recognized the importance of the SSI in the development of national economy as well as in the view of employment opportunities and equitable distribution of national income. The State would support the SSI by following the policy of restricting the volume of production in the large scale industries and by different financial policies like different taxation or by subsidiaries. The state has given measures to improve the competitive strength of the SSI producer. The State also established industrial estates and rural community workshops to facilitate the technical and the financial
assistance, suitable working accommodation, facilities for repair and maintenance.

**iii. Ensure Balanced Industrial Development**

In order to benefit the nation as a whole, the second industrial policy had given more importance to regional, balanced industrial growth. The lack of availability of raw materials, transport, water, power supply and other resources were the reasons for the concentration of industries in certain areas. In order to ensure the balanced growth of industrial development, the government had given more incentives to those industrial establishments in backward areas. These steps were progressively reduced the indifference in regional development of industries.

**iv. Labour Welfare and Foreign Capital**

The industrial policy of 1956 ensured that proper amenities and incentives should be provided for workers engaged in industrial activities. To ensure the industrial relation, the government enacted the law governing industrial relation and a broad common approach has developed with growing recognition of the obligations of management and labour. The 1956 revolution stressed the need to improve the working conditions of the labour.

The role of foreign capital and enterprise was recognized by the government particularly as regards the industrial technique and
knowledge to the faster pace of industrialization of the Indian economy. The policy made it clear “that as a rule, the major interest in ownership, and effective control, should always be in Indian hands. In all cases, however the training of suitable Indian personal for the purpose of eventually replacing exports will be insisted upon.”

3.11.7 Industrial Policy 1977

The Janatha Party’s government announced its industrial policy of 1977 by way of statement in the parliament. The new policy was a mere extension of the industrial policy of 1956, with the removal of certain distortion. But on the other hand, the Janatha Party’s industrial policy had given special stress on the promotion of cottage and small scale industries in both urban and rural areas of the nation. The following are the important features of the industrial policy of 1977.

a. New Classification of Small Scale Sectors

The Janatha government gave more importance to small scale and cottage industries and effective promotional strategies had been taken to disperse these in the rural area and small towns. The previous policies emphasized the large industries and neglected the small and

cotton industries. The small sectors were further classified into three categories as follows:

a. Cottage household industries which provide self employment on a wide scale in rural areas and small towns,

b. Tiny sectors incorporating investment in industrial units in machinery and equipment up to Rs.1 lakh and situated in towns with a population of less than 50,000,

c. Small scale industries comprising industrial units with an investment up to Rs 10 lakh and in case of ancillaries with an investment in fixed capital up to Rs. 15 lakh. The main thrust of the policy was to simultaneously develop all the three categories mentioned above. The government expanded the list of reservation for small scale industries. It increased to 807 items by May 1978, against 180 items of earlier.

The policy of 1977, proposed to set up District Industrial Centre (DIC) in each district to serve as an agency to provide support for the development of small scale and cottage industries and enterprises. A separate division of the IDBI would exclusively deal with the credit requirements of these industries. It proved to set up the Khadi and Village Industries Commission to enlarge its area of operation and the government gave special place and preferences to increase the productivity and earnings of Khadi spinners and weavers.
The role of public sector would be used effectively for maintaining essential supplies for the consumer behind the manufacturing of strategic goods of basic nature. It is responsible for the development of ancillary industries and contributing to the growth of small scale industries by making available its expertise in technology and management. In order to promote technological self reliance, the Janatha government recognized the necessity for continued inflow of technology in high priority areas where Indian skills and technology were not adequately developed.

b. Foreign Investment and Collaboration

The policy itself stated “As a rule, majority interest in investment and effective control should be in Indian hands though the government may make exceptions in highly export oriented and or sophisticated technological areas. In hundred percent export oriented cases, the government may consider even a fully owned foreign company. Foreign investment technology would be allowed in India’s industry only on conditions determined by the Government of India to be in the national interest. The government will allow the Indian entrepreneurs to set up joint venture abroad in the form of machinery and equipment structure, technical knowhow and management expertise”.

163
The policy approached the sick units in such a way to pump large amount of public finance into the sick units which have been taken over. The large number of side units especially in the textile sector, were nationalized from time to time during this period. Over all, the policy was directed towards the removal of the distortion in the existing industrial policy.

3.11.9 Industrial Policy 1980

In July 1980, the Congress (I) government announced its industrial policy. The policy was framed in such a way facilitating an increase in the industrial production through optimum utilization of installed capacity and expansion of industries. In order to ensure the large employment, regional balanced industrialization, increased per capita income, the policy was defined to benefit the industrial on the one hand and benefit the nation as a whole. On the other hand, the policy was framed to provide basic infrastructure facilities like energy, transport and coal to accelerate the industrial output. Basically, India is an agricultural country. The policy of 1980 had given preferential treatment to Agri-based industries. Economic federation was promoted through inter-sectoral relationship among large, medium and small industries. It also balanced the development of both the rural and the urban consumer production against price and quality of goods.

a. Export Oriented Industry
The policy had given more preference to export oriented units to increase their earnings, but again the public sector enterprises were placed in superior position in the country’s economic system. The government offered special facilities for export oriented industries like liberal import of technology and know-how, creation of capacity large enough to make the unit competitive in the world markets. Duty free import of capital goods, raw material and other components and concession in respect of central excise and other central levies, exemptions were given from the provision of MRTP Act for export oriented units and location policies were relaxed to export oriented units.

b. Infrastructure

In order to prevent the non availability of infrastructure for industrial and economic development, the government has paid attention to increasing alternative sources of energy and delicensed the manufacture of equipment for exploitation of energy sources like biogas, geothermal energy, tidal power, wind power and sea power. The policy offers incentives to the industrial activities which will contribute to improve environment.

c. Provision to Small Scale Industry and Balanced Regional Development
To ensure the growth of small scale and cottage industries the policy of 1980 enhanced the investment limit for small scale units from Rs.10 lakhs to Rs.20 lakhs, for tiny units from Rs.1 lakh to Rs.25 lakhs and for ancillary units from Rs.15 lakhs to Rs.25 lakhs. The system of reservation of items for exclusive production by small scale units will continue in the future. The government would encourage dispersal of industrial setting up units in industrial backward areas. Village industries like khadi, handicrafts, handlooms and other village industries are to receive priority to achieve faster rate of growth in villages.

d. Role of Financial Institutions and Industrial Sickness

There are many industries where modernization is urgently required. In this consideration, financial institutions were asked to grant assistance to all such industries. But earlier, only industries like sugar, cement, cotton textiles, jute and engineering goods industries availed such financial assistance. The policy has given special attention to industrial sickness. For this, it proposes a warning system to find out systems of sickness and to initiate timely remedial action. Additional financial incentives will be offered to sick units merging with healthy units and tax benefits would be made for such process. However, takeover of sick units by the government will be made only as a last resort.
e. Automatic growth

Another important concession to the large scale sector can expand 5 percent per year or 25 percent in a five year period. This concession would help to large scale units and private sector to utilize their full production capacity and relaxed from licensing restrictions. On account of these reasons H.K. Paranjape pointed out “that the 1980 policy statement does not perfectly fit in the framework of the 1956 resolutions.”

3.11.10 Industrial Policy Development after 1980

In January 1986, the government delicensed 23 industries from MRTP and FERA companies, and provided those industrial undertaking located in any of the centrally declared backward areas. The limit of exemption from licensing was raised from Rs.3 crores in 1978 to Rs.5 crores in 1983 and then to a whopping Rs.15 crores for projects located in non-backward areas and Rs 50 crores in backward areas in 1988-1989 under certain conditions to encourage productions and to provide flexibility to the manufacturers to adjust their product mix depending on the market demands. The government delicensed 28 broad categories of such industries and 82 bulk drug companies and their formulations. For these industries no licence had to be obtained.

under the Industries (Development and Regulation) Act. Only registration with the secretariat for industrial approval was required.

Besides the asset limit for companies under the MRTP Act was raised from Rs.20 crores to Rs.100 crores as a result, 112 companies came out of the purview of the MRTP Act. The government also announced its decision to exempt 49 industries from the section 22A of the MRTP and FERA Act. In March 1985 the investment limit for small scale and ancillary units were further enhanced to Rs.35 lakhs from Rs.20 lakhs for small scale units and to Rs.45 lakhs from Rs.25 lakhs for ancillary units. And further in April 1991 the investment limit for small scale units raised to Rs.60 lakhs and for ancillary units to Rs.75 lakh. In February 1997, the limit for small scale units and ancillary units was raised to Rs.3 crores and tiny units was raised from Rs.5 lakh to Rs.25 lakh and in 1999 the investment limit for small scale industry was reduced to Rs.1 crore.

Non MRTP and Non FERA companies would not be required to obtain industrial licences under the IDRA for project involving investment in fixed assets up to Rs.50 crores, if they were located in centrally declared backward areas and up to Rs.15 crores for non-backward areas. The number of industries requiring compulsory licensing was reduced from 56 to 26. The government had given income tax relaxation by way of deduction of 20% of profit which will
be available for a period of 10 years. Further, new undertakings are entitled to an income tax relief by way of deduction of 25% of profit for a period of 8 years. The benefits of both of these were made available cumulatively to industrial undertaking established in notified backward districts.

3.11.11 Industrial Policy – 1990

On 31 May 1990, V.P. Singh government announced its new industrial policy through the union minister, Shri. Ajit Singh. It was only of historical importance since the policy guidelines were not translated into action since the government was out of power after a few months. But the policy’s objective was employment generation, dispersal of industry in rural areas and to expand the contribution of small scale industries to exports. The policy reserved nearly 836 items of manufacture exclusively for small scale sector and efforts would be made to identify more such items. The large number of registration and requirements of act or laws and procedure were to simplified. Central investment subsidy would be given to small scale sector in rural and backward areas being capable of generating employment.

With the view of modernization and upgradation of technology, a number of technology centers, tool rooms, product and process development centers, testing centre and the like would be set up under the umbrella of an apex technology development centers in the Small
Industries Development Organization (SIDO). SIDBI (Small Industries Development Bank of India) has already been established to provide adequate and timely flow of credit to the SSI and insisted to channelize need based high flow of credit by way of loan and working capital to the tiny and rural industries. In order to ensure the fast growth of small scale and tiny industries an exercise will be taken to identify location in rural area and endowed adequate infrastructure facilities. A special cell would be established in the SIDO and the SDI (State Directorate of Industries) to assist and train the women and youth under Entrepreneurial Development Programme (EDP). Agro processing industries, greater success has been achieved where growers and processors have been integrated as in the case of sugar industries. By delicensing policy for the new units upto an investment of Rs.25 crores in fixed assets in non-backward areas and Rs.75 crores in backward areas coming under this, 100% Export Oriented Units (EOU) and unit setup in Economic Processing Zone (EPZ) are also been delicensed. In order to attract more Foreign Investment and technology, investment up to 40% of equity will be allowed on automatic basis. The locating policy also liberalized.

3.11.12 Industrial Policy of 1991
In 1990-91 India faced a critical foreign exchange crises and it went to the International Monetary Fund (IMF) and the World Bank asking for financial assistance for the structural adjustment in India. The IMF agreed to extend loan to India with the usual condition that India would make major changes to liberalize trade and investment. India had few options but to agree to the demands of the IMF as this was also the line of argument of the US and agreement under GATT Uruguay Round. With the above background, the Industrial licensing Policy 1991, the watershed of Liberalization processes in India came into force. Under this policy, the industrial licensing was abolished except for 18 industries. The FDI was raised up to 51 percent and it was allowed in 34 high-priority industries. The Government of India under the leadership of P.V.Narasimha Rao came out with new economic policy due to adverse balance of payment position. It was to adopt vigorous policy for rapid industrial growth of the country. There was a need to create positive environment for the inflow of foreign capital, foreign technology and improvement of the public sector management. Accordingly, the Union Industries Minister Sri P.J.Kurien announced the New Industrial Policy Statement on 24th July 1991. The main objectives of the New Industrial Policy was to introduce liberalization of Indian economy with a view to integrate with the world economy, to remove restriction on the Direct Foreign Investment, to liberalize the
domestic entrepreneurs from the restriction of the MRTP Act, regulate the role of public sector, which have shown a very low rate of return or incurring losses over the years. In pursuit the above objectives, the Government of India has decided to take serious initiatives in respect of the policies relating to the following areas.

i. Industrial Licensing

ii. Foreign Investment

iii. Foreign Technology Agreement

iv. Public Sector Policy

v. MRTP Act.

Packages for small and tiny sectors of industry being were announced separately.

**a. Industrial Licensing Policy**

Industrial Licensing is governed by Industries (Development and Regulation) Act 1951. The industrial policy resolution of 1956 identified the categories of industries that would be exclusively reserved for public sector which includes a) Arms and Amenities and Allied items of Defence Equipments, Aircraft and Warships b) Atomic Energy c) Coal and Lignite d) Mineral and Oils e) Mining of Iron Ore, Manganese Ore, and Chrome Ore, Gypsum, Sulphate, Gold and Diamonds. f) Mining of Copper, lead, Zinc, Tin, Molybdenum and Wolfram g) Minerals specified in the scheduled to the atomic energy
(control of production and use) order 1953 h) Railway transport. “The number of industries reserved for the public sector since 1956 was 17 and this has been reduced to 4.”

The Government had taken serious steps to protect existing public enterprises in low technology, small scale and non-strategic area as also when there is low social consideration or public purpose. Sick units will be referred to the board for industrial and financial reconstruction for rehabilitation and reconstruction. The Government has announced disinvestment policy to offer some part of its shares from public sectors to private.

3.12 Industrial Development under Plan Period

The Government of India appointed a planning commission towards the national development in 1950. Hence Industrial development in India was accounting for only 6.6% of the total national income and only about 2.4 million (1.8% of working population) were engaged in industry during 1948-49. These data were very low in respect to industrial output, per capita income compared to that of the other advanced countries. The broad functions of the planning commission are: assessment of material, capital, human resource, determination of priorities and allocation of various resources for

15. The 1991 policy had originally reserved 8 industries for the public sector but the government later de reserved 4 of them.
completing each stage of the plan and making recommendations on current development policies.

According to the guidelines provided by the National Development Council (which consists of the Prime Minister as chairman, Central cabinet ministers, Chief Ministers of the states and the members of the planning commission), the planning commission prepared the blue prints of the economic plans in consultation with the states. The objectives of the economic planning in India have been stated in various plan documents. In broad the objectives include rapid economic growth that is increase in real per capita income, removal of poverty and unemployment, reduction of inequalities, self reliance, regional balanced development, employment generation and the like. But the government has been giving continuous importance and guidance to improve the industrial performance throughout the five year plans.

3.12.1 Industrial Development under First Five Year plan (April 1951 –March 1956)

The first five year plan started on 1st April 1951. The government gave priority to agricultural development since at the time of first five year plan India faced three major problems viz., influx of refugees severe food shortage and mounting inflation. The government found that only the rapid agricultural development would be the way to
overcome those problems. But at the same time, the plan emphasized to set up basic industries which would provide power and irrigation potentialities. The central government had special responsibilities for establishing defence industries so as to safeguard and develop the defence potential of the country. In general, the government proposed to give some priorities in the industrial sector which includes fuller utilization of existing capacity in producer goods industries (Jute, Plywood, Cotton textile, Sugar, Leather, Soap, Vanaspathi, Paints, Varnishes and the like). Up to 1951, the emphasis for industrial development in India was more on consumer goods than on producer goods industries, but the plan emphasized on the expansion of capacity in capital goods producer industries (Iron and Steel, Aluminium, Cement, Fertilizers, Heavy chemicals, Machine tools and the like), establishment of new plants which would strengthen industrial structure by rectifying the existing drawbacks. During this period the total amount invested was Rs.800 crores. Actual public sector outlay was only about Rs.57 crores and on new project replacement and moderation only Rs.340 crores were actually spent. The general index of the industrial production recorded an increase of 39% during the plan and a compound annual growth rate of 7 percent.
3.12.2 Industrial Development under Second Five Year Plan (April 1956 – 61)

The second plan accorded high priority to rapid industrialization based on the Industrial Policy resolution of 1956 in which the expenditure exclusively on industry and mineral was hiked to Rs. 938 crores (20.1% of total expenditure of Rs. 4672 crores) against Rs 55 crores (2.8 % of total expenditure of Rs.1960 crores) in the first five year plan. The second plan aimed at rapid Industrialization with particular emphasis on the development of basic and heavy industries which included Iron and steel, Chemicals, Heavy engineering and Machine building industries.

Accordingly, three steel plants were setup in the public sector at Bhilai, Rourkela and Durgapur with one million tonnes capacity each. Besides, the expansion and modernization was undertaken by the private sector. During this plan the priority was given to

a. Increased production of heavy industries including Iron and Steel, Chemicals, Heavy engineering and Machine building industries.

b. Expansion of capacity in respect of other developmental commodities and producer’s goods (includes Aluminium, Cement, Chemicals, Pulp, Dye-stuffs and Phosphoric fertilizers and Essential drugs).
c. Fuller utilization of existing installed capacity in industries, modernization of existing important National industries such as Jute, cotton, Textile and Sugar.

The plan also emphasized conservation of existing resources and maximum utilization of ideal capacity and recognized the need for expansion of capacity of several large scale industries to enlarge the employment opportunities. Table 3.5 illustrates the estimated investment in producer goods industries, capital goods and consumer goods.

**Table 3.5**

**Breakup of Anticipated Investment in the Large Scale Industries during Second Five Year Plan (Rs. In Crores)**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Industry</th>
<th>Public Sector including new investment of NIDC</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Producer goods</td>
<td>463</td>
<td>296</td>
<td>759</td>
</tr>
<tr>
<td>2.</td>
<td>Capital goods</td>
<td>84</td>
<td>72</td>
<td>156</td>
</tr>
<tr>
<td>3.</td>
<td>Consumer goods</td>
<td>12</td>
<td>167</td>
<td>176</td>
</tr>
<tr>
<td>4.</td>
<td>Total</td>
<td>559</td>
<td>535</td>
<td>1094</td>
</tr>
</tbody>
</table>


Table 3.5 clearly reveals that the producer goods sector received largest amount of investment amounting to Rs.759 crores which
includes both private and public sectors. The Planning Commission had
given priority to producer goods followed by capital goods and
consumer goods with a total outlay of Rs.156 crores, and Rs.176 crores
respectively.

Table 3.6 gives the breakup of overall investment in organized industries as against the forecasted during the second plan.

**Table 3.6**

**Breakup of Investment in Second Plan (Rs. In crores)**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Industries</th>
<th>Forecast under second plan</th>
<th>Current assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Metallurgical industries (Iron and steel, Aluminium and Ferro Manganese)</td>
<td>502.5</td>
<td>770.0</td>
</tr>
<tr>
<td>2.</td>
<td>Engineering industries (Heavy and light)</td>
<td>150.0</td>
<td>175.0</td>
</tr>
<tr>
<td>3.</td>
<td>Chemical industries</td>
<td>132.0</td>
<td>140.0</td>
</tr>
<tr>
<td>4.</td>
<td>Cement, Electric, Porcelain and refractory</td>
<td>93.0</td>
<td>60.0</td>
</tr>
<tr>
<td>5.</td>
<td>Petroleum refining</td>
<td>10.0</td>
<td>30.0</td>
</tr>
<tr>
<td>6.</td>
<td>Paper News print and Security paper</td>
<td>54.0</td>
<td>40.0</td>
</tr>
<tr>
<td>7.</td>
<td>Sugar</td>
<td>51.0</td>
<td>56.0</td>
</tr>
<tr>
<td>8.</td>
<td>Cotton, Jute, Woolen, Silk yarn and Cloth</td>
<td>36.3</td>
<td>50.0</td>
</tr>
<tr>
<td>9.</td>
<td>Yarn and Staple fiber</td>
<td>24.0</td>
<td>34.0</td>
</tr>
<tr>
<td>10.</td>
<td>Others</td>
<td>41.5</td>
<td>115.0</td>
</tr>
<tr>
<td>11.</td>
<td>Replacement and modernization</td>
<td>150.0</td>
<td>156.0</td>
</tr>
<tr>
<td>12.</td>
<td>Total</td>
<td><strong>12443</strong></td>
<td><strong>1620.0</strong></td>
</tr>
</tbody>
</table>
It is inferred from Table 3.6 that, during the second five year plan, Metallurgical industries (Iron and steel, Aluminium and Ferro Manganese) sector received highest priority for investment followed by Engineering industries (Heavy and light) sectors and chemical sector. Cotton, Jute, Woolen, Silk yarn and Cloth and Yarn and Staple fiber sector received less investment during the plan period. Though the inflation continued the industrial development, still operating under various constraints increased from 13.6% in 1973-74 to 14.8% in 1974-75. Agriculture, irrigation, power, coal, oil and fertilizers continued to receive priority. The national income is estimated to have increased by 6 to 6.5% during 1975-76 and industrial output and agriculture production by 5.77 and 10% respectively. The balance of trade continued to during 1975-76 and trade gap was a high as Rs. 1216 crores. The country achieved instability of prices and growth in economy during 1975-76.

The annual plan for 1976-77 envisaged an outlay of Rs. 7852 crores. This was 31.4% more than the original plan allocation for 1975-76. In respect to industrial development, the plan gave priority to easy availability of essential raw material and inputs to the industrial activities. The high priority continued to critical sector including agriculture, energy and intermediates goods. A considerable measure of
price stability had been achieved. The national development council approved the revised fifth plan, on 24\textsuperscript{th} September 1976, with a total outlay of Rs. 69303 crores, as against the draft plan provision of Rs.53250 crores. The revised plan was based on the objectives of self reliance and removal of poverty with overall estimated economic strength of 4.3\% p.a. Out of the total outlay, Rs.16, 660 crores had been proposed for industries and minerals. Table 3.7 gives the breakup of the central investment in the important group of industries in the Public sector during the fifth plan.

**Table 3.7**

**Central Investment in Public sector industry**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Industry</th>
<th>Outlay (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Steel</td>
<td>1675</td>
</tr>
<tr>
<td>2.</td>
<td>Fertilizer</td>
<td>1533</td>
</tr>
<tr>
<td>3.</td>
<td>Coal (including lignite)</td>
<td>1147</td>
</tr>
<tr>
<td>4.</td>
<td>Oil exploration, refining and distribution</td>
<td>1575</td>
</tr>
<tr>
<td>5.</td>
<td>Petrochemicals</td>
<td>349</td>
</tr>
<tr>
<td>6.</td>
<td>Machinery and engineering industries</td>
<td>365</td>
</tr>
<tr>
<td>7.</td>
<td>Non ferrous metals</td>
<td>468</td>
</tr>
<tr>
<td>8.</td>
<td>Iron- (including kudremukh project)</td>
<td>513</td>
</tr>
<tr>
<td>9.</td>
<td>Paper and Newsprint</td>
<td>203</td>
</tr>
<tr>
<td>10.</td>
<td>Cement</td>
<td>102</td>
</tr>
<tr>
<td>11.</td>
<td>Textiles</td>
<td>104</td>
</tr>
<tr>
<td>12.</td>
<td>Ship building</td>
<td>147</td>
</tr>
</tbody>
</table>
Table 3.7 reveals that, during the fifth five year plan period the central government allotted large amount of funds for Steel industry amounting to Rs.1675 crores in order to increase the industrial goods followed by Oil exploration, refining and distribution which is the basic input for industrial development with the central outlay of Rs.1575 crores and the Fertilizer sector got third place with the outlay of Rs.1533 crores. The Cement industry received a less outlay of investment during the plan period with Rs.102 crores in the listed sectors.

3.12.3 Sixth Five Year Plan (1980-85)

The draft of the sixth five year plan (1980-85) envisaged with a proposed total plan outlay of Rs 1,58,710 which included private sector outlay of Rs.61210 crores (i.e., 38.6% of total outlay) and Rs.97500 crores (i.e., 61.4%) of public sector. But the actual total outlay was Rs.1,09,290 crores. The plan emphasized on optimum utilization of existing capacities and improvement of productivity increase in the manufacturing capacity, special attention to the capital goods industry and electronics industry, improvement in energy efficiency, dispersal of industry in rural area and other backward districts. Out of the total expenditure of Rs.1,09,292 crores under the sixth plan, the share total of the industrial sector was Rs.16,950 crores (16% of total actual expenditure).
During this period, the government widely changed its industrial policy and substantially liberalized trade policies also. Hence, industrial production started growing up and on the other hand import intensive sector like consumer durables, the group of chemicals, petro-chemicals and allied industries distributed substantially. Due to liberalization policy, large investments were made in building strong industrial background. As a result, the industrial output increased substantially. The industrial structure has been diversified covering consumer, intermediate capital goods. The speedy utilization of existing capacity and corresponding growth in technological and managerial skills, in the county reached self-sufficiency stage in majority of the manufactured goods. The country gave adequate attention towards developing industrial regions.

In order to attain optimum utilization of existing instable capacity and increase the productivity, the plan formulated strategies, which included,

a. Substantial increase of manufacturing capacity in various industries including private as well as public sector goods to support agricultural and industrial growth through supply of intermediate and capital goods.
b. The plan provided special attention to capital goods industry in general and electronic industry in particular for the support of the growth of a wide range of economic activities.

c. To develop backward rural region, new strategies will need to be devised including the studying of the recommendation of the National Committee on Development of Backward areas in detail.

d. The plan has taken significant measures to improve the energy efficiency and efforts are to be enunciated to adjust the energy consumption partners in the industrial sector to domestic energy requirements.

e. The policies review the existing policy and procedure in respect to import of technology and also development of indigenous technology in order to attain technological excellence.

f. The sixth five year plan has given significant support to export of engineering goods and industrial products to increase the availability of foreign exchange resources.

g. The public sector has been assigned the unique role to establish basic industries to support these industrial developments of the country. It has taken initiative to develop industries like steel, non-ferrous metals, petroleum, coal, fertilizers and heavy engineering and the like besides it has made investment in consumer industries like textiles, drugs, pharmaceuticals, cement and sugar.
h. Many incentive schemes have been announced to attract industries to backward region.

The rate of industrial growth was about 8% during the initial period of 14 years. There was a fluctuating trend in the industrial growth rate, reaching near stagnancy in Rs. 1.966 crores moving to a level of 9.5% in 1976-77 and slumping to 1.4% in 1979-80. The sixth plan recorded an average growth rate of 5%. A National Rural Employment Programme will be taken to attain the major goals like development of small project and promotion of employment of the educated but unemployed. The plan proposed vigorous implementation of various schemes to generate self employment in rural areas and to assist agricultural labourers, share - croppers marginal and small formers and rural artisans.

The sixth five year plan simplified the procedure and systematic identification of appropriate investment projects and excellent credits through cooperation and commercial banks. Considering the importance of transport infrastructure for the development of country in general and industrial sector in particular, the plan provides provisional arrangement of facilities for the passengers and freight demands at a minimum resource cost.
The Sixth Five Year Plan prepared strategies to develop difficult industries which includes,

a. In respect to further development of the iron and steel industry, the sixth plan formulated the strategy like removal of particular constraints including import of coking coal; to cater to the main operating needs of steel plants to yield high productivity, the plan accelerated the research and development programmes. The plan proposed to meet the demand projections of 12.9 million tonnes by 1984-85 and of 18.4 million tonnes by 1989-90. The plan had given significant stress to modernization of plans to increase the productivity of the iron and steel industry.

b. Engineering industry plays a significant role in our country to develop the industrial activities. In the light of increasing considerable volume of foreign exchange resources, the engineering goods industry is a major element in non-traditional exports and emphasis was given to increase the quality of these products. The plan liberalized the procedure and policy towards import of technology to improve the quality of domestic engineering goods industry with a view of internationalization of these industries. The plan laid provisions to improve the quality, expansion of capacities, modernization of existing unit, improving the performance of sick units and the like. Provision had also been
incorporated for completion of all foreign schemes in the ship building sector including Cochin and Hindustan shipyards.

c. The plan had given significant provision for the development of electronic industry with the aim of completing the existing schemes and expansion of capacity to meet the energy needs of economy. The plan provided the strategy to technological upgradation and standardization of components and equipments.

d. In order to accelerate the growth of agricultural industry, the plan made provision for the improvement in the domestic supply of fertilizer both Nitrogenous and Phosphate. Due to that, the production of Nitrogenous fertilizer rose to 38.9 lakh tonnes from 85,000 tonnes in 1955-56. The Phosphate fertilizer rose to 12.30 lakh tonnes in 1979-80 against 64,000 tonnes in 1955-56. To meet the estimated requirements, the plan proposed to initiate to take up the construction of 8 new Nitrogenous fertilizer projects, 6 of them based on the gas from Bombay high or South bases. These plans are expected to be each of 1,350 tonnes per day Ammonia capacity with the matching capacities. The plan also proposed to improve the operational efficiency of existing units including speedy modernization and renovation programmes.

e. In order to accelerate the growth of textile, the Government policy gave encouragement to the maximum possible extent. Provisions
had been made for Rs. 690 crores, to rehabilitate and modernize the units under the national textile corporation. The sixth plan estimated the overall requirement of textile at 13,300 million meters including 1,400 million meters in 1984-85. Regarding Jute textile industry to achieve targeted figure of 1.5 million tonnes of Jute manufacture for 1984-85 including requirements for export estimated at 0.55 million tonnes, additional capacity would be created. In addition, two new Jute mills were proposed in Tripura and Orissa to achieve projected targets and priority had been given to the unit set up by cooperative or public sector and the units were established in North Eastern region. This plan had an outlay of 5.60 crores to modernize and rehabilitate the six Jute units controlled by the National Jute manufactures corporations.

f. The plan projected the demand for paper and paper based industries to 1.54 million tonnes for 1984-85, against the capacity and production targets of 2.05 million tonnes and 1.5 million tonnes. The preference would be given to set up new paper mills based on the forest resource in the North Eastern region and small size paper mills based on secondary raw materials and setting up of three large units in the public sector. The plan achieved the production figure of news print of 0.18 million tonnes against the targeted demand of 0.5 million tonnes of the year 1984-85. Significant
importance had been given to the ongoing programmes for the paper and newsprint industry in the public sector.

g. The sixth plan initiated the steps to remove the infrastructural constraint for the development of cement industry. As a result the expected cement production capacity increased from 24.3 million tonnes in 1979-80 to 43 million tonnes in 1984-85. As well as preference was given to the establishment of large size 1 million tonnes capacity units. More than 8 plants of 1 million tonnes capacity were expected to function during this plan. The plan provided an outlay of Rs.300 crores for the cement corporation of India to set up three new 1 million tonnes capacity cement plants at Tandum, Neemuch, and Yerraguntla. On the other hand, SAIL was also setting up a two million tonnes slag cement capacity at Chilhati using Rourkela and Bhilai slag.

h. In sugar industry, India is the world largest producer of sugarcane. The country has considerable potential for the development of this industry to meet both the domestic demands and the exports. The government formulated and announced new policy on sugar in July 19, 1984, in which top priority was given to cooperative and public sector sugar units, and also, proper development of assistance to sick units to modernize and rehabilitate. The domestic requirement of sugar is estimated at 6.64 million tonnes for 1984-85.
i. In respect to village and small scale industries, the plan proposes various programmes for the development of these industries which include improving the level of production and earning of artisans, establishment of a broad entrepreneur base through proper training and incentives, creation of viable structure of village and small industries, measures for improving their exports, strengthening the institutional finance, easing the marketing problem and the like. The plan estimated that the employment will be increased from 23.58 million persons in 1979-80 to 32.60 million persons in 1984-85. The plan projected the output at Rs.15,725 crores in 1984-85 and the estimated exports in the same year would be Rs.13,685 crores. Table 3.8 shows the outlays of central sector in selected industries during sixth plan period.

| Table 3.8 |
OutLays of Central Sector in Selected Industries during the VI\textsuperscript{th} Plan Period.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Industries</th>
<th>Rs in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Steel</td>
<td>3,613</td>
</tr>
<tr>
<td>2.</td>
<td>Petroleum</td>
<td>4,300</td>
</tr>
<tr>
<td>3.</td>
<td>Coal</td>
<td>2,870</td>
</tr>
<tr>
<td>4.</td>
<td>Fertilizer</td>
<td>2,367</td>
</tr>
<tr>
<td>5.</td>
<td>Heavy engineering</td>
<td>704</td>
</tr>
<tr>
<td>6.</td>
<td>Iron ore</td>
<td>123</td>
</tr>
<tr>
<td>7.</td>
<td>Non-Ferrous metals</td>
<td>1,262</td>
</tr>
<tr>
<td>8.</td>
<td>Petrochemicals</td>
<td>962</td>
</tr>
<tr>
<td>9.</td>
<td>Paper and Newsprint</td>
<td>340</td>
</tr>
<tr>
<td>10.</td>
<td>Cement</td>
<td>421</td>
</tr>
<tr>
<td>11.</td>
<td>Drugs and Pharmaceuticals</td>
<td>145</td>
</tr>
<tr>
<td>12.</td>
<td>Textiles</td>
<td>102</td>
</tr>
<tr>
<td>13.</td>
<td>Electronics</td>
<td>165</td>
</tr>
</tbody>
</table>


It is clear from Table. 3.8 that, the maximum amount of outlay of Rs.4,300 crores to Petroleum industry followed by Steel industry with Rs.3,613 crores. The Textile industry received less amount of total
outlay Rs.104 crores during the sixth plan period. The average growth rate of Sixth plan was only about 6% which was below the target due to the various constraints to industrial development like inadequate provision for infrastructure, technological obsolescence and less than optimum scale of productions. Besides many industries performed well and the production capacity also increased especially in key sector such as cement and fertilizer, power generation had increased from 28,400 million in 1979-80 to an estimated level of around 42,000 million in 1984-85.


The Seventh Five Year Plan (1985-1990) was introduced in April 1985 after successful attainment of reasonable growth rate during the sixth plan. The objectives for the industrial sector in the seventh plan were

i. To ensure the supply of industrial consumable goods and reasonable prices at acceptable quality.

ii. Emphasis had been given to maximum utilization of existing capacity in various industries through restructuring, improved productivity and up gradation of technology.

iii. To concentrate and development of industries with large domestic market and export potential to emerge as world leader in that.
iv. To concentrate and development of industries with high growth potential with relevance to our needs.

v. To evolve and integrate policy towards self-reliance in strategic fields and offering of employment for the skilled and trained people.

The overall outlay estimated in the seventh plan for industrial and mineral programmes in the public sector was Rs. 22,416 crores as against the actual expenditure which was Rs. 29,220 crores that is 13% of the total expenditure of Rs. 2,18,730 crores in the plan. Industrial production was estimated to grow at the rate of 8.7% p.a. besides the actual one which was at 8.5% p.a. They formulated strategies to achieve high agricultural growth, creation of employment, improvement in efficiency and quality of production and technological upgradation in industry, infrastructure, use of less capital intensive and more labor intensive techniques and shift in investment priorities towards mass consumption and measures to improve the quality of life was proposed.

The plan proposed re-examination of the mechanism for channelizing the flow of finance, policy of industrial location, the distribution of investments in irrigation and infrastructure to deal with the problem of regional disparities. The plan aimed at faster growth in exports and imports on necessary items. The plan emphasized on
increasing production of fertilizers, pesticides and other Agri based industries like pump sets, power tiller and the like and expansion and modernization of sugar, drugs, textile, paper and consumer durables. It also aimed to remove the constraints in the production of the key infrastructure or intermediate goods like steel, cement, coal, railway transport, communication and the like with careful planning and implementation.

The plan estimated the production of saleable steel for 1984-85 to be 11.5 million tonnes, but the actual production was only 8.8 million tonnes. The demand for finished steel was estimated at 13.86 million tonnes in 1989-90 and 17.76 tonnes by 1994-95 and this grew up to 22 million tonnes. Seventh plan had given special importance to engineering industry by facilitating the adaptation and absorption of new technologies. Due to this, the industry introduced variety of new products in the industrial and consumer market. Energy conservation would be encouraged, in order to bring automobile ancillary industry to international performance standard and to develop an internationally competent oil-field equipment industry. The plan made a special provision substantial expansion in manufacturing, research would be carried out in the light of commercial vehicles, two wheelers, automobile ancillaries and the like. Steps have been initiated to boost the exports of engineering goods, and the concept of thrust- industries
was introduced. Regarding textile the government introduced new textile policy on 6\textsuperscript{th} June 1985 in order to increase the production of cloth and its availability to the weaker section at reasonable prices. It also recommended increasing the performance and augmentation of export of all types of textiles including yarn. The plan projected the production for 1989-90 at 14,000 million meters.

Regarding Jute textile, the plan had the provision for research and development activities in this sector towards change in product-mix, diversification of product range, upgradation in quality of product, development of new products and reduction in cost and the like. The plan projected the demand for Jute goods at 16.25 lakhs tonnes which were to be consumed domestically and 2.70 lakh tonnes were to be exported. The Jute industry facing various constraints like decline in demand for carpet-backing cloth in the export market, high cost of input competition in the export market and competition from synthetic substitutes both in the export market and in the internal market.

In the newsprint industry, the plan projected a target of 1.80 lakh tonnes but the actual exceeded the target and recorded at 2 lakh tonnes in 1984-85. The total instable capacity of the paper and paper based industry in 1989-90 was reckoned at 27 lakh tonnes, and the demand was expected to increase from 14 lakh tonnes in 1984-85 to 18
lakh tonnes in 1989-90. The seventh plan had taken number of programmes during the period to remove the constraints like lack of availability of cellulosic raw material, power, goal and the like.

The performance of cement industry stood at 30 million tonnes in 1984-85. The production for the year 1989-90 was fixed at 49 million tonnes. This increase in performance of cement industry would depend upon the availability of power and coal. As the power cut was affecting cement production; the government planned to improve power generation. In sugar industry, the interest of sugarcane grower, manufacturers and consumer had been increased due to national pricing policy for sugarcane and sugar. The output of sugarcane was estimated to increase from 180 million tonnes in 1984-85 to 217 million in 1989-90. Sugar for consumption and exports was projected at 9.8 million by 1989-90. The capacity and production targets for sugar for 1989-90 were estimated at 10.7 million and 10.2 million respectively. In order to improve the performance of petrochemical, the seventh plan had followed the strategy which included (a) absorption / upgradation of the existing technologies and input of latest technology on selected basis. (b) Expansion in public /cooperative / private sector and marketing units economically viable and internationally competitive (c) New plan had been chosen. (d) Increase in the productivity of petrochemical units. The actual production of the bulk drugs and formulation
at the end of the sixth plan was of Rs.377 crores and Rs.1,837 crores respectively, but the requirement was expected by the end of 1989-90 to be at Rs. 1,033 crores and Rs.377 crores respectively.

Electronic industry has a tremendous potential for improving the standard of living and the quality of life of people and provides maximum employment per unit of investment. The industry has potential in educating our masses and agricultural productivity. It introduces new services which is a new dimension. The plan provided the strategy as well as direction like liberalization of licensing policy, growth to be influenced by fiscal motivation rather than by the control, high volume of production at the more economical and technological way, the expertise both Indian and foreign and others will be given an important role in the development of domestic industry, standardization and ensuring of quality and reliability. The target of Rs.10,860 crore worth of domestic electronic production was estimated for the year 1989-90. To promote development and production of electronic production, the plan estimated to establish the state electronic corporation and some of the states cooperation had achieved sizeable electronic turnover and had emerged a leading producer of quality electronic products. The output of the industry had increased from Rs.670 crores in1979-80 to Rs.2,090 crores in 1984-85. The major growth was in the field of consumer electronics and computer control
and investment. The plan had achieved impressive industrial performance due to significance improvement in the performance of the infrastructure like power, coal and the like. Change in the area of industrial licensing, import of technology, higher import of capital good, better utilization of instable capacities, allowing broad banding of product in a number of industries and liberalization methods are also initiated in many industries which include exempting 13 industries. The MRTP Act for entry of dominant industries, increase the assert limit for exemption to companies from MRTP Act. Exemption of industrial licensing was granted to the units with an investment of up to Rs. 50 crores in backward areas and Rs. 15 crores in other areas.

3.12.5 Industrial Development in Eighth Five year Plan (1992-97)

The Eighth Five year Plan was started after two financial year from the end of the seventh five year plan. This was due to instability in formation of the government at the centre. The planning commission approved the approach of the eighth plan under the Congress Government in September 1989. But with the installation of Janatha government, the commission was reconstituted with Mr. Ramakrishna Hegde as the deputy chairman. The new planning commission prepared a new document called “Approach to Eighth Five year Plan (1990-95)” and approved by the NDC (National Development Council) in June
1990. Subsequently, it again reconstituted the planning commission and drafted another plan in May 1991. With the fall of the Janatha government, the Congress-I government reconstituted the planning commission in June 1991 with Mr. Pranab Mukharjee as the deputy chairman. It was decided to start the eighth five year plan from 1992 and 1993 and the new document called the eighth five year plan 1992-97 was proposed and approved by the NDC in May 1992. This was totally implemented after the fourth version of the plan during 1992-97.

The growing fiscal gap and sudden depletion of foreign exchange reserves, drastic curbs on imports, high rate of inflation and recession in industry had slumped to low growth rate of 2.5% GDP in 1991-92 under the direction of the International Monetary Fund (IMF) and the World Bank. Dr. Manmohan Singh initiated fiscal and economic reform with a view to provide a new dimension to Indian Economy. The plan placed less emphasis on a quantitative target of industrial growth due to liberalization of industrial policy. It desired to achieve the growth in modification of industrial, trade, fiscal policies and changes in duties and taxes change the approach in quantitative restriction on import or export or licensing mechanism of different sectors. The plan proposed a major public sector reform initiation and strategies (to improve the efficiency of public sector units and make them competitive) which included restructuring, involving
i. Modernization, rationalization of capacity, product mix changes, selective exit and privatization on massive scale.

ii. Increase in autonomy and performance accountability of public enterprise.

iii. Changes in management practice at specific enterprise level to promote efficiency.

iv. Undertaking efforts to improve the performance of state level public enterprises.

The plan estimated a growth of 7.3% p.a. in the manufacturing sector and to improve the efficiency of public sector units and make them competitive. The overall outlay estimated in the Eight Five Year Plan for industrial and mineral programme in the public sector was Rs.40,673.43 crore. Out of which Rs.35,150 crores were for the central sector and the balance of Rs.5,523.43 crores was for the state sector. The plan had given special attention to mineral exploration activities and proposed to identify the efforts of mineral exploration through improved technology. Table 3.9 shows the Ministry / Department wise outlay for central industrial and mineral project for the Eighth Plan 1992-97.

Table 3.9

Ministry / Department Wise Outlay for Central Industrial and Mineral Project for the Eighth Plan 1992-97. (Rs. in crores)
<table>
<thead>
<tr>
<th>S.No.</th>
<th>Ministry/Department</th>
<th>Outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Steel</td>
<td>14579</td>
</tr>
<tr>
<td>2.</td>
<td>Ministry of Mines</td>
<td>2083</td>
</tr>
<tr>
<td>3.</td>
<td>Department of fertilizers</td>
<td>5484</td>
</tr>
<tr>
<td>4.</td>
<td>Chemicals &amp; Petro-chemicals</td>
<td>2402</td>
</tr>
<tr>
<td>5.</td>
<td>Surface Transport</td>
<td>152</td>
</tr>
<tr>
<td>6.</td>
<td>Electronics</td>
<td>588</td>
</tr>
<tr>
<td>7.</td>
<td>Textiles</td>
<td>177</td>
</tr>
<tr>
<td>8.</td>
<td>Department of atomic energy</td>
<td>1300</td>
</tr>
<tr>
<td>9.</td>
<td>Department of heavy Industries</td>
<td>2771</td>
</tr>
<tr>
<td>10.</td>
<td>Department of industrial development</td>
<td>1162</td>
</tr>
<tr>
<td>11.</td>
<td>Department of economic affairs (Banking Divisions)</td>
<td>1400</td>
</tr>
<tr>
<td>12.</td>
<td>Petroleum and Natural Gas</td>
<td>2552</td>
</tr>
<tr>
<td>13.</td>
<td>Supply</td>
<td>13</td>
</tr>
<tr>
<td>14.</td>
<td>Commerce</td>
<td>127</td>
</tr>
<tr>
<td>15.</td>
<td>Planning Commission</td>
<td>300</td>
</tr>
<tr>
<td>16.</td>
<td>Civil Supply</td>
<td>21</td>
</tr>
<tr>
<td>17.</td>
<td>Scientific and Industrial Research</td>
<td>19</td>
</tr>
<tr>
<td>18.</td>
<td>Ocean Development</td>
<td>15</td>
</tr>
<tr>
<td>19.</td>
<td>Bio-Technology</td>
<td>05</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>35150</td>
</tr>
</tbody>
</table>

Source: Government of India, Planning Commission, 8th Plan, Volume 11, New Delhi, p.125.

Table 3.9 shows that, the Government of India has allotted maximum of Rs.14,579 crores to Steel industry in order to development industrial goods. The next importance were given to agriculture in
allocating Rs.5,484 crores to fertilizer industry to increase its production in order to develop Agriculture because, Agriculture industry contributed more to country’s GDP. The Bio-technology industry received less amount of capital merely Rs.5 crores during the plan period. Table 3.10 State/ Union Territory wise outlay for industry and minerals during Eighth Plan (1992-97).

Table 3.10

State/ Union Territory Wise Outlay for Industry and
## Minerals during Eighth Plan (1992-97) (Rs. In Lakhs)

<table>
<thead>
<tr>
<th>S.No</th>
<th>State / Union Territory</th>
<th>Outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Andhra Pradesh</td>
<td>13090</td>
</tr>
<tr>
<td>2.</td>
<td>Arunachal Pradesh</td>
<td>1394</td>
</tr>
<tr>
<td>3.</td>
<td>Assam</td>
<td>21425</td>
</tr>
<tr>
<td>4.</td>
<td>Bihar</td>
<td>33900</td>
</tr>
<tr>
<td>5.</td>
<td>Goa</td>
<td>1970</td>
</tr>
<tr>
<td>6.</td>
<td>Gujarat</td>
<td>23350</td>
</tr>
<tr>
<td>7.</td>
<td>Haryana</td>
<td>8533</td>
</tr>
<tr>
<td>8.</td>
<td>Himachal Pradesh</td>
<td>2870</td>
</tr>
<tr>
<td>9.</td>
<td>Jammu &amp; Kashmir</td>
<td>9320</td>
</tr>
<tr>
<td>10.</td>
<td>Karnataka</td>
<td>22844</td>
</tr>
<tr>
<td>11.</td>
<td>Kerala</td>
<td>50652</td>
</tr>
<tr>
<td>12.</td>
<td>Madhya Pradesh</td>
<td>36027</td>
</tr>
<tr>
<td>13.</td>
<td>Maharashtra</td>
<td>58868</td>
</tr>
<tr>
<td>14.</td>
<td>Manipur</td>
<td>1800</td>
</tr>
<tr>
<td>15.</td>
<td>Meghalaya</td>
<td>3206</td>
</tr>
<tr>
<td>16.</td>
<td>Mizoram</td>
<td>725</td>
</tr>
<tr>
<td>17.</td>
<td>Nagaland</td>
<td>3200</td>
</tr>
<tr>
<td>18.</td>
<td>Orissa</td>
<td>67194</td>
</tr>
<tr>
<td>19.</td>
<td>Punjab</td>
<td>4300</td>
</tr>
<tr>
<td>20.</td>
<td>Rajasthan</td>
<td>36507</td>
</tr>
<tr>
<td>21.</td>
<td>Sikkim</td>
<td>1200</td>
</tr>
<tr>
<td>22.</td>
<td>Tamil Nadu</td>
<td>28100</td>
</tr>
<tr>
<td>23.</td>
<td>Tripura</td>
<td>3050</td>
</tr>
<tr>
<td>24.</td>
<td>Utra Pradesh</td>
<td>30835</td>
</tr>
<tr>
<td>25.</td>
<td>West Bengal</td>
<td>85396</td>
</tr>
<tr>
<td>26.</td>
<td>Andaman &amp; Nickobar</td>
<td>6</td>
</tr>
<tr>
<td>27.</td>
<td>Daman &amp; Dieu</td>
<td>2</td>
</tr>
<tr>
<td>28.</td>
<td>Delhi</td>
<td>350</td>
</tr>
<tr>
<td>29.</td>
<td>Lakshadweep</td>
<td>46</td>
</tr>
<tr>
<td>30.</td>
<td>Pondicherry</td>
<td>2169</td>
</tr>
<tr>
<td>31.</td>
<td>Chandigarh</td>
<td>20</td>
</tr>
</tbody>
</table>


From the Table 3.10, it is very clear that West Bengal state received more outlay from the Eighth Five year plan of Rs.85,396.
crores followed by Maharashtra of Rs.58,868 crores for industry and mineral sectors development. Doman and Die got only Rs.2 crores which is very less compare to other states. Tamil Nadu received Rs.28,100 crores for industrial development.

The plan had given individual insight to each industry and reorganization and strengthening of the concern industry according to the plan priority. In respect to steel industry, the plan aimed at improving the technological health of the existing plant and modernization and upgradation of technology to achieve international standard and competitive both in cost and quality. The plan changed licensing policy to attract private investment in iron and steel units.

The plan eliminated the weakness in engineering industry like the weakness in work design and engineering base, inadequate attention to modernization and continued upgradation of technology, in adequate R&D, demand constraint resulting in low capacity utilization, high cost of inputs and raw material and lack of manpower development and inadequate attention to training. The engineering industry provides the key to economic and industrial growth with its diversified linkage between every sector of the economy. The linkages between institution, manufacturers of equipment, users of equipment, national laboratories and the government will also receive major attention. The plan was given importance to improve the productivity and viability of the
existing on shipyards par with foreign shipyards. The plan gives emphasis for developing technologies to introduce electronic systems and controls in a number of industries. The focus of attention in electronics industry would be on production at internationally competitive scale, encouraging export oriented production, manpower, and technological development, rural industrialization and application of electronic in key socio economic sector. The plan proposed to extend special attention to fertilizers industry in order to accelerate the agriculture activity by expanding the existing units at Bijaipur, Aonal and Jagadishpur along with the commissioning of new gas based projects at Babrala, Shahjahanpur, Kota and Kakinada. The plan also proposed to make use of discovery of gas in Krishna – Godavari and Cauvery basins for setting up of small gas base plants in these regions. It allowed importing raw material and insufficient intermediates to this sector.

The Eighth Plan gave emphasis on environmental pollution and safety. The country had reached self – sufficiency in the manufacturing of pesticides. Existing centers dealing with environmental and health monitoring of toxic substances under CSIR, ICMR, and ICAR will be upgraded to create facilities for monitoring of pesticides in the environment regularly so as to minimize environmental and occupational health problems.
The Eighth Plan fixed an export target of Five million tonnes of cement per annum by 1996-97. The plan had taken steps to increase production and upgradation of technology. At present, India has been enjoying location advantages in respect to Cement trade. The importance had also been given for modernizations of old sugar mills along with improving the productivity and other facilities to fuller utilization of existing capacity. In order to improve the role of textile industry in the country, the plan provided priority towards production of value added, diversified and quality of goods for export and increasing capacity utilization, sophisticated design and product mix and appropriate technology. The plan fixed an export target of Rs.28,000 crores in value, with major focus on export of non – quota, higher unit value realization and better marketing technique in this industry. The eighth plan paid strong stress to Jute industry for the speedy implementation of modernization or diversification and production of higher value products programme.

VI. Ninth Five Year Plan (1997-2002)

The Ninth five year plan had been developed in the context of four important dimensions of state policy and against a perspective of development for 15 years. Quality of life, generation of productive employment, regional balance and was self reliance were the main dimensions of its policy. The plan was prepared under the United Front
Government and released in March 1998. The official document was released by Professor Madhu Dandvate, deputy chairman of the planning commission. The BJP government appointed Mr. Jaswant Singh as deputy chairman of the Planning Commission. It was decided to modify and adopt the plan which was prepared by the United Front Government. Later Shri K.C. Pant was appointed as deputy chairman of the Planning Commission due to Mr. Jaswant Singh taking charge of ministry of foreign affairs. It was under his stewardship that the Ninth Five year plan 1997-2002 was finally approved by the National Development Council in February 1999, nearly after 2 years of its implementation.\textsuperscript{97}

The plan estimated an industrial growth rate of \(8.2\%\) p.a.. The objectives advocated to achieve this growth rate are (i) Ensuring adequate availability and requisite quality of infrastructure. (ii) Adoption of special measures to promote the development of industrial backward areas. (iii) Introducing a special package for the industrial development of the north eastern states. (iv) Reviewing the work of the BIFR (Board for Industrial Financial Reconstruction) and bringing the necessary changes to make it an effective instrument of reviving sick industrial units. (v) Initiating steps to close down potentially unreliable

public units. (vi) Promoting production and productivity in the small scale industries through technological up gradation and ensuring adequate credit to this sector and (vii) Adoption of a cluster approach in the unorganized sector for provision of training, up gradation of skills and improvement in tool kits, equipment and production techniques to increase production, productivity and income levels of artisans, craftsmen, weavers, spinners and workers and the like. The plan had provided strategies to develop industries in both public and private sector. It planned to help the private sector to reach its full potential for raising production, creating jobs and raising income levels in the society. Regulated market, competition and free market will encourage efficient use of scarce resources and ensure rapid growth.

The plan created strategies and environment which encouraged this outcome. The public sector was given high priority to investment in infrastructure where the private sectors participation is likely to be limited, to provide economic infrastructure like power, road, ports, railway, telecommunication, municipal services and the like. Broad based agricultural development requires substantial investment in economic infrastructure in the form of irrigation, rural roads, creation of organized markets and promotion of research. The State must play a leading role in these areas. To increase the export opportunity for
agriculture products, the terms of trade are shifted in favour of agriculture.

The government announced disinvestment policy of PSU which could be used to raise the funds to finance in social sector, especially health and education. In all enterprises, excluding those that are in the strategic areas where national security is involved, the government decided to reduce its holding to 26% as early as possible. In order to increase the performance, strengthen and protect the Indian industry against the unfair competition, anti-dumping machinery, the government must continue the process of reduction in import tariff. This will help to open the economy to international competition and thus strengthen the process of globalization. Foreign Investment provides external resources to finance the Balance of Payment deficit without adding extra burden to the country’s external debt as well as to increase the competition as indirectly improve the quality of industrial product. The FDI increased from $3.2 billion in 1997-98 to $10 billion by the end of the Ninth Plan. In financial sector reform, the ninth plan proposed to reform insurance sector by ending the monopoly of the public sector in this area, by opening it to the private sector. Greater freedom would be given to states to determine their own priorities of public intervention to develop greater resources and responsibilities to the Panchayat Raj Institutions (PRI) and to grant greater power to them.
for raising their own resources. The plan had given priority in promoting and developing people’s participatory institutions like Panchayat Raj Institution, Co-operative and Self-help Groups and other strengthening efforts to build self-reliance.

The strategy of development, the plan document observed “the condition that exists today demands a decision-break from the past”. The government had taken on itself too many responsibilities with the result that it not only encouraged a dependency syndrome among our people, but also imposed severe strain on the financial and administrative capabilities of the government. The limits have now been reached. The ninth plan is based on the explicit promise that growth and development cannot take place in the absence of adequate economic decentralization, whereby freedom is given to every citizen of this country to bring to full flower of the latent, productive and entrepreneurial talents that exist and which may have been suppressed by excessive government involvement in economic matters. Private initiative, are whether individual, collective, or community-based, form the essence of the development strategy articulated in the plan.

**VII. Tenth Five Year Plan (2002-2007)**

Tenth five year plan was approved by the National Development Council (NDC), which envisaged an average annual growth rate of 8%, which was much higher than the 5.5% achieved during the ninth five
year plan (1997-2002). The objective of the plan includes reduction of poverty, provision of gainful employment, and increase in the literacy rate to 75% within the plan period, reduction of population growth rate between 2001 and 2011 to 16%. It increased the requirement of average rate of investment by more than 4% from 24.2% to 28.4%. The plan underlined the need and role of public sector investment in infrastructure to promote private sector investment. The plan estimated the domestic savings from 23.3% to 26.8% in order to increase economic and industrial growth; the plan provided greater flexibility in fiscal and monetary policies. The plan provided state wise break up of broad developmental targets including target for growth rates and social development consistent with national targets in order to confirm the importance of balanced development of all states.

The plan estimates an average annual growth rate of 8%. Since growth performance in recent years has been lower than their target, many experts have expressed doubts about the achievability of this target. The rate of domestic savings has however around 23% of GDP for many years, whereas this plan has achieved a rate of 27% of domestic savings. The drivers of change and rapid growth have to be technology, quality and competition with quantitative restriction on imports, and customs duties. It progressively scaled down foreign
investment and liberalized integration of Indian economy into the global.

The average growth rate achieved during the tenth plan period is comparatively higher than that of the other economies including developed ones. At the same time, the country achieved much higher rate than the 8% growth rate in the seventh plan period itself. The country achieved 8.5% of growth rate during the tenth plan period. The details of growth rate during the various plan periods are given in table 3.11.

**Table 3.11**

*Annual Industrial Growth Rates during Various Plan Periods*

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Plan Period</th>
<th>Year</th>
<th>Annual Average Growth rate During Plan period (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Third plan</td>
<td>1961-66</td>
<td>8.2</td>
</tr>
<tr>
<td>2.</td>
<td>Annual Plan</td>
<td>1966-67</td>
<td>0.6</td>
</tr>
<tr>
<td>3.</td>
<td>Annual Plan</td>
<td>1967-68</td>
<td>1.2</td>
</tr>
<tr>
<td>5.</td>
<td>Fourth Plan</td>
<td>1969-74</td>
<td>4.4</td>
</tr>
<tr>
<td>6.</td>
<td>Fifth Plan</td>
<td>1974-78</td>
<td>5.9</td>
</tr>
<tr>
<td>7.</td>
<td>Annual Plan</td>
<td>1978-79</td>
<td>7.6</td>
</tr>
<tr>
<td>8.</td>
<td>Annual Plan</td>
<td>1979-80</td>
<td>-1.6</td>
</tr>
<tr>
<td>9.</td>
<td>Sixth Plan</td>
<td>1980-85</td>
<td>5.9</td>
</tr>
<tr>
<td>10.</td>
<td>Seventh Plan</td>
<td>1985-90</td>
<td>8.5</td>
</tr>
<tr>
<td>11.</td>
<td>Annual Plan</td>
<td>1990-91</td>
<td>8.3</td>
</tr>
<tr>
<td>12.</td>
<td>Annual Plan</td>
<td>1991-92</td>
<td>0.6</td>
</tr>
<tr>
<td>14.</td>
<td>Ninth Plan</td>
<td>1997-02</td>
<td>5.0</td>
</tr>
<tr>
<td>15.</td>
<td>Tenth Plan</td>
<td>2002-07</td>
<td>8.1</td>
</tr>
</tbody>
</table>

Source: Various issues of Economic Survey Report from 1961-62
to 2006-07.

Table 3.11 shows the industrial growth rate during various plan periods. India achieved a high growth rate during seventh plan period. The interesting point is that India did not allow FDI during this period, and in spite of this it could achieve 8.5% of industrial growth rate. There was a negative growth rate (1.6%) achieved during the annual plan period of 1979-80. Industrial performance during the tenth plan period reached 8.1% growth rate. This is more are less better performance among the Asian countries.

3.13 Summary

The Chapter III gives a clear picture of Industrial growth before and after independence. During the British period the importance was given to intermediate goods than other goods. British government crushed Indian industries and promoted British goods and services in Indian market. After independence, the Indian government was not able to provide necessary financial and technology support to promote Indian industries. Thus industrial developments were slow during the period. In order to accelerate industrial growth, Government of India introduced five year plans and each plan period importance was given to different sector to achieve the collective objectives of the country. In 1990, country were faced critical problem of foreign exchange reserve and approached international funding agencies like IMF and World Bank, according to their pressure and road map India accepted to open
its economic door to foreign investors to avail loan from those agencies. From that point onwards India liberalized its economic policies and procedures in accordance with the expectations of the foreign investors.

CHAPTER IV
PROFILE OF FDI IN INDIA AND IN ASIA

4.1 Introduction
4.2 Government Policies towards FDI
4.3 Major Policy Initiatives (During 2006)
4.4 Causes and Reasons for low FDI inflow
4.5 Mergers and Acquisition in India and Asia
4.6 Indian Inc. Investing Overseas
4.7 FDI in India
4.8 FDI in Asia
4.9 Guidance to attract more FDI into India
4.10 Summary.