1.1 A GLOBAL PERSPECTIVE

The analysis of the performance of any country in the areas of industrial development in isolation will be incorrect. A comparison with other countries will give a relative picture. Fortunately, such data is available from the World Bank. A global perspective has been prepared to find out where India stands. This is based on the data published by the World Bank by the end of 1989.

The pace of development slowed markedly by 1989 in almost all regions of the world. Growth in the economies of the seven major industrial countries (the G-7) moderated to 3.5 percent, from 4.6 percent in 1988. Still buoyant, this growth in 1989 was accompanied by a fall in unemployment rates and some pickup in inflation in the industrial countries resulted in more concern about the possibility of a significant slowdown. Yet, on balance, the prospects for the industrial countries remain favorable as investment and trade continues to expand. The volume of World trade grew by a robust 7 percent in 1989, (as opposed to about 9 percent in 1989), with above-average export growth achieved by the United States and member countries of the European Community (EEC).

The fundamental change that took place in Eastern and Central Europe during the year thrust that region into the
Spotlight. Major issues for these economies where major structures are being reoriented include price reform, property rights, the sequencing and pace of enterprise reform, the design of social "safety nets" to protect the more vulnerable segments of the population, the extent of openness of the economy, and the scale and composition of needed external assistance. At present, their economies are small, with a share in world trading system however, should provide considerable opportunities for growth and investment. A new source of support for this process is expected to be the European Bank for Reconstruction and Development, which will provide financing for investment projects (most of which will be in the private sector) in Eastern and Central Europe.

Growth of the low-income and middle-income countries also slowed in 1989, especially as the fast-growing Asian economies returned to more normal growth rates (still well above the average in other countries) after expanding rapidly in 1988. The basic problem of "two track development" with Latin America and sub-Saharan Africa falling far short of growth elsewhere-especially in per capita terms—continued. Growth in gross domestic product (GDP) in sub-Saharan Africa rose to 3.5 percent in 1989, but remained below 1 percent in capita terms. In Latin America, GDP growth amounted to only 1.5 percent, which meant that per capita incomes declined. As in previous years, this regional pattern of growth performance reflected differences
in investment rates, as well as varying success in pursuit of sound economic policies.

Despite some successes in debt and debt service reduction operations, the severely indebted, middle-income countries as a whole stagnated in 1989. In the aggregate, these economies were characterized by low growth, high inflation, declining investment and increasing current-account imbalances. However, there were sharp differences in individual country performance as significant improvements took place in Mexico, Morocco and the Philippines.

The agreements signed fiscal 1990 by Mexico, the Philippines, Costa Rica and Venezuela with their commercial creditors represent the first debt and debt-service reduction operations under the auspices of the strengthened debt strategy (the Brady Plan). These agreements have demonstrated the viability of an officially supported voluntary, market-based approach to debt and debt-service reduction. In addition, the experience derived from these agreements has identified important issues for future policy. What can be done to address the needs of countries that are heavily indebted to official creditors, but whose income levels preclude them from being qualified for concessional terms? How can sufficient cash-flow support be provided to countries that have access to commercial debt and debt service reduction operations? Another still-unresolved issue centers on the question of where developing countries will be able to find adequate external financing,
as commercial bank lending to these countries collapsed in 1989.

The increase in international initiatives to address global environmental concerns continued. The watershed political events of 1989 could have far-reaching economic ramifications apart from the domestic events in Eastern and Central Europe. 1989 marked the first year in thirty-one years in which no new war was started. Hopes of increased savings in military budgets in the industrial countries have been engendered. Moreover, developing countries may also begin to reassess their expenditures on defense. Perhaps, most significant for the long term, the abandonment of central planning and increased reliance on markets in Eastern and Central Europe will powerfully affect basic approaches to economic development in coming decades.

The growth of real gross national product (GNP) in the G-7 countries slowed from 4.6 percent in 1988 to a still vigorous 3.5 percent in 1989 (Table -1). Moderation of growth of private consumption accounted for most of the slowdown: although this was most evident in Japan, it was also an important consideration in Europe and the United States, slower growth of private non-residential fixed investment also contributed to the slowdown especially in the United States. Although some countries experienced inflationary pressures, calendar year 1989, on balance was a good year for the industrial countries. The rate of unemployment fell in 1989 to 5.7 percent 6.2 percent in 1988.
Table 1: G-7 Countries Output, Inflation, Investment, and Unemployment, 1980-89
(Average annual percentage change: unemployment rates in percent)

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<td>9.5</td>
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a. Aggregate weighted on the basis of 1987 values of GNI and GDP expressed in 1980 US dollars. Average annual percentage changes are least-square trends.
b. Preliminary.
c. GNP or GDP deflator.

Source: Organisation for Economic Co-operation Development (OECD).

In 1989 the growth of GDP slowed considerably for the low income and middle income developing countries from 5.4 percent in 1988 to 3.3 percent.

There was a sharp decline in Asian GDP growth from 9.7 percent in 1988 to 5.1 percent, accounted for largely by India and China which returned to more normal growth rates after experiencing exceptionally rapid expansion in 1988. The fast growing East Asian economies also slowed down, partly the result of reduced demand for their exports and rising domestic cost pressures in some economies. The decline in output growth in the developing countries of the Europe, Middle-East and North Africa region was mainly a reflection of the significant dislocation occurring in Eastern and Central Europe. These dislocations resulted in stagnation of per capita incomes in the region in 1989, despite better performance in countries such as Algeria, Portugal and Yugoslavia.

The balance of payments position of the Asian countries deteriorated, reflecting the slowdown in these economies.
economies and a decline in exports. In general, the low income countries and the severely indebted middle income economies experienced the largest increases in their current account deficits.

The prospects for any increases in sources of external financing for the developing countries are not promising except for those involved in debt-workout exercises and the countries implementing economic reforms. Reforming countries are able to attract direct foreign investment capital.

During 1989, developing countries, individually and in collaboration with other developed and developing countries, for the first time emerged as active players in global trade negotiations, making proposals in many areas of the negotiations.

1.2 COMMON CHARACTERISTICS OF UNDERDEVELOPED COUNTRIES

Following characteristics are commonly observed in underdeveloped countries.

1.2.1 Low GNP per capita and widespread poverty

GNP per capita in underdeveloped countries is appallingly low. Naturally, mass of the population leads a wretched life under sub-human condition. In India, GNP per capita has been estimated at $340 in 1989 at current prices. Roughly, two fifths of the population is below poverty line.
There is regional concentration of wealth in the world and it is reflected in the wide disparities in income distribution. The data given in Table 2 clearly reveals the fact that the significant income disparities exist within the under-developed world itself.

Table 2: GNP per capita in US Dollars (1989) (Selected Regions/Countries)

<table>
<thead>
<tr>
<th>Developed Regions</th>
<th>GNP per Capita (Avg)</th>
<th>Under-developed Regions</th>
<th>GNP per Capita (Avg)</th>
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<td>Under developed countries</td>
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<td>23810</td>
<td>Low income economies</td>
<td>330</td>
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<td>U.S.A.</td>
<td>20910</td>
<td>Lower middle income economies</td>
<td>1360</td>
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<td>Germany</td>
<td>20440</td>
<td>Upper middle income economies</td>
<td>3150</td>
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<td>France</td>
<td>17820</td>
<td>South Korea</td>
<td>4400</td>
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<td>Italy</td>
<td>15120</td>
<td>Brazil</td>
<td>2540</td>
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<tr>
<td>U.K.</td>
<td>14610</td>
<td>Thailand</td>
<td>1220</td>
</tr>
<tr>
<td>Spain</td>
<td>9330</td>
<td>Indonesia</td>
<td>500</td>
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<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>India</td>
<td>340</td>
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</tbody>
</table>

Source: World Bank World Development report P.P. 204/5

1.2.2 Per capita income

India still remains one of the most under developed nations in terms of per capita income. Only, countries
like Malawi, Zambia, Ethiopia, Bangladesh and Zaire are poorer than India and the per capita income in the rest of the Third World is higher than that in India.

In 1989, India's per capita income was $340 which was even less than one sixtieth of the U.S.A. income.

India's per capita income at current prices was Rs.

252.40 in 1989-90. According to Central Statistical Organisation, in 1950-51, India's per capita net national product at 1980-81 prices was Rs. 1126.9. Since then, it rose to Rs. 2142.1 in 1989-90. This is a modest performance by all means.

1.2.3 Pre dominance of agriculture

In developed countries, importance of agriculture is much less. For example, while 67 per cent of India's working population seeks employment in agriculture, only 2 per cent of the U.S.A.'s working population is engaged in agricultural operations. Table 3 eloquently suggests that the reliance on agriculture in India is far greater than even in some other Third World countries such as Indonesia, Mexico and Brazil.
Table 3  Gross Domestic Product by Industry of origin in 1989

<table>
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<th>Country</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
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<tr>
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<td>Mexico</td>
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<td>Brazil</td>
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<tr>
<td>India</td>
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<td>41</td>
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</tbody>
</table>


1.2.4 Literacy and expenditure on research

As compared to developed countries, the human capital is also less developed in the Third World Countries, whereas the literacy is roughly 99 per cent in the United States, it is as low as 52 per cent in India. The expenditure on research is pitifully low in underdeveloped countries.

1.2.5 Social life

Social life in the Third World countries is traditional. People are generally orthodox in their outlook and hardly make any attempt to change outdated socio-economic relations. The economic organisation thus remains retrogressive and proves to be a serious
obstacle to development. Almost, all underdeveloped countries are ‘Soft States.’ It implies that they lack social discipline. Bureaucracy acts as a serious obstacle to development.

1.2.6 Other characteristics of under development countries.

They are as follows:
- Scarcity of Capital
- Rapid population growth,
- Low level of productivity
- Technological backwardness
- High levels of unemployment and under development
- Wide income inequalities
- Smaller participation in foreign trade

Indian economy suffers from all the above mentioned characteristics of under development.

1.3 COMPARABLE DEVELOPMENT PERFORMANCE

The data on population gross domestic product at constant prices, per capita gross domestic product at constant prices, industrial activity and the quantum of foreign trade for India, the Third World and the World are given in Table 4 covering the three decades of 1950-1980.

The figures in the table clearly show that India's development performance vis-a-vis other developing countries and the whole world has been rather disappointing. On the population front, India's annual
growth rate at 2.2 per cent equals that of the Third World, and is somewhat higher than that for the World as a whole (both developed and developing countries included). The gross domestic product (at constant prices) in India had increased by 3.5 per cent per annum in the three decade period beginning from 1950. During the eighties, the growth rate in India slightly picked up and stood at 5.2 per cent per annum. In comparison, the real volume of gross domestic product in the Third World countries had increased over the three decades period, that is 1950 to 1980 at an annual rate of 4.9 per cent which was about 40 per cent higher than in India. The world economy as a whole had also recorded a higher growth rate of 4.1 per cent.

Table 4 Indicators of Dynamics of Economic Development in India and the World 1950-1980

<table>
<thead>
<tr>
<th>Selected Items</th>
<th>Annual Rate of Growth (Per cent)</th>
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<td>1.9</td>
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<tr>
<td>Gross Domestic</td>
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<tr>
<td>Product</td>
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<td>4.9*</td>
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<tr>
<td>Per Capita Gross</td>
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<tr>
<td>Domestic Product</td>
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</tr>
<tr>
<td>Industrial Output</td>
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<td>Exports (Quantum)</td>
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</tr>
<tr>
<td>Imports (Quantum)</td>
<td>1.7</td>
<td>4.7*</td>
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Source: Economic and Political Weekly September 28, 1985,

Notes: Excluding socialist countries of Asia
       ** Excluding socialist countries of Asia and Europe
Since rates of population growth are quite high in developing countries, figures for per capita growth of gross domestic product are reduced substantially. In the case of India, per capita growth rate is as low as 1.2 per cent per annum as against 2.7 per cent per annum in the developing countries and 2.2 per cent per annum in the World as a whole. Therefore, despite rapid population growth, developing countries as a group have performed distinctly better than India though most of them never had any pretentions for any social commitment. In India, personal savings, personal taxes, corporate profits, corporate savings social insurance contributions, indirect business taxes and capital consumption account for the large difference between per capita gross national product and per capita personal consumption. Surendra J. Patel has noted that in the three decade period on account of all these factors, personal consumption has expanded at a snail's pace of no more than 0.4 per cent per annum.

Industrial output had increased in India at an annual growth rate of 4.1 per cent as against 6.3 per cent per annum in the developing countries. On a per capita basis, India's performance is far more dismal, because after three decade period beginning from 1950, India's per capita industrial output was only 76 per cent higher, whereas in the Third World's as a whole it was larger by 234 per cent. India's rate of industrial
growth has also been lower than the world rate. In
the foreign trade sector, India's performance is
perhaps the most disappointing. The world's quantum of
export trade over the 1950-80 period had expanded at an
annual rate of 5.1 per cent. The developing countries
as a whole had also done exceedingly well on this
front, as their real exports rose by 4.4 per cent
annum. Trends in imports also run along these lines.

1.4 INDIA'S POSITION IN THE WORLD MARKET

India's slow rate of progress over the three decades
period under study has been responsible for a steady
decline in India's share in the world output and
foreign trade. "It is only in population that India's
share in the Third World and also in the World as a
whole, has changed marginally." In respect of all other
indicators of development, there is a very serious
regression.

As stated above, the trend rate of increase in India's
gross domestic product has been lower than the growth
rate in the Third World, as well as in the World as a
whole. Over the three decades period this led to a
marked decline in India's share in the world output—
from 2 per cent in 1950 to 1.4 per cent in 1980.
India's share in the gross domestic product of the
Third World had fallen from 10 per cent in 1950 to 5.4
per cent in 1980.
India's regression is far more in industrial output, covering mining, manufacturing, gas electricity and construction. India's share in world industrial output was 1.2 per cent in 1950. Over the years, it steadily declined and stood at 0.7 per cent only in 1980. Now India occupies the twenty-seventh place in terms of industrial output as against the tenth place in 1950. India's share in the industrial output of the Third World has fallen from over 12 per cent to just 4.6 per cent in the decades period. This fact clearly suggests that while a number of developing countries have done exceedingly well on the industrial front, India encountered the problem of deceleration and stagnation in the very adolescence of its industrial development. In terms of per capita industrial output, India's place is appallingly low. There are presently 35 developed countries and at least 65 developing countries which have a higher per capita industrial output than India. Even among the least developed Third World countries India's position is not enviable. In this group of countries, India's per capita industrial output is lower than that of ten countries and there are another five countries which have the same per capita industrial output level as India.

The widely eulogized green revolution has created an all-round impression in that on the agricultural front India has done better than most countries. This
notion, however, is not well founded. India's regression in agricultural output is unmistakable and clear. India accounted for nearly 11 per cent of world agricultural output in 1950. Since then, India's share in world agriculture output has declined to about 9 per cent. In the Third World, India's share in agricultural output has fallen more sharply from 25 per cent to 17 per cent. India has improved its share in Wheat and nearly maintained it in Rice. But in all other agricultural products, its share has steadily declined during the last three decades.

India's regression is even greater in foreign trade. India accounted for nearly 2 per cent of world trade in 1950. Its share has now declined to a mere 0.35 per cent. Even in the Third World India no longer occupies an important position as trading partner. During the last three and half decades, its share in the quantum of Third World trade has fallen from about 6.5 per cent to about 2 per cent.

1.5 INDUSTRIAL REGULATION ACTS & POLICY FORMULATIONS

1.5.1 Industrial policy regulation of 1948.

The first important industrial policy resolution was issued by the Government of India on April 6, 1948. The main features were:

1) Acceptance of the importance of both private and public sector. It developed a two pronged strategy,
a) Expansion of the state sector in areas where it was operating and in new lines of production and
b) allowing the private sector to subsist and expand albeit under proper direction and regulation.

2) Division of the Industrial Sector: These categories were as under, a) Industries where state had monopoly i.e. arms and ammunition, atomic energy and rail transport. b) Mixed sector six industries were specified: coal, iron & steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless apparatus (excluding radio sets) and mineral oils. c) The field of Government control 18 industries of national importance were included in this category. Some of the industries included were automobiles, heavy chemicals, heavy machinery, machine tools, fertilizers, electrical engineering, sugar, paper, cement, cotton and woolen textiles. d) The field of private enterprise - All others included in the above three categories were left open to the private sector. However, the state could take over any industry in this sector also if its progress was unsatisfactory. There were certain weaknesses and gaps in the 1948 policy and it was subjected to a number of criticisms.
1.5.2 Industrial policy resolution 1956

1) New Classification of Industries: Industries were sharply defined and were broader in coverage as to the role of the state.

a) Schedule A: Those which were to have exclusive responsibility of the state (17 industries).

b) Schedule B: Those which were to be progressively state owned and in which the state would generally set up new enterprises, but in which private enterprises would be expected only to supplement the effort of the state.

c) Schedule C: All the remaining industries and their future development would in general be left to the initiative and enterprise of the private sector.

Fair and non-discriminatory treatment was expected to be given to the private sector. The state would continue to foster institutions to provide financial aid to these industries and special assistance would be given to enterprises organised on co-operative lines for industrial and agricultural purposes. Village and small-scale enterprises were to be encouraged by restricting volume of production in the large-scale sector by differential taxation or by direct subsidies. The resolution also stressed the need of reducing the regional disparities in levels of development in order that industrialisation may benefit
the country as a whole. The resolution recognised the need for the provision of amenities for labour and association of workers in management.

The private sector got less consideration. Licences were issued to the private sector in areas which were reserved for public sector expansion. There is no doubt that this policy resulted in the rapid expansion of the public sector in basic heavy industries, but private sector investment zoomed in the wake of public sector expansion.

1.5.3 Industrial policy statement 1977

In March 1977, the Janata party assumed power at the centre. Industrial policy 1956 resulted in certain distortions Viz " Unemployment had increased, rural urban disparities had widened and the rate of real investment had stagnated. The growth of industrial output has been no more than three to four per cent per annum on average. The incidence of industrial sickness has become widespread and some of the major industries were worst affected. The pattern of industrial costs and prices had tended to be distorted and dispersal of industrial activity away from the larger urban concentrations had been very slow".

1) The main elements of the new policy were:

   Development of small scale sector - The main
thrust of the policy will be on promotion of cottage and small industries widely dispersed in rural areas and small towns. It is the policy of the government that whatever can be produced by small and cottage industries must only be so produced. The small sector was classified in three categories:

a) Cottage and household industries which provide self employment on a wide scale.

b) Tiny sector 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 lakhs and in the case of ancillaries with an investment in fixed capital up to Rs. 15 lakhs.

In order to promote small-scale and cottage industries as against 180 items in the list of reservations operating earlier, the Govt. expanded it further to 807 items by May 1978. It proposed to set up in each district an agency called District Industries Centre (DIC) to serve as the focal point of development for small scale and cottage industries. The Janata Government proposed to revamp the Khadi and Village Industries Commission with a view to enlarge its area.
of operation.

2) Area of Large-Scale sector: Would be related to the programme for meeting the basic minimum needs of the population through wider disposal of small scale and village industries and in strengthening of the agricultural sector.

3) It proposed the growth of large houses from internally generated resources instead of borrowed funds. The policy statement suggested a selective approach on the question of sick units.

All that Janata Govt. did was to expand the list of 180 items listed earlier to 807 items. Besides, out of 2400 products manufactured by small scale units, only 807 items were put in the reserved list. It resulted in non-expansion of the capacity of large scale industry.

1.5.4 Industrial policy statement 1980

Its objective was defined as facilitating an increase in industrial production through optimum utilization of installed capacity and expansion of industries. It emphasized rapid and balanced industrialisation of the country with a view to benefitting the common man by increasing availability of goods at reasonable prices, large employment and higher per capita incomes. The major function laid down by the new policy statement was solving the problem of shortages of major
industrial inputs like energy transport and coal. The statement emphasized that the benefits of industrialization should reach all segments of the population. For this purpose, it advocated extension of preferential treatment to agro-based industries, promotion of economic federation through co-ordinated development of small, medium and large enterprises, dispersal of industries to backward, rural and urban areas and protection of consumers against high prices and bad quality of goods. Stress was also placed on inter-sectoral relationships.

In order to promote the growth of small-scale industries, investment limit for small-scale sector was raised from Rs. 10 lakh to Rs. 20 lakhs. Similarly, investment limit for ancillary units was increased from Rs. 15 lakhs to 25 lakhs. Exemption from the locational policy was granted to units engaged in the task of production for exports. Government decontrolled the manufacture of alternative sources of energy. In order to correct regional imbalances, the Government would encourage dispersal of industry and setting up of units in backward area.

The new industrial policy (1980) is guided merely by considerations of growth. It liberalised licensing for large and big business but by blurring the distinction between small and large scale industries it seeks to promote the latter at the cost of the former. Broadly
speaking, the Industrial policy chooses a more capital intensive path of development and thus it underplays the employment objectives. The objectives of curbing concentration of economic power through the agency of MRTP commission has been pushed backwards in the scheme of priorities in the new industrial policy. Big businesses welcomed the liberalisation as is evidenced by the fact that they welcomed the said industrial policy.

1.5.5 New industrial policy (1991)

Government announced the New Industrial Policy on July 24, 1991, in which the Government announced a series of initiatives as below:

1) Abolition of industrial licencing

In a major move to liberalise the economy, the new industrial policy has abolished all industrial licencing, irrespective of the level of investment, except for certain industries related to security and strategic concerns. Now there are only 18 industries for which licencing is compulsory. With this step, almost 80 percent of the industry has been taken out of the licencing framework.

2) Public sector role diluted

The number of industries reserved for the public sector since 1956 was 17. This number has now
been reduced to 8. The new industrial policy also states that the government will undertake review of the existing public enterprises in low technology, small scale and non-strategic areas as also when there is low or nil social consideration or public purpose. The Government also announced its intention to offer a part of the government share holding in the public sector enterprises to mutual funds, financial institutions the general public and the workers. It indicates the government's intention to invite a greater degree of participation by the private sector in important areas of the economy.

3) **MRTP limit goes (Rs. 100 crores since 1986)**

The New Industrial Policy scrapped the limit of assets in respect of MRTP and dominant undertakings. These firms will now be at par with others, and will not require prior approval from the Government for investment in the delicensed industries.

4) **Free entry to foreign investment and technology**

In the case of foreign technology agreements sought by Indian firms as well as foreign investment, it was necessary to obtain specific prior approval from the Government for each project. It was argued that this caused undue delays and Government interference and also
hampered business decision-making. Therefore, the
new industrial policy has prepared a specified
list of high technology and high investment
priority industries where in automatic permission
will be available for direct foreign investment up
to 51% foreign equity. It also provides for
automatic approval to foreign technology
agreements in the case of the 34 priority
industries listed in Annexure III within certain
guidelines.

5) **Industrial location policy liberalised**

In a departure from the prevailing locational
policy of industries, the new industrial policy
provides that in locations other than cities
subject to compulsory licensing. In cities with a
population of more than 1 million population,
there will be no requirement of obtaining industrial
approvals from the centre, except for industries
subject to compulsory licensing. In cities with a
population of more than 1 million, industries
other than those of a non-polluting nature will be
located outside 25 km of the periphery. Since
there are 23 cities in India with a population of
more than 1 million each, the new industrial
policy has dispensed with government clearance for
the location of projects except in the case of
these 23 cities.
6) **Abolition of phased manufacturing programmes for new project of engineering and electronic industries**

7) **Removal of mandatory convertibility clause**

It has often been interpreted as an unwarranted threat to private firms of take over by financial institutions. Hence forth, financial institutions will not impose this mandatory convertibility clause.

More liberalisation will result in still further industrial growth, efficiency will improve and will promote competition. The change in respect of foreign investment and foreign technology agreement are also designed to attract capital, technology and managerial expertise from abroad. Privatisation may make for improved efficiency for the public sector.

However, there is danger of opening up the economy too much to foreign influence. It will dominate certain growing areas of our economy. None of the multinationals operating in this country had attempted to develop India. Despite various tax concessions and incentives, none of the multinationals tried to expand export market. Import of foreign technology will result in
capital intensive production. One of the very purposes of Indias industrialisation is to ensure that our very large manpower resources are effectively utilized. This implies the adoption of labour-intensive and capital saving technologies in whichever areas it is feasible to do so.

A government notification issued in April 1991 raised the investment limit for small scale industry from Rs. 35 lakhs (in 1982) to Rs. 60 lakhs and for ancillary units from Rs 45 lakhs to Rs. 75 lakhs. An extra incentive was given to small businesses that export. Their investment limit was further raised to 75 lakhs on the condition that they export at least 30 per cent of their output by the third year of their starting production. A policy measure announced on August 6, 1991, raised the investment limit for tiny units to Rs. 5 lakhs from their earlier limit of Rs. 2 lakhs.

1.6 PROBLEMS IN INDUSTRIAL DEVELOPMENT

1.6.1 Lop-sided development and industrial concentration

Industrial development in pre-independent India was both slow and lop-sided. India can definitely be proud of her industrial independence. However, the extent and spread of development have belied all expectations. A casual look at the industrial map of our country
would reveal patches of development mainly near metropolition cities. In Maharashtra, Bombay, Pune, Thane belt is the example of this type of development, large tracks of Maharashtra and other states also remain industrially under developed.

A high degree of concentration of industries has given rise to severe problems of urban development. At the same time, it has left the other regions in the state comparatively under developed.

Industries have generally a tendency to be attracted to or concentrated in one or few urban areas which offer comparatively greater economic advantage. It therefore becomes imperative for the government to take effective measure to counteract the strong tendency towards industries concentration at a few places and to provide the basic economic and social overheads in the undeveloped and under developed areas where new industries are proposed to be established under a planned economy. Besides direct government investment in industrial activities in these areas, offering of extra concession incentives and facilities of various kinds, with a view to stimulate private investment in these regions also plays an important part in their development.
1.6.2 Unemployment and industrial growth rate

It is one of the aims of national planning to ensure that the facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment provided the location is otherwise suitable.

The small industry sector is planned for a lower rate of growth of employment in the seventh plan—lower than the rate of growth of employment achieved in sixth plan, and also lower than that the rate of growth of production in the seventh plan. This is especially worrying pertaining as it does to a sector which provides jobs to a large number of persons and which has high labour intensity in relation to production.

The seventh plan envisages an increase in production value from Rs. 65,730 crore in 1984-85 to Rs. 100,100 crore in 1989-90 for this sector, that is at a compound rate of 8.7 per cent per annum. On the other hand, the rate of growth of employment in the seventh plan in this sector is substantially lower i.e. 4.9 per cent.

Food, work and productivity are the basic priorities of the seventh plan. The plan proposes to increase employment opportunities. However, these expectations of our economy will not materialise unless and until our government is successful in setting industries in
rural and backward areas. Unless we are able to tackle this industrial backwardness, we may not be able to provide gainful employment to our growing population and checking the over crowding in cities.

1.6.3 Infrastructure

The key role of infrastructural facilities in promoting economic development of backward areas is now recognised. It would be useful to classify infrastructural facilities in to two broad categories namely economic and social. The economic facilities may be further sub-divided in following two categories:

a) Physical infrastructure related to production the examples being water supply and power and,

b) Other physical infrastructure, such as transport communication, housing etc.

The social infrastructure comprises, among others education, medical care and facilities for community life.

Since adequate infrastructural facilities are essential for promotion of industrial growth, their proper planning and provision are the main policy issues. Industrial policy should be re-designed to solve these problems.
1.6.4 Regional imbalance

One important question very often asked about Indian economic planning is whether the aim of balanced regional development has brought about qualitative and quantitative changes in the structure of the economy? Whether the process of planning since 1951 has been able to generate any dynamism in the stagnant backward regions to generate sufficient momentum for necessary structural changes resulting improvement in the standard of living of the people? A number of exercises have been made and a number of institutions have been initiated and several policy measures have been initiated during the past years in order to induce the big push in backward areas. The Indian economy since the inception of planning in 1950-51 has witnessed a moderate growth. Growth took place but it was located in a few developed states. Therefore, interstate disparity remains to be reduced.

1.6.5 Dispersal, decentralisation and rural industrialisation

Dispersal and decentralisation are two different concepts. Strictly speaking, dispersal has locational significance and implies location of industrial units, large and small away from congested centres. While encouragement of the growth of small sized units is the major aim of decentralisation in any economy, it may be found necessary, on techno-economic considerations, to undertake some activities, i.e. steel making, petro-
chemicals and heavy machinery manufacturing in large units or a complex of such units. At the same time, other activities where small size of the units does not make them wholly uneconomic or where small size confers clear and definite advantages, can be undertaken on small-scale. Similarly, there are number of industrial undertakings particularly those relating to the processing of agricultural product and other local raw materials, and also manufacture of inputs for agriculture, which have decided economic advantages in their being located near the sources of raw materials. In their case and also in the case of some others, catering to local demand a more prudent policy will be to encourage dispersal. Although, theoretically there is no inevitable connection between dispersal and decentralisation, because even an organised large scale industry can be developed on dispersal basis and small units of industry may concentrate in and around metropolitan centres and large urban cities, nevertheless in India Rural Industrialisation implies a dispersed decentralised sector of industry.

1.6.6 Resource constraints

In India, resource deficiency is most prominent in respect of capital and land. Deficit financing is considerable in each plan outlay. On taking a slightly optimistic view in regard to population and assuming that the rate of production growth will
decline, the requirement of land at the end of the century would be around 42.68 crore hectares. Obviously, a country with a total area of 32.88 crore hectares cannot meet the requirements. India has a large and rapidly growing population. From the point of view of economic development, this is a major problem.

1.6.7 The problem of modernisation and technological change
In the sixth plan, for the first time, the objective of modernisation was explicitly mentioned. In the seventh plan, the concept of modernisation has been narrowed down. For the planners, modernisation now refers to technological advances. Unfortunately, the planners have refused to recognise that in India, real conflict exists, between the modernisations and the objectives of unemployment and poverty removal.

1.6.8 Resource mobilisation and inflation
A developing country often has to make a difficult choice between two regrettable necessities Viz., a lower growth rate and on inflationary price rise. Obviously, of the two price rise is a lesser evil and is thus to be preferred to a lower growth rate. According to the planners, over the years, India has been facing precisely this problem.
Except for the years 1976-77 and 1977-78, India's balance of payments have always been unfavourable in the whole planning period spreading over almost four decades. In the past, dismal performance on the export front has compelled her to rely extensively on the external assistance. The situation that has developed as a result of this policy is really very serious. The debt servicing charges now account for fifty per cent of the total external assistance. Their burden on the economy can be realised from the fact that now approximately one per cent of the national income regularly flows out on account of debt servicing.

Each one of these topics could be taken up for research on the subject of industrial development of India. The researcher, coming from a rural background, however, has decided the topic of dispersal, decentralisation and rural industrialisation.