



---

---

## INDUSTRIAL PRODUCTS IN INDIA

**Sharanabasappa Rajappa<sup>1</sup> and Dr. Nayakara Honnurswamy<sup>2</sup>**

<sup>1</sup>Research Scholar Dept. Of Economics, Post Graduation Centre Nandihalli Sandur Bellary.

<sup>2</sup>Assistant Professor Dept. Of Economics Sri Krishna Devaraya University, P.G.Centre Nandihalli Sandur Bellary.

### ABSTRACT:

*This paper focus on how these networks are catering to the growth of this industrial sector. Industrial products is a major growth sector for the Indian economy with diverse companies including those engaged in manufacturing of machinery and equipment, electrical and metal products, cement, building and construction material, rubber and plastic products and automation technology products. India is fast becoming one of the most lucrative options for manufacturing industry to prosper. This research was carried out to study the current manufacturing strategies implied by India for its growth in the manufacturing sector. An analysis was done on the factors which affect the manufacturing sector in different states across the country. Good infrastructure, compliance to tax & labour laws and meeting the desired environmental standards were some of the factors responsible for better performance, Recently the long waited GST bill had been passed by the government of India which would enable an easy and a cost cutting flow of goods across different states of the country. Government of India is investing a lot of funds in building a strong network of roads, rails and transport to foster the growth of the manufacturing industrial sector.*



**KEYWORDS:** Industry, Growth and Development, Industry, Growth and Development, Manufacturing etc...

### INTRODUCTION:

Post-independence, Indian economy was heavily dependent on the agricultural sector. It contributed to more than 50% to the GDP. Over the years India gradually shifted from agriculture based economy to the service based economy. Many economists believe that skipping the secondary sector is the main reason as to why Indian economy has not developed as fast as other economies of the world. In recent years the manufacturing sector has been the major focus for the government of India. Realizing the importance of manufacturing sector and the amount of employment it can generate, many initiatives are being taken up by the current government to foster the growth of this sector. Having the benefit of a high amount of educated population & skilled labour, there is enough scope for the manufacturing sector to further develop in the country. The 'Make in India' campaign started by the current government is one of the biggest initiatives taken by any government in order to attract foreign investors to invest and start manufacturing in India. The government is providing adequate infrastructure like electricity and strong network of roads and railways for easy transportation of goods and services. Many laws favoring the labours and land acquisition are being implemented so that it is easier for the foreign investors to start their business in India. Their main motive is to manufacture goods with zero defects so that none of the exported goods are returned back to India. With 'Make in

India' campaign, the government doesn't want to compromise on the environmental standards. They want to follow a sustainable and environmentally sensitive path to prosperity.

Industrial concentration in Indian manufacturing sectors over the period 1970 to 1999. Given that Indian industry was highly regulated till the mid 1980s, the market structure in most manufacturing sectors was largely shaped by government policy. Deregulation after 1985 allowed greater scope for normal competitive processes, so that concentration levels should progressively be determined by industry characteristics rather than government policy. We find that, on the whole, concentration levels were indeed more significantly related to industry characteristics after deregulation. However, even after controlling for these characteristics, there is considerable heterogeneity in the patterns of concentration in individual industries. Through much of the 1960s and 1970s Indian industry was highly regulated. All activity in the formal manufacturing sector was subject to licensing and rigid capacity controls. In many sectors there were administrative controls over input and output prices and the government rationed access to many key inputs, especially imported capital goods.

Industrial products in India some sectors were reserved for public-sector enterprises and some others were reserved for small-scale firms. Access to equity markets and other sources of finance was carefully regulated. In this regulated phase, market structure and patterns of industrial concentration were shaped, wittingly or unwittingly, by government policy. For instance, market shares of individual firms in any manufacturing sector were determined largely by licensed capacity allocations. Sectors in which licenses were restricted to a handful of firms, usually in order to avoid 'unnecessary duplication of investment', tended to display high levels of concentration. On the other hand, sectors that were reserved for small-scale firms tended to have a relatively fragmented structure. With economic reforms that began in the mid 1980s, and gained prominence after 1991, many sectors in Indian industry were progressively deregulated and exposed to foreign competition. It is reasonable to expect that, after deregulation, the market structure would be determined less by government policy and more by normal competitive processes. This paper studies the determinants of industrial concentration in Indian manufacturing, before and after liberalization.

### **INDUSTRIAL POLICY IN INDIA:**

Early development planning in post-independence India emphasized self-reliance and rapid industrial growth. Industrial licensing, introduced in 1951 on a comprehensive scale, was considered essential to conserve scarce capital and to align domestic production capacity with developmental priorities. The chosen strategy emphasized import substitution and a bias towards heavy industry. In some sectors – steel, aviation, and petrochemicals, for instance – capacity expansion was restricted to public-sector enterprises. At the same time, in order to mitigate the perverse employment consequences of capital-intensive industrialization in a labour-surplus economy, some sectors were reserved for the small-scale sector. Table 1(a) provides an overview of these policies. The licensing regime affected patterns of industrial concentration directly. In most industries the number of firms and their market shares were determined by capacity allocations. Sectors with restrictive licensing became relatively concentrated. In others, policy-makers paid little heed to production efficiency, allocating multiple licenses for production units below minimum efficient scale.

A preferential policy towards small-scale firms created artificially low levels of concentration in many sectors. This preferential policy had considerable impact on the industrial landscape: by the late 1970s small-scale sector reservation had expanded to most products that could be produced on a small scale, regardless of quality or cost. points out that many small firms were preponderant in mechanical engineering, chemical products and auto ancillaries, keeping industrial concentration in these sectors at unusually low levels. While the licensing mechanism controlled entry, a complicated set of regulations controlled the exit of firms. Most production units of any size required permission to cease operations: this regime was intended to preserve employment and assets. Permission to exit was rarely granted, with the government preferring to nationalize firms that were in financial distress. Overall, the severe

restrictions on entry and exit meant that, over time, concentration levels were not very responsive to changing market conditions.

The size distribution of firms was also affected by anti-monopoly regulation, especially after 1969. In some cases, such as the soap industry, this caused capacity allocations for incumbent large firms to be frozen. As fresh entry in the sector was reserved for small-scale firms, a 'dualistic structure' emerged: a few large firms and a fringe of small producers, with little movement between the two categories.

Further, the levels of concentration in Indian industry were influenced by the policy towards foreign investment and imports. The foreign exchange crises of the 1960s made the government relatively hostile to new foreign investment, ostensibly to reduce foreign outflows in the form of dividends. In sectors where domestically owned firms were unable to compete with foreign-owned firms, restriction on the entry of new foreign firms served only to protect incumbent foreign firms, thereby preserving concentrated market. On the other hand where the wide-scale tariff and other restrictions on imports protected domestic firms from price competition, it allowed many inefficient firms to survive. This may have supported a more fragmented structure relative to what stronger price competition may have created.

### REVIEW OF LITERATURE:

**Sutton (1991)** argued that this size-structure relation breaks down in industries where advertising and technology play an important role. Suppose the nature of the industry or product is such that firms have an incentive to increase such expenditures to gain market shares. In the long run, the increased level of expenditures is sustainable only if profitability in that industry is high enough and fragmented market structures are incompatible with high profitability. Even if an industry was fragmented historically, exit and consolidation would increase concentration over time. In such industries, larger market size may be associated with an escalated expenditure on advertising and/or technology expenditures, rather than fragmentation.

**Phlips (1971) and Schmalensee (1989)** stated that structure is determined by barriers to entry, which in turn are determined by economies of scale or, relatedly, the cost of setting up a plant of minimum efficient scale. If the size of the market (that is, the average level of demand) is large relative to set-up costs, a large number of firms may be able to exist profitably, creating a more fragmented structure. On the other hand, if the market is small relative to set-up costs, the industry would be more concentrated.

### INDUSTRIAL PRODUCTS IN INDIA:

Industrial products is a major growth sector for the Indian economy with diverse companies including those engaged in manufacturing of machinery and equipment, electrical and metal products, cement, building and construction material, rubber and plastic products and automation technology products. Growth in manufacturing is crucial for India's economic development. To capitalize on the demographic dividend, India must create nearly one million jobs per month over the next decade. Manufacturing has the potential to provide large-scale employment to the young Indian population and thereby enable a significant section of the population to move out of poverty. With this in mind, the Indian government has adopted "Make in India" as a core policy initiative to encourage and accelerate growth of the country's manufacturing sector.

India has several strengths that could help it become a manufacturing powerhouse: a large pool of engineers, a young labor force, wages that are half that of China's, and significant domestic consumption of manufactured goods. These factors become especially important as China, the world's preeminent manufacturing destination, faces peak labor shortages and exponential wage growth. India does have a few shining examples of world-class excellence in manufacturing and well-established core sectors such as textiles, auto components, and, more recently, petrochemicals. For example, Bharat Forge's Mendham plant, the world's largest forging factory, is a state-of-the-art complex that has placed

India on the world map for manufacturing. The company has all the necessary attributes: heavy investment in technology, a scientifically skilled workforce, and a sharp focus on lean manufacturing.

The good news is that Indian manufacturers fare better than global averages for cost control despite low capacity utilization, primarily because of lower wages and a focus on reducing costs. However, compared to those in the top quintile, Indian manufacturers face more quality complaints and fulfillment delays. The pace of innovation is much slower (with Indian manufacturers requiring two to three times longer to launch new products), and Indian players' agility to scale up or down is much lower. In short, manufacturing in India lags global competition in vital areas. The processing of natural resources into more useful items is called manufacturing. These manufactured goods are finished products derived from the raw materials. These raw materials used in manufacturing industry may be either in their natural form such as cotton, wool, iron ore etc. or may be in the semi processed form like cotton yarn, pig iron etc. which can further be used for making more useful goods. Thus the finished product of one industry may serve as the raw material for another industry. Economic development cannot be achieved by a country without developing its industries. There is a direct relationship between the level of industrial development and the economic prosperity of a country. Developed countries like the USA, Japan, and Russia owe due to their prosperity to highly developed industries. Industrially less developed countries export their natural resources and import finished goods at higher prices and continue to remain economically backward. In India manufacturing industries contributed about 30 per cent of the gross domestic product. These industries provide employment to about 28 million people. Thus industries are a major source of national income and employment. In this lesson, we will study different types of industries, their classification and then distribution in India.

The process of industrialization in India can be divided into two parts – before and after 1992. During first forty years after independence the Indian economy had diversified and expanded very fast. But this growth was characterized by rigid controls and regulations. In August 1992, Government of India took a bold step by changing its economic policies from state control to market forces. A need was felt to give more responsibility to private capital and enterprise, both domestic as well as foreign. In response to this, the new industrial policy of liberalization, privatization and globalization was adopted in August 1992. The immediate cause of these changes in economic policy was to tide over balance of payment crises but having wide social, economic, political and geographical implications. Liberalization means a reduced role for the Government and a greater role for the market or the liberal attitude of the Government for the establishment and running of industries. It was touted as a panacea for the ills of Indian economy. However, after 15 years of following the path of liberalization, the results are not that sweet. The gap between the rich and the poor has increased. Production of goods of mass consumption has not improved. Employment opportunities have not increased at the desired rate. In privatization there will be transfer of the ownership of public enterprises to private capital, opening of more industrial areas to private capital and enterprise. The main aim of privatization is to make use of privately owned resources for collective welfare of the people.

## **PROBLEMS OF INDUSTRIAL PRODUCTS:**

### **Low productivity:**

Manufacturers are held back by poor workforce productivity, primarily because of a lack of automation, outdated manufacturing processes, limited use of design-for-manufacturing, and numerous non-value-added tasks.

### **Talent and skill shortage:**

Rigid labor laws force companies to hire casual workers. Vocational schools are not well-equipped to train workers. Companies fail to focus on intermediate-level manager or foreman grades that can provide on-the-job training to direct labor, and Indian academics stress simulation and Excel modeling for engineers processes.

---

**Inefficient supply chains:**

Infrastructure bottlenecks and structural impediments attributed to state-level taxation policies have contributed to longer lead times and excess inventory across the value chain.

**Lower levels of supplier competence:**

Many Indian tier 2 suppliers have been part-to-print suppliers that have not invested in improving their product development or quality control capabilities. This has made rework and returns routine, further reducing productivity.

**Shortage of Funds:**

Small business entrepreneurs don't have enough long- term or short-term funds. These are, therefore, short of both fixed assets as well as working capital. Even the banks do not come to their help in a big way. Financial institutions like ICICI, IDBI and IFCI help only large scale industries.

**Shortage of Power:**

Because of shortage of power, the small business enterprises are not able to use full capacity of the plant at their disposal. They cannot afford to have their own power generators.

**Labour Problem:**

The labour is mostly unskilled. Small business doesn't have resources to provide good training. Labour is also not paid well. There is no motivation for professional growth. Small business is incapable to bargain with powerful trade unions.

**Global Competition:**

Due to Liberalization, Privatization and Globalization (LPG) policies, small businesses have to face competition not only from large corporations but also from multinational companies which are huge in terms of their size and capital employed. Small companies cannot compete against the quality standards, technical skills, financial creditworthiness and managerial capabilities of large industries.

**CONCLUSION:**

In this paper we study changes in industrial structure in India over the last three decades. Prior to liberalization, market structure in Indian manufacturing was largely shaped by government policy. Already showing tremendous progress in the service sector, now India's manufacturing sector is also gathering pace. With the 'Make in India' campaign India plans to be the leader of the manufacturing sector in the world. With the help of good facilities and world class infrastructure by the state and the national government, most of the backward states are also making progress in terms of their contribution to the GDP. As the total cost on logistics being higher in India than other developing nations, various schemes and programs like the LEEP are being implemented. New policies would be formed and the face of the logistic sector is going to change as new and bigger warehouses and inventories will be set up in order to increase the efficiency of the delivery of the product. In order to increase the speed and efficiency of freight movement government has successfully initiated many projects which will improve the road and rail network of the country. With good connectivity between the major cities, dedicated industrial corridors are also coming up which will be beneficial in improving the manufacturing sector of the country. Amendments in old labour and land laws will bring a sea change to the Indian manufacturing sector with easy licensing to lands and flexible labour laws. Finally after a long wait, the GST bill had been cleared by the government which will abolish the compound tax system existing in the country and replacing it with single tax throughout the country which will be a massive boon for the Indian logistics and transportation sector. With so many positive changes taking place, Indian manufacturing sector is set to welcome its glory days.

**BIBLIOGRAPHY:**

- G.S. Dangayach, S.G. Deshmukh (2007), 'Manufacturing flexibility: a multi sector study of Indian companies', Int. J. of Manufacturing Research 2007 - Vol. 2, No.2 pp. 225 – 242.
- Gang, I. 1995. "Small firms in India: a discussion of some issues". In *Indian Industry: Policies and Performance*, Edited by: Mookherjee, D. Delhi: Oxford University Press.
- Phlips, L. 1971. *Effects of Industrial Concentration: A Cross-Section Analysis for the Common Market*, North Holland: Amsterdam.
- Schmalansee, R. 1989. "Inter-industry studies of structure and performance". In *Handbook of Industrial Organization*, Edited by: Schmalansee, R. and Willig, R. North Holland: Amsterdam.
- Sutton, J. 1991. *Sunk Costs and Market Structure: Price Competition, Advertising, and the Evolution of Concentration*, Cambridge: MIT Press.

**Sharanabasappa Rajappa**

**Research Scholar Dept. Of Economics, Post Graduation Centre Nandhihalli Sandur Bellary.**

**Dr. Nayakara Honnurswamy<sup>2</sup>**

**Assistant Professor Dept. Of Economics Sri Krishna Devaraya University, P.G.Centre Nandhihalli Sandur Bellary.**