

Impact of Socio-economic ideologies on Industrial sector in India since Independence

Group 4

India's challenges after Independence

The Situation

- The Average Indian Income was 1/15th of the contemporary average American income.
- Only 14% of the population was literate.
- Average Life-expectancy was 32 years only

So, lifting the living standards for almost 1/7th of the world's population was a huge task for a newly independent country, which was more dependent on agriculture.

The Initial Strategy

For this, the government in the 1950s adopted the following strategy for economic development:

- rapid industrialization by preparing five-year plans involving massive resources like cement, steel, locomotives, chemicals and power, etc.
- investing in state-owned large industries

Though the country was more dependent on agriculture, the intellectuals of the time did not recommend it as part of the strategy.

Following the 'Socialistic' pattern of Industrialisation

Basic and heavy industries were chosen for investment and were made *public* enterprises to:

- Bring large swathes of the country's productive resources under public ownership for fair opportunities for private-owned consumer based industries.
- Reduce the country's reliance on imports of basic and heavy industrial goods in line with their belief in the goodness of national self-reliance.

In the words of Jawaharlal Nehru, "**To import from abroad is to be slaves of foreign countries**"

The Socialistic approach is also evident from the adoption of **Five Year Plans**. These were first introduced in the USSR by Joseph Stalin

Initial Results

Industrialization was a moderate success for the most of the basic and heavy industries. Still, by the late 1950s, many problems came into foreplay:

- Many Public Enterprises were run due to political motives, rather than economic conditions as some were generating huge losses for the government.
- These Enterprises also failed to generate mass employment, as the nature of work was based on skill rather than being labor-intensive.
- Some Industries were overstaffed and due to less demand, remained on being idle most of the time.

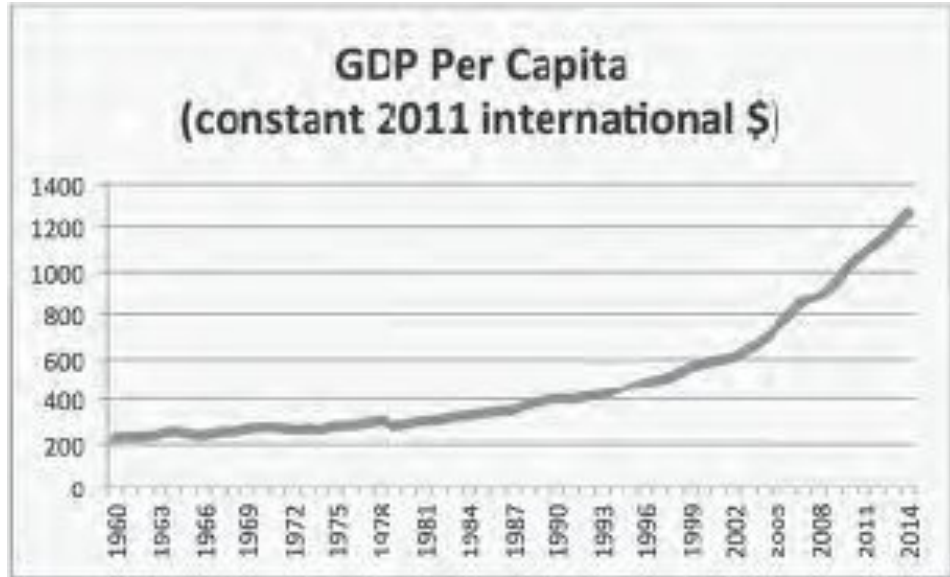
Also, the small industries were somewhat also managed by the government, following the 'socialistic' principle, as after a certain expansion of a firm, the government mandated for the industries to obtain a license, which later became a source of inefficiency and corruption.

The Change in Strategies

There was some change in strategies during the period of Indira Gandhi's tenure due to political agendas:

- The licensing system imposed additional restrictions on the activities of large firms, curtailing their growth.
- Consumer goods such as apparel, footwear, furniture, sporting goods, office supplies, leather goods, and kitchen appliances were reserved by law for production by small firms.
- Foreign firms were asked to dilute their ownership stake in their Indian subsidiaries and in response, multinationals such as IBM and Coca-Cola closed their operations and left the country.

The Change in Strategies



Since the consumer goods were reserved for the small industries, the advantage of economies of scale were gone, resulting in high prices and poor quality, which the foreigners shunned.

Also, the countries like Taiwan and South Korea flourished, exporting this category of goods and thus, “imported” goods became synonymous to “high-quality” goods.

Between 1966-80, The per-capita income growth was a mere 1%, too low to make a dent in the country’s massive poverty.

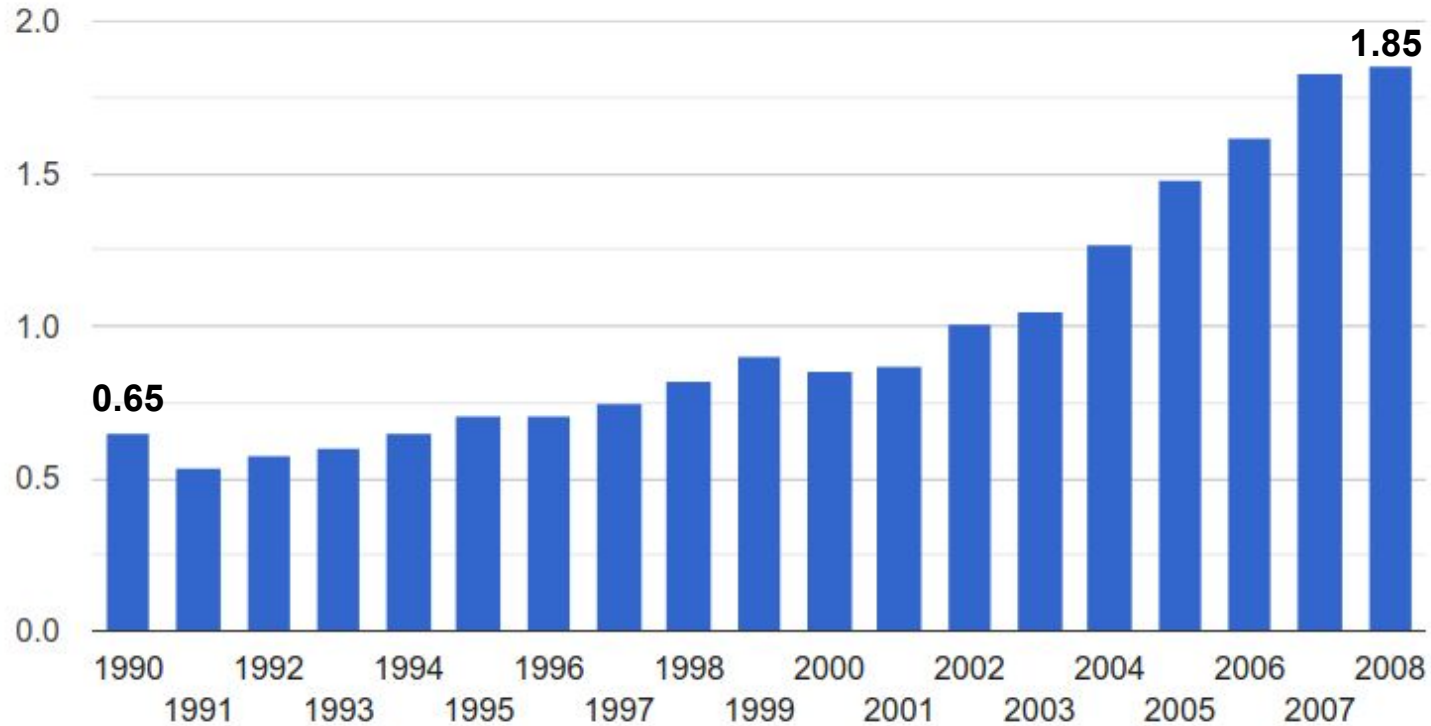
Change of Policies

- The policies mentioned previously had a negative impact on the economy.
- The underutilization of technical and organizational superiority of large firms, delay in issuing of industrial licenses, creation of a false picture of rapid development caused political instability in the country.
- When a foreign shortage threatened a crisis in 1991, the government liberalized the economy for foreign investment.
- So, the socio economic policy shifted from socialism to liberalization, privatization, and globalization.

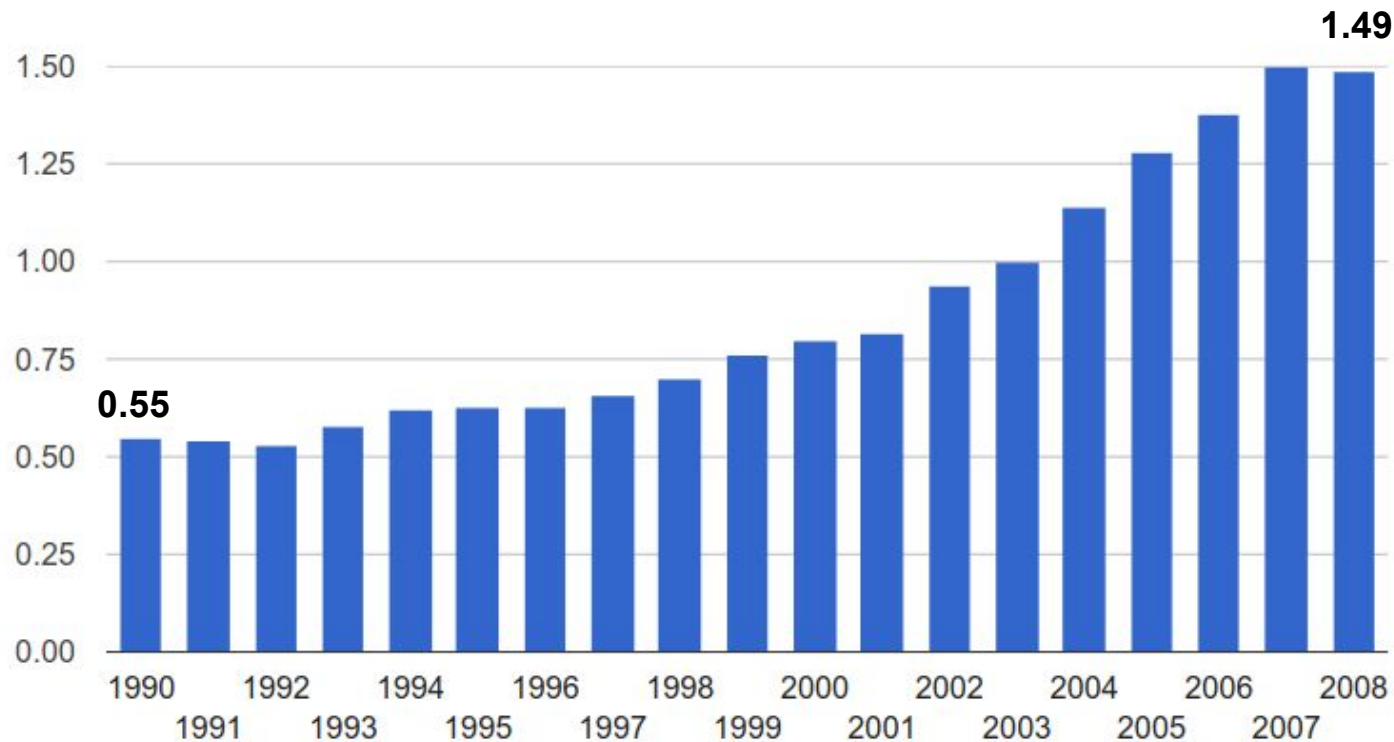
The Positives

- The economy responded with a surge in growth, which averaged 6.3 percent annually in the 1990s and the early 2000s, a rate double that of earlier time frames.
- The number of people who lived below the poverty line decreased between 1993 and 2009 from 50 percent of total population to 34 percent.
- The country's share in world trade increased from 0.4 percent on the eve of the reforms to 1.5 percent in 2006, and foreign exchange shortages, once a chronic headache for policymakers, have now been replaced by reserves upward of US \$350 billion.

Percentage of World Imports



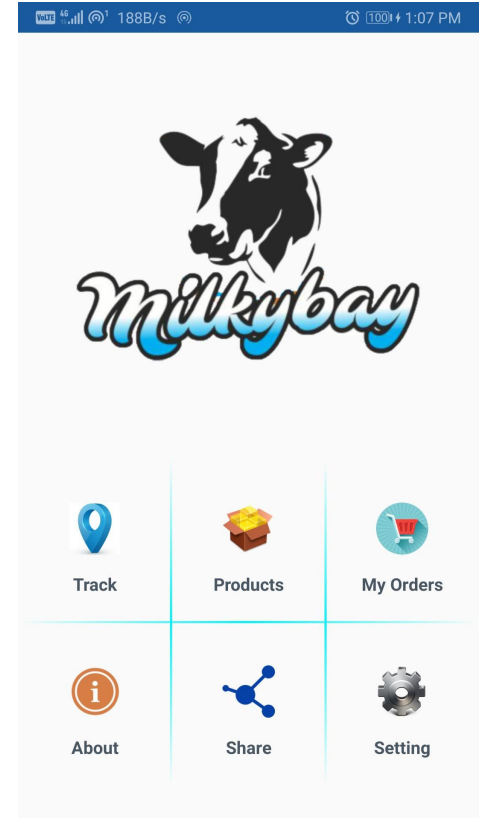
Percentage of World Exports



The Negatives

- The job opportunities increased only for the skilled labourers. This is because liberalization caused more growth for IT and pharmaceuticals sectors.
- There are millions of unskilled labourers in the country who didn't have the same benefits. The country's infrastructure is relatively deficient, and so companies increasingly practicing just-in-time inventory management do not find it cost-effective to include India in their global supply chains.
- Also the restrictive labour laws cause companies to look for other countries for unskilled labour. Liberalization of labour laws is never an option as it tends to cause political opposition.

A Step Forward - Suggestions



A Step Forward - Suggestions

Since the outreach of Liberalization in 1991 was reduced to the big cities only, the following measures could be taken to increase the outreach:

- The need is to make even the remote areas self-reliant, and find opportunities for themselves. Educate and upskill the population, so that the people get to understand and utilize the present resources available better.
- Establishing SEZs (special economic zones) in Towns, offering better land rates and easy process for the industries there, will shift the industrialisation process from big cities.
- Investing in the indigenous Research and Development so that the country becomes a cradle for innovation, providing the people with high-quality and low price products and services.

Group - 4

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Thank You
