Chapter 12
Government Policy Interventions and Performance of Indian Engineering Industries

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ABSTRACT

The Indian industrial policy made a major transition towards liberalization in the mid-1980s with the proponents of liberalization expecting not only a general increase in the efficiency of Indian industry but also improvement terms of innovative performance. Extensive industrial studies, as well as macro-level data, suggest that liberalization in the field of industrial licensing and foreign technological collaborations has resulted in large-scale entry of new firms across different segments of the economy. In this context, this chapter makes an attempt to review the promotion-oriented industrial policies of the Indian Engineering industry and also trace the industrial growth from 1950-51 onwards. It has been observed that there were mainly two breaks (kinked points) during this period, one in 1965-66 and the other in 1984-85. A review of policies suggests that these breaks were associated with major shifts in policies of the government. The study indicates that the first break came through industrial policies of the government with a focus on the heavy industries during the initial phases, while the other break came during 1984-85, which could be attributed to changes in policies from a restrictive one in the mid-'60s and '70s to a liberalized one in this sector in the '80s.
INTRODUCTION

It is important to carefully examine the industrial policies initiated by the Government of India (GoI) in general, and engineering industries in particular to understand their implications on the industrial behavior and development, as in India government play an important role of promotional agency of industrializations. Therefore, this chapter attempts to track the various policy interventions undertaken by the Government of India from time to time that aim of encouraging industrial sector with special reference to engineering industries.

Engineering industry had a negligible share in GDP at the time of independence, it gained in importance ever since rigorous planning regime commenced in 1951. Based on the soviet experience in 1930’s, Indian policy makers believed that the development of indigenous technological capacity and self-sustaining economy would go hand in hand. Therefore, one of the objectives of the Indian planning was to promote heavy machinery building industry. In India, increasing the per-capita income through income redistribution had become extremely difficult and hence the only option left open for increasing per-capita income, employment and through these consumption, was to substantially increase the levels of output (Matthews, 1988). However, the big question was why the output levels had been low in the initial period? From the planners’ point of view, the reasons were low level of investment and poor quality of capital goods. In the Nehru-Mahalanobis growth model, there was an important distinction made between two types of capital goods i.e. (a) those that produce consumer goods and (b) those that produce capital goods. As the objective of the planners was to achieve long term growth, more weightage was given to the second category i.e. ‘machines producing machines’. The Nehru-Mahalanobis state-dominated industrialization model was followed in India for nearly 40 years.

However, since the mid 1980s, the Government of India shifted its policy focus from the macro-economic fundamentals towards growth promotion in the sense that it moved away from the state interventions and import substitution to one of a flexible industrial regime. In view of the rapid liberalization process, the Indian firms were facing strong competitive pressures from within the country as well as from outside. Hence, the reform process in India was initiated in the mid 1980’s which gained momentum in the 1990’s with major changes effected in trade and industrial policies, leading to significant developments in the Indian market.

A number of empirical studies have examined the impact of the liberalization process on the Indian industries in general and the performance of capital goods sector in particular (Mani, 1998; Nagraj, 2002, 2003; Balakrishnan and Suresh Babu, 2003). The engineering industry is a part of the capital goods industry. Many of the earlier studies, which had focused on the capital goods industry, claim that this industry got severely affected since mid 1980’s due to liberalization policies like reduction in tariff rates and liberal trade policy or import of second hand machinery (Desai 2001). The reason for such apprehension relates to the lack of technological competitiveness from the domestic firms given that growth of this industry in India was dependent on in protective environment (monopolistic/ Oligopolistic) with a predominant presence of the public sector. The specific characteristics of technology prevailing in this industry also raised doubts about its growth because of liberalization.

To compete in international markets, the engineering industry needs to focus on ‘product design and development’, as producing for a foreign market requires more technological capabilities to meet the international standards than for the domestic market. Hence, technological development is very important in developing
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