Government Policy and Performance: A Study of the Indian Engineering Industry

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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, the authors review the promotion oriented industrial policies of Indian Engineering industry and trace the industrial growth from 1950-51 onwards. There was 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.

Keywords: Government Policy, Indian Engineering Industry, Industrial Development, Kinked Exponential Growth Rates, Liberalization

1. INTRODUCTION

Although engineering industry had a negligible share in GDP at the time of independence, it gained its importance with a rigorous planning regime since 1951. Based on the soviet experience in 1930s, Indian policy makers started believing that the 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 was impossible, so the only option left open for increasing per-capita income, employment and through these consumption, was to substantially increase in the level of output (Matthews, 1988). Nevertheless, the big question was why the levels of output were low in the initial period? From the planners’ view, the reasons were low level of investment and poor quality of capital goods. In the Nehru-Mahalanobis growth model, there is as 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-Mahalanibis state-dominated industrialization regime was followed in India for nearly 40 years.

However, since the late 1980s, the government of India shifted its focus from the macro-economic policy towards growth promotion in the sense that it moved away from the state intervention and import substitution to one of a liberalized industry. In view of the rapid liberalization and the subsequent integration with the world economy, Indian firms are facing strong competitive pressures from within the country as well as from outside economy. In India the reform process was initiated in the mid 1980s which gained momentum in the 1990s with major changes effected in trade and industrial policies, leading to a significant change in the Indian market.

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

The engineering industry (electrical and non-electrical) produces a range of products (durable machinery, equipment, etc.) used by a wide number of end-users in agriculture, chemical, automobile, petrochemical, fertilizer, textile, mining, power, defence sectors, etc. 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 for meeting the international standards than the domestic market. Hence, technological development is very important in developing export competitiveness. It has been argued that, the incentive to technological development in the domestic industry locked in the initial phases of import substituting industrialization regime. It is expected that after the liberalization, due to competitive pressures the industry would try to access and adopt new technology.

Another important issue then was that the firms should have understood the characteristics of the market given the changing scenario of the World markets. Supplying products to overseas markets therefore, posed major problems to exporters in the developing countries to establish strong marketing or distribution networks. The role of foreign direct investment (FDI) is very important not only for accessing the technology through joint ventures or licensing but also for learning about the overseas markets and developing the networks. It is in this context that the role of FDI is considered very important in explaining the performance of the developing countries especially in especially concerning the industries like engineering. So from all the above stated aspects it is evident that any government has to have a proper planning towards sustainable development of its industry.

Therefore, in this context, it is very much important to review the policies, taken up by the government of India from time to time mainly in the context of engineering industry. With this background in view, we have arranged this paper as follows: Section 2 presented general background about the evolution and structure of engineering industry in India. The section that follows discusses methodology and industrial policy across different phases, and Followed by concluding remarks in the last sections.

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