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# Economic reforms and industrialization experience in India: a policy framework

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**ABSTRACT**

In the economic growth bring about structural change that shifts the centre of gravity of the economy from low polluting agriculture to high polluting industry and eventually back to low polluting services. Moreover, after pursuing an inward-looking development strategy for more than four decades, India decided to take a historic step of shifting its' policy paradigm in 1991. The seeds of economic liberalisation were visible during the 1980s itself. Much of this policy focused on reforms with respect to industry and trade. As a result of this shift in the policy, the Indian industrial sector grew at a higher rate than that of the previous decades and emerged as an engine of growth of the economy. The liberalisation in economic policies also enabled large inflow of foreign capital, technology, trade and environment. However, since India moved from an inward looking policy to a more open-economy approach since 1991, the impact of these policies, the acceleration in industrial growth in India has experienced by the nature and quantum of foreign direct investments (FDI). The role of FDI in accelerating and sustaining India's industrial growth, the Policy initiatives to attract efficiency seeking FDI, especially in the manufacturing and the infrastructure sector would go a long way to place the industrial sector on sustained growth path. Further, care also needs to be taken to regulate the pattern of industrialisation.

**Key words :** Economic growth, Industrial policy, Industrialization experience

In the economic growth bring about structural change that shifts the centre of gravity of the economy from low polluting agriculture to high polluting industry and eventually back to low polluting services. Moreover, after pursuing an inward-looking development strategy for more than four decades, India decided to take a historic step of shifting its' policy paradigm in 1991. The seeds of economic liberalisation were visible during the 1980s itself. Much of this policy focused on reforms with respect to industry and trade. As a result of this shift in the policy, the Indian industrial sector grew at a higher rate than that of the previous decades and emerged as an engine of growth of the economy. The liberalisation in economic policies also enabled large inflow of foreign capital, technology, trade and environment (Srivastava, 2000; Kumar, 2000). Therefore, this paper examines the policy framework of industrialization experience in India.

The basic element of early industrialisation strategy was import substitution. Export pessimism was the underlying assumption. Consequently, since 1956, India placed high emphasis on the capital goods sector or the heavy industry. The choice of capital or investment goods sector over consumer goods' sector was made on the assumption that the economy suffered from serious "capital constraint'. Capital constraint was said to be operating in terms of both financial capital (due to low propensity to save) and availability of physical capital goods. Allocating a larger share of the nation's limited investable resources to create the capacity to produce capital goods whose output will also be used to produce capital goods was expected to remove this capital constraint. The policy imperatives to implement this strategy includes industrial licensing, control on capacity, import and export controls, control of capital issues, control of foreign exchange, allocation of raw materials, price controls and allocations of credit (Siddharthan, 2001). These measures suggest that the planners and policy makers understood the need for using a wide variety of instruments and controls to steer the industrial development in a desired direction. During the late 1960s and early 1970s, Government introduced further regulations to restrict the growth of monopoly in Indian industries and monitor the foreign exchange flows into the economy. The heavy industry biased industrialisation strategy stressed heavily on a "closed economy" approach. Very limited role was assigned to international trade. Achievement of national self-sufficiency was given top priority in the policy formulation. It was widely believed that controls and regulations of exports and imports, and state trading in select commodities, are necessary not only from the point of view of utilising limited foreign exchange resources available but also for securing an allocation of the productive resources of the country in line with the

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