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COVID-19: LOCKDOWN AND INDUSTRIAL PROSPECTS IN INDIA

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Section-I

Introduction:

With the outbreak of COVID-19 and consequent lockdown the entire economy has become a sufferer. Complete stoppage of production of goods and services has wiped out the supply chain. Large number of workers has become bound to stay at home. Employees engaged in private sector enterprises have become scared to lose their jobs. Daily wage labourers have lost their jobs. Livelihood of poor common people has become endangered. Government has become bound to incur huge expenses for taking care of COVID patients. At the same time Government has to spend a lot for providing subsidized or no-cost food grains to the poor people. COVID has hit the external sector as well. Within a moment of time nothing can be changed much. Gradual recovery process with conscious and judicious efforts is to be started. We have to encourage our manufacturing sector so that internally we can boost up our supply chain as well as our purchasing capacity. Rural entrepreneurs are to be encouraged. In order to keep our exports sector vibrant we have to build our indigenous capacity through Research and Development. We have to invest for that. A sustained development of an economy must be through indigenous capacity building and acquiring competitive advantage over others. Indian economy is lacking this approach. Until and unless this basic approach towards planned economic development is adopted and measures are taken for building up of indigenous capacity Indian economy will be a sufferer.This paper seeks to analyse the prospects of industrialization in India with the advent of COVID-19.

Section-II

Performance of Indian Industrial Sector during pre COVID period

The Industrial policy initiatives undertaken by the government since July 1991 have been designed to build on the past industrial achievements and to accelerate the process of making Indian industry internationally competitive. It recognizes the strength and maturity of the industry and attempts to provide the competitive stimulus for higher growth. The thrust of these initiatives has been to increase the domestic and external competition through extensive application of market mechanisms and facilitating forging of dynamic relationships with foreign investors and suppliers of technology. The share of this sector in the gross domestic product has increased from13.3 per cent in 1950-51 to 20.7 per cent in 1966-67,24.4 per cent in 2001-02 and 26 per cent in 2004-05. A significant improvement in Industrial production since 1993 have enabled the rate of growth of the GDP to rise from 0.8 per cent in1991-92 to 5.1 per cent in 1992-93,5 per cent in 1993-94, 6.3 per cent in 1994-95, 7 per cent in 1995-96, 9.2 per cent in2005-2006 and9.4 per cent in2006-2007. The industrial production recovered gradually from an alarming low growth of 0.8 per cent in1991-92 to its peak of 13 percent in 1995-96 and again fell to 8.2 per cent in 2005-06.. The rate of growth of capital goods industries fell drastically from 9.4 per cent per annum during 1980s to only 5.4 per cent during 1990s.Deceleration in exports, reduction in consumer demand due to growing income inequalities and low growth of rural incomes, slowdown in Industrial Investment and infrastructural bottlenecks contributed most to Industrial slow down. Since 1996-97 there has been a significant decline in industrial investment and it led to a decline in the rate of Industrial growth. The supply of finances to the Industrial sector from different sources has not been sufficient to support higher growth. The Tenth – five year plan document clearly states "The industrial development strategy is being re-oriented towards enabling our vibrant private sector to reach its full entrepreneurial potential, to contribute towards production, employment and income generation. Unless the economic environment is conducive to high levels of private sector participation, there can be little progress in accelerating Industrial development and growth". On the whole Industrial growth rate in the post-reform decade has been lower than that in the pre-reform period.(Source: World Bank, 2006 "World Development Report", P. 296&297)

The compound (annual) growth rate of industrial production increases from 5.7 per cent in 1951-55 to 7.2 per cent in 1955-60 and further to 9 per cent during 1960-65. The period 1965 to 1976 was marked by a sharp decline in industrial growth. The industrial growth during 1965 to 1976 was registered to a meager 3.7 per cent per annum. The rate of growth of 6.1 per cent per annum during 1974-79 owes considerably to the 10.6 per cent increase recorded in 1976-77. 1979-80 recorded a negative rate of growth of industrial production of-1.6 per cent over the preceding year. The rate of industrial growth was 6.4 percent per annum

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during1981-85, 8.5 per cent per annum during 1985-90 and 8.3 per cent in 1990-91. The period 1980-81 to 1985-86 was marked by significant acceleration in the growth of value added in the manufacturing sector and all its use-based sectors. The industrial growth in 1980s was substantially higher than the industrial growth in the earlier periods. The most important group of industries in terms of long run industrial development in the group is capital goods industries. The group registered a consistent increase from 9.8 per cent during 1951-56 to 13.1 per cent during 1955-60 and further to 19.6 per cent in 1960-65. During the period 1965-76 the capital goods sector grew at an annual rate of only 2.6 per cent and it raises to 5.7 per cent in 1974-79, 6.2 per cent in1981-85, 14.8per cent in 1985-90 and further to 17.4 per cent in 1990-91. Another important group of industries from the point of view of industrial development is basic industries. Basic Industries registered an annual growth rate of 4.7 per cent during 1951-56, 12.1 per cent during 1955-60, 10.4 per cent during1960-65.BasicGoods Industries registered a negative growth of -0.5 in 1979-80.The growth during 1981-85 was 8.7 per cent and it fell to 7.4 per cent during 1985-90 and further to 3.8 per cent during 1990-91.The rural purchasing power has been severely affected by lower agricultural growth and increased fluctuations in industrial growth during the post-reforms period. Low agricultural growth rate limited the demand for consumption goods as well as demand for capital goods during post-reforms period. The sudden withdrawal of the government from infrastructure related investments without facilitating the private sector to fill in the void effectively, the wide fluctuation in agricultural growth and the unsustainable level of government borrowings constitute the root causes for the slowdown of the economy from the second half of 1996. The flow of funds from the financial institutions to the industrial sector has also not been adequate. As a result of heavy competition in the international market and inability of domestic industry to meet external competition by ensuring quality products exports grew a very low rate during 1990s. Power breakdowns, lack of transportation facilities, poor road

conditions and increase in the cost of power are the factors that adversely affected the domestic industry.

So for as Indian economy is concerned Globalization or the process of opening up of the economy started in early nineties with the adaptation of structural adjustment programmes. Prior to that Indian economy followed an inward looking restrictionist approach to planned economic development since the very independence of the country. It is now well identified that both internal and external forces prompted the Indian economy to adopt outward looking

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policy regime. On the one hand domestic industrialists were keen on enjoying benefits of production through the use of imported new materials and equipments. Domestic traders ware interested to earn profit through sale of foreign goods in domestic market and domestic customers were interested in consumption of foreign goods. On the other hand foreign giants of commerce and industries were keen on having their access to investment in Indian market. Influential foreign trade controlling institutions were interested to exercise their power in the determination of trade policy of the developing countries. According to the standard theory of International Trade, both classical and modern, openness of an economy leads to improved growth. The process is accepted to work through the acquired competitiveness and efficiency and optimal allocation of resources. Most essential requirement of this process to work is the development of a 'Free and Fair' trading system among the countries. The inward orientation of an economy is proved to be detrimental to technological uplift. The benefits of openness, to be accrued to an economy, depends on her potentiality to become competitive in the global market. There is no denying of the fact that the extent of competitiveness lies with the availability of resources and technology. Therefore success of openness lies with the innovation of improved technology and effective utilization of resources. So far as the economy of India is concerned it is to be noted that the economy was bound to open her to the global economy due to the presence of both internal and external forces. The future prospect of India depends not only on her performance of recent past but also on the evolution of her institutional structure. Opening up of trade barriers brought huge possibilities into forefront for Indian corporations. Some industries have proved themselves prudent enough in grabbing these opportunities. This is manifested in the increasing number of foreign collaborations, rise of Indian multinationals and emergence of Indian brands in global markets. So far as Indian Industrial performance is concerned it is to be noted that the increase in growth rate of industries during the early reforms period was followed by a faster rate of decline during 1995 – 2005 (R.Acharyya 2007). According to Prof. Acharyya one of the major reasons behind this slowdown is the growing firm level inefficiency manifested by the decline in total factor productivity growth. Failure in upgrading product qualities, particularly the high technology manufactured goods coupled with poor packaging has resulted in stagnation of export growth. The slowdown in industrial production has also made a dent in the employment profile of both registered and unregistered sectors. The poor performance of industrial sector was accompanied by a rather dismal performance of agriculture. Meanwhile the commendable growth of the service sector and the consequent emergence of India as a major exporter of services, especially in IT and IT enabled services

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have resulted into a 'Service Revolution' in India. This is in sharp contrast with the experience of almost all countries in their earlier stage of economic development. According to Rakshit (2007) one of the major reasons behind the growth of IT and ITES is their relatively low requirement of infrastructure facilities, which is still at its rudimentary level in India. Higher income elasticity of demand for services is also considered to be one of reasons behind the growth of services. To Rakshit this, in turn, implies growing inequality of income. Thus though India has experienced commendable growth during the post reforms period the growth pattern has been extremely unbalanced. This issue deserves proper attention from policymakers in designing future paths of development. Risks of an open economy are well known. The first major concern is that the gains will accrue to countries that are favourably endowed with natural and human resources. The second concern relates to the loss of autonomy in the pursuit of economic policies. In a highly integrated world economy, it is true that one country cannot pursue policies, which are not in consonance with the worldwide trends. Capital and technology are fluid and they will move where the benefits are greater. Globalization is bound to impose some constraints on fiscal and monetary policies of the country. Another fear associated with globalization is insecurity and volatility. When countries are inter-related strongly a small spark can start a large conflagration. There is greater insecurity because of the constant drive towards efficiency and competition. Another serious concern is the indulgence in "double speak" on the part of rich industrially advanced countries. While requiring developing countries to dismantle barriers and join the main stream of international trade, they have been raising significant tariff as well as non-tariff barriers on trade from developing countries. Although average tariffs in the United States, Canada, European Union and Japan range from only 4.3 percent in Japan to 8.3 percent in Canada, their tariff and trade barriers remain much higher on many products exported by developing countries. These trade barriers impose a serious burden on the developing countries like India. The emergence of a new world economic order through the setting up of World Trade Organization (WTO) is a matter of serious concern for the developing countries as there is extreme lopsidedness in the functioning of WTO. The functioning of WTO implies loss of autonomy in policy making for the developing countries. Collectively the WTO agreements have acted to limit the space available to countries to use legitimate policy instruments to pursue their own development goals. Trade and non-tariff barriers, which have come up around the globe, following the formation of WTO, have hurt the exports from developing countries. India is not an exception to that. A paper presented by the Federation of Indian Export Organization (FIEO) "Implications of WTO on India's Trade" reveals that trade and non-tariff barriers imposed by the developed countries following the setting up of WTO have had negative effect on Indian exports. Agreement on Agriculture is also biased in favor of developed countries. The most disturbing aspect of the functioning of WTO is that the dispute settlement mechanism of WTO is by its very nature biased in favour of the rich and against the poor. Thus though the advanced countries are talking more against discrimination they are in favour of practicing discrimination. The only way out of protecting aneconomy against these dangers is to strengthen her comparative advantages. If we scrutinize the performance of Indian Economy in the post reform period we carefully note that the gains in exports and growth rates of output are mainly the resultant of foreign collaborations and activities of multinationals in our country but not due to our indigenous efforts. The basic approach towards industrialization in India should be the building up of our own capacity to capture world market and this is to be done through innovation of technology and effective utilization of available resources. Planers should keep this in mind to formulate plans for determining future paths of development. It is very true that there is no other option but to accept the wave of globalization on the part of India. Unfortunately one peculiar tendency had been developed in India that we have to reap the benefits of globalization and for that the economy will have to welcome multinationals and be turned into center for their production. Thus we are basically advocating the path of procuring "trickling downs" and thereby welcoming sustained vulnerability that is essentially a character of a underdeveloped economy. A sustained development of an economy must be through indigenous capacity building and acquiring competitive advantage over others. Indian economy is lacking this approach. Until and unless this basic approach towards planned economic development is adopted and measures are taken for building up of indigenous capacity Indian economy will be a sufferer of the process of globalization through the invitation of increased vulnerability to foreign countries making Indian exports dependent on foreign collaborations or production carried out by multinationals. Sustained vulnerability would be a sure event to come. Perhaps it would be much wiser to devote much energy to encourage technological innovations for building up of our indigenous capacity to capture world market instead of devoting energy to reap the benefits that would trickle down by welcoming foreign collaborations and/or multinationals in the name of globalization.

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Section-III

Prospects of Industrialization during post COVID period

With the outbreak of COVID-19 and consequent lockdown the entire economy has become a sufferer. Complete stoppage of production of goods and services has wiped out the supply chain. Large number of workers has become bound to stay at home. Employees engaged in private sector enterprises have become scared to lose their jobs. Daily wage labourers have lost their jobs. Livelihood of poor common people has become endangered. Government has become bound to incur huge expenses for taking care of COVID patients. At the same time Government has to spend a lot for providing subsidized or no-cost food grains to the poor people. COVID has hit the external sector as well. Within a moment of time nothing can be changed much. Gradual recovery process with conscious and judicious efforts is to be started. We have to encourage our manufacturing sector so that internally we can boost up our supply chain as well as our purchasing capacity. Rural entrepreneurs are to be encouraged. In order to keep our exports sector vibrant we have to build our indigenous capacity through Research and Development. We have to invest for that.

Section-IV

Conclusion:

With the advent of COVID-19 there has been a devastating state of the economy. The areas that can provide thrust to India's Industrial recovery are the growth of domestic manufacturing sector. India has to reduce its unit cost of production by improved infrastructure, better quality of products, better marketing, policy rationalization and tariff reduction. Care should also be taken to ensure that increase in public investment should not result in crowding out of private sector efforts. Domestic entrepreneurs are to be provided with extended credit facilities. Productive employment opportunities are to be created through exploration of new ventures. For achieving this goal Government should come forward with requisite fund. Along with the policies of accelerating investment in infrastructure by the public sector and encouraging increased private sector investment including joint ventures, provision of a much better marketing will be imperative. Employment opportunities should be promoted in the organized segment of the industrial sector. Promotional policies should be framed for the development of small scale sector rather than protection. Government has to take steps to provide more credit to industrial sector through industrial financial institutions at cheaper rate of interest. Positive steps are to be taken to make India self-reliant.

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