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Perspective Paper

Indian Industry: A Seven-Decade Journey and the Road Ahead

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Abstract

Industrialisation in its true sense began in India only after her independence in 1947. It has been a long journey since then. Initially, for about four and half decades since 1947, based on the Import-substitution strategy, Indian industry functioned in a highly regulated and protected environment dominated by the public sector. However, a paradigm shift occurred in India's industrialisation strategy in the early 1990s as a new policy regime aimed at opening up and deregulation of Indian industry was adopted to facilitate the growth of competition. While the Indian industry has been functioning according to this policy regime for the last three decades, new issues have started to emerge. The paper attempts to unravel the cause and consequence of the process of industrialisation that has unfolded in India over the last seven decades and tries to analyse the challenges confronting the Indian industry at present and suggest the policy initiatives that could tackle them.

***Keywords*:** Public Sector, Pro-Competitive Measures, Employment Elasticity of Growth, Non-Performing Assets, Labour Reforms

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Introduction

Organised efforts towards industrialisation were visible in India only after her independence in 1947. Since then, it has been a long journey for the Indian industry spanning over seven decades. The process of industrialisation which has unfolded during this period can be segmented into two distinct phases. The first phase of industrialisation which covered about four decades since 1947 followed a particular pattern that underwent a complete change during the early 1990s. Since then, for the last 3 decades industrialisation in India has moved along the changed course. As one looks at how industrialisation has progressed in India, some very pertinent questions may crop up. 1. Why does India's industrialisation process lack a uniform pattern? 2. What were the reasons behind the change in the process of India's industrialisation after about four decades? 3. How has Indian industry performed during the different phases? and 4. What are the future issues of concern for the Indian industry and how they need to be addressed? The ensuing discussion tries to delve into these questions and seek answers to them which are vital for understanding the process of industrialisation which has evolved in India over the last seven decades.

As Indians achieved independence from about two-century-old British rule in 1947, along with political power, they inherited an economy which was largely agrarian in nature. Maddison (1971) and Chandra (1979) point out that though modern industry began developing in India after 1918, it had a very insignificant presence contributing only 7.5% to Indian's National Income in 1947 and employing a meagre 2.3% of the country's labour force in 1951. According to Chaudhuri (1979), along with small scale industries and mining, the overall contribution of the Indian industry was 12-14% of Gross Domestic Production (GDP) at the beginning of 1950. Therefore, industry played an insignificant role in the economy; agriculture was the dominant form of economic activity, employing over 80% of the Indian workforce. Even the major industries of that time, like jute, tea and cotton textiles were agro-based ones. Large scale modern manufacturing industry was represented by the few steel plants which were established during the early part of the 20th century. Chaudhuri (1979) observes that though some amount of consumer goods was produced in the country it was overwhelmingly dependent on imports. Roy (2011) points out that the imports provided a significant market for British industries while India's capability for producing capital goods was almost non-existent.

Beginning of India's Industrialisation: Strategy of Import-Substitution and Public-Sector Domination

Inheriting such an agrarian economy, India embarked on its path of industrialisation choosing import-substitution as the strategy. According to Dandekar

(2004), it was the urge for self-reliance that influenced the choice of India's industrialisation strategy. The thrust of the import-substitution strategy was on building up domestic production capabilities through the development of the capital goods industry which in turn would enable the Indian industry to indigenously produce the goods which were earlier imported. However, problems arose about the implementation of the strategy. At the time of independence and soon afterwards, the Indian private sector was not in a position to set up a capital goods industry that involved huge investments, application of advanced technology and, a long gestation lag. With no other alternatives to develop the capital goods industry, the government had to come forward and set up public sector units for the production of capital goods. Thus, Public Sector Enterprises (PSEs) which were to dominate the Indian industrial scene for the next four and half decades were born.

In the course of these four and half decades, industrialisation in India moved on in a highly protected and regulated environment backed by legislations that aimed at regulating domestic investments, keeping a check on the growth of monopolistic tendencies, controlling foreign domination and providing protection to Indian industries from foreign competition. Jalan (2021) has observed that over these four and half decades, Indian industry was overwhelmingly dominated by the public sector with its presence not only limited to the capital goods sector where they were needed, but almost in every sector of Indian industry. It has been further pointed out by Jalan (2021) that though public sector enterprises provided a strong base for Indian industry enabling it to develop across the board production capabilities; but the way they functioned for about four and half decades resulted in serious fallouts which had a deep impact on India's long-term industrial development.

In India, the public sector was not viewed as a profit-making commercial entity but as a means for the welfare of the people. In particular, the public sector capital goods industry was considered to be the source of employment and income for Indian masses and supplier of cheap means of production for the consumer goods industry. This approach resulted in most of the Public Sector Undertakings (PSUs) having a huge labour force, and many of them operating with surplus labour. This surplus was a result of employees being recruited through political intervention without considering the production needs of the entity. Besides, in its endeavour to provide cheap means of production for consumer goods industries, the government followed a discretionary pricing policy, known as Administered Pricing Mechanism (APM). This policy was not cost-based and did not generate any reasonable surplus for the capital goods producing public sector enterprises as it barely covered their cost of production. Moreover, according to Mohan (2004), the desired expansion in the

market for consumer goods was absent particularly during the period extending from the mid-1960s to 1980. As demand for capital goods depend on the growth of consumer goods sector so the lack of expansion of the consumer goods market greatly constrained the growth in demand for capital goods. This resulted in a stagnation in sales and thereby in the revenues of the public sector enterprises in the capital goods industry.

Thus, it was a combination of stagnating sales revenues, spiralling non-productive expenditures due to the presence of surplus labour and a non-market-based pricing system that barely covered the production cost which leads to a situation where a large number of PSUs were unable to meet their operational expenses and ran into perpetual deficit. The government, the owner of these companies, had to dole out increasing levels of subsidies to cover the rising PSU deficits. This, in turn, compelled the government to go for huge borrowings both from the public as well as from the Central Bank. As a result, the total public-sector borrowings (including government borrowings) increased from 4.4% of GDP, during 1960-75, to 6% of GDP by 1980-81, before becoming 9% of GDP by 1989-90 (Jalan, 2017). Further, according to Jalan (2017), out of the interest payment of Indian Rupees (INR) 400,000 million on public debt, nearly one-third was on account of the Government's past investment in the public sector. The huge public borrowing by the government resulted in a paucity of lendable funds in the banking sector for industry in the private sector and pushed up their cost of borrowing to 20% or even higher. The lack of availability of finance and its high cost severely constrained the growth of industry in the Indian private sector.

However, despite Indian industry being dominated by the public sector, presence of the private sector was noticeable. According to Bagchi (1972) and Ray (1979), Indian private sector essentially constituted a handful of big family-run business houses that made their forays in industry after amassing a fortune from trading activities during the colonial era. The activities of these business houses were confined to a few sectors such as Fast-Moving Consumer Goods (FMCG), and consumer durables like automobiles. This was due to the policy-induced entry barriers in the form of licensing policy, the prevalence of high level of import duties and quota restrictions which provided them protection from competition enabling them to enjoy a position of near-monopoly. Basant (2000), opines that in many cases, oligopolistic coordination among the big industry houses often pre-empted industrial license issued by the government. Marathe (1992) points out that private sector firms in the selected few industries used their near-monopoly position to ensure profitability with below-normal capacity utilisation. The captive markets offered to the Indian

private sector by the protected environment enabled them the luxury of monopoly profits at the cost of the consumers with very little effort on their part towards the improvement of competitiveness through productivity improvement, quality up-gradation and proper utilisation of resources.

The biggest fall-out of the Import Substitution strategy was the emergence of high-level inefficiency. The policy-induced protective regime created to facilitate self-sufficiency resulted in public and private sector monopolies where there was very little urge for improvement in efficiency levels. This had its impact on industrial performance and productivity as India was the worst performer on these two fronts among developing countries realising an annual average growth of just over 6% during the entire period between 1950-82 which fell well short of the projected annual average growth of 8% for the period. According to Nishimizu and Page (1986), this leads to an average shortfall of about 20% in industrial achievement during each Plan period. The degree of regulation and protection in Indian industry was much lesser in the initial stages of industrialisation. It was since the latter half of the 1960s that the enactment of the Monopolies and Restrictive Trade Practices (MRTP) Act 1969, Foreign Exchange Regulation Act (FERA) 1974, and substantial increases in the level of tariff and quota marked increasing level of stringency in the regulatory framework of Indian industry. The MRTP Act imposed various restrictions on the entry and expansion of Indian firms in industries while the FERA which capped the limit of shareholding by Multinationals in their Indian subsidiaries to 40% served as a disincentive to foreign firms and reduced their presence in Indian industries. According to Mohan (2004), the introduction of these Acts, which were deterrents to entry for both domestic and foreign firms, along with the high tariff walls that were erected around the Indian industry may be indicators of the fact that this sector required ever increasing degrees of protection for its survival during the 1970s and 80s. However, Mohan (2004), points out that neither tightening of the regulatory framework nor rising levels of protection had the desired effect as the average industrial growth rate of 7.7% achieved during 1950-65 came down to an average of 4% during the period from the late 1960s to 1980. Besides, Mani (1995) points out that there was a considerable rise in monopolistic tendencies in Indian industry during the period as indicated by the rise in concentration level from 61 in 1972 to about 71 in 1983. Nishimizu and Page (1986), observe that the high cost and low-quality character of Indian industry was a development of this period resulting from the poor industrial performance and low productivity which was the outcome of the prevalence of different types of physical controls particularly those about imports. Mohan (2004) while referring to this as the darkest period of Indian industry, still considers this level

of industrial performance as an achievement given the enormous distortions prevailing in the Indian industrial system during the period.

Ultimately by the beginning of the 1990s, the adverse effects of the all-round inefficiency associated with the functioning of Indian industry reached their fullest spilling over the entire economy putting both Indian industry and economy in dire straits. Basant (2000) and Bhavani and Bhanumurthy (2007) observe that the over-regulated and protected industrial structure which did not allow competition to foster was the root cause of the inefficiency in Indian industry. The solution was to do away with policy-induced barriers to entry, so that foreign and domestic competition could breed in Indian industry which would improve its efficiency, making Indian firms globally competitive. Indian government realised this need for a policy overhaul for increasing the level of competition in Indian industry to improve its efficiency. Subsequently, by early 1991 a new competition-enhancing industrial policy regime was adopted for the Indian industry.

Course Correction of the Early 1990s

Change in Orientation and Shift in the Policy Regime

According to Mohan (2004), signs of change in the Industrial Policy Regime were visible since the mid-1980s as efforts were made to provide greater autonomy to the public sector while also initiating selective de-regulation of imports. However, it was with the initiation of Industrial Policy Resolution (IPR)1991, a paradigm shift occurred in the orientation of India's overall industrialization strategy. Enactment of IPR 1991 signalled a shift in the focus of India's industrial policy regime from that of restriction of imports for facilitating the development of indigenous industries towards utilization of the advantages which India possessed for making Indian industry globally competitive. Based on the principles of liberalisation, privatisation and globalisation, the government, through the provisions of IPR 1991, tried to put in place a policy regime designed to promote competition and enhance the efficiency of Indian industry. The focus of IPR 1991 was on freeing Indian industry from excessive regulation and bureaucratic control, facilitating growth and expansion of the private sector, limiting the role of the public sector along with lessening their subsidy burden, and facilitating the flow of foreign capital and technology in Indian industry.

According to Agrawal (1992), in a very significant move towards deregulating the functioning of Indian industry, the Industrial licensing policy was abolished for all but a handful of industries. This enabled entrepreneurs to take business decisions guided by market signals and based on their economic logic instead of being dictated

to by the government. Further, 17 industries were opened up for private participation, out of the 24 which had earlier been reserved for the public sector. Another significant measure initiated for increasing private sector participation was the amendment of the MRTP Act. The amendment considerably eased the constraining effect of the Act on the entry and expansion of large private enterprises in Indian industry. Along with domestic private investments, IPR 1991 placed special emphasis on increasing the inflow of foreign investments in the Indian industry. Amendment of the FERA Act which lead to the increase of the ceiling for Foreign Direct Investments (FDI) from 40% to 49% was a very important step in this direction. Besides, as pointed out by Agrawal (1992), in areas of high priority and advanced technology, the ceiling for foreign investment was further raised to 51% and automatic permission was granted to foreign technology agreements. Over the next few years, the ceiling for foreign investment underwent a progressive increase to 74% and finally to 100%. The measures facilitating inflows of foreign capital and technology greatly helped the Indian industry to overcome the problems of the paucity of capital and the existence of the technology gap. IPR 1991 also accorded considerable importance to Small Scale Industry (SSI). Provisions were made in the IPR 1991 for ensuring availability of adequate financial resources for the SSI sector. As part of such provisions, the ceiling of investment in plant and machinery in small Scale enterprises was raised to INR 10 million. Further, large scale enterprises were allowed to hold up to 24% of the equity in small scale enterprises (Agrawal, 1992).

As pointed out by Agrawal (1992), a change of great significance effected through IPR 1991 was the amendment of the Sick Industrial Companies Act (SICA). The amended SICA enabled the government to refer chronically sick PSUs to Board for Industrial and Financial Reconstruction (BIFR) for ascertaining their revival prospects. If chances of revival were present, then suggestions put forward by BIFR would be implemented. However, those beyond revival were to be closed down or sold to private enterprises. This not only helped in turning around many of the erstwhile loss-making public sector enterprises but saved the government from shouldering the huge subsidy burden to keep chronically sick PSUs running. As the subsidy burden got lessened, the government's need for borrowing also got reduced which resulted in the release of a sizeable volume of lendable resources in the banking sector. This eased the paucity of investible resources which also lowered the borrowing rates for the private sector thereby facilitating their growth. Besides the amendment of SICA, the other change of far-reaching consequence for the PSUs was the disinvestment program. As part of the program, Government went for the sale of a part of its equity holding in select PSUs in the financial market. This move, which

resulted in partial privatization of PSUs enabled the government to raise resources for meeting essential expenditure commitments without going in for any public borrowing. This was also expected to result in improved efficiency and better performance of public sectors, a fundamental objective behind the initiation of industrial reforms.

The essence of the new policy regime lay in doing away with the idea of public sector domination and developing a private-sector oriented industrialization process where along with domestic private investments, foreign investment would have an important role to play relieving the government from the dual burden of setting up new and sustaining sick public sector enterprises.

Response of Indian Industry

The response of the Indian industry to the changed policy regime in the post-1990s had a far-reaching impact. The paradigm shift in the orientation of India's industrial policy regime did have a significant impact on inflows of domestic private capital and also on FDI. FDI which was meagre before the 1990s showed a significant increase since 1991 making India one of the favourable destinations for FDI. According to United Nations Conference on Trade and Development (UNCTAD) (2019), India is among the top 10 recipients of FDI in the world today. It has been further pointed out by UNCTAD (2019) that the FDI inflows of US $42 billion which India received in 2018 accounted for 77% of the total FDI inflows coming in to South Asia. This figure further increased by 16% in 2019 reaching $49 billion. A major portion of India's FDI inflow has gone to Telecommunications, consumer products as well as to manufacturing. Benefitting from the substantial increase in the level of domestic private and foreign investment in the course of last three decades Indian industry did achieve a turnaround from its precarious position at the beginning of the 1990s.

Sharma (2014) opines that though India's industrial growth rate in the post-1990s did not reach the 8% mark which was achieved during the 1950s and 60s, the average annual growth of 6.7% that was realized by Indian industry during the post-reforms period of 1991-92 to 2010-11 was noteworthy because it was achieved by overturning the lowest ever industrial growth rate of 0.6% in 1991-92 and by weathering the global financial crises of late 1990s and 2000. The main contributor to India's industrial progress in the post-1990s has been the performance of the two sectors, Information Technology (IT) and Telecommunication. The I-C-T (Information Communication Technology) revolution which changed the face of Indian industry was the result of the interplay of a host of factors. Since the early 1990s, technological

developments taking place in the area of computer technology and its applications opened up opportunities for computerization and automation of industrial activities. Industries of the developed nations realized that computerization could provide them substantial benefits in the form of significant cost reductions and qualitative improvements resulting from lower manpower requirements and improved work efficiency. However, the computerization of industrial activities depended on the development and application of high quality, customised software packages and their regular maintenance. But the cost of hiring software professionals who would develop and maintain the software packages was very high in the industrially advanced nations, and this compelled industries of the developed nations to turn their attention to the developing countries from where they may procure software technology qualitatively at par with that available in their countries but at a lower cost so that the high cost of computerization in their countries did not offset its benefits. Consequently, as observed by Roy (2005), India, richly endowed with low-cost human resource, well trained in the area of electronics and computer science, having excellent analytical and innovative qualities, which were the essential pre-requisites for the development of software technology, became the chosen destination for industries of the developed nations. As pointed out by Roy (2005), initially Indian software companies were engaged in on-site activities but as the internet revolution created opportunities for offshore activities, the Indian software firms were able to provide software technology solutions to industries in developed nations from the country itself over the internet. Subsequently, some pragmatic changes which were initiated in India's industrial and export-import policy regime, along with infrastructural improvements in the form of availability of high-speed broadband connections greatly improved the quality of services of the Indian software companies resulting in the expansion of domestic along with the overseas market.

It has been rightly pointed out by Roy (2005), that the emergence of the Y2K compatibility issue towards the end of the 1990s, turned out to be the game-changer for the Indian IT sector. As industries of the West got a first-hand idea about the ability and efficiency of Indian software companies in solving complicated software issues like the Y2K problem, the Indian IT industry became globally recognized for their intellectual capability. From early 2000 onwards Indian software industry started making rapid strides experiencing phenomenal growth over the next few years. It became India's new growth centre with a rising share in GDP from 1.2% in 1998 to 8% in 2017, with the peak being 9.5% in 2014-15.

According to the National Association of Software and Service Companies (2021), the Indian IT industry employs about 4.47 million people at present and is to

generate a total revenue of about US $194 billion during the fiscal year 2020-21 while the exports and domestic revenues are likely to be US$ 150 billion and US$ 45 billion respectively. In the global outsourcing market, Indian BPOs have a share of 55%. Besides this impressive performance, progress achieved in software technology has greatly aided the development and growth of telecommunication, the other leading sector of India. IT and telecommunication have played a complementary role as the availability of quality telecommunication services have helped in the progress of the Indian IT sector while the advancement in software technology has contributed to the stupendous growth of the telecommunication sector. India's telecommunication industry with a subscriber base of 1.2 billion at present is the second largest one in the world in terms of the number of mobile and internet users. It provides direct employment to 2.2 million people and together with IT contributes about 16% of India's GDP at present.

The changing Indian industrial policy regime has not only led to the emergence of new growth centres in Indian industry like IT and Telecommunication but it has brought about a marked change in the structure of Indian industry in course of the last thirty years with many of the industries undergoing a transformation from protected Monopolies to relatively liberalized Oligopolies. Consequently, both the private and public sector realized that in the changing industrial landscape there was a need to redraw their business strategies. As pointed out by Beena (2008), since 1991, as a strategic response to the lowering of policy-induced barriers in Indian industry, both family-owned Indian business houses and foreign subsidiaries have been moving towards consolidation of their position in the market through Mergers and Acquisitions (M&As), focussing on their core competencies to improve their efficiency. However, the use of M&As as a strategic tool has been greatly aided by the enactment of Competition Law of 2007 and its subsequent amendments (Bhattacharjea, 2008). Bhattacharjea (2008) observes, that the Competition Law (2007) like the earlier anti-monopoly laws of India has not advocated a blanket restriction of M&As but has followed a discretionary approach regarding such activities, allowing it in instances where it enables firms to utilize the advantages of scale economies. The significance of M&As post-1990 is evident from the information presented in the M&A report (2019) of the Confederation of Indian Industry. While only 542 M&As had taken place in Indian industry during the entire fifteen-year period from 1974-1989, in one single year in 2000 there have been 1477 M&As. Between 2015 and 2019 more than 3,600 M&A deals, aggregate value of which is more than $310 billion, have taken place. The stupendous growth in M&As has led to an un-precedented re-organization of asset ownership with the dominant

players in the market going in for the aggressive acquisition of the smaller ones while those at the fringe moving out of the markets by selling off to market leaders.

M&A activities can be observed across the sectors but according to India M & A Report, (2019), three sectors, Industrial goods, Energy, Telecom and Media account for more than 60% of the deals by volume and value. In the sectors which have witnessed significant M&A activities the market share of top firms has increased considerably. For example, in telecom, market share of the top five firms has increased from 79% in 2014 to 99.6% in 2019; in cement it has gone up from 46% in 2014 to 50% in 2019 and in steel, the share of top five firms has increased from 51% in 2014 to 58% in 2019. This is an indicator of the fact that even though policy-induced barriers may have come down in the Indian industry, the incumbent firms have been able to use M&As as a strategic barrier to restrict the entry of new firms and increase their market shares resulting in the persistence of high seller concentration levels in many of the industries

As market structure has changed for Indian industry there has also been an intensification of competition which is more or less in line with the type proposed in the theory on Industrial Organisation. According to Kambhampati (1996), in most of the Indian industries, it is more of a non-price competition among a few players. The pricing pattern in the Indian industry reveals the absence of competitive price-cutting by firms for obtaining larger market shares which may lead to falling profit margins. Instead, an implicit understanding can be observed among the firms in different market segments about the pricing of their products. Kambhampati and Parikh (2003) further observe that because of the existence of covert collusion among firms about the pricing of their products, profitability in the Indian industry has not been observed to fall even in an environment of increased competition in the post-1990s. The increasing affordability which Indian consumers have experienced over the last three decades has not been at the cost of declining profits levels of the firms; it may have been the result of cost efficiency achieved by firms from product-related innovations and scale benefits. Kambhampati (1996) observes that competition in the Indian industry has been essentially product-centric and in this scenario, firms are observed to use product differentiation as their main strategy for competing against each other.

As far as the response of the Indian industry to the changing policy regime in the post-1991 period is concerned, its performance on the external front has been most significant. Along with changes in India’s industrial policy, liberalisation of those imports which helped in better utilisation of the expertise and knowledge which India

possessed in different lines of activities changed the orientation of Indian industries. Consequently, industries like Software technology, Gems and Jewellery, leather and readymade garments which immensely benefitted from the easing of imports of computer hardware, raw uncut precious stones and machinery and equipment utilized their expertise in the relevant fields to produce quality software, gems and jewellery and leatherware at competitive prices to become the leading export-oriented industries of India. With the development of such dedicated export-oriented industries, a fundamental change took place in the composition and destination of India's exports. The predominance of agro-based products in Indian exports became history as India’s export basket in the post-1991 era consisted of high value-added, knowledge and skill-intensive industry products the major portion of which were destined for markets of advanced industrialized countries.

Issues for the Future

In the course of last three decades, there has been a perceptible change in the orientation of Indian industry. Indian industry has moved away from a public sector-dominated one to one where the private sector has come into increased prominence. However, as pointed out by Jalan (2017), PSUs still continue to be a very important constituent of the Indian industry as out of the total contribution made by the sectors like mining, construction, power and finance (taken together) in the GDP, half comes from the public sector. Public Sector enterprises are closely linked to other enterprises and other sectors as suppliers and buyers of goods and services. Hence if the public sector fails to function it will have a profound impact on the rest of the industry. With the government being no longer in a position to subsidize the operational losses of the public sector enterprises or to provide resources for fresh investment, survival and growth of the public sectors are likely to depend increasingly on their performance for which they need to have absolute autonomy and full freedom of decision making in every aspect of their functioning. They need to function competitively striving for sustained profitability over time like any other commercial entity. Though privatization of ownership and management is thought of as means of bringing accountability and market discipline to the public sector enterprises, this can only be a partial answer in the Indian context. As observed by Jalan (2017), partial disinvestment of equity is feasible and helps the government in raising resources but the public sector is too large to be fully privatized shortly. Apart from intricate operational and financial issues (such as valuation), several complex issues, particularly about labour would have to be sorted out. However, as opined by Jalan (2017) privatization of ownership and management may begin with smaller enterprises in the service, consumer, and other simpler activities which then may be

extended to the manufacturing industries in a manner depending on the experience. It is of vital importance to find answers to the problems posed by public enterprises so they do not drag down the rest of the economy.

As observed by Agrawal (1992), cutting down of public sector and other subsidies and economization of unproductive expenditures in the post-1990s did help the government to rein in the widening fiscal deficit which reached an alarming proportion in the early 1990s. The improved efficiency and profitability of public sector enterprises in the post-1990s have played a key role in the reduction of the subsidy burden. However, there are some causes of concern. The imminent disinvestment of government's shareholding in public sector enterprises may result in a fall in government's earning from its investments and coupled with this the requirement of huge fiscal stimulus in the post-pandemic scenario may lead to an aggravation of the fiscal deficit. In this context, maintenance of maximum efficiency of public sector investments assumes crucial importance for the future progress of Indian industry.

Along with Public Sector's efficiency, the other factor that will determine the future of Indian industry is FDI. FDI has increased substantially, playing a very important role in Indian industry in the post-1990s. However, apart from the volume of FDI inflows, its sectoral destination is also an important criterion for achieving a higher level of industrial growth. As pointed out by UNCTAD (2019), the bulk of FDI has gone to sectors like telecommunication services and consumer goods, both consumer durables and FMCG. Such inflows may have helped investors in realizing their objective of earning easy, quick, and risk-free returns but it may not have been ideal for the long-term growth prospects of a country like India where the development of the infrastructure sector is greatly constrained by the paucity of resources. Huge investments are required in areas of Energy, Transport, and Communications for reducing the cost of production and transportation of goods and services. This can bring goods and services within the purchasing power of many more people and facilitate the growth and expansion of the market which is vital for the sustenance of high industrial growth in the long run. Since investments by the government is not adequate and the private sector not much willing to bear the uncertainty and long gestation lag associated with the large-scale investments in the infrastructure sector there is a great need for FDI in the sector. In this background, the onus lies with the government of developing an effective facilitative-regulatory mechanism that can work towards the channelization of FDI in the much-needed infrastructure sector.

Besides the infrastructure sector, the sector which crucial to the future of Indian industry is manufacturing. An intent look at India's structural transformation, which has emerged in course of India's industrialization over the last seven decades, reveals that it has not been in line with what is espoused by Clark and Fischer in their famous thesis (Thirlwall, 1994). According to Clark-Fischer's thesis, as an economy moves from an agrarian to an industrialized one and then to a highly industrialized one, a structural transformation occurs. Initially, as agriculture and allied sector shrinks and industry expand to become the largest sector of the economy only thereafter as industry attains the fullest expansion that the service sector starts growing to ultimately become the largest sector. In India, the story has been different. Initially, till the beginning of the 1950s agriculture and allied sector was the leading sector of the Indian economy. But in the course of the last seven decades i.e., during 1951 to 2018-19, share of Agriculture and allied sector in GDP has declined from 51% to around 15.8%. In the meantime, the manufacturing sector's share in GDP has gone up from 10.51% to 13.65%, a mere 3% increase while the Service sector's share in GDP has increased from 33% to 54.4 %, an increase of 21%. Thus Service sector has surged ahead of manufacturing to become the leading sector of the Indian economy taking over from agriculture and allied sector. It has been observed by Dhawan and Sengupta (2020) that at a time when the service sector's share in total employment has grown by 5%, that of manufacturing has increased by only 1%. Performance of manufacturing sector has been particularly bad in the post-reforms period during 1990-91 to 2018-19 when its share in GDP has declined by about 3%. Dhawan and Sengupta (2020) have further pointed out that growth of manufacturing output has undergone a sharp decline from 4.8% in 2013 to as low as 2.8% in 2015-16 before picking up to 3.9% in 2018-19 which is still way below the level recorded in 2013.

All these are pointers to the fact that the manufacturing sector, which is the key constituent of any advanced industrial economy, has fallen way behind in Indian industry. The unusual pattern of India's industrialization has resulted in stunted growth of the manufacturing sector. The skewed structure of the Indian economy characterized by a narrow industrial and manufacturing base supporting a much broader service sector could well have been the major cause for the problems of rising unemployment and falling industrial growth rates that have been plaguing Indian industry in recent times. Only a fully developed manufacturing sector can take an economy to the highest level of industrialisation generating adequate employment opportunities and propelling the industry towards a self-sustained high growth path. The growth and development of the service sector are dependent on the manufacturing sector because as the manufacturing sector develops it generates both

direct and indirect demand for services. Larger the manufacturing sector broader is the demand base for services. Therefore, without a fully developed manufacturing sector sustaining a service-centric growth becomes extremely difficult because the service sector stagnates in the absence of a strong demand base.

To correct the existing structural imbalance and tackle the problems faced by Indian industry, development of the manufacturing sector is essential which can be possible if there are substantial inflows of both foreign and domestic private investments in the sector. But to facilitate such inflows, some changes in certain areas of the existing policy regime may be needed. Labour is one such area. In today's globalized world, investors are on the lookout for investment destinations that offer them quality inputs at a reasonable cost. Hence the availability of low-cost quality labour becomes a very important determinant in the investment decisions of firms. Investment destinations which have flexible labour hiring policy that allows firms to use non-permanent labour force whose size can be adjusted according to the production needs are preferred by the firms because it lessens their financial burden incurred on account of a higher salary, wages and rising long-term social security expenditure associated with a large permanent labour force.

However, the general perception about Indian labour laws among private and foreign investors is that in their effort to protect workers' rights and security of income, they restrain the freedom of entrepreneurs in taking business decisions. Particularly, provisions of the Industrial Disputes Act 1947, which form the basis of employer-employee relations in India are thought to be quite stringent by the investors. Even though outsourcing is being allowed, the switchover to the contractual labour hiring policy which the firms look for is still a far cry in India. Besides, the firms operating in India feel that the process of winding up businesses in India is too lengthy, tedious, and involves considerable financial burden on the firms due to the compensation to be paid to labour as per prevailing laws. Bhavani and Bhanumurthy (2007) observe that the perceived rigidity in labour laws and the absence of business-friendly exit policy have been two major deterrents to entry into the Indian industry in recent years. Thus business-friendly policy changes in these areas may go a long way in attracting an increasing level of investments in Indian industry at large and the manufacturing sector in particular.

Along with labour reforms, the other area of crucial importance for re-invigorating the Indian industry and manufacturing sector is the performance of the financial sector. One of the main reasons behind stagnation of private sector

investments in recent times is the liquidity crunch in the Indian banking sector resulting from the sustained increase in the level of Non-Performing Assets (NPAs). According to the Handbook of Statistics (2019-20), NPAs which primarily are bad debts of banks remaining unpaid for more than 90 days are to the tune of INR 10,350 billion. NPAs have been steeply rising since the early part of the last decade, from 3.2% of the total advances in 2012-13 to 9.3% in 2016-17 and reaching a level of 12.5% in 2021. According to the Reserve Bank of India, due to Covid-19 effects, NPAs in the Indian banking sector may even go up to 14.7% of total advances within 2021. Apart from reducing the volume of lendable resources of the banks for industry, rising NPAs have led to considerable weaning of credit flow to Non-Banking Finance Companies (NBFCs) which provide the bulk of consumer credit constraining the growth of consumer demand. Not only this, rising NPAs have compelled banks to follow an over-cautious, stringent approach in their lending practices due to which the upcoming industries are finding it very difficult to fulfil the tough terms and conditions set by the banks for obtaining bank credit. There is an urgent need for comprehensive measures towards recapitalization and refinancing of the Indian banking sector so there is an easing of the liquidity crunch which can prevent dampening of the business confidence and investment climate that is resulting from rising NPAs. Otherwise, investments will not materialize because currently industries in India are overwhelmingly dependent on the banking sector to meet their short and medium-term financial needs. The recent efforts towards the amalgamation of public sector banks for increasing their capital base and injection of funds by the government towards refinancing them are steps in the right direction, as according to Reserve Bank of India (2019-20), 85% of NPAs in Indian banking sector consist of loans and advances extended by public sector banks. However, if such measures are to encourage investors, they need to be continued and intensified.

In addition to the issues pertaining to Labour and Finance, there is another area of great significance for the Indian policy-makers with regard to policy making for Indian industry in future. This is about the response observed from Indian firms to the removal of the policy-induced entry-deterrents in Indian Industry. The way M&As have been used by the Indian firms as a strategic barrier for restricting the entry of new firms and holding on or increasing their market shares poses a fresh challenge to the policymakers. According to Babu (2008), if the firms can create entry barriers by the use of different market strategies and maintain high market shares having considerable market power, then it may lead to the growth of collusive, non-competitive behaviour among them which may be detrimental to the interest of consumers and may lead to the inefficiency of the firms. Therefore, the very purpose

of pulling down the policy-induced entry barriers would be lost. Hence the policymakers need to think about how to counter such tendencies in future.

The discussion regarding future issues of concern for Indian industry would remain incomplete if the unemployment problem is not looked at, because this perhaps is the biggest challenge faced by Indian industry today. According to Mitra and Singh (2019), the unemployment rate estimated at 6.1% in 2017-18 is growing and has reached an all-time high level among males since 1977-78 and females since 1983. The number of unemployed persons at 28.5 million in 2017-18 is nearly three times increase from 10.8 million in 2011-12. In the post-1990s, though the manufacturing sector's performance may not have been at the desired level, on the whole, investment in the Indian industry had undergone considerable increase along with an improvement in its performance. Despite that, unemployment rate has become the highest since the 1970s. The explanatory factor of this apparent inconsistency could be employment elasticity of growth, the parameter which indicates by how much employment will change on account of a 1% change in output. According to Misra and Suresh (2014), the employment elasticity of growth in the Indian industry has undergone a steady decline from 0.57 during the 1970s to 0.18 in the post-1990s with the steepest decline occurring after the 1990s. This implies that a 10% expansion in real GDP which resulted in a 6% increase in employment opportunities during the 1970s, could only bring about a 1.8% increase in employment opportunities in the post-reforms period. Thus, the level of expansion in employment in the post-1990s has been less than one-third of that during the 1970s from the identical level of output expansion. This could have been a major contributory factor for the worsening of the employment scenario in the Indian industry in the face of rising investments and output in the post-1990s.

As pointed out by Misra and Suresh (2014), employment elasticity of growth depends on the relative cost of labour vis-à-vis capital and as the relative cost of labour vis-à-vis capital goes down employment elasticity is likely to increase and vice-versa. In the post-1990s, as Indian industry has become increasingly private sector-oriented, the firms may have found that the mesh of regulations governing the Indian labour market was resulting in spiralling long-term labour costs because firms had to make hefty contributions on account of social security benefits, rising salary and wages and other forms of compensations. Consequently, this may have influenced the firms to reduce the labour content in their production process by switching over to increasingly capital-intensive production system for reducing the long-term labour costs. This, in turn, may have led to the fall in the labour-output

ratio in the organized sector which is manifested in the declining employment elasticity of growth. If reforms in labour legislation can help firms in economizing their recurring long-term labour-related costs resulting in lowering of the relative cost of labour vis-a-vis capital, it can reverse the fall in labour content in the production process and may help in increasing labour absorption across industries. If investor-friendly labour law reforms can be carried out, it will not only facilitate increasing investment inflows in Indian industry but may also help in reducing unemployment by striking at the falling employment elasticity of output, which may be the key factor behind the rising unemployment levels.

Conclusion

It has indeed been a chequered journey for Indian industrialisation over the last seven decades. Beginning in 1947, for the initial four and half decades, India's industrialization was characterized by efforts towards the achievement of self-sufficiency amidst a highly regulated, and protected environment where the public sector played the dominant role. Subsequently, in the early 1990s, a much-needed course correction was carried out with the adoption of a competition-enhancing industrial policy regime that started functioning in a much more de-regulated environment. Considerable progress has been made by the Indian industry in course of the last three decades but at the same time, some challenging issues have emerged which can be crucial for the future of Indian industry. These issues are summarised below:

1. Over the last three decades, the Indian industry has become increasingly private-sector oriented but according to Jalan (2017), PSUs continue to be a very important constituent of it. Public sector enterprises need to have autonomy and freedom of decision making so that they may function efficiently and profitably. Efficiency and profitability of public sector enterprises are crucial for the future progress of Indian industry as this will ensure the contribution of the public sector to Indian industry both in terms of output and employment and generate the return on investments for the government which can be an important source of its revenue.

2. Foreign Direct Investment (FDI) has increased substantially in the Indian industry in the post-1990s but a major portion of it has gone to a few selected sectors such as telecommunication services, consumer durables and FMCG. For the long-term growth prospects of Indian industry, the development of infrastructure is of utmost importance; however, it is severely constrained by the paucity of

resources. Hence the flow of FDI is much-needed in the infrastructure sector, and accordingly, an effective facilitative-regulatory mechanism needs to be created by the government for channelling FDI to the infrastructure sector.

3. The performance of the manufacturing sector has been way below the desired level over the last three decades and this could be one of the main reasons behind the rising unemployment levels and falling industrial growth rates that have been plaguing the Indian industry in recent times. Investor-friendly labour reforms which can help firms in economizing their recurring long-term labour-related costs and refinancing of the Indian banking sector for easing the liquidity crunch can provide the much-needed boost to the Indian industry in the general and manufacturing sector in particular by attracting substantial inflows of both foreign and domestic private investments.

If the Indian industry is to move ahead to the next level, there is a need for a comprehensive approach so that all these issues receive equal and concerted attention. However, only time will tell what role public sectors and FDI have played and whether policy reforms along with the 'Make in India' initiative have been able to make India the favoured destination of global manufacturing by offering quality inputs and world-class infrastructure at a reasonable price and thereby increasing manufacturing sector's share in GDP to 25% and beyond by 2025.

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The authors declared no potential conflicts of interest with respect to the research, authorship, and publication of this article.

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