Contribution of The Industrial Sector to The Economic Growth (With Special Reference to The Industrial Sector of India)

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Abstract

It is a common saying that India is a rich country inhabited by the poor. It implies that India is rich in natural resources but due to lack of capital and technology, these resources have not been tapped. Resources should be properly utilized to transform them into finished industrial products. The different industry sectors of India witnessed astronomical growth over the last 15 years. This growth of the different industry sectors of India is attributed to the Government of Indian liberal economic policy. Previously, the Indian economy was of closed type and the government enterprises controlled all Indian market. The post 1990 Government of India economic policy endorsed a complete different economic policy and opened its market for foreign investments. This saw a horde of FII making inroads to Indian markets. As a result of which different industry sectors of India made huge progress, both technologically and economically.

Industrial development is necessary for modernisation of agriculture in India. Industrial development encourages the development of science and technology. The industrial enterprises conduct research and develop new products. In large scale industries, the surplus is very high. By using external and internal economies, industry can get higher profit. Urbanisation succeeds industrialisation.

The current picture of the Indian economy is so enthusiastic as it reveals a constant growth and constantly growing higher status in the world economy. No doubt, there are several things and factors responsible for it, but it will not be wrong to say that the Indian industrial sector through many of its large and small scale industries, is contributing to the economic growth.

Based on the secondary data on the theme, the paper surveys the contribution of the industrial sector of India to the economic growth.

Keywords: GDP, Per Capita, Industrial sector, Economy, Horizons, Manufacturing, Market.

Introduction

Though still with the curse of being a developing or underdeveloped nation despite having natural resources in plenty, India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships. The following table which displays the GDP growth, GDP per capita, GDP per capita rank and GDP by sector, confirms the constant growth in the Indian economy.

GDP growth	**8.1% (2015) 7.1% (2016) 6.6% (2017) 7.3% (2018) 7.2% (MOSPI Q4, 2018–19)**
GDP per capita	$2,134 (nominal; 2018 est) $7,783 (PPP; 2018 est)
GDP per capita rank	119th (nominal) 112nd (PPP)
GDP by sector	Agriculture: 17.32% Industry: 29.02% Services: 53.66% (2016 est.)

Road Ahead

1. India's gross domestic product (GDP) is expected to reach US$ 6 trillion by FY27 and achieve upper-middle income status on the back of digitisation, globalisation, favourable demographics, and reforms.
2. India's revenue receipts are estimated to touch Rs 28-30 trillion (US$ 385-412 billion) by 2019, owing to Government of India's measures to strengthen infrastructure and reforms like demonetisation and Goods and Services Tax (GST).
3. India is also focusing on renewable sources to generate energy. It is planning to achieve 40 per cent of its energy from non-fossil sources by 2030 which is currently 30 per cent and also have plans to increase its renewable energy capacity from to 175 GW by 2022.
4. India is expected to be the third largest consumer economy as its consumption may triple to US$ 4 trillion by 2025, owing to shift in consumer behaviour and expenditure pattern, according to a Boston Consulting Group (BCG) report; and is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by the year 2040, according to a report by PricewaterhouseCoopers.
5. Exchange Rate Used: INR 1 = US$ 0.0143 as on December 31, 2018

Review of Literature

Matleena Kniivila (2007) in Industrial development and economic growth: Implications for poverty reduction and income inequality observes that economic development is fundamentally a process of structural transformation. This involves the reallocation of productive factors from traditional agriculture to modern agriculture, industry and services, and the reallocation of those factors among industrial and service sector activities. If successful in accelerating economic growth, this process involves shifting resources from low- to high-productivity sectors. More broadly, sustained economic growth is associated with the capacity to diversify domestic production structure: that is, to generate new activities, to strengthen economic linkages within the country and to create domestic technological capabilities.

Sumit Ganguli (2011) in India Since 1980, commenting on the economy of India writes that India is a developing or underdeveloped nation, and the economy of India is a developing mixed economy which still needs much of improvement for its growth in order to be identified with the economy of the developed nations.

Muhammad Ajmair (2014) in his study entitled Impact of Industrial Sector on GDP (Pakistan Case) observes that there is a close relationship between economic growth and different components of industrial sector of the economy of Pakistan. Because in simple linear regression all the components of industrial sector show a positive relationship with GDP except mining and quarrying sector that not only shows the negative relationship but also gives an insignificant result. All other results are statistically significant and consistent in simple linear regression.

T.P. Bhat (2014) in INDIA: Structural Changes in the Manufacturing Sector and Growth Prospect observes that structural Changes have occurred in the Indian manufacturing sector in recent years. However, it is not fast enough to change the trajectory of development. Manufacturing is an export driver and creates productive employment and business opportunities, but has not taken place adequately in Indian economy. The contribution of the manufacturing sector is low, around 14 to 16 per cent of GDP and witnessing near stagnation. Technology in manufacturing is stuck at the basic or intermediate level. R&D expenditure is too low to galvanize industries. Growth in manufacturing sector has been declining since the early 2007 due to lack of investment both from the private and public sectors. Lack of demand and slow growth of GDP adversely affected fresh investment in consumer and capital goods industries. High interest rates, too, have contributed to the depressed investment climate. The shrinkage in manufacturing employment is on account of increased capital intensity in all manufacturing firms. The path to revive manufacturing growth requires development of infrastructure, better access to land, and application of new technology, education, skill development and fostering innovation in frontier technologies.

Bennett Kenechukwu Obioma, Alexanda Kalu & Nwokeji Uchenna (2015) in their study entitled The Effect of Industrial Development on Economic Growth (An Empirical Evidence in Nigeria 1973-2013) find out that the effect of industrial development on the economic growth of Nigeria has over the past decade been a recurring issue for analysis like every economy most especially developing economies. Nigeria has enjoyed a long period of sustained economic growth since 2001 and yet, there is poor contribution from the industrial sector to the country's GDP.

Korhan Gokmenoglua, Nesrin Ozataca & Baris Memduh Eren (2015) in their study entitled Relationship between Industrial Production, Financial Development and Carbon Emissions: The Case of Turkey observe that as a developing economy, industrialization and financial sector have been growing rapidly in Turkey. Together with the concerns regarding global warming and air pollution, there has been a controversy for the Turkey's energy polices.

Emmanuel S. Akpan, Gamaliel and O. Eweke (2017) in their study Foreign Direct Investment and Industrial Sector Performance: Assessing the Long-Run Implication on Economic Growth in Nigeria observe that there is a bidirectional relationship between FDI and Industrial Sector Output, GDP and Industrial Sector Output, with an unidirectional causality running from FDI to GDP.

Maniparna SyamRoy (2017) in the study entitled Green Accounting for Sustainable Development: Case Study of Industry Sector in West Bengal observes that the challenge of sustainable development in developing countries is to probe deeper into the visible and invisible areas inhibiting the cause of green economy - raising the standard of living but with due consideration to resource use and environmental impact. Sector-wise assessment of the environmental indicators can help to reflect the realities of economic growth and development. The conventional national income accounting (SNA) or the Gross Domestic Product (GDP) cannot be a complete indicator of sustainable development because it deals only with changing stock and flow of man-made capital but not of natural capital such as land, water, air, forest etc., and of its depleting stock as used up through its present economic activities. Continuous effort to find the right indicator as appropriate signaling mechanism of sustainable development, green accounting emerged as one of the possible indicators of sustainability.

The Economic Times (Aug 31, 2018, 06.13 PM IST) under the head India's GDP grows at 8.2 per cent in 2018-19 observes that India's economy grew at an impressive 8.2 per cent in the first quarter of 2018-19 financial year ending June 30 on the back of a strong core performance and a healthy base . This jump ahead of national elections next year would help bolster the government amid a debate over its economic record versus that of its predecessor following the release of back-series data recently. This will also be factored in by the monetary policy committee at its next review scheduled for October 3-5.

Suchi Kedia (18 Sep 2018) under the head Here's how India can soar in the Fourth Industrial Revolution observes that manufacturing is fundamental to a country's economic success. Industrialization has driven the growth of many developed economies, boosting innovation and creating jobs. Workers migrating from farms to factories fuelled the economic miracles of Taiwan, Korea, China, Thailand and Singapore, reducing poverty and raising living standards. According to a research report by the World Economic Forum, over 70% of the income variations between 128 nations can be attributed to differentiated manufactured product export data alone. However, despite its past success, the traditional industrial model that propelled many economies into prosperity is now being challenged.

Specific Objectives of the Study

1. To make emphasis on the economic status of India.
2. To trace and point out the causes that make India a developing nation.
3. To produce an overview of the Indian economy.
4. To be familiar with the economic growth in India.
5. To trace the various elements that strengthen the economy of a nation.
6. To lay down the relevant features of the Indian economy.
7. To concentrate the highlight the various industrial sectors.
8. To present an overview of the Indian industrial sector with a special emphasis on its special features, progression, problems and challenges, and future.
9. To correlate industrial sector and economy of the nation.
10. To highlight the contribution of the industrial sector to the economic growth in India.

Hypothesis

1. The scenario of the Indian industrial sector is enthusiastic
2. The Indian economy is constantly on move and enjoying higher and higher horizons of success with new records of achievement every day
3. The Indian industrial sector is making a tremendous contribution to the economic growth of the nation
4. The Indian industrial sector, however passing through hard times because of several of its weaknesses
5. The future of the Indian economy through the contribution of the industrial sector to it is so bright.
6. All the industries with the exception of few, are making their contribution to the economic growth.

Methodology

The paper is a theoretical study based on the secondary data found available in the books, journals, newspapers, interviews of the political celebrities and research works. The method selected for the study was inductive which enabled the author to develop and elaborate the subject step-by-step and all systematically. In order to get a feedback of the subject, the author sufficiently went through the related literature on the theme which allowed her to be familiar with the distinct features of the Indian economy and the Indian industrial sector at large. For the purpose of the study, ten research papers available on the various internet sites were selected, and the stuff available in them formed the basis of the present study. The author studied the selected papers thoroughly with a special focus on their contents, objectives, hypothesis, methodology and findings. This intensive study helped her delimit the study with specific aims and arrive at fruitful conclusion interpreting the contribution of the Indian industrial sector to the economic growth in India. For the scientific spirit and shape of the study, all the steps required for the research, such as, selection of the title, setting of objectives for the study, making reviews of the related literature and formulation of hypothesis on the basis of the study of the related literature, adoption of the research methodology with secondary data to be used, and drawing conclusions and making interpretation, were used.

Industrial Sector of India: An Overview

The Indian industrial sector is rich from the point of view of the economic growth through it. It is constantly on move touching the higher and higher horizons of success every day claiming it to be one of the most leading sectors. According to the industrialists like Ratan Tata, in the last few years, India has been able to significantly increase its capacities to achieve self-sufficiency from an industrial point of view; the liberal economic policies from 1991 onwards, the Indian economy has been in much better health than before; problems such as License Raj are no more and new domains of business are opening up on a regular basis.

With its restructuring, the Indian industrial sector has become significantly modern than before. There is more focus on reducing costs of production and achieving the levels of technological competence that can help one stay globally relevant and deal with cut-throat competition. If the industrial sector in India has to flourish, then there has to be sufficient foreign capital in the country. However, as many foreign firms would attest, it is not that easy to invest in India. Recently, the stock prices of some companies had taken a hit because of their issues with the ongoing tax regime. However, the Modi government is attempting to make things better for international companies interested in investing in India. Foreign Direct Investment (FDI) rules have been amended significantly so as to allow interested Non-Resident Indians (NRIs) to invest in India.

It also stated recently that in sectors where there is provision for automatic rules for FDI, foreign companies need not to get permission from the Foreign Investment Promotion Board (FIPB) if they want to merge with a company in India or just acquire it. It is expected that such initiatives will increase the levels of credibility of the FDI policy and make India a far more attractive business destination for international investors.

Contribution of the Industrial Sector to The Indian Economic Growth

Textile Industry

This industry covers a wide range of activities ranging from generation of raw materials such as jute, wool, silk and cotton to greater value added goods such as ready made garments prepared from different types of man made or natural fibres. Textile industry provides job opportunity to over 35 million individuals thus playing a major role in the nation's economy. It has 4 per cent share in GDP and shares 35% of the gross export income besides adding 14% of value addition in merchandizing sector.

Food Processing Industry

In terms of global food business, India accounts less than 1.5% inspite of being one of the key food producing nations worldwide. But this on the other hand also indicates the enormous possibilities for the growth of this industry. Supported by the GDP estimates, the approximate expansion of this sector is between 9-12% and during the tenth plan period the growth rate was around 6-8%. Food Processing Industry provides job opportunities to 1.6 mn people and it is estimated to expand by 37 mn by 2025.

Chemical Industry

Indian Chemical industry generates around 70,000 commercial goods ranging from plastic to toiletries and pesticides to beauty products. It is regarded as the oldest domestic sector in India and in terms of volume it gives a sense of pride to India by featuring as the 12 largest producer of chemicals. With an approximate cost of $28 billion, it amounts to 12.5% of the entire industrial output of India and 16.2% of its entire exports. Under Chemical industries some of the other rapidly emerging sectors are petrochemical, agrochemical, and pharmaceutical industries.

Cement Industry

India has 10 large cement plants governed by the different State governments. Besides this India have 115 cement plants and around 300 small cement plants. The big cement plans have installed competence of 148.28 million tones per annum whereas the mini cement plants have the total capacity of 11.10 million tonnes per annum. This totals the capacity of Indian cement industry at 159.38 million tonnes. Ambuja cement, J K Cement, Aditya Cement and L & T Cement are some of the major steel companies in India.

Steel Industry

Indian Steel Industry is a 400 years old sector which has a past record of registering 4% growth in 2005-06. The production during this period reached at 28.3 million tones. India steel industry is the 10th largest in the world which is evident from its Rs 9,000 crore of capital contribution and employment opportunities to more than 0.5 million people. The key players in Steel Industry are Steel Authority of India (SAIL), Bokaro Steel Plant, Rourkela Steel Plant, Durgapur Steel Plant and Bbilai Steel Plant.

Software Industry

Software Industry registered a massive expansion in the last 10 years. This industry signifies India's position as the knowledge based economy with a Compounded Annual Growth Rate (CAGR) of 42.3%. In the year 2008, the industry grew by 7% as compared to 0.59% in 1994-95.

Mining Industry

The GDP contribution of the mining industry varies from 2.2% to 2/5% only but going by the GDP of the total industrial sector it contributes around 10% to 11%. Even mining done on small scale contributes 6% to the entire cost of mineral production. Indian Mining Industry provides job opportunities to around 0.7 million individuals.

Petroleum Industry

Petroleum industry started its operations in the year 1867 and is considered as the oldest Indian industry. India is one of the most flourishing oil markets in the world and in the last few decades has witnessed the expansion of top national companies like ONGC, HPCL, BPCL and IOC.

Key-Findings & Conclusion

Industrial development helps in the rapid growth of national and per capita income. The history of economic development of advanced countries shows that there is a close relation between the level of industrial development and the level of national and per capita income. The following findings about the Indian economy and the contribution of the industrial sector are notable-

1. The economy of India is the world's fifth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP).
2. India ranks 139th in per capita GDP (nominal) with $2,134 and 122nd in per capita GDP (PPP) with $7,783 as of 2018.
3. After the 1991 economic liberalisation, India achieved 6-7% average GDP growth annually.

4. Since 2014 with the exception of 2017, India's economy has been the world's fastest growing major economy, surpassing China.
5. India has one of the fastest growing service sectors in the world with an annual growth rate above 9% since 2001, which contributed to 57% of GDP in 2012–13.
6. India has become a major exporter of IT services, Business Process Outsourcing (BPO) services, and software services with $154 billion revenue in FY 2017. This is the fastest-growing part of the economy.
7. The IT industry continues to be the largest private-sector employer in India.
8. India is the second-largest start-up hub in the world with over 3,100 technology start-ups in 2018–19.
9. The agricultural sector is the largest employer in India's economy but contributes to a declining share of its GDP (17% in 2013–14).
10. India ranks second worldwide in farm output. The industry (manufacturing) sector has held a steady share of its economic contribution (26% of GDP in 2013–14).
11. The Indian automobile industry is one of the largest in the world with an annual production of 21.48 million vehicles (mostly two and three-wheelers) in 2013–14.
12. India had $600 billion worth of retail market in 2015 and one of world's fastest growing e-commerce markets.
13. Industry accounts for 26% of GDP and employs 22% of the total workforce.
14. India's Index of Industrial Production (IIP) rose 5.6 per cent year-on-year in April-October 2018.
15. Acute deficiency of capital is the main problem of Indian economy.

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