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successes and failures and the lessons for
the future**

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**The State and Industrialisation in India:
Successes and Failures and the Lessons for the Future¹**

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I. Introduction

Among the non-socialist developing countries, the Indian economy has long been regarded as being a classical case of heavy state intervention. In the eyes of the powerful and influential neo liberal critics of the country's economic development, particularly the Bretton Woods institutions, this intervention, if not disastrous, has certainly been inefficient. It is thought to have resulted in a sluggish pace of industrialization and a relatively slow growth of the economy. The majority of India's indigenous economists on the other hand, although critical of many aspects of the state planned economic regime, generally regard it in a more favourable light.

The classical Indian state directed industrialization model held sway for three decades, from 1950 to 1980. The model began to erode in the 1980s². After the elections of 1991, the new Congress party minority government of Narasimhan Rao was faced with an acute

¹I am very grateful to Hajoong Chang and Retin Roy for helpful comments on an earlier draft. The usual disclaimer applies.

²For an analysis of the reasons for, and the implications of this erosion, see Singh and Ghosh [1988].

external short term liquidity crisis. The government sought assistance from the IMF to cope with the situation and to restore confidence. It also announced at that time its intention to more or less abandon altogether the traditional model. This paper, however, concentrates on this traditional model which has dominated Indian economic development over most of the post independence period. The paper sets out the main lines of the arguments of the critics as well as the proponents of the model, and provides an assessment of their relative merits.

Section 2 outlines the main features of the Indian industrialization model. Section 3 considers various indicators of the success or failure of the model. Section 4 examines the case of the critics.

Section 5 outlines the counterarguments of the proponents. Section 6 provides an overall conclusion. Also, in addition, it briefly examines the question whether a) the country would have done better under an alternative industrialization model and, b) whether such a model was feasible in the Indian circumstances. This discussion is specifically directed towards the practicality and wisdom of the East Asian model for India. Such counterfactual speculation is not simply an intellectual exercise, but has an important bearing on the industrial policy issues confronting the Indian economy in the changed circumstances of the 1990s.

II. The Indian Model of Planned Economic Development

Among the mixed economy third world nations, India pioneered

development planning and instituted, beginning in 1952, a set of five year plans for planned economic development of the country³. The inspiration for Indian planning came from the Soviet Union which was thought to have successfully achieved industrialization of the country in a relatively short span of time. The "fabian socialist" leadership of the newly independent India, personified by Nehru, sought to adapt the Soviet model to the requirements of a mixed economy and a democratic polity in order to provide a "third" way of economic development for nations emerging from the colonial rule.

In keeping with the ideals of the top leadership, the Indian Plans were designed to bring about economic and social development within a "socialist" framework. The plans pursued multiple objectives of industrialization, raising per capita incomes and equity in the distribution of gains from economic progress. They also sought to reduce existing concentration of economic power and to achieve a better regional distribution of industrial development. As far as economic strategy is concerned, the following elements were the most important during the 1950s, 1960s, and most of the 1970s:

-First, The indian planners emphasized the role of heavy industry in economic development and sought to build up as rapidly as possible the capital goods sector.

³There is a large extensive literature on Indian planning. Notable recent contributions have been Chakravarty [1988] and Gupta [1989]. For an important earlier contribution, see Streeten and Lipton [1968]; see also the original five year plan documents of the Planning Commission [1952, 1956, 1963, 1970, 1976, 1981, 1985].

-Second, the plans envisaged a leading role for the public sector in this structural transformation of the economy. Not only was the government to play a dominant role in infrastructure investments (railways, electricity, etc.), but many industries, particularly in the capital goods sector, were exclusively reserved for development by the state.

-Third, major investments in the private sector were to be carried out, not by the test of private profitability, but according to the requirements of the overall national plan. For example, car production might have been highly profitable, but the manufacturers were prohibited from expanding output since the use of scarce resources for the production of such luxuries was socially less beneficial than, say, for the production of tractors or ploughs.

-Fourth, the plans emphasized technological self-reliance, and for much of the period, an extreme inward orientation in the sense that if anything could be produced in the country, it should not be imported⁴

As is well known, the economic rationale for this capital-goods-biased industrial strategy was provided by P.C.

⁴ During the late 1970s and in the 1980s, the concept of self-reliance was redefined in less stringent terms. It was interpreted to mean an "economic base that is sufficiently strong and internationally competitive to generate the export earnings required to pay for needed imports of goods that cannot economically be produced domestically". See further Byrd [1990].

Mahalanobis. In the Mahalanobis [1963] model, essentially that of a closed economy, the development of the capital goods industry emerges as the main constraint on economic growth. This model of internal technological and heavy industry development could be rationalized for an open economy of the size of India if one envisages slow rates of growth of the world economy and trade, and, perhaps, falling commodity prices in world markets. Alternatively, it could also be justified in more orthodox terms along the lines that India's dynamic comparative advantage was in industries like steel for which the country has available the necessary raw materials in close proximity to each other (thus reducing the costs of transportation).

An important drawback of the heavy-industry-biased industrial strategy is that it conflicts with the employment objectives embodied in the five-year plans. The plans sought to square this circle by providing external and internal protection to a number of small-scale and cottage enterprises for which the capital-labour ratio was very low. Thus, for instance, modern textile factories were limited in how much they could expand their output so that they would not compete with the high-cost products of the cottage industries.

In implementing this industrial strategy and particularly in making the private sector conform to the requirements of the plans, the government used a wide variety of measures. The most important of these were:

- Industrial licensing. For much of the period, this entailed that any enterprise which wished to manufacture a new article or sought a substantial expansion of its existing capacity had to obtain a license from the relevant government authority.

- Strict regime of import controls. A "red book" listed the whole range of items for which imports were prohibited altogether, usually to provide protection for new infant industries. In practice, it often meant that as long as there was "indigenous availability" of a particular manufactured product in the country, it was protected from foreign competition whatever the costs of domestic production.

- Subsidization of exports through special measures. The adverse effect of import quotas and tariffs on the exporting industries was sought to be alleviated by a variety of special provisions and subsidies for exporters (e.g., the import entitlement scheme).

- Administered prices. In addition to the licensing requirements for industrial production and expansion, the government also fixed market prices for a range of "crucial" or "essential" products, for example, steel, cement, sugar, aluminum, etc..

- Foreign investment policy. Investments by multinationals were generally subject to strict controls - much more stringent than those for the national companies.

Finally, it is important to observe that considered in technical or economic terms alone, the above economic strategy chosen by the Indian leadership was by no means the only feasible one available. In the public debate that took place at the time of the formulation of the early Five Year Plans, two leading Indian economists, Vakil and Brahamananda [1956] advocated an alternative, more orthodox, strategy. This involved building on India's competitive advantage in textiles. After the war, the country had emerged as one of the leading exporters of textiles in the world. Vakil and Brahamananda favoured concentration on textile exports, on the development of light industries, and reliance on market forces to achieve industrial development. This kind of alternative strategy was deliberately shunned by the Indian leadership in favour of state planned industrialization.

III. Economic and Industrial Performance

There is a large debate on the question of how the overall results of Indian planned development over the last four decades should be assessed. The proponents of Indian planning argue that in the 1970s and 1980s, when the world economy was subject to severe turbulence, the overall economic performance of the country was very creditable. India has recorded a trend increase in its rate of economic growth since 1973. Between 1963 and 1973, India's rate of growth of GDP was about half as high as that of other Asian and Latin American countries (see table 1). During the 1980s, the

Table 1:

GDP IN ASIAN AND LATIN AMERICAN COUNTRIES

(Real Rates of Growth)

	1963-1973	1973-1979	1980-1990
ASIA			
China	8.6	4.9	9.5
India	3.4	4.3	5.3
Indonesia	6.9	7.1	5.5
Korea	9.6	9.8	9.7
Malaysia	6.6	7.3	5.2
Pakistan	6.2	5.0	6.3
Philippines	5.2	6.4	0.9
Sri Lanka	4.5	5.0	4.0
Taiwan	10.7	9.2	-. -
Thailand	8.0	7.7	7.6
Median	6.7	6.7	5.3
LATIN AMERICA			
Argentina	4.8	1.8	-0.4
Bolivia	4.7	4.7	-0.1
Brazil	8.3	6.9	2.7
Chile	3.6	2.7	3.2
Colombia	5.9	5.0	3.7
Ecuador	7.2	6.8	2.0
Mexico	7.8	5.7	1.0
Peru	3.9	2.4	-0.3
Venezuela	5.2	5.6	1.0
Median	5.2	5.0	1.0

Source: World Bank, various issues

Indian growth rate rose to the average level of the Asian countries and was way above that of the Latin American countries, most of which suffered a sharp setback to their economic prospects. Because

it was able to significantly increase its trend rate of growth, India could be regarded as having been strikingly successful in coping with international economic fluctuations. The proponents of the Indian development model argue that this ability of the economy to withstand world economic shocks has largely been due to the country's long-term strategy of import substitution and technological self-reliance.⁵

In contrast, a far harsher assessment of the overall Indian record comes from *The Economist*: "The hopes of 1947 have been betrayed. India, despite all its advantages and a generous supply of aid from the capitalist West (whose 'wasteful' societies it deplored), has achieved less than virtually any comparable third-world country. The cost in human terms has been staggering. Why has Indian development gone so tragically wrong? The short answer is this: the state has done far too much and far too little. It has crippled the economy, and burdened itself nearly to breaking point, by taking on jobs it has no business doing."⁶

⁵The liquidity crisis of 1991 cannot be ascribed to external shocks. Nor did it arise from any inherent features of the planned industrialization model. It was primarily due to uncharacteristically lax fiscal control exercised by weak minority governments at the end of the 1980s. The crisis was abetted by the uncertain political situation in the country and the state of turmoil caused by the "anti-reservation" agitation. This led to withdrawal of capital by non-resident Indians, thus precipitating the liquidity crisis.

⁶*The Economist*, "A Survey of India", May 4, 1991, p.9. For more academic assessments of the Indian economic performance along the same lines, see for example Lal [1988], Ahluwalia [1985, 1991].

One way of assessing the record of state planned industrialization in India is to compare the actual outcomes with the planned targets. This comparison (see table 2) shows that the actual rate of growth of industrial production in each five year plan was below the target rate except for the Seventh Plan. The average industrial growth rate over the whole period, 1950 to 1990, is about 6.2 percent relative to the average of approximately 8 percent, projected in the plans. Mohan [1992] estimates that had the planned industrialized targets been consistently achieved, the Indian overall per capita annual economic growth would have been 1.2 to 1.4 percentage points higher than it otherwise would have been.

Despite the improved performance of the Indian economy after 1973, in comparative international terms, the overall long term Indian economic and industrial record does not compare favourably with that of the successful Asian countries. The speed of Indian industrialization has been much slower than that of countries like Korea, Taiwan or China. The relatively slow growth of the economy has also meant that the pace of structural change has been much slower in India than in these other economies [Singh and Ghosh, 1988]. Equally significantly, the critics of Indian development

Table 2:

ACTUAL AND TARGETED RATES OF GROWTH OF INDUSTRIAL OUTPUT

Plan Period	Target	Actual	Deviation in Per Cent
First Plan (1951-56)	-	7.3	-

Second Plan (1956-61)	8.3 ¹	6.6	-25.75
Third Plan (1961-66)	11.1 ¹	9.0	-23.33
Fourth Plan (1969-74)	8 to 10	4.7	-51.49
Fifth Plan (1974-1979)	7.0	5.9	-18.64
Sixth Plan (1980-85)	8.0 ²	6.4	-25.00
Seventh Plan (1985-90) ³	8.0	8.5	+5.88

1/Envisaged increase in index of industrial production.

2/Average rate of growth for the first four years of the plan.

3/The target for the Sixth Plan as given in the Seventh Plan document, however, is 7 per cent.

Source: Mani, 1992, Table 1.

rightly point out that the country's performance in terms of literacy, education, and health has been much worse than that of many other developing countries, not just the leading Asian economies. The critics also point to the fact that in comparative terms, India has not performed at all well with respect to the eradication of poverty - which was one of the major goals of the whole Indian development effort. Similarly, it is argued that the five year plans have not been successful either in reducing concentration of economic power or in bringing about a more equitable regional distribution of economic and industrial development [Mani, 1992; Byrd, 1990].

However, as Singh and Ghosh [1988] note, it is inadequate to consider India's industrial progress in purely quantitative terms. The quality and the depth of Indian industrialization has been impressive in a number of ways. Despite all its shortcomings, the concept of technological self reliance has meant that the country has one of the largest pools of trained technical manpower in the world. Among the third world semi-industrial countries, by the 1970s, India became a leading exporter of technology. Lall (1984) assembled the best available information on technology exports of the leading NICs. This data shows that in industrial project exports, the leading exporter was India, followed at a large distance by Korea and Brazil. In non-industrial civil construction project exports, by far the most important country was Korea, followed by India and Brazil. Similarly UNIDO (1984) statistics on the comparative development of the key machine tool industry in the leading NICs reveal that India has been more successful in

this area than most other NICS. In 1979-80, India exported a greater proportion of its machine tool output than either Mexico, Brazil or Korea. Although in relative terms, India's exports were lower than Argentina's, its machine tool imports were considerably smaller than those of the latter country. A good indication of the depth of India's industrial development is indicated by the fact that it is able to build nuclear power stations on its own. As the *Financial Times* noted, in the mid 1980s, India was only one of the six countries in the world which possessed that capacity. The country also had substantial capacity for building thermal and hydroelectric stations.

IV. Planned Industrial Regime and Economic Performance: The Case of the Critics

An important analytical question which arises in assessing the success or failure of India's state led economic development is to ask to what extent the country's observed economic performance is due to the characteristics of the development strategy as opposed to factors external to the developmental model. What, in other words, is the nature of the links between the overall economic performance and the industrial regime? Mrs. Isher J. Ahluwalia, the leading contemporary critic of India's planned industrialization, ascribes, what in her view is the country's poor overall industrial record, to particular features of the industrial regime. Specifically, she calls attention to the following adverse consequences of the Indian model.

- (a) Barriers to entry into individual industries that limited the possibility of domestic competition.
- (b) Indiscriminate and indefinite protection of domestic industries from foreign competition.
- (c) The adverse effects of protecting small-scale industries and regional dispersal of growth on the choice of the optimal scale of production.
- (d) Barriers to exit by not allowing firms, even when they were non viable to close down, and the failure to move the resources to an alternative growing industry.
- (e) Administrative hurdles inherent in a system of physical controls.
- (f) Increased incentives for rent seeking activities that resulted in a dampening entrepreneurship.
- (g) Little or no incentive to upgrade technology.

Other critics (for example, the World Bank) have added to this formidable list.

- (h) Adverse effects of universal credit rationing through the nationalized banking system.

(i) Poor performance of public sector enterprises.

The critics suggest that these factors are largely responsible not only for the low, long run growth of India's industrial economy but more importantly for the deceleration in the manufacturing growth rate between 1965 and 1975. Manufacturing expanded at an average rate of 6.2 percent per annum between 1955 and 1965; however, the corresponding average growth rate in the following decade (1965 to 1975) was only 3.3 percent. Since 1975, manufacturing production has increased at a much faster pace: the growth rate rose to 4.5 percent in the period 1975-1976 to 1980-1981 period and to nearly 8 percent during the 1980s. The critics of the traditional industrial regime have ascribed this improvement to the gradual relaxation of industrial controls that began in the late 1970s.

In the view of the critics, the precise link between the industrial policy regime and the deceleration in industrial growth between the mid-1960s and mid-1970s is provided by the increases in capital output ratios and a reduction in the growth rates of labour and total factor productivity in Indian industry during this period [Ahluwalia, 1985, 1991; World Bank, 1985, 1986]. Ahluwalia suggests that with the relaxation of the planned industrial regime, these microeconomic indicators of economic efficiency have shown significant improvement during the last decade.

V. External and Internal Shocks, Government Macroeconomic policy and Industrial Growth

It is nominally conceded by the critics of the planned industrial regime that weaknesses in areas other than trade and industrial policy may also be responsible for the observed decline in the rate of growth of Indian manufacturing industry in the decade, mid-1960s to mid-1970s. Following the extensive literature on the subject, the critics do call attention to the role of such factors as (a) the slow rate of growth of demand for industrial output and (b) the low rate of investment in infrastructure (e.g., railways, power) during the relevant period, which too could cause poor industrial performance. Nevertheless, they seem to regard the industrial and trade policy regime to be the main culprit.

Singh and Ghosh [1988] argue, however, that the two factors (a) and (b) above, rather than the trade and industrial policy regime, may be entirely responsible for the deceleration in industrial growth during 1965-75. The period coincided with at least three major shocks to the economy: the Indo-Pakistan war of 1965 and its aftermath, the Bangladesh war and the 1973 oil price increase. The Indo-Pakistan war led to the suspension of foreign aid which was only resumed after the devaluation of the rupee in 1966. To cope with the inflation arising from droughts and bad harvests of 1965-66 and 1966-67, the government had adopted a restrictive fiscal policy. The consolidated government deficit was reduced from Rs 4 billion in 1965-66 to Rs 0.70 billion in 1969-70. This, together with the reduction in aid, led to a trend fall in investment, particularly in transport and communication, power and water supply [Joshi and Little, 1987].

The Bangladesh war of 1971 involved a rise in defence expenditure, a costly government programme to help with the 10 million refugees from East Pakistan and another suspension of aid. Moreover, agricultural production, which had increased substantially during the 1960s, faltered in the early 1970s. Unfortunately for India, the harvest failures coincided with the huge rise in world wheat prices which began in the summer of 1972.

Thus, the first oil shock which led to a four-fold increase in the price of oil between September 1973 and April 1974, came at a time when the economy was already in serious difficulties. As the Indian economy is relatively closed, the impact of the change in the terms of trade on the GDP was comparatively small; however, the balance of payments and financing repercussions were very large. As a proportion of GDP, the current deficit increased from an average of 0.45 percent of GDP during the three years 1971-74 to 1.4 percent of GDP in 1974-74. More relevantly for a low trading economy, the deficit as a proportion of total exports of goods and services rose over the same period from about 8 percent to 25 percent. In order to cope with the pre-oil shock inflation and the effects of the oil-shock itself, the government introduced a highly deflationary fiscal and monetary policy. A number of measures were taken in 1974 to reduce private disposable income and to cut the central and the state governments fiscal deficits. The public sector investment in real terms fell slightly in 1973-74, and by more than 10% in 1974-75. (Ahluwalia, 1986).

In view of (i) the leading role of the public sector in Indian industry and (ii) the deflation and macroeconomic fluctuations arising from the shocks of the two wars and the oil price rise of 1973, it is not surprising that there should have been a trend fall in the rate of growth of Indian manufacturing production between the mid-1960s and the mid-1970s. The relatively slow and fluctuating rate of growth of demand, which was the consequence of these macroeconomic shocks, would in itself be adequate to explain the poor industrial performance without invoking the alleged microeconomic inefficiencies of the trade and industrial policy regime. Moreover, to the extent that the slow rate of growth of demand affects capacity utilisation and capacity creation, the macroeconomic shocks outlined above clearly have an adverse effect on these microeconomic variables as well.

With respect to the second broad area of the critics' argument - namely, that the improvement in Indian industrial performance during the 1980s is due to the gradual introduction of internal and external liberalization measures - Singh and Gosh [1988] point out that the stance of fiscal and monetary policy after the second oil shock was rather different from that following the oil price increase of 1973-74. Instead of deflation, the government deliberately followed an expansionary fiscal and monetary policy and tried to increase public investment. As M.S. Ahluwalia [1986] observed:

"The behavior of public investment after the second oil shock was in marked contrast to the experience after the first oil shock and reflects a basic difference in the stance of macroeconomic policy. On the earlier occasion there

had been a shift to a restrictive macroeconomic policy principally because of perceived dangers of inflation and this policy had depressed public investment in real terms ... However the approach to controlling inflation on this occasion (i.e. after 1979) placed much more emphasis on removing short-term and medium-term supply bottlenecks. One reason for this change of emphasis is that the balance of macroeconomic policy was set in the light of priorities outlined in the Sixth Five-Year Plan which covered the period 1980-81 to 1984-85. The plan emphasized the importance of investments in several critical areas, especially in the energy, transport infrastructure."

By traditionally prudent Indian standards, the government fiscal's stance was overly expansionary for most of the 1980s, culminating in a budget deficit of about 8 percent of GDP by 1990. Singh and Ghosh note that the significant acceleration in Indian industrial growth during the last decade was achieved, unlike in the second half of the 1970s, at the expense of a serious deterioration in the current balance and a sharp increase in the country's debt service ratio. They warned that such a fast pace of the rate of growth of demand could not be maintained for very long.

Osmani (1993) provides powerful support for the foregoing analysis which stresses the role of internal and external shocks and their macroeconomic policy consequences in generating the observed time pattern of Indian industrial growth over the last four decades, i.e., high growth in the Nehru-Mahalanobis period (to use Osmani's phrase) 1952-65, followed by relative stagnation in the middle period, 1965-75, followed further by high growth again in the 1980s.

He complements the Singh and Ghosh study by considering not just the time path of overall industrial growth but also its composition by industry. The deceleration in industrial growth in the middle

period did not uniformly affect all industrial sectors. Osmani notes that compared with the first period, the average growth rate of the capital and intermediate goods sectors fell by more than half in the second period. The consumer durables fared only a little better, but the consumer non-durables slowed down only marginally from 5.0% per annum to 4.8%. However, the recovery in the third period was led by the consumer goods sectors, both durables and non-durables. Consumer durables reverted back to the growth rate of the first period; the non-durables reached an all time high.

In contrast, capital and intermediate goods sectors recorded only marginal improvement in the 1980s; as a result their growth rates have remained well below those attained in their heyday of the Nehru-Mahalanobis period.

Osmani's examination of these changes in the overall, subsectoral and individual industry growth rates leads him to the conclusion that the variations in the government's macroeconomic policy stance provides the only consistent explanation for the observed facts.

Other theories, not just the "microeconomic inefficiencies" ones of the mainstream critics outlined earlier, but also those of the Marxist economists (which usually run in terms of inequalities in income distribution generated by the political economy of growth under the Nehru-Mahalanobis model⁷) simply do not accord with the data.

VI. Conclusion: The Indian industrialization model versus the East

⁷There is a large literature here. For a recent review, see Sandesra (1992). See also a discussion in Ahluwalia (1985).

Asian alternative

In the light of the foregoing analysis we can arrive at the following overall assessment of the Indian state led industrialization model. First, over the last two decades, the Indian economy has shown an impressive ability to withstand external economic shocks. Although India suffered a decline in its rate of growth between 1965 and 1975 as a result of the two wars and the first oil shock, the disruption in the tempo of economic activity was nowhere as great as that experienced by the Latin American economies during the 1980s. The latter were much more integrated with the world economy in terms of trade, and particularly finance, than the Indian economy. (Singh, 1993a)

Secondly, if we take a long term view of Indian economic development over the last four decades as a whole, contrary to the **Economist**, the record is far from being disastrous. It is clearly not outstanding - it is about average for the developing countries for Asia (the most successful of the three developing continents). The central analytical question which this raises is: could India have done better under a different economic or political regime? Although there cannot be any conclusive answer to such a question, the intellectual exercise is interesting and important, as it bears on the future policy lessons of the Indian story so far.

The orthodox response to the above question is an unequivocal "yes". It is argued that the country has an enormous entrepreneurial talent and the role of the state has essentially been to thwart this talent

from achieving its full potential. So if the state had not been heavily interventionist, but instead had assumed a "market friendly" night watchman status, the economy would have done much better. Similarly, it is suggested that keeping the Indian economy relatively closed to the international product and financial markets has been a costly mistake. This has resulted in myriad inefficiencies, slow technical progress and hence, "inefficient" and sluggish growth.

This line of reasoning is unconvincing since recent scholarship⁸ shows quite conclusively that in the outstandingly successful East Asian economies of not just socialist China, but also capitalist Taiwan, South Korea and Japan, the state has played a pivotal role, in a wide variety of ways, in bringing about rapid industrialization. It has pursued in each of these countries a vigorous and aggressive industrial policy to carry out the required structural transformation of the economy. The government has "guided" the market, and not followed a hands off market friendly approach. Moreover, these highly successful East Asian economies did not attempt a deep and unconditional integration with the world economy. Rather they sought a strategic integration, that is they integrated in the direction and to the extent that it was necessary for promoting national economic growth.⁹

So then the relevant question becomes: could the Indian state have

⁸ See for example, Wade (1990), Amsden (1989), Singh (1993).

⁹For a fuller discussion of these issues, see Singh (1993b).

acted to foster economic development in the same way as did the state in Taiwan, Korea or Japan? Many Indian intellectuals answer this question in the negative on the grounds that the Indian state lacks the "autonomy" to implement a Korean or Japanese style of industrial policy.¹⁰ Bardhan (1984), (1992) for example, characterizes the Indian polity as being in a class stalemate between the dominant classes. In the pluralistic Indian democracy, it is argued that none of these classes - landlords, businessmen and professional and technical elite - is strong enough to capture the state for itself, or to enforce its will on the others. The net result is a plethora of state subsidies and handouts to various political groups and special interests, rather than a purposive attempt at rapid industrialization or faster economic development.

In economic terms this means that the Indian economy is confined to a low level equilibrium trap.¹¹

This theory undoubtedly contains important insights into the Indian political economy. However, it is also not without shortcomings, and is therefore not fully persuasive. Today, the Indian government is indeed very weak but it is not a static situation. There were periods of greater autonomy - for example, the Nehru era of the 1950s, when there was a national consensus on certain

¹⁰ Although Japan, Korea and Taiwan differ in some respects in the economic policies that they have followed, but there are also important similarities. Taiwan and Korea have tried to emulate the Japanese model in significant ways. See further, Singh (1993).

¹¹In Bardhan's (1992) words: "The Indian public economy has thus become an elaborate network of patronage and subsidies."

developmental goals. Similarly, at different times, Rajiv Gandhi and Indra Gandhi had overwhelming majorities in the Indian parliament, allowing them in principle to push through and implement a better developmental program. After all, Indra Gandhi, despite the class stalemate, did manage to nationalize the Indian banks.

In view of the rather different history and the institutional circumstances of India, clearly, not all aspects of the East Asian model could have been replicated in that country. Nevertheless, important and useful lessons could have been learned from the East Asian experience and implemented in the country during various phases of strong government in the last forty years. Once implemented and successful, they could have generated positive feedback dynamics of their own leading to further autonomy for the state. To illustrate, an outstanding feature of the East Asian economies like Japan and Korea, is that although they protected their industries from external competition, they also greatly encouraged exports.

During the high growth periods in these two countries (Japan, 1950-73; and Korea, 1970-82) the government, in return for the protection being afforded to the firms, set them various performance standards, most notably in relation to exports and world market shares. Thus the Japanese and Korean firms were obliged to use their profits from the protected home market to invest and to capture export markets. Companies in these countries came to recognize that to move forward, to have access to foreign technology, licenses, etc., they had to export. Lall (1987) and Bhagwati suggest that all that the East Asian governments did was to provide a neutral trading regime, i.e., one in which the incentive to sell

in the home market was the same as to sell abroad. This view is however, contested by a number of economists who suggest that in fact what the East Asian governments did was to discriminate positively in favor of exports.¹²

In contrast, the incentive system for the large Indian firms with potential to export has pointed in the opposite direction for most of the last four decades. As noted earlier, to offset the biases of protection and import controls, the Indian government periodically provided special incentives and subsidies for exporters. However, until the 1980s they were never adequate to fully offset the bias of the protectionist trade regime.

The important question is, why were the exports not given the attention and the incentives accorded to them in the East Asian countries. For had the exports been given proper priority, in view of India's past history of exporting and the existence of large business groups, there is no reason to believe the country would not have been able to maintain its prewar share in world manufactured exports even if it had not been as spectacularly successful as the East Asian NICs. Quite apart from the advantages for exporting provided by the ready availability of large private business groups (they did not have to be created almost from scratch as in Korea, for example), India's historic links with the Middle Eastern countries (one of the fastest growing markets in the 1970s) and the large Indian diaspora abroad, provided the country with special

¹²See for example Chang (1993); Amsden (1989); Scott (1992).

opportunities for exporting. Had such opportunities been realized and India been able to achieve a trend increase in exports, it would have helped alleviate the chronic balance of payments constraint.

This in turn would have allowed the economy to move along a higher growth trajectory compared with its actual record. It would also have provided the potential for the positive feedback mechanism referred to earlier.

So the important question is, why were the exports neglected or not given the attention that they deserved. It will be difficult to argue that it was the interest groups or the class stalemate which prevented the Indian planners from vigorously pursuing exports. There are however other reasons which are more likely and are more persuasive.

The first is clearly the large country syndrome - that India is a big country with a large market. It does not have to worry about exports. The second reason is, India's colonial past and the popular perception, widely shared by the ruling elite that foreign trade was exploitative and was the precursor to the British colonial domination of the country. Thirdly, it is important to take into account the anti-private business bias and the ideology of the Fabian socialist leadership of Nehru and the later Indian leaders.

This made them emphasise public enterprise and seizing the "commanding heights" of the economy under public ownership. At a deeper level, this ideology also prevented the Indian leadership from forging a genuine partnership with private business in the way that the East Asian economies did. Such a partnership is

clearly essential for the successful functioning of a mixed economy.

There is no reason to believe that the leadership could not have created such a partnership and won public support for it during periods of large parliamentary majorities and strong government.

However, for this to have happened would have required a wide measure of ideological flexibility which the Indian ruling elite clearly did not possess. The contrast between the post-Mao Chinese leadership and the Indian ruling circles, in this respect, could not be more striking.

The neglect of exports is one, but a very important example, of the intellectual failure of the ruling elite to correctly appreciate the world around it, rather than a problem which arose from the lack of autonomy of the state. There are other similar examples concerning technology imports, foreign direct investment, etc., which it can be shown, also point in the same direction. Of course, it is possible to plead extenuating circumstances for these failings in terms of the Indian colonial history as mentioned above (see also Mohun, 1992), but that does not alter the fact of these failures. Similarly, it may be that the Indian state did not have the autonomy to orchestrate oligopolistic investment races or to set export targets for firms in the the East Asian manner - even that is not certain - but it definitely could have learned other useful lessons from, for example, the Japanese MITI, particularly the latter's role in continuously building a social consensus around the required developmental policies as world circumstances changed.

In other words, the essential point is not that a subset of MITI type sensible policies could not have been implemented because of

lack of autonomy of the state, but simply that they were not implemented because of intellectual failings on the part of the ruling elite.

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