

# South Asia

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## India's underperforming industrial sector

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The bane of the Indian economy has been its skewed, and rather unusual, growth. A long-term analysis of the economy presents a bizarre scenario of a development process that moved straight from an agrarian economy to a service sector-led economy, with the industrial revolution completely bypassing India, for which the country is still paying a heavy cost.

As can be seen from the table, agriculture was the major contributor to India's GDP growth during the 50s. Thereafter, the service sector took center stage with increasingly improving contribution every passing decade.

### India: Sectoral Sources of Growth, 1951-2004

Time period	1951-52 to 1960-61	1961-62 to 1970-71	1971-72 to 1981-82 1980-81	1981-82 to 1992-93 1990-91	1992-93 to 1997-98 1996-97	1997-98 to 2003-04
Average annual growth rates (%)	3.9	3.7	3.2	5.6	6.7	5.6
Percentage contribution to increase in GDP at Factor Cost from						
Agriculture	45.2	35.1	27.2	24.2	20.3	13.0
Industry	23.7	26.5	25.6	28.6	30.9	23.1
Service	31.1	38.4	47.2	47.2	48.8	63.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

The growth of the economy over the years has been marked by a) continuous decline in the contribution of agriculture, and b) virtual stagnation in the contribution of industry. An analysis of the growth driver of the Chinese economy reveals a stark contrast. The table here shows that it was the industry and not the service sector that acted as a catalyst for China's growth.

### China: Sectoral Sources of Growth, 1980-2002

Time period	1980 to 1989	1990 to 1996	1997 to 2002
Avg. annual growth rates (%)	9.7	10.5	7.8
Percentage contribution to increase in GDP at Factor Cost from			
Agriculture	20.3	9.3	6.4
Industry	39.5	62.2	58.5
Service	40.2	28.5	35.1
Total	100.0	100.0	100.0

The recently released Industrial Development Report, 2004, by UNIDO (United Nations Industrial Development Organization) clearly points out how India missed the industrial development bus. The report used the concept of competitive industrial performance (CIP) index. This index (which uses "hard" quantitative data rather than "soft" qualitative or survey information) benchmarks a "core group" of 93 economies and ranks them for 1980, 1990 and 2000.

## Ranking of Asian Economies during 1980, 1990 and 2000

(CIP Index)

2000		1990		1980	
World Rank	Country	World Rank	Country	World Rank	Country
1	Singapore	1	Singapore	2	Singapore
9	Taiwan	15	Taiwan	16	Hong Kong
10	Korea	18	Korea	18	Taiwan
15	Malaysia	20	Hong Kong	23	Korea
23	Thailand	23	Malaysia	38	India
24	China	26	China	39	China
25	Philippines	32	Thailand	40	Malaysia
27	Hong Kong	36	India	42	Philippines
38	Indonesia	43	Philippines	47	Thailand
40	India	54	Indonesia	75	Indonesia

Source: Industrial Development Report 2004 - UNIDO

The table shows almost all countries improved on their global ranking with every passing decade, while India continued to falter. Of course the ranking of Hong Kong also did see a drop during the period, but the fact remains that all other major Asian countries either moved up the ladder or continued to be above India during the period under consideration. More importantly, India's ranking within Asia showed a continuous decline.

While the unfettering of the economy post-1991 did lead to a comparatively strong industrial growth during the first half of the 1990s, things took a turn for the worse thereafter. So much so that by 2000, India's position as per the UNIDO ranking showed a marked deterioration. The economic impact of this underperformance is there for all to see. The agricultural sector, which contributes for less than a quarter of India's gross domestic product (GDP) but accounts for nearly 70% of India's population is clearly unable to cope with the inadequacies. When the domination of agriculture in an agrarian economy gradually decreases, it is the industry that has to take over, more so to enable a gradual shift of agriculture-dependent population to industry. This not only reduces the pressure on agriculture but also results in a more equitable distribution of the fruits of economic growth.

But this cannot happen if the service sector becomes the economy's engine, upstaging the industry. For a country with close to 30% illiterate population (an official, understated figure), the service sector, given its inherent entry barrier by virtue of its requirement of a basic minimum skill set, offers a much limited employment potential for a vast sector of the population. And this is exactly what has happened in India. Not surprisingly, of the 10 Asian countries featuring in this table, India's per capita income is the lowest.

## Per capita income for the year 2000

(US \$ @ '95 exchange rates)

Country	Per capita income
Singapore	28,230
Hong Kong	24,218
Taiwan	13,372
Korea	13,062
Malaysia	4,797
Thailand	2,805
Philippines	1,167
Indonesia	994
China	824
<b>India</b>	<b>459</b>

Source: World Bank

India has traditionally been dominated by heavy industry. In the post-independence period, there was great emphasis on building up India's capital goods and heavy industries. Uncompetitive and inefficient industries were often able to survive behind high tariff barriers and lack of private-sector competition. Many of them now face greater competition because of the deregulation and lower tariff barriers. Competition has resulted in declining prices and profit margins. At the same time, however, these industries are still held back by the limited reform measures undertaken thus far: high input costs (often due to high import tariffs), infrastructure constraints, and an array of restrictive labor, land and other policies.

On the whole, India's achievement after more than 50 years of independence and planned economic growth is nothing to write home about. Fortunately, however, things are looking up now. Not only is India being considered the most entrepreneurial nation, the quality of its manpower is also drawing increasing global recognition. This has resulted in India becoming an important destination for outsourcing, not just for service but for manufacturing as well. Thus India is presented with a rare opportunity of hopping onto the bus it missed earlier.

The liberalization program of the past 13 years was supposed to unleash the creative, competitive spirit of capitalism. With the withdrawal of the state from economic activities, the private sector was supposed to have been freed to make the most efficient choices and improve its competitiveness. This improved efficiency, it was assumed, would show up in increased productivity. But according to the Reserve Bank of India's (RBI's) Currency and Finance Report 2002-03, Total Factor Productivity Growth (which captures the productivity of labor and capital together) slowed down sharply in the 1990s. The report has also calculated productivity separately for the two factors - labor and capital. Labor productivity has grown faster in the 1990s but capital productivity actually dropped in the same period:

	1980-90	1991-2000
Total factor productivity growth	3.9	2.1
Labour productivity growth	6.5	7.8
Capital productivity growth	1.3	-0.7

-- RBI, Report on Currency and Finance, 2002-03

The growth of fixed capital outpaced the growth of value-added. On the one hand, more value-added was extracted from each worker but on the other, less and less value-added came from fresh capital investments. In a country where labor is plentiful and capital is scarce, abundant labor is being restricted and scarce capital is being squandered. Thus there is clearly greater idle industrial capacity and more intense exploitation of labor. Whether India will be able to catch that bus will largely depend on whether it is able to rectify this situation.

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