



# CHAPTER ONE

# INTRODUCTION

## Chapter I

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### I INTRODUCTION:

Industrialization is regarded as synonym with economic development; in fact these two terms are most often used inter-changeably. For industrialization as a process, ultimately results in economic progress.<sup>1</sup> This is because it exploits the idle resources of the economy and leads to multi sector development. This ultimately encourages economic welfare of the society. It is for this reason that industrialisation has been emphasized for absorption of rural unemployed people and accelerate the economic development of the country. In fact, Rostow's famous "Stages of Growth" also asserted that the take off stage from the subsistence level is based on the creation of an infrastructure for industrialisation. Thus, the lack of development of industrial sector is widely seen as a major cause of economic and social backwardness of an economy. This has forced the government of different countries to encourage industrialisation in their economy.

While industrialisation is desirable, the pattern of industrial development observed from the past experience indicates that it has an inherent tendency to get concentrated in few favourable regions.<sup>2</sup> The uneven distribution of investment, employment and other related industrial activities may be held responsible for giving rise to regional disparities.<sup>3</sup>

Further, the lack of industrialisation leads to territorial disparity in economic development.<sup>4</sup> This is a serious problem experienced by all the countries of the world, irrespective of their level of development. In this regard, the development of industries in backward regions has been accepted as a means to reduce regional disparity.

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<sup>1</sup> See Sadhak (1986)

<sup>2</sup> See Hirschman (1958)

<sup>3</sup> The term territory and region are used inter changeably. It represents a specific area posing particular characteristics all over the defined region. These characteristics may be of linguistic base, social difference or economic conditions. See Patnaik (1981)

<sup>4</sup> Regional disparity means the differences in PCI, level of literacy, availability of health and education service or level of industrialisation. See Government of India 11<sup>th</sup> Five year plan.

The need for industrialization is stressed explicitly in the theories of economic development. The underdeveloped countries which have been stagnant for centuries together need a big push to come out of underdevelopment. Balanced and stable growth of an economy is possible through stimulation of investment in large number of different industries. In a historical perspective, Myrdal established a positive relationship between industrialization and economic development.

Though the industrialization is a desirable policy, the pattern of industrial development witnesses so far is of a tendency to concentrate in a few favourable territories, developing that particular territory at a faster rate and leaving other areas, without industrialization or without any benefits of industrialization, as backward. It is a fact that industrialization has a tendency to increase territorial disparity and at the same time, industrialization is used as an important tool to reduce territorial disparities at a faster rate.

The reason for the regional disparity could be manifold. Regional disparities could exist due to historical reasons, differences in initial conditions and natural resources endowments. Few factors which are associated with physical features and geographical location cannot be altered, but some other factors can be influenced by improving the level of education, providing uninterrupted power supply and also by providing the infrastructure on a larger scale.<sup>5</sup>

This disparity in development of industries and other related modern economic activities between different regions arises due to some unsatisfactory conditions of development which are associated with substantial areas. These unsatisfactory conditions are related to historical process of development of an underdeveloped regions as well as geographical distribution of natural resources. While due to historical reason and favourable geographical setting some enclaves became the centre of 'Politico-economic activities' the other areas remaining out of the mainstream of development.<sup>6</sup> By regional development we mean developing regions to its maximum potentials.

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<sup>5</sup> See Godbole (1978)

<sup>6</sup> See Sathak (1986)

In a country like India, industrial development contributes towards three major economic objectives (i) Facilitate rapid economic growth (ii) Bring about stability in the economy and (iii) Promote territorial development of the backward region.

Over the last six decades, the development of industrial sector in India has been remarkable features of its overall economic development. The process of industrial sector initiated as a conscious deliberate policy in the early fifties. In pursuance of this policy, large investments have been made in building up capacity over a wide spectrum of industries. Moreover, since the second five year plan industrialisation was considered the means to accelerate the growth of the economy by utilizing efficiently the unexploited resources in different parts of the country. It was planned to lay a strong foundation for future development of the country in initial stages.<sup>7</sup> In this process no doubt India has achieved great heights and attained the position of the tenth biggest industrialized countries of the world. However, looking at the pattern of industrial development in India from the regional point of view, there has been a lop-sided and unbalanced growth which has led to the inter-regional disparities and imbalances.

In India, industrial development was recognized as a key factor in economic development of the country, even before independence by Dr. M.Visveswaraiah, whose economic philosophy was "industrialize or perish". Even after independence, the earlier Indian philosophy continued to be industrialization of the economy. In fact, first Prime Minister of India, Jawaharlal Nehru expressed that the real progress must ultimately depend on industrialization. As a consequence, from the second five-year plan onwards, the Mahalanobis model of industrialization was adopted.

India is one of the few countries in a developing world which has consciously adopted certain specific policies, strategies and programmes at the national and sub-national levels for the accelerated development of backward areas.<sup>8</sup> In India, industrial dispersal policy in the initial phase was heavily dependent on concessions and subsidies, to promote industrial investment in the backward regions, compared to other regions. The significant feature of industrial development in India is that it has concentrated in few states like Gujarat, Maharashtra, Tamil Nadu, Karnataka, West Bengal, etc., where

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<sup>7</sup> See Rao (1973)

<sup>8</sup> See Sundaram (1982)

industrial growth rate is high. It is for this reason that these states are called as industrialized states. However, even within the advanced states, some districts are industrially advanced districts, and some districts are industrially backward districts, leading to intra-state disparities. However, other states like Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh etc. have not received any significant share in industrial growth. This has led to inter state disparities in industrialization also. Nevertheless the fact is that neither concession nor subsidies could reduce altogether regional disparity in the country. Later on, government realized that it is the non-availability of infrastructure in the backward regions that has led to the regional disparities. Thus, in the late 1990's government of India started encouraging infrastructure in the remote areas and from year 2000, concessions and subsidies were eventually withdrawn. Thus, the main thrust of the government was the creation of infrastructure, with the abolition of concessions and subsidies from the year 2000 onwards, except in the Jammu & Kashmir as well as North-East states of India.

The liberalization policy that adopted by the government of India in 1991 was based on market friendly policies. Since then, the economy has been experiencing structural changes, so the private sector has been playing prime role, government has to play little role. As a part of liberalization policy, the government has withdrawn subsidy and concessions. Thus, all the state government are encouraging infrastructure to encourage private investment both domestic as well as foreign to develop industries. Many scholars and researchers had opined that in the state of Gujarat, the economic growth is higher and rising at a faster rate but the gains of rapid growth have not reached all parts of the state in an equitable manner. This view is supported by available statistics for the several indicators. However, widening disparities between the districts in the state is a matter of serious concern. Many researchers are also of the opinion that reforms have widened the regional disparity while others opine that reforms have reduced regional disparity. The present study is carried out to study whether the reforms have increased or decreased regional industrial disparity in the state of Gujarat in general and in Vadodara and Amreli district in particular.

It is in this context that the present study focuses on territorial disparity in industrial development in the state of Gujarat, particularly in the post reforms period. The

study attempts to examine the effects of reforms on industrial development in the state of Gujarat, in terms of growth of industries, employment, output, value added and investment in manufacturing sector.

## **II OBJECTIVES AND HYPOTHESIS OF THE STUDY:**

The economy has witnessed a period of two decades of reforms. Since one of the objectives of introducing reforms was to accelerate growth through industrialization, it becomes desirable to evaluate the impact of reforms on the industrial sector within the state of Gujarat as a case study. This is required because very few existing studies have highlighted the inter-district and intra-district disparity in context of industrialization in the state of Gujarat. Thus, the major objectives of the study are:

1. To review the industrial policies at the state and central level.
2. To examine the profile of the state of Gujarat and make a comparison with other states.
3. To evaluate the district wise industrialisation in Gujarat.
4. To examine the pattern and diversification of industries in the talukas of Vadodara and Amreli districts.
5. To examine the localization of industries
6. To find out the stability of industrial growth.

Based on these objectives, the central hypothesis of the present study is that

**“The reforms have led to reduction in the territorial industrial disparity in the state of Gujarat.”** Following from this central hypothesis; it is hypothesized that:

1. Reforms have led to faster industrial growth in Gujarat as compared to other states.
2. The reforms have led to harmonized industrial development of all districts of Gujarat.
3. Reforms have led to dispersal of industries in the state of Gujarat.
4. All talukas in industrially advanced district of Vadodara have developed equally.
5. All talukas in backward district of Amreli have industrially developed harmoniously.

6. Reforms have led to stability in industrial growth.

### **III DATA SOURCES AND METHODOLOGY:**

The study is essentially of an empirical in nature and its basic sources of data are secondary in nature. Such data are collected from Annual Survey of Industries, Commissioner of Industries of Gujarat, Industrial Extension Bureau of Gujarat, Socio-Economic Review of Gujarat, District Industries Centres, and Socio-Economic Review of the District surveyed.

The industrial development within the state of Gujarat has been examined on the basis of the Compound Growth Rate and Instability Index for the period between 1980-81 to 2009-10. Further this period is sub divided into two periods, 1980-81 to 1990-91 and 1991-92 to 2009-10, that is pre and post reform periods. The methodologies are discussed in detailed in relevant chapters.

Further, for the study of industrial development and industrial backwardness of all talukas of Vadodara and Amreli districts, the location quotient of Industries have been calculated.

### **IV JUSTIFICATION OF THE STUDY:**

A number of studies have been conducted in India and other countries which have dealt with the issues of industrialisation and regional development. These studies have considered one or the other aspects of industrialisation. In addition, only few studies have been conducted with the reforms as the backdrop. Further, the studies pertaining to Gujarat state have not examined the inter taluka variation in industrial development or regional disparity. Moreover, the existing studies have considered a limited time period. Thus, the available literature are limited either in their coverage or in terms of time period. It is this gap in the knowledge that the present study attempts to overcome.

### **V LIMITATION OF THE STUDY:**

Although every attempt has been made in the present study to fill in lacuna of earlier studies, still the study suffers from number of limitations as elaborated below:

1. The required data was collected from District Industries Centre pertaining to registered units only. The data with respect to units which are not

registered with DIC are not available. Further, DIC data also considers petty shops as SSI units.

2. The taluka wise data are not available for all the parameters.
3. Further, it was not possible to compare the industrial development taluka wise in the post reform period with that of pre reform period, due to non availability of the required data.
4. In certain cases group wise data are not available because of small number of units, they are merged into some other groups.

## **VI CHAPTER SCHEME:**

The first chapter, which is the introductory chapter, introduces the topic of the present study. In this chapter the objectives of the study and the hypotheses are stated. It also provides an over view of the data source and the methodology adopted for testing the hypothesis. It also provides an overview of the subsequent chapters and limitation of the current study.

The second chapter titled “Territorial Development and Industrial Location: Theory and Literature Survey” is divided into two part. In the first part, various theories associated with the regional development and industrial locations have been examined. In the second part the existing literature on the subject has been reviewed, so as to provide a justification for undertaking the present study.

The industrial policies formulated by the government of India as well as by the state government have been examined in the third chapter. In addition the reports of various committees formed for identifying backward areas have also been studied in this chapter.

In the fourth chapter, the profile of the state of Gujarat is presented. The emphasis here is on industrial development of the state from its inception in 1960. A comparison with other states has also been attempted in this chapter. The comparison is made on the basis of different parameters such as the growth of numbers of registered factories, capital investment, and number of employees, net value added and value of out put.

The fifth chapter attempts to highlight the inter-district industrial variation in the state of Gujarat. This chapter also highlights the fact that, industrial activities are



concentrated in six districts out of twenty five districts of the state. Thus reveals the territorial industrial imbalance in the state of Gujarat.

The sixth chapter focuses on the inter-taluka industrial profile in Vadodara district. Along with it, the future star and star industrial groups are also identified within each taluka of the district

Chapter seven examines the pattern of industrial development in Amreli district which is one of the most industrially backward of the state. Here also the inter-taluka industrial variation has been attempted. Further, future star and star industrial groups in each taluka have been identified.

The last chapter is the concluding chapter, where the whole study has been summarized on the basis of which the conclusions are drawn. The chapter also suggests policy implications based on the findings of the study.

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