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EMERGING ISSUES OF INDUSTRIAL SECTOR REFORMS IN INDIA

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Economic growth boosts the process of industrialization as a means to achieving a socialistic pattern of society. Given the scarce capital and inadequate entrepreneurial base, the Resolution accorded a predominant role to the State to assume direct responsibility for industrial development. All industries of basic and strategic importance and those in the nature of public utility services besides those requiring large scale investment were reserved for the public sector.

When India achieved Independence in 1947, the national consensus was in favour of rapid industrialization of the economy which was seen not only as the key to its economic development but also to economic sovereignty. In the subsequent years, India's Industrial Policy evolved through successive Industrial Policy Resolutions and Industrial Policy Statements. Specific priorities for industrial development were also laid down in the successive Five Year Plans. Building on the so-called "Bombay Plan" in the pre-Independence era, the first Industrial Policy Resolution announced in 1948 laid down broad contours of the strategy of industrial development. At that time the Constitution of India had not taken final shape nor was the Planning Commission constituted. Moreover, the necessary legal framework was also not put in place. Not surprisingly therefore, the Resolution was somewhat broad in its scope and direction. Yet, an important distinction was made among industries to be kept under the exclusive ownership of Government, *i.e.*, the public sector, those reserved for private sector and the joint sector¹.

Subsequently, the Indian Constitution was adopted in January 1950, the Planning Commission was constituted in March 1950 and the Industrial (Department and Regulation) Act (IDR Act) was enacted in 1951 with the objective of empowering the Government to take necessary steps to regulate the pattern of industrial development through licensing. This paved the way for the Industrial Policy Resolution of 1956, which was the first comprehensive statement on the strategy for industrial development in India.

Industrial Policy Resolution - 1956

The Industrial Policy Resolution - 1956 was the blue print of the vision of Pt. Nehru and shaped by the Mahalanobis Model of growth, which suggested that emphasis on heavy industries would lead the economy towards a long term higher growth path. The Resolution widened the scope of the public sector. The objective was to accelerate Bombay Plan prepared by leading Indian

¹ Ahluwalia, I.J. Productivity and Growth in Indian Manufacturing, Oxford University Press, Delhi, 1991.

industrialists in 1944-45 had recommended government support for industrialization, including a direct role in the production of capital goods².

The Industrial Policy Resolution - 1956 classified industries into three categories. The first category comprised 17 industries exclusively under the domain of the Government. These included *inter alia*, railways, air transport, arms and ammunition, iron and steel and atomic energy.

The second category comprised 12 industries (included in Schedule B of the Resolution), which were envisaged to be progressively State owned but private sector was expected to supplement the efforts of the State.

The third category contained all the remaining industries and it was expected that private sector would initiate development of these industries but they would remain open for the State as well. It was envisaged that the State would facilitate and encourage development of these industries in the private sector, in accordance with the programmes formulated under the Five Year Plans, by appropriate fiscal measures and ensuring adequate infrastructure. Despite the demarcation of industries into separate categories, the Resolution was flexible enough to allow the required adjustments and modifications in the national interest³.

Another objective spelt out in the Industrial Policy Resolution – 1956 was the removal of regional disparities through development of regions with low industrial base. Accordingly, adequate infrastructure for industrial development of such regions was duly emphasized. Given the potential to provide large-scale employment, the Resolution reiterated the Government's determination to provide all sorts of assistance to small and cottage industries for wider dispersal of the industrial base and more equitable distribution of income. The Resolution, in fact, reflected the prevalent value system of India in the early 1950s, which was centered around self sufficiency in industrial production. The Industrial Policy Resolution – 1956 was a landmark policy statement and it formed the basis of subsequent policy announcements⁴.

Industrial Policy Measures in the 1960s and 1970s

Monopolies Inquiry Commission (MIC) was set up in 1964 to review various aspects pertaining to concentration of economic power and operations of industrial licensing under the IDR Act, 1951. While emphasizing that the planned economy contributed to the growth of industry, the Report by MIC concluded that the industrial licensing system enabled big business houses to obtain disproportionately large share of licenses which had led to pre-emption and foreclosure of capacity. Subsequently, the Industrial Licensing Policy Inquiry Committee (Dutt Committee), constituted in 1967, recommended that larger industrial houses should be given licenses only for

² Government of India *Annual Report 2003-04, Ministry of Commerce and Industry*. New Delhi.

³ Government of India *Handbook of Industrial Policy and Statistics (Various Issues), Office of Economic Adviser, Ministry of Commerce and Industry*. New Delhi.

⁴ Government of India *Economic Survey 2004-05, Ministry of Finance*. New Delhi

setting up industry in core and heavy investment sectors, thereby necessitating reorientation of industrial licensing policy⁵.

In 1969, the monopolies and restrictive Trade Practices (MRTP) Act was introduced to enable the Government to effectively control concentration of economic power. The Dutt Committee had defined large business houses as those with assets of more than Rs.350 million. The MRTP Act, 1969 defined large business houses as those with assets of Rs. 200 million and above. Large industries were designated as MRTP companies and were eligible to participate in industries that were not reserved for the Government or the Small scale sector⁶.

The new Industrial Licensing Policy of 1970 classified industries into four categories. First category, termed as 'Core Sector', consisted of basic, critical and strategic industries. Second category termed as 'Heavy Investment Sector', comprised projects involving investment of more than Rs.50 million. The third category, the 'Middle Sector' consisted of projects with investment in the range of Rs.10 million to Rs.50 million. The fourth category was 'Delicensed Sector', in which investment was less than Rs.10 million and was exempted from licensing requirements. The industrial licensing policy of 1970 confined the role of large business houses and foreign companies to the core, heavy and export oriented sectors⁷.

The Industrial Policy Statement - 1973

With a view to prevent excessive concentration of industrial activity in the large industrial houses, this Statement gave preference to small and medium entrepreneurs over the large houses and foreign companies in setting up of new capacity particularly in the production of mass consumption goods. New undertakings of up to Rs.10 million by way of fixed assets were exempted from licensing requirements for substantial expansion of assets. This exemption was not allowed to MRTP companies, foreign companies and existing licensed or registered undertakings having fixed assets of Rs.50 million and above.

The Industrial Policy Statement -1977

This Statement emphasized decentralization of industrial sector with increased role for small scale, tiny and cottage industries. It also provided for close interaction between industrial and agricultural sectors. Highest priority was accorded to power generation and transmission. It expanded the list of items reserved for exclusive production in the small scale sector from 180 to more than 500. For the first time, within the small scale sector, a tiny unit was defined as a unit with investment in machinery and equipment up to Rs.0.1 million and situated in towns or villages with a population of less than 50,000 (as per 1971 census). Basic goods, capital goods,

⁵ Acharya, S. (2004), 'India's Growth Prospects Revisited', Economic and Political Weekly, Special Article, October 2004.

⁶ Ahluwalia, M. (1986), 'Balance of Payments Adjustment in India 1970-71 to 1983-84', World Development, 14(8).

⁷ Appu, P. S (2005): 'The All India Services: Decline Debasement and Destruction', Economic and Political Weekly, 26 February 2005.

high technology industries important for development of small scale and agriculture sectors were clearly delineated for large scale sector. It was also stated that foreign companies that diluted their foreign equity up to 40 per cent under Foreign Exchange Regulation Act (FERA) 1973 were to be treated at par with the Indian companies. The Policy Statement of 1977 also issued a list of industries where no foreign collaboration of financial or technical nature was allowed as Indigenous technology was already available. Fully owned foreign companies were allowed only in highly export oriented sectors or sophisticated technology areas. For all approved foreign investments, companies were completely free to repatriate capital and remit profits, dividends, royalties, etc. Further, in order to ensure balanced regional development, it was decided not to issue fresh licenses for setting up new industrial units within certain limits of large metropolitan cities (more than 1 million population) and urban areas (more than 0.5 million population).

Industrial Policy Statement -1980

The industrial Policy Statement of 1980 placed accent on promotion of competition in the domestic market, technological upgradation and modernization of industries. Some of the socio-economic objectives spelt out in the Statement were i) optimum utilisation of installed capacity, ii) higher productivity, iii) higher employment levels, iv) removal of regional disparities, v) strengthening of agricultural base, vi) promotion of export oriented industries and vi) consumer protection against high prices and poor quality. Policy measures were announced to revive the efficiency of public sector undertakings (PSUs) by developing the management cadres in functional fields *viz.*, operations, finance, marketing and information system. An automatic expansion of capacity up to five per cent per annum was allowed, particularly in the core sector and in industries with long-term export potential. Special incentives were granted to industrial units which were engaged in industrial processes and technologies aiming at optimum utilization of energy and the exploitation of alternative sources of energy. In order to boost the development of small scale industries, the investment limit was raised to Rs.2 million in small scale units and Rs.2.5 million in ancillary units. In the case of tiny units, investment limit was raised to Rs.0.2 million⁸.

Industrial Policy Measures during the 1980s

Policy measures initiated in the first three decades since Independence facilitated the establishment of basic industries and building up of a broad based infrastructure in the country. The Seventh Five Year Plan (1985-1990), recognized the need for consolidation of these strengths and initiating policy measures to prepare the Indian industry to respond effectively to emerging challenges. A number of measures were initiated towards technological and managerial modernization to improve productivity, quality and to reduce cost of production. The public sector was freed from a number of constraints and was provided with greater autonomy. There was some progress in the process of deregulation during the 1980s. In 1988, all industries,

⁸ Montek S. Ahluwalia, 2002. 'Economic Reforms in India since 1991: Has Gradualism Worked?,' Journal of Economic Perspectives, American Economic Association, vol. 16(3): 67-88, Summer.

excepting 26 industries specified in the negative list, were exempted from licensing. The exemption was, however, subject to investment and locational limitations. The automotive industry, cement, cotton spinning, food processing and polyester filament yarn industries witnessed modernization and expanded scales of production during the 1980s⁹.

Industrial Policy Resolution- 1991—A Bold Step for Industrial Reforms

The Industrial Policy Statement of 1991 stated that “the Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increased competitiveness for the benefit of common man”. It further added that “the spread of industrialization to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments”.

The objective of the Industrial Policy Statement - 1991 was to maintain sustained growth in productivity, enhance gainful employment and achieve optimal utilization of human resources, to attain international competitiveness, and to transform India into a major partner and player in the global arena. Quite clearly, the focus of the policy was to unshackle the Indian industry from bureaucratic controls. This called for a number of far-reaching reforms. A substantial modification of Industry Licencing Policy was deemed necessary with a view to ease restraints on capacity creation, respond to emerging domestic and global opportunities by improving productivity. Accordingly, the Policy Statement included abolition of industrial licensing for most industries, barring a handful of industries for reasons of security and strategic concerns, social and environmental issues. Compulsory licencing was required only in respect of 18 industries¹⁰.

Recognising the complementarity of domestic and foreign investment, foreign direct investment was accorded a significant role in policy announcements of 1991. Foreign direct investment (FDI) up to 51 per cent foreign equity in high priority industries requiring large investments and advanced technology was permitted. Foreign equity up to 51 per cent was also allowed in trading companies primarily engaged in export activities. These important initiatives were expected to provide a boost to investment besides enabling access to high technology and marketing expertise of foreign companies¹¹.

⁹ Ahluwalia, I. (1991), *Productivity and Growth in Indian Manufacturing*, Oxford University Press, Delhi.

¹⁰ Balakrishnan, P. (2006). ‘Benign Neglect or Strategic Intent? Contested Lineage of Indian Software Industry,’ *Economic and Political Weekly*, 9 September 2007, pp. 3865-3872.

¹¹ Bhalla, G.S. (2004). ‘Is Growth Sans Industrialization Sustainable?’, ISID Foundation Day Lecture, Institute for Studies in Industrial Development, New Delhi, India, May 2004.

Industrial Policy Measures Since 1991

Since 1991, industrial policy measures and procedural simplifications have been reviewed on an ongoing basis. Presently, there are only six industries which require compulsory licensing. Similarly, there are only three industries reserved for the public sector. Some of important policy measures initiated since 1991 are set out below. Since 1991, promotion of foreign direct investment has been an integral part of India's economic policy. The Government has ensured a liberal and transparent foreign investment regime where most activities are opened to foreign investment on automatic route without any limit on the extent of foreign ownership. FDI up to 100 per cent has also been allowed under automatic route for most manufacturing activities in Special Economic Zones (SEZs). More recently, in 2004, the FDI limits were raised in the private banking sector (up to 74 per cent), oil exploration (up to 100 per cent), petroleum product marketing (up to 100 per cent), petroleum product pipelines (up to 100 per cent), natural gas and LNG pipelines (up to 100 per cent) and printing of scientific and technical magazines, periodicals and journals (up to 100 per cent). In February 2005, the FDI ceiling in telecom sector in certain services was increased from 49 per cent to 74 per cent. Reservation of items of manufacture exclusively in the small scale sector has been an important tenet of industrial policy. Realizing the increased import competition with the removal of quantitative restrictions since April 2001, the Government has adopted a policy of dereservation and has pruned the list of items reserved for SSI sector gradually from 821 items as at end March 1999 to 506 items as on April 6, 2005. Further, the Union Budget 2005-06 has proposed to dereserve 108 items which were identified by Ministry of Small Scale Industries¹².

The Indian industrial policy, as embodied in the five year plans, has long been the subject of intense criticism from the influential neo-liberal critics of the country's development. As Bradford DeLong, 2001, puts it: 'The conventional narrative of India's post-World War II economic history begins with a disastrous wrong turn by India's first prime minister, Jawaharlal Nehru, toward Fabian socialism, central planning, and an unbelievable quantity of bureaucratic red tape. This 'license raj' strangled the private sector and led to rampant corruption and massive inefficiency. As a result, India stagnated until bold neo-liberal economic reforms triggered by the currency crisis of 1991, and implemented by the government of Prime Minister Narasimha Rao and Finance Minister Manmohan Singh, unleashed its current wave of rapid economic growth – growth at a pace that promises to double average productivity levels and living standards in India every sixteen years.' This echoes The Economist's harsh assessment of the overall Indian record for the first four decades of Indian independence, 'The hopes of 1947 have been betrayed. India, despite all its advantages and a generous supply of aid from the capitalist West, 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

¹² Chakravarty, S. (1988), Development Planning: The Indian Experience, Delhi, Oxford University Press.

breaking point, by taking on jobs it has no business doing.' (The Economist, 1991, p 9) In the mainstream accounts of Indian economic development the change away from India's traditional industrial policy in 1991 towards liberalisation, deregulation, market orientation has been hailed as ushering in a new era of freedom from government controls and one which promises greater prosperity for the Indian people. This unshackling of the economy is credited with achieving the huge increase in India's trend rate of growth of GDP, from the so called Hindu (Nehru-Mahalanobis) rate of 3 to 3.5 percent during 1950-80 to nearly 6 to 7 percent per annum over the last two decades. To fulfil its promise, it is suggested that further liberalization is required both in India's domestic economy and in its external economic relations (for example, further privatization, capital account liberalization, increasing foreign direct investment (FDI))¹³.

Industrial Policy and IT

The growth of a modern, highly export-orientated IT industry is the arena of one of the main controversies concerning the effectiveness of Indian industrial policy. It is argued in some quarters that the outstanding achievements of the IT industry, to be outlined below, are due to its 'benign neglect' by the government. As the industry was a relatively late-comer on the scene in India, it is thought to have been spared the bureaucratic inefficiencies of heavy government intervention of the Nehru-Mahalanobis period of 1950-1980¹⁴.

Further, it is argued that the industry has been successful precisely because its evolution in the 1990s and 2000s has coincided with the overall liberalization of the Indian economy as a result of reforms ushered in by Dr Manmohan Singh in 1991. There is, however, a large body of analysis and evidence that suggests that this characterization of benign neglect by the government is grossly inaccurate and misleading.⁵ Before reviewing this literature, it may be useful to briefly indicate the achievement of the Indian software industry in relation particularly to exports. The following indicators will suffice:

- Of the 316 Indian software companies that had acquired international quality certification by 2002, 85 were assessed at SEICMM level 5, the highest attainable level. This compares with 42 other companies from the whole of the rest of the world.
- Software exports from India have been growing at a rate of 30 per cent a year in the last three of four years, reaching US\$ 9.2 billion in 2003-2004 and \$ 12.2 billion in 2004-2005. Outsourcing to India by Fortune 500 firms increased from 300 in 2003 to 400 in 2004.
- The export intensity of software production in India is more than 70%. This compares with an overall export intensity of 10% for the whole economy.

India's comparative advantage in software development lies entirely in the availability of low-cost skilled labour. An important issue is how were these skills accumulated. Arora et al (2001)

¹³ Economist, The (1991), A Survey of India, 4 May 1991.

¹⁴ Ravallion, M. and G. Datt (1999), 'When Is Growth Pro-Poor?: Evidence from the Diverse Experiences of India's States', World Bank Policy Research Papers, World Bank, Paper No.2263.

report that the comparative salaries for software professionals in India were less than a tenth of those of their counterparts in the United States. For example, a programmer's salary in India was 6% of that in the US; a software developer in India, although comparatively high, was still 30% of that in the US¹⁵.

This comparative advantage of cheap skilled labour did not arise spontaneously but was helped in fact established by the government. The latter took a number of broad as well as specific measures to cultivate the comparative advantage and helped the industry in other ways, including the following:

- Firstly, a vast number of engineering colleges were established in both the public and the private sectors, particularly in the South of India where the state governments were highly entrepreneurial. These colleges provided education, including in IT, that was greatly subsidized by the state and central governments. Indeed, the tuition fees were waived in case of both public and private colleges¹⁶.
- Secondly, the Nehru-Mahalanobis vision, referred to earlier, of creating a broad science and technology base to transform the Indian economy so as to bring about a greater degree of autonomous innovation and development was also fundamental in the development of the IT sector. This policy which, as many scholars have pointed out, led to Indian scientists learning by doing in a conscious purposeful manner that had significant public as well as private benefits. Efforts that were argued by many to be tantamount to reinventing the wheel, in the event made a major contribution to national development. This occurred not only in relation to IT but also in the case of the growth of the biotechnology and pharmaceutical industries. As the late Sanjaya Lall memorably put it, the Indian scientists and engineers not only mastered the know-how of modern technology, but also excelled in its know-why.
- Thirdly, the government's indirect measures significantly helped the industry. Specifically, the government's role in the establishment of Bangalore as a hub attracting the bulk of India's scientific and technological activity was salient to the development of the IT industry. Bangalore first became a centre for cutting-edge defence industries. The reason Bangalore was favoured as a site was because of its distance from India's perceived antagonists, Pakistan and China. Thus, the government's development of a high technology critical mass of market opportunities and people in and around Bangalore greatly facilitated the emergence of an internationally competitive software sector¹⁷.

The software and services industry has received immense support from the government both at the central and state level. This support, in the form of tax incentives and other benefits has been

¹⁵ Rodrik, D. and A. Subramanian (2004), 'From 'Hindu Growth' to Productivity Surge: The Mystery of the Indian Growth Transition', Working Paper No.10376, NBER, March, <http://www.nber.org/papers/w10376>

¹⁶ Rodrik, D. (1995), 'Getting Interventions Right: How South Korea and Taiwan Grew Rich', Economic Policy, 20.

¹⁷ Singh, A. and J. Ghosh (1988), 'Import Liberalisation and the New Industrial Strategy. An Analysis of Their Impact on Output and Employment', Economic and Political Weekly, Special Number, November, pp.2313- 2342.

instrumental in the growth of software and services exports from India. In addition to this, the government has established several task forces that have made far-reaching proposals for the development of this sector¹⁸.

Failure ship of Industrial Policy

India today has an enviable framework for the conduct of comprehensive industrial policy in the broad sense. Many of the necessary institutions required such as the Planning Commission are in place and have broad acceptance among all the political parties and the Indian people. This is one of the reasons why this essay has not concerned itself with the normal starting point of any economic discussion of industrial policy in terms of market failures and externalities. As Dosi et al. have noted in the introduction to this volume, when considering experience regarding achieving long-run dynamic economic efficiency, market failures and coordination problems are ubiquitous in capitalistic economies, whether developed or developing; these are not minor exceptions as is often implied in orthodox writings. That planning and industrial policy are well embedded in the Indian political economy is a major advantage compared. A main issue for the future of industry planning in India is what functions, old and new, should the Indian Planning Commission focus on in the years ahead.

The Commission must clearly change with the times and continue to be able to provide forward looking visions of the economy and the society. In this context, it is interesting to reflect on the evolution of industrial policy in Japan and in South Korea. In Japan, the Ministry of International Trade and Industry, the traditional government agency which spearheaded the highly successful industrial policy of that country in the 1950s and 1960s continues to operate but without the coercive powers it had during that period. On the other hand, the Korean government on its joining the OECD in the early 1990s, ostentatiously abolished its Planning office. Many observers ascribe the Korean crisis of 1997- 98 in part to this abandonment of the planning function which meant that the time inconsistency between foreign exchange inflows and outflows could not be foreseen and resolved in time (Chang 2003 and Singh, 2002).

Suggestions

There is an important new, as well as an old, agenda for the country's Planning Commission. The new agenda arises in response to globalisation and technological change, particularly with respect to information technology. Relevant issues arising from these new phenomena will be examined in this section and those related to the old agenda but requiring updating will be examined in the following section.

The role of services versus manufacturing in the evolution of the Indian economy in the recent period. There are important analytical questions here which require continuing research as these

¹⁸ Singh, A. (1998), 'Competitive markets and Economic Development: A Commentary on World Bank Analyses', pp.60-105, in *The Political Economy of Economic Policies*, in P. Arestis and M. Sawyer (eds.), Macmillan Press Ltd.,

have salient policy implications for employment, work and the general well-being of the Indian people. A main issue which has come up during the last decade is the fact that Indian economic growth seems to be led more by services than by manufactures. Contrary to previous historical evidence, for countries at India's level of economic development, the growth of manufacturing has normally been faster than that of services and of GDP growth. The rapid growth of services, as well as the failure of the formal manufacturing sector to create net new jobs despite fast economic growth, has convinced many Indian economists that the high aggregate growth rates of the recent period are fragile. Thus, it is suggested that the recorded growth rate of more than 8% per annum for the last three years is in some sense unreal because it is in large part due to fast growth of services rather than being primarily generated by the contribution of rapid manufacturing growth.

Along with this IT, Services and Manufacturing Graphs 1 to 3 provide some of the basic empirical information bearing on these issues. study indicates, that both in the periods 1950-1980 and 1980-1990, the growth rate of industry in India was faster than that of either services or agriculture. However, during 1980-1997, the growth rates of industry and services were more or less equal, with both exceeding agricultural growth. However, since 1997, it is again suggested that services have been growing faster than either industry or agriculture. It is normal to indicate the pace of structural change in a developing country by the growth in the share of industry in the country's GDP. Economic history suggests that, when a country begins to industrialize, its share of employment and output in manufacturing rises until a very high level of per capita income is reached, when the share of manufacturing begins to decline. However, to supplement the data on the growth of value added, The table indicates the share of primary sector in total employment was much greater than in GDP - more than 60% compared with 27% for GDP. If de-industrialization is defined in terms of a fall in the share of industry in total employment, the Indian economy strictly speaking did not de-industrialize in the 1980s or in the 1990s.

Again it has been observed that information on changes in employment elasticities between the pre-Reform period (1983-84 to 1987-88) and the post-Reform period (1993- 94 to 1999-2000) in different sectors of the Indian economy.⁹ The Graph indicates a sharp fall in the overall employment elasticity of aggregate output in the country from 0.6 to 0.16 between the two periods. Significantly, the Graph suggests that there has been a sizeable reduction in employment elasticity in agriculture, manufacturing and construction.

It will be appreciated that, despite the IT sector's fast growth and hence its potential for creating jobs, it will be able to directly employ only educated people. Joshi (2004) notes that only 5% of India's relevant age-group receives college education. The employment needs of the un-educated masses are unlikely to be met directly by IT industry. To put things in perspective, it may also be noted that in 1999-2000 only, 8% of the Indian labour force was employed in the organized sector and 92% was absorbed by the informal unorganized sector. There is also evidence that a

large proportion of informal sector workers are engaged in tertiary activities especially in large cities.

In detailed analyses Dasgupta and Singh (2005 and forthcoming) suggest that despite low direct contribution of the ICT sector to employment, it is as much an engine of growth as manufacturing. These two studies suggest that the growth of both manufacturing and services is closely related to the growth of GDP. In the Kaldor type structural analysis of economic growth, it is often argued that the high correlation between GDP growth and the growth of services is not due to any independent causal relationships between these two variables but rather due to the fact that the growth of services depends largely on the growth of manufacturing. However this argument, although it may be applicable to certain services such as retailing and transport, is hardly relevant to services such as those of ICT.

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