

CHAPTER-1

INTRODUCTION

1.1 Background

The goal of industrialization is sought in the developing world as an essential ingredient of the expansion, diversification and modernization of their economies and thereby of improving the general living standards (UN, 1972).

The process of sustained increase in the level of industrialization is a trademark of economic strength and immovability of an economy. Even the growth and development of agriculture sector cannot go very far unless there is an industrial development to take the excess manpower and to provide a solid technical base for transformation of agriculture. Due to its deep forward and backward linkages with several key segments of the economy, industrial sector has a strong multiplier effect and is capable of being the driver of economic growth. It is the industrialization that ensures a sharp rise in national income and standard of living by more extensive and intensive utilization of the productive resources, increasing the productivity of economy, generating profitable employment opportunities and making available basket of goods and services in large scale. For the developing countries like India industrialization is considered a principal objective and solution of various social and economic evils.

Development literature frequently emphasizes the importance of a strong agricultural base for developing countries. A top priority to agriculture is always suggested in their case. Diverse gains emanating from agricultural development are highlighted: employment to large number of people, self reliance in food production, provision of industrial raw materials and generation of surplus resources for other sectors of economy. There is, however, a limit to which agriculture can develop itself. It has to be supported by a vibrant industrial sector for a sustained economic growth. Therefore,

industrialization is vital to the development process in numerous ways. It is primarily through industrialization that traditional societies are transformed into modern one. Rise in standard of living also associated with industrialization which allows more intensive use of available resources. Industrialization is essential to agricultural development by way of mechanization of agricultural development by way of agricultural raw materials and reducing pressure on population from agricultural to industry. It has indeed a great employment generation capacity. Industrialization also brings in a revolution in the social life of the economic structures and new mental attitudes. Industrialization is crucial for the uplift of developing societies. For us, it is imperative here to examine the industrial development in Haryana after having analyzed its agricultural development because agriculture and industries are the two major factors of the economy of any region on the basis of which the overall level of economic development of that region is measured.

1.1.1 The Global Manufacturing Sector:

Manufacturing Sector is the main engine of technical change and economic growth. The majority of innovations is first and commercialized in this sector. In many countries, the manufacturing sector is in a state of transition. It is growing in emerging economies; lessening but becoming more productive in advanced economies. The share of manufacturing GVA (Gross Value Added) in total GVA is increasing. In 2014-15 it was 17.2%. So, manufacturing sector is playing an important role in the world economy.

1.1.2 The Asian Manufacturing Sector:

Asia is the fastest growing economic region and the largest continental economy by GDP PPP in the world. China and India are currently the first and third largest economies in the world, respectively. Moreover, Asia is the site of some of the world's longest modern economic booms, starting from the Japanese economic miracle (1950-1990), Miracle of the Han River (1961-1996) in South Korea and the economic boom (1978-2013) in China.

The manufacturing sector in Asia has traditionally been strongest in the East Asia region-particularly in China, South Korea, Japan, Singapore, and Taiwan. Major Asian manufacturing companies are mostly based in either South Korea or Japan. Many

developed-nation firms from Europe, North America, Japan and South Korea have significant operations in developing Asia to take advantage of the abundant supply of cheap labour, Textile industry is one of the major employers in manufacturing in Asia. Much of the world's supply of clothing and footwear now originates in South Asia and Southeast Asia, particularly in China, Vietnam, China, India, Thailand, Bangladesh, Pakistan and Indonesia.

1.1.3 Indian Manufacturing Sector:

Manufacturing contributes 16% to India's GDP. Share of manufacturing sector in the country's GDP have been largely along expected lines, though it was slightly down. The reasons attributed for this, are the global economic recession, changing pattern of consumer consumption and a stringent liquidity policy. The Government of India had launched the 'Make in India' program to accelerate manufacturing sector growth in world context. Indian Government has set a target of increasing the contribution of manufacturing output to 25% of Gross Domestic Product (GDP) by 2025, from 16% currently. Business conditions in the Indian manufacturing sector continue to remain positive. With the help of 'Make in India' initiative, India is on the path of becoming the hub for hi-tech manufacturing. India has become one of the most attractive destinations for investment in the manufacturing sector. Today, India's share of global manufacturing stands at little over 2%. In India the share of manufacturing sector Gross Value Added (GVA) in total GVA at 2011-12 prices is 18.08%.

While there is a universal agreement on the importance of industrialization, there is still a much debate regarding the appropriate pattern of industrial development. Even after the five decades of planned development, industrial activities in India have not dispersed much across the few selected regions of the country. During the entire period 1951 to 1998, the two western states of Maharashtra and Gujarat have continued to dominate Indian industry which together accounts for a share of almost 34% in the total value added by the country's factory sector (Thomas, 2004). On the other hand, the eastern states of West Bengal, Bihar and Assam have been continually losing their prominence in spite of the fact that one of the key components of industrial sector in India is the

manufacturing sector. However, the performance of the organized manufacturing sector is continued to be a source of concern. There was a massive decline in employment in the public sector following the rationalization of staffing in some units and closure of some other sick units. In the early post reforms years, the increase in private sector employment has made a good decline in public sector (Government of India, 2012). Nevertheless, the overall performance of total employment in manufacturing sector shows a dismal picture since there has been a fall in employment. Further, the share of manufacturing sector in GDP is around 16% in India, compares unfavorably with many Asian and Southeast Asian countries including Thailand (35%), China (32%), Malaysia (31%), South Korea (29%), Singapore (28%), Philippines (23%) and Vietnam (20%) (Virmani and Hasim, 2009).

Manufacturing sector is the backbone of any economy. It fuels growth, productivity, employment, and strengthens agriculture and services sector. 'Indian Manufacturing' sector is broadly divided into- capital goods and engineering, chemicals petroleum, chemicals and fertilizers, packaging, consumer non-durables, electronics, IT marketplace and registering high growth on YOY basis, but large sections of 'Indian Manufacturing' sector still suffers from bottlenecks like-use of primitive technology or under utilization of technology, poor infrastructure, over hardware and peripherals, gems and jewellery, leather and non-ferrous metals, textiles and apparels, water equipment. Indian manufacturing sector is successfully competing in the global staffed operations, expensive financing and bureaucracy

1.1.4 Haryana Manufacturing Sector:

Haryana is the state situated in the heart of North India was formed in 1966 which was carved out from Punjab. Chandigarh is the capital city of the state. Haryana is one of the wealthier states of India and had the second highest per capita income in the country at INR 147076 at current prices in the year 2014-15, including the largest number of rural crorepatis in India. The economic growth of Haryana has been exemplary since its creation as a separate state. The state economy grew at a growth rate higher than the Indian economy during most of the period. Though, Haryana is geographically a small

state 1.3% of the country, the contribution of the state in the National Gross Domestic Product at constant prices has been estimated to be 3.5%.

But in recent past years the declining rate of growth has been observed. The much-touted “No. 1 Haryana” grew at a slower pace than India. The state’s growth rate was pegged at 7% in 2013-14 as against the all- India average of 7.4%. While the gross state domestic product (GSDP) grew at an impressive rate of 8.8% during the 11th Five-Year Plan (2007-2012) as compared to the national economic growth rate of 8% during the corresponding period, the growth rate dipped to 5.5% in 2012-13. However, the growth rate bounced back to 7% in 2013-14, but was still lower than the national growth rate of 7.4%. In 2014-15 growth rate of Haryana was 7.8% but still lower than the national growth rate of 8%.

Haryana State, the new Industrial Policy 2015 is on anvil to spur growth, give further boost to the Manufacturing Sector, laying special emphasis on ease-of-doing business. Inputs of various stakeholders, including industry representatives, would also be taken into consideration while framing the policy. The objective of “Make in India” campaign of Govt. of India have been visualize in the “Make in Haryana” initiative of the State Government.

The Industries Department has taken major initiative for improving “Ease of Doing Business” through simplification of procedures, minimizing of waiting period, improvement of business environment and introduction of information technology to make governance more efficient and effective. In order to make Haryana a preferred investment destination the state is encouraging Public Private Partnership in industrial infrastructure, power, roads and bridges, health, tourism, education sectors. As a part of this initiative to strengthen Haryana image as an investor friendly State, the State Govt. has already launched online filing of Entrepreneurs Memorandum Part-I & II on 25.12.2014 and others like Annual Return filing by Micro, Small and Medium Enterprises (MSMEs), online Registration and Inspection of Boiler under Act, 1923 is proposed to be done by 28.2.2015; online Registration of Society by 30.4.2015 and Composite Application Form under Single Window Clearances by 30.6.2015 as a part of simplification of various procedures with respect to industrial approval. The State

Government has already approved self-certification for boilers with surface area less than 1,000 square mt. and verification by 3rd parties and boilers operation engineers for boilers with surface area greater than 1000 square meters. The Estate Management Procedure, 2011 for allotment, transfer, leasing, resumption etc. of plots and all other related process and procedures to be followed by the State Development Agency will also be online and completed in six months.

1.1.5 Current Status of Economy:

At the time of its formation in 1966, the state Haryana was industrially backward and predominately agriculture dominated state. But now the situation is different, the share of agriculture sector in real GSDP is declining and the shares of industry and service sector are increasing. The state surrounds Delhi on three sides, forming the northern, western and southern borders of Delhi. A large area of the state is included in the National Capital Region (NCR). Within the state the cities of Gurgaon, Faridabad, Yamunanagar, Sonipat, Panipat and Rohtak have special potential for accelerated socio-economic development. Geographical location of the state provides easy and inexpensive access to domestic consumer markets. Moreover, the availability of land suitable for industrial use makes Haryana an ideal location for industry. Haryana's relatively small size makes it easier to govern.

The economy of Haryana has witnessed a significant growth path during the recent years. The real GSDP of the state has increased from about Rs. 104608 crores in FY2006 to about Rs. 199657 crores in FY2014. The average real GSDP of the state has grown at around 8.5% during the period FY2006-FY2014.

Services sector contributes a significant share of around 53% in the GSDP of the state followed by the industry and agriculture at 27% and 20% respectively during FY2014. However, the share of industry has declined from around 30% in FY2008 to 27% in FY2014, while share of services has scaled upwards from 47% in FY2008 to 53% in FY2014.

Table 1.1			
GSDP and NSDP of Haryana			
Components	FY2008	FY2011	FY2014
GSDP (Rs.crore)	151596	260621	388917
NSDP (Rs. Crore)	136584	237163	353714
Economic Growth % (at constant prices)	8.5	7.4	6.9
Source: Economic Survey of Haryana			

Table 1.2			
Sectoral Contribution in GSDP at current prices (%)			
Sectors	FY2008	FY2011	FY2014
Agriculture	23	21	20
Industry	30	29	27
Services	47	50	53
Source: Economic Survey of Haryana			

The state is an emerging manufacturing hub for Indian economy having immense scope for the development of micro, small and medium enterprises (MSME) sector. The state has more than 1,347 large and medium industrial units and 80,000 small-scale industrial units having foreign collaborations. The has presence of many manufacturing clusters in the cities of Ambala, Panipat, Karnal, Kaithal, Yamunanagar, Sonipat, Rohtak among others which has boosted industries such as IT, textiles, automobile, food and handlooms. Further, 2013 was declared as the ‘Year of Industry and Employment’ with a view to boost industrial growth and employment opportunities in the state.

1.1.6 Performance of main manufacturing industries in Haryana:

Haryana is one of the leading states in terms of industrial production, especially passenger cars, two-wheelers, mobile cranes and tractors. The state is host to many large automotive players. The state produces two-thirds of passenger cars, 50% of tractors, 60% of motorcycles and 50% of the refrigerators manufactured in the country. Gurgaon district is on 1st position in automobile manufacturing. Textile industry is another

important manufacturing industry in Haryana. This industry provides maximum employment in the state. Manufacturing of scientific and surgical instruments is an old and important industry in the state and it is mainly located in Ambala district. Industrial units here are engaged in manufacturing of electric appliances like electric presses, electric ovens, voltage stabilizers, electric meters and accessories of refrigerators.

1.2 Rational of the Study

The primary importance of the study is to provide quantified information about performance of manufacturing sector in the State of Haryana and relationship between manufacturing sector growth and economic growth of Haryana. This study will provide such information to a group of academia, government, industry, and other organizations. A part of quantified economic information enables such groups to make better decisions for future long or short-term plans related to the manufacturing industry.

1.3 Scope of the Study

The study draws the trends in input-output growth of manufacturing sector of Haryana. The study also examines the relationship and direction of causality between economic growth and manufacturing sector growth of Haryana by applying Angle-Granger Causality Test using annual data covering from period 1994 to 2010, which is a period of 17 years. The main data sources of this study are Statistical Abstract of Haryana, Economic Survey of Haryana, and Annual Survey of Industries.

1.4 Objectives of the Study

The study covers the following objectives:

- 1) To analyze industry wise recent trend in input-output growth of manufacturing sector in Haryana.
- 2) To analyze district wise recent trend in input-output growth of manufacturing sector in Haryana.
- 3) To find relationship between economic growth and growth of manufacturing sector in Haryana.

1.5 Hypotheses of the Study

The study has been taken up for the period 1994-2010 with the following null hypothesis.

H₀: There is no significant long run relationship between manufacturing sector and economic growth in Haryana.

H₁: There is a significant long run relationship between manufacturing sector growth and economic growth in Haryana.

1.6 Importance of the Study

The study attempts to analyze the important dimensions of manufacturing sector in Haryana. The study also examines the impact of manufacturing sector on economic growth in Haryana between the periods of 1994-2010. The period under the study is important for a variety of reasons. First of all it was during 1991 India opened its door to private sector and liberalized its economy. Second it was the period when there were large gaps between manufacturing sector input-output values in Haryana. This study will draw attention of the policy makers to make policies regarding this problem.

1.7 Organization of the Study

This study is divided into six chapters. Chapter one basically shows the background of study, introduction of the study, rational of the study, research objectives, scope of the study, research hypotheses, and importance of the study, organization of the study. In chapter two, a review of literature pertaining to this study is discussed. This includes the studies in world context, studies in Indian context and inter-state studies.

Chapter three shows the research design, data description and tools for analysis. Chapter four comprises of the trends in input-output growth of manufacturing sector in Haryana. Chapter five comprises the relationship between economic growth and growth of manufacturing sector in Haryana and chapter six shows the major findings of the study, conclusions, policy implications and limitations of the study.