Analysis of the World Bank's Influence on India's Industrial Policy

Dr. Md. Fakhrul Alom, Assistant Professor

Department of Political Science

Nabajyoti College, Kalgachia, Barpeta, Assam, India

Abstract:

The World Bank has played an important role in the development of many different plans for India's economic growth, from the agricultural to the industrial sectors, ever since India gained its independence in 1947. These strategies are now in place in every state. In 1953, a three-person team supported by the World Bank and the United States government visited India and laid the groundwork for what would become the World Bank's industrial policy in India. The reason for coming was because of this trip. In January 1955, the government of India founded the Industrial Credit and Investment Corporation of India (ICICI) in response to orders from this panel to encourage the tight integration of private and foreign capital. For the purpose of establishing the Industrial Credit and Investment Corporation of India, this action was taken. Since then, the World Bank has played a crucial role in a variety of arenas, particularly via its groundbreaking Structural Adjustment Lending programme, which was launched in the 1980s. Many analysts believe that the liberalisation of India's economy after the 1990s was spurred on by World Bank loan conditions and associated recommendations. From the first days of independence through the advent of economic liberalisation in India, this article explores the impact the World Bank had on the country's industrial policy. To meet this need, it is necessary to shed fresh light on the policies that are already in place but may be improved upon in order to foster economic variety, which is critical to structural transformation and development. Numerous studies point to a correlation between economic diversity and sustained development, the latter of which is often accompanied by an improvement in people's quality of life (IMF 2014). This is often understood to mean a shift away from manual labour in agriculture and mining toward more specialised jobs in manufacturing and service industries. Numerous variables, such as progress in society and technology, infrastructure, educational opportunities, fiscal and monetary policies, and so on, have contributed to this diversity.

Keywords:*IBRD, IDA, Aid India Consortium, World Bank, and India's Industrial Policy*

Introduction

Since it favours free markets and little government involvement in development, the World Bank has been a vocal critic of industrial strategy. Analysis of the Bank's performance on industrial strategy over the last two decades by Carlos Fortin of the Institute for Development Studies reveals a more nuanced approach than was previously assumed. The World Bank's approach to development strategy, which gives the state a subordinate role in the economy, has made it the most vocal opponent of industrial policy for many years (i.e., ensuring the smooth operation of markets). According to my understanding, industrial policy is not a part of this approach since it is a biassed government intervention that affects market price signals to push investment in a selected direction. With a per capita income of $2,016 and a growth rate of 7.5% between 1991–92 and 2011–12, India is a lower middle-income nation in 2012. (Data from the World Bank). India's government has recently showed an interest in the challenge of creating meaningful new jobs. Due to the country's young population, experts believe 2011 will be the year India's demographic dividend reaches its highest point. (More than two-thirds are under the age of 35). The 2011 Census of India. Therefore, providing teens with reliable employment opportunities is crucial. It is predicted that the number of young people actively participating in the labour market would increase by two million annually between 2004-05 and 2011-12; yet, only 22% of women and 30% of men have finished at least 12 years of school. Given agriculture's disproportionately high employment rate (43% in 2011) and the sector's minimal contribution to GDP, the manufacturing sector in particular may employ a substantial fraction of India's unskilled and semi-skilled youth, addressing a policy conundrum (16 percent for agriculture, forestry, and fishery).

World Bank And Aid India Consortium

India relies heavily on the World Bank for its foreign assistance needs. The World Bank has a huge pool of professionals in the Indian context available to it thanks to its Delhi Office and India-specific personnel in Washington, DC. The presence of an Indian Executive Director at the World Bank, usually a high-ranking government official, strengthens and facilitates ties between India and the organisation.Most policy proposals and economic assessments made by government officials come from missionaries who happen to reside in the same area. The World

Bank seldom used conditionality and often emphasised the complementary nature of its objectives and those of the government.Around 1963–1964, India started to receive an increasing share of Help India Consortium financing.Maintaining a good overall balance of payments is accomplished with the help of non-project loans. The World Bank sent an assessment team to India in 1965 to analyse the country's economic growth; the committee's conclusions were critical of the government's attitude to expansion. The research recommends a weaker currency, greater foreign help, and more deregulation. **(John 2001)**

Upon the June 1966 recommendation of the Bell Mission of the World Bank to devalue the Indian rupee, the Indian government authorised and enacted the required policy actions. In any case, the results were so negative for business and industry that the liberalisation process was halted. Uncontrollable external circumstances were blamed for the currency depreciation, and the promised help was never delivered. However, as the 1970s advanced and aid flows became less vital to India's economy, the potential to establish oneself reduced.

As a result of the World Bank and the Funding India Consortium's aggressive and ideological attempts to influence Indian macroeconomic policy and their failure to mobilise the promised money, many Indians falsely assumed that they were affiliated with a single, dominant contributor, the United States. In 1979, the World Bank and the United States hosted a meeting of the Aid India Consortium where they discussed preliminary papers suggesting import liberalisation, export development, and private sector preference. The United States, particularly via the World Bank, pushed for diversification in India's privately supplied contraceptives.**(Michael and John 1998**)

World Bank and Structural Adjustment Lending

The liberalisation push picked up significant steam once the World Bank launched its structural adjustment lending programme in 1980. Borrowers were only allowed to get loans on the condition that they participate in and complete the necessary programmes. Stabilization efforts through demand-side management, also known as structural adjustment, were ostensibly implemented to untether the economy's supply side by correcting macroeconomic market inefficiencies brought on by state involvement. Over time, the terms liberalisation and structural adjustment/stabilization have become synonymous.The issues that the World Bank mediates are of a deeper and more basic kind than those of any other international organisation. The problem is that there is mounting pressure on the World Bank to cut even more of India's help from the International Development Association (IDA), on the grounds that these IDA credits are crucial for African nations who cannot access commercial loans. This is because an IDA loan is worth over 85% as much as a grant of the same amount, making it far more cheap than the commercial bank rates available to India. Industrial policy liberalisation in India did not get off the ground until the external payments crisis of 1990, when the government agreed to a World Bank-IMF economic reform plan. By consistently pointing out how exclusive government interventions hurt the economy, the World Bank has played a crucial role in experience-based criticism. When it comes to state involvement in the acquisition of physical infrastructure, the establishment and management of communications networks, and the supply of public services like electricity and water, the World Bank has emphasised that public firms typically have a poor track record. They have not been a productive squad.Many businesses have had to install diesel generators as a backup power source due to the frequent power outages brought on by the lack of infrastructure, financial resources, technical experience, and bureaucracy.(Michael, and Toye 1998)

It seems that, according to the World Bank's agenda for developing nations, domestic policies are more important to the success of industrialisation than international ones. It is critical to update trade policy in this setting. Focusing on being more competitive on global markets should be a top priority. According to World Bank research, countries with an outward-oriented trade policy had higher rates of economic growth, export expansion, job creation, and savings than those with an inward-oriented trade policy. Reducing trade barriers, replacing quantitative limits with tariffs, and establishing exchange rates that reflect economic realities are all aspects of an outward-looking trade strategy.The goals are to increase the efficiency of resource use, make local enterprises more competitive with foreign ones, and open up new avenues of economic activity.We should phase out quotas and switch to tariffs instead. It reduces incentives for wasteful behaviour by providing a more permissive business climate, facilitates the importation of goods from abroad, and lowers regulatory burdens on domestic enterprises. The next thing to do is to reduce the average and standard deviation of the protection rates. To the extent that a strategy can maximise efficiency, all the better. There seems to be some correlation between an assertive first phase and the subsequent reliability of the modifications.

India's Industrial Sector and the World Bank

Since the beginning of India's second five-year plan in 1956, however, the industrial sector has grown in importance, surpassing agriculture as the primary contributor to the country's GDP. The textile industry supported the rest of the industrial sector heavily in the early 1950s. Production in the coal, fertiliser, and iron and steel sectors all took a major hit.

As early as 1953, a three-person World Bank mission backed by the U.S. government travelled to India to lay the framework for future World Bank activities in the Indian industrial sector. In January 1955, the government of India formed the Industrial Credit and Investment Corporation of India (ICICI) in response to suggestions from this committee to promote the tight mixing of private and foreign investments. The ICICI mostly lends money for investments in real estate, building, and heavy equipment. Since its inception in 1954, ICICI has been wholly owned and operated by its private shareholders. The initiative's goal is to foster the development of India's private sector. Development finance companies act as intermediaries between local and foreign businessmen by underwriting security risks and providing managerial and technical assistance to newly founded local businesses.

After hearing about this voyage in 1956, the government adopted the Industrial strategy. The private sector's free-growth zones were established under a programme from 1956.Since 1956, the engineering sector has received an excessive share of the manufacturing industry's budget. IISCO and TISCO borrowed $176.9 million from the International Bank for Reconstruction and Development (IBRD) to increase their steel output from 1.3 million tonnes in 1955 to 3.3 million tonnes in 1965. This is the first time the Indian government has directly backed a private manufacturing business with a World Bank loan.

In 1960, at the invitation of the Nehru government, the World Bank sent a team of three people to India. Based on the findings of this mission, which recommended the creation of an investment centre to advise partnership ventures between worldwide businesses and Indian industries, the Indian Investment Center was established in February 1961. It functioned independently, having offices in New York, London, and Tokyo, among other global financial hubs.

The World Bank has been very critical of India's economic policies ever since it first started doing business there in the 1960s. A report on the growth of India's banking industry was commissioned by the World Bank in 1964; it recommended devaluing the rupee and removing other trade barriers.There is no evidence that the licencing system has resulted in any net financial benefits, the report found. The system has efficiently assigned market shares and hindered the creation of more efficient enterprises, much like the import restriction regime, which has protected and preserved inefficiency. Members of the Bell faction questioned the government's strategy for growth and advocated, among other things, less restrictions, greater help for poorer countries, and a weaker currency.(IBRD, India and the World Bank Group 1972)

The Indian government responded to these recommendations by devaluing the rupee by 3.75 percent and liberalising imports in June 1966. To help India weather its current currency crisis, the World Bank loaned the country $465 million.

Because of the rising need for coal in industrial production, the government has taken steps to encourage private enterprises to enhance output. Policies that are favourable to private mining are guaranteed, and a subsidy mechanism is in place to help miners that face challenging operating circumstances. A $28.8 million loan from the World Bank was used by the private coal mining industry to boost production in 1961. The private sector proposal included plans to increase yearly coal production from 44 million to 61 million tonnes via the improvement of infrastructure and the development of new mines. Without the funds, we would not have been able to import as much necessary machinery.

The demand for fertilisers increased dramatically with the widespread implementation of the Green Revolution, an agricultural movement that emphasised the creation and cultivation of high-yielding crops reliant on irrigation and heavy applications of fertilisers. The World Bank extended a loan of around $100 million in January 1975 to finance the building of a factory at Phulpur (UP) that would produce 900 tonnes of ammonia and 1,500 tonnes of urea daily. **(K. S and A. K 1988)**

The government acknowledged in its 1980 Industrial Policy Statement that the productive capacity mentioned in the initial licences may not represent the full capability of the production unit and could have risen as a consequence of increasing labour productivity and technical advances. To compete on global markets and generate substantial profits, the Indira Gandhi administration in 1988 looked into the adoption of cutting-edge technology and facilitated the construction of massive new facilities. This marked the beginning of a World Bank-backed drive toward greater openness. **(IBRD 1961)**

Other restrictions, such as the licenced import of equipment, clearance from Monopolies and Restrictive Trade Practices (MRTP), which was established in 1951, commission, etc., board banding of products, which helped relax restrictions on product diversification by a producer, etc., remained in place even after the Rajiv Gandhi Government enacted further industrial reforms in 1985. There were other milder liberalisation attempts, such as relaxing constraints on smaller enterprises and allowing private corporations to enter the market for the manufacturing of telecommunications equipment. However, since there was little guarantee of either domestic or international competition, India's economy remained mostly closed. **(Satyanarayana 1996)**

With the new Industrial Policy introduced in 1991, the government moved dramatically away from earlier regulatory measures in favour of economic liberalisation, an approach that had been significantly inspired by the World Bank. The economic measures package included additional import tariffs, direct taxation (including company taxes), and reforms to the financial system, as well as a new Industrial Policy (including structural changes in the banking industry).The plan's elimination of industrial licencing for all sectors except for 18 is a major component.The advantages of technology transfer can only be realised via the use of modern management practises and the encouragement of exports. Foreign technology agreements and bids for foreign equity of at least 51% will now be accepted without further review in 34 high-priority industries where such investment and technology are deemed essential under the new industrial policy. In addition, the Foreign Investment Promotion Board (FIPB) was formed to approve foreign direct investments of more than 51% of a company's equity in high priority areas. **(Rajiv 1991)**

The World Bank has often pointed to institutional roadblocks to the effective implementation of liberalised economic policies, notably investment and industrial policy. Specifically, it claims that "extending the reform process to sectoral ministries, states, and public corporations" is necessary since India's developmental strategies have left behind entrenched policies and institutional frameworks at the sector level that do not favour private investment. **(Bank 1994)**

Conclusion

Evidence suggests that the World Bank has been instrumental in moulding India's industrial strategy for decades, beginning with the country's second five-year plan, which placed a focus on industrialization. However, harsh criticism was levelled against such behaviour after liberalisation, when the lending practise became more dependent on government directives. Prior to liberalisation, the government's power to set industrial policy was constrained by the bank SAP approach. World Bank instructions for "expanding the reform process to sectoral ministries, the states, and public companies" led to the Indian government progressively withdrawing from the public sector and encouraging private engagement in industrial operations toward the conclusion of the liberalisation phase. This shift necessitated the adoption of new norms, such as encouraging rivalry between industries and between governments. As a development practise, several states are creating and pursuing programmes specifically designed to attract private investment from both inside the country and beyond. As a consequence, there are now more socioeconomic-human linkages and complications between industrialised and non-industrialized nations than there were before liberalisation.

References

Bank, The World. 1994. "Recent Economic Developments and Public Enterprises." p. 27. Washington D.C: The World Bank.

IBRD. 1961. "Annual Report." 62 p. 20. Washington D.C: The World Bank.

—. 1972. *India and the World Bank Group.* Washington D.C: The World Bank.

John, Degubol. 2001. By Institutions and Interventional Competition in India Martinussen Policies, p. 44. New Delhi: Sage Publications.

K. S, Pandhy, and Behra A. K. 1988. " Industrial Planning In India." p. 17. Delhi: Discovery Publishing House.

Michael, Lipton, and John Toye. 1998. "Does Aid Work in India? A Country Study of the Impact of Official Development Assistance." p. 94. London: Routledge.

Michael, Lipton, and Toye John. 1998. ", Does Aid Work in India? A Country Study of the Impact of Official Development Assistance." p. 95. London: Routledge.

Rajiv, Jain. 1991. "Guide to New Industrial Policy." p. 56. New Delhi: India Investment Publication.

Satyanarayana, J. 1996. "the New Industrial Policy and its Impact on Indian Industrial Economy." p. 47. Hyderabad: Booklinks Corporation.