

Industrialisation

The modern era of human civilisation is known as the era of massive industrialisation, engineering and mining. The countries like US, UK, France, Germany, Japan, Netherlands, Canada, Italy, etc., have dethroned poverty and unemployment through industrialisation on massive scale. The newly emerging countries like China, South Korea, Malaysia, Taiwan, Mexico, etc. have also shown a remarkable progress in raising their nation's standard of living through industrialisation. But the countries like India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, etc. have failed to eradicate poverty and unemployment through agriculture and so called industrial development. These less developed countries (LDCs) are caught up in a vicious poverty circle, in which the productivity is very low, leading to a low level of income and purchasing power. The size of market is limited by low purchasing power, and, hence, investment is discouraged. Since, there is less inducement to invest, the rate of capital formation is low and the capital equipment available to each worker is small. Since the capital availability per worker is small, productivity per worker is also very low. In this way, the vicious circle of poverty is completed on the demand side.

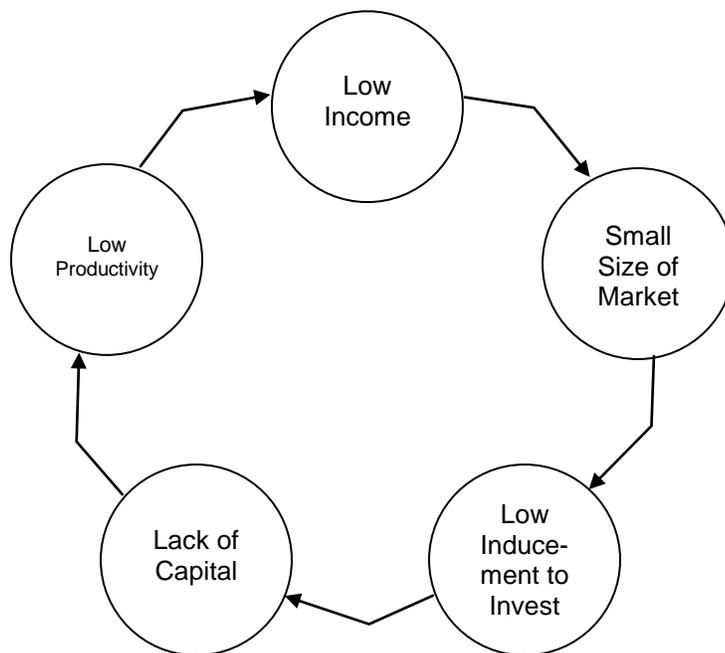


Figure 1 – Vicious Circle of Poverty

This vicious cycle of poverty can only be broken through production on massive basis. In other words, through industrialisation on massive basis the living standard can be climbed up to a desirable level. We have success stories of UK, France, West Germany and Japan, which were almost ruined after Second World War, they managed to re-industrialise their economies and climbed up to a benchmark position. Therefore, it is obvious that the industrial development is very essential for any developing country, either agricultural or non-agricultural, for the following reasons:

- 1. Increase in employment opportunities:** Mostly LDCs are agrarian economies furnished with disguised unemployment, that is, there is a surplus of labour with zero marginal productivity. Therefore, it is the industrial sector that can cope with such heavy unemployment. Massive industrialisation provides employment opportunities on massive basis. Massive industrialisation means establishment of more infrastructure facilities, which will in turn lead to more employment. It will also lead to research facilities and innovation of new products. Industrialists will employ more capital equipment and labour for the manufacture of new products.
- 2. Increase in living standard:** Higher employment level, higher income level and greater variety of products mean higher living standard. With optimum utilisation of natural and human resources of the country, through industrialisation, the national income and the per capita income will rise. More industrialisation will provide greater stimulus to outputs and stability to the economy.
- 3. Increase in productivity:** With increased industrialisation, the industries are furnished with more capital equipment, new production techniques, and skilled labour to enhance the productivity, improve quality, and reduce cost per unit. This will, in turn, reap internal and external economies.
- 4. Attainment of internal and external economies:** Heavy industrialisation enjoys the economies of scale. The term 'Internal Economies' refers to the situation, in which the individual firm gains along with technological and non-technological factors, the larger the production, the lower the cost per unit. The external economies arise because the development of an industry can lead to the development of ancillary services of benefit to all firms; a labour force skilled in the crafts of the industry; a components industry equipment to supply precisely the right parts; or a trade magazine in which all firms can advertise cheaply.
- 5. Reduction of BOP deficit:** Increased productivity will have a positive effect on balance of payment. Higher the output level, higher the export. All the leading industrialised countries of the world are the major players of globalisation, for example, US, UK, France, Germany, Japan, China, South Korea, Malaysia, EU, etc. Thus, the balance of payment deficit can be reduced through a substantial increase in export of industrially produced goods.
- 6. Increased savings and investments:** With increased level of incomes, an industrialised economy enjoys increased savings and investments. Foreign investors are encouraged to directly invest in the production, service and trade. Local investors have confidence in the economy. Capital market becomes strong and stable. More employment opportunities are available, in fact, labour become acute.
- 7. Increased government revenues:** With increased level of income, the government revenues are increased. Therefore, the government is able to provide more public

facilities, like health care, research and education, infra structure, old age benefits, unemployment allowance, cost of living allowance, civil defence, etc.