

# **EVOLUTION OF INDIA'S CAPITAL GOODS SECTOR FROM THE PERSPECTIVE OF ROLE OF STATE**

## **ABSTRACT**

India followed a planned industrialization strategy with a particular focus on the development of the capital goods sector. As is well known, the capital goods sector is considered the backbone of the industrialization process given its vital role in driving manufacturing growth through intersectoral linkages and productivity growth. Capital goods as carriers of embodied







imported embodied technology more effectively. There is a positive relationship between firm size and profitability, whereas the relationship between age and profitability is negative.

There is a renewed interest in industrial policy and the role of the state in economic growth and development. However, a review of the literature shows that there have been debates on how the role of the state and the nature of industrial policies have to change with the pervasiveness of GVCs. In the fifth chapter of the thesis, we examine the effect of the changing role of the state on the growth and development of India's capital goods sector. We observe that there has been no shortage of policies in India aiming to boost the growth and competitiveness of the sector. However, despite the institutional focus, India has emerged as a net importer of capital goods with a negligible share in world export markets, indicating the failure of policies in turning around the industry.

A critical review of these policies shows that these policies are more or less a repetition of issues affecting the sector and measures to address them. More importantly, these policies lack an understanding of how GVCs have affected the capability development process of firms and value-addition processes. We argue that the current status of the Indian capital goods sector is the cumulative outcome of abandonment/withdrawal of the state shaping the domestic capability building process as well as the return of the state to try and shape industrial outcomes with insufficient understanding of how GVCs function. Therefore with no concrete measures to engage with GVCs strategically, to develop domestic linkages crucial for learning and building capabilities to create, compete and capture a higher share of value-added in the era of GVCs

technologically dynamic and effective competitors.