

I INTRODUCTION

In the last four decades of industrial development in India, the country has basically followed an inward-oriented industrialisation strategy. This strategy was adopted in the belief that the existence of a large domestic market in India and limited possibilities of boosting exports made import substitution the only easy road to rapid industrialization. The objective of self-sufficiency that India had set before herself (partly in reaction to her colonial past) and the serious problems of balance of payments that India faced in the early stages of her industrialization endeavour provided additional grounds for choosing the import-substitution industrialization strategy.

By protecting domestic firms from foreign competition through high tariffs, quantitative restrictions on imports and other controls on imports, domestic entrepreneurs were encouraged to invest in industrial activities. This applies also to industrial investment in the public sector, since import restrictions were necessary for the economic/financial viability of many public sector manufacturing units. Domestic industrial licensing on the other hand helped to reduce uncertainties in profitability that unfettered internal competition could have given rise to, and thereby contributed to a favourable climate for industrial investment.

Tariff, trade restrictions and control on capacity creation in the country must have had a major effect on the incentive structure for industrial production. Other factors that affected the incentive structure include administered price policy, exchange rate policy and distributions of crucial inputs to firms by the government. Evidently, an analysis of these effects on the incentive structure would be of much interest. Such an analysis would be relevant also in the context of current discussions on industrial liberalisation since before the controls on trade and industry are removed one should know what effect these controls had on the factor

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rewards in different industries and thus on the incentives to produce and invest.

The main objective of this study is to estimate and analyse effective incentives to the production of aluminium metal and semi-fabricated products. The analysis is carried out using the methodologies of effective rate of protection and effective subsidy rate, which have found wide application in empirical studies on the effect of trade restrictions on incentives. Estimation of effective incentives has been done for 1980, 1983, and 1986 to 1988. While the incentive structure is analysed for some years of the 1980s, trends in production, prices, cost, profitability, investment, etc. have been analysed for much longer period, covering in some cases the last three or four decades to get a better understanding of the Indian aluminium industry.

After being under government control for about 18 years, the Indian aluminium industry was deregulated recently, in March 1989. What effect the deregulation had on the industry, and in particular how did the incentive structure change after deregulation, are important to examine. Sufficient data are not available at present for the period after March 1989 to make a thorough examination of these questions possible. An attempt is made, nevertheless, to assess the effect of the deregulation on the industry using the maximum available data.

The Chapter scheme is as follows. The technology of aluminium production, and the development of the world and Indian aluminium industry are discussed in Chapter II. The methodology of effective protection and effective subsidy rates is briefly discussed in Chapter III. This Chapter also contains a review of earlier studies on effective protection to Indian aluminium industry. Chapter IV discusses the retention price system that has been in existence for primary aluminium producers. Also, in this Chapter, trends in price, cost and profitability are analysed. Estimates of effective protection and effective subsidy rates are presented and analysed in Chapter . Chapter VI is devoted to the analysis of investment behaviour of aluminium companies. Chapter VII discusses

the experience of the Indian aluminium industry after it was deregulated in March 1989. In Chapter VIII the main findings of the study are summarised.