
Industrial Sector in Himachal Pradesh: Present Status and Future Perspectives

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ABSTRACT

Industrialization in Himachal Pradesh is a comparatively a recent phenomenon. From relatively backward and predominantly agriculture state at the time of attaining statehood in 1971, it has steadily progressed. The State Government right from the year 1971 has been providing many incentives and facilities for the promotion of industries. These facilities and incentives centered around cheap finance, subsidy at the time of installation of machinery, transport subsidies, income tax relief and concession with regard to central sales tax. In the present paper, an attempt has been made to analyze the performance of industrial sector in Himachal Pradesh during the last three decades in terms of some key parameters such as growth of units, investment and employment. The secondary data has been obtained from the website of the Directorate of Industries, Himachal Pradesh. The analysis is done in terms of simple percentages, however in order to evaluate the growth of industrial sector, annual compound growth rate is calculated. With a view to measure the extent of inter-district disparities, the co-efficient of variation has been calculated. It was concluded that, medium and large scale industries have achieved a higher growth during the reform period, but, still small scale industries plays an important role in the industrial scenario of the Himachal Pradesh. Due to geographical factors, the process of industrialization is concentrated in some borders areas of few districts such as Paonta Sahib and Kala Amb of Sirmaur district, Parwanoo, Barotiwala, Baddi, and Nalagrah of Solan district, whereas, other districts of the State has remained relatively unaffected by the process of industrial development. The Government of Himachal Pradesh should take an overall growth approach in order to attain balanced and inclusive development of the industrial sector.

Key Words: *Industrialization, Investment, Employment, Subsidy, Finance, Disparities, Inclusive, Industrial Package, and Growth.*

1. Introduction:

Industrialization is an economic process by which structural transformation of subsistence economy is achieved. The present day rich countries have achieved rapid economic development through the process of industrialization. Industrialization provides a wide range of consumer choice, increases productivity and standard of living, promote innovation, technological development and capital formation through higher wage incomes and diverts surplus farm labour to modern industry. To realize these benefits and hasten up required socio-economic changes, industrialization is assigned top priority in underdeveloped countries. Industrial development is further acknowledged as a mean to distribute employment, income and consumption between various regions by giving special emphasis on industrialization of backward regions. India opted for rapid industrialization not only because it adds to wealth, but also because it promote social justice.

Industrialization in Himachal Pradesh is a comparatively a recent phenomenon. From relatively backward and predominantly agriculture state at the time of attaining statehood in 1971, it has steadily progressed. In the industrial scenario, the State stands at a lower rank compared to the rest of the states. The State Government right from the year 1971 has been providing many incentives and facilities for the promotion of industries. These facilities and incentives centered around cheap finance, subsidy at the time of installation of machinery, transport subsidies, income tax relief and concession with regard to central sales tax. Even preferential treatment in the purchase of the products of such industries was also permitted. Availability of incentives and facilities are important to encourage investment and to boost industrial development. In the year 1991 Government of India went for a new economic policy and as a result, the State government also went for a reorientation of its industrial philosophy.

The Government of Himachal Pradesh has recognized the importance of industrial policy as an effective instrument to boost the confidence of investors and catalyze industrial expansion in the State. The new Industrial Policy 2004 has marked a watershed in its efforts to open its economy and moving to the centre stage of national and international business. This policy statement is a reflection of the Government's commitment to overall economic development of the State by continuously responding to the dynamic economic forces and to the changing time and needs. Further, industrial policies also intends to focus on specific micro factors such as technology and quality improvement and increase in productivity and efficiency, so that industrial units set up in the state can effectively compete and keep pace with national and global standards. Apart from State's Industrial Policies, Central Government under the Ministry of Commerce and Industry, Department of Industrial Policy and Promotion (DIP&P) has also notified special package of incentives for the state. These incentives were of the type of fiscal incentives and central transport subsidy etc.

The main objective of the incentives and concessions has been to encourage investment, to enable the units to become more competitive and help them to establish at the initial stages of production. In a hilly state like Himachal Pradesh where the cost of production is higher due to difficult terrain and inadequate industrial infrastructure, these facilities are justified to make the prices and the product competitive with that of other states. The existing package of incentive, concessions and facilities are expected to spur the growth of industries in the State of Himachal Pradesh.

2. Review of Literature:

A number of research studies have been conducted on various aspects of industrial development in India and Himachal Pradesh. For example, **Sandesara (1992)** made an attempt to highlight the tendencies at work in relation to the major objectives of India's Industrial Policy and Planning since independence. It was observed that by and large industrial sector performed satisfactory in the country. Modern small industry has emerged as a major sector to reckon with inter-state as well as intra-state disparities. In different states industrial disparities have narrowed down and concentration of economic power in the private hands has also declined. **Vayasulu and Kumar (1997)** studied the growth, structure and productivity in the manufacturing sector in Orissa during the period from 1966-67 to 1988-89. They observed that except the industry group chemical and its products, all other groups witnessed a positive growth in the labour productivity and capital productivity over the period. **Nagaraj (2003)** found that Indian industry suffers from lack of demand due to poor agrarian economy on the one hand, and falling public expenditure on infrastructure on the other, in the wake of reforms have increased the woes of the Indian industry further. **Pani (2007)** pointed out that though after the bifurcation the state of Madhya Pradesh it was expected to be better administered and greater attention was supposed to be given to the promotion of investment, yet the early sign of industrial development was not very encouraging. The study revealed that, with respect to all the key indicators, such as fixed capital investment, employment, net value added and capital formation, the state witnessed a declining performance in absolute terms, albeit due to bifurcation.

The growth profile of modern manufacturing sector in Himachal Pradesh was analysed by **Sooden and Sarna (2007)**. It was observed that the share of industry in net state domestic product has increased in the State and the share of the State in the industrial output and value added at the national level has also increased. The study pointed out that registered factories remain the major source of contribution to manufacturing output in the State. Further, the study explained the increasing capital intensity, rising labour productivity and falling labour cost in registered manufacturing sector in Himachal Pradesh. It was suggested that government must take the initiative to improve power, road, telecommunication, and housing infrastructure for industrial workers in the State. **Mishra and Yadav (2013)** examined the industrial structure and performance, at the all India level, Andhra Pradesh and

Gujarat during the period 2000-01 to 2010-11 on some of the major structural and technical parameters. It was observed that the percentage share of Gujarat and Andhra Pradesh with respect to total number of factories, fixed capital, working capital, total output and net value added at the all India level has improved during the period under study. The analysis also confirmed that the ratio of real output per worker at the national and at the state level has increased and the ratio of fixed capital per factory has also mildly increased.

3. Research Methodology:

In the present paper, the performance of industrial sector in Himachal Pradesh during the last three decades has been analysed. The main sources from which secondary data has been obtained are different official documents and the official website of the Directorate of Industries, Himachal Pradesh. The analysis is done in terms of simple percentages, however in order to evaluate the growth of industrial sector i.e. small, medium and large scale industries, annual compound growth rate is calculated. The formula used for annual compound growth rate is:

$$r = \left(\frac{x_n}{x_0} \right)^{\frac{1}{n}-1}$$

Here, r stands for rate of growth, x_n stands for final year figures, and x_0 is the base year figure. n stands for number of years.

With a view to measure the extent of inter-district disparities, the co-efficient of variation is calculated. The co-efficient of variation is ascertained as follows:

$$CV = \frac{\sigma_i}{\bar{X}_i}$$

Where, CV stands for co-efficient of variation, σ_i is the standard deviation of i^{th} indicator and \bar{X}_i is the means value of i^{th} indicator.

4. Data Analysis and Interpretation:

4.1 Industrial Performance in Himachal Pradesh, 1990-91 to 2017-18:

At the outset, the performance of the available indicators at the State level is given in Table 1. The number of units, investment and employment on an average exhibit a positive growth during the entire period as well as the two sub-periods of the study. The number of total units i.e. small scales industry (SSI) and medium and large (M&L) grew at the rate of 3.03 per cent per annum, whereas investment and employment witnessed a higher growth, i.e. 17.32 per cent and 4.95 per cent respectively. As compare to the SSI, medium and large scale industries observed higher growth rate in the number of units and employment. However, small scale industries witnessed a higher rate of growth than medium and large scale industries with respect to investment. The total number of industrial units registered a growth rate of 3.19 per cent during the period from 1990-91 to 2003-04 as compared to 2.87 per cent rate of growth during the period from 2004-05 to 2017-18. The growth rate of small scale industrial units has declined from 3.17 per cent during the first period to 2.82 per cent during the second period of the study. However, the growth rate of M&L scale industries has increased from 5.14 percent during the first phase to 7.44 percent during the second phase of the study.

Table: 1 Annual Compound Growth Rates of Key Indicators in the Industrial Sector in Himachal Pradesh.

Period	Units			Investment			Employment		
	SSI	M&L	Total	SSI	M&L	Total	SSI	M&L	Total
ACGR 1990-91 to 2017-18	2.99	6.65	3.03	17.87	16.87	17.32	4.67	6.22	4.95
ACGR 1990-91 to 2003-04	3.17	5.14	3.19	13.11	21.07	18.41	3.59	5.57	3.78
ACGR 2004-05 to 2017-18	2.82	7.44	2.87	23.32	13.13	16.63	5.92	6.50	6.04

Source: Compiled from the official records of Directorate of Industries, Himachal Pradesh

Note: SSI=Small Scale Industry, M&L= Medium and Large Scale Industries and
ACGR =Annual Compound Growth Rate.

This is an indication of presence of few medium and large scale industries in the State and decline in the percentage share of SSI in total industrial units, particularly after the announcement of special package for industrial sector by the Centre Government and State's New Industrial Policy of 2004. In that case, it is necessary to identify the kind of

industrialization in Himachal Pradesh. For this purpose the average percentage share of small scale industries and medium & large scale industries in total unit, investment and employment is shown in table.2.

Table: 2 Relative Share of SSI and M&L Scale Industry in Total Units, Investment and Employment in Himachal Pradesh

Year	Units		Investment		Employment	
	percentage share of SSI in total	percentage share of L&M industry in total	percentage share of SSI in total	percentage share of L&M industry in total	percentage share of SSI in total	percentage share of L&M industry in total
Upto 90-91	99.47	0.53	42.84	57.16	85.08	14.92
1991-92	99.48	0.52	49.82	50.18	85.49	14.51
1992-93	99.49	0.51	52.19	47.81	85.60	14.40
1993-94	99.48	0.52	46.41	53.59	84.45	15.55
1994-95	99.47	0.53	35.14	64.86	83.56	16.44
1995-96	99.41	0.59	24.32	75.68	82.13	17.87
1996-97	99.38	0.62	23.32	76.68	81.70	18.30
1997-98	99.35	0.65	20.35	79.65	80.91	19.09
1998-99	99.37	0.63	21.30	78.7	81.43	18.57
1999-00	99.36	0.64	21.14	78.86	80.52	19.48
2000-01	99.35	0.65	21.78	78.22	80.86	19.14
2001-02	99.35	0.65	22.40	77.6	81.00	19.00
2002-03	99.35	0.65	22.99	77.01	81.32	18.68
2003-04	99.32	0.68	23.64	76.36	83.02	18.62
2004-05	99.23	0.77	23.53	76.47	80.44	19.56
2005-06	99.06	0.94	22.94	77.06	79.14	20.86
2006-07	98.95	1.05	26.90	73.1	78.44	21.56
2007-08	98.92	1.08	32.91	67.09	78.88	21.12
2008-09	98.82	1.18	34.35	65.65	78.43	21.57
2009-10	98.79	1.21	34.67	65.33	78.45	21.55
2010-11	98.76	1.24	33.90	66.1	78.14	21.86
2011-12	98.74	1.26	32.47	67.53	77.90	22.10
2012-13	98.75	1.25	35.86	64.14	78.55	21.45
2013-14	98.76	1.24	36.89	63.11	78.73	21.27
2014-15	98.76	1.24	38.47	61.53	78.68	21.32
2015-16	98.75	1.25	38.24	61.76	79.11	20.89
2016-17	98.69	1.31	43.56	56.44	79.05	20.95
2017-18	98.65	1.35	48.55	51.45	79.30	20.70

Source: As per table 1.

On account of the higher growth rate registered by the medium and large scale industries vis-à-vis small scale industries, the percentage share of medium and large scale industries in total industrial units has increase from 0.53 per cent in 1990-91 to 1.35 percent

in the year 2017-18. On the other hand, the share of small scale industries has declined from 99.47 per cent to 98.65 per cent during the same period. In case of investment made in small scale industries and medium & large scale industries, the percentage share of small scale industries in total investment made in industrial sector as a whole stood 42.84 per cent in 1990-91, by the year 2017-18 its share increased to 48.55 per cent, and the corresponding share of medium and large scale industries in total investment decreased from 57.16 per cent to 51.55 per cent during the study period.

Further, in case of total employment generated by small, medium and large scale industries, in the year 1990-91 out of total employment around 85 per cent were employed in small scale industries and the remaining 15 percent were employed in medium and large scale industries, by the year 2017-18 the percentage share of small scale industries in total employment declined to 79.30 per cent and the percentage share of persons engaged in medium and large scale industries rose to 20.70 per cent. The analysis suggests that however the medium and large scale industries have achieved a higher growth during the reform period, but small scale industries still plays an important role in the industrial scenario in the state of Himachal Pradesh.

As far as average investment per unit is concerned, in the total industrial sector it rose from Rs. 0.017012 crore in 1990-91 to Rs. 0.568155 crore in the year 2017-18, recording 9.65 per cent per annum rate of growth (Table 3). However, investment per unit in small scale industry and in medium and large scale industries witnessed 8.87 per cent and 7.57 per cent rate of growth respectively during the period under reference. In the year 1990-91 average investment per unit in medium and large scale units was nearly 249 times more than that in small scale units, in the year 2017-18, this difference has decreased to 77 times. Coming to the number of employees per unit in total industrial sector, it can be seen that it was around 5 workers in 1990-91 which rose to around 8 workers in the year 2017-18, recording only 0.67 per cent rate of growth during the entire study period. Though, there are a large number of small scale industries in the State and they are providing employment to a large segment of population in the State, however, on the basis of employment per unit, small scale industries observed 0.48 per cent rate of growth while the medium and large scale industries observed a negative growth rate i.e. -0.06 per cent.

Table: 3 Investments and Employment per Unit in the Industrial Sector of Himachal Pradesh

Year	Small Scale industries		Large & medium industry		Total	
	Investment per unit (Rs. in Crore)	Employment per unit (In No.)	Investment per unit (Rs. in lacs)	Employment per unit (In No.)	Investment per unit (Rs. in Crore)	Employment per unit (In No.)
Upto 90-91	0.007327	4.20	1.825853	137.50	0.017012	4.91
1991-92	0.010335	4.18	2.000016	136.43	0.020637	4.87
1992-93	0.012891	4.17	2.324577	138.13	0.024576	4.85
1993-94	0.015053	4.16	3.341585	147.31	0.032264	4.90
1994-95	0.017097	4.15	5.901384	152.66	0.048399	4.94
1995-96	0.01872	4.16	9.846288	152.84	0.076525	5.03
1996-97	0.018946	4.16	9.972904	149.34	0.080731	5.06
1997-98	0.019667	4.17	11.740706	150.22	0.096039	5.13
1998-99	0.020711	4.20	11.985127	150.02	0.096614	5.13
1999-00	0.021878	4.27	12.574149	158.96	0.102811	5.26
2000-01	0.022398	4.27	12.290018	154.51	0.102148	5.25
2001-02	0.023253	4.29	12.303530	153.90	0.10313	5.27
2002-03	0.023521	4.30	12.132959	152.16	0.101667	5.26
2003-04	0.024218	4.42	11.436019	144.95	0.101767	5.29
2004-05	0.026322	4.41	11.040122	138.45	0.110996	5.44
2005-06	0.029326	4.49	10.378903	124.72	0.12662	5.62
2006-07	0.041962	4.68	10.766067	121.44	0.154336	5.90
2007-08	0.061435	4.89	11.507600	120.41	0.184653	6.14
2008-09	0.080721	5.08	12.960523	117.29	0.232226	6.40
2009-10	0.099124	5.21	15.315766	117.30	0.282492	6.56
2010-11	0.122407	5.34	18.935329	118.52	0.356605	6.75
2011-12	0.135863	5.42	22.172136	120.75	0.413117	6.88
2012-13	0.157774	5.55	22.286478	119.72	0.434438	6.98
2013-14	0.164704	5.60	22.476318	120.58	0.440925	7.02
2014-15	0.176686	5.62	22.489642	121.09	0.453595	7.05
2015-16	0.180542	5.74	23.021288	119.75	0.466196	7.17
2016-17	0.223776	6.12	21.783811	121.94	0.506972	7.65
2017-18	0.279629	6.49	21.607936	123.56	0.568155	8.08
Growth Rate	8.87	0.48	7.57	-0.06	9.65	0.67
Average	0.072724	4.78	13.086323	135.16	0.204845	5.88

Source: As per table 1.

4.2 District wise Analysis:

With a view to have a clearer picture of the industrialization in the State, a district-wise analysis of industrial sector is made. Table 4 presents the district-wise percentage share of different variables in the industrial sector of the Himachal Pradesh. The analysis revealed that like in the year 1990-91, Kangra, Sirmaur, Una, Solan, Shimla, Mandi and Hamirpur are the seven major districts contributing around 79.00 per cent of total industrial units, 84.00 percent of employment and 80.00 per cent of investment but, during the year 2017-18 the share of these districts in total industrial units, employment and investment changes to 81.00, 88.00 and 92.00 per cent respectively. This indicates that the industrial activities of the State are confined to few districts only.

Table: 4 District Wise Distributions of Units, Employment and Investment in the Total Industrial Sector of Himachal Pradesh

Districts	upto 31-03-1990			upto 31-03-2018			ACGR		
	% share of different districts in total industrial units	% share of different districts in total employment	% share of different districts in total investment	% share of different districts in total industrial units	% share of different districts in total employment	% share of different districts in total investment	Units	Employment	Investment
Bilaspur	6.27	4.95	6.24	5.48	2.97	2.15	2.71	4.21	35.56
Chamba	4.55	3.67	4.54	4.31	2.38	1.58	3.01	4.52	35.63
Hamirpur	7.79	6.26	7.76	6.95	3.44	6.58	2.78	3.87	40.16
Kangra	29.74	23.99	29.84	21.45	12.68	3.06	1.98	3.73	29.61
Kullu	6.37	5.24	6.34	6.83	5.03	4.61	3.49	6.04	39.37
Kinnaur	1.86	1.39	1.85	1.35	0.71	0.06	1.99	3.61	24.49
L&S	1.51	1.16	1.51	1.28	0.44	0.01	2.59	2.48	18.76
Mandi	8.35	6.74	8.32	10.00	5.76	2.39	3.91	5.59	34.65
Shimla	9.03	7.22	8.99	9.36	7.78	1.66	3.36	6.50	32.49
Solan	7.63	13.61	7.77	15.51	40.24	58.38	5.97	10.56	51.96
Sirmaur	8.29	14.32	8.26	8.54	11.19	11.29	3.33	5.24	42.67
Una	8.61	11.42	8.58	8.96	7.38	8.22	3.37	4.50	40.80
Total	100.00	100.00	100.00	100.00	100.00	100.00	3.22	6.21	41.03
C.V.	86.40	78.37	86.77	68.16	129.07	193.46	32.70	40.69	24.51

Source: As per table 1.

The table also revealed that in district Solan, Shimla, Mandi, Sirmaur, Kullu, Una, the industrial units grew at the higher growth rate vis-à-vis the State as a whole. On the other hand, the average annual growth rate in rest of the districts was lower compared to the State average. It can also be seen that district Solan witnessed a highest rate of growth of 5.97 per

cent over the entire study period under context. In case of employment, districts Solan (1.56 per cent) and Shimla (6.50 per cent) observed a higher growth rate than the state as a whole. Coming to the investment, it can be seen that district Solan recorded the highest annual compound growth rate (i.e. 51.46 per cent), followed by Sirmaur (42.67 per cent) and Una (40.80). On the contrary it was L&S (18.76 per cent) which recorded least annual compound growth rate during the year 1999-91 to 2017-18.

With a view to have a more clear picture about the extent of disparities with respect to industrial development in the State, district wise employment per unit, investment per unit and investment/employment ratio for the year 1990 and 2018 are calculated (Table 5). As far as, employment per unit is concerned, as compared to the year 1990, in the year 2018 employment per unit has increased in all the districts, except Lahul & Spiti. The extent of inter-district disparities with respect to employment per unit, as reflected by the value of coefficient of variation, also moved up from 38.61 in the year 1990 to 73.57 per cent in the year 2018.

Table: 5 Employment per Unit, Investment per Unit and Investment /Employment Ratio in different district of Himachal Pradesh

Districts	upto 31-03-1990		Investment/ Employment Ratio	upto 31-03-2018		Investment/ Employment Ratio
	Employment per Unit (Nos.)	Investment per Unit (Rs in Lacs)		Employment per Unit (Nos.)	Investment per Unit (Rs in Lacs)	
Bilaspur	2.96	0.0124	0.0042	4.37	22.2904	5.0978
Chamba	3.01	0.0124	0.0041	4.46	20.8834	4.6792
Hamirpur	3.01	0.0124	0.0041	4.00	53.7900	13.4643
Kangra	3.02	0.0125	0.0041	4.77	8.0949	1.6959
Kullu	3.08	0.0124	0.0040	5.95	38.3802	6.4547
Kinnaur	2.79	0.0124	0.0044	4.27	2.6913	0.6300
L&S	2.86	0.0124	0.0043	2.79	0.6453	0.2317
Mandi	3.02	0.0124	0.0041	4.65	13.5611	2.9147
Shimla	2.99	0.0124	0.0041	6.71	10.1038	1.5047
Solan	6.67	0.0127	0.0019	20.96	213.8659	10.2057
Sirmaur	6.46	0.0124	0.0019	10.59	75.1404	7.0981
Una	4.96	0.0124	0.0025	6.65	52.1461	7.8412
Total	3.74	0.0124	0.0033	8.08	56.8155	7.0355
C.V	38.61	0.66	26.08	73.57	137.78	79.07

Source: As per table 1.

Similarly, as compared to the year 1990 investment per unit increased in the all districts in the year 2018. The investment per unit which on an average stood at 0.0124 lakh in the year 1990, jumped to 22.2904 lakh by the year 2018. Investment per unit recorded highest increase in the district Solan followed by Sirmaur and district Una. The inter-district variations with respect to this indicator, as reflected through the value of coefficient of variation moved exceptionally up from 0.66 per cent in the year 1990 to 137.78 per cent in the year 2018, indicating the inflow of industrial investment towards few districts only.

Further, the analysis also revealed that capital intensity, as approximated and presented by capital investment per worker, has substantially increased in all the districts in the year 2018 vis-a-vis 1990. It turned out to be highest in district Kinnaur, followed by district L & S and Bilaspur in the year 1990. However, during the year 2011 it was district Hamirpur (13.4643) that recorded highest investment/employment ratio followed Solan (10.2057).

5. Conclusions and Policy Implications:

The ongoing changes in the industrial policy of Himachal Pradesh and their consequences on the industrial sector in the changing scenario revealed that the industrial sector in State witnessed a positive growth during the liberalization period. There is an indication of the presence of few medium and large scale industries in the state and decline in the percentage share of small scale industries in total units particularly after the announcement of Central Industrial Package and State's New Industrial Policy of 2004. However, medium and large scale industries have achieved a higher growth during the reform period, but small scale industries still plays an important role in the industrial scenario of the State. Moreover, the industrial activities of the State are confined to few districts only. Due to geographical factors the industrialization is concentrated in the borders areas i.e. Paonta Sahib, Kala Amb, Parwanoo, Barotiwala, Baddi, and Nalagrah, other areas of the State has remained relatively unaffected by the process of industrial development. The Government of Himachal Pradesh should take an overall growth approach in order to attain balanced and inclusive growth of the industrial sector.

Moreover, the industrial sector of Himachal Pradesh which is now at the take off stage critically requires continual government support and fiscal and tax concessions and

subsidies in order to keep the momentum in industrial development. Therefore, Himachal Pradesh Government should provide fiscal incentives to bring investors to the State and to make industrial development sustainable, as after a lapse of the Central Industrial Package there is nothing much to attract investment.

While liberalization has exposed industrial units to market competition to greater extent, the globalization has intensified market competition by allowing imports and multi-national companies easily. In order to withstand competition, industrial units especially the small scale units need to improve their productivity and quality, to reduce costs of production and to go for higher performance. Marketing and cheap credit facilities can help these units to a greater extent. Further, the existing infrastructural facilities are inadequate in the state for the development of industry and to attract new investment. Therefore, the state may have to focus on selected areas in order to provide the necessary infrastructural facilities with special emphasis on roads, electricity, telecommunication, industrial areas, industrial estates and special economic zones to promote industrial development.

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