



Industrial Growth Led Structural Change In The Economy Of Sikkim

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ABSTRACT

Economies over a longer period of time usually witness structural change. The recent composition of Sikkim's economy indicates the same. Historically, Sikkim was largely dependent on agriculture and allied activities. The erstwhile kingdom of Sikkim had an eligible Industrial presence. Planning in Sikkim started after it became the protectorate of India in 1950 as per the Indo-Sikkim treaty. The initiatives of Industrial growth in Sikkim can be traced in the first three five-year plan. However, the industrial growth was very slow. Sikkim was merged with the Indian Union as the 22nd state on 16th May 1975. Industrial growth was very slow during the post-merger period till the early nineties. The contribution of the primary sector to SGDP was more than 50 percent during the period and the secondary sector contributed less than 15 percent. Various industrial policies over a period of time brought an unprecedented shift in the sectoral contribution to state GDP. During the last decade, the secondary sector's contribution to state GDP has been more than 60 percent and the contribution of the primary sector has fallen to less than 10 percent. No other state in the North Eastern Region (NER) has experienced such structural change in the economy. The paper examines the industrialisation led structural change in the economy before and after the merger of the state with the Union of India.

Key words: Industrialisation in Sikkim, North East Region Structural Change

Introduction

Structural change refers to the change in the relative importance of the main sectors of an economy in the course of economic growth (Majid, 2019). Structural shift occurs largely because of the broad economic policies (industrial or otherwise) adopted by an economy in pursuit of economic growth.

Industrialisation is often viewed as a key factor of economic growth and is largely responsible for bringing about structural change in the economy. This further leads to a shift of the agriculture workforce to the secondary sector.

The Indian economy has experienced a structural shift in the economy over a longer period of time. Primary sector contribution to India's GDP in early independent years was more than 50%. The average contribution of the primary sector to GDP from 1963-64 to 1989-90 was 44.29%. The post-liberalization era further witnessed the fall of primary sector contribution to Indian GDP which is approximately 22.47% for the period from 1990-91 to 2022-23. For the last ten years (2013-14 to 2022-23) the average contribution of the primary sector is 15.71%. (*Computed from MOSPI data*)

In Sikkim, the industrial presence was negligible in the premerger era and the economy was largely dependent on the primary sector. The first three **five-year plan** of Sikkim before the merger suggests that the maximum outlay was done towards strengthening infrastructure like roads and bridges, and institutions related to health and education. The average percentage contribution of plan outlay towards industries for the first three five-year plan was 3.83% of the total budget. (Refer Table1.1)

The process of structural shift was slow during the pre-merger period. Even after the merger, the primary sector contributed more than 50% to the state GDP from 1980-81 to 1995-96. (Refer Table 1.2)

However, if we consider the recent scenario, the contribution of the primary sector to state GDP has fallen significantly. The average contribution of the primary sector for the period from 2011-12 to 2022-23 is

approximately 8% on the other hand the average percentage contribution of the secondary sector is approximately 62%. Such dramatic sectoral change in the economy is unprecedented, therefore, the study of the trend in structural change in Sikkim is interesting and significant. The contribution of the secondary sector rose significantly after the introduction of NEIIPP, 2007. (Refer Table 1.5)

Sikkim's structural shift in the economy is unique in comparison to other **north-eastern state (NE States)**. The kind of structural shift Sikkim experienced post NEIIPP, 2007, no other NE States experienced. The average percentage contribution of the secondary sector to GSVA for the period from 2011-12 to 2021-22 is highest in Sikkim i.e., 62.21%, and the lowest is for Nagaland which is 11.15% (primary sector contribution of Nagaland is 29.17% for the same period). Similarly, the average percentage contribution of the primary sector to GSVA is lowest in Sikkim i.e., 7.96%, the highest is for Tripura which is 40.22%. The sectoral shift of Sikkim is absolutely an interesting case. (Refer Table 1.6)

Premerger Period

Sikkim's economy historically was dependent on agriculture. Even if we consider the trade of Sikkim with Bengal much before the merger, it indicates that the main exports from Sikkim to Bengal were mainly products of forestry, agriculture and allied products and the imports mainly included industrial products like cotton piece goods and agricultural products that could not be produced in Sikkim. (Debnath, 2009).

Sikkim witnessed the planning process after it became a protectorate of India in 1950, the first plan was for 7 years i.e., from 1954-61 and the other subsequent five-year plan before the merger were from 1961-66 and 1966-71 respectively (Mishra & Kiranmai, 2007).

The plan allocation suggests that Roads & Bridges and agriculture were allocated the maximum share respectively followed by education, health and Power. The plan allocation highlights the development priorities of Sikkim. The maximum allocation to Road & Bridges indicates the infrastructural lacunas that adversely affected the development process. The first three five-year plan also witnessed allocation towards Industries (including cottage industries, which existed in the pre-merger period), although the contribution was not as high as other sectors. (Refer Table 1.1)

Table – 1.1
Sikkim's Five-Year Plan

Sectors	I Plan (1954-61) %	II Plan (1961-66) %	III Plan (1966-71) %	IV Plan (1971-75) %
Agriculture and Allied Activities	21.5	20	15	14.2
Power	9.2	8.3	7.3	8.8
Industries	4.3	0.5	6.7	3.5
Roads and Bridges	42.8	40.5	43.4	36.3
Road Transport	5.2	6.9	4.1	3.5
Education	7.4	12.4	7.9	8.8
Health	7.1	7.2	9.4	4.1
Tourism	0	0.8	0.4	4.4
Others	2.5	3.4	5.8	16
Total Outlay (Rs. Million)	32.4	63.7	97.1	203.6

Source: Sikkim Human Development Report, 2001

The plan allocation for '**other industries**' (other than cottage industry) was significantly higher (Debnath, 2008), which indicates that Sikkim included industrial growth in its plan priorities.

Sikkim in its pursuit to initiate industrialisation started with public investment (public enterprises). The Distillation of wine and liquors was one of the first modern industries established in 1955. Another undertaking was the Government Food Preservative Factory set up in 1956. (Gazetteer of Sikkim, 2013)

Along with it, there were other public enterprises dealing in various domains of activity. These include Sikkim's traditional handloom and handicrafts, tea, agro-based products including food processing and power. (Mishra & Kiranmai)

Post Merger Period

The Northeast Region (NER) is considered a backward region in the context of development characterised by poor infrastructure and connectivity. The region has a low level of manufacturing and non-government services, resulting in significant dependence on agriculture.

The share of the manufacturing sector in the GDP of the region was only 4.71 percent in 1993-94 compared to the national average of 17 percent. There is very little large-scale manufacturing activity in the Northeast

Region (NER). Considering the extent of industrial employment and capital formation, the large-scale manufacturing sector is virtually non-existent in the region. **(NER Vision 2020).**

The negligible presence of large-scale manufacturing activity in NER (excluding Sikkim) is much evident before the North East Industrial Policy (NEIP, 1997).

Sikkim had similar attributes. Immediately after becoming a constituent of India, all four districts of Sikkim were declared as 'no industry districts' by the government of India. Right after the merger, 'The Directorate of Industries' was set up in 1976 and a year later, Sikkim Industrial Development and Investment Corporation Limited (SIDICO) was established to accelerate and promote Industrial growth. **(Gazetteer of Sikkim, 2013)**

Despite the efforts to induce industrial growth in the economy, the structural shift from the primary sector to the secondary sector was still very slow. The secondary sector contribution to the state economy was low during the early post-merger period.

India's share of primary, secondary and tertiary sectors in 1995-96 was 30.58%, 25.47% and 43.94% respectively, whereas, the respective share of these sectors to Sikkim's economy was 52%, 13% and 34%. (Sikkim Human Development Report, 2001). (Refer Table 1.2)

Table: 1.2
Structural Shift in Sikkim's Economy

Sectors	1980-81	1985-86	1990-91	1995-96
Primary	51.59	50.96	46.49	52.03
Secondary	18.10	16.45	12.97	13.65
Tertiary	30.30	32.58	40.53	34.31

Source: Sikkim Human Development Report, 2001

There were a few significant events towards promoting industrial growth in the state including the 'Registration of Companies Act, Sikkim, 1961' the establishment of the Directorate of Industries in 1976 etc., which were instrumental in the promotion of industrial activity in the state.

The industrial policy of 1996 can be considered as the first major policy initiative towards this pursuit. This policy was devised to create a favourable environment for industrial growth by providing incentives and subsidies and also promoting agriculture, tourism, traditional Khadi, cottage and small ancillary industries. The policy identified agro-based industries, floriculture, animal husbandry and dairy products, minor forest-based products, handloom & handicrafts, village industries, tourism, precision-oriented high-value low-volume products, hydel power and tea as the sector of importance for the state.

A year later, the **North East Industrial Policy (NEIP), 1997**, was announced with an objective to accelerate the industrial growth in the NER. The policy was for a period of 10 years.

Sikkim was not part of the '**North-East Council**' at that time, hence the benefits of NEIP, 1997 could not be extended to the state of Sikkim. To accommodate the aspiration of industrial growth in Sikkim the '**Sikkim Industrial Promotion and Incentive Act, 2000**' was enacted which was further amended in 2003. The policy objective was to attract investment in the state and had similar benefits granted since, 1997.

The government of India introduced the "**North East Industrial & Investment Promotion Policy (NEIIPP), 2007**". Sikkim became a member of the North East Council in 2002, therefore, this policy was also extended to Sikkim.

Structural Shift in Sikkim's Economy

After the NEIIPP 2007, Sikkim experienced rapid industrial growth, the incentives and subsidy-driven policy attracted a large number of industries in the state of Sikkim, particularly, pharmaceuticals.

This sudden rise in industrial activity in the state has brought about an unprecedented structural shift in the economy of the state. The manufacturing sector recorded a CAGR of 53.19% for the period from 2004-05 to 2011-12 the same was only 0.85% during the period from 1993-94 to 2003-2004. (Refer Table 1.3)

Table 1.3

Sectoral Growth Rate (CAGR)

Sector	1980-81 to 1991-92	1993-94 to 2003-2004	2004-05 to 2011-12
	At 1980-81 Prices	At 1993-94 Prices	At 2004-05 Prices
GSDP	10.53	6.52	16.77
Primary	8.55	1.83	3.5
Agriculture	8.6	1.75	3.91

Forestry & Logging	4.33	3.5	-1.06
Fishing	10.5	4.37	5.17
Mining & Quarrying	6.5	-11.63	14.11
Secondary	6.74	8.86	27.84
Manufacturing	8.7	0.85	53.19
Construction	9.61	9.93	7.35
Electricity, Gas & Water Supply	NA	14.37	37.49
Tertiary	13.74	8.19	11.39
Transport, Storage & Communication	25.21	14.03	13.72
Trade, Hotels & Restaurants	17.3	2.61	3.4
Banking & Insurance	16.21	16.89	23.08
Real Estate	8.08	3.5	6.73
Public Administration	11.3	9.31	12.89
Other Services	13.06	9.64	11.4

Source: Gazetteer of Sikkim, 2013, Computed from CSO.

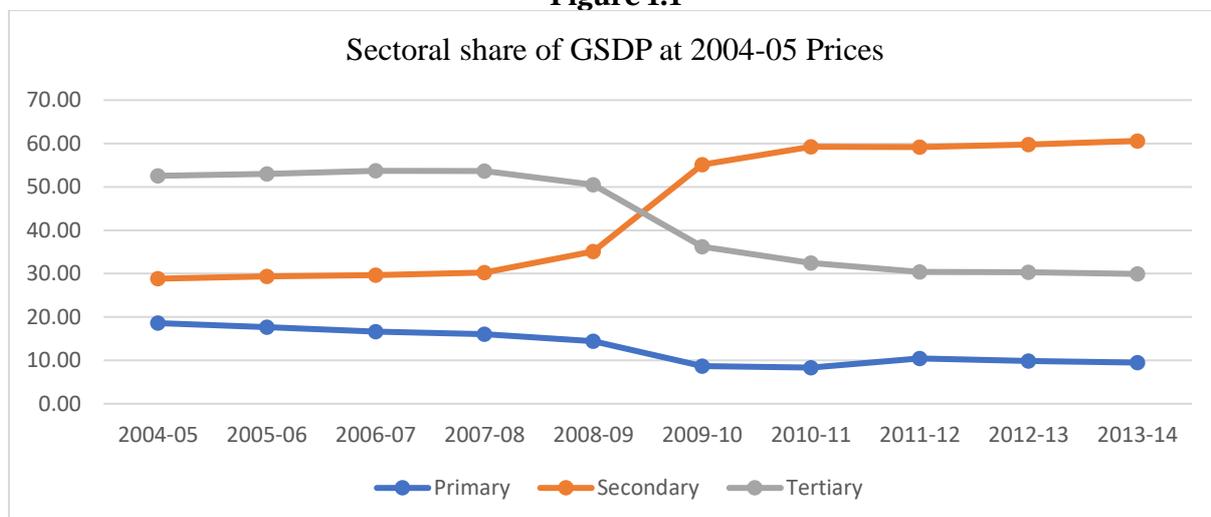
The sectoral contribution to the state economy has changed dramatically. (Refer Table 1.4 & Fig1.1)

Table 1.4
Sectoral Share to GSDP at 2004-05 Prices

Year	Primary	Secondary	Tertiary
2004-05	18.59	28.84	52.58
2005-06	17.63	29.36	53.01
2006-07	16.65	29.65	53.70
2007-08	16.07	30.29	53.64
2008-09	14.40	35.09	50.51
2009-10	8.65	55.13	36.22
2010-11	8.34	59.22	32.44
2011-12	10.42	59.19	30.39
2012-13	9.89	59.77	30.34
2013-14	9.48	60.60	29.93

Source: Computed from data of Ministry of Statistics and Programme Implementation (MOSPI).

Figure 1.1



The trend of sectoral contribution to the GSDP during the period indicates that from 2008-09 onwards secondary sector contribution started increasing significantly. This clearly shows that after the introduction of NEIIPP, 2007 the industrial growth accelerated and the secondary sector contribution to the state started increasing significantly.

However, if we look back, it is observed that till the early 1990s, the primary sector was the biggest and contributed more than 50% to the state economy, whereas the contribution of the secondary sector on average from 1980 to 1996 was 15%. (Refer Table 1.2)

In recent times the secondary sector contribution to the state economy is largely dominated by the secondary sector. The data of MOSPI suggests that the manufacturing sector (included in the secondary sector) average contribution to GSVA at the 2011-12 price for the period starting from 2011-12 to 2022-23 is 41.58% and the average contribution of the secondary sector for the same period is 62.19%. The average contribution of the primary sector is 7.87%. (Refer Table 1.5)

Table 1.5
GSVA by economic activity at 2011-12 price, Sectoral Contribution

Year	Primary	Secondary	Tertiary
2011-12	8.35	62.83	28.82
2012-13	8.50	60.13	31.37
2013-14	8.39	59.87	31.73
2014-15	7.97	61.20	30.83
2015-16	7.60	62.30	30.10
2016-17	7.78	63.51	28.71
2017-18	8.07	65.22	26.71
2018-19	8.29	64.19	27.52
2019-20	8.16	60.48	31.37
2020-21	7.38	62.36	30.26
2021-22	7.12	62.19	30.69
2022-23	6.89	61.94	31.16

Source: Computed from data of Ministry of Statistics and Programme Implementation (MOSPI).

The experience of the state in the context of structural change is unprecedented. No other state in the northeast region has experienced a similar structural shift in the economy, though the rest of the state have same industrial policy in force i.e., NEIIPP 2007. This trend highlights that the other factors affecting structural shift in the economy are unique in respective states.

Table 1.6
Average % Sectoral Contribution to GSVA of NE States
from 2011-12 to 2021-22, at 2011-12 Price

States	Primary	Secondary	Tertiary
Sikkim	7.96	62.21	29.83
Assam	30.92	25.49	43.59
Mizoram	23.19	22.87	53.94
Meghalaya	23.10	21.64	55.26
Arunachal Pradesh	39.34	20.38	40.28
Manipur	20.82	14.10	65.08
Tripura	40.22	13.30	46.48
Nagaland	29.17	11.15	59.68

Source: Computed from data of Ministry of Statistics and Programme Implementation (MOSPI).

Conclusion

It can be concluded that the industrial growth led to significant structural change in the economy of Sikkim. The dependence of the economy on the primary sector during the pre-merger era is relevant and the state lacked industrial presence to a larger extent. The inadequate infrastructure and the resources (human,

material, financial or otherwise) necessary for industrial growth could be the obvious reason for negligible industrial presence. The erstwhile Kingdom of Sikkim exercised industrial initiatives after it became the protectorate of India in 1950. The initiative towards industrial growth can be traced from the first five-year plan of 1954-61 and onwards. The first modern industry in Sikkim was established during the first five-year plan. Even after the merger of Sikkim as the 22nd state of the Indian Union in 1975, the industrial presence was negligible. The economy witnessed a very slow Structural shift in the economy which is evident from the fact that till 1996 (before the first major industrial policy Sikkim adopted) the share of the primary sector to GSDP was more than 50% (for the year 1995-96 the share of the secondary sector was 13.65%). After the state adopted aggressive measures in the form of industrial policies from the year 1996 onwards, the state started witnessing structural changes in the economy. In the year 2006-07, the contribution of the primary and secondary sectors to GSDP was 16.07% & 29.65 % respectively. However, the NEIIPP, 2007 propelled industrial growth significantly, the average percentage contribution of the secondary sector to GSVA in the last decade is 62% which is not only significantly high but also an unprecedented experience.

It is important for the government to take initiatives for sustaining industrial growth in view of the fact that most of these industries were established because of the benefits extended by NEIIPP, 2007. The role of government becomes critically important if these industries exhibit the intention to withdraw once they stop getting benefits of NEIIPP 2007.

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