**Industrial Policy**

*Industrial policy is a document that sets the tone in implementing, promoting the regulatory roles of the government.* It was an effort to expand the [industrialization](https://www.toppr.com/guides/fundamentals-of-economics-cma/indian-economy/industrialization-in-india/) and uplift the economy to its deserved heights. It signified the involvement of the Indian government in the development of the industrial sector.

With the introduction of new economic policies, the main aim of the [government](https://www.toppr.com/guides/civics/what-is-government/meaning-of-government/) was to free the Indian industry from the chains of licensing. The regulatory roles of the Indian government refer to the policies towards industries, their establishments, their functioning, their expansion, their growth as well as their management.

The industrial growth of a country is guided and regulated through its industrial policies. Let’s understand the journey of various industrial [policies](https://www.toppr.com/guides/commercial-knowledge/government-policies-for-business-growth/policy-decisions-and-goals/)



I. Industrial Policy of 1948

The first industrial policy after independence was announced on 6th April 1948. It was presented by Dr. Shyama Prasad Mukherjee then Industry Minister. The main goal of this policy was to accelerate the industrial development by introducing a mixed economy where the private and public sector was accepted as important in the development of the economy. It saw the [Indian economy](https://www.toppr.com/guides/business-economics-cs/overview-of-indian-economy/basic-characteristics-of-the-indian-economy/) in socialistic patterns. The large industries were classified into four categories:

* **Industries with exclusive State Monopoly/Strategic industries:**It included industries engaged in the activity of atomic [energy](https://www.toppr.com/guides/physics/work-and-energy/energy-and-types-of-energy/), railways and arms, and ammunition.
* **Industries with Government control:**This category included industries of national importance. 18 such categories were mentioned in this category such as fertilizers, heavy machinery, defense equipment, heavy chemicals, etc.
* **Industries with Mixed sector:**This category included industries that were allowed to operate independently in the private or public sector. The government was allowed to review the situation to acquire any existing private undertaking.
* **Industry in the Private sector:**Industries which were not mentioned in the above categories fall into this category. High importance was granted to small businesses and small industries, leading to the utilization of local [resources](https://www.toppr.com/guides/geography/resources/types-of-resources/) and creating employment.

II. Industrial Policy Resolution, 1956

This second industrial policy was announced on April 20, 1956, which replaced the policy of 1948. The features of this policy were:

* A new classification of Industries.
* Non-discriminatory and fair treatment for the private sector.  
  [Promotion](https://www.toppr.com/guides/business-studies/marketing/promotion/) of village and small-scale industries.
* To achieve development by removing regional disparity.
* Labour welfare.

The IRDA divided industries into three categories:

* **Schedule A industries:**The industries that were under the [monopoly](https://www.toppr.com/guides/business-economics-cs/analysis-of-market/monopoly/) of the state or government. It included 7 industries. The private sector was also introduced in these industries if national interest required.
* **Schedule B industries:**In this category of industries, the state was allowed to establish new units but the private sector was not denied to set up or expand existing units e.g. chemical industries, fertilizer, synthetic, rubber, aluminum, etc.
* **Schedule C industries:**So the industries that were not a part of the above-mentioned industries then it formed a part of Schedule C industries.

**Small Scale Sector** – To encourage small sector, in the policy resolution, various steps were proposed such as:- (a) Direct subsidy was provided to small scale sector, (b) Suitable taxation relief was given to this sector, and (c) It was made objective of the State to protect small scale sector by advancing technical assistance. However, government failed to integrate these industries and their programs with the production program of the large- scale sector.

**Foreign Investment –**allowed foreign capital participation in Indian economic development but the major share should belong to India. In case of already existing foreign establishments, these will be replaced by Indian technicians gradually.

One of the major objectives of resolution was reduction in regional**inequalities**and imbalances. But contrary to this, the actual operation of this policy resulted in increased regional inequalities. This becomes evident from various reports which noted that the four industrially advanced States of Maharashtra, Gujrat, West Bengal and Tamil Nadu benefited the most from the operation of this policy.

Most important sectors were reserved for government, but government failed to develop on these reserved sectors. Occasionally, private sector was allowed to operate in these areas. As already mentioned, this was due to system of rent seeking and kickbacks which developed during this period.

**The Monopolistic and Restrictive Trade Practices Act, 1969**

This act was hallmark of infamous ‘license quota permit’ system. Companies having more than specified value of assets needed to take permission/license before any expansion and commencement of operations.

Its objectives were –

1. To prohibit monopolistic and restrictive trade practices (except by government)
2. To prevent concentration of economic power in few hands
3. To control the Monopolies
4. To protect consumer Interest

MRTP Act became effective in June 1970. Emphasis was placed on increasing productivity of industry. There were major amendments in 1980’s and a MRTP commission was also setup. This act was incompatible with new economic policy after 1991 and consequently, it was repealed in 2009. Now Competition Act and Competition Commission of India are in place instead.

 III. Indian Policy Statement, 1973

Indian Policy Statement of 1973 identified high priority industries with investment from large industrial houses and foreign companies were permitted. Large industries were permitted to start operations in rural and backward areas with a view to developing those areas and enabling the growth of small industries around. And so the basic features of Indian Policy Statement were:

* The policy was directed towards removing the distortions, it provided for closer interaction between agriculture and industrial sector.
* Priority was given towards generation and transmission of power.
* The list of industries reserved for the small-scale sector was expanded.
* Special legislation was made to protect cottage and household industries were introduced.

III. Indian Policy Statement 1977

Indian Policy Statement was announced by George Fernandes then the union industry minister of the parliament. The highlights of this policy are:

A] Target on the development of small-scale and cottage industries.

* Household and cottage industries for self-employment.
* Tiny sector investment up to 1 lakhs.
* Smallscale industries for investment up to 1-15 lakhs.

B] Large-scale sector

* *Basic industries:* infrastructure and development of small-scale and village industries.
* *Capital goods industries:* meeting the requirement of cottage industries.
* *High technological industries:* development of agriculture and smallscale industries such as petrochemicals, fertilizers and pesticides.

C] Restrict the control of big business houses.

D] Role of the public sector:

* Development of ancillary industries.
* To make available expertise in technology and [management](https://www.toppr.com/guides/business-management-and-entrepreneurship/nature-of-management-and-its-process/objectives-and-importance-of-management/) in small and cottage industries.

E] Revival and rehabilitation of sick units.

**Industrial Policy resolution, 1980**

Congress made come back and soon restored its own industrial policy.

Major Changes were –

1. Some of the items reserved for small scale industry were de reserved.
2. Many units/companies were operating on excess capacities, than allowed by law. These excess capacities were regularized.
3. Foreign Investment was allowed with technology transfer
4. Regulations, Licensing, restrictions were eased a bit signaling inclination towards private sector.

**New Industrial Policy, 1991**  
The year 1991 witnessed a drastic change in the industrial policy governing industrial development in the country since independence. This land mark change was entirely a new chapter which was to enforce totally open economic system as compared to the earlier mixed system. The country decided to follow the lines of capitalism. It is also said that there was shift from ‘imperative’ to ‘indicative’ planning under new system.

**Features of New Industrial Policy**

1. **Industrial licensing policy –**New industrial policy abolished all industrial licensing, irrespective of the level of investment, except for a short list of 18 industries related to the security and strategic concerns, social reasons, hazardous chemicals and over riding environmental reasons and items of elitist consumption . However, of these 18 industries, 13 categories have been removed from the list gradually and currently only 5 category of health, strategic and security considerations industries needs license viz. Alcohol, cigarettes, hazardous chemicals, electronic, aerospace and all types of defense equipment.
2. **Policy on Public Sector –**The 1956 Resolution had reserved 17 industries for the public sector. The 1991 industrial policy reduced this number to 8. As of now only 3 industries are reserved for government – 1) Atomic Energy 2) Mining of Atomic Minerals 3) Railway Transport.The policy also suggested that those public enterprises which are chronically sick and which are unlikely to be turned around will, for the formation of revival/ rehabilitation schemes, be referred to the **Board for Industrial and Financial**

**Reconstruction (BIFR)**, or other similar high level institutions created for the purpose, in order to protect the interests of workers likely to be affected by such rehabilitation package, a social security mechanism will be created.

**Privatization/disinvestment**  
Government announced its intention to offer a part of government shareholding in the public sector enterprises to mutual funds, financial institutions, the general public and the workers. A beginning in this direction was made in 1991-92 themselves by diverting part of the equities of selected public sector enterprises.

1. **Monopolistic and Restrictive Trade Practice limit**Under the Monopolistic and Restrictive Trade Practice Act, all firms with assets above a certain size (Rs.100 crore since 1985) were classified as MRTP firms. Such firms were permitted to enter selected industries only and this also on a case by case approval basis. In addition to control through industrial licensing, separate approvals were required by such large firms for any investment proposals. The New Industrial Policy removed the threshold limit in assets in respect of MRTP companies.
2. **Policy on Foreign investment and Technology agreements**The New Industrial Policy, prepared a specified list of high technology and high investment priority industries, wherein automatic permission was to be made available for direct foreign investment up to 51 percent foreign equity. The industries in which automatic approval was granted included a wide range of industrial activities in the capital goods and metallurgical industries, entertainment electronic, food processing and the services sectors having significant export potential. List is being expanded since then. Current situation of FDI norms will be discussed in next article.
3. **Abolition of Phased Manufacturing Programs for New Projects –**These programs was aimed at indigenization of technology. These were in force in a number of engineering and electronic industries. The new policy abolished such program for future.
4. **Removal of Mandatory Convertible Clause –**In pre liberalization era, there was a mandatory convertible clause in loan agreement with borrower (industries in this case).As per this clause, banks had right to convert their loan amount into equity whenever they feel so. This will make them ‘owner’ from ‘lender’ in that enterprise. This clause was used by government as an instrument to nationalize private firms. This was removed under new economic policy.

New economic policy was culmination of long era of inefficient dominance of public sector. Nevertheless, public sector by this time had built strong industrial base on which other industries can thrive in future. This was one of the objectives of Nehruvian model. Unsurprisingly, Industrial and economic growth remained dismal during this period. Process of liberalization begun in 1980’s which showed up in better performance of economy. Recent high growth (as per some economists) can’t be attributed to initiatives of New industrial and economic policy as statistical evidence suggest better performance from early 1980’s. So much credit can’t go to intervention of International Monetary Fund.

In post liberalization era, government took up the role of facilitator and regulator. Some conclusive indications toward this are – replacing Foreign Exchange – **Regulation Act** with **Management Act,**latter one being more liberal and less harsh. Similar, MRTP act was replaced by competition Act. Now FDI is allowed in wide array of sectors, in many of them through automatic route. However, post 1991 growth is accused of lopsided growth with devastating social impact as government rolled back expenditure from social sectors too.

Note – Effects of Liberalization on various aspects of Indian economy and Society will be discussed in next article, along with post 1991 and current Industrial policies.

**Socio Economic Implications of LPG**

1. INDUSTRIAL POLICY CHANGES Pre-1991 Policy Current Policy Industrial Licensing was the new rule Licensing is an exception Public sector monopoly/dominance in strategic, basic and heavy industries All but two industries are open to the private sector MRTP Act restriction on entry and growth of large companies No such restrictions Foreign investment allowed only in select industries that too subject to normally, a ceiling of 40% of total equity and prior permissions Foreign investment allowed in a large number of industries, including up to 100% or equity in many of them. Automatic route available subject to specified conditions. Restrictive policy towards foreign technology Very liberal policy towards foreign technology Reservation of large number of products for small scale sector Reservation list is being pruned.
2. [.](https://image.slidesharecdn.com/liberalization2cprivatizationandglobalizationanditsimpacton-170510160010/95/liberalization-privatization-and-globalizationand-its-impact-on-indian-economy-nip-lpg-16-638.jpg?cb=1494432034)POSITIVE IMPACT OF LPG ON INDIAN ECONOMY 1) Increase in GDP growth rate 1990-1991- 1.1% 2014-2015 - 7.26% 2015-2016- 7.5% (Source -http://statisticstimes.com/economy/gdp-of-india.php) Because of the Abolition of Industrial licensing, privatization, advanced foreign technology and Reduction of taxes India’s GDP is increased after 1991 reforms
3. FDI cap increased in insurance♣ India has allowed 100% FDI in medical services, Telecom sector, and single brand retail Etc. ♣ FDI inflow in India was 106,693 Crores in 2015 ¬ 1991 FDI inflow was 408 crores ¬2 INCREASE IN FOREIGN DIRECT INVESTMENT (FDI) & FDI is allowed and in Public sector banking 20%♣ In Private Banking- Except branches or wholly owned subsidiaries (74%) ♣sub-activities from 26% to 49%
4. INCREASE IN PER CAPITA INCOME- Per capita income or average income measures the average income earned per person in a given area (city, region, country, etc.). It is calculated by dividing the area's total income by its total population . Year Per Capita Income 1991 Rs.11535 2015 Rs. 88,533 Per Capita income is increased due to Increase in Employment, due to new economy policy of globalization and privatization many job opportunities are created so, people’s income was increased.
5. UNEMPLOYMENT RATE IS REDUCED Unemployment Rate 1991 - 4.3% 2014 - 3.6% (Source : World Development Indicators, World Bank ) 5 . Privatization has resulted into reduction of the government's financial and administrative burden.
6. GLOBALIZATION AND INDIAN BUSINESS

1. India is the 3rd largest global telecom market.

2. The mobile subscriber base has grown from 0.3 Million in 1996 to over 900 million in 2013.

3. India is likely to add over 200 shopping malls in 2010 and 715 malls in 2015.

4. India is the world’s: 2nd largest two-wheeler market and 4th largest commercial vehicle market.

5. 11th largest passenger car market.

6. 7th largest automobile market by 2016.

1. In India, land-line or basic phone was a prestige symbol few years back but now you find people riding bicycle with a mobile in hand, talking or listening music.′ Old restaurants are now replaced by Mc. Donald‟s. ′ In place of old cinema halls, multiplex theatres are coming up. ′ . Famous International brands (Armani, Gucci, Nike, Omega etc.) are investing in the Indian market with the changing of fashion statement of Indians. ′ Entertainment sector in India has a worldwide market. Bollywood movies are distributed and accepted worldwide. Big international companies (Walt Disney, 20th Century Fox, Columbia Pictures) are investing on this sector ′ Telecommunication and Software Industries are booming in India. ′ Lavish Multiplex movie halls, big shopping malls and high rise residential are seen in every cities. ′ Global food chain /restaurants have already found a huge market in the urban areas of India. ′Increase in Mergers and Joint Ventures
2. INCREASE IN MERGERS AND JOINT VENTURES AFTER NEW ECONOMIC POLICY,1991
3. popularization of mass media and communication technologies such as cell phones, credit cards and e- commerce which has transformed the way we do business today.θ growing importance of MNCs θ internationalization of financial markets θ Access to television grew from 20% of the urban population (1991) to 90% of the urban population (2009). Even in the rural areas satellite television has a grown up market. θ Internet facility is everywhere and extension of internet facilities even to rural areas. θ Scientific and technological innovations have made life quite comfortable, fast and enjoyable. θTECHNOLOGICAL IMPACT OF GLOBALIZATION IN INDIA
4. [.](https://image.slidesharecdn.com/liberalization2cprivatizationandglobalizationanditsimpacton-170510160010/95/liberalization-privatization-and-globalizationand-its-impact-on-indian-economy-nip-lpg-24-638.jpg?cb=1494432034). GLOBALIZATION AND AGRICULTURE
5. The Government‟s digital initiatives include Agrisnet, Agris, Agmarknet, Dacnet, Fishnet, E-Chaupal, Digital mandi, Kisan call centre etc. with their independent websites.′ It bring farmers, researchers, scientists and administrators together by establishing “Agriculture Online” through exchange of ideas and information ′ Increased investment in sustainable agriculture and rural development. ′ Productivity gains. ′ Access to markets. ′ New farming practices and Improved mechanization in agriculture such as drip irrigation, etc. ′GLOBALIZATION AND AGRICULTURE
6. IMPACT OF NEW LPG ON BANKING SECTOR
7. Now there is cut through competition in the banking industry, and public sector banks are more responsive to customers.′ Private Banks such as ICICI, HDFC, Yes Bank and also foreign banks, raised standards of Indian Banking Industry. ′ Further, in banking too India has been a gainer. Since reforms, there have been three rounds of License Grants for private banks. ′ ATMs, Internet banking, mobile banking and social banking have made "anytime anywhere banking" ′IMPACT OF NEW LPG ON BANKING SECTOR
8. Having said this, Public Sector Banks still remain major lender in the country.⎫ New government schemes like Pradhan Mantri Jandhan Yojana aims to achieve their targets by using Adhaar Card. ⎫ Here too IT is on path of bringing banking revolution. ⎫IMPACT OF NEW LPG ON BANKING SECTOR
9. [.](https://image.slidesharecdn.com/liberalization2cprivatizationandglobalizationanditsimpacton-170510160010/95/liberalization-privatization-and-globalizationand-its-impact-on-indian-economy-nip-lpg-29-638.jpg?cb=1494432034)NEP(LPG)- SERVICE SECTOR GROWTH The services sector is now the largest and fastest growing sector of the economy, contributing more than 50% to the GDP India’s Central Statistics Office classifies the services sector into four main industries: 1) restaurants, hotels and trade 2) storage, communication and transportation 3) finance, insurance, business services and real estate 4) social, personal and community services.
10. [.](https://image.slidesharecdn.com/liberalization2cprivatizationandglobalizationanditsimpacton-170510160010/95/liberalization-privatization-and-globalizationand-its-impact-on-indian-economy-nip-lpg-30-638.jpg?cb=1494432034)NIP(LPG)- SERVICE SECTOR GROWTH
11. India has the second fastest growing services sector with its compound annual growth rate at nine per cent, just below China’s 10.9 per cent, during the last 11-year period from 2001 to 2012, the Economic Survey for 2013-14 said. Russia at 5.4 per cent is a distant third.′IMPACT OF LPG ON IMPORT AND EXPORTS
12. GROWTH IN SERVICE SECTOR AFTER NIP
13. CONCLUSION The advent of globalization as a result of liberalization and privatization has both positive and negative impact on the economy. one group of people argue that globalization provides greater opportunities ,new markets ,better technology etc while other group feel that it does not protect domestic industries .From Indian prospective ,globalization improved our condition of living open up employment in the field of IT,Telecommunication,Hospitality ,Banking and others .