MODULE IV INDUSTRIAL POLICY

Industrial Policy: Industrial Policy in India -1948, 1956, 1977, 1980, 1990, 1991 - Industrial Performance after Independence.

Industrial Policy

Industrial Policy is the set of standards and measures set by the Government to evaluate the progress of the manufacturing sector that ultimately enhances economic growth and development of the country. Industrial policy involves a national plan and government involvement, ranging from pronounced to weak, for helping industries, including increasing and protecting their jobs. Industrial sectors and government agencies are coordinated in selected activities, and the former receive protections, grants, loans, and tax incentives for particular businesses.

The government takes measures to encourage and improve the competitiveness and capabilities of various firms.

Objectives of Industrial Policy

1. To maintain steady growth in productivity.
2. To create more employment opportunities.
3. Utilize the available human resources better
4. To accelerate the progress of the country through different means
5. To match the level of international standards and competitiveness

Industrial Policy in India

The various industrial policies introduced by the Indian government are as follows:

Industrial Policy Resolution, 1948

- It declared the Indian economy as Mixed Economy
- Small scale and cottage industries were given the importance
- The government restricted foreign investments

- Industries were divided into 4 categories
    - Exclusive monopoly of central government (arms and ammunitions, production of atomic energy and management of railways)
    - New undertaking undertaken only by State (coal, iron and steel, aircraft manufacturing, ship building, telegraph, telephone etc.)
    - Industries to be regulated by the government (Industries of basic importance)
    - Open to private enterprise, individuals and cooperatives(remaining)

Industrial Policy Statement of 1956: Government revised its first Industrial Policy (i.e. The policy of 1948) through the Industrial Policy of 1956.

- It was regarded as the "Economic Constitution of India" or "The Bible of State Capitalism".
- The 1956 Policy emphasized the need to expand the public sector, to build up a large and growing cooperative sector and to encourage the separation of ownership and management in private industries and, above all, prevent the rise of private monopolies.
- It provided the basic framework for the government's policy in regard to industries till June 1991.

Industrial Policy of 1956 classified industries into three categories

- **Schedule A** consisting of 17 industries was the exclusive responsibility of the State. Out of these 17 industries, four industries, namely arms and ammunition, atomic energy, railways and air transport had Central Government monopolies; new units in the remaining industries were developed by the State Governments.
- **Schedule B,** consisting of 12 industries, was open to both the private and public sectors; however, such industries were progressively State-owned.

- **Schedule C-** All the other industries not included in these two Schedules constituted the third category which was left open to the private sector. However, the State reserved the right to undertake any type of industrial production.

The IPR 1956, stressed the importance of cottage and small scale industries for expanding employment opportunities and for wider decentralization of economic power and activity. The Resolution also called for efforts to maintain industrial peace**;** a fair share of the proceeds of production was to be given to the toiling mass in keeping with the avowed objectives of democratic socialism.

Criticism: The IPR 1956 came in for sharp criticism from the private sector since this Resolution reduced the scope for the expansion of the private sector significantly.

The sector was **kept under state control through a system of licenses.**

Industrial Policy Statement, 1977- In December 1977, the Janata Government announced its New Industrial Policy through a statement in the Parliament.

- The main thrust of this policy was the effective promotion of cottage and small industries widely dispersed in rural areas and small towns.
- In this policy the small sector was classified into three groups—cottage and household sector, tiny sector and small scale industries.
- The 1977 Industrial Policy prescribed different areas for large scale industrial sector- Basic industries, Capital goods industries, High technology industries and other industries outside the list of reserved items for the small scale sector.
- The 1977 Industrial Policy restricted the scope of large business houses so that no unit of the same business group acquired a dominant and monopolistic position in the market.
- It put emphasis on reducing the occurrence of labour unrest. The Government encouraged the worker's participation in management from shop floor level to board level.

- **Criticism:** The industrial Policy 1977 was subjected to serious criticism as there was an absence of effective measures to curb the dominant position of large scale units and the policy did not envisage any socioeconomic transformation of the economy for curbing the role of big business houses and multinationals.

Industrial Policy Statement, 1980

- The Industrial Policy Statement of 1980 addressed the need for promoting competition in the domestic market, modernization, selective Liberalization, and technological up-gradation.
- It liberalized licensing and provided for the automatic expansion of capacity.
- Due to this policy, the MRTP Act (Monopolies Restrictive Trade Practices) and FERA Act (Foreign Exchange Regulation Act, 1973) were introduced.
- The objective was to liberalize the industrial sector to increase industrial productivity and competitiveness of the industrial sector.
- The policy laid the foundation for an increasingly competitive export-based and for encouraging foreign investment in high-technology areas.

New Industrial Policy during Economic Reforms of 1991

The long-awaited liberalized industrial policy was announced by the Government of India in 1991 in the midst of severe economic instability in the country. The objective of the policy was to raise efficiency and accelerate economic growth.

Features of New Industrial Policy

- **Reduction in Government's Monopoly:** Government monopoly was reduced by decreasing the number of industries reserved for the public sector from 17 (as per 1956 policy) to 8 industries such as arms and ammunition, atomic energy, coal, mineral oil, mining of iron ore, manganese ore, gold, silver, mining of copper, lead, etc.

- ***Abolition of Industrial Licensing*: **The Industrial Licensing Policy abolished the industrial licensing given to all industries except for the 18 industries, which was further reduced to 6 industries in 1999. These included drugs and pharmaceuticals, hazardous chemicals, explosives such as gunpowder and detonating fuses, etc.
- ***Provision of Foreign Companies as a Major Stake*: **It allowed foreign companies to have a majority stake in India. For example, in 47 high-priority industries, up to 51% of FDI was allowed.
- ***Internal Agreements on Foreign Technologies*: **Various international agreements were made about foreign technologies. For example, permitting high-priority industries up to a lump sum payment of Rs. 1 crore, with 5% royalty for domestic sales and 8% for exports.
- ***Restructuring of Portfolio Public Sector Investments*: **Restructuring the portfolio of public sector investments, for example, the PSUs which were unlikely to be turned around were to be referred to the Board for Industrial and Financial Reconstruction (BIFR).
- ***Removal of Prior Approval from Central Government*: **To remove the requirement of prior approval of the Central Government for the establishment of new undertakings, expansion of undertakings, merger, amalgamation, etc.
- ***Changes in the Standard for Small Units*: **The criteria for a tiny unit was changed to a unit having an investment limit of Less than Rs. 5 Lakh.
- ***Establishment of National Renewal Fund*: **As per this policy, the government announced the establishment of a National Renewal Fund (NRF) to ensure a social safety net for labour.
- ***Foreign Technology Agreement*: **Automatic approvals for technology related agreements.
- ***MRTP Act*** was amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. MRTP Act was replaced by the Competition Act 2002.

Outcomes of New Industrial Policies

- The 1991 policy made 'License, Permit and Quota Raj' a thing of the past. It attempted to liberalize the economy by removing bureaucratic hurdles in industrial growth.

- Limited role of Public sector reduced the burden of the Government.
- The policy provided **easier entry of multinational companies,** privatization, removal of asset limit on MRTP companies, liberal licensing. All this resulted in increased competition that led to lower prices in many goods such as electronics prices. This brought domestic as well as foreign investment in almost every sector opened to private sector.
- The policy was followed by special efforts to increase exports. Concepts like Export Oriented Units, Export Processing Zones, Agri-Export Zones, Special Economic Zones and lately National Investment and Manufacturing Zones emerged. All these have benefitted the export sector of the country.
- ***Implementation of GST:*** The GST is a game changing reform introduced by the government. It is expected that implementation of GST will facilitate the creation of one common market in the country by removing tax barriers; eliminate cascading of taxes thereby reducing cost of production of manufacturing goods; and enhance ease of doing business by cutting down transaction costs associated with the complex tax regime. The implementation of GST is also going to cover the unorganized sector industries.
- ***Make in India:*** The 'Make in India' programme has been launched globally on 25th September 2014 which aims at making India a global hub for manufacturing, research and innovation and integral part of the global supply chain. This initiative is based on four pillars of New Processes, New Infrastructure, New Sectors and New Mindset. Start-up India Start-up India is a flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Start-ups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Startups to grow through innovation and design.
- ***Ease of Doing Business:*** The Government has taken up a series of measures to improve Ease of Doing Business. The emphasis has been on simplification and rationalization of the existing rules and introduction of information technology to make governance more efficient and effective. States too have been brought on board in the process to expand the coverage of these efforts.

- Intellectual Property Rights (IPR) Policy: In May, 2016, Government for the first time adopted a comprehensive National Intellectual Property Rights (IPR) policy to lay future roadmap for intellectual property. This aims to improve Indian intellectual property ecosystem, hopes to create an innovation movement in the country and aspires towards "Creative India; Innovative India".

Limitations of Industrial Policies in India

- **Stagnation of Manufacturing Sector:** Industrial policies in India have failed to push manufacturing sector whose contribution to GDP is stagnated at about 16% since 1991.
- **Distortions in industrial pattern owing to selective inflow of investments:** In the current phase of investment following liberalization, while substantial investments have been flowing into a few industries, there is concern over the slow pace of investments in many basic and strategic industries such as engineering, power, machine tools, etc.
- **Displacement of labour:** Restructuring and modernization of industries as a sequel to the new industrial policy led to displacement of labour.
- **Absence of incentives for raising efficiency:** Focusing attention on internal liberalization without adequate emphasis on trade policy reforms resulted in 'consumption-led growth' rather than 'investment' or 'export-led growth'.
- **Vaguely defined industrial location policy:** The New Industrial Policy, while emphasized the detrimental effects of damage to the environment, failed to define a proper industrial location policy, which could ensure a pollution free development of industrial climate.

Way Forward

- Industrial policies in India have taken a shift from predominantly socialistic pattern in 1956 to Capitalistic since 1991.
- India now has a much liberalized industrial policy regime focusing on increased foreign investment and lesser regulations.
- India ranked 77th on World Bank's Doing Business Report 2018. Reforms related to insolvency resolution (Bankruptcy and Insolvency Act, 2017) and the Goods and

Services Taxes (GST) are impressive and will result in long-term gains for the industrial sector.

- Campaigns such as **Make in India** and **Start up India** have helped to enhance the business ecosystem in the country.
- However, electricity shortages and high prices, credit constraints, high unit labour costs due to labour regulations, political interference and other regulatory burdens continue to remain challenges for firm growth of the industrial sector in India.
- There is a need for a new Industrial Policy to boost the manufacturing sector in the country. Government in December 2018 also felt the need to introduce a new Industrial Policy that would be a road map for all business enterprises in the country.

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