UNIT 22 INDUSTRIAL POLICY IN INDIA

Structure

22.0 OBJECTIVES

After reading this unit, you will be able to:

- state the concept of industrial policy;
- appreciate the significance of industrial policy for economic growth in general and industrial growth in particular;
- identify features of the industrial policy that ushered in a controlled economy;
- explain why it became important to change the structure of the industrial policy from CIA (Controls, Indianisation and Abstinence) to LPG (Liberalisation, Privatisation and Globalisation); and
- know how and why it became imperative for the Indian economy to develop an environment in which the new industries could develop.

22.1 INTRODUCTION

The strategy of growth pursued in our Plans aimed at building the Indian economy in a self-reliant and self-sustained unit. Towards the achievement of this goal, the path of heavy-industry-led-growth was pursued. The policy environment, i.e., industrial and related policies relied on (i) import substitution, (ii) inward-oriented growth, and (iii) a system of controls and subsidies. Corresponding to the growth strategy and the industrial policy framework, public sector in India witnessed a phenomenal expansion; it came to acquire commanding heights of the economy. But soon it came to be afflicted with most of those ailments which are generally associated with a state-controlled system. A need was felt to make the public sector market-oriented. Hence, mid-stream corrections were decided and the policy got reformulated accordingly. In the new policy framework, public sector is being seen more in a supportive role. The initiative for growth is to come from the private capital and enterprise. The real transformation started after 1995, and was triggered by three factors. **One**, India began to see a host of relatively younger entrepreneurs who, unencumbered by protectionist baggage, were determined to prove their worth in a more competitive economy. **Two**, tariff rates started coming down even faster and quantitative import restrictions were becoming history — which increased the threat of imports. **Three**, MNCs began to enter India in greater numbers and created a milieu of global competition from within. Increasing privatisation of the economy is in harmony with the demands of liberalisation and globalisation policies.

22.2 CONCEPT OF INDUSTRIAL POLICY

There are several aspects of industrial policy which affect industrial investment and production.

- Industrial licensing policy which regulates the setting up of new (large and medium) industrial undertakings and their expansion.
- Policy concerning the control of monopolies and economic concentration – and the reservation of certain lines of production for the decentralised, small-scale sector – which in a way forms an integral part of industrial licensing policy.
- Policy regarding technology import. Closely allied to technology import policy is the policy regarding the import of capital goods, components and raw materials.
- A whole range of financial and fiscal policies which pertain to the provision of industrial finance, development of the capital market, as well as fiscal incentives/disincentives to investment and production.

It is in this background that we have to study the evolution of industrial policy in India, and see how far it has worked as a potent tool to realise the goal of planned development. Our attention would be focused on aspects of industrial policy other than fiscal and financial policies.

22.3 INDUSTRIAL POLICY IN INDIA

Till July 23, 1991, when the New Industrial Policy was announced by the Government, the industrial policy had been chalked out within the framework of the Industrial Policy Resolution, 1956 (IPR, 1956). The roots of the IPR, 1956, can be traced back at least to a decade earlier. Immediately after Independence, it was considered desirable by the Government to announce its attitude towards private capital and to define the scope of State participation in economic activity. This aimed at removing all uncertainties that would have worked as constraints on industrial growth in the economy. This announcement took the form of the Industrial Policy Resolution, 1948 (IPR, 1948).

22.3.1 IPR 1956

A number of important developments had taken place in India since adoption of the IPR, 1948. These necessitated a fresh statement on industrial policy. Among these developments, the more important were as follows:

- New Constitution of India which guaranteed certain Fundamental Rights and provided for Directive Principles of State Policy;
- Completion of the First Five-Year Plan and the commencement of the Second Plan; and
- Acceptance by Parliament of the socialist pattern of society as the objective of social and economic policy.

The industrial policy, as other policies, was, therefore, to be governed by these principles and directions. The IPR, 1956, has been known as the 'Economic Constitution' of India. The Resolution put emphasis on:

- the development of heavy and machine-building industries;
- the expansion of the public sector;
- the establishment of a large and growing co-operative sector; and
- encouragement to the diffusion of ownership and management in the private sector.

Besides reiterating the already-declared goals of promoting cottage and small-industries, maintenance of industrial peace, reduction in regional disparities and the need for establishing proper managerial and technical cadres, the most distinguishing feature of the IPR, 1956, was the classification of the entire industrial sector in three schedules as follows:

- Schedule A which contained 17 industries — all new units in these industries, where their establishment in the private sector has already been approved, would be set up only by the State.
- Schedule B contained 12 industries. Such industries would be progressively state-owned, but private enterprise is expected to supplement the efforts of the State in these fields.
- Schedule C industries, the future development of these industries had been left to the initiative and enterprise of the private sector.

However, notwithstanding this demarcation, it was always open to the State to undertake any type of industrial production.

23.3.2 New Industrial Policy, 1991

Making a sharp departure from the Industrial Policy Resolution, 1956, the Government announced a new industrial policy on July 24, 1991. The basic philosophy of the new policy has been summed up as: 'continuity with change'.

Objectives

- To consolidate the strengths built up during the first four decades of economic planning and to build on the gains already made;
- To correct the distortions or weaknesses that may have crept in the industrial structure as it had developed over the first four decades;
- To maintain a sustained growth in the productivity and gainful employment; and
- To attain international competitiveness. The pursuit of these objectives will be tempered by (a) the need to preserve the environment, and (b) the need to ensure the efficient use of available resources.

Policy Changes: Important changes in the NIP 1991, including the subsequent changes, can be recounted as follows:

Industrial Licensing Policy

- Industrial licensing has been abolished for all projects except for a short list of industries[1] related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons, and items of elitist consumption.
- Only three industries groups where security and strategic concerns predominate will be reserved exclusively for the public sector.[2]
- In projects where imported capital goods are required, automatic clearance will be given in the following cases:
  - — where foreign exchange availability is ensured through foreign equity,
  - — if the CIF value of imported capital goods required is less than 25 per cent of the total value of plant and equipment, up to a maximum value of Rs.2 crore.
- There is no requirement of obtaining industrial approvals from the Central Government (except for industries under compulsory licensing) for location not falling within 25 kms. of cities having population of more than one million.
- Industries of non-polluting nature such as electronics, computer software and printing can be located within 25 kms. of the periphery of cities with more than one million population. Other industries are permitted only if they are located in designated industrial areas.

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1 Only five industry groups as follows, presently, are subject to industrial licensing:
- Distillation and brewing of alcoholic drinks
- Cigars and cigarettes of tobacco and manufactured tobacco substitutes
- Electronic aerospace and defence equipment: all types including arms and ammunition and allied items of defence equipment, defence aircraft and warships
- Industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches
- Hazardous chemicals
- Drugs and pharmaceuticals (bulk drugs industry has been delicensed)

2 Three industry groups are:
- Atomic energy
- Substances notified by the Department of Atomic Energy
- Railway transport (private capital is being allowed limited entry in railway transport)

- The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.
- All existing registration schemes will be abolished.
- Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansion.
- The system of phased manufacturing programmes run on an administrative case-by-case basis will not be applicable to new projects.
- The exemption from licensing will apply to all substantial expansions of existing units.

Foreign Investment

- Automatic approval is available to FDI in almost all sectors except a few sensitive ones. Automatic approval is available for 50 per cent, 51 per cent, 74 per cent and even 100 per cent in specified industry groups.
- To provide access to international markets, majority foreign equity holding up to 51 per cent equity will be allowed for trading companies primarily engaged in export activities.
- The Foreign Investment Promotion Board has been constituted to negotiate with a number of large international firms and approve direct foreign investment in select areas.

Foreign Technology Agreements

- Automatic permission will be given for foreign technology agreements in identified high priority industries up to a lumpsum payment of $ 2 million, 5 per cent royalty for domestic sales and 8 per cent for exports, subject to total payments of 8 per cent of sales over a 10-year period from date of agreement or 7 years from commencement of production.
- In respect of industries other than those included above, automatic permission will be given subject to the same guidelines as if no foreign exchange is required for any payments.

Public Sector

- Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained, there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly, the public sector will also be allowed entry in areas not reserved for it.
- Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board of Industrial and Financial Reconstruction.
- In order to raise resources and encourage wider public participation, a part of the government's share holding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

MRTP Act

- The MRTP Act was amended to remove the threshold limits of assets in respect of MRTP Companies and dominant undertakings.
- Provisions relating to restrictions with regard to prior approval of the Central government for establishing a new undertaking, expanding an existing undertaking, amalgamations, mergers etc., have been deleted.
- Emphasis will be placed on controlling and regulating monopolistic, restrictive and unfair trade practices.

The new policy overnight altered the industrial scenario in India. In intent and scope, the industrial policy is a watershed which will be as significant for the economy as the IPR, 1956 which gave primacy to the role of the State in industrial development. Henceforth, industrial enterprise, efficiency and the market will be the determinants of industrial advancement.

Check Your Progress 1

1) State in brief the main features of the Industrial Policy Resolution, 1956.

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2) State in brief the objectives of the New Industrial Policy, 1991.

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3) Name the industry groups that are subject to industrial licensing presently.

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22.4 INDUSTRIAL LICENSING IN INDIA

The system of industrial licensing was adopted in India to give effect to the IPR, 1948. Since then the system has continued to operate, and modifications have been introduced in it from time to time. It will be helpful to review the growth of this system before we could make an overall assessment of the State policy in regard to industry, what its failures have been and how could these be removed in the democratic framework of a mixed economy.

22.4.1 Systems and Objectives of Licensing

An industrial licence is an important instrument of State policy. A licence is a written permission from the Government to an industrial unit to manufacture goods specified in the permission letter. A licence to run an industry also specifies such particulars as the location of the plant, goods to be produced, the capacity of the unit, period within which the industrial capacity is to be established, etc.

The prime objective of the licensing system is to give effect to the industrial policy of the Government; apparently, the broad objectives of the system will have to be in consonance with those laid in the industrial policy. Any structural change in industrial policy will call for a corresponding change in the objectives of industrial licensing.

22.4.2 Legislative Framework

The legislative framework of industrial licensing is embodied in three different Acts passed at different time.

A. INDUSTRIES (DEVELOPMENT AND REGULATION) ACT, 1951

The industries (Development and Regulation) Act (in short, known as the IDRA) was passed in October, 1951. It came into force on May 8, 1952.

1) **Objects:** The chief object of the Act, as its title shows, is the development and regulation of Indian industries in a manner befitting the policy, planning, socialistic society, and other social, economic or political considerations.

2) **Provisions:** The Act makes the registration of all industrial units in the scheduled industries compulsory and enjoins upon the owners thereof to obtain a certificate of registration within a prescribed time. It also requires the new industrial units to be established only after obtaining a licence from the Central Government. A licence from the Government is required for any of the following purposes: (a) starting of a new industrial unit, (b) a substantial expansion of the existing unit, (c) the manufacture of a new 'article' and (d) shifting the location of an industrial unit.

3) **Scope:** The Act in its original form applied to industries included in the first schedule to the Act. The schedule covered a number of industries like metallurgical, industrial machinery, transportation, fertilizers, textiles, cement, defence, etc.

The NIP has made a virtual bonfire of this Act. The new policy has abolished industrial licensing for all projects, except for 6 specific groups which will continue to be subject to compulsory licensing for reasons related to safety and overriding environmental issues, and manufacture of products of hazardous nature.

The industries still subject to licensing account for less then 10 per cent of value added in the manufacturing sector.

B. COMPETITION ACT, 2002

The Mahalanobis Committee, in 1960 brought out the issue of growing inequalities in the post-independence period. The Monopoly Inquiry Commission (MIC) in its Report submitted in 1965 recognised the ill effects of concentration of economic power. The findings of MIC prompted the Government of India to enact the Monopolies and Restrictive Trade Practices Act (MRTPA), 1969 which came into force on June 1, 1970 with the objective of prevention of concentration of economic power to the common detriment, control of restrictive trade practices. The Act covered monopolistic trade practices and restrictive trade practice. Unfair trade practice was added through amendment in 1984.

The issue of concentration of economic power was addressed by the government by making it obligatory for undertakings with assets of the total value of Rs.20 crore or more (later raised to Rs.100 crore or more in 1985 and removed altogether in 1991) and for dominant undertakings which enjoy 1/4th of the market share of the total market (which was initially 1/3rd) with assets of Rs. one crore or more, to seek prior approval before effecting expansion of the undertaking.

As the economic reform programme got implemented in the 1990s, it became more and more evident that the MRTPA was not in sync with the policies under the reform programme. An imperative need was felt to shift the focus from curbing monopolies to promoting competition. The Raghavan Committee in its report observed that MRTPA was limited in its sweep. On the recommendation of this committee, the Competition Act, 2002 was enacted.

The Act is "to provide, keeping in view the economic development of the country, for the establishment of a Commission to prevent practices having adverse effects on competition (AAEC); to promote and sustain competition in markets, to protect the interest of consumers, and to ensure freedom of trade carried on by other participants in markets, in India."

Even though the Competition Act, 2002 was enacted on January 13, 2003, its enforcement was delayed because of certain legal issues raised in courts of law. The Act was amended by Competition (Amendment) Act, 2007 to address the issues raised.

The Act covers (1) anti-competitive agreements, (2) abuse of dominant position, (3) anti-competitive combinations, and (4) competition of advocacy.

1) **Anti-competitive Agreements:** The Act prohibits anti-competitive agreements among enterprises. The Act is pro-competitive and it exempts efficiency enhancing joint ventures from the purview of 'presumption' of appreciable adverse effect on competition. In such cases, rule of reason test would suffice.

   While determining whether an agreement has anti-competitive provisions, the Commission shall have due regard for any or all of the following factors: (i) creation of barriers to new entrants in the market; (ii) driving existing competitors our of the market; (iii) foreclosure of competition by hindering entry into the market; (iv) accrual of benefits to the consumers; (v) improvements in production or distribution of goods or services; and (vi) promotion of technical, scientific and economic development by means of production or provision of services. Of these the first three [(i)-(iii)] may have effects of an adverse nature on competition and the last three [(iv)-(vi)] have effect of a beneficial nature.

2) **Issue of Dominance:** Dominance is defined in the Act as a position of strength, enjoyed by an enterprise, in the relevant market, in India, which enables it to: (i) operate independently of competitive forces prevailing in relevant market; or (ii) affect its competitors or consumers or the relevant market in its favour. Dominance as such is not frowned upon. Its abusive exercise is what is prohibited.

3) **Regulation of Combinations:** Combination, under the Act, is a broad term covering mergers, a malgamations, acquisitions and acquiring of controls, between enterprises where the combined assets or turnover are above specified threshold levels. The Act empowers the Commission to evaluate the effect of mergers on competition in the relevant market in India. In case any merger is likely to have appreciable adverse effect on competition, the Commission may order de-merger which may have both cost to the merged entities and might also involve social costs in terms of displacement of workforce, reworking business strategies, etc.

4) **Competition Advocacy:** Competition advocacy is one of the salient features of the Act. The Commission is obliged to take suitable measures for the promotion of competition advocacy, creating awareness and imparting training about competition issues.

Competition Act, 2002 and MRTP Act, 1969: A Comparison

Although MRTP Act, 1969 has been repealed, yet is worthwhile to note the comparison between the two:

1) CA 2002 is a break from the philosophy which governed MRTPA. While the latter law generally treated structure as deemed to be bad and concentrated on curbing monopolistic and restrictive trade practices, the former emphasises promotion of competition. Under CA 2002, four types of horizontal agreements are presumed to have 'appreciable adverse effect on competition', all other types of agreements, both horizontal and vertical, and combinations would be subjected to 'rule of reason'. Only in five types of conduct specified in the Act, if engaged in by dominant enterprises, are deemed to be anti-competitive.

2) MRTPA focussed on size and structure, especially until 1991, while CA 2002 focusses on effects on competition in Indian markets. Even as the limited role of MRTPA related to regulation of mergers was taken away in 1991, there is a comprehensive merger regulation under CA 2002.

3) There are also divergences between the two laws as regards extra territorial jurisdiction, powers of investigation, penalty, advocacy role, treatment of intellectual property rights, concept of relevant market, coverage of the Act, autonomy of the Commission, etc.

C. FOREIGN EXCHANGE MANAGEMENT ACT

The Foreign Exchange Management Act (FEMA) replaces its immediate predecessor, the Foreign Exchange Regulation Act, 1973 (FERA, 1973). FERA – often described as the economic canvas of the country – had its origin in the Foreign Exchange Regulation Act, 1947 (FERA, 1947).

The FERA, 1973 was formulated in the background of a highly restrictive and centrally controlled industrial policy regime. The subsequent amendment to the FERA in 1993 substantially diluted its regulatory provisions and brought it in line with the new liberalised industrial, trade and exchange rate policies. The FERA has since been repealed and replaced by FEMA.

Along with FEMA a law to prevent money laundering has also been enacted. This is known as the Prevention of Money Laundering Act, 2002. The Act defines the offence of money laundering as any activity connected with the 'proceeds of crime' which in turn is defined as any property or value of such property derived as a result of any criminal activity.

The FEMA has come into operation from June 1, 2000.

Aim

The FEMA aims "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange markets."

Provisions

1) Current account transactions were permitted freely subject to a few restrictions:

   a) Certain current account transactions would require RBI permission if they exceed a certain ceiling;

   b) A few current account transactions need permission of appropriate Government of India authority irrespective of the amount; and

   c) There are seven types of current account transactions which are totally prohibited and no transaction can, therefore, be undertaken relating to them. These include transactions relating to lotteries, football pools, banned magazines and a few others.

2) The Act gives full freedom to a person resident in India who was earlier resident outside India to hold or own or transfer any foreign security acquired when she / he was resident there.

3) A person resident outside India is permitted to hold shares, securities and properties acquired by him while he/she was resident in India.

4) The exchange drawn can be used for purpose other than for which it is drawn provided drawal of exchange is otherwise permitted for such purpose.

5) The Exchange Earner's Foreign Currency (EEFC) account holders and Resident's Foreign Exchange (RFE) account holders are permitted to freely use the funds held in EEFC/ RFC accounts for payment of all permissible current account transactions.

6) The rules for foreign investment in India and Indian investment abroad are also comprehensive transparent and permit companies engaged in certain specified sectors to acquire shares of foreign companies engaged in similar activities by share swap or exchange through issue of ADRs/ GDRs up to certain specified limits.

FEMA is a civil law unlike FERA. Unlike in FERA, the burden of proof under FEMA will be on the enforcement agency and not on the accused.

OTHER CONTROLS

Capital Issues Control: The Companies are free to issue new equity or debentures either at par or on premium. The Securities and Exchange Board of India, set up under the SEBI Act, 1992 has been extended statutory powers entrusting it with the task of ensuring disclosures and investor protection. For this purpose, SEBI has issued a set of comprehensive guidelines which provide among other things for the following:

a) a new company with no previous trade record can issue capital to public only at par;

b) a new company promoted by promoters with a good track record for a least five years and with promoters' contribution of not less than 50 per cent to the equity can freely price issues;

c) the private and closely held companies shall be permitted to price their issues freely if they have had consistent profitability for at least three years.

The Securities Contracts (Regulation) Act, 1956: The Act provides for, apart from regulation of stock exchanges, a general system and apparatus of control to ensure fair dealing in securities and protecting investors. In terms of recent amendment to this Act, companies cannot reject, except on technical grounds, share transfer without appropriate reference to the Company Law Board.

Import and Export Control: Import and export control in India is exercised under the provisions of the Foreign Trade (Regulation and Development) Act, 1992, which succeeds the Imports and Exports (Control) Act, 1947. The principal objective of the Act is 'to provide for the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India.

Commodity Control: Commodity control in India is exercised under the provisions of the various Acts enacted by the Government. The first in the list is the Essential Commodities Act, 1955, which empowers the Central Government to control, regulate or prohibit the production, distribution, transport, trade, consumption or storage of a large number of commodities, to prescribe their prices and even to take over stocks on conditions it itself sets.

— for controlling the prices at which such an article shall be purchased and sold;

— for regulating by licences, the distribution, transport, etc. of such articles;

— for prohibiting any person to withhold from sale of an article ordinarily kept for sale;

— for requiring producers of any such articles to sell the whole or a part of their stocks;

— for regulating such articles as are detrimental to public interest;

— for requiring the sellers to exhibit price list, etc; and

— for collecting information and statistics and the like.

Besides, there are a number of enactments to control various specific commodities like coffee, coir, tea, rubber, sugar, etc.

1) The Coffee Act, 1982, established the Coffee Board empowering it to fix quotas for internal sale, exports, etc.

2) The Coir Industry Act, 1983, takes the coir industry under the Central control.

The Coir Board is appointed to promote the development of the coir industry to take measures to promote exports of the coir products.

1) The Tea Act, 1953 brings the tea industry under the Central control and creates the Tea Board on the lines of the Coir Board.

2) The Rubber Act, 1947, constitutes the Rubber Board to promote development of the rubber industry.

3) The Sugar (Regulation of Production) Act, 1961, controls the production and distribution of sugar.

Financial and Credit Controls: Allocation of credit is subject to guidelines or policy announced by the government from time to time. A large part of government exercises formal and informal control over the allocation of financial resources.

Location, Environment and Labour Legislation: The location of industries is banned in the municipal areas of all towns and cities, as well as in specific areas around the largest twenty cities. Environmental and pollution control clearance for all projects above a certain size is also mandatory. The rules regarding closure of units, retrenchment of labour, compensation, and sale of assets of a sick unit are governed by a comprehensive set of labour laws.

To top all these controls is the Companies' Act, which, in its present incarnation, has 658 sections and hundreds of sub-sections, clauses, sub-clauses and amendments governing every aspect of the running of a company, from audits and printing of annual reports, to remuneration of directors, and investments and mergers.

22.4.3 Review of Industrial Licensing in India

Industrial licensing was introduced in India with the IPR, 1948. The system worked to provide protection to Indian industry.

Protection, both against potential domestic competition and foreign competition, was the right approach in the initial stage of industrialisation in a developing economy which was struggling to come out of the stranglehold posed by two-centuries old colonial domination. The industrial landscape underwent a dramatic change within a period of about four decades. But the major failure of the policy of protection was that it did not have a built-in mechanism that could prompt the industry to adapt itself to the fast-changing technological scene to which a large part of the underdeveloped world was responding with zeal and enthusiasm. The industrial structure of India, under the burden of protection, turned out to be high-cost and low-quality that lacked the basic ingredients of international competitiveness. Instead of fortifying the economy (where domestic economy will be protected against outright incursions), we made a 'jail' out of it. The tiger was 'caged' and remained so for long, its muscles became frigid and lacked in flexibility.

It was becoming increasingly clear that the industrial policy would have to be taken out of the "Convoluted Cobweb" in which it had got landed, system of controls would have to be gradually given up and the industrial economy liberalised, so as to enable it to breathe some fresh air.

22.5 PHASE OF LIBERALISATION

Mid-1970s Onwards

Experiments with domestic liberalisation began in the mid-1970s. In 1975, a scheme was introduced which provided for an increase in licensed capacity up to a maximum of 25 per cent in a five-year period. Other measures included regularisation of capacities in excess of authorised capacities for Appendix-I industries, some liberalisation from controls for units which exported 100 per cent of their production, and a more general scheme of re-endorsement of capacities introduced in 1982. The exemption limit for industrial licensing was also raised from Rs. 1 crore as set in 1970 to Rs. 3 crore in 1978 and to Rs. 5 crore in 1983, and further to Rs. 25 crores for those units that were set up in the non-backward areas and to Rs. 75 crores for those units that were set up in the backward areas since June 1988.

The main emphasis during the 1970s was on reducing the restrictive and complex features of the licensing policy.

Mid-1980s Onwards

The process of reorientation of industrial policy gathered momentum after mid-1980s. The Government set up several committees to examine its fiscal, monetary, industrial and trade policies. The general outcome of their findings and recommendations can perhaps be simply expressed in two sets of interrelated propositions.

Requirements for Accelerated Growth

a) Accelerated growth will require increased imports.

b) Owing to decreases in concessional aid and risks of onerous debt burdens connected with large-scale commercial borrowing, it is absolutely necessary to increase exports to pay for increased imports.

c) To increase exports it is necessary to enhance the competitive advantage of exportables; requires changes in industrial, trade and fiscal policies.

Domestic Resources Situation

a) The Government budget is no longer a source of finance for investment.

b) Reducing defence expenditure is not an option available to the Government.

c) Subsidies can be reduced only gradually to avoid major social and political upsets.

d) The only way to raise additional resources is to make the tax system more responsive and to make the public sector enterprises generate resources through greater efficiency.

In view of these, period beginning with 1985 saw the development of rule based industrial policies like dual prices, tax and tariff based interventions rather than direct price, output or capacity controls at the level of the firm. Concepts like broadbanding, minimum economic capacity, delicensing, etc. made their appearance during this period. The role of market and importance of private incentives came to be appreciated.

July 1991 Changes

The process of liberalisation got a fillip with the announcement of the New Industrial Policy (NIP) in July 1991, and entered a new phase of what has been described as 'reform by storm' that supplants 'reform by stealth' of the last half of the 1970s, and 'reform with reluctance' during the second half of the 1980s.

1) As already stated earlier, the NIP has made a bonfire of the industrial licensing system through various provisions. There has also been some move away from extensive physical controls and an increase in the role of financial incentives in channelling investments in the desired areas. This, plus the lowering of the tax rates combined with better administration of the revenue-collecting system,

should help in attracting a lot from the mainstream back into the fold. The role of the financial institutions becomes very important in the new regime.

2) There is considerable internal deregulation aimed at strengthening the more efficient domestic firms and encouraging them to invest and expand. This is expected to inject much more competition into the system, creating incentives for reducing costs. Scientists tell us that the diamond sparkles because of a phenomenon called total internal reflection. If our economy is to sparkle, total internal liberalisation is the key.

3) Measures have also been taken to improve the legal framework.

   - The Securitisation, Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 gives powers to banks and financial institutions to enforce their claims on collateral for delinquent secured credit, without going through a long and cumbersome judicial process.
   - Companies (Amendment) Act, 2002, will enhance the competitiveness of co-operatives, and enable them to compete and operate in today's liberalised, globalised market.
   - In Companies (Second Amendment) Act, 2002, industrial sickness has been redefined; a revival and rehabilitation fund has been set up; protection from creditors has been withdrawn.
   - The Competition Act, 2002 aims at promoting competition through prohibition of anti-competitive practices, abuse of dominance and through regulation of companies beyond a particular size.
   - DIN (Director Identification Number) have been issued to all the directors of all the companies under a surveillance system. The system will give the government instant access to the details and nature of employment relevant to company law requirements and antecedents which are crucial to investor protection.

4) The internal liberalisation has been accompanied by a policy of maintaining an open access to imports to permit modernisation and technological upgrading in Indian industry which again will reduce costs and promote international competition.

   An important feature of the process of policy reform under way in India is that it is gradualist, as against the 'big bang' type adopted in countries like Mexico. The system is being subjected to much stronger pressures for efficiency and moderanisation, but at a controlled pace. The rationale for this gradualist approach lies in the perception that the system should be subjected to pressure commensurate with its ability to respond. Pressure beyond this point is only disruptive. But, then, we must also note that liberalisation is like pregnancy; one has to impregnate fully to get results.

Aims: The aim of recent sweeping policy changes is to evolve an integrated economic package that can be implemented in stages to create an appropriate environment so as to encourage and promote greater efficiency, higher productivity and faster industrial growth in desired directions through a well-coordinated system of incentives. Accelerated growth of manufacturing, accompanied by radical restructuring and induction of 'sunrise' industries within a suitably modified policy frame would bring about a significant transformation of India's industrial economy.

22.5.1 New Industrial Policy 1991, and Public Sector

New Industrial Policy, 1991, heralds a new approach to public enterprises. It seeks to restrict the role of public sector to provision of physical and social infrastructures and to areas where security and strategic considerations predominate. It favours 'distancing' public enterprises from Governments and, creating an environment for 'mimicing' competitive markets. It suggests that unless it is necessary for protecting the interests of poorest in the society the principle of market economy should be accepted as the main operative principle.

The four major principles which have guided the new policy framework can be briefly stated as follows:

1) Partial disinvestment of equity of PSUs as first step in the commercialisation of enterprises and in making them subject to open public scrutiny.

2) PSUs to be encouraged to raise fresh equity directly from the public rather than from the government. If carried to its logical conclusion the future expansion of enterprises would depend on their ability to attract capital from the public, which, in turn, would depend on their financial performance.

3) Public sector monopolies need to be subjected to competition from new private enterprises in most sectors. A competitive environment is a necessary, though not a sufficient condition for the use of resources by enterprises.

4) Steps to be taken to make institutional relationships between the government and the PSUs contractual and less *ad hoc*.

The different policy announcements with regard to the above can be briefly recounted as follows:

i) Exclusive reservation for public sector has been reduced only to two industry groups: railway transportation and atomic energy. Even in the reserved industries, private investment is to be considered selectively on a case to case basis.

ii) The priority areas for growth of public enterprises in future will be the following:

   — essential infrastructure goods and services,

   — exploration and exploitation of oil and mineral resources,

   — technology development and building of manufacturing capabilities in areas which are crucial in the long-term development of the economy and where private sector investment is inadequate, and

   — manufacture of products where strategic considerations predominate such as defence equipment.

iii) Government will review the existing portfolio of public investments with greater realism. This review will be in respect of industries based on low technology, small-scale and non-strategic areas, inefficient and unproductive areas, areas with low or nil social considerations or public purpose, and areas where the private sector has developed sufficient expertise and resources.

iv) Steps have been taken towards a market orientation of public enterprises with a view to making these units behave competitively. Corporatisation is an important step, seeking to create institutions that operate as separate entities, adopting a commercial approach in their activities. An important example of this is in the telecom sector.

v) Public enterprises which are chronically sick and which are unlikely to turn around will, for the formulation of revival/ rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction, or other similar high-level institutions created for the purpose.

vi) Budgetary support in the form of non-plan loans to loss-making PSUs is being phased out, i.e., PSU managements are being asked either to 'shape up or ship out'.

vii) Boards of public sector companies would be made more professional (1/3rd outside directors and government nominee directors restricted to 1/6th or maximum 2) and given greater powers. As an illustration, now no permission is required from the Public Investment Board if PSUs wish to invest upto Rs.50 crore in a joint venture. However, this rule will apply only to the healthy PSUs, i.e., those units which (i) do not depend on the budget, (ii) have not defaulted on loan repayments, and (iii) have made net profits for the last three years.

viii) There will be greater thrust on performance improvement through the Memoranda of Undertaking (MOU) system[3] through which managements would be granted greater autonomy and will be held accountable.

ix) PSUs have been given greater autonomy and powers to decide on mergers and acquisitions; this will enable them to vertically integrate and move up the value chain so as to maximise returns.

22.5.2 Policy Towards Small-Scale Industry

India has the longest history of small enterprise development policy in Asia. Over the last six decades, India has built up perhaps one of the world's most elaborate small enterprise development programmes for providing assistance to individuals and institutions for setting up small-scale enterprises, both in the urban and rural areas. In the post-reforms period there has been a shift in focus from 'protection' to 'promotion'.

The future growth of SSIs under a liberalised regime is constrained by a number of factors, among which the more important are: (i) change in consumer preference, (ii) outmoded technology, (iii) uneconomic scales of operation, (iv) lack of organisation, (v) total disregard of environment standards, and (vi) high incidence of sickness. In a partial response to this situation, the government announced on August 6, 1991, a joint package of policy measures for small, tiny, handloom, handicraft and village industries.

Features of the New Policy

Unlike in the past, the policy does not contain mere intentions of Government. It

[3] However, the MOU system has already come in for severe criticism. A World Bank study dumps the system "as ineffective in improving the return on assets, labour productivity and total factor productivity" of the companies. In view of these criticisms, a two way thrust is proposed to be given to further fine tune the system. One, the accent is on giving clear targets to the management of PSUs and ensure greater focus on financial efficiency and fiscal discipline in the MOUs by giving 60 per cent weight to MOU performance. Two, assigning 75 per cent weight to MOU performance in the annual confidential reports of the PSU chiefs.

has proposed clear guidelines to deal with the three major areas of concern for the sector: (1) finance, (2) marketing, and (3) technology (Table 22.1)

Table 22.1: New Small Scale Industrial Policy, 1991: Major Thrust Areas.

<table>
<tr><th>S. No.</th><th>Major Features</th><th>Objectives</th></tr>
<tr><td>1.</td><td>Emphasis to shift from subsidies/cheap credit to adequate credit</td><td rowspan="2">To meet the emerging demand for credit</td></tr>
<tr><td>2.</td><td>Equity participation by other undertakings domestic/foreign</td></tr>
<tr><td>3.</td><td>Introduction of factoring services through banks</td><td rowspan="3">To strengthen small industry marketing</td></tr>
<tr><td>4.</td><td>Marketing of mass consumption goods under common brand name</td></tr>
<tr><td>5.</td><td>Industry associations to be involved in setting up sub-contracting Exchanges (SCXs)</td></tr>
<tr><td>6.</td><td>Technology Development Cell in Small Industry Development Organisations (SIDO)</td><td rowspan="4">To upgrade technology and promote modernisation</td></tr>
<tr><td>7.</td><td>Industry association to establish quality counseling and common testing facilities</td></tr>
<tr><td>8.</td><td>Technology Information Centres and TBSE</td></tr>
<tr><td>9.</td><td>Reoriented modernisation and technology upgradation programmes-cluster-based approach</td></tr>
</table>

The problems of small industry in these areas are closely interlinked. It is due to rather 'insufficient' quality that small industry units face the problem of marketing. To improve quality, many of these require to go for technology upgradation and modernisation. This, in turn, demands enormous amount of funds. Even after modernisation, to sustain competitiveness, small industry should have access to technology information.

It pursuance to this policy, a comprehensive new policy package for small-scale industry was announced in March 1994, supplemented by a set of policy initiatives announced in June 1998 and August 2000, based largely on the recommendations of S.P. Gupta Committee and other inputs from various sources.

It aims at giving SSIs a level playing field vis-à-vis large and medium sector in respect of availability of raw materials, credit and infrastructure facilities. The package will provide faster mechanism for review of list of items reserved for SSIs keeping in view the changing situation. It will also facilitate integration of the SSIs with other sectors, accelerate modernisation and technology upgradation and relieve the sector of the harassment of Inspector Raj by abolishing 50 per cent posts of inspectors.

22.5.3 Industrial Policy and Balanced Regional Development

One of the prominent objectives of planned economic growth, and its adjunct industrial policy, right since beginning has been to promote balanced regional development. Historically, location pattern of industrial growth in the past had been influenced by the early pattern of railway construction. These centers of industrial location, therefore, in conformity with Gunnar Myradal's thesis, have attracted a considerable portion of industrialisation towards themselves because of conglomeration economics.

This also influenced the development of infrastructure. The better-developed regions are having inbuilt infrastructure dating back to the time when they were still princely states. In other regions, the princely states did not pay much attention to the development, priding themselves on being messengers of God or something believing they were born to rule.

Further, the developed states have had relatively more efficient systems of governance in terms of skills, responsiveness and quality or delivery system. Unlike capital – which is highly mobile across regions and continents – good governance cannot be transplanted in an area, as it evolves basically with the prevailing socio-political structure over a long period. An outmoded social structure can never bring about or sustain good governance in the modern sense. On the contrary, it can frustrate exogenous attempts at good governance by its debilitating and corrupting influence.

Overshadowing all these has been the recent philosophy of growth, viz. globalisation. Because of growing integration of the economy with rest-of-the-world, Indians have chosen a skill-intensive path to growth; wages for skilled labour are already being bid up. In this situation, it is necessary for firms to ensure the proper use of scarce skilled labour. But it is only in the fast-growing state that the environment and infrastructure exist for scale. This further promotes disparities. In addition, the economic reforms provided greater freedom and impetus to the private sector and export-oriented production. The sectors which were attempting to reduce costs and become competitive, were attracted to more developed areas. As a result, investment and activity shifted to these areas, strengthening the process of divergence.

In this changing environment, neither the plan strategy nor the industrial policy had much space to work for and seek balanced regional development. The objective of balanced growth can be seriously pursued only if we were ready to comprise with growth rate.

Check Your Progress 2

1) State in brief the objectives of the industrial licensing system in India.

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2) State in brief the provisions of the industrial licensing system in India.

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3) Mention in brief the main features of the Competition Act, 2002.

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22.6 IMPACT OF POLICY CHANGES

Although it is too early to evaluate the impact of these policy changes, it can nevertheless be established that the industrial climate is in for a change.

22.6.1 Positive Effects

India has woken up to the liberating influence of what Joseph Schumpeter called "creative destruction" — the death of the outdated at the hands of the modern. We may note the following trends in the post-liberalisation phase:

1) The post-liberalisation era has propelled companies into a restructuring spree; companies are doing away with their not-so-profitable businesses. Corporate sell-offs are moving at a pace never seen before. Reasons are many:

   — Downsizing or 'right sizing' to take the sting out of it. Corporates are using downsizing as a business tool and linking productivity to profitability.

   — The FIs have turned activists, and are forcing out the incompetent managements.

   — Indian corporates have got over the emotional trauma of selling a company. Sale of a company is no longer an admission of failure but an example of vision.

2) More ambitious players have been consolidating themselves by way of mergers and acquisitions. Entrepreneurs have come to believe: "In business, big is always beautiful."

   Mergers succeed

   — by boosting profits through elimination of overlapping activities;

   — by generating savings from post-merger economies of scale;

   — by increasing borrowing opportunities through improved gearing;

   — by paving the way for raising equity through more attractive financial ratios;

   — they offer tax-breaks where one merging company is making profits;

   — by offering the possibility of raising equity holdings to ward off take overs;

   — by improving market capitalisation and helping boost share prices.

   However, mergers fall when

   — the merged company becomes too big to be managed efficiently;

— contradictory compulsions make the company lose its focus;

— companies in diverse businesses are merged for financial gains;

— there is no cultural fit between the organisations being merged;

— the profits of one company are used to subsidise the other's losses;

— the one-off gains of the merger are not available in subsequent years;

— productivity levels at the merging companies are widely unequal;

— workers of one company start demanding the benefits of the other.

— To facilitate mergers and acquisitions government is promoting single-window forum on the lines of the J.J. Irani Committee's recommendations.

3) Over the last two decades, Indian manufacturing companies have emerged at par with the best in the world from the quality perspective, and the next steps will take them to the next stage. The graph indicates the progress made by the automotive industry.

This has happened because Indian manufacturing has adopted world-class practices in manufacturing management by educating their employees, both managers and shop-floor staff with the help of global teachers, mainly Japanese, who have brought in the best manufacturing management techniques. These practices have shown positive results in bringing down customer returns to below 50 parts per million (ppm), and have reduced manufacturing costs by 15-20 per cent over the decade.

By focusing on quality, costs have been reduced by eliminating waste (*muda*, the Japanese word), which is the mantra of all manufacturing in India today.

4) India's share in world market capitalisation is now more aligned with its share in global GDP. Future increase in market cap will have to depend on a breakthrough in economic growth.

5) Economic reforms have created an environment conducive for low-cost innovation. This, combined with increasing pressures for inclusiveness, will contribute to creating an income-faster than earlier forecast. By 2015, the largest number of households will fall in the middle-income slabs. That is creating a huge mass market for goods and services at a price affordable for this segment. Consequently, India is increasingly becoming a center for low-cost innovation and new business models.

6) Indian business have emerged leaner, more efficient in terms of process, quality and financing, and competitive on a global scale. Companies have learnt the critical importance of operating discipline, financial discipline and efficiency. They have changed their mindsets, cleaned up their shop floors, restructured their balance sheets and improved their products in terms of functionality and quality. Indian companies today are expanding operations in overseas markets through both organic and inorganic means. There is a sense of optimism, and the ability to think big and execute large plans.

In addition, companies have developed the ability to quickly respond to changes in market conditions. For example, in response to the recent global economic slowdown, they aggressively reduced their inventories, realigned production levels and cut costs so as to rebase to the new cost price-demand equation. It is important to note here that the corporate sector entered this challenging phase much stronger than what it was in the late 1990s, in terms of quality, operating efficiency, scale and balance sheet health.

7) Companies are increasingly going in for coopetition, i.e., getting together to become more competitive. Companies are taking minority stakes in one another, and negotiating tie-ups in marketing and production on a scale not witnessed before.

8) Trade unions and workers have responded positively to the economic reforms. Their open-minded approach towards adoption of new technologies and productivity linked wage agreements would go a long way in consolidating the future of Indian industry.

   Car plants of Maruti Suzuki and Hyundai in India have figured among the world's top 10. While only two plants in China figure on the list, there are none from the US. More factories in the country could make it to the list. Several global auto firms have invested or are investing in building car factories in India.

9) Liberalisation has altered the investment behaviour of Indian entrepreneurs. Industrialists have fast realised the role of scale economies, rapid technological growth and increased productivity. Indian companies are now going in for world-size plants. This will enable them to meet the competitive challenge of MNCs. Many Indian companies, for the first time, have crossed the billion-dollar mark in annual turnover.

   This has been made possible due to the following:

   — Reforms, such as devaluation of the rupee, have enhanced India's competitive advantage in labour and skill intensive industries.

   — Allowing freer imports of raw materials, intermediate goods, and capital goods has reduced the dependence of competitive industries on inefficient domestic producers of inputs and technology.

   — Import liberalisation appears to have made domestic production of critical inputs more efficient by enhancing domestic competitive conditions. One consequence is reduced prices of final products.

   — Reforms have contributed to a moderate shift into higher quality.

10) The restructuring process of the corporate sector has gained momentum with foreign collaborators seeking to enhance equity in the Indian ventures, to gain a foothold in the management. The money comes in with strings attached: board membership, due diligence and even some operational oversight.

The result is a radically altered environment for Indian industry; the number of manufacturers in many sectors of industry has increased, shortages have given way to surpluses, competition is becoming a way of business life in which only the fittest will survive — obviously, the rate of failure in business has increased. The brand acquisition market is vibrant.

In short, liberalisation has opened up a new era which stresses the importance of both economies of scale and quality of products; there hold the embryo of higher productivity and competitiveness both in the home market and the export markets, only if the Indian industry responds positively to the challenge thrown to it.

22.6.2 Negative Effects

1) Hundreds of small-scale units have closed down because liberalised imports killed the market for their products.

2) Liberalisation has altered the industrial structure in favour of goods in demand from the better-off section of society. These sections have benefitted from inflation, high interest rates on financial savings and the growth of high paid jobs with lavish perks.

3) The pattern of investment continues to favour the use of sophisticated plant and equipment at the expense of labour. Job growth is inadequate in both the urban and rural areas.

4) Industry's profitability has slumped and demand has been sluggish for the capital goods, for fairly long time, although it has been picking up lately. Profitability would have been lower but for 'Other Incomes' which are speculative incomes.

5) The new policy has left the public sector worse off. They are losing markets and their capacity utilisation has declined. The decline of the public sector is also undermining the country's technological base, whatever it was.

6) Bureaucratic hurdles prompted by the bureaucracy's subconscious desire to maintain the licence-permit raj remain almost as unchanged as they were when the reforms began; more than a decade and a-half down into the programme, the country has only a watered-down version of liberalisation. India ranks 116th out of 155 countries in the World Bank's annual rankings of countries based on an index of ease of doing business. A few drops of rain after a prolonged drought do not constitute a monsoon.

7) Liberalisation should have led to a Schumpeterian process of creative destruction and the replacement of old firms by new ones.

But that has not happened and sectors in which state-owned enterprises and other firms dominated activity prior to liberalisation continue to do so 20 years after the reforms began.

With opening up the economy has become far more unstable than earlier and the impact of this will fall on the already marginalised in society. One gets an uneasy feeling that if New Economies are not all about putting into practice Darwin's theory of survival of the fittest.

22.7 WEAKNESSES OF INDUSTRIAL POLICY

Absence of Suitable Policy for Exports: Today, the hightech industries are receiving a similar emphasis to that granted to their basic industry counterparts in the past, based on infant industry arguments. In the environment of limited export incentives and regulated labour markets, there seems little reason to believe today's infants will provide an engine for growth consistent with targets.

Distortions in Industrial Pattern: The current phases of investment following liberalisation also need to be given second look. While substantial investments might have been flowing into a few industries, the Government has reportedly expressed its concern over slow pace of investments in a few basic and strategic industries such as engineering, power, machine tools, etc. It has often been pointed out that the rate of return in these sectors is not more than the expectations in the newer or 'Sunrise' areas. Thus, the rate of growth of the industries wherein sufficient investment is not coming could slacken. Such distortions in the investment pattern need to be rectified for the sake of balanced growth of industrial economy.

Need for Strengthening Interlinkages between New and Old Sectors: New sectors should have strong linkages with the old ones and should push up the latter towards modernisation and new product development. Unless interlinkages are strengthened, a part of impetus given by the new sectors could be lost through leakages abroad.

Labour Questions: Restructuring and modernisation of industries as a sequel to the new industrial policy could lead to displacement of labour. This would require rehabilitation schemes. Obviously, while modernising a particular industry, simultaneous efforts should also be made to identify areas of operations in which the labour could become redundant and also the areas of growth in which such labour could be absorbed.

Absence of Incentives for Raising Efficiency: Studies have shown that the incentives structure in the 1980s was somewhat perverse. It led industrial growth to move away from the sectors in which the country possesses comparative advantage and competitive strength. It instead encouraged industries which have very high domestic resource cost. International financial institutions like the World Bank also encouraged this trend. They focussed attention on internal liberalisation without adequate emphasis on trade policy reforms. This resulted in 'consumption-led growth' rather than 'investment' or 'export-led-growth'. This makes the growth process non-sustainable in a longer term framework.

Absence of Incentives for Technological Innovations: The policy of liberalisation has failed to achieve one of its major objectives — creating more innovative Indian firms. Perhaps we overestimated private sector's abilities. The fiercely competitive and fragmented industry structure has led to greater technology imports than to greater in-house innovative efforts.

Improperly-Defined Location Policy: In NIP, while mention has been made about 'hazardous chemicals and overriding environmental reasons', the location policy has been so defined that it would be quite difficult to ensure that the rapidly expanding urban conglomerations can be kept pollution free.

Further, new industries can be expected to gravitate towards the already well-established industrial centers which have a well-developed infrastructure. And the NIP environment could speed up this process of regional concentration. With the demand for infrastructure sector, the investment will tend towards the regions where the demand for infrastructure is the greatest. Since these regions are likely to be the ones which are already industrialised, it could lead to a new cycle of industry chasing infrastructure and infrastructure, in turn, chasing other industries.

Need for Proper Sequencing of Reforms: The Indian industry needs a breathing period in which to adjust, from the mould fashioned by the Nehruvian policy of self-reliance, to global competitiveness in size and technology. Without this, Indian industry may be running a three-legged race, as one industrialist put it, the third leg hampering his progress being uncompetitive policies. There is an urgent need for sequencing of reforms.

Distributional Consequences: If the industrial growth has to be sustained, the policy reforms have to address the distributional issues in the fundamental sense.

The qualitative evidence from Latin America shows that countries with highly skewed income distribution have a highly volatile growth process.

To sum up, there is a need for reviewing certain provisions of the policy to make it more meaningful and effective. With suitable changes in the industrial policy and elimination of controls, it is possible to provide a strong push to the country's industrial economy in years to come.

22.8 AGENDA FOR FUTURE ACTION

Industrial Policy for Emerging Economy

There is a point in every scientific experiment beyond which uncertainties reduce dramatically. The industrial policy reforms, which began about two decades ago, have arrived at that juncture. There are three key policy parameters that need to be kept in mind in designing the new economic strategy: (i) There should be a growth in quality jobs, (ii) The Indian economy should get strategic depth in capital goods such as power and telecom equipment, and (iii) defence and security should be kept in mind. There will be both technical and political challenges here. The technical challenge here is to identify industries that need a helping hand, and one assumes that government agencies have an understanding of India's factor endowments and comparative advantages. The political economy challenge is even more complex. Comparative advantage rapidly changes in the modern economy and technology cycles are getting shorter. Policy will have to be flexible if India is not to stagnate.

Agenda for action on further reforms includes the following:

1) 'Priority' should be accorded to eliminate remaining barriers to industrial production, investment and import of technology as quickly as possible.

2) "The old economy" dominates the Indian industry. We should not let the old economy become "order". Cement, steel and textiles will not vanish. Industrial policy must help rejuvenate and revitalise the old economy with the new economy tools like IT.

3) The Government's role should shift increasingly to restructuring unviable enterprises, ensuring fair business practices, safeguarding consumer interests and minimising the adverse effect of industrialisation on the environment.

4) A successful strategy for restructuring enterprises, whether public or private, must take due account of the legitimate interests of workers employed in these units. More generally, we must review and reform the current legislation for employment and industrial disputes to ensure that excessive rigidities are removed and long-term employment growth facilitated.

5) The perpetuation of regulatory measures and the imposition of 'Inspector Raj' can be particularly harmful for the growth of the small segment of industry. There has to be a systematic review of these regulatory measures.

6) Success in industrial and commercial restructuring will also hinge on our ability to devise sensible policies for use of urban land. The process of industrial restructuring requires large outlays of funds, which are presently blocked in land held by many concerned units. The Urban Land Ceiling and Regulation Act, 1976,[4] has to be suitably amended to facilitate the use of these blocked resources for productive restructuring.

7) While fetters on industrial investment and production have been sharply reduced at the Central Government level, it is important to recognise that they are still quite pervasive in many States. The requirements for licences, permits and inspections at the State and local levels continue to be onerous and extract a heavy toll in terms of effort and resources from industrial units. The State Governments have to act as front line implementers of reforms. A recent World Bank study reports that it takes 46 days for a foreign company to set up business in India, against 7 to 14 days in the US and Britain.

8) In wake of the recent reforms, the Companies Act must be rationalised and modernised. The government should change its role from that of controller to that of facilitator by making procedures transparent and eliminating delays.

9) As recently suggested by the World Bank, India should revitalise the informal sector, hasten private entry into public monopolies and promote agile firms, i.e. the firms that respond quickly to changing market conditions, believing that profits cannot be made by manipulating rules and excluding competition, but by improving their global competitive capabilities.

In short, by opening the economy to foreign competition, the Government has indirectly urged domestic industry to become more competitive. The foreign firms that do enter the Indian market are typically those with a proven track record in multinational operations, a lot of dough at their disposal. The Government should, thus, not handicap domestic firms with archaic laws, but ease the way for them to compete effectively with the foreign entrants. One goes to a cricket match not just to watch good cricket, but also to see the local team play well.

Check Your Progress 3

1) State in brief the positive effects of the New Industrial Policy, 1991.

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2) State in brief the negative effects of the New Industrial Policy, 1991.

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3) Identify the key policy parameters need to be taken into consideration for new economic strategy.

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[4] As part of the exercise to amend the Urban Land (Ceiling and Regulation) Act, 1976, the centre has proposed, in March 1997, 100 per cent increase in the ceiling on the floor area for land holdings. The existing ceilings on the floor area for commercial buildings refer to 500 sq. meters for category A cities, 1,000 sq. meters for category B cities, 1,500 sq. meters for category D cities. It is also proposed to levy a shelter tax on commercial buildings, as also to change the compensation package for land owners.

22.9 LET US SUM UP

During the first four decades of economic planning, industrial policy in India was characterised by Controls, Indianisation and Abstinence. The economy that developed during this period came to be identified as the old economy. This economy can be replaced in wake of the new industrial policy that was build on three pillars of liberalisation, privatisation and globalisation (LPG). The new economy will hit a lot of industries within the old economy; it has already started killing industries within its own economy through better technology. Jobs will be cut and jobs will be out-sourced to places with cheap labour. But it does not mean that it will deprive labour of its dignity and force it to live as "children of a lesser God".

The success of the new economic policy at the end depends on how humanity as a whole accepts it over a period of time. If it increases the differences between the haves and the have-nots, if it infringes into privacy, security, equality and basic human rights, history has shown that revolutions do happen again.

22.10 EXERCISES

1) "Rapid industrialisation and diversification of the industrial structure have been the twin objectives of industrial policy of India." Enumerate.

2) State the features of New Industrial Policy, 1991 and give a critical evaluation of the Policy.

3) "The policy regime of 1950s has been criticised for their inward orientation, restrictive and discretionary approach and inefficiencies." Comment. What changes have taken place in the policy framework in 1991?

4) What policy changes should be made in India's trade and industrial policies to ensure rapid growth of GDP, while maintaining adequate macro-economic balance?

5) Explain the need for liberalisation of industrial policy in India. Evaluate the impact of this policy.

22.11 KEY WORDS

Industrial Policy : Set of rules and regulations imposed by state that influence the pattern of industrial growth.

Industrial License : A written permission by the state to set up a new enterprise, various critical decisions embedded and that permission.

22.12 SOME USEFUL BOOKS

Akelrof George and Robert Schiller (2009): *Animal Spirits: How Human Psychology Drives the Economy and Why It Matters For Global Capitalism,* Princeton University Press.

Basu, Kaushik and Ravi Kanbur (eds.), (2009): *Arguments for a Better World*, Oxford Unviersity Press, New Delhi.

Bhaduri, Amit, (2009): *The Face You were Afraid to See: Essays on the Indian Economy,* Penguin.

Deshpande, Ashwini (ed.), (2007): *Globalisation and Development*, Oxford Unviersity Press, New Delhi.

Gregory, Neil, (2009): *New Industries From New Places*, Stanford University Press.

Gokarn, Subir et. al. (eds.), (2004): *The Structure of Indian Industry*, Oxford University Press, New Delhi.

K.L. Krishna and Uma Kapila (ed.), (2009): *Readings in Indian Agriculture and Industry*, Oxford, New Delhi.

Planning Commission: Approach to the Twelfth Five Year Plan 2012-17.

22.13 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) See Sub-section 22.3.1

2) See Sub-section 22.3.2

3) See Sub-section 22.3.2

Check Your Progress 2

1) See Section 22.4

2) See Section 22.4

3) See Section 22.4

Check Your Progress 3

1) See Sub-section 22.6.1

2) See Sub-section 22.6.2

3) See Section 22.8