India’s Industrial Policy

Meaning

- Government action to influence the ownership & structure of the industry and its performance. It takes the form of paying subsidies or providing finance in other ways, or of regulation.
- It includes procedures, principles (i.e., the philosophy of a given economy), policies, rules and regulations, incentives and punishments, the tariff policy, the labour policy, government’s attitude towards foreign capital, etc.

Objectives

The main objectives of the Industrial Policy of the Government in India are:

- to maintain a sustained growth in productivity;
- to enhance gainful employment;
- to achieve optimal utilisation of human resources;
- to attain international competitiveness; and
- to transform India into a major partner and player in the global arena.

Industrial Policies in India since Independence

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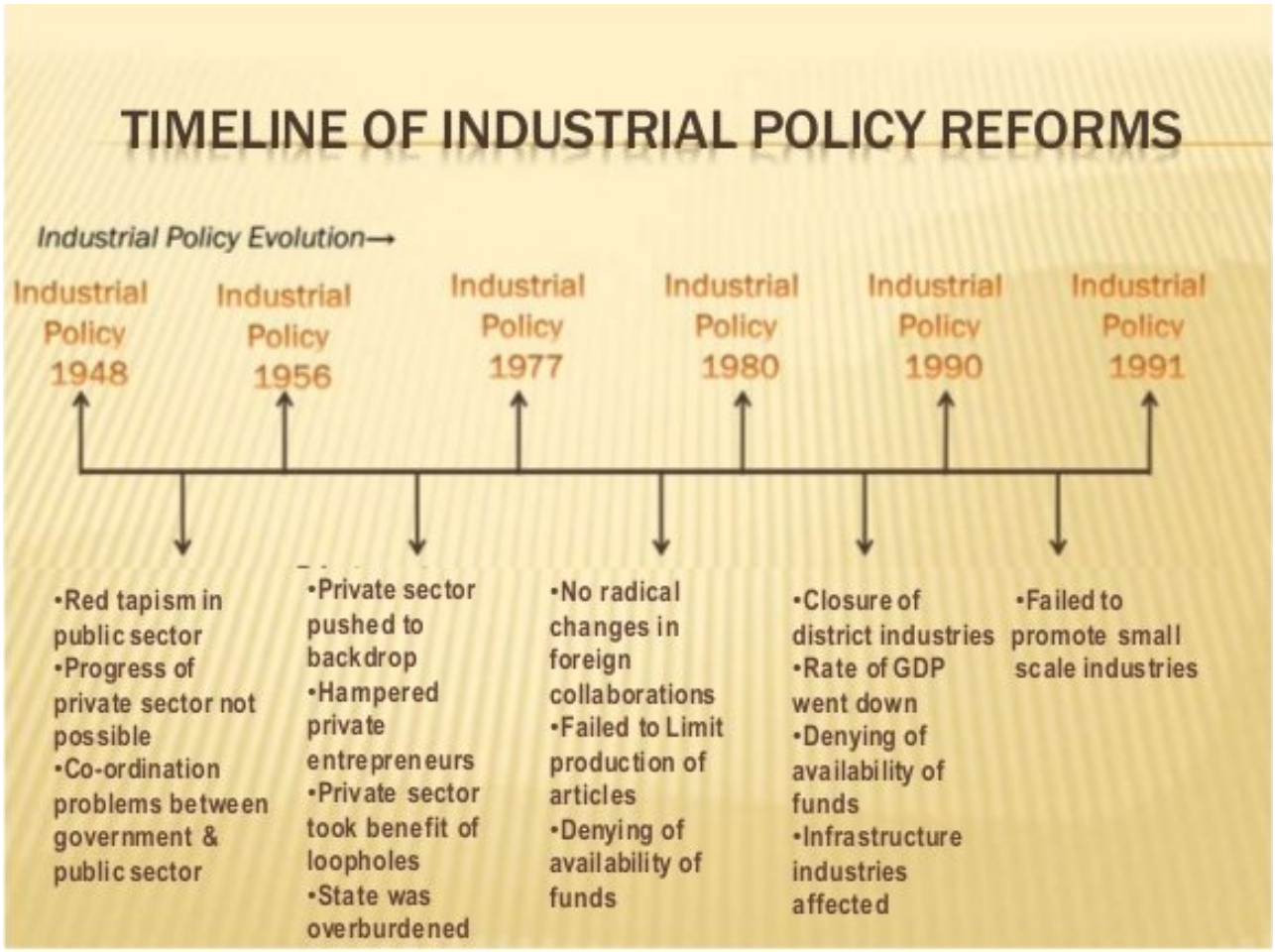

- **Industrial Policy Resolution of 1948**- It defined the broad contours of the policy **delineating the role of the State in industrial development** both as an entrepreneur and authority.
    - It made clear that India is going to have a **Mixed Economic Model.**
    - **It classified industries into four broad areas:**
        - **Strategic Industries (Public Sector):** It included three industries in which Central Government had monopoly. These included Arms and ammunition, Atomic energy and Rail transport.
        - **Basic/Key Industries (Public-cum-Private Sector):** 6 industries viz. coal, iron & steel, aircraft manufacturing, ship-building, manufacture of telephone, telegraph & wireless apparatus, and mineral oil were designated as “Key Industries” or “Basic Industries”.
            - These industries were to be set-up by the Central Government.
            - However, the existing private sector enterprises were allowed to continue.
        - **Important Industries (Controlled Private Sector):** It included 18 industries including heavy chemicals, sugar, cotton textile & woollen industry, cement, paper, salt, machine tools, fertiliser, rubber, air and sea transport, motor, tractor, electricity etc.
            - These industries continue to remain under private sector however, the central government, in consultation with the state government, had general control over them.
        - **Other Industries (Private and Cooperative Sector):** All other industries which were not included in the above mentioned three categories were left open for the private sector.
    - The **Industries (Development and Regulation) Act** was passed in 1951 to implement

the Industrial Policy Resolution, 1948.

- **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 emphasised 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.
    - IPR, 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 decentralisation 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 Licenses

- In order to open new industry or to expand production, obtaining a license from the government was a prerequisite.
- Opening new industries in economically backward areas was incentivised through easy licensing and subsidization of critical inputs like electricity and water. This was done to counter regional disparities that existed in the country.
- Licenses to increase production were issued only if the government was convinced that the economy required more of the goods.

- **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 of 1980** sought to promote the **concept of economic federation,** to raise the efficiency of the public sector and to reverse the trend of industrial production of the past three years and reaffirmed its faith in the **Monopolies and Restrictive Trade Practices (MRTP) Act** and the **Foreign Exchange Regulation Act (FERA).**

New Industrial Policy During Economic Reforms of 1991

The long-awaited liberalised 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

- **De-reservation of Public sector:** Sectors that were earlier exclusively reserved for public sector were reduced. However, pre-eminent place of public sector in 5 core areas like arms and ammunition, atomic energy, mineral oils, rail transport and mining was continued.
    - **Presently, only two sectors- Atomic Energy and Railway operations-** are reserved exclusively for the public sector.
- **De-licensing:** Abolition of Industrial Licensing for all projects except for a short list of industries.
    - There are only 4 industries at present related to security, strategic and environmental concerns, where an industrial license is currently required-
        - Electronic aerospace and defence equipment
        - Specified hazardous chemicals
        - Industrial explosives
        - Cigars and cigarettes of tobacco and manufactured tobacco substitutes
- **Disinvestment of Public Sector:** Government stakes in Public Sector Enterprises were reduced to enhance their efficiency and competitiveness.
- **Liberalisation of Foreign Investment:** This was the first Industrial policy in which foreign companies were allowed to have majority stake in India. In 47 high priority industries, upto 51% FDI was allowed. For export trading houses, FDI up to 74% was allowed.
    - Today, there are numerous sectors in the economy where government allows 100% FDI.
- **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 'Licence, Permit and Quota Raj' a thing of the past.** It attempted to liberalise 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,** privatisation, 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.

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 liberalisation, 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 modernisation of industries as a sequel to the new industrial policy led to displacement of labour.
- **Absence of incentives for raising efficiency:** Focussing attention on internal liberalisation 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 emphasised 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 liberalised 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.

For Mind Map

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