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Topic- Industrial policies in India since independence

- **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.

- **<u>Industrial Policy of 1980</u>** 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).**

<u>New Industrial Policy During Economic Reforms of 1991</u>

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.