5.1 INDUSTRIAL DEVELOPMENT IN INDIA

The leather industry does not exist in an economic vacuum. It can be damaged by external shocks, and can be encouraged by a whole range of government policies. This is of crucial importance. Therefore, an attempt has been made here to highlight (at the first instance, the general industrial development in India in order to understand the structural and special pattern of industrial development in the country and various industrial policies introduced from time to time are examined and finally an intended focus is being devoted to) the policies pertaining to leather industrial sector.

A country which wants to develop its economy has to take certain vital decisions about the strategy of development while laying down targets in a development plan. Decisions about priorities for different sectors of the economy, price policy, the role of labour, monetary and fiscal policy are of fundamental significance. Thus, to rehabilitate the Indian economy devastated by the effects of colonization, the second world war and the partition of the country, planning was essential. The Planning Commission of India was set up in 1950. The development strategy adopted by the Indian planners consisted of accelerated industrialization with a base of heavy industries.

The process of industrialization was launched as a conscious and deliberate policy under Industrial Policy Resolution of 1948 and 1956. This was vigorously implemented under the Five Year Plans. It involved heavy investment in building up capacity over a wide spectrum of industries including leather. The share of manufactured goods in foreign trade steadily declined. India started exporting industrial goods like leather and leather products and engineering goods. The industrial sector in India consists of six regions, viz. Bombay-Pune region, Ahmedabad-Baroda region, Calcutta-Howrah region,
Damodar Valley region, Ganga-Yamuna region and Southern Industrial region. In addition, in the central region there are industrial towns like Nagpur, Jabalpur, Bhopal and Indore.

Mumbai-Pune region includes Greater Mumbai, Thane, Kalyan in Mumbai belt whereas Pimpri, Kirkee and Pune in the Pune belt. The region is the most important industrial region in India having favourable factors that includes hydro-electric power, raw material and labour. The deep water harbour facilities have enabled Mumbai to import raw materials more conveniently than other cities. The region has good communications facilities by rail, road and air. More importantly, social, cultural, educational facilities are well developed which attract labour from all over the country. The main industries of this region are textiles, chemicals, pharmaceuticals, ship-building, automobiles, electrical equipment, plastic and rubber goods, oil refining and petrochemicals, machine tools, iron and steel goods, fertilizers and leather and leather products.

Ahmedabad-Baroda region mainly depends on thermal power. Raw materials like cotton for textiles, cement industry and salt for chemical industries are available in the region. Ahmedabad is the largest textile centre in India and the leading industrial town. Vadodara (Baroda) has textiles, chemicals, pharmaceuticals, glassware, cement, fertilizers and oil refining.

Calcutta-Howrah region was the first region developed by the British. Among the favourable factors are the proximity of India’s largest coal field, raw materials such as jute, hides and skins, iron, ingots, timber, raw material for paper industry. Additionally, the availability of good communication system, supply of water and labour. The main industries of this region are jute and textiles, chemicals, leather and leather products, paper, automobiles, sewing machines, electric fans, matches and rubber.
Damodar valley region has the most important coal mines and iron and steel plants of India. In addition, it has hydro-electric power and easy availability of labour. India’s largest steel plants are located in this region. The other industries available in this region are Railway Rolling Stock, Metallurgical industries, automobiles, locomotives, steel wires, aluminium, glass and cement.

Ganga and Yamuna region’s important industrial towns are Delhi, Kanpur, Allahabad, Varanasi and Lucknow. The main industries here are cotton, textiles, locomotive, paper, leather and leather products, sugar, jute, chemicals, fertilizers, woolen and rubber goods.

The southern industrial region includes towns like Bangalore, Hyderabad, Madurai, Coimbatore and Chennai. This region depends mainly on the hydro-electric power, raw materials like cotton, silk, sugar cane, tobacco and rubber are available in this region. Bangalore has air crafts, machine tools, telephones, watches, electrical machinery and leather and leather products industries. Bhadravathi has iron and steel, Coimbatore has textiles, automobiles parts, pumping sets and electrical goods. Madurai specialises in cotton and silk textiles whereas Alwaye has fertilizers, aluminium, chemicals and electrical goods. Chennai has railway coaches, military tanks, automobiles, motor cycles, fertilizers, leather and leather products, chemicals and electrical machinery industries.

The practice of industrial development through five year plans started in 1950-51. From then, until 1985-86, not even one did the actual growth rate of industrial output exceed the target set for a particular plan period. In fact, in the year 1980 (annual plan), the growth rate dropped to 1.4% as against a target of 7%; only after 1985-86, did the growth rate suddenly shot up beyond a target of 8% to 8.4%4. This happened only after a policy of industrial deregulation was initiated. In 1991-92, the GDP growth rate has again crashed to 2.5%5.
In 1950-51, the manufacturing sector (including construction, electricity, gas and water supply contributed 15.05% to the GDP - at 1980-81 prices), i.e. Rs.6451 crores. Towards the end of the eighties its contribution rose close to 2.7%, i.e. Rs.51,000 crores. During the same period, the relative contribution of agriculture sector (including mining, forestry and fisheries) came down from 56.46% to 34.83%, a clear sign that industrialisation had been firmly established in India. Upto the mid eighties, according to the World Development Report, India’s Industrial Growth at 5.4% was above the average growth of 23 low income economies like Burma, Bangladesh, Malawi, Sudan etc. But far below China (8.3%), Brazil (8.2%), Yugoslavia (7.2%), Mexico (7.2%), Pakistan (5.9%) and Turkey (5.6%).

Any way it is very important to remember that industrialisation in India has not taken place overnight without any efforts and planned development; rather the fact of direct co-relationship between infrastructural facilities and industrial development has been considered, where infrastructure does not only include roads, water, power, etc. for the industry itself but should also include educational, social, cultural and recreational facilities for the labour employed in the industry. Needs of not only the individual employed have to be taken care of but also of his/her family. This point throws light on the industrial development policy of low income economies like that of Sudan should follow in order to bring about a real industrial revolution like what existed in India years ago.

B.M. Joshi in his book, infrastructure and economic development in India, published in 1990, has analysed the trends and magnitude of interstate disparities in infrastructure development over the period 1961 to 1986 by considering power, irrigation, transport, banking, health and education. Simultaneously, he also considered certain key indicators of economic development like per capita state domestic product, contribution of secondary and tertiary sectors to State Domestic Product (SDP), literacy, infant mortality, value added by manufacture and extent of urbanisation. The study proves that there is a close relationship between the two indices. The industrially advanced states
have year better infrastructure and have also done far better than others in overall development.

Finally, in no developing country where any industry be it leather industry, has become successful, it is alone an example of overall industrial development and in no developing country where the industry has fallen short of hopes held the reasons for the absence of overall development.

5.2 INDUSTRIAL POLICY IN INDIA

Macro economic policies can have a great effect on the individual industrial sectors like leather, as well as the micro-economic policies aimed at altering the specific circumstances of the industry. Thus, any industry can be helped or hindered by general economic policies.

Industrialisation as an instrument for poverty alleviation and creation of employment was propagated by early Indian thinkers like Dadhabhai Navroaji, M.C. Ranade, G.V. Joshi and others in as early as Nineteenth century.

An interesting feature of their writings was the need for state intervention as a precondition for industrial development. B.K. Sircar, Lala Harkishan and Vithaldas Thackersey were amongst the many who were active proponents of the Swadeshi movement which gave an impetus to the demand for the establishment of modern industries owned, financed and managed by Indians. The particular need for state intervention was felt because of the decline of the traditional Indian industry. This decline was the result of the policies pursued by the British Government. India was being used as a source of raw material and a market for manufactured goods from Britain. Dadhabhai Navroji in his famous work, poverty and Un-British Rule in India (1876) had put forth the "Drain Theory" which attributed poverty and backwardness of India to the draining of wealth and capital by the British rulers. The plea was for Indian private investment to be
actively promoted and protected by the Government from an unequal and unfair foreign competition.

The first war and protection policies for selected industries led to growth of industries like iron and steel, cement, sugar and paper. The attitude of Laissez-Fair changed after the second world war. A formal recognition of the change is seen in a despatch to Government of India by the Secretary of State, Mr.Edwin Montague in 1919. In this despatch, he accepted the fundamental principle underlying the recommendations made by the Fiscal Commission that in future the Government should pay an active part in the industrial development of the country. This despatch was followed by Government of India Act 1919 under which the industries became a provincial subject. But it was in mid thirtees that the need of planning for development was felt. In 1938, the National Planning Committee was constituted under the Chairmanship of Pandit Jawaharlal Nehru at the instance of the Indian National Congress. The main emphasis was on the need for central economic planning. On the question of industrialisation the committee noted the problems of poverty and unemployment of national defence and of economic regeneration in general cannot be solved without industrialisation. As a step towards such industrialisation, a comprehensive scheme of national planning should be formulated. This scheme should provide for the development of heavy key industries, medium-scale industries and cottage industries.

The first attempt for planning in the Indian context appeared in the form of a book "Planned Economy for India" by Sir M.Visveswaraya, an engineer-administrator. The main thrust of his work was on the need for rapid industrialisation. He emphasized the need to concentrate on the development of heavy industries. In the early and mid-forties several plans were put forward: Gandhian Plan by Shriman Narayan Agarwal and the left wing blueprint under the guidance of M.N.Roy. A group of industrialists including J.R.D.Tata, G.P.Birla and Lala Sir Ram worked out Bombay Plan. It urged that Government intervention was necessary to cope with the huge task of pushing through the extensive industrial programme in a short period of time.
In short it was accepted that the state would have to play dominant and regulatory role with regard to industrial development. The major exception to this general consensus in favour of planning with its emphasis on large scale industrialisation was Mahatma Gandhi. According to him, "State represents violence in a concentrated and organised form". He attributed minimum role to the state and advocated a highly decentralised economic and political system, with the individual as its centerpiece. Mahatma Gandhi’s interpretation of economic independence was one of economic upliftment of every individual. He rejected the concept that the economic independence was a product of industrialisation of modern or western type. He also doubted whether centralised industries planned and owned by the state would lead to common welfare. Therefore, the emphasis was on decentralised processing and manufacturing with the local resource to meet the local demand. The need was for small unit production, simple technologies and village self-sufficiency. Jawaharlal Nehru opposed the concept of self-sufficiency of the village. According to him, it led to obsolete methods of production, but at the same time he accepted the importance of Panchayat Raj as a desirable form of decentralisation.

Gandhiji’s economic philosophy was not accepted in its entirety at any stage, either by those in charge of the congress government in the provinces in 1937 or later by the interim government of independent India. The elements accepted and pursued as official policies were the state support for khadi, handloom and some of the traditional village industries and crafts including leather.

Sharad S.Marathe, who retired from Indian Economic Service in 1980 as the Secretary (Industry) to the Government of India, opines “The support to these activities, however, was not as in the case of Gandhiji a part of total coherent economic philosophy, but rather as a matter of economic (or political) expediency”. Thus the support of these activities was not so much out of conviction that India of the future would continue to need a thriving decentralised sector processing local resources for meeting local needs. It was mainly because of the need for holding operations in terms of maintaining employment, which was an economic and political imperative. The thrust of policy with
regard to the traditional decentralised sector was thus, dictated by the need to minimise
displacement or erosion of existing employment however partial.

The point is that the decentralised village industries and small scale sector as
envisaged by the state has been invariance with Gandhiji's thought. These sectors depend
on state policies and its support and to a great extent on state patronage and fiscal
subsidisation. Apart from this, especially the modern small scale sector, uses technology
and production methods which are not qualitatively different from the medium or large
scale industry. Also many of the units are involved in producing intermediate products.
Thus, by the time of independence, state involvement in economic activity, especially
industrial activity was complete.

The statement of Government's policy issued by the Planning and Development
Department in April 1948 anticipates in many ways the objectives and to some extent
the approach and mechanisms outlined in the subsequent policy statements. The
statement was issued in the context of "conditions which India will find herself after the
war". Its contents were greatly influence by the debate and discussion on post-war
reconstruction problems in Europe and elsewhere which allotted to the state a much
larger role than in the past.

The policy statement begins with the promise that the development of industries is
under the Government of India Act 1933, a provincial subject. However, it is open to the
centre to declare by law that the development of certain industries under central control is
expedient in public interest and there upon the development of such industries becomes a
central subject. The reasons for this are two fold. In the first place, the general economic
policy pursued by the government has had a profound influence over the industrial
development. The rapid progress made by cotton textile, iron and steel, sugar and leather
are due to the fiscal policy of the Central Government. Secondly, the progress of the
planning had made it abundantly clear that certain industries must be taken over under
central control in the interest of coordinated development. The certain industries were to
be centralised (in consultation with the provinces and the leading Indian States), as follows:

1. Iron and Steel
2. Manufacture of Prime Movers
3. Automobiles and Tractors and transport vehicles
4. Aircraft
5. Ship building and marine engineering
6. Electrical machinery
7. Heavy machinery, such as textiles, sugar, paper, mining, cement and chemicals
8. Machine tools
9. Heavy chemicals and fair chemicals, chemical dues, fertilizers and pharmaceutical drug
10. Electro chemical industry
11. Cotton and wollen textiles
12. Cement
13. Power alcohol
14. Sugar
15. Motor and aviation fuel
16. Rubber manufacture
17. Non-ferrous metals industry
18. Electric power
19. Coal
20. Radio engineering

The three fundamental objectives the Government sought to achieve through industrialisation were:

1. To increase the national wealth by stimulating the fullest and most effective utilisation of the country’s resources both human and material.
2. To achieve self-reliance and to make the country better prepared for defence; and
3. To provide a high and stable level of employment (in the sectors of industries and ancillary trades and professions).

It is axiomatic in Government’s policy that the additional wealth created by industrial development should be distributed in a manner that may regarded as socially equitable.

Industries were made a provincial subject under the Government of India Act, 1919. The statement considers that this was not conducive for sound post-war development of the country. The provinces had neither the financial nor the technical resources to stimulate development on any significant scale.

India was considered to be in a relatively inferior position in the industrial front. Due to the nature of modern warefare other countries had made technological advances thus leading to striking increase in the total volume of skilled industrial labour. Therefore, in order to make rapid progress the state’s and private industry’s efforts would have to be combined together.

It was thought appropriate for the government to encourage and promote rapid industrialisation. Priority was to be given to the development of those industries which constitute the foundation of modern industrial life, such as iron and steel industry, heavy engineering industries. But at the same time, it was realized that due place should be given to consumption goods industries also. The government proposed to set up machinery for the investigation of claims by war time and for other industries for assistance or protection.

The statement though to continue with the existing arrangement whereby ordinance factories, public utilities and railways were state owned and operated. The statement added the bulk generation of electric power to the above list. Also those industries would be nationalised which are regarded to be essential, but for which no private capital forth coming. The government would also take over certain industries, like salt manufacture, in which the loss element is more predominant than the profit element. the control placed on private enterprise would be “to ensure fair conditions for labour, in
the case of such industries as those catering for ordinary consumers demand and subject to free competition\textsuperscript{18}. There would be stricter control for industries which are of semi-monopolistic nature of control scarce natural resources.

The government took the responsibility of provision of certain pre-requisites of industrial progress. Transport facilities, power, survey of material, resource, scientific and industrial research and getting education. Government would also assist financially by making loans in the procurement of capital goods, review tax system from time to time and through other related measures.

The government had no power except for emergency war time controls, to regulate the growth of the industry. Though the policy statement sought to "assume the power to licence industrial undertakings\textsuperscript{19}", it was realised that unregulated freedom to promote industrial enterprises had led to concentration of industry in certain areas, which led to haphazard growth and vast areas of the country had not developed industrially. An important realisation is that "even where concentration appears relatively cheap on the basis of financial costs of production and distribution, it would, in many cases, be found in the long run, both socially and economically cheaper to disperse industry, if regards is paid to the benefits of widely spread industrial structure and its integration with agriculture\textsuperscript{20}.

Control over development is important not only from the spectral point of view as mentioned above but also to regulate the industrial development structurally. The policy statement recognises the fact that private investment could get concentrated on quick returns schemes thus leading to lopsided development with over production, excessive competition and neglect of some essential industries. Besides licensing there were other controls proposed. Government felt, "it is necessary to maintain control over capital issue; for otherwise, capital may flow excessively in one direction and lead to lopsided development\textsuperscript{21}. this was need to achieve a balanced investment in industry, agriculture and the social services, thus emphasising sectoral balance.
If it was accepted that the fundamental objective of industrial development was to augment the general standard of living, then controls would be needed to ensure safeguards against exploitation at the industrial workers. Government would also have to strike the correct balance between preventing “unhealthy concentration of assets in the hands of few persons”, at the same time and discouraging enterprise by undue restrictions on profits. This rather detailed reference to the 1945 policy statement is basically to underline the continuity of national thinking on some of the major issues of industrial policy. All important element discussed in the statement of 1945 makes the first stage of evolution of industrial policy after independence.

The policy resolution of 1948 gives top priority to augmentation of national wealth and categorically states that “a mere redistribution of the existing wealth would make no essential difference to the people and would merely mean distribution of poverty”. This resolution lays emphasis on the active role of the state to increase the national wealth. The central government is to have exclusive monopoly in manufacture of arms and ammunition, production and control of atomic energy, ownership and management of railway transport. The second category of industries covers coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets and mineral oils. Under this category, new undertakings could only be taken by the state (which include, provincial, former princely states, government and public authorities). The state also had the inherent right to acquire existing undertakings.

The resolution states a third category where the central government can use regulations and control. The location of these industries are governed by economic factors of All India importance or which require considerable investment or a high degree of technical skill. These industries were salt, automobiles and tractors, prime movers, electric engineering, other heavy machinery, machine tools, heavy chemicals, fertilizers and pharmaceuticals and drugs, electro chemical industries, non-ferrous metals, rubber
manufacture, power and industrial alcohol, cotton and woolen textiles, cement, sugar, paper and news print, air and sea transport, minerals and industries relating to paper.

Unlike the policy statement of 1945, the industrial policy resolution of 1948 refers to the role of cottage and small scale industries which offer scope for individual, village or cooperative enterprise, and means for the rehabilitation of displaced persons. The justification for the inclusion of this sector was that they were particularly suited for "better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain essential consumer goods like food, cloth and agricultural implement." The activities fell in the purview of the provincial states and former princely states. The central government desired to investigate how far and in what manner these industries would be coordinated and integrated with the large scale production so that these sectors would be complementary rather than competitive. It also proposed to investigate how far industries highly centralised could be decentralised with advantage.

The text of the industrial policy resolution, 1948 also refers to issues such as association of labour in matters concerning industrial production, and requirements of industrial housing. The central government would carefully regulate the cases involving foreign capital and management in the interest of the nation. Major interests and effective control will be in the Indian hands.

An interesting feature of the resolution was that it sought to maintain a balance between a greater role for the central government and the role of the provincial/state governments on the one hand and the private enterprise on the other.

The Planning Commission was set up in 1950, thus planning was established on an organised basis. During this period, "growth theory was still in its infancy." It was believed that the only requirement for growth was capital accumulation. The theoretical base for such growth processes was the Harrod-Domar Model. This model was based on
three critical parameters. The marginal propensity to save, the incremental capital output ratio and the rate of growth of population. These three assumed to be exogenously given.

Indian planners, therefore, identified the availability of investible resources or savings as the primary constraint to growth. Based on the Soviet experiment, they realised that the marginal propensity to save and the incremental capital output ratios cannot be treated as exogenously given parameters. This recognition resulted in the "Feldman-Mahalanobis" model which stressed the role of heavy industries in increasing the savings rate of the economy. "The long run viability of the heavy industrialisation strategy despite its leading to an increase in the capital-output ratio in the medium run, gained theoretical legitimacy from the "Turnpike analysis of the 1960".28

Foreign exchange was also perceived as a serious problem. It was felt that the pattern of growth should be such that it could be sustained without large inflows of foreign capital. But the Indian exportables were in no position to meet the import requirements. At the same time, "the political cohesion of the young Indian state required development and growth had to be regionally balanced. This had the implication, that pure economic consideration...could not necessarily govern the establishment of industries"29.

In order to ensure that the available resources are not wasted through unnecessary duplication of capacities, an administrative device of industrial licensing was introduced. It was hoped that this would lead to the effective implementation and monitoring of the sectoral and regional capacity allocation made by the Planning Commission. The Directorate General of Technical Development was established. It was charged that the technologies used in various investments were optimal for the country, with reference to indigenous availability of the requisite capital goods.

Amongst the other major changes that took place between the eight year period, between the Industrial Policy Resolution of 1948 and 1956, was the enactment of the
Constitution of India which guaranteed fundamental rights and consisted of the Directive Principles. In December 1954, Parliament accepted the “socialist pattern of society” as the objective of social and economic policy. This led to the emphasis on the role of public sector in industrial development. Pandit Nehru strongly believed that “...defects are not due to industrialism as such but to the capitalistic system which is based on the exploitation of others.”

Industrial (Development and Control) Bill was introduced in the Parliament in 1949. The Bill provided as did the subsequent Industries (Development and Regulation) Act, 1951 for the creation of Development Councils for enabling private industry to play its part in planned national development. The First Select Committee set up to debate on the Bill, inserted the word “Regulation” in place of “Control”. Legislation was finally passed, i.e. Industries (Development and Regulation) Act, 1951, constituted the legal framework for control and regulation of a number of the key and important industries. This has proved to be the most important piece of legislation in terms of its impact on the growth and structure of the Indian Industry.

The Industrial Policy Resolution, 1956 begins with the same premise, as its predecessor that the state is to assume direct responsibility for the future development of industries over a wide area. The Resolution categorised industries into three groups.

1. Schedule A included the industries whose future development would be the exclusive responsibility of the state

2. Schedule B consisting of industries which will be progressively state owned and where the state will therefore generally take initiative in establishing new undertakings and in which private enterprise will also be expected to supplement the effort of the state.

3. All remaining industries where future development will be left to the initiative and enterprise of the private sector.

The list of industries included in Schedule A and B are given in the Appendix.
The Resolution specifically mentions that while the private sector undertakings must necessarily fit into the framework of the social and economic policy of the state, and be subject to control and regulation in terms of the relevant legislation, the Government of India.

The Resolution stressed the role of cottage, village and small scale industries; and mentioned by way of advantages “immediate large scale employment more equitable distribution of the national income and effective mobilisation of resources of capital and skill which might otherwise remain unutilised. A brief reference to unplanned urbanisation appears in the resolution and the solution offered is the establishment of small centres of industrial production all over the country. emphasis is placed on the organisation of industrial cooperatives which were to be encouraged in every way.

On the question of regional disparities which should be progressively reduced, the resolution recognised that the concentration of industries, in certain areas had been due to the ready availability of power, water supply and transport facilities which had been developed there. It was to be the aim of National Planning to ensure that these facilities were made available to areas which were lagging behind industrially or “where there is a greater need for providing opportunities for employment, provided the location is otherwise suitable”\(^3\). The objective of the policy was to lead to “a balanced and coordinated development of the industrial and agricultural economy in each region”.

The Resolution discussed technical and managerial resources in terms of personnel and added that in order to meet the rapidly growing needs for the expansion of the public sector and for the development of village and small scale industries proper managerial and technical cadres in the public services were being established. Workers and technicians should, wherever possible, be associated progressively in management. The resolution reflected the trend towards greater centralisation. The process was further accelerated by the shortage of foreign exchange. Even prior to 1948, Foreign Exchange Regulation Act (FERA) and the system of import licensing were central subjects. But
with the introduction of planning and industrial licensing, continued shortage of foreign exchange meant that decisions regarding the import of capital goods as well as the availability of raw materials, partly or wholly imported, came exclusively under the control of the Central Government. The significance of this was that the modern sector of small scale industries and even some types of activities in the decentralised sector, such as handloom, power-loom or woolen textiles, came within the purview of the policies and administrations of the Central Government. This Industrial Policy Resolution (1956) guided the Industrial Policy for two decades.

The Monopolies and restricted Trade Practices (MRTP) Act was enacted in 1969. Acting upon the Report of the Industrial Licensing Policy Enquiry Committee (1969) under the Chairmanship of Shri Subimal Dutt, various restrictions were placed on new licences for the bigger industrial houses. The adverse factors operating on the economy during the Third Plan (1961-66) period culminated in the drastic devaluation of the rupee in June 1966. The government had to declare “Plan Holiday” for the next three years. Three Annual Plans were declared during 1966-67 to 1968-69. The Planning Commission was reconstituted in September 1967 with Prof. D.R. Gadgil as Deputy Chairman. A new Fourth Plan was prepared. The plan document was forthright on the sensitive issues of income disparity. It begins with the proposition that “in a rich country greater equality could be achieved in part by transfer of income through fiscal, pricing and other policies. No significant results can be achieved through such measures in the country. The path towards reduction of income was a difficult one. The solution to the problem must, therefore, lie in “......more rapid growth of economy”, greater diffusion of enterprise and by the ownership of the means of production. Increasing the productivity of the weaker units and widening opportunities of productive work and employment to the common man and particularly the less privileged sections of society

Regarding the issue of industrial policy, listed a number of important points. According to the Planning Commission, the one direction in which greater vigilance by the Government was imperative with regard to the location of industries in metropolitan
and large city centres. "This should be effected in two ways - firstly, by positive assistance and incentives given for dispersal of industry and secondly by disincentives imposed in large cities and positive steps taken for decongestion of metropolitan areas". Emphasis was also placed on import substitution. By the early seventies there was sufficient evidence and corresponding awareness of the inadequacy or ineffectiveness of some of the main elements of industrial policy... the objectives of growth with social justice which was the central theme of the policy for the preceding twenty years was beginning to run into difficulties.

The Congress Party had been in power at the centre since independence till March 1977 when the Janata Party assumed power at the centre. The newly formed cabinet was made up of individuals with diverse political and ideological backgrounds. There were former members of Socialist Party and also members of the old Swatantra Party which had been a strong advocate of return to a market economy. The Jansangh group represented the urban middle class and the trading community and favoured lesser government regulations or interventions. The Lok Dal members were committed to curbing large scale mechanised industry with a view to encouraging the small and decentralised village industries. The Janata Party's manifesto reflected the party's desire to revert to Gandhian ideologies. While the need for modern large scale industry was recognised the emphasis was to be on rural areas and for this purpose vigorous push was to be given to agriculture and to decentralised traditional activities like handlooms, leather and leather products, carpet weaving, etc. it was against this background that the statement of industrial policy was laid before Parliament in December 1977.

An important point of departure in the policy statement was the efforts to relate both industry and industrial policy to the needs of the economy as a whole and to define the role of the large scale sector in the socio-economic context. In other words, the industry was important not in itself nor as a contributor to the growth of national income, but as an instrument for rapid development of agriculture, and activation of rural manpower and the technical and managerial skills developed over the last two or three
decades. An important facet of economic reality was recognised for the first time, the statement stated that “the prospering and distribution of income arising from the broad based growth of agricultural and related activities in the countryside has to provide the basic demand for a wide range of industries producing articles of consumptions.

The vast rural manpower and the reservoir of highly trained scientists, engineers and technicians are considered as a major resource for economic and industrial development. The policy sought to lay emphasis on the cottage industries and small scale industries. The specific actions listed to encourage these industries included a significant expansion in the list of industries reserved for the small scale sector. However, there would be no concession with regard to the economics of production and quality of the products. Also the capacity creation in this sector should keep up with the requirements of the economy.

The policy statement recognised the need to encourage the tiny sector, i.e. activities with investment in machinery and equipment of Rupees one lakh or less and situated in towns with a population of less than 50,000. It intended to introduce a special legislation for protecting the cottage and household industries as these industries provide self-employment.

As part of the organisational restructuring, in order to achieve these objectives, the statement announced a scheme for setting up of District Industries Centres. These would provide under one roof all services and support required by small and village entrepreneurs, such as economic investigation of the district’s raw materials and other resources, supply of machinery and equipment. Provision of raw materials, arrangements for credit facilities and an effective set up for marketing, quality control, research and extension. These centres would shift the local point of decision making and approvals to the District Headquarters. While discussing Khadi and Village Industries, the statement mentioned increasing the share of village industries in the total production. The emphasis
was to be on the application of simple machines for improving productivity and the earning capacity of the workers.

The role envisaged for modern large scale manufacturing activities was four fold:

1. Basic industries such as steel, non-ferrous metals, cement or petroleum products.

2. High technology industries such as fertilizers, pesticides, and petro-chemicals which have close linkage with agriculture and other small industries.

3. Capital goods industries needed for producing the machinery required for or in basic industries in agriculture and in the small scale sector.

4. Finally, other manufacturing activities of a kind which would not ordinarily be capable of being undertaken in the small scale or decentralised sector.

One of the important principles laid down in the policy statement was that henceforth large houses would have to rely more on their own internally generated resources for financing new ventures or expansion projects because it was felt that “the growth of large houses has been disproportionate to the size of their internally generated resources and has been largely based on borrowed funds from public financial institutions and banks.

This was in contrast with the past approach which identified areas, which covered a wide range of activities where the large houses could operate. The very nature of these activities required huge investment which had to be borrowed from public financial institutions.

The real counterparts to the large industrial houses was the growth of Public Sector and not the MRTP Act. Importantly, the public sector was to be the catalyst in the process of decentralisation of the production by encouraging small scale and cottage industries.
On the question of foreign investment, the policy statement reiterated government’s intention to enforce the provisions of the Foreign Exchange Regulation Act strictly. The control and regulation over imports and exports was to be relaxed.

Interestingly, on the question of pricing policy the statement ensures that “where there is price control, the controlled price will include an adequate return to the investor, provided the industry is operating at a fairly high utilisation capacity and is conforming to the technologically attainable norms it will be permitted to earn sufficient returns to provide for reasonable dividend to the shareholders and also adequate funds to plough back into business for modernisation and growth”.38

The statement sets out a much active and important role for the workers. The need was felt for personal involvement of the workers in the enterprise. This could be done by (i) encouraging workers participation in the equity of industrial units and (ii) workers participation in the decision making process.

There was a new phenomenon taking place - growing incidence of sickness in the large scale and small scale units. The industries (Development and Regulations) Act had been amended several times to accommodate this phenomenon. The policy statement of 1977 took a stricter view of taking over of management of sick units by the government. The policy suggested that the take over would have economic consideration and would be therefore selective. As a first step, a screening committee would be set up for early diagnosis of sickness. Also the managers or owners responsible for the unit’s sickness would not be allowed to have any further association with any other units.

Another important and specific announcement contained in the policy statement was with regard to the location of industries. It sought to take steps towards deconcentration of industries which had concentration around metropolitan areas and large cities. The measures were as follows:
1. No licences would be issued to new industrial units within certain limits of large metropolitan cities having a population of more than one million and urban areas with a population of more than five lakhs (as per the 1971 census).

2. The State Government would be requested to deny support to new industries in these locations, in cases which did not require industrial licences; and

3. The Government would provide assistance to large existing industries which want to shift to approved locations in the backward areas.

The Congress Party formed the new government once again, under Mrs. Indira Gandhi in 1980, after a break of 33 months. A new Industrial Policy Statement was issued in July 1980 which reiterated the past policies. The socio-economic objectives listed in the policy statement were:

- Optimum utilisation of the installed capacity.
- Maximising production and achieving higher production
- Higher employment generation
- Correction of regional imbalances through a preferential development of industrially backward areas
- Strengthening of the agricultural base by according a preferential treatment to agro-based industries and promoting optimum inter-sectoral relationship.
- Faster promotion of exports oriented and import substitution industries.
- Promoting economic federation with an equitable spread of investment and the dispersal of returns amongst widely spread over small but growing units in rural as well as urban areas.
- Consumer protection against high prices and bad quality.

A concept of “economic federation” was introduced. It was proposed that a few nucleus plants would be set up in each district which was identified as industrially backward to generate as many ancillaries and small and scottage units as possible. The nucleus plant was to concentrate:
- On assembling the products of the ancillary units
- On producing the inputs needed by a large number of smaller units and
- On making adequate marketing arrangements.

It was hoped that this will ensure widely spread pattern of investment and employment and distribute the benefits of industrialisation to the maximum possible. Greater ancillarisation would ultimately lead towards dispersal of industry and growth of entrepreneurship. The government decided to do away with the scheme of District Industries Centres in favour of the nucleus-plants scheme, which would obviously mean capital intensive and large units. Under pressure from State Governments, however, the scheme of nucleus-plants has been abandoned in favour of District Industries Centres.

Another significant change the policy was revision of definition of small scale industries to cover investments covering plant and machinery upto Rs.20 lakhs instead of the previous limit of Rs.10 lakhs, and in case of ancillaries the limit was raised to Rs.25 lakhs from Rs.15 lakhs. Since the cost of plant and machinery is generally fifty per cent of the total project, units with an investment of Rs.50 lakhs would qualify for concessions and preferential treatment available to small scale units. This redefinition was also criticised on the grounds that it would lead to malpractices.

Another feature introduced in the new industrial policy was to use the instrument of licensing to promote industrialisation in the backward areas.

To conclude, from the 1930s, it has been accepted that government would have to play a dominant and regulatory role with regard to industrial development. The policy pursued by the Government of India has had a profound influence over industrial development of the country. The influence was sought to be made regarding structural and spatial development of the industry in India.
The overall set of the industrial policies of India discussed earlier could be a good example for other developing countries like Sudan to consider while framing policies pertaining to industries in their respective contexts.

5.3 LEATHER INDUSTRIAL POLICIES IN INDIA

During the planned economic development era in India, a two pronged strategy was adopted in the developmental exercise. The first related to the increase in the foreign exchange earnings and the second through savings in foreign exchange by import substitution. In the process, vigorous efforts were made to expand and develop the production base and promote exports of non-traditional items like coffee, oil cakes, fish and fish preparations, woollens and leather and leather products. In this way, the experience of India has shown that Government Policies when oriented towards well defined objectives can have a substantial influence on the resources, incentives and barriers related to the innovative process. With this view, in the early seventees it was considered appropriate to limit progressively the exports of semi-processed leather and promote production and export of high value added finished leather and leather products so as to augment the export earnings of this industry. By 1972, the Government of India realised that the time had come to intervene in order to change the production and export pattern of leather and hence appointed a committee under the Chairmanship of Dr. Seetharamiah, the then Director General of Technical Development, Government of India, to suggest steps necessary for speedy switch over of leather exports from semi-finished hides and skins to finished leather, footwear and other leather products. The Committee was called the “Committee on the Development of Leather and Leather Manufactures for Export” and shortly after that it was referred to as the “Seetharamiah Committee”.

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The committee was asked to look into six issues relevant to the development of the industry. These issues include the following:

- The necessity of reducing the export of E.I. tanned and chrome tanned hides and skins.
- Measures for the speedier switch over of exports from semi-processed hides and skins to finished leather and leather manufactures.
- The impact of export ceiling on short term and long term earning of foreign exchange.
- Whether the exemption of the tanning industry from the provisions of section II.A of the Industries (Development and Regulation) Act will help in increasing exports (whether licence is required for setting up new units/extension of existing ones, or 25 per cent capacity can be increased without licence).
- The steps to be taken for the mechanisation of leather industry for increasing export production.
- Any other relevant matter connected with the export of leather and leather manufacturers.

5.4 RECOMMENDATION OF THE SEETHARAMIAH COMMITTEE

The Committee in its report suggested that 75 per cent of the 1971-72 level of exports of semi-finished leathers should be converted into finished leathers and products within a period of 8 to 10 years. With this in view, the recommendations of the committee could be conveniently grouped into three sections - those for restricting the exports of semi-finished leathers, those for promoting the production and export of finished leathers and those on miscellaneous issues.

Recommendations for reducing the export of semi-finished took the form of physical and fiscal restrictions. Physical restrictions were to take the shape of export quotas. The committee suggested that quotas should be fixed for the exports of E.I. and
chrome tanned leathers. Quotas may be fixed for individual exporter on the basis of the past 5 years best exports in terms of number of pieces in each category so that the quantum of exports of each item does not exceed the level of export of 1971-72 level to begin with. The reduction should be so regulated that within next 8 to 10 years, the export of E.I. tanned and chrome tanned leathers would be reduced to the level of 25 per cent of the exports of 1971-72.

Fiscal restrictions of semi-finished exports were to be effected through the imposition of an export duty. A 10 per cent export duty existed on E.I. and chrome tanned skins only. The committee recommended that from January 1973, a 10 per cent duty be levied on semi-finished hides exports also.

Recommendations for promoting the production and export of semi-finished leathers were three-fold.

(a) Measures for creating infrastructure for finished leather production

The committee recommended that finishing centres may be set up in areas where there is concentration of small scale tanneries by existing Tanners, Export Promotion Councils, State Industrial Development Corporations etc. New entrepreneurs may be encouraged to set up finishing units on conditions that they would start from the stage of E.I. or wet blue leather. In the case of foreign companies, large industrial houses etc. and in cases involving foreign collaboration, guarantee to export a considerable proportion of the production should be stipulated.

(b) Recommendations for the award of cash subsidy

It was suggested that "cash subsidy to the extent of 15 per cent may be given against the export of finished leathers and leather manufacturers only for the purpose of building infrastructure, i.e. land, building and machinery, which may be accumulated over a period of 5 years and disbursed on the strength of documentary evidence of the steps taken for putting up the necessary infrastructure for modernisation and authorised expansion. In the case of exporters taking loans or have already taken loans for setting up
of the infrastructure from the nationalised banks or any other financial institutions, the cash subsidy may be disbursed/adjusted against such loans.

(c) Recommendation for providing import replenishment

Import of raw materials, chemicals etc. for export production was being allowed against the exports of finished leathers and manufactures under the Import Trade Control Policy for registered exporters. The committee recommended that 50 per cent of the import replenishment should be non-transferable and 50 per cent can be transferred to other manufacturers.

The committee also recommended ban on exports of raw hides and skins except lamb fur-skins from January 1973. Finally, the committee suggested that no exemption should be given under the Section IIA of the Industries (Development and Regulation) Act to the leather industry.

Certain points are worth noting about the recommendations of the committee. While it recommended a thorough effort in curtailing semi-finished leather export and encouraging that of finished leather, it also tried to ensure that the interests of the small tanners are not affected. On the one hand it suggested measures for the creation of infrastructure for producing finished leathers and that cash subsidy be offered for finished leather exports. Simultaneously, on the other hand, in lieu of the capital intensive technology involved in producing finished leathers, it also recommended a two pronged strategy of creating finished centres and restricting the entry of new units into semi-finished leather production.

5.5 REGULATORY MEASURES ADOPTED BY THE GOVERNMENT

After the submission of the Seetharamiah Committee Report, came the announcement of Government of India of the canalization of semi-tanned leathers through the State Trading Corporation with effect from 14.12.1972. The STC was to collect a 1% service charge on these exports.
In 1973, the Government of India imposed quotas on individual firms on their export of semi-finished leather and they were administered by the Controller of Exports. The aim of this was to progressively reduce the quotas every year till the export of semi-finished leather was reduced to 25% of 1971-72 level in the course of five years.

Simultaneously, the Government of India imposed a 10% export duty on semi-finished leather and granted a cash subsidy of 5% on the value of finished leather exports. In January 1974, the export duty on semi-finished leather was raised to 20% to exert further pressure on tanners to modernize their tanneries. Small non-exporting tanners were also asked to register with STC and were issued quotas for export of semi-finished leather. After fixing a floor level for the exports by individual tanners their quotas have been progressively reduced every year. Air freight subsidy was given to finished leather manufacturers and exporters. Duty drawback was granted on all leather exports and import replenishment was also made available.

The year 1976 was again a boom year for leather exports. The footwear and leather goods manufacturers found their raw material getting scarce and costlier and pleaded for further cuts in exports of semi-tanned skins, while the tanning industry was pressing for the creation of the necessary infrastructure for expanding the production of finished leather. Then the Government of India adopted the following measures:

a) It enlarged the list of machinery to be imported to include 24 items of tanning machinery and 54 items used by footwear and leather goods sector.

b) It formed the Bharat Leather Corporation, with its headquarters at Agra with a capital of Rs.5 crores.

c) A reduction on account of investment allowance was allowed at the rate of 25% for finished leather and leather goods industry and footwear of leather while computing income tax payable by the concerned manufacturers.

d) The STC was authorised to utilise Rs.3 crores from its Leather Development Fund to set up and equip 5 common facility centres, one each in U.P., Bihar, West Bengal, A.P. and Tamil Nadu.
e) A further slash of quotas was made for export of semi-tanned leather.
f) Export duty on semi-finished leather was raised from 20% to 25%, and
g) The cash subsidy on finished leather was raised from 5% to 10%.

Thus, on these lines, the Government of India has been adopting since 1973 a package of fiscal measures and physical controls to suit different points of time with the aim of achieving a considerable degree of modernisation of the industry so that it will export value added products. The adoption of this kind of policies and measures whenever the situation called for, continued till the beginning of 1990s.

However, in July 1991, the Government of India has announced an overall new Industrial Policy with the following objectives:

- To build on the gains already made
- To correct the distortions and weaknesses that may have crept into the economy
- To maintain a sustained growth in productivity and gainful employment
- To attain international competitiveness

On the basis of the new policy, various measures have been introduced in respect of the policies relating to leather industry. In this respect, the ongoing policies of leather sector in India could briefly be summarized as follows: (Source: CLRI, Madras, 1998).

### INDUSTRIAL LICENSING POLICY

<table>
<thead>
<tr>
<th>Industry</th>
<th>Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tanneries</td>
<td>Industrial licence not required if investment in plant and machinery were less than 3 crore rupees; if investment were more than 3 crore rupees, industrial licence is required. Applications to be presented to secretariat for industrial approvals (sia), udyog bhavan, new delhi in prescribed form.</td>
</tr>
<tr>
<td>Raw to semi -</td>
<td></td>
</tr>
<tr>
<td>Reserved for ssi sector</td>
<td></td>
</tr>
<tr>
<td>Semi to finished -</td>
<td></td>
</tr>
<tr>
<td>Open to medium/large scale</td>
<td></td>
</tr>
</tbody>
</table>
2. Footwear  
As above. Reserved for ssi sector (open to large scale with 75% export obligation)

3. Leather outerwear  
As above

4. Leather goods/accessories  
As above

5. Capital goods for leather, footwear & product  
No industrial licence is required

6. Chemicals for leather industry  
As above

7. Components for footwear  
No industrial licence is required except for pu soles and moulded rubber soles and heels, tacks and eyelets, for the above specified items application for license is to be made to sia, udhyog bhavan, new delhi

8. Components for other products  
No industrial licence is required

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**100 % export oriented units regime**

**Definition** : A manufacturing unit may be registered with the ministry of commerce, government of india, as a 100% export oriented unit or set up in an export processing zone, if the unit undertook to export at least 75% of its production and sell not more than 25% of its production in the domestic tariff area.

<table>
<thead>
<tr>
<th>Category</th>
<th>Incentive</th>
<th>Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export processing zone noida (delhi), mumbai, calcutta, chennai, vizag, kandla, cochin</td>
<td>Import of all capital goods and all materials required in the manufacture of the licensed product allowed without any import duty. Labour discipline maintained within the zone. Power, water, tele-communications and other basic requirements fully provided</td>
<td>Application to be made to development commissioner of the concerned epz. If all details provided, applications cleared in one month.</td>
</tr>
</tbody>
</table>
100% export oriented units | As above | Could be located anywhere in the country. Applications to be made to the ministry of commerce, government of India

### IMPORT POLICY

<table>
<thead>
<tr>
<th>Product</th>
<th>Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Hides and skins raw, semi-processed and finished</td>
<td>Allowed freely, without any import duty</td>
</tr>
<tr>
<td>2. Capital goods</td>
<td>Allowed liberally, at concessional import tariff of 25% If importer would undertake generating foreign exchange equivalent to four times the CIF values of the imported capital goods by export, within 5 years, capital goods import allowed at a normal import tariff of 15%</td>
</tr>
<tr>
<td>4. Components, consumables etc. For footwear, leather goods, garments etc.</td>
<td>Allowed liberally, at concessional import tariff Could be imported duty free as well under certain specified circumstances and conditions A factory could be custom bonded. In such a factory, all materials are allowed to be imported duty free, the only condition being that all imported products must be sent out of the country in the export product and a customs official is permanently posted in the factory at the cost of the factory.</td>
</tr>
<tr>
<td>5. Materials for making components</td>
<td>Allowed liberally at extant customs tariff</td>
</tr>
<tr>
<td>6. Technology</td>
<td>Allowed liberally</td>
</tr>
<tr>
<td>7. Technicians</td>
<td>Allowed liberally</td>
</tr>
<tr>
<td>8. Second-hand machinery</td>
<td>Allowed if the age of the machine is less than 7 years. If more than 7 years, allowed if satisfactory justification is provided to the director general of international trade, ministry of commerce, government of India, Udyog Bhavan, New Delhi.</td>
</tr>
</tbody>
</table>
Export policy

<table>
<thead>
<tr>
<th>Product</th>
<th>Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Raw hides/skins</td>
<td>Exports permitted subject to licensing</td>
</tr>
<tr>
<td>2. Semi processed hides and skins</td>
<td>Exports permitted subject to licensing</td>
</tr>
<tr>
<td>3. Finished leather, all types</td>
<td>Allowed with an export duty of 5% and ISI norms</td>
</tr>
<tr>
<td>4. Footwear and components</td>
<td>Allowed</td>
</tr>
<tr>
<td>5. Garments, leather goods - all types</td>
<td>Allowed</td>
</tr>
<tr>
<td>6. Saddlery &amp; harness</td>
<td>Allowed</td>
</tr>
<tr>
<td>7. Capital goods</td>
<td>Allowed</td>
</tr>
<tr>
<td>8. Chemicals</td>
<td>Allowed</td>
</tr>
</tbody>
</table>

FOREIGN INVESTMENT POLICY

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>POLICY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather, footwear, garments &amp; leather goods</td>
<td>Foreign investment allowed up to 51%. However a licence is required to be obtained from the ministry of industry, government of India, Udyog Bhavan, New Delhi, applications can be made to the secretariat for industrial approvals, Ministry of Industry, Udyog Bhavan, New Delhi</td>
</tr>
<tr>
<td>Capital goods for leather, footwear and other related industries</td>
<td>No licence is required. Automatic approval is given by the Reserve Bank of India, the Central Bank of the country to whom an application has to be made. The address is: The controller, Foreign Investment and Technology Transfer Section, Foreign Exchange Control Department, Central Office, Reserve Bank of India, 11 Fl, Central Office Building, Mumbai - 400 023.</td>
</tr>
<tr>
<td>Chemicals</td>
<td>As above</td>
</tr>
<tr>
<td>Components and materials for making components</td>
<td>As above</td>
</tr>
</tbody>
</table>

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Foreign export/trading Companies

Are allowed to open branches in India or invest in trading companies in India upto 51%. Must apply to the reserve bank at the address above.

CREDIT POLICY

1. Pre-shipment credit is provided to exporters for 180 days at preferential rate of interest. The rate is increased if the period is more than 180 days but upto 270 days.

2. Post-shipment credit is provided to exporters for 90 days at preferential rate of interest.

3. Indian rupee is fully convertible on trade account. Accordingly market forces determine the rate of exchange on trade account.

4. Pre-shipment credit and post-shipment credits are now available to exporters in foreign currency.

5.6 CONCLUDING REMARKS

The industrial and trade policies relating to leather industry have been very positive and encouraging during the last forty years with the sole aim of promoting the export of value added products and discouraging the export of low value products. In the fifties, exports were more in the form of raw materials; the sixties witnessed the change to semi-finished leathers; the early eighties in the form of finished leathers and in the nineties the export were targetted in favour of fully fabricated products. Therefore, the development process of leather industrial sector in India could be more systematised and better planned in future years. Hence, the path being followed and the policies initiated and implemented by Indian Planners could be a useful example for a developing country like Sudan in its present endeavours to develop this sector.
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