Chapter – 2

Industrial Policy Reforms
Chapter - 2

Industrial Policy Reforms

Contents

I. Need for Reforms
II. Development of Industrial Sector in India 1950-51 to 1999-2000
III. New Industrial Policy
IV. Industrial Policy Reforms

I. Need for Reforms

India's reform program began in the middle of a macro-economic crisis that erupted in early 1991. The crisis was brought to a head by a steep fall in foreign exchange reserves to about $1 billion (equal to two weeks' imports), a sharp downgrading of India's credit rating, and a cut-off of foreign private lending. Its basic underlying features were high inflation (12% and still rising), large public and current account deficits (approximately 10% and 3% of GDP respectively), and a heavy and growing burden of domestic and foreign debt.

External shocks played only a minor role in the crisis. Oil prices increased following the Iraqi invasion of Kuwait in August 1990, but only for a few months. This mini-shock would normally have been weathered without undue difficulty, but it impinged on an economy that was in a highly vulnerable state due to unsustainable macroeconomic policies over a prolonged period. The cut-off of foreign lending was not an exogenous shock but a reaction to the unsound macroeconomic position.

The roots of the crisis can be traced back to India's reaction to the earlier crisis of 1979-81 when world oil prices doubled. This exogenous shock changed India's current account position from near-balance in 1978 to a deficit of 2% of GDP (30% of exports) in 1981. Remarkably, there was hardly any current account adjustment for the rest of the decade despite favourable developments such as a softening of oil prices and rising domestic oil production. The current account deficit averaged 25% of exports from 1982 to 1984; from 1985 to 1990 it averaged no
less than 40% of exports. Heavy borrowing from the IMF and from commercial sources covered these deficits.

From 1982 to 1985, the persistence of current account deficits was the result of the almost complete stagnation of exports, which was in turn largely the result of an inappropriate exchange rate policy. From 1986 exchange rate policy became more flexible and the real exchange rate depreciated substantially. Exports revived strongly in response and grew in real terms at 10% per annum between 1986 and 1990. But by then the export boom was insufficient to outweigh the combination of rising interest payments on external debt and the rapid growth of imports induced by fiscal deterioration.

While exchange rate policy must take part of the blame for the lack of current account adjustment and the heavy accumulation of foreign debt, the heart of the problem lay in the reversal of India's erstwhile fiscal prudence. The fiscal deficit of the central government, which had averaged about 4.5% of GDP in the second half of the 1970s crept up to 8.5% of GDP by 1985/86 and stayed at that level thereafter. Similar increases occurred in the deficits of the consolidated government and of the public sector as a whole. This marked deterioration in the public finances was responsible both for the persistence of the current account deficit and the inflationary upsurge at the end of the decade.

The economy grew rapidly during the 1980s. GDP growth rose from the long-standing rate of 3.6% per annum (1965-80) to 5.5% (1980-90). Some of the growth was unsustainable, being the direct result of the fiscal deficits; but part of it was the product of desirable policy changes, in particular the deregulation of controls on industry and investment. These reforms, half-hearted and piecemeal though they were, were proving to be effective, but foundered in the macroeconomic crisis at the end of the decade. More comprehensive reforms were needed but in a stable fiscal setting.

II. Development of Industrial Sector in India 1950-51 to 1999-2000

Evaluation of development of industrial sector can be done in three ways:

1. Growth rate of industrial production,
2. Contribution of industrial production in NSDP, and
3. Employment.
Here the growth rate of industrial production has been examined at two different time periods:

A. **Pre-reform period**
B. **Past-reform period**

These two phases are presented below.

A. **Pre-reform period**

It can be said that until 1990, no worthwhile changes were made in strategy of industrialization.

**Trend of Growth of Industrial production according to Five Year Plans**

The data relating to the % Rate of Industrial Growth during Five Year Plans in India from 1950-51 to 1989-90 is given below:

<table>
<thead>
<tr>
<th>Period</th>
<th>Targeted Growth Rate</th>
<th>Achieved Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Five Year Plan</td>
<td>7.0 %</td>
<td>7.3 %</td>
</tr>
<tr>
<td>Second Five Year Plan</td>
<td>10.5 %</td>
<td>6.6 %</td>
</tr>
<tr>
<td>Third Five Year Plan</td>
<td>11.0 %</td>
<td>9.0 %</td>
</tr>
<tr>
<td>Fourth Five Year Plan</td>
<td>12.0 %</td>
<td>4.7 %</td>
</tr>
<tr>
<td>Fifth Five Year Plan</td>
<td>8.0 %</td>
<td>5.9 %</td>
</tr>
<tr>
<td>Sixth Five Year Plan</td>
<td>8.0 %</td>
<td>5.9 %</td>
</tr>
<tr>
<td>Seventh Five Year Plan</td>
<td>8.7 %</td>
<td>8.5 %</td>
</tr>
</tbody>
</table>

The data given above shows the performance of economy based on achieved growth rate of industrial production during various five year plans. We observe that,

1. In the first five-year plan (1951-52 to 1955-56) industrial growth was 7.0% but the achievement was 7.3%.
2. During the second five-year plan (1956-57 to 1960-61) growth rate was 6.6%, which was lower than targeted.
3. During the third five-year plan the difference between targeted and achieved growth rate had increased.

4. During the fourth five-year plan (1969-70 to 1973-74) the target was of 12.0% but in reality the annual growth rate was 4.7%. Then after the target fixed for industrial production was decreased.

5. During the fifth five-year plan (1974-75 to 1978-79) and sixth five year plan (1980-80 to 1985-86) growth rate was fixed at 8.0% but in reality only 5.9% was achieved.

6. During the seventh five-year plan (1985-86 to 1989-90). Annual growth rate was targeted at 8.7% were as 8.5% was achieved.

We can see that except for the first five-year plan, all plans were unsuccessful in achieving targeted growth rate.

B. Post-Reform Period

During the Post-Reforms period (1990-91 to 1999-2000), the percentage rate of industrial growth in India has been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>9.0</td>
</tr>
<tr>
<td>1991-92</td>
<td>-0.8</td>
</tr>
<tr>
<td>1992-93</td>
<td>2.2</td>
</tr>
<tr>
<td>1993-94</td>
<td>6.1</td>
</tr>
<tr>
<td>1994-95</td>
<td>8.5</td>
</tr>
<tr>
<td>1995-96</td>
<td>13.8</td>
</tr>
<tr>
<td>1996-97</td>
<td>6.7</td>
</tr>
<tr>
<td>1997-98</td>
<td>6.6</td>
</tr>
<tr>
<td>1998-99</td>
<td>3.7</td>
</tr>
<tr>
<td>1999-2000</td>
<td>4.4</td>
</tr>
</tbody>
</table>

From the above table we observe that:

1. Target fixed for the whole decade from 1990-2000 was 8%.
2. From 1990 to 2000 the ten years are divided into four stages of industrial development.

   a. 1990 to 1992 – sluggish industrial growth
   b. 1993 to 1996 – fast industrial growth
   c. 1996 to 1999 – slow industrial growth
   d. 1999 to 2000 – effect of restricting of reforms

3. The period between 1990 and 1992 was when the reforms had begun. Due to the economic emergency situation prevailing in 1990-91, the effect of reforms was negative in 1991-92. Here the rate of inflation was high, due to which the cost of production was high.

4. There was noteworthy growth in industrial production from 1993 to 1996. During the same time period the performance of capital goods industrial and durable consumer items was very good.

5. Period from 1996-97 to 1998-99 was very slow from industrial production point of view. Reasons for slow industrial developments were,

   a. There was a state of emergency in the East-Asian countries due to which negative impact was seen on Indian industries.
   b. Due to high rate of inflation, effective demand had deceased.
   c. There were continuous recurrences of natural calamities.
   d. There was overall depression in stock market.
   e. Exchange rate was unstable.

6. Second Generation Reforms in industrial sector had already begun from 1999-2000. The industrial sector had started recovering from Depression. The growth rate of basic industries, capital goods industry has been fast while also the growth rate of power, coal, steel, cement, petroleum sector etc. had been good at 7%.

III. **New Industrial Policy**

The new industrial policy (NIP), in operation since 1991 including some amendments since then, marks a big departure from the old policy. The changes in the industrial scene it involved will reshape the entire economic life in a profound way. We discuss the various features of this policy and work out their implications for the industrial development of the country. This will be
followed by an assessment of the policy in terms of its likely contributions to the solutions of the many serious problems India faces.

Features And Implications

The new policy was announced in two stages, rather in two parts. The first part announced on 24th July 1991 concerned the large industries including the medium sized industries. The second part, announced on 6th August 1991 dealt with the small industries. We shall deal with each part separately as also together whenever necessary for the sake of analysis. Prior to this policy several policy statements governed the functioning of industries. The major policy formulation, which held the ground all these years since the mid-fifties, was, however, the one announced in 1956. Before that policy statement, the first after Independence was made in 1948. Subsequent announcements were by and large in the nature of minor changes in one or the other part or parts of the 1956 policy, largely to meet the problems faced in the years when these changes were made. These policy statements were made in 1973, 1977, 1980, 1985, and 1986. Together they did amount to some significant modification of the 1956 policy. But essentially, the 1956 policy remained intact all these years.

In dealing with the subject, we shall first take up the large industries. The description of the policy relating to the small sector will be taken up under a separate head.

Objectives and Measures:

To begin with, we describe the objectives, which the new industrial policy has set before itself. We also enumerate the measures by which the policy is to achieve its aims. A description of these will give us an idea of the shape of things to come.

Progressive economy:

The overall aim of the policy is to achieve a sort of development which makes industries dynamic in their growth and which renders justice to the people. To quote the policy statement itself, it involves a "struggle for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialist and forward-looking India." It also implies building a society wherein "India grows as part of the world economy and not in isolation". Reduced in terms of concrete economic tasks and programs, the policy aims at such important areas as the following:
• Utilizing fully the indigenous capabilities of entrepreneurs;
• Fostering Research and Development (R&D) efforts for the development of indigenous technologies;
• Raising investor sentiments;
• Improvements in efficiency and productivity;
• Controlling monopolistic behavior;
• Assigning the right areas for the public sector undertakings;
• And ensuring welfare as also skills and facilities to the workers to enable them to “deal with the inevitability of technological change”.

As for the external sector is concerned, while the policy continues to pursue the goal of self-reliance, it places greater emphasis on building up of our ability to pay for our imports through our own foreign exchange earnings.

**Greater market-orientation:**

In achieving the various aims, the policy envisages the use of market in a big way. It intends to dismantle the restrictive and regulatory system and thereby “unshackle the industrial economy from the cobwebs of unnecessary bureaucratic controls. This is to allow the private entrepreneurs to make commercial decisions on their own with no government judgment to bind them. In other words, the allocation of resources among industries in respect of type of industries, size of their scale and the nature of products will be determined by market prices. This freedom will also foster healthy competition among the entrepreneurs. The market incentives will also be used to influence the industrial development. It is intended to develop capital markets so as to provide avenues of financial resources the entrepreneurs. This involves the emergence of a variety of financial instruments like loans, shares, debentures etc. The policy also lays stress on and provides an easy entry to the foreign direct investments (i.e., equity capital) and technology. Even foreign private trading houses have been assigned an important role in the expansion of India’s exports. The public sector, too, finds a place as an important instrument of industrial development. Its role will, however, be restricted to some well-defined areas which essential for the industrial economy”.

All this will mean shedding off of some unwanted fat on these undertakings. The upshot of the whole set of means is that the market and the entrepreneur, and not the bureaucrat, will govern the industrial development with public sector undertakings (PSUs) providing the support, albeit indirectly.
Strengthening Private Sector:

A major step towards a greater liberalization of the industrial economy is the abolition of the licensing system for a large number of industries. A major feature of the new industrial policy is that it catalyzes a big change in the industrial set-up of the country by assigning a greater role for the private sector.

Larger scope:

Besides the existing industries in the private sector, some provisions in the Policy amount to an enlargement of the field of operation for the private sector. The constriction in fields of operation of the public sector, for example, leaves open more space for the private sector to operate. A number of activities that have so far been exclusively in the realm of the public sector have now been thrown open to the private sector. The public sector has now been left with only six reserved industries with the remaining having been thrown open to the private sector. These include aircraft manufacture, air transport, ship-building, processing of non-ferrous metals, iron and steel, generation and distribution of electricity, telephones and telephones cables, telegraph and wireless apparatus, heavy castings and forgings of iron and steel heavy plant and machinery required for iron and steel production for mining and heavy electrical plant, including large hydraulic and steam turbines. Besides these industries, there will be new industries that will come up in the private sector. In addition to this, the expansion in the private sector will take place on account of the increase in the number of industries wherein foreign equity or foreign direct investment is now allowed. These industries include hotels and tourism industry, and all food processing industries.

Dismantling of controls:

The private sector has further been strengthened as it has almost been freed from the government restrictions in respect of its functioning. The industrial licensing (or government approval) required for the creation of industrial capacities or investment, has been abolished for all projects except for 15 specified groups. These areas pertain to industries related to security and strategic concerns, hazardous chemicals and overriding environmental reasons, and items of elitist consumption. The exemption from licensing also applies to all substantial expansion of existing units. There is again no restriction on broad banding or producing any product as long as additional investment in plant and machinery is not involved. As a consequence the industries are not required to register themselves with the government. They are only required to file an
information memorandum on new projects and substantial expansion.

Another area, which provides freedom to the private sector, is in respect of foreign technology. Its entry into high priority industries will receive automatic approval. Similar facilities are also available for other industries as well if agreements pertaining to the transfer of foreign technology expenditure of free foreign exchange. The entry of foreign investors in the country with equity share up to 51% (and recently even up to 100% in some cases) is allowed with no limitation. All this amounts to the use of market related prices and incentives, rather than government administrative fiat for making commercial decisions. The private sector has thus been expanded and the activities freed from controls.

**Dispersing Industries:**

Another feature of the NIP, which is significant for the economy, bears upon the location of new industries. The provisions in respect of this aspect are to ensure decentralization of the industrial activities geographically.

- **Towards rural and backward areas:**

  The thrust of the policy is to shift industries away from big congested cities to the rural and backward areas. For example, in respect of locations other than cities of more than 1 million populations, the industrialists will not be required to obtain industrial approval from the Central Government except for industries subject to compulsory licensing. However, in regard to such cities (i.e., with population greater than 1 million) which require industrial regeneration a flexible location policy would be adopted. In the big cities i.e., with population greater than 1 million, industries other than those of non-polluting nature such as electronics, computer software and printing, will be allowed outside 25 km of the periphery, except in prior designated industrial areas. Thus in respect of such locations, the aim is to reduce congestion in the areas already much congested.

- **Various measures:**

  To implement the location policy, both legal measures and incentives will be used. For example, industrial location will, as at present, continue to be governed by laws concerning zoning, land use and environment needs. Incentives (in the form of cheap
land, credit etc.) are also thought of as instruments to attract industries away from congested areas to less congested areas like villages and underdeveloped regions. It is also intended to design investments in infrastructure development in such a way that the areas that are lagging in industries are helped. Besides benefiting such areas in this way, the new industrial policy also favours the expansion of agro-based industries near the farming areas. In the sphere of small industries and rural industries, a number of provisions have been made to ensure their development in small towns and villages.

Redefining the Role of Public Sector:

In view of the many problems the public sector undertakings (PSUs) suffer from - such as very low rate of return on the capital invested, insufficient growth in productivity, poor management etc., the new industrial policy seeks to reexamine their place in the economy. A broad frame has also been indicated within which the PSUs are to function.

- **Unsuitable areas of operation for public sector:**

  The policy pinpoints the areas, which being not fit for the PSUs, are to be vacated by them. One is a set of sick industrial units which the public sector took over and which accounts for almost one-third of the total losses of Central Public enterprises. There is another group of public enterprises, quite large in numbers, which are engaged in producing consumer goods and services. These do not fit into the original perception of PSUs as being those that are to be at the commanding heights of the economy. Besides, the policy promises to make a review of the existing portfolio of public investments with greater realism. It is mentioned that this review will be in respect of industries based on low technology areas, 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. Obviously in this assessment the intention is to reduce the role of public sector in these areas.

- **Suitable areas for public sector:**

  The new approach that marks the new industrial policy is to specify the role and the areas of operation that fit in with the undertakings that are in character. It is for example stated that there must be a greater commitment to the support of public enterprises that are essential for the operation of the industrial economy. In this frame, the priority areas
for growth of public sector in the future are laid out.

These areas cover 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;
- Manufacture of products where strategic considerations predominate such as defense equipment.

In this light, the policy has listed six industries, which are to be reserved for the public sector. These are: defense products, atomic energy, coal and lignite, mineral oil, railway transport, and minerals relating to the atomic energy. While these are the reserved areas, it is also stated in the policy that the public sector will not be barred from entering areas not specially reserved for it.

- Improving their working:

The industrial policy also lays great stress on the up-gradation of the conduct of the PSUs through various means. It is stated that measures must be taken to make these enterprises more growth-oriented and technically dynamic. Units that may be faltering at present but are potentially viable must be restructured and given a new lease of life. It is also emphasized that the government will strengthen those public enterprises that fall in the reserved areas of operation, or are in high priority areas or are generating good or reasonable profits. It is provided that such enterprises will get a much greater degree of management autonomy through the system of Memoranda of Understanding, specifying the rights and obligations of the enterprises and the government. It is also envisaged that competition will be inducted in these areas by permitting private sector also to participate in these activities. In the case of selected enterprises, part of government holdings in equity will be disinvested in order to provide further market discipline to the performance of public enterprise. The new policy extends the jurisdiction of MRTP Act to the public enterprises. This will be a legal safeguard against the working PSUs to the detriment of public interest in respect of monopolistic, restrictive and unfair trade practices.
Important Role for Foreign Investments:

The new policy expects significant contributions from foreign entrepreneurs in the fields of investments, trade and technology. For this liberal provisions have been made for their easy entry onto the industrial scene of the country.

- **Direct investments:**

  The entry of the foreign investors in the form of direct equity investment is being encouraged by allowing control of majority share in several areas (as against 40% earlier). This majority ownership will enable foreigners to control the working of the enterprises in which they invest. The areas in which these investments are to be invited are high priority industries, requiring large resources and advanced technology. The agreement between foreigners and Indians in respect of these projects will get automatic approval from the government. The entry of foreign investors in these industries up till now has been given (up to 40% of equity) but only on a case-by-case basis, that is, on a discretionary basis. Now the entry will face no bottlenecks. This will make the Indian policy on foreign investment transparent, and it is hoped that such a framework will make it more attractive for foreign companies to invest in India.

- **Trading companies:**

  Apart from foreign direct investments the new policy also seeks help from foreign trading companies in the field of exports from India. It is stressed in the policy that the promotion of exports of Indian products calls for a systematic exploration of world markets, which is possible only through intensive and highly professional marketing activities. The policy further states that to the extent the expertise of this nature is not well developed so far in India, the government will encourage foreign trading companies to assist us in our export activities. To get an access to the world markets as also to attract foreign investment and advance technology, the government is to appoint a special board to negotiate with the world's largest industrial manufacturing and marketing organizations.
Foreign Technology:

The entry of foreign technology too has been made easy in the new industrial policy. There is a provision that allows automatic approval for technology agreements related to high priority industries. Similar facilities will also be available for other industries if such agreements do not require the expenditure of free foreign exchange. Further, it is also provided that no prior clearance would be required for the hiring of foreign technicians and foreign testing of indigenously developed technologies. With no interference by the government it is hoped that Indian business will develop relationship with the suppliers of foreign technology (as also foreign investors) on a continuing basis and make their decisions on the basis of commercial considerations. It is further hoped that the Indian businesses will make necessary efforts to absorb foreign technologies by devoting larger funds to research and development.

High priority industries:

The industries in which the approvals of foreign investments and foreign technology have been made automatic are important ones for the Indian economy. A brief description of the same should give an idea of the change that the new policy has ushered in, in this respect. These industries are:

- Metallurgical industries (like Ferro alloys, castings and forgings, pig iron etc.);
- Boilers and steam generating plants (like internal combustion engines, industrial turbines, alternative energy systems like solar power, wind power etc.);
- Electrical equipment (like electrical motors, electronic equipment, X-ray equipment etc.);
- Telecommunication equipments (like optical fiber etc.);
- Generating and pumping sets;
- Transportation (like commercial vehicles, public transport vehicles, spares and ancillaries etc.);
- Industrial machinery (like machine tools, industrial robots etc.);
- Agricultural machinery (like tractors, harvester combines etc.);
- Industrial instruments (like indicating, recording and regulating devices, laboratory equipments etc.);
- And chemicals and others (like fertilizers, petrochemicals, synthetic rubber, man made fibers etc.).

These industries are largely in the nature of producing those capital goods as also those basics
materials, which are relevant for strengthening the productive capacity of the economy as also in
injecting newer and more modern products. These require large investments and the most
advanced technologies.

Controlling Monopolies:

The restrictions on the functioning of monopolies, embodied in the Monopolistic and Restrictive
Trade Practices Act (MRTP Act), in operation since June 1970, have also been removed. Instead
emphasis now is on tackling the undesirable monopolistic activities.

- **Removal of asset Limit:**

  In terms of the position till recently, the companies with assets of Rs. 100 Crores or more
were required to seek government's prior approval in respect of a number of their
activities. These activities pertain to the expansion of adjusting firms, the establishment
of new undertakings, mergers, amalgamations, and takeovers. They had even to seek
permission from the government for appointment of certain directors of these
companies. Restrictions also existed in respect of the acquisition of and transfer of shares
of these companies. The new industrial policy does away with the concept of asset limit
itself. This eliminates the requirements of prior approval of the Central Government in
respect of the activities concerning expansion, new undertakings etc. This change only
removes procedural delays because in the past MRTP companies where rarely refused to
setup new project or expand the existing once etc. The change thus conforms to the
reality. But in doing so, the companies have been saved from the time consuming
procedures, involving costs in seeking and getting approval for their proposals.

- **Curbs on anti-social activities:**

  The emphasis has now shifted to taking appropriate action against monopolistic,
restrictive and unfair trade practices on the part of monopolies. These dominant
undertakings or monopolies have now been identified as those who control over 25 per
cent share of the market. In fact from this angle the new industrial policy has widened
and strengthened the provisions of the MRTP Act, their implementation through the
Monopoly Commission. For example, the public sector undertakings hitherto outside the
purview of this Act have been brought within the orbit of this law. The shares too have
been included within the definition of "goods". Further the chit funds and dealings in real
The malpractices in these fields will get another avenue of redress besides regular courts. The new policy also provides for the strengthening of the MRTP Commission so that it can undertake more effectively the investigation of malpractices on its own or on complaints received from industrial consumers or other classes of consumers.

Promoting Small Sector Industries

The new industries policy for the small sector industries, announced on 6 August, 1991, envisages a number of changes in the old policy, with a view to making them strong and viable units.

- **Financial support:**

  The most important feature of the policy is the four-point scheme to provide financial support to the small-scale industries (SSI) sector.

  1) First one is to ensure the supply of adequate flow of credit to these industries to meet their entire needs on a normative basis, i.e., in terms of what ought to be their needs. It marks a departure from the old policy of concentrating on providing cheap credit. Besides providing credit-needs of industrial units, this provision also includes identification of select industries in large clusters which would be provided financial support by Small Industries Development Bank of India (SIDBI). The National Equity Fund Scheme as also the Single Window Scheme has been enlarged to provide larger funds to projects involving larger capital outlays.

  2) Two, the new policy allows equity participation by other or non-SSI industries undertakings in the SSI sector, up to 24% of the total shareholdings. This is being done to provide small units access to the capital market and to encourage modernization, technical up-gradation, ancillarisation (i.e., producing for the non SSI firms) and sub-contracting (i.e., taking on the work in parts on contract basis from the main contractor).

  3) Three, a limited partnership is to be allowed, which would limit the financial liability of the new and non-active partners/entrepreneurs to the extent of the capital invested. This would enhance the supply of risk capital to the SSI sector.

  4) Four, provisions have been made to ensure speedy payments arising from the sale of products of the SSI sector. One such provision, called factoring service involves...
payments to the SSI by SIDBI and/or by agencies to be operated by commercial banks before these are collected from the buyers by these agencies. This will to a great extent solve the problems of the delayed payments to the small sector by the large units. Another measure consists of suitable legislation to ensure prompt payment of small industries' bills.

- **Supply of raw materials and marketing:**

  The new policy also provides for the supply of raw materials and marketing facilities to the SSI units. As far as the indigenous raw materials are concerned, the SSI units would be accorded priority by the government while allocating these materials. It is also to be ensured that the small sector gets adequate and fair share of the raw materials available, both indigenous and imported. However, it would be seen that in doing so the entry of new units in the small sector is not adversely affected. As for marketing, the policy envisages market promotion of their products to be undertaken by cooperatives, public sector institutions and other professional agencies. It is also expected that these agencies would undertake a consortium approach i.e. they work together in providing facilities for their sale. It is also provided in the policy that the National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under a common brand name in association with the state Small Industries Development Corporations (SIDCs). In the sphere of marketing, provision has also been made for the export of products of the small sector. The nodal agency for export-promotion will be the Small Industry Development Organization (SIDO). It will make efforts to augment export-activities including the improvements in the productivity and competitiveness of the SSI products.

- **Production and Quality:**

  Several measures have been incorporated in the policy to ensure larger production and better quality of the products. One such measure aims at widening and deepening complementariness in the production programmes of large medium and small sectors. This will be ensured thorough the productions of parts, components, sub-assemblies etc., by the small ancillary units, which are required by the large public and private industries. The production will thus become viable technically and economically. It is also
emphasized that these industries will be located in the rural and backward areas to ensure stronger coordination between industry and agriculture. This will facilitate the easy access to raw materials, particularly in respect of agro-industries. A program for modernization and technology up-gradation is also envisaged for these industries to raise production and productivity. Special emphasis is also laid on the improvement of the quality of these products. The policy promises to encourage and support industrial associations to establish quality counseling and common testing facilities.

**Special Measures for Tiny Sector:**

The policy has devised a package of measures for the tiny sector only. The investment limit in plant and machinery in a unit has been raised from the Rs. 5 Lakhs to Rs. 25 Lakhs, obviously to provide for the increase in the prices of capital goods etc. Besides the facilities available to the tiny sector as part of the small sector, it would also be eligible for additional support in the terms of cheap land and power allocation and access to facilities for technology up-gradation on a continuing basis, including easier access to institutional finance. Again the policy provides for according priority to the tiny sector in the government purchase programs. Though it is not specified, the policy also provides relaxation to the tiny sector from certain provisions of the labor laws.

- **Special measures for handloom, handicrafts, khadi and village industries:**

  For the first time these sectors of the small industries have been treated with special measures. Conceived as a package, these consist of several schemes and facilities. The existing schemes for the handloom sector, for example, propose to be revised under three major heads:

  - Project package scheme under which the area-based approach will be adopted to improve technology and marketing facility;
  - Welfare schemes will be increased and the funds earmarked for them substantially augmented
  - Schemes for participation in the share capital will be re-drawn for imparting a better management system.

  Measures have also been provided to ensure the supply of substantial funds and facilities for modernization of looms, training, for better designs, for better dyes and chemicals and for
marketing assistance. The role of National Handloom Development Centers (NHDC) as also of the National cooperative Development Corporation (NCDC) is being enhanced in respect of the supply of raw material like hank yarn, dyes, and chemical as also seed money to both cotton-growers' spinning mills and weavers spinning mills. The schemes for improving marketing of handloom products in the domestic and industrial markets have also been envisaged.

As for the "handicrafts sector", the policy envisages setting up of "Craft Development Centers" to offer the following facilities:

- Supply of raw materials, design and technical guidance, marketing support, training and procuring of related inputs in an integrated and area-based manner.

Measures are also proposed to increase exports of handicrafts through new marketing channels like trading companies, departmental stores etc. In respect of khadi and village industries, the policy promises to initiate measures to encourage activities related to R & D and better flow of credit from the financial institutions. In promoting all these activities, the policy lays greater emphasis on the quality and marketability of products in accordance with the consumer preference, rather than merely on rebates and subsides.

IV. Industrial Policy Reform

In order to consolidate the gains already achieved during the 1980s, and to provide greater competitive stimulus to the domestic industry, a series of reforms were introduced in Industrial Policy. The new industrial policy of 24th July 1991 sought to deregulate industry so as to promote the growth of a more efficient and competitive economy. Industrial policy reforms announced in July 1991 should be seen as being complementary to those undertaken in trade and fiscal policies and in the management of the exchange rate and the financial sector. The central elements of these reforms were as follows:

1) Industrial licensing was abolished for all projects except in 18 industries where strategic or environmental concerns are paramount or where industries produce goods with exceptionally high import content. With this, 80 per cent of industry has been taken out of the licensing framework.

2) Capacity expansion or diversification of projects was made easier for large companies thru making amendments to the MRTP Act by eliminating the need
for taking prior approval. This was to enable Indian companies to become large enough to compete effectively in global markets.

3) The requirement of phased manufacturing programmes was discontinued for all new projects. This reduced execution time for their projects greatly.

4) Areas reserved for the public sector were narrowed down and greater participation by private sector was permitted in core and basic industries. In the place of the 17 areas earlier reserved for investment by the public sector, only 8 such areas are now reserved. These 8 areas are mainly those concerning strategic and national security concerns.

5) Government clearance for the location of projects was dispensed with, except in the case of 23 cities with a population of more than one million.

6) Small-scale enterprises were given the option to offer up to 24% of their shareholding to large-scale and other industrial undertakings. This would provide them with greater access to capital and technology.

7) Loan agreements of the financial institutions with privately managed firms were earlier required to provide for the right of the financial institutions to convert the loans into equity. In August 1991, the institutions were permitted not to insist on this provision in future loans unless they felt it necessary for commercial reasons. In December 1991, the institutions were permitted to delete the provision from past loans also subject to a revision of the interest rate where appropriate.

8) A National Renewal Fund was set up with a corpus of Rs. 200 Crores to ensure that the costs of technological change and modernization of industry would not be borne by workers. It would be used to provide a safety net to workers in sick and non-viable enterprises, and to finance their retraining and redeployment.

Along with a reform of industrial policies, steps were also taken to facilitate the inflow of direct foreign investment. These non-debt-creating inflows minimized reliance on fixed-interest debt and also helped bring in new technology, marketing expertise and modern managerial practices. The following measures were taken in this context:

1) The limit of foreign equity holdings was raised from 40% to 51% in a wide range of priority industries. However, export earnings would balance foreign exchange outflow on account of dividends on additional equity. Such foreign equity participation now has automatic approval and is cleared by Reserve Bank of India.

2) The procedures for investment in non-priority industries have been streamlined.
The Foreign Investment Promotion Board has been established to negotiate with large international firms and to expedite the clearances required. The FIPB also considers individual cases involving foreign equity participation over 51%.

3) Technology imports for priority industries are automatically approved for royalty payments up to 5% of domestic sales and 8% of export sales or for lump-sum payments of Rs. 1 Crore.

The response to the new industrial policy has been very encouraging. The number of investment approvals granted has gone up from 3,335 in 1990 to 5,538 in 1991. The figure for 1991 includes 3095 Industrial Entrepreneurs Memoranda filed under the new policy, which would have earlier required letters of intent (LOI) or industrial license (IL). 3,897 investment proposals were cleared between the announcement of the new policy on 24th July 1991 and 31st January 1992. During the same period, 505 foreign technology import agreements were also approved. The effects of this increased domestic investment activity in terms of higher capacity and output will emerge after some time when these investment plans fructify. Changes brought about in policies towards direct foreign investment have also evoked a strong positive response from foreign companies. In 1991, a total of 244 cases of foreign equity participation with a proposal equity investment of $504 million were approved. In the previous three years, 1988, 1989 and 1990 the total inflow of private foreign equity was $95 million, $120 million and $50 million respectively. The increase in domestic investment activity and inflow of foreign capital will strengthen our industrial capabilities and contribute to exports.