CHAPTER - V
CHAPTER V

THE IMPLICATIONS OF THE POST 1980 INDUSTRIAL POLICIES ON THE INDUSTRIAL DEVELOPMENT OF THE COUNTRY

As pointed out in the foregoing chapters, Industrial Policy has played an important role in the planned industrial development of India. For a developing country which has a vast potential for industrial progress it is all the more necessary to pursue a sound industrial policy. India has, so far, witnessed three distinct phases in the evolution of its industrial policy. From independence till the late Sixties, the country pursued largely a socialistic Industrial Policy. From the late Sixties to the early Eighties was the era of FERA and MRTP directives while the middle Eighties marked the beginning of liberalization measures. In fact, it was in the beginning of the Eighties that the industrial policy identified six major and vital areas of the economy namely — industrial licensing, foreign investment, foreign technology agreements, public sector, MRTP Act and small and tiny sector for liberalization so that Indian economy may cope with rapid industrial development taking place at the world level and catch up with it in as minimum time as possible.

The basic parameters which have guided industrial development of independent India were laid down in the
Industrial Policy Resolution (IPR) of 1956. The main objectives of the Resolution were mainly to accelerate the rate of economic growth and to speed up industrialization in particular, the development of heavy industries and machine tools to expand public sector and to build up a large and growing cooperative sector. It clarified that in view of the adoption of the socialistic pattern of society as the national objective as well as the need for planned and rapid development, it was necessary that industries of basic and strategic importance and public utilities should be in the public sector. For these industries, the State assumed direct responsibility. It also defined the field in which it will undertake sole responsibility for further development and to make a selection of industries, in the development of which it will play a dominant role.

The Government, therefore, decided to classify industries into three categories on the basis of the role the State was going to play in each of them. The first category consisted of industries for which the State undertook exclusive responsibility listed in schedule A to the Resolution. The second category consisted of industries in which the State would take the initiative in establishing new undertakings but in which private enterprise was also expected to supplement the efforts of the State. These were listed in schedule B to the Resolution. The third category included all remaining
industries, the development of which was left to the initiative and enterprise of the private sector.

It is relevant to mention that the industrial undertakings in the private sector were expected to fit into the framework of the social and economic policy of the State and be subjected to control and regulation in terms of the Industries (Development and Regulation) Act (IDRA) 1951, and other relevant legislations. It also clearly declared that it will be the policy of the State to promote and encourage the development of private sector industries outside Schedule A and Schedule B in accordance with the programmes formulated in successive Five Year Plans, by ensuring the development of transport, power and other services and by appropriate fiscal and other measures.

It is obvious from the IPR of 1956 that it did not envisage the rigid licensing system which gradually took hold of all aspects of industrial development in the country during the subsequent years. The IPR of 1956, which formed the basis of industrial Policy of successive Governments and which continues to occupy the minds of many even today, had nothing to do with the rigid licensing system that evolved subsequently. On the contrary, it is a remarkable document which took stock of the situation that prevailed in the country at that time, recognised the need
for accelerated industrial growth and tried to formulate an industrial policy which dovetailed into the overall national strategy for achieving the objectives which the nation had set before itself. It is really a tribute to Pt. Jawaharlal Nehru, the author of the IPR of 1956, that the policy objectives enunciated therein are as relevant today as they were at the time when the policy was announced.\(^1\)

On the resumption of power by the Rajiv Gandhi Government towards the end of 1984, the process of liberalisation in industrial and trade policies was initiated. However, the Government tried to liberalise the policies and procedures without touching the basic framework work of these policies. The result was that the policies and procedures became even more complicated than they were before. This was due to the fact that the Government introduced a number of schemes such as delicensed industries, exempted industries, broad-band ing of capacities, fixation of minimum re-endorsement of capacity as a result of modernization, technological upgradation, etc. through which it sought to bypass the restrictive licensing system. To add to the complications, there were separate regulations for MRTP and FERA Companies falling outside these categories. All these led to a plethora of

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of Press Notes and Circulars explaining and clarifying the complicated schemes quite expectedly, only big enterprises and big companies maintaining liaison offices in Delhi could take advantage of the system in obtaining the necessary approval to the exclusion of a large number of small and medium entrepreneurs.  

The policy gave unbelievable results. Industry blossomed and growth jumped to more than 8 percent per year. Even large business houses which indulged in import substitution were inclined to look for export markets. Efficiency improved. For the first time, it visually appeared that Indian manufacturers were competing with each other though not so much with the world outside. Shops and showrooms displayed a much larger variety of goods. There were surplus almost of every commodity. It appeared the time had come for the second round of liberalization.

The process of liberalization was also nullified to a large extent during the process of implementation of the industrial policy for example on 30th June, 1988 the time had come for the second round of liberalisation. The Government through a notification under section 29(1) of the Industries (Development and Regulation) Act exempted non-MRTP and non—FERA companies for

involving investment in fixed assets upto Rs. 50 crores if they were located in centrally notified backward areas and upto Rs. 15 crores if they were located in non backward areas, from the requirements of obtaining industrial licensing as long as the item of manufacture was neither reserved for the public sector, nor the small scale sector, nor including in the list of 26 industries, which continued to be subject to compulsory licensing. In spite of this unambiguous statutory notification, many of the applications, under the exempted industries scheme, in fact, took much longer in obtaining registration than the average time taken to obtain a letter of intent for an industrial licence.

Besides, in order to promote industrialisation in backwards areas, new industrial undertakings established in centrally notified backward areas were entitled to income tax relief under Section 80 HH of the Indian Income Tax Act, 1961 by way of deduction of 20% of the profits available for a period of 10 years, and under Section 80 I of the Act 25% of the profits for a period of 8 years. The benefits of both these sections were available cumulatively to industrial undertakings established in declared backward districts.

There is no doubt that there was a justification for revision of asset limits of big industrial

undertakings in view of the sharp escalation of prices that had taken place earlier, but it was not expected that the Government would take a quantum jump and raise it 5 times. The considerations of liberalising investment limit with the specific objective of raising production were paramount with the Government. Moreover, the Government was dead set to promote computerisation and electronics alongwith the expansion of communications. Any obstacle in this regard in the form of MRTP and FERA regulations were sought to be removed. But in this process, the government made the small scale industries a victim of its programme of modernisation. For example, the de-reservation of around 200 items adversely affected the small scale sector and the abnormal benefits which were provided to the large corporate sector to compete with the small scale sector adversely affected it further. As a consequence, the objective of promoting full employment via encouragement to small scale sector was jeopardized.  

Actually, liberalisation was not the need of the Indian economy alone. There was a new wave sweeping changes countries of the world. Almost overnight, the East European economies had jumped out of the prison of controls into free enterprise. The South East Asian countries opened their economies atleast 5 years back and the results were fabulous. For instance, Thailand had been able to reach an annual growth of 11 percent with more or less balanced trade position. Of course, liberalisation,

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by itself could be good for domestic industry. When it was combined with more foreign investment, the outcome was even better. The old notions about foreign investment have changed because with globalisation, foreign investment has lost it nationally. It is now much sought after partly to compensate concessional foreign aid which is drying up very fast. In spite of our being a large country, our share in world foreign investment is extremely small. Of the $100 billion foreign investment, we receive only $0.15 billion not even peanuts.\(^5\)

Whatever the critics may say about the changing pattern of Indian Industry, there can be no two opinions that the rapid industrial growth during the 1980's was due to the favourable reforms undertaken in the industrial policy during the early and mid 1980's. It was, therefore, logical that to sustain the tempo of industrial development and to provide competitive stimulus for accelerated industrial growth and development during the 1990's, there arose a need to further push to the process of industrial liberalization and that's why, it appeared precisely to be the objective of the New Industrial Policy which was announced on May 31, 1990. It was a step towards keeping pace with the world trends. In relation to the past, tremendous changes have taken place.

However, according to some experts, the industrial policy of 1990 was the outcome of a considerable debate in the Central cabinet and perhaps reflected the reconciliation of conflicting pressures between providing "a socialist stance" and "greater push to liberalisation". The generosity to the decentralised sector (i.e. the small scale and ancillary sectors) and lack of any relaxations with respect to MRTP and FERA companies demonstrated the so called socialist stance. On the other side, substantial liberalization of investment ceilings to medium and large scale, non MRTP and non FERA companies and a fair degree of automaticity gratuated in attracting foreign investments gave an evidence of a forward push towards the process of liberalisation. In the context of complex complexion of the then Government, the industrial policy was not in a position to satisfy the needs and aspirations of all segments of Indian Industry. But, there should be no doubt that apprehensions about the possibility of a reversal in the process of liberalisation of industrial policy were set at rest.

Besides, a group of 11 economists, i.e., Prof. C.S. Bhalla, Prof. Krishna Kumar, Prof. D.D.Narula, Prof. Nurul Hooda, Prof. Ram Prasad Sengupta, Mr. R.C. Dutt, Dr. Abhijit Sen, Dr. C.P. Chandrashekhar, Mr. K.S. Chalapati Rao, Prof. G.K. Chadha and Prof. R.K. Goyal, had assailed the Industrial Policy as being" a leap in the direction of
liberalisation, ignoring the logic of planned development had yielded to political compulsions. In a seven page statement, the economists contended that in the face of overwhelming evidence to show the composition of the export basket of the large positive corporate sector, "it is naive to believe that this type of liberalisation would result in additional net foreign exchange for the country". On the contrary, the statement said, "the nation would be indebted further due to the increased level of imports of capital goods and sustained dependence on external sources for raw materials and components."

The draft approach paper to the Eighth Plan prepared by the Planning Commission, Government of India, stated that "the strategy of industrialisation would be to subserve multiple objectives." Accordingly, it laid down considerable stress on rapid increase in the gainful employment, balanced regional growth, sustained advance in productivity with technological dynamism and achievement of international competitiveness in selected sectors such as steel, electronics, machine building and so on. These were the major objectives of the industrial policy. It indicated broadly the areas of industrial policy reforms which were, for example, to release productive forces and entrepreneurial energies by reducing bureaucratic controls.

and laying greater emphasis on strategic and non-directional instruments of regulation. It also suggested that the measure would be initiated for progressively lowering the level of effective protection and increasing competitiveness of Indian industry so that the consumer had access to goods of quality at reasonable prices. There were a series of specific observations and suggestions in the Approach Paper, all of which obviously could not come within the purview of the policy.

The policy aimed at carrying forward the liberalisation process. The most significant aspect of the policy in an overall context, was the automaticity allowed for the railing out of a case by case approval. This made for a sweeping 'de-bureaucratisation of industrial policy and had far reaching implications. The policy made a relaxation of the norms for industrial approvals, liberal rules for foreign collaborations and a significant increase in the investment ceilings for decentralised sector units. The import of capital goods, raw materials and components was made much more liberal. The exemption limit in regard to licensing requirements was substantially raised for almost all categories.7

Let us now turn to examine the main features of the 1990 industrial policy which were no doubt, welcomed by

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industry and trade circles. The thrust of the liberalisation manifested itself primarily in the raising of investment ceilings for different segments of Indian industry and in promising to reduce bureaucratic controls in securing various clearances from the Government. The following table brings about the extent of relaxation in terms of investment ceilings.

Table 5.1

<table>
<thead>
<tr>
<th>I. Decentralised Sector</th>
<th>Existing ceiling (Rs. in lakhs)</th>
<th>New Ceiling (Rs. in lakhs)</th>
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<tbody>
<tr>
<td>investment ceiling on plant and machinery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Tiny Units</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>b) Small scale units</td>
<td>35</td>
<td>60</td>
</tr>
<tr>
<td>c) Ancillary Units</td>
<td>45</td>
<td>75</td>
</tr>
<tr>
<td>d) Export obligation the Small scale units with 30% third year</td>
<td>35</td>
<td>75</td>
</tr>
</tbody>
</table>

II. Large New Units & Expansion: Licensing exemption in terms of fixed asset (Rs. in crores)

<table>
<thead>
<tr>
<th></th>
<th>Existing ceiling (Rs. in crores)</th>
<th>New Ceiling (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) In non backward areas</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>b) In centrally notified backward areas</td>
<td>50</td>
<td>75</td>
</tr>
<tr>
<td>c) 100% EOUs &amp; Units set up in EPZs</td>
<td>No specific exemption</td>
<td></td>
</tr>
</tbody>
</table>

NOTE: MRTP and FERA companies needed clearances under the respective Acts and hence could not benefit from this enhanced exemption limit.

Thus, we had a new classification in the Indian industry, namely, (i) the decentralised sector comprising of tiny, small scale and ancillary industries; (ii) the non MRTP and non FERA companies in the middle and large industry; and (iii) the MRTP and FERA companies. This was quite distinct from the cost structure which prevailed on the basis of pattern of ownership of enterprises representing cooperative sector, public sector, joint sector and private sector, we had, somehow, mastered the technique of segmentation of Indian industry on the basis of arbitrary fixation of the investment limits rather than in terms of quality of integration of activities of various segments of industry. Indeed, this unique phenomenon was further sought to be fortified by the industrial policy.  

The policy statement made a case for the growth of small scale industries just on the lines of the Janta Party Government of 1977. On the other hand, an effort was made to permit blanket liberalisation with a view to accelerate the growth of the medium and large scale sector. The policy gave unfettered right to conclude foreign collaborations in case the royalty payment does not exceed 5 per cent on domestic sales and 8 per cent on exports.

The policy was a curious amalgam of the philosophy of the Janta Dal and the philosophy of indiscriminate liberalisation followed by Rajiv Gandhi. The implications of the 1990 industrial policy are discussed in the following pages:

The broad features of the policy statement were, no doubt, welcomed by industry and trade circles. But, it appeared that sufficient thought had not been given to the danger of foreign exchange loss or of misuse of the sweeping liberalisation particularly with regard to import of capital goods, raw materials and components as also foreign collaborations. For instance, the industrial policy statement mentioned that "for import of capital goods, the entrepreneurs would have entitlement to import up to a landed value of 30 percent of the total value of plant and machinery required for the unit." Again, "for import of raw materials and components imports would be permissible up to a landed value of 30 percent of the ex-factory value of production." Already, the Government had received protests from the indigenous capital goods sector that imports of capital goods were being permitted in the face of idle domestic capacities. Secondly, the same unit could claim import licence for capital goods as well as raw materials and components. With the balance of payments situation already very adverse, the industrial policy would add to the burden of imports. On the one
hand, the Government in its import export policy proposed

to cut down in essential imports as well as to restrict
imports to only such areas in which domestic capabilities
were not developed, but on the other, in the industrial
policy, the same government was introducing a principle of
automaticity with the least consideration about the
desirability or otherwise of imports. Obviously, there was
no overall framework of national policy. It only provided
a better example of contradictory policies being pursued
by the Government.

As for foreign collaborations, the policy said that
if import of technology was considered necessary by the
entrepreneurs, they could conclude an agreement with the
collaborator without obtaining any clearance from
the Government so long as the royalty payment does not
exceed 5 percent on domestic sales and 8 percent on
exports. Going by past experience, there was a danger of
all kinds of foreign collaborations and foreign investment
agreements being concluded even in the non priority areas.
In actual practice, a number of foreign collaboration
agreements were concluded in such items as tooth pastes,
toilet paper, fast foods and other mass consumption
products which could be easily manufactured even by the
small scale sector indigenously. While automaticity was a
good principle to apply, some form of regulation was
required to prevent foreign exchange expenditure in wholly
non priority areas.\(^9\)

The industrial policy was, in fact, set out to meet the prescriptions in a rather suitable manner. It tried to balance promoting small and tiny units with the large scale firms as, over the years, employment growth in the organised sector had been sluggish. According to data collected under employment market information programme, there was only a marginal increase of 1.4 per cent in employment in the organised sector from 253.9 lakhs in 1986–87 to 257.5 lakhs in 1987–88. The Government was in an unenviable position as it was to provide jobs for the numerous unemployed without compromising on industrial efficiency. World capacities with international norms are capital intensive. So, no sector can hold on to Gandhian times and that's why, advanced known how is a must for all sectors, employing less employment per unit with a rise in overall numbers of employed, if more units are set up.

The industrial policy raised the investment ceiling in plant and machinery for the small scale industries (fixed in 1985) from Rs. 35 lakhs to Rs. 60 lakhs and correspondingly for ancillary units from Rs. 45 lakhs to Rs. 75 lakhs. Reservations of items extending to 836 items would help though it would be better to progressively reduce their number. Small tiny units cannot grow on their

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own without help from large units in private and public sectors. One could argue about the small scale sector that the increase in the investment ceiling was desirable in view of the inflation during the last few years, it should not be overlooked that 90 percent of the existing small scale units belong to the category where the investment in plant and machinery was less than Rs. 5 lakhs. Of course, the raising of the investment limit in plant and machinery to Rs. 75 lakhs in respect of export oriented small scale units was a step in the right direction since this would enable them to go in for modernisation and technology upgradation. Similarly, the raising of the ceiling in respect of tiny units from Rs. 2 lakhs to Rs. 5 lakhs was also welcome. However, on the contrary this being so, raising the investment limit to Rs. 60 lakhs in small scale units and further to Rs. 75 lakhs in export-oriented units was mainly intended to benefit industrial and export houses who created small scale and ancillary units. On paper to take the benefit of the concessions extended by the Government in the name of small scale industry promotion.

Apart from relaxing the investment limit, the industrial policy had assured the small scale sector that efforts would be made to identify more items, besides the

10. Devarajan, P; "Industrialisation: An unenviable
836 items included in the list, for reservation for exclusive manufacture in the small scale sector and that encroachment and violation by large scale units into such reserved areas were proposed to deal with effectively. However, the experience revealed that though toothpaste was reserved for the small scale sector, but after more than a decade, 70 percent toothpaste was produced by multinationals. Footwear, domestic appliances, safety matches, soap and detergents were reserved for the small scale sector as far back as in 1967, but in all these items, big businesses and large scale sector dominate. The question, therefore, is not of enlarging the list and make it look impressive, but one of improving the market share of the small scale sector by phasing out the large scale sector from this area.¹¹

The initiatives proposed in the new industrial policy to modernise the small scale sector by setting up a number of technology centres, tool rooms, process and product development and testing centres etc. were welcome. This was bound to increase the competitive strength of the small units by improving their quality of output and reducing their costs. Similarly, efforts to eliminate bureaucratic interference so that the small scale entrepreneurs were not harassed was another welcome.

feature of the new policy. Similarly, linking growers with processing units and encouraging joint ownership of projects was a rationalisation which was intended to provide a boost to agro-based units.

However, there was an organised onslaught on the agro-based industries by big businesses and multinationals. For example, the Pepsi-cola project sanctioned in Punjab by the Rajiv Gandhi Government was a very highly capital intensive project which had a very poor employment generation potential. Similarly, the Food Specialities Limited was making deep inroads into the market share of the small sector. Whereas, the Janta Dal government by its entire policy of promotion of small scale and agro-based industries aimed to increase the market share of the small scale sector in total industrial output, there was greater evidence of shrinkage of the market share of the small scale sector in view of the various encroachments that the large scale sector had made then. The Government should have, therefore, taken a bold stand, not in words, but in action so that the professed goal of generating more employment and dispersal of industry could have been achieved.12

Besides, there were several other promises held out for the small scale sector, namely an exclusive new scheme

of central investment subsidy for setting up of technology centres, channelising need based higher flow of credit, strengthening the existing regime of fiscal concessions, etc. Similarly, assistance and support had been promised to the tiny sector and units in rural and cottage industries. The emphasis on decentralised sector of the Indian industry was quite in conformity with the Approach paper's policy objectives of generating employment, poverty alleviation, encouraging labour intensive forms of manufacture and expanding production of mass consumption goods.

One would have quite obviously expected that such overwhelmingly favourable bias of industrial policy to have evoked uniformly warm plaudits from the small scale industry (SSI). Surprisingly, some of the representative SSI organizations had criticized the Provisions of the New Industrial Policy (NIP) especially on two counts, namely (i) on the fixation of revised locational norms as a result of which it was feared that tiny units which accounts for about 90 percent of SSI units would be forced to move out of the small towns, and (ii) on likely monopolising of benefits by the bigger among the SSI units, thanks to their resourcefulness. The official data pointed out eloquently on remarkable performance of the SSI sector in terms of expanding production, generating employment, increasing exports, spreading of entrepreneurship and
Industrial activity and so on. In the light of these achievements the encouragement sought to be given to SSIs in the NIP was quite in order.

However, there was a major caveat. It was well known that the SSI sector had been a poor contributor to the tax revenues of the Government. This was so became there were major hidden subsidise, which were estimated to be in the vicinity of Rs. 18,000 crores to Rs. 20,000 crores on its estimated gross value of output of about Rs. 93,000 crores. The point to be emphasised was that the NIP with its thrust on promotion of the SSI units would result in encouraging investment and expanding production in this sector but in the process would also result in weakening instead of widening the tax base of the economy.  

The policy was silent on the damage done by the Textile Policy announced by the Rajiv Gandhi Government in 1985 by replacing the traditional vertical productive sectors such as handloom, powerloom and composite mills with the new horizontal sectors spinning, weaving and processing and placing organised and unorganised sectors in the same category of the mill sectors. Since textile was a major area of production of small sector, the Government should have reversed this policy in a bid to boost the powerloom sector. Rajiv Gandhi Government by

withdrawing the differential advantage to the powerloom sector accelerated the process of closure of powerlooms and thus the mill sector was able to swallow the powerloom sector. The reversal of this policy was in consonance with the new philosophy while the Janta Dal’s new prescription added only fuel to the fire in its Industrial policy Resolution of 1990.

The policy statement in demolishing the edifice of excessive licensing swung to the other extreme of accepting the principle of automaticity. In its programme of delicensing, it pointed out "All new units, upto an investment of Rs. 25 crores in fixed assets in non backward areas and Rs. 75 crores in centrally notified backward areas were exempted from the requirement of obtaining licence or registration." Similarly, in respect of transfer of technology, if import of technology was considered necessary by the entrepreneur, he could conclude an agreement with the collaborator, without obtaining any clearance from the Government, provided that royalty payment did not exceed 5 per cent on domestic sales and 8 per cent on exports.14

A few more observations may be made here. If over regulation resulted in stunted industrial growth, total deregulation was bound to usher in an era of distortions

of industrial growth. The Government should have, therefore, taken up "indicative planning" and in this process, should have been specified the areas in which new units be uninstalled in the non backward or backward areas. The market mechanism was not the best allocator of resources in socially desirable channels. This fact seemed to have conveniently escaped the attention of new policy framers. Secondly, to grant the entrepreneur himself the sole right to determine foreign collaborations on the plea of import of technology transfer, was extremely unwise. During the last few years, collaboration agreements have been signed in such items, as tooth paste, toilet paper, fast foods, processing of agricultural produce and other mass consumption goods. Needless to say that the country possesses the necessary skills to manufacture them even by the small scale sector indegenously.

Obviously, by opening the import window rather widely, the Government would be straining its foreign exchange reserves. The private entrepreneurs to get the brand name of a foreign collaborator were quick to enter into agreement with him. But the relevant question is whether such a policy was in the interest of the country? The Government should have clearly debarred Indian big business to enter into foreign collaboration in non priority areas where indegenous capabilities exist. Lastly, the capacity of business to avoid the restrictive
clause of keeping royalty payments up to 5 percent on domestic sales and 8 percent on exports, was immense.\textsuperscript{15}

Let us turn to other major feature of the NIP of 1990. The approach paper advocated in no uncertain terms that a return to regime of direct, indiscriminate and detailed controls in industry was clearly out of question. It was on this consideration that the NIP has gone quite a distance in raising investment limits for non MRTP and non FERA companies angured well in encouraging new investments and expansion of such companies. According to the official of the Ministry of Industry, the purpose of this raising of investment limit was to rid the process of industrial investment of delays which were endemic to the bureaucratic clearance system. It was expected that 60 to 65 percent of all intended investments did not require any clearance from the Central Government. Indeed, Minister of Industry, Mr. Ajit Singh stated that 90 per cent of the letter of Intents and registrations fell within the specified investment limits of Rs. 25 crores in non backward areas and Rs. 75 crores in backward areas."

It is obvious that industrialisation of backward areas was not just a function of right inputs of licensing policy, but more importantly, of supply finance for which

\textsuperscript{15} Dutta, Ruddar; New Industrial Policy: The Internal contradictions", op. cit., p.5.
healthy capital markets were the must and the availability of adequate infrastructure facilities in terms of power, transport, telecommunications etc. These were the activities predominantly falling within the purview of public sector and wherein the then present resources were affecting the progress. Therefore, it was expected that if the private sector had to respond to the policy of relaxation of licensing limits, the opening up of these infrastructure sectors for the entry of private sector was inevitable. Once again, infrastructure industries were the areas of mega projects and it was only the large MRTP companies which could claim the wherewithals to meet with the challenges.16

Indeed, the spokesman of MRTP companies had repeatedly indicated that there should be substantial raising of asset limit of MRTP companies from Rs. 100 crores to atleast Rs. 500 crores in view of massive increase in project cost and also on considerations of minimum economic capacity in a number of industries. Moreover, in view of the inflation since 1985, the limit of Rs. 100 crores on assets had become meaningless, particularly because in the changed environment, Indian industry would have to interact globally in the coming years if it had to increase its competitive age in the

the international market. A substantial hike in the limit would automatically reduce a number of companies coming under the MRTP Act and thus would reduce unnecessary controls and provide a boost to monopoly and restrictive trade practices could be better controlled by relating them to the extent of their dominance in the market for any product or service.17

Another positive feature of the policy was delicensing of 100 per cent Export Oriented Units (EOUs) and units set up in Export Processing Zones (EPZs) up to an investment limit of Rs. 75 crores, if they are located in non-urban areas. What is more positive, was the automaticity in foreign investment up to 40 per cent of equity which was not even hedged by export obligations. Once again, this policy prescription was in conformity with the objective of the Approach Paper which has advocated "a special trust for export production." After a hesitant start, EOU's and units in EPZs had shown encouraging performance. All this means simplification of procedures were one thing which had hit the foreign investors most. An American said at a meeting at the ADB a year back of the policy announced that "India is not the only country to invest in, 'Foreign Investment' is like a bird which settles on a tree which offers the best fruit."

Atleast there should be no restrictions on its settling down. And that is what the new industrial policy had tried to do.18

The Approach Paper also outlined the basic scheme for improving the efficiency and competitiveness of Indian industry for enhancing its contribution to exports and efficient import substitution. Towards this end, it suggested a greater stress, among other things, on securing access to relevant technology, equipment and materials. To a certain extent, this could be facilitated by liberalization introduced for attracting foreign investments on automatic basis. Accordingly, an Indian promoter could conclude an agreement with the foreign collaborators without obtaining any clearance from the Government provided that royalty payment did not exceed 5 per cent on domestic sales and 8 per cent on exports. In respect of the proposal involving lumpsum payment in the import of technology, however, the Government clearance was required and communicated within 30 days from the date of applications. Further, foreign investment upto 40 per cent of equity was allowed on an automatic basis, provided the proposal did not involve to exceed 30 percent of value of plant and equipment.

It was interesting to recall that at the meeting of the World Economic Forum held some time back, the industry minister suggested that there would be raising of the permissible proportion of foreign equity holding with the objective of increasing the inflow of foreign investment ten fold over the current levels. In terms of absolute amount, the target of foreign private investment worth $1 billion a year was indicated. It was impossible to assess whether the proposed changes could bring about the desired results in the absence of relaxation in the ceiling of 40 per cent on foreign equity holding. This apart, in the wake of criticism that automatic approval of foreign collaborations would open the 'flood gates' of foreign investment even in the non-priority areas and result in outgo of foreign exchange.

Finally, the policy incorporated quite a few remarkable statements and promises (for example, in respect of policy of minimum economic size, broadbanding, modernization and upgradation of technology). Likewise, in a number of areas, action programmes were to be evolved and implemented (for example, a revised list of reserved limits for the SSI, a new scheme of central investment subsidy for the SSI, a list of products for automatic clearance of foreign collaborations etc.). To that extent
the policy was incomplete.\textsuperscript{19}

The senior Janata Dal Leader, Mr. Chandra Shekhar (Former Prime Minister) said that the policy had opened the door multinational corporations (MNCs). In his view, the policy had made basic changes to open up its economy to MNCs. The Policy announcement came suspiciously close to the deadline set by the US Government to pursue action against India under Super 301. The Policy had an element of automaticity for the entry of MNCs into the Indian economy and it would only induce them to expand their presence in the domestic market. He further said that "the Policy instead of supporting small units should help small entrepreneurs. There should be some linkage between SSIs on the one hand, and employment, the nature of industry, its market and technology on the other. The thrust of the policy paralleled the World Bank's recipe for liberalization in the third world."

The Policy had no mention of the need to correct industrial sickness; existence of excess industrial capacities; the need to stall non priority and elite consumer goods production; the fast increasing dominance of MNCs, the high cost of oil imports; and the need to encourage indigenous research and development. He said

\textsuperscript{19} Shukla, Tara in The Economic Times, New Delhi, June 30, 1990, p.2.
that "there is need to approach the public sector with the intention on improving its performance and to strengthen this vital sector rather than attempting to reduce its area of operation by preaching privalization and inviting MNCs." The philosophy of liberalization was a negation of efforts at planned development in the Third World. It was dangerous to fall for "facile similies" such as those quoting the US, the UK and even the USSR as development examples. The overall development framework was followed by the Soviet bloc approximated what had been enunciated by the Democratic Socialists. Technological self reliance had been thrown to the winds in the policy. All restrictions on technical collaborations had been lifted. The other important aspect to this was that tie ups were affected for the sake of international brand names rather for getting advanced technology which could increase industry's competitiveness. Industry resources were being offered to big business of a platter instead of the Policy, acting as an instrument of social control.20

In summing up, whether one agrees with the industrial strategy set out in the approach paper or not, there was surely a considerable degree of coherence between the document and the industrial policy statement.

of 1990. However, the policy prescriptions on a number of key industrial issues were still to be spelt out. Undoubtedly, the policy of 1990 alone could not be looked upon to tackle all the aspects of the industrial policy, since there were other major elements of the total package comprising of trade, tariff, taxation, pricing and credit policies.

The rapid expansion of the industrial sector in the 1980's was due to the reforms undertaken in trade and industrial policies in early and mid 1980's. Further policy changes were needed to sustain this and to provide the competitive stimulus for accelerated industrial growth during the Nineties. The new industrial policies are designed to deregulate the industrial economy in a substantial manner. The new measures are also designed to enable the Indian industry to forge much more dynamic relationships with foreign investors and suppliers of technology.

Out of the 17 areas that were reserved earlier for investment by the public sector, only 8 areas remain reserved in 1991 and further through a Press Note No.3 of 1993 series dated March 26, 1993, items No. 5 and 6 of the Annexure I have been removed and only 6 areas are left exclusively for public sector. The New Industrial Policy Statement (NIP) announced on July 24, 1991 by the Central
Government has removed all manufacturing industries from the public sector reserved list except those related to defence and allied industries areas where security and strategic concerns predominate. The Government has also decided to undertake a review of the existing portfolio of public investments, particularly in respect of industries based on low technology, small scale and non strategic areas, inefficient and unproductive areas, areas with low or no social consideration or public purpose and areas where the private sector has developed sufficient expertise and resources. The focus in the public sector will be on strategic, hi-tech and infrastructure areas. The Government also intends to offer a part of the Government shareholding in the public sector to mutual funds, financial institutions, general public and workers. Autonomy will be given to public sector management so that they can operate in a business like manner. These policy changes have also thrown open areas such as power generation and distribution and air transport for participation by the private sector. 21

Until the early Eighties the Indian industrial sector had functioned under a tight regulatory regime of industrial licensing. This was designed to allocate the

scarce resources towards building the industrial base of the country. Now that the Indian industrial economy has a wide, diversified and increasingly competitive base. The new industrial policy has abolished all industrial licensing, that is, the existing rules and regulations and also the restrictions hampering the speedy industrial development in the country, irrespective of the level of investment except for certain industries related to security and strategic concerns, social reasons, environmental issues and manufacture of products of hazardous nature. As a result, the task of understanding the nature, scope and the content of the new industrial policy became more meaningful and purposeful and created a conducive environment for planned and speedy industrial development in the country.

There are certain locational guidelines designed to discourage the location of polluting industries which contribute to excessive congestion in the large cities. Industries are now free to expand according to their market need without prior expansion or capacity clearances from the Government. The firms will now be free to manufacture any article according to market demands except those subject to compulsory licensing. The basic aim of the NIP is to generate more employment, to reduce socio economic disparities, to remove poverty, to attain self
reliance and to make the public enterprises more meaningful and purposeful through the process of strengthening them. So that they could no longer be considered as a liability to the economy.22

The industrial policy of 1991 proposes a substantial reduction in the number of industries requiring compulsory licensing. Similarly, the problems regarding promotion of foreign investment, automatic approval of foreign technology agreements, public sector reforms and amendments to the MRTP Act, greater role of the private entrepreneur and rewriting of the policy on industrial location have been eased to a great extent. These changes were long overdue and therefore, the changes brought about by the Government have been widely welcomed by the industrial circles as a bold initiative aimed at making Indian industry more competitive internally as well as internationally and in a conscious and far reaching move to unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic controls. The policy statement further says that the Government would retain necessary control in key areas of industry by keeping in view the Industrial Policy Resolution of 1956.

The Policy laid special emphasis on its commitment to

follow the Nehruvian economic approach and painstakingly reiterated the resolve to adhere to the policy of mixed economy. 23

Adopting the theme of "Continuity with Change" the new industrial policy statement promises automatic approval of foreign technology agreements and has removed the hitherto obligatory link between foreign equity and foreign technology. Besides, it has also allowed foreign investment and technical collaboration not just for obtaining technology and increasing exports but also to "expand the production base". As the document says all manufacturing activities are to be opened up to competition. Reflecting the changed thinking of the Government, the policy has stated that while self reliance will continue to be its guiding policy, greater emphasis would now be placed on "building the ability to pay for imports through foreign exchange earnings." Similarly, the policy has committed the Government to dismantling the regulatory system, development of capital markets and increasing global competitiveness.

The Policy, the document states, has complemented the other steps taken by the Government in trade policy, exchange rate management and overall macro economic

management and euphemism for the "Budget" presented later. The abolition of licensing raj and the registration schemes for all industries except for 18 industries specified in Annexure II, irrespective of levels of investment, has been the most radical as well as welcome step of the Government: it will free Indian entrepreneur from unnecessary pilgrimages to Udhyog Bhavan. They can now concentrate on their business and more quickly to seize business opportunities.

During the last forty years in general and the Seventies and Eighties in particular, there has been a much greater need to get rid of unnecessary and uncalled for bureaucratic controls. However, no appreciable progress could be made in this regard and all concerned with development of Indian industries were facing a lot of hardship in expanding, diversifying and modernizing their undertakings. The situation had been much maligned by red-tapism and time consuming procedures and formalities. Hence, abolition of licensing procedures now has a positive effect on the growth and development of entrepreneurship in the country. This could also make a perfect integration between the domestic entrepreneurs and

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foreign entrepreneurs which is the need of the day.26 After all the bureaucracy still continues as 16 industries specified in Annexure II still need licensing. With the introduction of the liberalization measures India can compete with countries like Hong Kong, Singapore, Taiwan, etc. in the international market.

It is pertinent to note here that three-fourth of the total industrial activities are being assigned for the private sector and with the abolition of licensing raj more than 4/5th of Indian industries are now left open to private entrepreneurs. Since the enactment of the Monopolies and Restrictive Trade Practices Act (MRTP Act) in 1969, all firms with assets above a certain size (Rs.100 crore since 1985) have been classified as MRTP firms. This asset limit has been applied to the sum of the assets of firms inter-connected through equity shares or through management control. Such firms have been permitted to take up only a selected list of industries and that too on a case by case approval basis. In addition to control through industrial licensing, separate approvals were needed by such firms for any investment proposals. This had begun to have a significant deleterious effect on the freedom of many of the large private firms in their plans

for growth and diversification. The government has announced the abolition of this concept of large business houses and the MRTP Act has been mellowed with many a radical and inevitable changes. These firms will now be at par with all the others in not requiring prior approvals for investment decisions from the Government, except those included in the compulsory licensing list. Under the New Industrial Policy, the MRTP Act has been confined to play a limited role in the area of controlling and regulating monopolistic, restrictive and unfair trade practices. In recognition of the need for modernising the provisions in respect of these concerns, the Government has announced its intention to amend the Act so that consumers are adequately protected from such practices. 27

Besides, the industrial policy proposes to remove the limit of assets fixed for MRTP companies and dominant undertakings. Thus, the entrepreneurs who are intending to launch new companies or undertake substantial expansion will not be required to seek clearance from the MRTP Commission. Numerous cases of bottlenecks created by the bureaucracy are given a 'go-bye' by this decision of the Government. In this sense, the industrial policy should be welcomed because it has taken the bold decision to end the

licence/permit raj and save the entrepreneurs from the harrassment of seeking permission from bureaucracy of the country to start an undertaking.

The Policy has also unshackled many of the provisions which acted as brakes on the growth of the large private corporate sector. All these provisions have been welcomed by the business circle.

FOREIGN COLLABORATIONS:

Foreign investment was traditionally and tightly regulated in India. Specific prior approvals were necessary for both foreign technology agreements sought by Indian firms as well as foreign investments. With the expansion of industrial activity in the country, this case by case approval process had become unwieldy. Moreover, with the increasing technical sophistication of Indian firms and the communication revolution that has swept the world, there is little reason for the interference of Government inherently involving delays and hampering business decision making. Hence, the Government have decided to invite foreign investment in 34 high priority industries (Annexure III) requiring large investment and advanced technology wherein foreign direct investment has been allowed uptime 51 per cent instead of 40 per cent and
100 per cent if the entire production is exported. This policy measure will enable most of the multinational corporations (MNCs) to come in India on their own without seeking the support of any Indian partner because they are getting a majority stake in the company and also do not require any political clout to get their clearance.28

Another benefit to the MNCs is the setting up of the special empowered board. The Board would have the power to negotiate directly with large international firms to approve foreign investment in selected areas. Such proposals will be considered by the Board in totality and will be free from all predetermined procedures or parameters. Such MNCs may just require one single clearance if they can give some commitments. Thus, MNCs like Du Pont, who have got many proposals in their bags in various sectors, will be able to go to the Board for approvals to set up units in the country with minimum problems. Moreover, they will face no capacity restrictions if they can arrange the foreign exchange component of the project.29

Accordingly, the Government has initiated a step for automatic approval of foreign technology agreements in

29. Srinivas, Alam, "Foreign Investors have CG import edge", The Times of India, New Delhi, July 25, 1991, p. 11.
regard to the afore-mentioned 34 industries. This scheme would go a long way in injecting the desired confidence among foreign investors and they would be able to face least possible inconvenience in bringing their investment and technology. 30

Till the end of the Eighties, India did very little for attracting foreign direct investments (FDI), though, on paper, the Government of India had initiated several steps to induce foreign investment inflow into the country. The foreign investors faced a lot of procedural constraints and, for almost every transaction involving foreign exchange, needed the approval of Reserve Bank of India (RBI). However, in South-East Asian economies popularly known as ASEAN, there has been a lot of flexibility in this regard and approvals are almost instant. Accordingly, the major amount of total FDI in recent years went in favour of Singapore, Indonesia, Malaysia and Thailand. Even China and Japan have come up as attractive destinations for foreign direct investment.

In order to improve the business and investment environment for foreign investors in the country, the Government of India has now introduced radical changes in the Industrial Policy to attract Foreign Direct Investment

(FDI) in a big way. Alongwith 51 per cent equity participation and automatic approval of investment in industries, repatriation of dividends by the foreign investors will also be freely allowed with a reasonable condition that such units are able to earn foreign exchange in matching value over a period of time. Mr. I.C. Singhal, of International Ceramics, said that the permission to Foreign Direct Investment (FDI) upto 51 per cent instead of 40 per cent, abolition of investment limits under Secretariat of Industrial Approvals (SIA) or Directorate General of Technical Development (DGTD) and abolition of licensing except in defence, atomic and strategic concerns are quite fascinating. It will accelerate the industrial growth tremendously. The entry of multinational corporations (MNCs) with 51 per cent equity participation will open up Indian economy for international competitiveness.31

The Government has further clarified that it will permit 100 per cent foreign equity in case the entire output is exported. However, in our over enthusiasm to welcome foreign capital, the fear is that we may sell our sovereignty to multinationals. Another important component of this, the scrapping of the policy on phased

manufacturing programmes, is also to be welcomed because it does away with the case by case approach, and because suitable financial incentives for indigenization have been built into the new external value of the rupee, and the trade policy. However, it should also be noted that this particular demand had been made by the United States of America (U.S.A.) as part of the Super 301 issue.\(^{32}\)

Similarly, if once foreign capital is permitted free entry, the distinction between high priority and low priority industries will gradually disappear with the passage of time and all lines of production will be opened to facilitate foreign investment. Experience of permitting 'Pepsi Cola' is too recent to show that the Government sanctioned it in the least priority area. Neither the project led to export of processed agricultural products, nor did it generate employment on a significant scale. But at the time of introduction of the project the Government sold the idea of the project on the plea that it will bring about agricultural revolution in the country. All such pleas however do not carry any conviction with the people.

Besides, the Government has also assured majority foreign equity holding upto 51 per cent even for trading companies primarily engaged in export activities. It does

\(^{32}\) The Economic Times, New Delhi, July 25, 1991, p. 22.
not seem justified as to whether Indian trading companies cannot probe foreign markets effectively. Undoubtedly, Indian businessmen are very good traders. Moreover, the idea does not require modern technology. Under the circumstances the Government's taking upon itself the additional burdens by permitting foreign equity in trading activities is beyond comprehension.

Professor K.N. Kabra, of the Indian Institute of Public Administration, criticized the radically liberalized industrial policy saying it was not based on an "objective analysis of India's industrialisation" and would lead to enclave development. The gap between agriculture and industry will increase further. The experience of the Eighties shows that delicensing during the period led to excess capacity and industrial sickness in many industries such as paper, spinning and consumer electronics. The biggest growth industries of the Eighties are not the ones where delicensing took place. Monopoly control is essential for equity and political democracy.

The confederation of Engineering Industry termed as 'historic' the abolition of industrial licensing except for a short list of industries, removal of MRTP asset limit, abolition of a variety of industrial licensing procedures, review and relaxation of the location policy, automatic clearance for direct foreign investment up to 51
per cent foreign equity in high priority industries and freeing of technology transfer agreement and collaborations.

The former Finance Minister, Mr. Madhu Dandavate, said by abolishing the limits of assets of MRTP companies, the Government had put the small scale sector in a tight corner. This would seriously setback employment potential and poverty alleviation.33

Mr. Chitta Basu, Forward Bloc M.P. said that the new industrial policy was a "total reversal of the policy framework of the 1956 Resolution, which was given shape by the then Prime Minister, Jawaharlal Nehru. The Policy shift has been the result of growing International Monetary Fund (IMF) and World Bank pressure. The proposed policy would open wide the gate for penetration of multinational corporations (MNCs) into the Indian economy leading to erosions of economic sovereignty".

The Polit bureau of the Communist Party of India (Marxist) described the NIP as a "surrender to the International Monetary Fund (IMF) and World Bank (W.B.) pressure as at one stroke it opened the doors indiscriminately to foreign capital and multinational corporations which will facilitate their penetration and

dominance in vital sectors of the economy. However, the need of the day is to transform the New Industrial Policy (NIP) into practice in its true sense and spirit. Its implementation is challenging task and should be accepted by the Government with courage and zeal.

The most striking feature of the NIP is the substantial reduction in the role of the public sector undertakings in the future process of industrial growth and development in the country. Under the Industrial Policy Resolution of 1956, 17 industries enlisted in Schedule A and another 12 industries in Schedule B were declared for the public sector. Added to this, the government empowered to start any industry other than 29 industries enlisted in the above two Schedules for other important reasons. However, under the NIP, the pattern has reversed as the priority areas for the future growth and development of public sector have been mainly confined to four major areas: essential infrastructure goods and services, exploration of oil and mineral resources, technology development and building up of manufacturing capabilities in vital areas and manufacturing of products based on strategic considerations. In brief, this means that the role of public enterprises has been curtailed by almost 50 percent of what it had been in the past four decades since

34. The Hindustan Times, New Delhi, July 25, 1991, p.3.
initiation of planning in the country.

Under the NIP, 18 industries, now reduced to only Sixteen, have been identified by the Government to be reserved for public sector undertakings. These industries include coal, petroleum goods, electronics, aerospace, defence equipment, industrial explosives and hazardous chemicals etc. But some other industries such as sugar, animal fats and oil, certain leather goods, motor cars, drugs and pharmaceuticals and some other products, it is felt, have no reasons to remain under compulsory licensing. Therefore, these industries item no 11, read as motor cars and item no. 18, read as white goods (domestic refrigerators, domestic dishwashing machines, Programmable domestic washing machines, microwave ovens, airconditioners) have been committed from the compulsory licensing through vide Press Note No.4 of 1993 series dated 28.4.1993.35

As already noted, three fourths of the total industrial activities have been assigned for private sector and with the abolition of licensing raj, more than four fifths of Indian industries are now left open for the private enterprises. But to make it more meaningful and purposeful, the MRTP Act has been mellowed with many a

radical and inevitable changes.\textsuperscript{36}

For example, under the New Industrial Policy, as already mentioned, the MRTP Act has been confined to play a limited role in the areas of controlling and regulating monopolistic, restrictive and unfair trade practices.

It is pertinent to note that public sector enterprises have shown a very low rate of return on capital invested. As a matter of fact, the result was that many of the public sector enterprises had become a burden on, rather than an asset to, the Government. Therefore, the NIP very rightly classified public enterprises into three categories, (i) those which fall in the reserved areas of operation or are in high priority areas and are generating good or reasonable profits should be strengthened; (ii) public units which may be faulting at present but are potentially viable must be restructured and given a new lease of life; and (iii) those public enterprises which are chronically sick and are in heavy losses, operating in a competitive market and serve little or no public purpose. The government intends either to close them down or pass the ownership of these public enterprises to private sector.\textsuperscript{37}

\textsuperscript{37} Financial Express, New Delhi, July 25, 1991, p.10.
An important question to be noted at this stage, which the Government has avoided, is: What is the social security mechanism that the Government intends to create to mitigate the hardship of workers who are likely to be entrenched? The NIP intends only to refer these cases to the Board for Industrial and Financial Reconstruction (BIFR). In this regard, the NIP side tracks issues and has generated a fear in the workers' minds that the Government is not sincere in protecting the interests of workers.

Besides, it is also very difficult to comprehend why the Government is keen on passing on sick public enterprises to private sector or big businesses. The capitalists are ready to buy these enterprises for the real estate value since the Government is prepared to transfer the assets at throw away prices. The U.P. Government in a dubious manner passed on the ownership of U.P. State Cement Corporation (U.P.S.C.C.) to the Dalmias for a worthless sum of Rs. 51 crores as against the net asset value of Rs. 306 crores only which shows that the bureaucrat-cum-politicians link is overbending to help the big private entrepreneurs to gain from the wave of privatization.

Now the very important question arises here why is the Government not trying the experiment of full employee ownership as has been done in the case of Kamani Tubes
which was a loss making enterprise but has been nursed to health by the magic of employee ownership. This experiment can be tried in a large number of loss making public enterprises. Therefore, the right of pre-emption should be available to the workers' cooperatives to take over a sick public enterprise. As a matter of fact, this can introduce new work ethics among the employees since their personal interests would be linked to the interest of the enterprise. The Government of India can successfully go in for sheding its load of loss making units to workers to assume the ownership role and nurse these enterprises to health. Moreover, the Government should provide financial as well as technical assistance to the workers cooperatives so that this can reduce trade union resistance to privatization. 38

The Government has scrapped the assets limit for MRTP Commission in order to do away with the requirement of prior approval from Central Government for establishing new undertakings, expansions, mergers, amalgamations and takeovers and appointment of directors. Provisions regarding restrictions on the acquisition and transfer of shares will be appropriately incorporated in the Companies Act, 1956. However, the power of MRTP Commission would be authorised to initiate investigations 'suo moto' on

complaints received from individual consumers or classes of consumers in regard to controlling and regulating monopolistic, restrictive and unfair trade practices. The past experience points out that the MRTP Commission has failed in this regard and has not been able to break the monopolistic character of the Indian market.39

Has the Government gone to extremes in eliminating mergers and amalgamations from MRTP purview? Even advanced industrial economies monitor such business activity. Having scrapped large portions of the MRTP Act, the Government must now ensure that the interests of the consumption are protected. Similarly, it must also make sure that the markets are genuinely competitive and compensating forces to bureaucratic controls on monopoly business undertakings which were shown to be counter productive these controls did help in the broadbasing of Indian industry. In its determination to secure economies of scale and encourage globally competitive industries to emerge, the Government should take care to protect the interests of medium and small enterprises, when the promised policy for small industries is formulated.40

The very fact that in spite of privatization, cement or paper prices have sky rocketed and all talk of

competition has been countered by combined action of manufacturing organizations, is ample proof of the fact that competition is only being used as a slogan for privatization, but in reality, competition is being systematically eliminated by big business.41

There is no reason why the Government should have become uncertain in further reducing the list of industries in which licensing would be compulsory. For instance, why should products like cigarettes, motor cars, papers, drugs and pharmaceuticals, and entertainment electronics be subject to licensing? The argument put forward is that these items have been retained under licensing control for reasons of social value, restraining luxury consumption, environmental protection and so on. While this may be true enough, the fact remains that basic industries like paper should be delicensed, and concerns about deforestation taken care of through environmental clearance requirements. Similarly, it is difficult to see why the production of consumer electronics items, white goods, like refrigerators, etc. should be licensed when India has a large and growing middle class with legitimate expectations of an improved standard of living.42


42. The Economic Times, New Delhi, July 24, 1991, p.22.
Another aspect to note is that the NIP may be able to attract foreign investment and give a boost to domestic investment, whether it shall lead to generate more employment along with higher output growth is doubtful. Similarly, excessive freedom to foreign investment will ultimately affect our economic sovereignty as also push the country into a debt trap further. 43

In fine, the New Industrial Policy (NIP) is a most welcome package. There is a greater reliance on the market, a bold attempt at deregulation, a desire to integrate with the world economy and to modernize. If these objectives are achieved. There will be more open, efficient and quality conscious industrial sector able to face global competition. But the key element now is the response of Indian industry, which has long been used to a protected environment. The most important qualitative transformation sought in the industrial policy is doing away with the industrial licensing system except for a short list of 16 industries. This was the only possible response to the general feeling of resentment and disgust at the consequences of detailed control on the starting, expansion and location of firm. Reservation for cottage and small scale industries and special arrangements for them will continue. The delicensing most of the industries

43. Srinivas, Alam; "Foreign Investors have CG import edge", Times of India, New Delhi, July 25, 1991, p.11.
will tend dynamism to the relatively stagnant industrial scene. However, the need of the day is to transform the NIP into practice in its true sense and spirit. Its implementation is a challenge and that should be accepted by the Government with courage and zeal.