CHAPTER VII
The industrial policy of a country like India which has vast potential for industrial growth and development is of vital importance. Industrial policy has two components — one is the philosophy of a given society to shape industrial growth and development and the other is the implementation of rules and instruments which give concrete shape to the philosophy of the policy.

The concept of industrial policy is, thus, very comprehensive in its nature which covers all those procedures, principles, policies, rules and regulations which control the industrial undertakings of a country and shape its very pattern of industrialization. The main aims and objectives of an industrial policy may be summarized as follows:

1. To remedy the lop-sided development of an economy specially industrial structures, in order to bring about a pattern of desirable balanced growth, stability and diversification in the economic structure.

2. To re-direct the flow of scarce resources in the most desirable areas of investment according to national priorities.
3. To prevent duplication or wasteful use of resources so that the country can ensure conservation and judicious exploitation of its resources.

4. To empower the state to regulate and control the establishment and expansion of the industrial undertakings in the private sector according to planned objectives.

5. To help the State to demarcate the areas of economic activity between different sectors of the economy e.g. public, private, cooperative and joint sectors, as well as large medium and small scale industrial units.

6. To prevent the concentration of economic power in few hands through industrial licensing and other supporting measures of fiscal and monetary policy so that the emergence and evil of monopoly capitalism can be effectively curbed and ensure equality of opportunities to all.

7. To lay down policies also towards the import of foreign capital and the conditions on which such capital can be permitted to operate in India.

In short, industrial policy provides guidelines for the effective coordination and integration of the
activities of the various sectors of the economy with a view to achieve a balanced and self-reliant pattern of development that can ensure rapid growth of output and employment.

The pre Independence Industrial Policy of the East India Company encouraged the development of such indigenous industries which catered to its export needs, but this policy was later reserved for the benefit of industries in Great Britain. As a result of the interest of the Government and the absence of foreign competition due to World War I, several new industries were started and the existing ones were expanded. After World War I in 1919, industries became the provincial subject and the Act of 1919 gave power to the States to give financial assistance to the industries.

However at the outbreak of the World War II in 1939, India was found industrially as backward as at the time of World War I. For the successful prosecution of the war, the then Government had to liberalize her policy towards industries. Accordingly, in 1940, the Board of Scientific and Industrial Research was created at the Centre. In 1944, the Government set up a planning and Development Department under Sir Ardeshir Dalal. This department issued an Industrial Policy Statement in April 1945. The object of this policy was to remove the
uncertainly which appeared to impede the plans of development of private industries.

The Government prepared the list of basic industries of national importance. The aircraft, automobiles and tractors, chemical and dyes, iron and steel, prime movers, transport vehicles, electrical machinery, machine tools, chemical and non ferrous metal industries were taken over by the Government and all other remaining industries were left for the private enterprise. In 1946, the Government appointed the Advisory Planning Board to deal with the boundaries between the State and the private enterprise. In 1947, an Industrial conference was held in New Delhi. The conference adopted a resolution indicating the industries: (i) which should be under State ownership and management, (ii) which may be jointly owned and managed by the State, and (iii) which are to be owned and managed by private enterprise.

In 1948, immediately after independence, the Government introduced the Industrial Policy Resolution in order to counter the typical post war inflationary tendencies. This outlined the approach to industrial growth and development. The specific objectives of this Resolution were as follows:

1. To establish a social order where justice and equality of opportunities could be assured to all the people;
2. To promote rapid increase in the living standards of the people by exploiting the hidden and available resources of the country;

3. To accelerate the production by all possible means to meet the needs of growing population; and

4. To provide more and more opportunities for employment.

The main emphasis of the Resolution was to increase the wealth of the nation through rapid and balanced industrialization and to raise national income as well as per capita income. Moreover, the Resolution envisaged the policy of Mixed Economy for the industrial development of the country by reserving a sphere for the private sector and the other for the public sector. The Resolution of 1948 made a clear demarcation of industries into the following four categories:

a) First category included the manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport were the exclusive monopoly of the Central Government. Besides, it was also laid down that the Government would have power in an emergency to takeover any industry vital for national defence.
b) The Second category consist of coal, iron steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless equipments (including radio receiving sets) and minerals. These were reserved for the production and control by the Central or State Government undertakings.

Besides, the industries which were covered by category (b) above but were already in the private sector were allowed to continue in the same sector for a period of 10 years. During this period, all the facilities for expansion and development were to be allowed. On the expiry of this period, the Government was to decide whether to takeover the management of the industries in the light of the circumstances prevailing at that time. If the State was to acquire any undertaking, compensation was to be paid on a fair and equitable basis.

c) The third category included industries of such basic importance that the Central Government would feel it necessary to plan and regulate them in consultation with the State Government concerned.

d) The fourth category comprising the remaining industries not covered by the above categories was left open to private enterprise, individuals and cooperatives. Moreover, it was also laid down that
the State would be allowed to participate progressively even in this field and it will not hesitate to intervene whenever the progress of any industry under private enterprise is unsatisfactory.

Besides, the cottage and small scale industries were assigned a predominant role in the fuller utilization of local resources of the country and reaching the goal of self sufficiency in consumer goods. The Resolution also pointed out the need for healthy industrial relations between the management and the employees by providing fair wages, houses and other facilities. However, the main thrust of the 1948 Resolution was to lay the foundation of Mixed Economy in which both the public and the private enterprises would march hand in hand to accelerate the pace of industrial progress. The industrial programmes of the Five Year Plans were formulated on this very idea of Mixed Economy.

In order to implement the 1948 Industrial Policy Resolution to regulate industries and to promote the industrial development, a Bill was introduced in March 1949 which was finally approved in October 1951 as the Industries (Development and Regulation) Act (IDRA) and which came into force on May 8, 1952. The Planning Commission was set up in 1950 to make an assessment of the materials, capital and human resources of the country. In July 1951
the Planning Commission presented a Draft Outline of Plan of development for the period of five years (i.e. First Five Year Plan) from April 1951 to March 1956 in the light of the 1948 Industrial Policy Resolution.

After the announcement of IPR, 1948 till the completion of the First Five Year Plan major developments had taken place in India: (i) the Indian Constitution which Policy laid down the Directive Principles of the State and guaranteed certain fundamental rights to all the citizen of India was enacted, (ii) the Parliament had committed itself to the Socialist Pattern of society. In view of these developments the Industrial Policy Resolution of 1956 was announced on April 30, 1956 which replaced the IPR, 1948. To meet the new challenges from time to time the Resolution was modified many times.

**Industrial Policy Resolution 1956:**

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 IPR of 1956 were to accelerate the rate of economic growth and to speed up industrialization, in particular, to develop heavy industries and machine making industries, to expand public sector and to build up a large and growing cooperative sector. It clarified that in view of the adoption of the socialist 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.

However, it recognized that it was necessary for the State to define 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 17 industries for which the State undertook exclusive responsibility listed in Schedule A to the Resolution. The second category consisted of 12 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 remaining industries in the third category, were left to the initiative and enterprise of the private sector.

It is also relevant to note that while 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 & Regulation) Act, 1951 (IDRA) and other relevant legislation, the Government recognised that "it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible consistent with the targets and objectives of the national plan". It also categorically stated that where, in the same industries, both privately or publicly owned units existed, it would be the policy of the State to give fair and non-discriminatory treatment to both of them. It also clearly accepted that it will be the policy of the State to facilitate 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, let alone aim at, 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 Government and which continues to guide the industrial policy of the country even now, 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, recognized 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.

In the light of the 1956 Industrial Policy Resolution, the Second Five Year Plan accorded high priority to rapid industrialisation with particular emphasis on the pattern of industrial development of basic and heavy industries. The Third Five Year Plan was also governed by the 1956 Resolution to prevent the concentration of economic power. The Industries (Development and Regulation) Act 1951 was revised in 1964, with a view to relax control and encourage the growth of medium sized industries the expansion limit for obtaining licence was raised from Rs. 10 lakhs to Rs. 25 lakhs. After the completion of the Third Five year Plan, the Annual Plans were adopted for three years (i.e., 1966-67, 1967-68, 1968-69) due to heavy expenditure incurred on defence during the conflicts with China in 1962 and with Pakistan in 1965. The Fourth Five year Plan was drafted in the light of the 1956 Resolution which provided a flexible approach in industrial development within the public, private and cooperative sector.

The implementers of the IPR of 1956, which never intended such rigid and tough controls in various forms so
as to strangulate the private sector, did not faithfully carry out the provisions of the industrial policy. Instead, each and every successive legislation and the rules framed thereunder tightened the grip of the government over the private enterprises. In the name of national interest' strategic importance and 'provision of infrastructure' etc. everything was nationalised. The PSUs, were allowed to continue even at losses of millions of rupees in the name of 'service to the nation' Except for the few PSU's which really earned profits, the profits shown by the majority of the profit making PSU's were government to government transfers as they did not sale their goods and services in the open market.

While the objectives of the subsequent restrictive policies followed by Government can hardly be questioned in the socio-economic context of a poor country like India, the rigidity in their implementation left much to be desired. Gradually, the basic objectives of these legislations and policy decisions were lost sight of during implementation. On the other hand, it suited vested interests of the implementers of these legislations and policies and ensured the continued monopolistic hold of a few large houses on the productive assets of the society. For example, the licensing system was utilized to corner licenses and to prevent entry of others into specific industrial sectors by blocking
sanction to fresh capacity on the ground of the approved capacity being adequate to meet projected demand in that sector.

The parties which cornered the licences in this manner did not understandably implement them with the result that there were persistent and substantial gaps between demand and supply of a large number of diverse products which, in its turn gave rise to black marketing, profiteering and monopolistic and restrictive trade practices feeding a parallel economy. At the same time, genuine entrepreneurs were prevented from making the required investment to meet the market demand. As a result of the unduly protected domestic market, any concern for quality control or protection of consumer interest was abandoned. Not very surprisingly, Indian industry became inward looking without any serious thought being given to exports. Even otherwise, absence of quality and cost considerations ensured that Indian manufactured product remained out of the growing world market.

Many other policy decisions were taken, particularly during the seventies, where the actual implementation led to exactly opposite results from the stated objectives of these policies. For example, reservation of a large number of items for exclusive manufacture in the small scale sector led to existing
licensed manufacturer enjoying a virtual monopoly of the market. A case in point is Bata with a huge licensed capacity before leather shoes were reserved for exclusive manufacture in the small scale sector. This resulted in the fact that those companies, which could have competed with Bata and ensured a fair deal to the consumers by producing quality shoes at reasonable prices, were not allowed to enter the sector. Similar is the case of Colgate Palmolive, which enjoys the dominant position in the tooth paste market as the item became reserved for the small scale sector. There are a large number of similar examples which can be cited in this regard.

Likewise, the MRTP Act, which was intended to curb monopolistic tendencies and restrictive trade practices also served exactly the opposite purpose as a result of the manner in which it was being implemented. Under this Act, the Government did not distinguish between large houses and dominant undertakings as far as the industrial policy was concerned. This resulted in medium enterprises being clubbed together with large houses like Tatas and Birlas merely because they produced items which had more than 25 percent share of the market for those products. This led to prevention or delay of entry of companies which were in a position to compete with companies enjoying monopolistic or dominant position in specific industrial sectors. The policy of restricting the entry of MRTP companies only to high priority industries also
led to an abnormal situation where Indian companies were denied expansion of existing capacity for the manufactuare of items outside the high priority list while multi-national companies were allowed entry to the same sectors without any restriction as long as the foreign equity was limited to 40 percent.

As far as foreign investment is concerned, the basic policy guidelines were enunciated in the Statement of Pt. Jawahar Lal Nehru, the first Prime MInister of India in Parliament on 6th April, 1949. The Statement recognised the fact that Indian capital needed to be supplemented by foreign capital not only because national savings would not be enough for the rapid development of the country but also because scientific, technical and industrial knowledge and capital equipment can best be secured alongwith foreign capital. It also stated in unambiguous terms that foreign capital investment would be permitted to earn profits subject only to regulations common to all. It categorically stated that Government had no intention to place any restriction on withdrawal of foreign capital investment. In spite of these explicit guidelines, the actual implementation of the policy led to considerable delay in grant of approval for foreign investments because of the adoption of the procedure of case to case discretionary clearances. Moreover, over a period of time, such clearances were made subject to various conditions which had no particular relevance in
the use of foreign brand names by approved joint ventures in India. Most of these conditions were not backed by any statutory provisions and were generally expressions of pious intentions without any facility for monitoring of their implementation, let alone ensuring compliance.

Suspicion of foreign investment was, in fact, due to the country's colonial past and the fact that the ownership and control over productive assets in the private sector was concentrated in a few families, coloured the subsequent decision of the Government resulting in legislations like the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act), Banking Companies (Acquisition and Transfer of Undertakings) Act 1970 and the Foreign exchange Regulation Act (FERA), 1973. Some of the steps such as the bank nationalization were perhaps unavoidable in order to ensure that the savings of the community were available for productive investment by a wider entrepreneurial base rather than be accessible only to a handful of families controlling large industrial empires. Similarly, the MRTP Act also had the laudable objective of curbing monopolistic control over productive assets of the society by limiting entry of large houses to specified high priority industries only. Foreign investment and the activities of existing FERA companies were also sought to be channelized and confined only to these high priority industries.
The rigid licence permit raj, as it came to be known gradually became so inflexible and dilatory that it virtually prevented Indian enterprise from flourishing at a time when world trade was expanding rapidly and trade barriers based on political boundaries were coming down everywhere. The goal of import substitution and self reliance provided undue protection to the Indian industry to such an extent that it led to total abandoning of any regard for consumer interest, quality control, productivity and technological upgradation. This inevitably resulted in our manufactured value added exports declining over the years as a percentage share in the total world trade. The restrictive import policy followed by the Government together with the internal high cost domestic economy resulted in the capital cost of a project in India being many times more than the cost of similar projects even in other developing countries.

The Industrial policy Statement of 1977 laid emphasis on decentralisation and on the role of small scale, tiny and cottage industries widely dispersed in rural areas and small towns which had so far been completely neglected. Moreover, it proposed to set up in each district an agency called "District Industries Centre" (DIC) to deal with all the requirements of Small Scale, tiny and village industries. The statement also
preserved areas for large scale sector such as basic industries, capital goods industries, high technology industries, etc. Besides, the policy laid emphasis on the promotion of technology, self-reliance and continued inflow of technology in sophisticated and high priority areas where Indian skills and technology were not adequately developed.

Though the country made tremendous progress over the three decades by laying down infrastructures necessary for industrial progress started producing and exporting a number of sophisticated items especially in the fields of heavy engineering and industrial machinery and petrochemicals resulting in comfortable foreign exchange reserves, rigid bureaucratic controls responsible for killing competition and private initiative which are preconditions for faster economic and industrial growth, had been continuing till the late Seventies in their full swing.

The afore-mentioned state of affairs led to the general feeling and conviction, not only in the general public but in the Government circles too, that something must be done to ease the situation. It was against this background that the Industrial Policy Statement of 1980 was announced which focussed attention on the need for promoting competition in domestic market technology
upgradation and modernisation. The policy laid the foundation for an increasingly competitive export base and for encouraging foreign investment in high technology areas. The Sixth and the Seventh Five Year Plans both were drafted in the light of the 1980 Industrial Policy Statement which accorded particular emphasis on improving efficiency and productivity in the industrial sector through optimum utilisation of the existing capacity.

The 1980 policy statement aimed at higher productivity, higher employment generation correction of regional imbalances, faster promotion of export oriented and import substitution industries, strengthening the agricultural base by promoting agro-based industries etc. The policy intended to follow a pragmatic approach and it stated, 'what is needed above all is a set of pragmatic policies which will remove the lingering constraints to industrial production.'

The Government tried to ease the procedures without touching the basic framework 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-banding of capacities, fixation of minimum economic scale of production and 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 and for companies falling outside these categories. All these led to a plethora of press notes and circulars explaining and clarifying the complicated schemes. Quite expectedly, only large houses 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 process of liberalisation was also nullified to a large extent during the process of implementation. For example, on 30th June, 1988, the Government through a notification under section 29(B)(I) of the IDRA exempted investment up to Rs. 50 crore in notified backward areas, and up to Rs. 15 crores in other areas, from the requirements of industrial licensing as long as the item of manufacture was neither reserved for the public sector, nor the small scale sector, nor included in the list of 26 industries, which continued to be subject to compulsory licensing. Any industrial undertaking which conformed to the parameters of exempted as per this notification, was only required to register itself with
the Central Government. 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. Moreover, new undertakings established in declared backward areas were entitled for exemption from Income Tax under section 80 HH of the Indian Income Tax Act, 1961.

The liberalized Industrial Policy of 1990 proposed to promote the small scale and agro based industries, foreign investment, foreign collaboration, capital goods imports etc. and changed procedures for grant of industrial approvals. The policy decisions were in respect of delicensing the entitlement to import capital goods, raw materials and components, agreements with foreign collaborators and environmental clearances, export oriented units. The policy gave unrestricted right to conclude foreign collaborations in case the royalty payment did not exceed 5 per cent on domestic sales and 8 per cent on exports.

Since independence until the late Sixties India strictly followed the policy of import substitution and export promotion and laid foundations of socialist pattern of society. During the next decade, the country
strictly enforced the FERA and MRTP directives and strengthened the foundations of socialism. If was only the beginning of the 'Eighties' that witnessed certain measures of liberalisation in the field of industrial development. The rapid expansion of industrial sector in the 1980's was due to the reforms undertaken in trade and industrial policies in the early and mid 1980s. Further policy changes were needed to sustain this and to provide the competitive stimulus for accelerated industrial growth during the 1990's. 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.

The Industrial Policy Statement announced on 24th July, 1991 reviewed all the Industrial Policy Statements made by successive Governments since 1948 and restated the objectives of the country and of industrial development in the present day context. To achieve these objectives, it announced a number of major policy decisions covering industrial licensing, foreign investment, foreign technology agreements, public sector and the MRTP Act.

As the Statement points out, the major objective of the new Industrial Policy package is to build on the
gains already made, correct distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness. It categorically states that all sectors of industry, covering small, medium and large and the industries belonging to the public, private and cooperative sectors will be encouraged to grow and improve on their past performance. The Government moved rapidly and has put into effect all these policy decisions, the procedures for which have been laid down in Press Notes No.9 of 1991 onwards.

The new Industrial Policy package evoked considerable interest and led to prolonged and detailed discussions in the Parliament and the Press. While there has been a broad consensus in support of the policy package cutting across party lines, there has been, and continues to be, some criticism in that the policy deviated from the path laid down by Pt. Jawahar Lal Nehru. It will be seen from the broad framework of the IPR of 1956 and the Statement of the Prime Minister on foreign investment in 1949 mentioned earlier that there has actually been no deviation from the basic framework of industrial development laid down by the founding fathers of modern independent India. What the new policy aims at is to ensure a fair deal for the consumers through
the availability of quality products at a reasonable price by making Indian industry internationally competitive and thereby giving a boost to export of value added manufactured items from this country. It also tries to do away with the approach of case by case discretionary clearances of various industrial approvals and to substitute this approach by objective guidelines wherever approvals are still required. It also aims at removing the shackles on Indian enterprise by doing away with all unnecessary bureaucratic controls and red-tapism.

In view of the consideration outlined in the Industrial Policy of 1991, the Government have decided to take a series of measures to unshackle the Indian Industrial economy from the cobwebs of unnecessary bureaucratic controls. These measures complement the other series of measures being taken by Government in the areas of trade policy, exchange rate management, fiscal policy, financial sector reforms and overall macro economic management. The major changes brought about in the New Industrial Policy are the following:

1. Industrial Licensing has been abolished for all industries except 18 industries (Annexure II) related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption.
2. The areas, reserved for investment by the public sector have been reduced from 17 to 8 and further from 8 to only 6 through press Notes of 1993.

3. MRTP Act will be amended to remove the threshold limits of assets of MRTP companies and dominant undertakings. This will eliminate the requirements of prior approvals of Central Government for establishment of new units, expanding units, mergers, amalgamation and takeovers and appointment of directors under certain circumstances.

4. Approval will be given for direct foreign investment up to 51 per cent equity in high priority industries. There shall be no bottlenecks of any kind in clearing foreign equity participation proposals. The multinational corporations could have 100 per cent foreign equity provided the entire production was directed towards exports.

5. Automatic permission will be given for foreign technology agreements in high priority industries (Annexure III) up to a lump sum payments of Rs. 1 crore, 5 percent royalty for domestic sales and 8 per cent for exports, subjected to total payments of 8 per cent of sales over a 10 year period from the date of agreements or 7 year from the commencement of production.
6. Automatic clearance will be given for capital goods, provided the foreign exchange for such imports is ensured through foreign equity. Automatic approval for capital goods will be given if the value of the capital goods to be imported is less than 25 per cent of the total value of plant and machinery, subject to a maximum limit of Rs. 2 crores.

7. Broad bending facility will be given for existing and new industrial units to produce any article without additional investment in plant and machinery.

8. The public sector will be given pre-eminence in eight core areas like arms and amunition, atomic energy, mineral oils, rail transport, coal and mineral mining etc. (Annexure I).

9. Exemption from licensing will be provided for all substantial expansion of existing units.

10. Removal of restriction of entry into industrial sector by MRTP and FERA companies.

The main purpose of the New Industrial Policy is to reduce the socio-economic disparities, to generate more employment opportunities, to remove poverty, to make
public enterprises more meaningful and purposeful through the process of strengthening them so that they could no longer be considered as a labality to the economy. The new Industrial Policy (NIP) is a 'good document' and could bring the desired radical and structural changes in the Indian economy which are the crying needs of the day and have become inevitable for keeping a pace with globalization.

Even though the package announced in the Statement of Industrial Policy is far reaching in itself, many people feel that it has not gone for enough in removing all unnecessary restrictions on Indian Industry. However, this has to be viewed in the context of the balance of payments (BOP) crisis facing the country's economy at the time the policy was finalised and announced. It has been reiterated by the Government from time to time that this was only the beginning and that further liberalization will be initiated with the improvement in the BOP situation of the country. True to its promise, the Government has announced certain major liberalizations subsequent to the announcement of the New Industrial Policy. These are the Liberalised Exchange Rate Management System (LERMS) announced by Reserve Bank of India, the new Export Import Policy for the period 1st April, 1992 to 31st March, 1997 announced by the Ministry
of Commerce and the abolition of the Office of the Controller of Capital Issues and the transfer of its power to the Securities and Exchange Board of India (SEBI). All these major decisions taken in less than a year of the New Industrial Policy establishes the credibility of the Government that it is determined to make Indian industry internationally competitive. The Government has kept its promise by making Indian Rupee fully convertible on the trade account. All these steps confirm the assertion of the Government that the process of liberation set in motion by the Statement on Industrial Policy is irreversible. However, following are the suggestions for consideration of all concerned:

1) Allowing 51 per cent foreign equity participation may enthuse some large multinational corporations but is unlikely to attract the large number of small and medium investors who have emerged as catalysts in the globalization process. The policy must be made more flexible by increasing the equity participation limit for automatic approval.

2) Scope of foreign direct investment should be enlarged to cover all industries except atomic energy and sensitive defence equipment.

3) The private sector should be represented in the
Foreign Investment Promotion Board set up by the Government to negotiate with international manufacturing and marketing firms.

4) As we move increasingly to an open, competitive and private sector economy based on accurate costs and prices, the private sector must function effectively and efficiently in order to survive and to grow. No such statement can be made about the public sector, because there is no such direct link between performance and survival or growth. What is even more important is that the presence of the public sector, with its dominant position in the organised sector makes it impossible to create a genuine open and truly competitive system that alone can ensure that costs and prices truly reflect the underlying resource scarcities. Therefore, the country must embark rapidly on a programme of privatisation of the public sector in order to ensure the achievement of rapid growth and early elimination of poverty.

5) The new policy should incorporate specific guidelines for clearing investment proposals for more than 51 per cent foreign equity. For instance, in certain newly industrialized countries (NIC), equity up to 100 per cent is linked to technology offered, generation of employment, local raw material and locational factors.
6) The policy with regard to remittances has become restrictive in the sense that the foreign exchange of an equivalent amount has to be earned. Earlier, except clearance from the tax angle, there was virtually no restriction on remittances.

7) To hasten the present process of reforms, there is need for a clear cut policy for restructuring of industry especially in respect of technology and labour.

8) To offer better scope for expansion of activities of FERA companies, there is urgent need for appropriate modifications in the basic structure of FERA, the guidelines and most importantly, the manner of its administration.

9) There should be proper coordination between foreign investment policy and the export import policy as New Industrial Policy (NIP) cannot be taken into account in isolation.

10) There should be given a administrative set for a fresh re-orientation and the same must be geared up keeping in mind the basic objectives of the New Industrial Policy.
11) For ensuring rapid industrial growth, infrastructure should be developed on war footing basis particularly in the fields of communication and power.

12) The industrial units should be made more realistic and competitive keeping in view the developments taking place in number of countries of the sub-continent and elsewhere.

13) Necessary changes in the MRTP and FERA Acts should be brought out as quickly as possible as the foreign investors are adopting a policy of 'wait and see'.

14) There is an urgent need of balanced Board of Directors in company form of organizations. It must include professionals, academicians, bureaucrats and persons nominated by the foreign investors as it is in practice in a number of countries.

15) Optimum utilization of physical and human resources must be ensured and in this regard the negotiations between the management and the employees must be started so that there are least possible strikes and lock outs.

The foregoing suggestions are formidable and critical in nature. They must, however, be carried out in
letter and spirit if the objectives of the 1991 Industrial Policy, which the country has set before itself, are to be achieved. Finally the process of economic growth, of which industrial development is a critical part, is a joint effort requiring, for its success, cooperation of all sections of the society with all sincerity and dynamics. Let us hope for the better.