ABSTRACT

The present study entitled 'Evaluation of Indian Industrial Policy and Development since 1981' is an attempt to examine the impact of liberalization of industrial policies on the industrial development of India. The study is based on secondary sources of information and to some extent on primary sources in the sense that points of view of government officials and academicians on different aspects of industrial policy have also been considered and included in the text without mentioning their names. The study has been divided into seven chapters.

The first chapter outlines the scope of study and the role of industrial policy in development of a country. Industrial policy in its wider perspective, is very comprehensive and covers all those procedures, principles, policies, rules and regulations which control the industrial undertakings of a country and shape its pattern of industrialisation. The industrial policy provides guidelines for the effective coordination and integration of the activities of various Sectors of the economy with a view to achieve industrial development that can ensure rapid growth of output and employment.

It is because of this reason that almost all third world countries recognise that an appropriate industrial
policy of State intervention is a must for rapid and balanced development. In case of countries having large population and limited resources, the role of a well designed industrial policy cannot be over emphasised.

The second chapter analyses the historical background of industrial policy during the plans upto 1980. The basic parameters, which have guided industrial development of India, were laid down in the Industrial Policy Resolution (IPR) of 1956 which was the modified version of the Industrial Policy Resolution (IPR) of 1948. The main objectives of the IPR of 1956 were to accelerate the rate of economic growth and to speed up industrialisation, in particular to develop heavy industries and machine making industries, to expand public sector and to build up a large and growing cooperative sector.

In view of the adoption of socialist pattern of society as the national objective and the need for planned rapid development, it was necessary to develop industries of basic and strategic importance in the public sector. For these industries, the state assumed direct responsibility. However it recognised 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 for the first category of industries listed in Schedule A to the Resolution, the State undertook exclusive responsibility of running them. 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 development of the remaining industries was left to the initiative and enterprise of the private sector.

While industrial undertakings in the private sector were expected to fit into the framework of the social and economic policy of the State and subjected to control and regulation in terms of the industries (Development & Regulation) Act (IDRA), 1951 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 by ensuring the development transport power, communications and other services and by appropriate fiscal and other measures.'
The IPR of 1956, which formed the basis of industrial policy of successive Governments and which continues to guide the industrial policy of the country even now, 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, in fact 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.

The developments in the evolution of industrial policy that followed appear to have been based on a general mistrust of the private sector, suspicion of foreign investment 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. These things taken together, not only coloured the decisions of the subsequent Governments but resulted in legislations like the MRTP Act, 1969, Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and the foreign Exchange Regulation Act, 1973.

In view of the foregoing legislations many policy decisions were taken, particularly during the Seventies,
where the actual implementation led to exactly opposite results from the stated objectives. For example, reservation of a large number of items for exclusive manufacture in the small scale sector led to existing licensed manufacturers, enjoying a virtual monopoly of the market to manufacture them. A case in point is Bata with a huge licensed capacity before leather shoes were reserved for exclusive manufacture in the small sector. This resulted in the fact that those the 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 into the sector. Similarly case of Colgate Palmolive, which enjoys the dominant position in the tooth paste market took undue advantage of the reservation of these items for the small scale sector. There are a large number of similar examples which can be cited in this regard.

The implementation of the provisions of the MRTP Act led to the growth of monopolies and restrictive trade practices. The Government did not distinguish between large houses and dominant undertakings as far as the industrial policy was concerned 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 monoplistic 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 manufacture 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 per cent.

The main feature of industrial policy statement of 1980 was a set of pragmatic policies which was supposed to remove constraints in the industrial development and to act as catalysts for faster economic growth. Besides, the policy announced major relaxations and concessions for the rapid growth of tiny and small scale, medium and large scale industries with the triple objective of modernisation, expansion and development of identified backward areas. The major thrust of the concessions was to double the investment limit of tiny units, small scale units and ancillary units, regularise the excess installed capacity and permit the automatic expansion facility to large scale industries in the priority sector and to set up several 'nucleus' industrial centres in the industrially backward areas instead of district industrial
centres. But, there was no 'clear cut' criteria for the identification of industrially backward areas.

Besides, the policy aimed at higher productivity, higher employment generation, correction of regional imbalances, faster promotion of export oriented and import substitution industries and strengthening the agricultural base by promoting agro-based industries etc. However, the negative feature of the policy was that it strengthened the large scale sector at the cost of small scale industries by allowing an increase in licensed capacity and regularisation of unauthorised excess capacity in the name of modernisation and automatic expansion.

The process of liberalisation in industrial policies was initiated in 1985. However, the Government tried to liberalise the policies and procedures without touching the basic framework of the IPR of 1956. Consequently, the policies and procedures became even more complicated than they were before. 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 modernisation, 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.

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 298(i) of the IDRA exempted investment upto Rs. 50 crore in notified backward areas, and upto Rs. 15 crore 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 exemption as per this notification was only required to registered itself with the Central Government. In spite of this unambiguous 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.

The Government announced a new industrial policy on May 31, 1990 which accorded further liberalisation for speeding up the pace of industrial development. The main features of the policy were exempted from licensing or registration for new units with an investment of Rs. 25 crore in fixed assets in non-backward areas and Rs. 75 crore in notified backward areas, automatic approval for
foreign direct investment up to 40 per cent, foreign collaboration, capital goods imports and relaxation of the location policy. The Government removed almost all bureaucratic controls and shackles hampering industrial progress. This was done by freeing the entrepreneurs from the license and permit regime and giving them a first hand in decisions pertaining to choice of technology and foreign collaboration partner, investments and production limits so as to render the domestic industry internationally competitive for exports. Moreover, the measures were also taken for promotion of small scale and agro-based industries and change of procedures for grant of industrial approvals.

The present Government announced further liberalised industrial policy on July 24, 1991 by reviewing all the industrial policy statements made by successive Governments since 1956 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 policy decisions covering industrial licensing, foreign investment, foreign technology agreements, public sector and the MRTP Act.

The major objective of the new industrial policy is to build on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful
employement and attain international competitiveness. It categorically states that all sectors of industry, covering small, medium and large and 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 new policy 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 controls and red-tapism.

The major changes brought about in the new Industrial policy are the following:

1. Abolition of industrial licensing for all projects except for a short list of 16 industries. Item no. 11 and 18 have been removed vide Press Note No. 4 of 1993 series dated 28.4.1993 bringing the number of industries down from 18 to 16.
2. Reduction in the areas reserved for the public sector from 17 to 6. At present, they are only 6 industries because two industries (i.e. item no. 5 and 6) have been removed vide Press Note No. 3 of 1993 series dated 26.3.1993.

3. Automatic approval of foreign investment up to 51 percent in high priority industries.

4. Approval of foreign technology agreements on an automatic basis subject to certain specific parameters.

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

Though the new Industrial policy has removed most of the unnecessary shackles many people feel that it has not gone far enough in removing all unnecessary restrictions and controls on Indian Industry. But it is only the beginning and further liberalisations will be initiated with improvement in the BOP situation and other favourable factors.

The rapid expansion of the industrial sector in the Eighties was due to the reforms undertaken in trade and industrial policies in the early and mid Eighties. Further, policy changes were needed to sustain this and to provide the competitive stimulus for accelerated
industrial growth during the 1990s. The provisions of the new industrial policy 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 industrialisation in India has been promoted as a means of rapid economic growth. The industrial economy has moved to a more stable and sustainable BOP position during the last four years. The liberalisation of industrial policies and a shift to a market determined exchange rate regime have had a significant positive impact on the country's BOP position and the investment climate in the country by encouraging the foreign investors. Since the declaration of NIP in 1991, the Government approved 5,778 foreign collaboration proposals including 2,806 foreign equity proposals amounting to Rs. 22238 crore.

More than 80 per cent of these approvals are in priority sectors such as power generation, oil refinery, electrical equipment, chemicals and export oriented sectors. As a result of amendments in FERA and the liberalisation of foreign investment policy, many MNCs have increased their equity to over 51 percent. Many companies like Coca-Cola which disinvested in the
Seventies have returned to India to avail of the new opportunities. Even in areas still reserved for the public sector such as telecommunication, hydrocarbons, coal, railways and postal services, the Government has adopted a more liberal approach towards private investments including foreign investments. Without prior approvals, foreign investors can now own up to 24 per cent equity in any Indian firm and upto 20 percent in new private banks.

A number of policy measures have been taken by the Government to encourage value added exports of small scale and village industries, e.g. imports of raw materials and machinery have been liberalised. The small scale sector recorded a growth rate of 7.1 per cent in 1993-94 as against 5.6 per cent in 1992-93 and 3.1 per cent in 1991-92. These rates are higher than the growth rates achieved by the industrial sector as a whole. The SSI sector contributes 40 per cent to the gross turnover in the manufacturing sector and 35 per cent to total exports. Moreover, KVIIs also produce goods worth Rs. 3,490 crores and provide employment of 55.50 lakh persons presently.

Main findings of the study are as follows:

1. For ensuring rapid industrial progress, infrastructure should be developed on war-footing particularly in the areas of transport, power and communication.
2. There is an urgent need of balanced Board of Directors in company form of organisations. It must include professionals, academicians, bureaucrats and persons nominated by the foreign investors as practised in a number of countries.

3. Optimum utilisation of physical and human resources should be ensured and in this regard negotiations between the management and the employees should be started so that there are least possible strikes and lock outs.

4. The industrial units should be made more realistic and competitive keeping in view the developments taking place in a number of countries of the subcontinent and elsewhere.

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

6. Necessary changes in the MRTP and FERA Acts should be brought about as quickly as possible as the foreign investors are adopting a policy of wait and see.
7. The new industrial policy should incorporate specific guidelines for clearing investment proposals for more than 51 per cent foreign equity. For instance, in certain newly industrialised counties, 100 per cent equity is linked to technology offered, generation of employment, use of local raw materials and locational factors.

8. The present process of reforms should be speeded up for the clear cut policy of restructuring, especially in respect of technology and labour.

9. The country must embark rapidly on a programme of privatisation of the public sector except some strategic and sensitive industries in order to ensure the achievement of rapid growth and early elimination of poverty. But national interests should in no case be sacrificed at the altar of privatisation.

The foregoing suggestions are formidable and critical in nature. However, they should be carried out in letter and spirit to achieve the objectives which the country has set before itself. The process of economic growth, of which industrial development is a critical part, requires a joint effort for its success, cooperation of all sections of the society with all sincerity and dynamics. Let us hope for the better.