**SEMESTER 6th (UG)**

**Subject: BUSINESS ENVIRONMENT**

**UNIT V - INDUSTRY POLICY**

**INTRODUCTION:**

The extent and pattern of industrialisation in a country is highly influenced by its industrial policy. Before independence, the policy of British rulers was of Laissez-faire i.e. policy of non-interference and leaving all things to private enterprises. It was only after India attained independence in 1947 that an effort was made to begin the era of planned industrial development.

Industrial Policy is a comprehensive concept which covers all those procedures, principles, policies, rules and regulations that control and shapes the pattern of industrialisation. It consists of fiscal policy, monetary policy, tariff policy and labour policy. It prescribes the role of the public, private, joint and co-operative sector for the development of industries.

**IMPORTANCE OF INDUSTRIAL POLICY :**

Industrial policy is the most important document which indicates the relationship between business and government. This document is helpful to the

• Planners and administrators as it gives clear guidelines for promoting and regulating industries • Industrialists and others as help them in deciding areas and priorities of their investments.

**OBJECTIVES/RATIONALE OF INDUSTRIAL POLICY:**

The main objectives of industrial policy are —

• Achieving industrial development and economic growth.

• Achieving a socialistic pattern of society.

• Reducing disparities in regional development.

• Preventing undue concentration of economic power.

• Developing heavy and capital good industry.

• Protecting and developing a healthy small scale sector.

• Creating a favourable investment climate for the private sector.

• Directing the scarce resources in the most desirable areas of investment, keeping in view the national priorities.

• Providing guidelines and conditions for foreign capital investment.

**Need/Rationale of New Industrial Policy:**

In June 1991, when Narasimha Rao government came in to power, the Indian economy was suffering from economic and financial crisis. The situation was so alarming that foreign exchange reserves of India dried up and were barely enough to pay for two week's imports. New loans were not available. Industrial growth was scraping the bottom. Prices of essentials goods were soaring high. Due to various restriction like MRTP Act, corruption, red tapism and inefficiency of system, entrepreneurs were unwilling to establish new industries. Thus, there was a need to introduce reforms to reduce unnecessary restrictions and to make Indian economy competitive. Thus, the government of India initiated a series of economic reforms to battle the crisis of 1991. Out of these reforms, one major reform was the introduction of New Industrial Policy 1991.

**Objectives of New Industrial Policy 1991:**

The main objectives of this policy are :

(1) To link Indian economy to the global market so as to acquire the ability to pay for imports and to reduce dependence on foreign aid.

(2) To liberalize the industry from regulatory devices such as license and controls.

(3) To make Indian economy more competitive.

(4) To ensure rapid industrial growth.

(5) To ensure efficiency of public enterprises on business lines and to reduce their losses.

(6) To provide more incentives for industrialization of the backward areas.

(7) To increase foreign investment.

(8) To free the domestic entrepreneurs from excessive restrictions of MRTP Act.

(9) To achieve the goal of self - reliance.

**Highlights of New Industrial Policy, 1991**

**(1) Abolition of Industrial Licensing :** The most important reform of the Industrial policy, 1991 is that it has ended the practice of industrial licensing in India. The new policy has abolished the system of industrial licensing for most of the industries except in 18 industries, With the passage of time, this list was reduced to 6. At present, only 4 industries are kept under compulsory licensing mainly on account of strategic, safety and environmental considerations.

These are :

• Cigars and cigarettes of tobacco and manufactured tobacco substitutes

• Electronic aero space and Defense equipment.

• Industrial explosives e.g. gunpowder, matchboxes etc.

• Specified Hazardous Chemicals.

**(2)Do-Reservation of Industries for Public Sector:**  Another important feature of the industrial policy,1991 the number of industries reserved for public sector from 17 to 8 viz (1) Arms and Ammunition (2)Atomic Energy (3) Atomic minerals (4) Railways (5) Coal (6) Mineral oil (7) Mining of Iron ore, Manganese ore, Gold, Silver (8)Mining of copper, lead and zinc. In 2014-2015, this number was further reduced to 3. During 2014, private investment in Railway infrastructure has been permitted. Consequently, at present, only 2 industrial sectors are reserved for public sector:

**(1) Atomic Energy**

**(2) Railway operations other than construction, operation and management of the following.**

• Suburban corridor projects through PPP

• High speed train projects

• Dedicated freight lines

• Railway electrification

• Passenger terminals

• Signaling systems

• height terminals etc.

**(3) Relaxations under MRTP Act:** Under MRTP Act, 1969, industries having assets not less than 1191 crows (Since 1985) were required to obtain prior approval from MRTP commission in respect of number of activities. The Industrial policy 1991 eliminated the requirement of prior approval of government for establishment of new undertakings, 4 expansions, mergers, amalgamation, takeovers and appointment of directors. In year 2002, the government abolished the MRTP Act and replaced it with Competition Act, 2002,

**(4) Foreign Investment and Capital :** For more than three decades, after independence, foreign investment was not encouraged to protect Indian Industry and to conserve foreign exchange. For the first time, in the industrial policy 1991, foreign companies are allowed to have majority control in India. In 47 high priority industries requiring large investment and advanced technology, it was decided to provide automatic approval for direct foreign investment up to 51%. For export trading houses WI up to 74% was allowed.

**(5) Setting up of Foreign Investment Promotion Board :** To attract foreign investment and advanced technology, the government decided to establish a special empowered board called Foreign Investment promotion Board (F1PB) to negotiate with international firms and to approve FDI in special areas.

**(6) Disinvestment in Public Sector Units:** The public sector which was conceived as a vehicle (or rapid industrial development largely failed to do the job assigned to it Thus it is decided in this policy to disinvest the government share in public sector gradually so as to privatise them over a period of time. For this purpose, the government set up a Disinvestment Commission In August 1996. On the basis of recommendation of the Disinvestment commission, the government has sold a part of its share in selected public undertakings to mutual funds, financial institutions, general public and workers.

(**7) Review in Public Sector Investment :** In Industrial policy 1991, it is decided to review the portfolio of public sector investments with a view to focus the public sector on strategic, high tech and essential infrastructure. It is stressed that the boards of public sector undertakings would be made more professional and given greater powers. Chronically sick PSU would be referred to Board for Industrial and Financial Reconstruction. National Renewal Fund was set up to provide relief to the workers affected by technological changes, privatisation of public sector units and closure of public sector units.

**(8) Liberalisation of Location Policy :** Another feature of New Industrial policy 1991 is the liberalization of location policy. The new policy mentioned that **–**

**(a) In cities of Less than 1 million population -** there will be no need for obtaining industrial approval from the central government except for industries subject to compulsory licensing.

**(b) In cities with population greater than 1 million -** industries will be located outside 25

km from the city limit except in prior designated industrial area.

However non-polluting nature industries such as electronics, computer software and printing etc are permitted to set up within the limit.

**(9) Removal of Convertibility Clause :** Earlier Banks and financial institution had the option to convert 20% of their loans into equity, where the aggregate financial assistance exceeded Rs. 5 crore. This was an unwarranted threat to the industrialists. In a significant step, New Industrial Policy has dispensed with the applicability of the mandatory convertibility clause..

**(10) Abolition of Registration :** The new policy has abolished all existing registration schemes like delicensed registration and exempted industries registration. Entrepreneurs would hence forth only be required to file an information memorandum on new projects and substantial expansion.

**(11) Facility of Import :** The policy has provided for automatic approval for the import of

capital goods whose value is less than 25% of total value of plant & machinery, subject to maximum limit of Rs 2 crore. In other matters of import of capital goods, ministry of industry would give necessary permission keeping in view the foreign exchange reserves.

**(12) Use in Hiring of Foreign Technicians :** This policy has laid that no permission would be required for hiring of foreign technicians, foreign testing of indigenously developed technology. Thus this policy has eased hiring of foreign technicians.

**Evaluation of Industrial Policy, 1991:**

It can be said that the industrial policy of 1991 is a drastic change form the fundamental policy of 1956. This policy has attempted to liberalise Indian economy by freeing the Indian industries from the unnecessary bureaucratic controls. This policy has opened the door of Indian economy to outsiders resulting into increase in foreign investments and high foreign exchange reserve. This policy is a gaint leap towards privatization.

To evaluate a policy, we have to see the both sides of a coin.

**(A) Merits of Industrial Policy :**

**(I) Liberalised Indian Economy :** This policy has attempted to liberalise Indian economy by freeing the Indian industries from the licencing or permit Raj as well as by abolishing all the registration schemes.

**(2) Integrated the domestic economy with the World Economy :** This policy has taken a giant leap to integrate the domestic economy with the world economy by allowing foreign participation in Indian companies and by allowing access to foreign technology. The provisions of this policy relating to automatic approval route for foreign direct investment up to 51% foreign equity, the easier facilitation of foreign technology agreements have resulted in increase in foreign investment and high foreign exchange reserves.

**(3) Enhanced the competitiveness of Indian Industries :** Until 1991, India was protecting its infant industries from outside competition because these were not capable to face foreign competition but through industrial policy, 1991 the government has liberalized the industrial sector, so as to increase the competitiveness of indigenous industries. Increased foreign competition has improved the efficiency and the technological base of industrial enterprises.

**(4) Increase in Production :** The scrapping of the MRTP limits has enabled the companies to establish new undertakings and effect plans of expansion, mergers, amalgamations and takeovers without prior government approval. This has resulted in increase in production.

**(5) Reduced and Redefined the role of Public Sector :** This policy has reduced the role of public sector from 17 to 8 and later on to 2. This policy has also stressed on the need of disinvestments in public sectors which are not doing well. Threat of closure of sick public sector units, appointment of professionals on the board and giving greater autonomy has enhanced the efficiency of public sector units.

**(6) Support to Small & Cottage Industries :** In this policy, government has provided additional support to the small scale industries as well as cottage industries so that they can survive amidst the environment of economic efficiency and technology upgradation.

**(7) National Renewal Fund for Safety of Workers :** Through this policy, the government announced to set up National Renewal Fund to protect the interest of labourers who were retrenched due to privatization of public sector units. This fund was established in 1992 and two schemes namely Voluntary Retirement Scheme (VRS) and re-training schemes were announced for workers. However, later on this fund was abolished by the government in 2000.

**(8) Increase in Foreign Investment :** With the initiation of new industrial policy 1991, the country witnessed a change in the flow and direction of Foreign Direct investment (FDI). This is mainly due to removal of restrictive and regulated practices. FD1 in India has increased from USD129 million's in 1991-92 to USD 40,885 million in March 2005 and USD 64, 375 billion.

**(B) Shortcomings of Industrial Policy 1991**

Inspite of many plus points, the new industrial policy 1991 is criticised by economists on several grounds. Some of the points of criticism are explained below :

**(1) Reduced the Role of Public Sector :** In all the industrial policies pursued till 1990, major role was given to public sector in the industrial growth. Industrial Policy 1991 has shifted the focus from state-regulated planned development to the market driven economy. This policy has reduced the role of public sector by reducing the number of industries reserved for public sector and by permitting the disinvestment of government's share in public sector undertakings.

**(2) Reduced Competition for Private Sector :** In strategic and basic industries, where there are only few players in competition, reduction in the role of public sector has resulted into reduction of healthy competition for private sector.

**(3) Overlooked Interests of Small Scale Undertakings :** The industrial policy 1991 has opened the door of Indian economy for MNC's without providing any shelter for small scale industries. Small scale units were completely overlooked. Most of small scale industries have been closed due to tough competition from MNC's who have unparalleled financial and political power.

**(4) Concentration of Economic Power in Few Industrial Houses :** Removing the limits of assests in respect of MRTP companies and further abolishing MRTP Act in 2002, has led to the concentration of economic powers in the hands of a few big industrial houses like Reliance, Tata Group, Birla Group etc.

**(5) Enhancement in Regional Imbalances :** By removing restrictions on location policy, industrial policy 1991 has defeated the objective of balanced regional development. After 1991 the private sector has surpassed the public sector. Private entrepreneurs prefer to set up new units in developed areas, having full infrastructure facilities. Thus after 1991, regional imbalances have increased.

**(6) Less role of Research and Development :** The industrial policy 1991 has not paid much attention to the role of research and development in making the industry competitive.

**(7) Reduction in Employment Opportunities :** By allowing access to foreign technology agreements, this policy has shifted the focus from labour intensive technology to capital intensive technology. Now maximum work is done through machines and robots. It has reduced employment opportunities for workers.

**(8) Ignore Labour Problems :** Another problem which the policy has ignored is the labour's problems. The policy has laid that sick public companies should be either transferred to private houses or closed. But no adequate social security measures have been taken for workers affected due to closure of business.

To conclude, it can be said that since 1991, the industrial policy has been more for facilitating the industrial development rather than anchoring it through permits and controls. Thus, Industrial Policy 1991 is known for the fundamental changes, it has made.

**NEED FOR NEW INDUSTRIAL POLICY FOR INDIA:**

The Department for Promotion of Industrial Policy and Internal Trade 1DPIITI, Ministry of Commerce and Industry has started the process of formulation of a new industrial policy recently. Since the last Industrial Policy announced in 1991, India has transformed into one of the fasten growing economies in the world. The need of the hour is that India should build a globally competitive Indian Industry. A recent report by Deloitte LLP pointed out that India's young population will drive its economic growth to overtake China and other Asian tigers in the next few decades. The potential workforce in India is set to increase from 885 million to 1.08 billion in the next 20 years. Thus, there is a need of new Industrial Policy which shall aim at building a globally competitive Indian Industry equipped with skill, scale and technology. Micro small and medium enterprises sector is facing tough competition from cheap imports from China and other countries with which India has free trade agreements. Thus, a new policy should be announced to address the problems of low research and development spending and tough competition from cheap Chinese imports.

**SUGGESTIONS FOR NEW INDUSTRIAL POLICY:**

The new industrial policy must

• prioritize the creation of livelihoods in rural and semi-urban areas.

• recognize the importance of growth in the rural non-farm and agriculture-allied economy for industrial development.

• provide opportunities for India to realize the economic potential of the young population.

• Focus on improving overall competitiveness and avoid the temptation of short-term benefits of over-protectionism.