EVALUATION OF INDIAN INDUSTRIAL POLICY AND DEVELOPMENT SINCE 1981

ABSTRACT

THESIS
SUBMITTED FOR THE DEGREE OF
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IN
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BY
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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 toothpaste 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
provention 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 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
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 licencing system. To add to the complications, there were separate regulations for MRTP and FERA companies and for companies falling outside these
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(1) 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 register 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
employment 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 upto 51 per cent 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 up to 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 the 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 sub-continent 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.
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CERTIFICATE

This is to certify that Mr. Irfan Ahmad has completed his Ph.D. thesis entitled 'Evaluation of Indian Industrial Policy and Development since 1981' under my supervision.

To the best of my knowledge, the work is of original nature and suitable for submission for the award of Ph.D. Degree in Commerce.

Professor M. Mushtaque Ahmad
Supervisor
Dedicated
To
My Loving Parents
And
Brothers
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PREFACE

The concept of Industrial Policy of a country is very comprehensive in its nature and covers all those procedures, policies, principles, rules and regulations which control the industrial undertakings of a country and shape its pattern of industrialization. Therefore, industrial policy plays a very significant role towards achieving certain vital socio-economic objectives such as acceleration of the rate of economic growth, speedy industrialisation, development of heavy and machine building industries, providing assistance for gainful employment etc.

Although, important modifications and revisions in industrial policies and procedures have been initiated from time to time, the main objective of laying an industrial base on an equitable basis through the development of heavy and basic industries has been intact. In the race of liberalisation of Industrial Policy and Industrial Licensing Procedures, the Industrial Policy Resolution, 1956, which was once considered as "an economic constitution" and committed India to state intervention in order to enforce a certain pattern of industrial development and a certain manner of utilisation of resources, has been, once again taken as a guide for industrialisation at a very fast rate on July 24, 1991 by
dividing the Industrial Economy into three phases: (i) The Government and Public Sector. (ii) The Small Scale Industry and Private Sector, and (iii) The Industries opened for foreign collaboration at 51% or more equity investment.

The provision for obtaining Industrial License has been abolished for almost all industries except for a short list of industries related to Security and strategies concerns. The criteria for classification of industry on the basis of investment limits has been done away with. The Industrial Organisations are now required to file a memorandum as prescribed by the Government. The industries reserved for small scale sector will continue to be a factor to identify the industry — large or small. Besides, the criteria of Broad-banding industry will also continue to assist the industrial units for their extension and expansion.

The New Industrial Policy (NIP), 1991 may lead the nation towards developed industries with advanced technology in foreign collaboration and sufficient balance of payment in the 21st century. Since July 24, 1991 far reaching and sweeping changes have been made through notifications and Press Notes, by the Government in fiscal, industrial and trade policies. All these changes are intended to do away with all unnecessary controls and regulations with the basic objective of making Indian
industry internally and internationally competitive through creation of an environment where Indian entrepreneurship can flourish. The plethora of Press Notes, circulars, etc., since the announcement of the New Industrial Policy was perhaps inevitable due to the complex nature of the task in hand and continuing changes in policy parameters. The Silver lining in the process is that all the changes initiated so far have invariably introduced further liberalisation of policies and procedures.

**Objectives of the Study**

In the present study entitled "Evaluation of Indian Industrial Policy and Development since 1981" an attempt has been made to highlight the contribution of the industrial policies up to date towards the rapid and balanced industrial growth and development of the country. The specific aims and objectives of the study have been as follows:

1. To discuss the meaning and importance of industrial policy towards the planned industrial development of developing nations like India.

2. To trace the origin and history of industrial policy during the plan period.

3. To analyse the Industrial Policy Statements right
from launching of the Second Five Year Plan to the conclusion of Fifth Five Year Plan and subsequent changes brought about therein and their impact on the overall industrial structure of the country.

4. To highlight the positive and negative features of Industrial Policy statement of 1980 with regard to Indian industrial progress.

5. To highlight the problems faced by the private Sector small Scale, medium sized and large scale industries.

6. To examine in detail the implications of post 1980 Industrial Policies up to date in the context of rapid and balanced industrialisation and economic progress of the country with a view to benefitting the common men in the shape of increasing availability of goods at fair prices, larger employment and higher per capita income.

7. To analyse the circumstances which led the Government to adopt liberalisation measures and opening up the Indian Industry to the global market on competitive basis by allowing 51% or more foreign direct investment in the industrial sector of the country.

8. To evaluate the industrial policy and development since 1981 and
9. Finally to conclude the overall industrial policy and development and place some valuable suggestions for further improvement in the industrial policy and procedures.

**Frame work of the Study**

The work has been divided into seven chapters. The first chapter highlights briefly the meaning and importance of industrial policy in relation to the developing nations like India alongwith its socio-economic significance.

The Second Chapter dwells upon the industrial policy in historical perspective and focusses attention on the post independance industrial policy upto 1980. It, particularly deals with the Industrial Policy Resolution of 1956 alongwith a number of subsequent industrial policy statements upto 1980. The modifications made from time to time in the IPR 1956 were nominal. In spirit, the 1956 Industrial Policy Resolution dominated the the Indian planning process upto 1980.

The third chapter examines in detail the positive and negative features of Industrial Policy Statement of 1980. Besides, the chapter incorporates the statement of industrial policy of 1980 as it was announced by the Central Government.
Chapter fourth deals with the post 1980 liberalised industrial policies up to date with special reference to industrial policy statement of 1991 which has made more liberalization in industrial licensing, foreign investment, foreign technology agreements, public sector policy, MRTP Act and Small Scale and tiny Sector. The chapter contains three Annexures. Annexure I deals with the proposed list of industries to be reserved for the public sector, annexure II contains the list of industries in which industrial licensing is compulsory while annexure III presents the list of industries for automatic approval of foreign technology agreements and for 51 per cent foreign equity approvals.

In Chapter fifth, an attempt has been made to examine and analyse the implications of the various post 1980 liberalised industrial policies on the industrial development of the country. The chapter also highlights the conflicting reactions of people of different shades of opinion with special reference to the 1991 Industrial Policy which removed a number of bureaucratic controls, simplified a lot of technicalities and procedures and opened the doors of Indian industries to the foreigners to ensure healthy competition.

Chapter Sixth tries to evaluate the impact of liberalised industrial policies on the industrial
development of the country since 1981 by providing latest
data and figures of the development of different sectors
of the economy.

The seventh Chapter, which is a concluding chapter,
gives a summary of conclusions of the whole thesis. The
main objective of this very chapter is to sum up the major
findings and to suggest workable solutions to the problems
encountered by the industrial units of different sectors
of the economy.

RESEARCH METHODOLOGY

During the coarse of my study I had to gather
suitable and relevant information from the secondary
sources. To make myself abreast of the latest development
on the subject I had to pay visits to the planning
commission, Ministry of industries, Ministry of Finance
and other Government departments. My discussion with a
number of persons in different departments of the
government were very fruitful and I have incorporated some
of their views without mentioning their names.

HYPOTHESIS

I had only one hypothesis to test regarding the
evaluation of Industrial Policy and Development. For about
four decades, people, in general, thought that the IPR of
1956, termed by some as the economic constitution of India, is quite comprehensive and will result in faster rate of industrialisation leading to overall prosperity in the country. Against this null hypothesis I tried to test the alternative hypothesis that the IPR of 1956 was basically, the result of the country's colonial past, some other contemporary factors and that the said IPR, which dominated the Industrial scene for thirty five years did not result in solving the country's industrial problems like faster pace of industrialisation nor did it lead to overall prosperity in the country.

In the light of the IPR of 1956, I examined the Industrial Policy Statements of 1970, 1973, 1975, 1977, 1980, 1985, 1990 and 1991 anumber of changes brought about thereunder, alongwith their pros and cons on the country's industrial development. On the bases of existing literature on the subject, my discussions with a number of government officials in different Ministries and academicians and of course, the initiatives taken by the government from time to time in this respect, I rejected the null hypothesis and accepted the alternative hypothesis.
ABBREVIATIONS

BIFR = Board of Industrial and Financial Reconstruction.
BOLT = Build Operate Lease Transfer
BOO = Build Operate Own
BOP = Balance of Payment
BSIR = Board of Scientific and Industrial Research.
DGTD = Directorate General of Technical Development.
DIC = District Industrial Centre.
EDP = Entrepreneurial Development Programmes.
EOU = Export Oriented Unit.
EPZ = Export Processing Unit.
FCI = Fertiliser Corporation of India
FCCB = Foreign Currency Convertible Bond.
FDI = Foreign Direct Investment.
GDR = Global Depository Receipt.
IAC = Indian Airlines Corporation.
IDBI = Industrial Development Bank of India.
IDPL = Indian Drugs and Pharmaceuticals Ltd.
IDRA = Industries (Development and Regulation Act, 1951
PSE = Public Sector Enterprise
PSU = Public sector undertaking
RBI = Reserve Bank of India.
R & D = Research and Development
SAIL = Steel Authority of India Ltd.
SBI = State Bank of India
SDR = Special Drawing Right
SEBI = Securities and Exchange Board of India.
SFC = State Financial Corporation
SIA = Secretariat for Industrial Approvals
SICA = Sick Industrial Companies Act.
SDBI = Small Industries Development Bank of India
SIDO = Small Industries Development Organisation
SSI = Small Scale Industries
SSIDC = State Small Industries Development Corporation
TDC = Technology Development Cell
U.K. = United Kingdom
UPSCC = Uttar Pradesh State Cement Corporation
USA = United States of America
USSR = (earstwhile) Union of Soviet Socialist Republic
WB = World Bank.
IBM = Industrial Entrepreneurs Memorandum
IIP = Index of Industrial Production
ILP = Industrial Licensing Policy
IMF = International Monetary Fund
IPR = Industrial Policy Resolution
IRC = Industrial Reconstruction Corporation
JBRI = Japan Bond Research Institute
KVIB = Khadi and Village Industries Board
KVIC = Khadi and Village Industries Commission
MNC = Multi National Corporation
MODVAT = Modified value Added Tax
MOU = Memorandum of understanding
MRTP = Monopolies and Restrictive Trade Practices Act, 1969
MRTPC = Monopolies and Restrictive Trade Practices Commission
NCST = National Committee on Science and Technology.
NIP = New Industrial Policy
NRF = National Renewal Fund
NRI = Non Resident Indian
NSIC = National Small Industries Corporation.
NTC = National Textile Corporation
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CHAPTER I
CHAPTER I

SCOPE OF THE STUDY

INTRODUCTION:

As early as 1916, the Indian Industrial Commission was established for conducting a comprehensive survey of Indian resources and potentialities for industrial development. However, it did not lead to any attempt towards formulation of a positive and well coordinated industrial policy for India as the government was interested in keeping India as a primary commodity producing country. During the Second World War, the British Government because of the compulsion of war needs, became very conscious of industrial expansion, research and training consequently the Board of Scientific and Industrial Research was set up in the year 1940. This was followed by the creation of a Department of Planning and Reconstruction at the Centre. The freedom struggle which had slowed down a little during the World War gathered tremendous momentum and the country became independent in 1947. It is to be noted here that during the British regime no sincere and concrete efforts were made towards industrialization of the country. Whatever steps were taken in this direction were only because of the compulsions of one kind or the other. The Industrial policy of Independent India was first enunciated in 1948.
This was the first concrete attempt to enunciate a comprehensive industrial policy for the country and it has served as the kingpin of planning for industrial development of India.¹

The 'Industrial Policy' of any nation is basically composed of two components— one is the philosophy of a given society to shape industrial growth and the other, is the implementation which gives the practical shape to the philosophy of the policy. The first component of industrial policy is the philosophy which consists of an approach to, and the objectives of, industrial development. The approach can broadly be classified into three categories:

The first category is Capitalism (or capitalistic economy) which is based upon the faith in the private property and market orientation of the use of resources or in other words, it is an economic system in which all the means of production are privately owned. The following example will make the concept of capitalism more clear. Suppose a person owns a car, it is his private property and he is free to decide how to use it, whether to take it to his office or not. He may oblige his friends by making available the car to them for use or may refuse to do so.

He may sell it off and purchase a new one. Similarly, the farm land too that he owns, is his private property. Thus, Fords, Coca Cola, Pepsi Cola, Lever Brothers, Suzuki, Toyota, Honda, Kawasaki, Mazda, Tata, Birla and so on are the private owners of the means of production. Government is not supposed to interfere with their functioning. Such a capitalistic economy (also known as 'Free Market Economy') has been functioning in United States of America (USA), United Kingdom (U.K.), Canada, Japan, South Korea, Hong Kong and Western Europe. After the dismemberment of the USSR in 1989, almost all socialist countries have also switched over from the centrally planned economies to the market oriented economies.

However, there are many limitations associated with this system. Under the system, the society came to be divided into 'Haves', and 'Have-nots'. This artificial division created social tension. As a result, a large part of the world population got disappointed with capitalistic system and adopted an alternative form of economic system known as a socialistic economic system.

The second category is Socialism or Socialistic Economy which regards the socialization of all the resources or all the means of production. It is an economic system in which all the means of production are owned only by the Government. The Government itself decides
the use of every economic factor service and directs all
the house holds and the firms. This type of economic
system was first of all adopted by a group of republics
called the Union of Soviet Socialist Republics (USSR) or
Soviet Union and few other countries in Eastern Europe
like Czechoslovakia, Hungary, Poland, Romania, Bulgaria.
In Latin America (Cuba), and in Asia, China, North Korea,
Vietnam had followed the Soviet Union and adopted Socialism
as the form of economic system. Recently, China and other
socialist countries have permitted private property on a
limited scale.

This system ensures economic equality and all the
available resources are put to their optimum use but it
eliminates private enterprise and initiative. Above all,
this system is totalitarian in nature and characterized by
rigid controls, even then it does promote economic growth,
equality and stability. Though theoretically quite good the
system could not work for a long time as the handful
people responsible for putting the system into practice
used it for their own ends at the cost of common people.
The people at large got disgruntled with the system.

As a result, the entire East European countries
including Russia and other newly independent Republics
which have organized themselves into the Commonwealth of
Independent States (CIS) have given up socialism. China, Cuba, Vietnam and North Korea are the only countries which are still continuing with socialism.

However, elsewhere in the world, the need had been felt to evolve a system wherein the private enterprise is allowed to work, make its own decisions and grow and simultaneously, the Government are also empowered to play an important role in promoting economic development of their countries. In doing so, the government owned the mean of production, participated in decision making and gave a general direction to the private enterprises for th overall economic development of their countries. The system came to be known as Mixed Economic System.

The Mixed Economy as already pointed out, is a combination of both the capitalistic economy (i.e. market oriented economy) and the socialist economy (i.e. Government owned economy). This economic system in functioning in India, Pakistan, Sri Lanka, Nepal, Italy, Sweden, Nigeria, Egypt etc. Under the system, private property is allowed and the entrepreneurs are free to choose their lines of production. In India Tatas, Birlas, Modies, Dalmias and so on are very much of private entrepreneurs or Industrialists while the Government has also actively participated, owned, controlled and managed the various production units in the Indian economy. Steel Authority of India Ltd. (SAIL), National Textiles
Corporation (NTC), air India, State Bank of India (SBI), Delhi Transport Corporation (DTC), DMS, Modern Bakeries and so on are the production units which are owned by the Government and constitute what is known as the public sector of the economy. The public sector and Private sector both exist side by side in the system. Under the system, the industries were classified into different categories:

a) Exclusively reserved for the public sector.
b) Left open both for the public sector and the private sector.
c) The Government and the private enterprise may, at times, join hands to set up production units, such production units are jointly owned by the Government and the private enterprise which constitute the joint sector of the economy.

Although, the households and firms were free to take their own decisions, the Government used to influence their decisions through various instruments and controls such as industries (Development and Regulation) Act, 1951 and the tools of economic planning. The Government can undertake those works and projects which are essential for social welfare and require very huge investments as the private enterprise are generally not interested in such activities because of low profit margins. Moreover
there are certain projects which are beyond the financial capability of private enterprise and as such the Government itself can undertake such projects.2

Usually, objectives of industrial policy are very much specific to the countries concerned and they are formulated keeping in view the aspirations of the people, their limitations, level of technology and other natural resources. In a capitalistic economy, the pace and pattern of industrial development are, by and large, governed by the market forces. In a socialist economy, plans embody the goals set by the government while in a mixed economy, objectives of development are set by the planning body in consultation with the Country's Development Council. In India, the objectives are set by the Government Body known as the Planning Commission in consultation with the National Development Council keeping in view the social priorities and the capabilities of the private sector.

The second component of industrial policy is to provide the manners of its implementation which gives the practical shape to the philosophy of the policy. In the context of Mixed Economy, the industrial policy is expected to include such features as principles, procedures, rules and regulations which are intended to

2. Dhingra, I.C. & Garg, V.K.; An Introduction to our Economy, Sultan Chand & Sons Ltd., New Delhi, 1992, pp. 5-11.
control and regulate industrial undertakings both large scale and small scale; policies relating to the division of industries into public, private, joint and cooperative sectors; participation of foreign enterprises, their management, their investment and the like.  

Licensing and regulation of important industries are the main instruments of the industrial policy in India. Industrial licensing regulation has its legislative sanction in the Industries (Development and Regulation) Act, 1951. The main provisions of the IDR Act, 1951 are as follows:

1. that all scheduled undertakings should have a compulsory registration with the Government within a specified period;

2. that licences should be obtained from the central Government by all new undertakings to be established and by the existing undertakings for their substantial expansion;

3. that the Government may fix the prices of the products, the pattern of share distribution of an industrial unit etc.

4. that the Government could order an investigation in respect of any scheduled industry, or undertaking if

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it so needed;

5. that in the case of failure to carry out the directions issued after such investigation, the Government could take over the management of such industries or undertakings.

The IDR Act provided five types of licences:
(i) new undertakings; (ii) substantial expansion, (iii) the production of new articles; (iv) change in the location — either part or whole of the undertakings, (v) carrying on business.

The IDR Act further provided for the establishment of the licensing Committee, the Central Advisory Council and the Development Councils. The Licensing Committee has representatives of the Ministries concerned and the Planning Commission. It is an advisory body and is expected to make such investigation in respect of any application and make a report to the Government. There is the Central Advisory Council set up for industries for consultation in regard to problems relating to the administration of the Act and other matters pertaining to the development of industry. The Development Councils for individual industries consist of representatives from industrial undertakings, issued under the forementioned Act employees and consumers. The main objective of these councils is to act as a liaison between the public and the public sectors and to ensure that the
private industry conforms more and more to the planned pattern of development.\textsuperscript{4}

However, the licensing provisions under Sections 10, 11, 11A and 13 of the IDR Act, 1951 were very cumbersome for the industrial growth of the country. As such, the government of India vide its notification no. 477/E of July 25, 1991 has set aside the operation of these sections. The press Note sets out the changes in the existing system and procedures for industrial approvals arising out of the aforesaid notification.

Besides, the industrial policy is to produce the wherewithal (necessary funds and resources) for working out the plans. In a capitalist market economy, intervention is necessary because fluctuations or movements in market prices and profits act as signals for the resources to increase or decrease and get allocated or reallocated to different uses. Sometimes, the Government has to intervenes to correct market distortions through monetary measures like changes in interest rates, quantity of money, etc. and fiscal measures like taxes, subsidies, etc. In a socialist economy, the plan lays down the rate and shape of industrial set up. It also uses the instruments of monetary and non-monetary incentives and

praise or punishments for the promotion of its goals. In a mixed and capitalist economy, state interventions are made use of. Market prices and profits determine the volume of production and consumption in the economy. At the same time, state intervention becomes necessary for demarcation of spheres between the public and the private sectors and for the regulation and control of private sector to ensure the implementation of plan priorities.5

In its wider perspective, the concept of industrial policy is comprehensive and it covers all those procedures, principles, policies, rules and regulations which control the industrial undertakings of a nation and shape its pattern of industrialization. It incorporates fiscal and monetary policies, tariff policy, labour policy and Government's attitude not only towards external assistance but towards the public and private sectors also. In short, Industrial Policy provides guidelines for the effective coordination and integration of the activities of 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.6


Industrial Policy in Developing Countries

In third world countries, it has now been realized by almost all that an appropriate Industrial Policy of State intervention is a must for the development of an underdeveloped economy. It is all the more true in case of countries supporting large population with limited resources. In such countries, a well designed industrial policy is important for several reasons:

Firstly, a policy is necessary as the task of industrialization is enormous and requires participation of the Governments in a big way. The private sector, own its own, cannot find and often is not willing to invest enough resources to undertake the task, specially providing infrastructure where investments are huge and returns are comparatively very low or negligible. Hence, the government will have to earmark areas of economic activity for itself, while leaving certain areas for private enterprise, and listing areas where both public and private enterprises can pool their resources. The government, generally, concerns itself with the provision of such things as economic and social overheads like roads, railways, basic and heavy industries like steel, electricity etc. Private sector is usually assigned the consumer goods industries which require small finance, promise quick return and face uncertainties of market
demand. In the fields where goods are of mass consumption, of standard quality and figure in the consumption of poor people, Government may have to undertake production of such goods for considerations of social welfare. The government and the private sector may join hands in certain projects where the state largely provides finance and private enterprises largely provide management skills and organizational efficiency.

Secondly, regulation of private sector is of considerable importance where development is programmed through planning. In such a context where priorities for the use of limited resources are laid down in the plan, the planning authority cannot permit deviations or use of scarce resources for non priority industries. Therefore, to make private sector fall in line with the programmes of plans, control and regulation are necessary.

Thirdly, any programme of industrial development, in initial stages, necessitates an economic policy that depends on foreign aid to enhance resources, provides protection to domestic industries from foreign competition etc. Such policies have very close bearing on domestic economic activity. Thus, in order to make the two sectors - domestic and foreign function in the manner desired by the programmes of development, an overall industrial policy to coordinate the activities of different sectors becomes essential.
The foregoing reasons for an industrial policy in the context of developing nations boil down to modification of the market economy to the extent of its regulations and replacement, in part, by the public sector. Such an approach popularly called mixed economy, became the hallmarks of industrial policy of a number of governments of many developing countries over the last four or five decades. The philosophy implicit in it appeared to go well with the economic conditions of many third world countries in the past. However, the approach has undergone vast changes, especially after the disintegration of the U.S.S.R., and replacement of centrally planned economies by the market oriented economies in many East European countries. Even in peoples Republic of China, the Government has initiated market orientation of its economy.

In fine, it must, therefore, be mentioned that the late Eighties have witnessed changes of far reaching consequences which have brought to the surface that however fast the developments may be such improvements cannot be sustained if they are against the wishes of the masses. Any policy, if it is to serve the interests of the people at large, must conform to the changing values of time. How the industrial policy of India has fared over the last four decades or so forms the subject matter of the next chapter.
CHAPTER II
CHAPTER II

HISTORICAL BACKGROUND - INDUSTRIAL POLICY DURING THE PLANS UPTO 1980

The Industrial Policy of India owes its origin to the British period in India. The early industrial policy of the British Government has been aptly summed up by Vera Anstey as follows:

"It was thought inevitable that India should remain predominantly (agricultural, whilst the Government) wished to avoid both the active encouragement of industries (like the cotton mill industry) that competed with powerful English interests and increased State expenditure. Hence, even at the end of the nineteenth century, all that the government did, was to provide a certain amount of technical and industrial education and attempt to collect an industrial information."

The Industrial Policy of any nation concerns itself with the growth and development of industries in wider perspective. The term 'Indian Industry' includes all sorts of industries - big or small, indigenous or modern. Indian industries made their mark right from the medieval times and earlier. After the fall of Mughal Empire, the Indian textiles evoked the envy of the British who sought to destroy it. Invention of the steam power and machines
helped in laying the foundations of modern industries first in Europe and then elsewhere. In India too, a modest beginning in the field was made during the British regime. However, it was only after the independence that the development of basic and strategic industries was taken up in a systematic and planned manner.\(^1\)

The first cotton or jute mill or engineering workshop owned its existence to the efforts of British businessmen who inspired their Indian counterparts to join hands at a later stage to make independent efforts. The general British attitude of apathy or even hostility towards Indian industry accept as a subservient partner, is illustrated by the imposition of cotton excise duties to please Lancashire interests towards the close of the last century and by the lack of any response whatsoever in London's money market for financing the first major enterprises in the country by the 'Tata' at the beginning of this century.\(^2\)

The East India Company initially encouraged the development of such indigenous industries which catered to its export needs. But the policy was later reversed for the benefit of industries in Great Britain and the

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Government followed the 'lassez faire' policy. Towards the end of the century, a few attempts were made to introduce a more progressive policy. Mr. Alfred Chetterton was appointed on special duty to organize and develop technical trades and industries like handloom weaving, develop leather tanning, well boring, aluminium manufacture etc. The first upsurge of the Swedeshi Movement occurring about this time and gathering momentum by subsequent events gave an impetus to industrialization. In 1905, the Commerce and Industry department was set up with a view to stimulate a coordinated industrial policy in the provinces. Separate Provincial Departments of industries were set up to which were assigned the task of pioneering new activities such as active cooperation and granting loans in the department of aluminium and leather tanning industries. The hostile attitude of the Secretary of State, Lord Morley and the protest of the British vested interests could be overcome by the popular demand for a more progressive industrial policy.

After 1910, Provincial Directors of Industries were appointed to collect and disseminate information, carry on


research, supervise industrial training and advise government on technical matters. When the First World War broke out in 1914, industries had not sufficiently developed to cope with the new situation. An urgent need was felt to foster a new constructive economic policy in India. Therefore, the British Government appointed an Industrial Commission in 1916 to conduct comprehensive survey of Indian resources and industrial possibilities which submitted its report in 1918 with the recommendation that the Government should help the large organised industries by providing for a fully equipped provincial industrial and chemical service with an adequate scientific staff and by creating provincial departments of industries.6

On the outbreak of the Second World War in 1939, India was industrially as backward as at the time of World War First. For the successful prosecution of War, the Government had to liberalize her policy towards industries. Accordingly in 1940, the Board of Scientific and Industrial Research was created at the Centre. Facilities for technical training in the country were also greatly expanded. A large number of youngmen were also sent abroad to get advanced technical training. Moreover, the Government came out with a clear assurance that the

industries established during the War would not be left unprotected after the war.

The period of World War II saw a notable expansion in many of the industries of undivided India. In 1944, the Government of India established a Planning and Development Department under Sir Ardeshir Dalal. This Department issued a statement of Industrial Policy in April, 1945. The aim of this announcement was to remove the uncertainty which appeared to impede plans of development of private enterprises. The main objectives of this statement were:

i) to increase the national wealth by maximum exploitation of the resources of the country.

ii) to prepare the country for better defence, and

iii) to make a provision of a high standard of employment.

Keeping in view the above objectives, the Government prepared a list of basic industries of national importance which included "aircraft, automobiles and tractors, chemical and dyes, iron and steel, prime movers, transport vehicles, electrical machinery, machine tools, chemicals and non ferrous metal industries. Apart from these key industries, it was laid down that certain industries where tax element was predominant might also be taken over by the Government. All the remaining industries
would be left for private enterprise. In October, 1946, the Government of India appointed for Advisory Planning Board to deal with the question of defining the boundaries between State and the private enterprise. The board remarked in its Report that 'Industrial development of the country might not be very rapid, if the State attempted to take in its own hands the ownership of a large number of Industries.' The Board suggested in its report that coal, iron and steel, motor, air and river transport should be nationalised. Thus, the Board included only iron and steel industries in the list of industries which were to be nationalised. In December, 1947, an Industrial Conference was held in New Delhi under the chairmanship of the Minister of Industries and Supply of the Government of India which delimited the scope of State and private enterprise in the interest of the industrial development of the country. This Industrial Conference adopted a resolution indicatig the industries (i) which should be under State ownership and management, (ii) which may be jointly owned and managed by the State and private sector, and (iii) which should be owned and managed by private enterprise.  

Post Independence Industrial Policy

No country, desirous of rapid economic growth, can afford to neglect industries. This fact had been realized by India as soon as it achieved independence. The realization got expression in the strategy of development that was adopted for the Five Year Plans. In this strategy, major emphasis had been laid on the growth of industries, especially heavy capital goods industries: the major objectives have throughout been to achieve rapid economic growth and to remove poverty. The achievement of these objectives and a successful operation of strategy required a consistent industrial policy to be followed by the Government.

The industrial policy presently being followed in India was announced on July 24, 1991. Till then, the industrial policy was being formulated within the broad framework provided by the Industrial Policy Resolution, 1956 which itself was a modified version of the Industrial Policy Resolution, 1948, announced on April 6, 1948. After independence the things were unstable and unsettled. There were fears of total nationalization of industries by the Government. Indigenous and foreign entrepreneurs were shy to invest in India. Labour relations were very disturbing. In such an atmosphere, it was natural that industrialization could not be hoped to be promoted.8

The period was marked by typical post War inflation throughout the world. The Indian production had declined but the population was rapidly increasing. Inflation worsened due to the political disturbance of the country and the problem of refugee rehabilitation. Hence, a general increase in production and to counter inflationary tendencies were thought to be the important components of the Industrial Policy to be adopted by the government. Keeping in view the economic conditions of the nation, the Government announced such an industrial policy statement which came to be known as Industrial Policy Resolution, 1948 (I.P.R, 1948).

The main objectives of the 1948 Resolution were the following:

a) to establish a social order where justice and equality of opportunities could be assured to all the people;

b) to promote rapid rise in the standard of living of the people by exploiting the hidden and available resources of the country;

c) to accelerate production by all possible means to meet the needs of growing population; and

d) to provide more opportunities for employment. 9

The main emphasis of the Resolution was to increase
The main emphasis of the Resolution was to increase the wealth of the country through rapid and balanced industrialization and thus raise national as well as per capita income. A noteworthy feature of the resolution was to say goodbye to the 'laissez faire' policy. Besides, the Industrial Policy Resolution envisaged the policy of mixed economy, according to which the State must play a progressively active role in the industrial development of the country.10

The Industrial Policy Resolution of 1948 made a clear demarcation of industries into the following four categories:

(a) The first category of industries consisting of 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 also have power in an emergency to take over any industry vital for national defence.

(b) The second category of industries consisting of coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless equipments (including radio receiving sets) and minerals

10. India's Industrial Economy, The Statesman, Delhi, April 7, 1948, p.5.
were reserved for the production and control by the Central or the State Government undertakings.

Besides, the industries which were covered by the above category 'b' but were already in the private sector, all such industries 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 expiry of this period, the Government had to decide whether to take over the management of the industries in the light of the circumstances prevailing at that time. If the State was to acquire any undertaking, compensation would be paid on a fair and equitable basis.11

(c) The third category was made up of 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. It comprised some basic industries of importance including salt, automobiles, heavy machine tools, heavy chemicals, fertilizers, tractors, prime movers, electronics, electrical engineering, heavy machinery, electro chemical industries, non-ferrous metals, rubber manufactures, power and industrial alcohol, cotton and woollen textiles, cement, sugar paper and newspaper, air and sea transport, minerals and industries

11. Text of Industrial Policy Resolution; The Statesman, Delhi, April 7, 1948, p.5.
relating to defence. It was also laid that the Central Government could undertake any industry vital for national defence.

(d) The fourth category comprising the remaining industries not covered by the above categories was left open to private enterprise, individual and cooperative. Besides, 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 an industry under private enterprise is unsatisfactory. 12

2. **Cottage and Small Scale Industries:**

These 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. These industries were seen as offering good scope for employment in rural and urban areas, and for centralization of income and wealth. The State Government would have to extend financial assistance for their expansion.

3. **Foreign Capital:**

The Resolution recognized the need of foreign

12. *India's Industrial Policy; the Statesman, Delhi, April 7, 1948, p. 5.*
capital and enterprise to speed up the pace of industrialization. The importance of foreign industrial techniques and know-how was specially emphasized. However, it was laid down that as a rule the major interest in ownership and effective control should always be in Indian hands and that facilities be provided in foreign concerns to train Indians so that they could eventually take independent control themselves.

4. **Industrial Relations**:

The Resolution also rightly pointed out the need for healthy industrial relations. By industrial relations we mean the relation between the management and the employees. It was stressed that fair wages, housing and other facilities for good living and a share in the profits (also known as Bonus) should be provided to the labour class. Only then could the industries take for granted the cooperation of the labour class.

5. **Tax System**:

The Industrial Policy Resolution, 1948, stressed that such a tax system should be evolved in the country which should encourage saving and investment, ensure growth of new industries and help in reducing inequalities in distribution of income and wealth.\(^{13}\)

In short, the main thrust of the 1948 Industrial Policy Resolution was to lay the foundation of mixed economy in which both the public and private enterprises would march hand in hand to accelerate the pace of industrial development. Moreover, the industrial programmes of the Five Year Plans were formulated with this concept in view.

Industrial Policy Resolution, 1956:

After the announcement of the I.P.R., 1948, three major developments took place in India: (a) enactment of the Constitution that guaranteed certain fundamental rights to all the citizens of India and laid down the Directive Principles of the State Policy; (b) acceptance of the objective of the establishment of a socialistic pattern of society; and (c) successful completion of the First Five Year Plan (April 1951—March 1956). In the light of these changes, the formulation of a new industrial policy was called for. Hence, the Industrial Policy Resolution was announced on April 30, 1956, replacing the I.P.R., 1948.

1. The New Classification of Industries:

The I.P.R. 1956 was quite comprehensive and specific as compared to the I.P.R., 1948. It classified industries into three categories having regard to the role

played by the government. It consisted of:

(a) Schedule A. Exclusive Responsibility of the State:

This included seventeen industries, mostly public utilities, basic and strategic industries and essential services requiring heavy investments. All the measures needed for their establishment and development were taken by the State and it could also seek the help of the private sector for setting up new units wherever the national interest so required. The Central Government would have an absolute monopoly over the establishment and development of the railway transport, arms and ammunition and atomic energy. Wherever cooperation with private participation was necessary, the State would ensure the interests of the country either through the capital or otherwise. Thus, the State had the power to guide the policy and control the operations of the undertakings.

(b) Schedule B. Progressively State owned:

It listed twelve industries and included such industries as machine tools, anti-biotics, sea transport, fertilizers, road transport, basic and intermediate products required by chemical industries like manufacture of drugs, dye stuffs and plastics, synthetic rubber and so on. The State would take the initiative to establish new enterprises. The private enterprise would be allowed to supplement the efforts of the State.
(c) Schedule C. Other Industries:

Industries falling outside the schedule A and B were included in this schedule. These industries were left open for the private enterprises, but private enterprises were subject to the control and regulation of the State through industries (Development and Regulation) Act, 1951 and other relevant legislations. Industries under this schedule were mostly consumer goods industries. The policy of the Government would be to facilitate and encourage the private enterprise in the development of industries according to the policy and programmes of successive Five Year Plans by ensuring the development of the transport, power and other services and by appropriate fiscal and other measures. They were also fit into the framework of the social and economic policies of the state. 15

In spite of this clear cut division of industries into three categories, these were not water-tight compartments and room for exceptions could be made. In appropriate cases, private enterprises might produce an item in schedule A or in schedule B for meeting the industry's own requirements or as by products. The basic objective of the Resolution was to create a mixed economy in India.

15. Ahmad, M. Mushtaque, ; Putting Pep into Industry, Financial Express, New Delhi, October 25, 1990, p. 5.
2. **Role of Cottage and Small Scale Industries**:

The vital role of these industries was recognized by the Government in the industrial development of the Indian economy for the following reasons: These industries provide immediate employment, opportunities on a large scale, ensure a more equitable distribution of national income, facilitate effective utilization of latent resources of capital and skill and avoid evils of urbanization. The IPR laid down that the State would constantly endeavour to support these industries through measures like restricting the volume of production in the large scale industries, by differential taxation, or by direct subsidies and so on. Financial assistance was also provided for improving and modernizing the techniques of production and thereby improve their competitive strength.\(^{16}\)

3. **The Need for Removing Regional Disparities**:

It was also well recognized that the industrial development in India was lop-sided. So, it was imperative that the economic policy had to aim at progressively reducing the disparities in the levels of development. As the concentration of industries was influenced by a number of factors such as the abundant supply of raw material, power and transport facilities, the Government decided to

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make some of these facilities available through planning in all those areas which were industrially lagging behind and where employment opportunities on large scale were brighter. So from this standpoint, the Resolution stressed the necessity of reducing the regional disparities through the planning process by securing a balanced and coordinated development of the industrial and agricultural economy in every region so that the entire country could attain higher standards of living.

4. Training of Technical and Managerial Personnel:

It was also recognized that the programmes of industrial development would ultimately demand technical and managerial personnel on a large scale. So to meet the shortage of these people, the Resolution stressed the development of the technical and managerial cadres and personnel at supervisory levels through such measures as apprenticeship scheme of training, extending training facilities in business management in universities and other institutions.

5. Amenities for Labour:

 Provision of improved living and working conditions to workers was stressed with a view to raising their efficiency as they were very important to maintain sound industrial relations and industrial peace. In a socialistic democracy, labour is a common partner in the common task of development and should participate in it
with enthusiasm. And that's why, the Resolution provided that there should be joint consultation of workers and technicians, wherever possible and that labour should be associated with management.

6. Decentralization of Authority:

With the active participation of the State in the industrial field, it became very important to distribute the responsibility between the Centre and the State. Hence, the Resolution laid down that there should be decentralization of authority wherever possible and they should pursue on business lines.

In short, the Industrial Policy Resolution, 1956 was a positive improvement over the Industrial Policy Resolution, 1948 with the basic objective of establishing the socialist pattern of society. It was very comprehensive and contained the policies, procedures, rules and regulations which were essential to control industrial undertakings and shape the pattern of industrialization. It incorporated the fiscal, monetary, tariff and labour policies of the Government and its attitude towards public and private sectors. It also envisaged Government's attitude towards foreign assistance. In view of all the above salient features the IPR, 1956 may be described as an 'economic constitution' based upon its political counterpart, the Constitution of
India. However, some people strongly criticised the IPR, 1956. In the words of Mr. H. Venkata Subbaiah, "the Resolution of 1956 superimposed a political philosophy on the economic philosophy of the Resolution of 1948". Mr. Eugen Black, the then President of World Bank was of the opinion that this policy, if rigidly applied, could only result in imposing heavy additional burdens on the already over-stained, financial and administrative resources of the public sector and restrict the rate of economic development in these vitally important fields. The Industrial Policy Resolution brought to the fore that unless the State plays an active role in the industrialization of the nation, the evils that would emerge from time to time in a developing economy, could not be removed.


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17. The Statesman, Delhi, May 1, 1956, p. 1.
With a view to relax control and encourage the growth of medium sized industries, the expansion limit for obtaining licence under the Industries (Development and Regulation) Act, 1951, was revised in 1964 from Rs. 10 lakhs to Rs. 25 lakhs. Moreover, measures were taken to streamline and expedite the procedures of licensing, import of raw materials and capital goods, issue of capital and approval of foreign collaboration agreements. Industries such as Cement and Paper were exempted from licensing provision of the Industries (Development and Regulation) Act, 1951. In 1991, a number of sections of the IDR Act, 1951 with respect to licensing have been revised vide Government notification no. 477/E of July 25, 1991.

As mentioned above, the industrial development during the Fourth Five Year Plan was guided by the broad principles enunciated under the Industrial Policy Resolution, 1956 which did not provide for a conducive climate for the industries in private sector. A number of measures were taken by the Government to encourage the private sector during the Fourth Five Year Plan period. In order to deal with the problem of sickness in industrial units, the Industrial Reconstruction Corporation (IRC) was established to assist undertakings which had closed or were threatened with closure. In order to remove uncertainties, a modified Industrial Licensing Policy was
announced in February 2, 1973. To expedite decision on applications for licences from the private sector, the Secretariat for Industrial Approvals was constituted in November, 1973 with a time bound schedule for scrutiny of different aspects of such applications.

Simultaneously, the Monopolies and Restrictive Trade Practices Act 1969 (MRTP Act, 1969) was brought into force from June 1, 1970 with a view to check concentration of economic power and to provide for the control of monopolies. In the name of checking concentration of economic power, the Government simply discouraged the private sector and tightened its grip not only on the public sector undertakings but actually extended it to industries producing consumer goods. In pursuance of the policy of dispersal of industries, backward districts were provided with concessional finance from financial institutions along with 15 per cent investment subsidy by the Central Government. A scheme for transport subsidy was initiated for industries located in Jammu & Kashmir. Other States and Union Territories in the North Eastern region, Himachal Pradesh, Hill districts of Uttar Pradesh, and Andaman, Nicobar and Lakshadweep islands.

The Government of India reaffirmed that the Industrial Policy Resolution, 1956 would continue to govern the direction of Industrial Policy during the Fifth Five Year Plan period. Consequently, in the Fifth Five
Year Plan it was laid down that the public sector would also undertake to build industries in such essential consumer industries like paper, drugs and pharmaceuticals and textiles. It was also envisaged that the cooperative sector would be encouraged particularly in the development of additional capacity in agro-based industries and mass consumption goods. The Industrial Licensing Policy for the Five Year Plan was set out in February, 1973.19

The Government considered it desirable to update the Industrial Licensing Policy, 1970 formulated in the context of the Fourth Five Year Plan, in order to reflect the approach to the Fifth Five Year Plan and taking into account the legal and institutional arrangements that were then available for the effective control of the concentration of economic power.

Industrial Policy Statement, 1973:

Though the Congress Government was not able to develop an efficient public sector, it was going ahead with programmes of progressive nationalization and expansion of the public sector. This created uncertainty in investment climate and thus discouraged the private sector investments, resulting in slow rate of growth of industrial production — the logical consequence of the

inherent contradiction in the mixed economy. Before, the Government decided to modify its policy and announced its modified industrial policy on February 2, 1973, in the context of the approach to the Fifth Five Year Plan. The press note issued on this matter stated that the Industrial Policy Resolution, 1956 would continue to govern Government's policies for achieving the objectives of growth with social justice and self reliance in the industrial sphere.

The Government was to assure the private sector that no more nationalization of industries was being contemplated. The large houses were assured of greater liberalization in the grant of industrial licences without much interference by the Monopolies and Restrictive Trade Practices Commission (MRTPC). The liberalization was welcomed in the private sector.20

Industrial Licensing Policy, 1975:

The Government announced major changes in liberalizing industrial licensing policy in October, 1975. It delicensed 21 industries and permitted unlimited expansion of production capacity by monopoly houses and foreign companies provided the excess production is either exported or sold in accordance with the directions of the Government. The medium entrepreneurs, not covered by the

MRTP Act, were not required to obtain a licence upto Re. 1 crore in the case of new units and upto Rs. 5 crores in case of expansion. This delicensing covered heavy investment industries.21

**Industrial Policy Statement, 1977:**

The new industrial policy was announced by the Government of India on December 23, 1977 but the Government made it clear that the broad framework of Industrial Policy Resolution, 1956 was still valid. The reasons were that for the last twenty years, the policy of the Government in the sphere of industry had been governed by the Industrial Policy Resolution of 1956 and some of the elements of the Resolution with respect to the desirable pattern of industrial development were still valid. The results of actual policies in the industrial fields had not been upto the exception or declared objectives.

The growth of per capita national income during the last ten years had been about 1.5 per cent per annum and was obviously inadequate to meet the needs of a developing economy. During the period, unemployment had increased specially because of rapid increase in the population as compared to the job opportunities, rural and urban disparities had widened and the rate of real investment

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had stagnated. The growth of industrial sickness in the last decade had become widespread and some of the major industries were the worse effected. The pattern of industrial costs and prices had tended to be distorted; and dispersal of industrial activity away from the larger urban concentrations had been very slow. The new Industrial Policy must, therefore, be directed towards removing the distortions of the past so that the genuine aspirations of the people could be met within a time bound programme of economic development. The main elements of the Policy statement were as follows:

A. **Cottage and Small Scale Industries**:

The main thrust of the policy would be an effective promotion of cotage and small scale industries widely dispersed in rural areas and small town as against the large scale industries dominated by big industrial houses and multinationals. It was also suggested that such an encouragement of the cottage and small scale industries would, on the one hand lead to extension of employment and on the other hand, lead to a reduction in concentration of economic power. The small scale sector was further classified into three categories:

a) Cotage and household industries which provide self employment on a large scale;
b) Tiny sector incorporating investment in the industrial units in machinery and equipment upto Rs. 1 lakh and situated in towns with a population of less than 50,000 according to 1971 census;

c) Small scale industries with an investment upto Rs. 10 lakhs and in case of ancillaries with an investment in fixed capital upto Rs. 15 lakhs.

The measures suggested for the promotion of small scale and cottage industries were the following:

(i) The list of items reserved for the small scale sector had been significantly expanded to include 504 items (which was later raised to 807) as against 180 items earlier. According to the Census of Small scale industries conducted in 1973-74; total number of products manufactured by small scale units was 2,400, then why only 807 items were put on the reserved list. This implied that the area of reservation was still very narrow.  

(ii) The Government proposed to give special assistance to the tiny sector as well as to cottage and household industries in the form of margin money assistance.

(iii) It was proposed to set up in each district an agency known as 'District Industries Centre (DIC)' to deal with all the requirements of small and village industries and under the single roof of the DIC, all the services and support required by small and village entrepreneurs would be provided. In order to provide effective financial support for promotion of small, village and cottage industries, the IDBI had taken steps to set up a separate wing to deal exclusively with the credit requirements of this sector and also coordinate, guide and monitor the entire range of credit facilities offered by other institutions to this sector.23

(iv) Khadi and Village Industries Commission: In 1977, only 22 villages industries were within the purview of the Khadi and Village Industries Commission. It proposed to revive the commission with a view to enlarge its areas of operation. In the programme of development of village industries, the promotion of khadi was given a special place, whether it was polyester khadi or 'Nai khadi' keeping in view that it would improve the productivity and earnings. Khadi and Village Industries Act was amended to permit the implementation of a large scale programme in "Nai Khadi". The Government was committed to financial and

marketing support that was needed for the promotion of khadi programme. The Government proposed to progressively meet the clothing needs of the masses through the development of handloom sector, which provided employment to the bulk of the people engaged in the production of textiles.  

(v) **Appropriate Technology for Small and Village Industries:**

Special arrangements would be made to ensure an effective and coordinated approach for the development and wide spread application of suitable small and simple machines and devices for improving the productivity and earning capacity workers in small and village industries. It would further be the Government's endeavour to fully integrate such appropriate techniques of production with the broader programme of all round rural development.

**B. Large Scale Industries:**

The New Industrial Policy stated that, in addition to the small and village industries, there would be the role of large scale industries related to the programme for meeting the basic minimum needs of the population.

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through wider dispersal of small scale and village industries and strengthening of the agricultural sector. Therefore, the Policy Statement prescribed the following areas for large scale sector:

(a) basic industries which were essential for providing infrastructure as well as development of small and village industries such as steel, non ferrous metals, cement, oil refineries;

(b) capital goods industries for meeting the machinery requirements of basic industries as well as small scale industries;

(c) high technology industries which require large scale production, and which are related to agricultural and small scale industrial development such as fertilizers, pesticides, and petro-chemicals etc; and

(d) other industries, which were outside the list of reserved items for the small scale sector, and which were considered essential for the development of the economy such as machine tools, organic and inorganic chemicals.26

Large Business Houses:

The Policy stated that the growth of large houses

had been disproportionate to the size of their internally generated resources and had been largely based on borrowed funds from public financial institutions and banks. This process must be reversed.

The future expansion of large business houses would be guided by the following principles:

(a) The expansion of existing undertakings and establishments of new undertakings would continue to be subject to the provisions of the MRTP Act.

(b) Except in the case of industries eligible for automatic growth of capacity, the expansion of existing undertakings into new lines and establishment of new undertakings by Large Houses would require specific approval of Government;

(c) Large Houses would have to rely on their own internally generated resources for financing projects or expansion of the existing ones.

**Public Sector**: The New Industrial Policy specified that the public sector would not only be the producer of important and strategic goods of basic nature, but it would also be used
effectively as a stabilising force for maintaining essential supplies for the consumer. The public sector would be charged with the responsibility of encouraging the development of a wide range of ancillary industries, and contributing to the growth of decentralized production by making available its expertise in technology and management to small scale and cottage industry sectors.

**Indigenous and Foreign Technology:**

In order to promote technological self-reliance, the government recognized the necessity for continued inflow of foreign technology in sophisticated and high priority areas where Indian skills and technology were not adequately developed. In such areas, Government's preference would be for outright purchase of the best available foreign technology and then adopting such foreign technology to the needs of the nation.

**Foreign Investment:**

The Policy Statement laid down that in areas where foreign technology know how was not needed, existing collaborations would not be renewed and foreign companies operating with their investment up to 40 per cent in such fields would have to modify their character and activities in conformity with national priorities within the framework of the Foreign Exchange Regulation Act,
(FERA) 1973. The Statement further pointed out that as a rule, majority interest in ownership and effective control would be in Indian Hands, though the Government might make exceptions in highly export oriented and/or sophisticated technology areas. In hundred percent export oriented cases, the Government might consider even a fully owned foreign company.

Workers' Participation in Management:

The Government decided to examine the possibilities of encouraging workers' participation in the equity of industrial units, without in any way adversely affecting their interests. Such equity participation together with an active association of workers in decision making from the shop floor level to the Board level would provide the necessary environment for a meaningful participation by workers in the management of the industry.

Sickness in Industry:

The Industrial Policy Statement proposed to impose certain punitive restrictions on those who were considered responsible for sickness. In order to protect employment, government considered measures whereby managers or owners who were responsible for mismanaging and turning their units sick were not permitted to play any further part in the management of other units.
In short, industrial development is a complex process requiring the effective interaction and cooperation of all sections of society. If the objectives of the Industrial Policy Statement of 1977 could accelerate the pace of Industrial growth, then rapid increase in levels of employment, productivity and income of industrial workers and wide dispersal of small and village industries would have been achieved to a large extent. As a matter of fact, willing cooperation of industrial workers, trade unions, managers, entrepreneurs, financial institutions and various government authorities responsible for implementing schemes of assistance are pre-requisites of speedy industrial development. The main thrust of the policy was to be born by the industrial workers and managers who were second to none in their skills and efficiency. They should work together in a spirit of dedication to the national cause.

The year 1977 had been the year of historical changes and people's expectations in the political and economic fields were high. The Congress Government, which ruled the country for three decades, had been dethroned for the first time. The concept of Rolling Plans was introduced alongwith a new direction to the industrial policy with the hope of shaping a just and equitable society in which benefits of industrial development would
be shared by all the people. Though the Janta Government was short lived in the sense that it remained in power for about three years, it introduced certain good changes in its industrial policy. Re-classification of industries, raising of foreign investment limit and allowing ownership by foreigners in cases of hundred per cent export oriented industries were some of the good steps the government took. It not only created a sort of awakening among the masses but also paved the way for the subsequent Congress Government, which again came to power in 1980, to include some of its measures in the Industrial Policy Statement of 1980. It has been discussed in the following chapter.

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CHAPTER III
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POSITIVE AND NEGATIVE FEATURES OF INDUSTRIAL POLICY STATEMENT OF 1980

The last chapter surveyed the historical background of the Industrial Policy Resolutions of 1948 and 1956 alongwith the Industrial Policy Statements of 1970, 1973 and 1977 in specific terms. Right from the launching of the second Five Year Plan to the conclusion of fifth Five Year Plan, it was the Industrial Policy Resolution of 1956, considered by many as the economic constitution of India, which dominated industrial field of the country. 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 field's 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.

The foregoing state of affairs led to the general feeling and conviction not only in the general public but in the government circles too that something much be done to ease the situation. It was against this background
that the Industrial Policy Statement was announced by the Central Government on July 23, 1980. It was in fact a set of "Pragmatic Policies" which was supposed to remove constraints on industrial production and to act as a catalyst for faster economic growth.

The policy was announced with major relaxations and concessions in order to help the growth of tiny and small scale, medium as well as large scale industries with the triple objectives of modernization, expansion and development of backward areas. The major thrust of the concessions was to double the investment limit of tiny units, small scale units and ancillary industries, regularize the excess installed capacity and permit the automatic expansion facility to large scale industries in the priority or core sector and to set up several nucleus industrial centres in industrially backward areas in place of district industrial centres. The scheme of district industrial centres was abandoned in favour of better alternative.¹

The Resolution of 1956 had assigned the task of raising the pillars of economic infrastructure to the public sector for reasons of its greater reliability and for the very large gestation periods and type of investments that were required. The resolution reflected

¹ The Economic Times, New Delhi, July 24, 1980, p.1.
the value system of the country. It had shown the merit of constructive flexibility. It was proposed to rehabilitate people's faith in the public sector, allow the private sector to develop in consonance with national plans and policies, provide additional support to the small scale sector, encourage dispersal of industries to correct regional imbalances and offer utilization of energy and reduction of pollution. The important feature of the 1980 industrial policy statement was the concept of nucleus plants in each district in order to help industrialization of industrially backward areas through ancillary units and cottage and small scale industries. However, no clear cut criteria had been mentioned to identify industrially backward areas in the industrial policy statement of 1970.

The Government proposed to regularize excess production capacity in selected industries as it had done in 1975. This was so done because it felt that the existing licences did not reflect the full productive potential in some industries which were important for national economy or were engaged in production of articles of mass consumption. The establishment of 100 percent export oriented industries and requests for expansion exclusively for exports were also the welcome steps. Similarly, the induction of advanced technology was permitted to encourage export and to help manufacture of better quality
products at lower costs.

Another important provision was the facility of automatic growth for all industries in the core sector instead of only 15 as at that time. The permitted growth rate was 5 percent per annum. Besides, The Government also decided to increase the limit of investment in tiny units from Rs. 1 lakh to Rs. 2 lakhs that in small scale units from Rs. 10 lakhs to Rs. 20 lakhs and that in ancillaries from Rs. 15 lakhs to Rs. 25 lakhs. This was meant to eliminate mal-practices like formation of benami units. A system of coordination of credit flow to these small units was also evolved and a scheme of buffer stocks for them was introduced and marketing support was continued. 2

The Statement contained eight socio-economic objectives:

* Optimum utilization of the installed capacity;
* maximizing production and achieving higher productivity;
* higher employment generation;
* Correction of regional imbalances through preferential development of industrially backward areas;
* Strengthening of agricultural base by according

2. The Indian Express, New Delhi, July 24, 1980, p.1.
a preferential treatment to agro-based industries and promoting optimum inter-sectoral relationships;

* faster promotion of export-oriented and import substitution industries;

* promoting economic federalism with an equitable spread of investment and the dispersal of returns amongst widely spread over small but growing units in rural as well as urban areas; and

* consumer protection against high prices and bad quality.  

Industrialization in a developing country has two aspects: Optimum utilization of installed capacity and expansion of industries. The country had reached a take-off stage towards mid-1970s. Both the growth channels were choked off by the Janata Party Government. The major task of the new Government was, therefore, revival of the economy.

Therefore, the main objective of the policy statement was defined as facilitating an increase in industrial production through optimum utilization of installed capacity and expansion of industries. The

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statement emphasized rapid and balanced industrialization of the country with a view to benefitting the common man by increasing availability of goods at reasonable prices, large employment and higher per capita incomes. The new government was working on war footing to break the vicious cycle of shortages of major industrial inputs like energy, transport and coal. The Statement emphasized that the benefits of industrialization should reach all segments of the population. For this purpose, it advocated extension of preferential treatment to agro based industries, promotion of economic federalism through the coordinated development of small, medium and large scale industries, dispersal of industries to backward, rural and urban areas and protection of consumers against high prices and bad quality of goods. An emphasis was also placed on promoting optimum inter sectoral relationships.

Other points of the Statement included the following:

Unit by unit examination of public sector undertakings was proposed to be done to revive efficiency. Proper management cadres were also built. Promotion of suitable industries in rural areas was accelerated to generate higher employment and higher per capita income there. Handlooms, handicrafts, Khadi and other village industries were received greater attention. All incentives
given to industry were made performance oriented. Regular
assessment was made and the system of incentives reviewed.
New focal points of industrial growth were based
essentially on local materials and manpower. Public and
private investment which met these criteria were
encouraged. Companies which were having good proven
research and development organizations were only permitted
to import advanced technology to improve efficiency and
cost effectiveness. This saved foreign exchange and
ensure self sufficiency and higher foreign exchange
earnings.

Setting up of new industrial undertakings within
the limits of larger towns was not permitted and selective
relaxation was made to remove genuine difficulties. Licensing
procedure was streamlined to speed up the process. A data
bank was set up to monitor implementation of licences. An
early warning system was devised to identify symptoms of
industrial sickness. Deliberate mismanagement and
financial improprieties leading to sickness were dealt with
firmly. Sick units which showed adequate potential for
survival were encouraged to merge with healthy ones.
Existing income tax concessions for the purpose were more
liberally available. Greater reliance was placed on
voluntary mergers.

Recourse to take over of management of industries
was only in exceptional cases on grounds of public
interest where other means of revival of sick undertakings were not possible. In such a take over State Governments were expected to assume responsibility of maintenance of constructive and cordial industrial relations was essential for sustained growth of economy. Therefore, the Government had decided to revive the tripartite labour conference. A dialogue had been started with industry to ensure that within a stipulated period of time, the prices were to be rationalized to the benefit of the consumer. The scheme of district industrial centres had not produced benefits commensurate with expenditure involved. Therefore, the Government proposed to initiate more effective alternatives.4

The Statement on industrial policy was conservative doctoring. The Government seemed to believe that industry could digest freedom only in small doses. There was no charter for entrepreneurs or managers to dance their way to larger production or higher productivity. On the contrary, the apparatus of controls remained formidable, and bureaucracy of the Economic Ministeries was in no danger of withering away. Time still remained a scarce resource most lavishly squandered.

True, there were liberalizations but few without qualifications. The screening and the scrutiny continued.

Selectivity was the watchword and there was the usual sinning in its name. "Big Brothers" still decided, what was to be produced, where and for whom. There was to be no significant let up in the emphasis on the regulation rather than development of industry. Investment decisions were still to be processed at the meetings of inter ministerial committees in Delhi if and when the officials were released from file. The policy statement was an uninspiring agenda. It would not produce the kind of dynamic growth which could come only when industrialists were encouraged or even compelled to accept the responsibility for meeting the community's actual and prospective needs for more and more goods and services.

Take, for instance, the decision to "regularise excess" industrial capacity. Not only was it presented as a mercy to those manufacturers who despite unrealistic governmental restrictions had dared to make good use of their plant and manpower to raise the production of goods needed by the public, but its benefits were to be restricted to those industrial units which satisfy some bureaucratic test of virtue of other. Although, the finance Minister had gone on record as saying that inflation could be beaten back only an all round improvement in supplies, the Government still clung to the superstition that production could be granted indulgence only if it satisfied some highly esoteric criteria.
In a similarly grudging way, only industries included Appendix I of the Industries Act were permitted the relief of automatic growth in capacity and only to the extent of 50 percent in five years. While there might be some improvement on the present situation (in which only 15 out of the 19 industries in that list were allowed an expansion of the order of 25 percent in five years) the fact remained that many major consumer goods industries — textiles, for instance, were outside that schedule and therefore also beyond the pale. Once again, the contradiction between the Government's decisions and its declared objectives was glaring.

The policy statement emphasized, no doubt quite properly, a promotional approach to the decentralized or small scale sector. It was certainly sensible to encourage more dynamic or economically viable growth in the sector by relaxing, as the government had then done in investment boundaries. The enthusiasm for the growth of ancillary enterprises was praise worthy. Again, the accompanying trust in the integrated development of the large scale and small scale sector was a refreshing rejection of the pathological aversion to organized industry which bedevilled the Janta Government's thinking.

However, some of the poison remained. The freezing of capacity in the organized sector in respect of a number
of industries was not given up despite the evidence that such reservation had really not helped the decentralized sector to meet urgent consumer needs at reasonable prices. Moreover, the policy statement recognised the importance of economies of scale in the case of export production. But it somehow believed that the domestic market would be better off without this blessing.

On the difficult issues of MRTP or FERA companies, the Government continued to adopt a timid and even cowardly attitude. The restrictions on these considerable instruments of investment and production remained. The only relief given to MRTP companies was that they too could expand capacity automatically when they were part of Appendix I of the Industries Act. The Government's thinking was still then alien to the need for a programme of production that would successfully challenge inflationary shortages. That was a great pity, indeed.  

Besides, there was consensus on the need for more power to the MRTP Commission to check the growth of monopoly houses. For good measure, names of the houses of Tatas, Birlas, etc. were thrown in, not to mention FERA companies like Hindustan Liver Limited, though State Governments of various political complexions had been courtig these very houses (and others of their kind) for

investment in their regions. Not to mention the fact that
in the matter of establishing specific projects the MRTP
Commission itself favoured a foreign controlled company
rather than an Indian company.

Radical rhetoric also demanded that the public
sector be given preference over large monopoly houses or
the foreign houses, but to what end? While it would not be
denied that the public sector industrial enterprises had
established admirable capability in difficult areas of
technology, it could not be said that the total mix of
and promotion or the public sector
control (or private sector)/had resulted in a pattern of
production, consumption, employment and income
distribution that was not fundamentally elitist. The
criticism implicit in the preceding sentence was
precisely what radical rhetoric from whatever source it
emanated and obfuscated.

At a specific level of argument, the twin
assumptions of monopoly control were, first, that large
houses got an unduly large share of resources for
development and, second, that in addition to such
preemption, the large houses throttled the growth of other
enterprises, large, medium and small. There was no
question that because of the pattern of the growth of
import substitution (which subservient to the historical
pattern of demand) and the resort to high capital
intensity, there had been a mal distribution of investible
resources. However, the point that also needed to be noted was that the pattern of industrialization never assigned more than an ancillary role to the growth of small and small medium industry, nor was the infrastructure including the host of public services that serve the economics of small and small medium and even medium large enterprises, seriously developed.  

The statement extended the provision of automatic growth to more industries. Special steps had been taken to increase earnings from exports. The recognition of actually installed capacity was permitted for the entire list of 9 industries included in Appendix I of the Industrial Policy Statement of February 2, 1973, as also to other 15 industries out of 19 industries in the list were allowed an expansion of the order of 25 percent in five years, some of which produced items of mass consumption. It was decided not to count exports against licensed capacity. It also reiterated the government's commitment about the public sector which was to continue occupying a commanding position in the economic system of the country.

On the role of the private sector, the Statement talked only in broad terms. It stated that the 1956 Policy

Resolution had assigned a role for industrial undertakings in the private sector within the framework of socio economic policy of the State and subject to certain regulations in terms of relevant legislations. At the same time, it stated that the government recognized that it would be desirable to allow private sector undertakings to develop in consonance with targets and objectives of national plans and policies.

The Statement was, however, clear with regard to large industrial houses. It stated that it "shall not permit the growth of monopolistic tendencies or concentration of economic power and wealth in a few hand." It had not agreed to raise the investment limit for purposes of definition "large house", even though it had agreed to raise the investment limit in the definitions of tiny units from Rs.1 lakh to Rs.2 lakhs. In the case of small scale industries, the limit was raised from Rs. 10 lakhs to Rs. 20 lakhs and similarly in the case of ancillary units from Rs. 15 lakhs to Rs. 25 lakhs. Installed capacities in excess of licensed or registered capacities in 34 selected industries had been regularized. These included basic industries and those producing mass consumption goods not reserved for the small sector, provided the firms were not units to which the monopoly and Restrictive Trade Practices Act (MRTP Act) 1969 or the
Foreign Exchange Regulation Act (FERA), 1973 applied. Subject to similar qualifications, automatic growth had been allowed to the extent of 5 percent per annum or 25 percent in a five year period in registered or licensed capacity of 19 additional industries bringing the total of such industries to 34.  

But some concessions to the large scale industrial sector had been given in the interest of healthy expansion, modernization and exports. The immediate benefit to the large houses were more liberal income tax concessions under Section 72 A of the Income Tax Act and liberalization of the existing guidelines to encourage voluntary merger of sick units with healthy ones. The Statement also made it clear that the take over of the sick units by the government would be restored to old management only in exceptional circumstances.

Another step related to the regularization of the excess capacities that had arisen as a result of replacement and modernization of equipment on a more liberal scale. That such regularization would be permitted on a more liberal scale, was clear from what the Statement said; "It would not be in the public interest to permit licensing procedures on a rigid locational policy to stand in the way of maximizing production." The exemption from

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the locational policy had been granted to export oriented units. Other measures introduced to promote export production included exclusion of production for export in computing licensed capacity, exemptions of export oriented units from the provisions of the MRTP Act to the extent of export production; extension of facilities like duty free imports of capital goods, raw materials and components and concessions in respect of central excise and other central levies to 100 percent export oriented industries manufacturing non traditional items.

Since India was facing an acute energy crisis, the government was concerned about increasing alternative sources of energy. For this purpose, the government granted licenses for manufacturing equipment for exploitation of such sources of energy as solar insulation, wind power, bio mass including bio gas, geothermal energy, tidal power and sea power. There were many industries where modernization was urgently required. In view this, financial institutions were asked to grant assistance to all such industries. Earlier such assistance was made available only to industries like cement, sugar, cotton textiles, jute and engineering goods. On account of these reasons, H.K. Paranjape had pointed out that the 1980 Industrial Policy Statement does not perfectly fit in the framework of the 1956 Industrial Policy Resolution.9

Yet another important concession to the large scale sector related to the extension and simplification of the facility of automatic expansion until then permitted to specified 15 industries. In the name of fullar utilization of capacities it was proposed to extend the facility to all industries specified in the First Schedule of the Industries( Development and Regulation) Act (IDRA), 1951 later classified in Appendix I.

The Industrial Policy Statement also proposed to enhance the capacity if advanced technology necessitated such a recourse. The Government was more liberal in matters of 100 percent export oriented industries. The 1980 Policy differed from the earlier 1977 policy statement in that, instead of compartmentalizing the tiny small and large scale sectors, it tried to weave these sectors together to achieve balanced and fast industrial growth. Besides, as an alternative to the District Industries Centres set up by the previous government, the government established a few "nucleus lants" in each backward district to generate as many ancillaries and small and cottage industries as possible.\textsuperscript{10}

The 1980 Policy Statement aimed at higher productivity, higher employment generation, correction of regional imbalances, faster promotion of export oriented

\textsuperscript{10} The Economic Times, New Delhi, July 24, 1980, p.1.
and import substitution industries,, strengthening the agricultural base by promoting agro based industries etc. but all these broad socio economic objectives were acepted throughout the three decades of our planning and yet the fact of the matter was that distortions in the form of a slow growth rate, high degree of employment, greater rural urban disparities, increasing concentration of assets in the hands of big business, manifested themselves. The 1977 Industrial Policy Statement sought to correct these distortions, the 1980 INDustrial 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."

'Pragmatic approach' emphasized a short term approach and did not take into account the need for tackling basic issues of public policy which had resulted in industrial stagnation, discouraging the production of articles of mass consumption, encouraging a production pattern which geared to the demand pattern of the affluent and the elite sections of our society and near absence of a system of state regulation to control the activities of big business and monopoly capital.

However, Industry and Trade circles had reacted in a mixed way to the 1980 Industrial Policy Statement. Some felt that it was vague and it could have served equally
well as an election manifesto. It had not charted out a broad course for the future. The economy had been deriven to its knees by an unresolved ideological conflict between socialism in theory and capitalism in practice. The government had shirked the task of enunciating a clear cut economic philosophy emphasizing its belief in competition between public and private sectors in a more open economy and in healthy infusions of modern technology from abroad. Welcoming the steps to boost capacity utilization, regularize excess capacity, allocate automatic expansion facility for large units in the priority sector and rationalize industrial licensing they said that the statement would yield positive results only if public sector undertakings supplying vital inputs like coal, steel and power started giving a better account of themselves.

There was a feeling that coal and power generation could have been thrown open once again to the private sector.\textsuperscript{11} 

\textit{It order to examine the implications of the new measures of the 1980 Industrial Policy Statement, following comments are worth noting.}

1. The policy statement emphasized the removal of constraints on the use of currently installed

\textsuperscript{11} The Economic Times "Editorial", New Delhi, July 26, 1980, p.4.
capacity. The major thrust of the New Industrial Policy was to regularize the excess capacity installed over and above the licensed capacity to enable many industrial units to achieve full capacity and thereby to increase production of various items which were in short supply. Not only that, the Government also proposed to allow the privilege of automatic expansion of capacity to all industries in the first schedule of Indian Industries (Development and Regulation) Act. All this was sought to be justified in the name of full utilization of capacity and maximization of production. Big business houses welcomed the liberalization of capacity proposed in 1980 Industrial Policy. Earlier such liberalization was made in 1975. This was particularly so in regard to mass consumption areas. The regularization of existing excess capacity meant that maximum capacity of existing units would be utilized. Freezing of capacities in excess of licensed capacity results in wastage of scarce and expensive capital and to the extent, the freeze was by passed and the excess capacity was used, it resulted in falsification of accounts and loss of revenue to the Government. The capacity constraints produced an unhealthy atmosphere of corruption and
discouraged entrepreneurs for organizational and technological changes and upgradation that would increase their output. The elimination of these constraints created a cleaner industrial environment and stimulated the search for innovations that raised output without any significant increase in investment.¹²

The very basic question that arose was: In case, year after year, the government is to regularise the illegally installed capacities then what is the rationale behind the Government legislation to control economic activity so as to curb the growth of monopoly capital? Obviously the Government intended to gloss over the socio economic objectives of concentration of economic power in favour of the pragmatic policies to boost production of cement, paper, sugar, fertilizers or caustic soda which were then in short supply or the production of non essential high profit products like man made fibres, synthetic detergents, chocolates, baby foods, tooth paste etc. However, the industrial policy marked the reversal of the process of rapid economic development through economic decentralization. It gave an 'open general license'(OGL) to Indian

monopolists and foreign multinational corporations to eliminate the small business at the village, cottage and small sector level.

The policy resulted in acceleration of unlimited growth for the top industrial houses while the small sector had been left to fend for itself. The small sector was not able to defend itself from the sharks of big business houses and many industrial closed down creating unemployment. The Policy sounded the death knell for the decentralised sector by giving the large industries licence to encroach upon small industry areas through increase in licensed capacity and regularization of unauthorised excess capacity in the name of modernization and automatic expansion."

2. The statement intended to obliterate "the artificial divisions between small and large scale industry under the misconception that their interests were essentially conflicting." It, therefore, aimed "to reverse the trends of the last three years" of the then government (1977). In this context the 1956 Industrial Policy Resolution, stated "the state has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector, by
differential taxation or by direct subsidies. Obviously, the IPR, 1956 by which the then government swore recognized the conflict of small sector verses large scale sector and that's why it talked of 'restricting the volume of production' in the large scale sector. To say that there was no conflict of interests between the two, was to close one's eyes to stark reality.

The basic purpose of the 1980 Industrial Policy for reservations, differential taxation and subsidies was to encourage the labour intensive sector of the economy so that the objectives of maximization of production and maximization of employment could be reconciled. In a capital scarce and labour surplus economy like India, the conflict between the objectives of production and employment could not be resolved by the planners. It was during the last three years of Janata Party rule (1977) that the problem was brought into sharp focus and policy measures, were taken to help the, village and small scale industries. It would have been more appropriate to speak of strengthening this trend, but to talk to reversing this appeared to be illogical. The then Finance Minister (Mr R. Venkataraman), writing in the mid sixties when

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he was member of Planning Commission, stated: "Data reveal that while the output employment ratio, (which can serve as a measure of productivity) is the lowest in the small scale sector, employment generating capacity of small scale sector is eight times that of the large scale sector. But what is still more striking and significant is that the net output capital ratios of the small and medium sectors work out to 4 and 3.2 times that of the large scale sector in 1965.

The experience of Indian Planning over the last three decades revealed that whereas the economy has reached a saving income ratio of 22-23 per cent, the growth rate varied between 3 to 3.5 per cent per annum. This obviously suggested a very high incremental capital output ratio. It was believed that the capital output ratio in India was around 6 and was one of the highest in the world. One of the important factors responsible for this was the choice of capital intensive techniques. A major objective of the industrial policy had been to promote a pattern of investment conducive to a lower capital output ratio so as to promote a higher rate of growth. The 1980 Industrial policy failed to initiate
any measures in this regard and thus it defeated its purpose both on the employment and the production front.

Thus both the production and the employment objectives necessitated that the areas of small scale and large scale production should have delineated and policies to augment production via small scale labour intensive industries should have been encourage. The Policy Statement instead strengthened the big businesses and regularized the illegally created capacities in all sorts of commodities on one pretext or another.

3. The expansion of the list of industries eligible for automatic growth expansion was a step in the right direction. It may be noted that the automatic growth had been allowed earlier to 29 industries. In 1975, 15 more industries were added to this category. The 1980 Policy in addition had permitted all industries coming under Appendix I of the Industries (Development and Regulation) Act to reach full capacity. This covered a large number of industries including several mass consumption industries for automatic growth. Welcoming the regularization of excess capacity and automatic expansion facility for large scale industries in priority sector and setting up of several nucleus
industrial centres in identified backward areas, the Bengal Chamber of Commerce and Industry felt that the measures would undoubtedly be helpful. But at the same time it pointed out that the automatic growth of 5 percent which had been allowed for the priority sector industries should also have been allowed to all industries to avoid stagnation and consequent sickness. According to the Chamber the doubling of the investment limit of tiny and small sectors was definitely a welcome feature of the Policy but it was disappointing that the same yardstick had not been applied to large houses whose investment ceiling was still at Rs. 20 crore limit. The chamber also wondered if the restrictions under MRTP and FERA which continued to exist would really be conducive to industrial growth in a State like West Bengal where most such companies had units and were still interested in further expansion.  

4. The Government revised the definition of tiny units to cover investment up to Rs. 2 lakhs instead of the limit of Rs. 1 lakh, in case of small scale industries the investment limit had been raised from Rs. 10 lakhs to Rs. 20 lakhs, and in case of ancillaries the limit had been increased from Rs. 15 lakhs to Rs. 25 lakhs.

This investment limit covered the cost of plant and machinery. Since the cost of plant and machinery was generally reckoned to be 50 percent of the total project cost, industries with an investment of Rs. 50 lakhs qualified for concessions and preferential treatment available to small scale units.

The All India Report on the Census of Small Industries (June, 1976) pointed out that whereas there were 2.58 lakhs small scale units on the registers of the Directorate of Industries, the actual number in operation was 1.4 lakhs. Approximately 50 percent of the units in the small scale sector were obviously bogus. The revised definition which raised the limit of investment served as "an invitation to businessmen to set multiple units, often brazenly under the same factory roof, to claim the concessions available to small units as well as to avoid labour laws applicable to large units. The repeated references to the virtues of ancillary units in the industrial policy statement virtually amount to prompting industrialists to artificially subdivide industrial units and created benami small units." 15

As a consequence, genuine small scale industries which were labour intensive might not have been able to stand in competition with the spurious and ancillary units which though capital intensive, might have been drawing all the benefits available for small scale units. There might be some justification for revising the definition of small scale units in view of rising costs, but to claim that it would curb benami ownership was unrealistic. The Economic Times rightly stated: "Redefinition of small scale units is a recognition of cost realities but it will, in no way, contribute to curbing benami ownership.... Since it has been caused by other factors."¹⁶

In the same context, Mr. N.K. Jhunjunwala, Vice President of Merchants Chamber of Commerce, observed that "the increased investment limit for tiny units, small scale industries and ancillary units from Rs. 1 lakh to Rs 2 lakhs, Rs 10 lakhs to 20 lakhs and Rs 15 lakhs to 25 lakhs will certainly go a long way to give a boost up to the small scale sector which has a very wide potentiality." At the same time, Mr. M.D. Jindal, Chairman of Federation of Engineering Industries of India said that "the industrial policy is bold and growth oriented. Doubling the investment limit will go a long way in

industrialization, particularly the small scale industry.  

Dr. Kanaila Bhattacharya, the then Minister of Industry, West Bengal, commented that "the policy is contradictory since that on the one hand, it raised the limit of investment on utilisation of industrial capacity for the private sector and on the other it insisted that monopoly houses will not be allowed to grow and followed in urging mergers of sick industrial units with healthier ones."

The only specific and positive pronouncement affecting the small scale sector was related to the enhancement of investment limits. Actually there has been a lot of pressure from a number of Associations of small industries for an upward revision of the investment limits for the small sector. The earlier limits were fixed in 1975 and the cost push effect on plant and machinery during the last five years might be well justified by the announced increase. An added justification was that it facilitated the long overdue modernization of the existing small units.

Let us consider the implications of the investments limit. First was a sudden spurt in the number of claimants to the benefits applicable to a small sector.


industry. With scarce sources miserably mismanaged, it were the affluent few who were the real beneficiaries. These new entrants cornered the wains at the expense of the vast majority of the really poor and the needy in this sector. Secondly, there were the administrative problems emerging from the transfer of a unit from the DGTD list to the small industry list of a particular district under the aegis of the State Directorate of Industries.

Third, the modernization needs of the units and the capabilities of the district authorities were concerned with the small scale units in meeting the same. The other aspects relevant to small scale industries were dealt with financial support, buffer stocks for critical inputs and marketing support and reservation of items. The Statement only endorsed these problem areas and conceded the inadequacy of the existing organisational framework in handling them. However, no solutions were proposed. In an attempt to emphasise the concept of ancillerization as a major tool for the development of modern small industry, the Government outlined a proposal for setting up nucleus plants in each district identified as industrially backward to generate as many ancillaries and small and cottage units as possible.

While it was the Government's policy for a number of years to promote small ancillaries as feeder units for
large houses and there existed detailed guidelines and instructions on the subject from the Bureau of public Enterprises to State undertakings, what was presumably intended was to set up large public sector undertakings solely to provide avenues for setting up small ancillaries. Actually an industry is set up to meet a specific existing or anticipated command at a particular cost and the ancillaries come up as a result of "buy" decisions based on economy of scale. Reversal of the process would be a economically foolhardy decision.

Besides, our past experience has convincingly established that the setting up of large industries in backward areas supported by ancillaries had, by itself, not improved the lot of the local poor. Take the example of Bihar, where the Government has sunk a huge amount of money but the State had remained economically backward.

The one heartening feature of the Policy was its acknowledgement of the urgent need to develop industrial processes and technologies for an optimal utilization of energy and the need to exploit alternative energy sources besides controlling pollution. Any measures in the directions would be most welcome.19

5. The role of public sector remained unchanged. Only structural changes were brought about in the management of public sector units in order to make them more efficient, whereas the private sector was allowed to develop within the restrictions imposed by the MRTP and the FERA Acts. The nucleus plants proposed in the Policy Statement were intended to bring about integrated development of industry in the villages. Private as well as public sector were asked to set up their nucleus plants around which ancillary and small scale industries could grow. An important feature of the 1980 industrial policy was that the Government had decided to do away with the scheme of District Industries Centres (DICs) without providing any justification for the same without establishing the failure of the scheme. What was suggested in their place, was nucleus industrial units. The approach of the Congress (I) Government to scrap even a good scheme merely because it was started by its predecessor regime (i.e. Janata Party Regime) was illogical. District Industries Centres (DICs) were designed to serve as dispersed focal points for the development of small scale and cottage industries. They provided, under a single roof, all the services and support required for such industries. Such a rationalization should have been welcomed and strengthened further. But the Congress(I) Government instead came forth with its scheme of nucleus
plants which were large and capital intensive units. They were provided facilities for supporting ancillaries. Obviously, nucleus plants could not serve the ends which were contemplated in the scheme of District Industries Centres. 20

6. What is required is not the support to small scale industries or large scale industries but production of those basic necessities which continue to remain in short supply. If large scale industries were making luxury goods like TV sets and hair dryers it was not necessary to give them credit and fiscal incentives simply because they were large. The criterion of industrial policy should have been the increased availability of mass consumption goods. The industrial policy had ignored this vital aspect.

7. The Statement accepted the need of simplification of licensing procedures. It, however, remained silent as to how this simplification was accomplished. What was urgently needed was to raise the limit of delicensing to at least 10 crores instead of 3 crores to encourage faster industrial growth. While the decision to raise the investment limit for tiny, small, and ancillary industries was certainly welcome, it is rather surprising that the same consideration had not been shown to big business

houses whose investment limit of Rs. 20 crores was fixed a decade ago. The criterion of a buffer stock of critical inputs to help the small industries was also a right step in the right direction. The buffer stock was established from the surplus production of industries. Suitable marketing arrangement was made for the products of small scale units. The buffer stock also helped industries in the identified backward areas. 21

8. The industrial policy statement considerably liberalized the technology import policy. Import of technology was a really welcome step incorporated in the industrial policy statement. Similarly, emphasis on the development of Research and Development (R & D) was placed so as to help in increasing the competitiveness of industrial undertakings. The Government's willingness to allow the import of modern technology was obviously praiseworthy. The Government evolved a new technology policy under which private and public sector industries were to invest substantially on research and development to adapt, modify and upgrade imported technology. A Committee set up by the Government under the Department of Science and Technology worked out the details of the organizational mechanism to ensure adaptation of foreign technology brought into the country.

Most of the technology imported in the past was part of turnkey foreign collaboration agreements. This has been compelling the industry to continue to seek extension of several collaboration agreements resulting in payment of considerable amounts in foreign exchange by way of royalties and other charges. There had hardly been any effort on the part of the industry to absorb the imported technology and modifying it to suit Indian conditions or export requirements. The proposed adaptation mechanism was expected to rectify this lacuna by encouraging intensive research and development in industry. The National Committee on Science and Technology (NCST) and the Department of Science and Technology both had been insisting that the country should drastically change its present royalty and turnkey project oriented technology import policy. Both these bodies had been suggesting the Japanese model for technology import. Japan, which had been buying sophisticated technology from all over the world did not enter into long term collaboration agreements as India does. Japan buys the technology outright and pays for it in lump sum. Once the technology has been bought Japanese companies and research and development establishments modify it to suit their requirements. If the same policy is adopted by India, the country will have to establish a suitable mechanism
to effect continuous improvements in designs to suit local conditions and export markets.

The failure of Indian industry, according to experts had been its neglect of research and development to upgrade, modify and adapt imported technology. Many industrial units in the country have no research and development department. As a result, every time production modification is required, these companies have to look abroad. Most of the industries which had imported technology years ago, have now reached obsolescence and are frantically seeking new technology abroad. This is because there was hardly any effort on their part to upgrade the technology by inventing in research and development. The industrial policy allowed import of technology on the grounds of economies of scale of competitiveness of Indian products abroad. Only those companies which had well established research and development units were allowed to import technology hereafter. These companies, in turn, could transfer the technology to new units.

The Policy also laid down that "Indian industry must earmark substantial resources for research and development to constantly undate technologies with a view to optimal utilization of scarce resources, better services to the consumer and achieving greater exports. A
number of measures had, however, been taken by the Department of science and Technology to encourage research. Under the rules, research units in industry have to be registered with the Department for entitlement to various concessions.  

The emphasis on development of R & D would help in increasing the competitiveness of industrial undertakings. The Government's willingness to allow the import of modern technology was praiseworthy. Until only the other day this issue had become infused with a sterile approach which demanded that India should become self dependent in technological know and that the import of new technology would be an insult to Indian Scientists and could stunt the Development of research and development. The Government clearly saw a self defeating nature of such arguments. The import of advanced technology was allowed for considerations of economies of scale and expansion of exports. However, only those industries which had a well established R & D units were allowed to import sophisticated technology. This enabled the industries to adapt the technology imported and avoid repetitive imports of the same technology.  

To sum up, the 1980 INdustrial Policy Statement was guided merely by considerations of growth. It liberalized

licensing for large and big business houses but by blurring the distinction between small scale and large scale industries it sought to promote the latter at the cost of the former. Broadly speaking, the Industrial Policy choice—a more capital intensive path of development and thus it underplayed the employment objective. The policies of economic decentralization introduced by the Janata Government had been reversed and under the guise of maximising production, the ends of big business houses and monopolists were served. Redefinition of small scale industries, regularization of installed capacity beyond the limit of licensed capacity and scheme of automatic expansion were opened up vistas for large and big business houses. The objective of curbing concentration of economic power in few hands through the agency of MRTP Commission had been pushed backwards in the scheme of priorities in the new Industrial Policy. This is evidenced by the fact that big business had welcomed the new industrial policy but the fact of the matter was that the critical issues of public policy had been bypassed in this new dispensation.

Despite the afore mentioned facts it should also not be forgotten that the government did certain things out of necessity. With the passage of time many things had changed both at the national and international levels which required such measures subsequent developments were of such reaching consequences that they resulted in a
completely changed world scenario necessitating the reversal of industrial policies of a large number of countries. In India also certain basic changes have been effected through the Industrial Policy Statements of 1985, 1988, 1990 and 1991. These industrial policy statements and their overall implications from the subject matter of discussion of Chapter IV that follows.
INDUSTRIAL POLICY STATEMENT

23rd July, 1980

Industrial Policy Resolution, 1956

The Industrial Policy Resolution 1956 has served as the cornerstone of the Congress Government Policy frame for the past quarter of a century. The Industrial Policy announcement of 1956 in fact reflects the value system of our country and has shown conclusively the merit of constructive flexibility. In terms of this Resolution the task of raising the pillars of economic infrastructure in the country was entrusted to the public sector for reasons of its greater reliability, for the very large investments required and the longer gestation periods of the projects crucial for economic development. The 1956 Resolution, therefore, forms the basis of this statement.

Take off Stage

2. Industrialisation in a developing country has two aspects viz., optimum utilisation of installed capacity and expansion of industries. The industrial progress of India during the past three decades can be attributed to the policies pursued by the Congress Government. While the country had reached a take off stage towards mid 1970s, both the growth channels optimum utilisation of installed capacity as well as expansion of industries were choked off by the 33 months rule of the
Janta Party and its successors Government. The runway of the economy has been damaged by the last two governments and the entire process of development was put in reserve gear.

Revival of the Economic Infrastructure

3. The first task before, therefore, is the revival of the economy which is presently inhibited by infra-structural gaps and inadequacies in performance. This put the economy into a vicious cycle of shortages on major industrial inputs like energy, transport and coal. To normalise the situation, Government are working on war footing to break this vicious circle and to put the economy again on its feet.

Industrialisation and Economic Progress

4. Industrialisation is a sine qua non of economic progress. Our Government is committed to rapid and balanced industrialisation of the country with a view to benefitting the common man in the shape of increasing availability of goods at fair prices, larger employment and higher per capita income. A higher standard of living implies that more of industrial goods go into the consumption basket of the people. Industrialisation is also essential to provide the much needed support for agriculture and for the development of infrastructural facilities like energy and transport. The net economic
impact of industrialisation must travel down ultimately to the maximum number of people.

**Distribution of Benefits of Industrialisation**

5. The pattern of distribution of benefits of industrialisation should be such as to cover as large a segment of the country's population, both rural and urban, while avoiding economic concentration in a few hands. New thrusts need to be made to establish a dynamic industrial economy as indicated in the election manifesto of the Congress Party. Now that the Congress Party has been entrusted with the responsibility of the Government, what is needed above all is a set of pragmatic policies which will remove the lingering constraints to industrial production and, at the same time act as catalysts for faster growth in the coming decades, within the following socio economic objectives.

**Socio Economic Objectives**

* Optimum utilisation of the installed capacity.
* Maximising production and achieving higher productivity.
* Higher employment generation.
* Correction of regional imbalances through a preferential development of industrially backward areas.
* Strengthening of the agricultural base by according a preferential treatment to agricul
tural-based industries, and promoting optimum intersectoral relationship.

* Faster promotion of export oriented and import substitution industries.

* Promoting economic federalism with an equitable spread of investment and the dispersal of returns amongst widely spread over small but growing units in rural as well as urban areas.

* Consumer protection against high prices and bad quality.

Role of Public Sector

6. An unfortunate development during the recent political vacuum in the country has been an erosion of faith in the public sector which has been reflected in its rather poor performance in recent years. Public sector, which was conceived to provide the pillars of the country's economic infrastructure, was rendered hollow. The gigantic task before us, therefore, is to rehabilitate faith in the public sector. We have not only to restore people's faith in the public sector but also evolve effective operational systems of management in the public sector undertakings. The public sector has to be identified as people's sector
and not as "No body's sector" as was rendered by the last Government. Public sector constitutes a substantial segment of industrial activity in the country and its contribution in terms of generating surpluses and employment for further growth of the economy need to be improved.

**Unit by Unit Examination for Corrective Steps**

7. Government have decided to launch a drive to revive the efficiency of public sector undertakings. Industrial undertakings in this sector will be closely examined on a unit by unit basis and corrective action will be taken in terms of a time bound programme wherever necessary. Some of the units were allowed to get into chronic problems and instead of contributing surpluses, tended to put a drain on the public exchequer. Priority will be accorded to convert losing concerns into viable ones through broad restructuring of the system any by providing dynamic and competent management.

**Management Cadre**

8. On the positive side, public sector will continue playing an increasingly important role. Part of the reason for unsatisfactory performance of some of the units in the public sector has been the absence of proper management cadre. It is proposed to take effective steps
to build the public sector undertakings and emphasis will be placed on developing management cadres in functional fields such as operations, finance marketing and information system.

Role of Private Sector

9. Government would pursue the goal of a vibrant, self reliant and modern economy in which all sectors and all segments of the society have a positive role to play. The Industrial Policy Resolution of 1956 assigned a role for industrial undertakings in the private sector within the framework of socio economic policy of the state and subject to certain regulations in terms of relevant legislations. Government recognises that it would be in general, desirable to allow private sector undertakings to develop in consonance with targets and objectives of national plans and policies but shall not permit the growth of monopolistic tendencies or concentration of economic power and wealth in a few hands.

Economic Federalism

10. It will be Government's endeavour to reverse the trends of the last three years towards creating artificial divisions between small and large scale industry under the misconception that these interests are essentially conflicting. While making all efforts towards
integrated industrial development, it is proposed to promote the concept of economic federalism with the setting up of a few nucleus plants in each district, identified as industrially backward, to generate as many ancillaries and small and cottage units as possible.

Nucleus Plant

11. A nucleus plant would concentrate on assembling the products of the ancillary units falling within its orbit on producing the inputs needed by a large number of smaller units and making adequate marketing arrangements. The nuclei will also ensure a widely spread pattern of investment and employment and will distribute the benefits of industrialisation to be maximum possible. The nucleus plants would also work for upgrading the technology of small units. Small is beautiful only if it is growing just as the phased manufacturing programme with a view to reducing reliance on imported components and materials played as important role in diversifying our industrial structure, a carefully worked out time bound programme for greater ancillarisation in certain industries will contribute considerably towards dispersal of industry and growth of entrepreneurship.

Ancillarisation Effect

11 A. The proposed nucleus plants in industrially backward districts would generate a spread out network of
small scale units or the existing network of small scale units in an area would acquire a faster growth by the coming up of a nucleus plant in the area. Such a two way traffic would create an ancillaryisation effect in terms of larger employment, more equitable distribution of the benefits of such an industrialization in the shape of higher per capita income for the larger number of people in the area.

In between the nucleus large plants and the satellite ancillaries, the Government would promote a system of linkages for an integrated industrial development. The Government would evolve scheme of phased development of industrially backward areas through ancillaryisation.

Re-defining of Small Scale Units

12. In order to boost the development of small scale industries and to ensure that rapid growth, Government have decided:

i) to increase the limit of investment in the case of tiny units from Rs. 1 lakh to Rs. 2 lakhs;

ii) to increase the limit of investment in the case of small scale units from Rs. 10 lakhs to Rs. 20 lakhs; and

iii) to increase the limit of investment in the case of ancillaries from Rs. 15 lakhs to Rs. 25 lakhs.
13. This would eliminate the tendency to circumvent the present limit by understanding the value of machinery and equipment, falsification of accounts or resort to 'benami' units. The enhancement of the limit in terms of investment in plants and machinery will also help genuine small scale units particularly those being set up by young and technically qualified entrepreneurs, to come up. This measure will also facilitate long over due modernisation of many of the existing small scale units.

Financial Support to Small Units

14. One of the major constraints to the growth of decentralised sector has been the difficulties finance experienced particularly by industrial entrepreneurs in small, cottage and rural sectors. Although, there is adequate network of institutional finance yet there is need for coordinating the flow of capital, both short term and long term. Government would evolve a system of coordination to ensure the flow of credit to the growing units in the decentralised sector at the right time and on appropriate terms. Government proposes to strengthen the existing arrangements and make such changes as may be necessary to facilitate the availability of credit to the growing units in the small scale sector.
Buffer Stocks for Critical Inputs

15. In order to assist the growth of small industries it is proposed to introduce a scheme for building up of buffer stocks of essential materials which are often difficult to obtain. For this the existing set up such as Small Industries Development Corporations in the States and the national Small Industries Corporation in the Centre will also be utilised. Special needs of States which rely heavily on a few essential raw materials will receive priority.

Marketing Support and Reservation of items for Small Scale Industries

16. Policies regarding marketing support to the decentralised sectors and reservation of items for small scale industries, shall continue to be in force in the interest of growth of the small scale industries.

Village Industries

17. Government is determined to promote such a form of industrialisation in the country as can generate economic viability in the villages. Promotion of suitable industries in rural areas will be accelerated to generate higher employment and higher per capita income for the villagers in the country without disturbing the ecological
balance. Handlooms, handicrafts, khadi and another village industries will receive greater attention to achieve a faster rate of growth in the villages.

Correcting Regional Imbalances

18. Industrialisation will play an important role in correcting the regional imbalances and reviving the industrial growth to lead the economy once again to the take off stage. For the achievement of this goal, the Government have decided to encourage dispersal of industry and setting of units in industrially backward areas. Special concessions and facilities will be offered for this purpose and these incentives will be growth and performance oriented.

Evaluation of Incentives

19. In the past, numerous incentives has been provided to industries from time to time. It is Government's considered view that all incentives given to industry must be performance oriented. It is therefore, performance oriented. It is, therefore, proposed that a regular periodic assessment will be made of the impact of these incentive to see the extent to which they have fulfilled their initial purpose. Unless it is apparent that the purpose is being served, Government will review the system of incentives.
Generation of Employment and Higher Production

20. Industrial development has to be viewed in the broader context of generating higher production and employment. Overcoming the problems of poverty and backwardness need a multi pronged approach. An integral part of this approach would be to create new focal points of industrial growth which have the maximum effect on the quality of life. This will have to be based essentially on the utilisation of local materials and locally available man power. The ripple effect of substantial investments in backward districts in the past has in many cases not been adequate, mainly because such investments did not have effective linkages with local resources. Government, therefore proposes to encourage investment by public and private sector which will meet these criteria and would also promote a net work of spread out ancillaries.

Endorsement of Licences to Reflect existing Productive Capacity

21. In 1975 Government had taken certain decisions in regard to the recognition of additional capacities as a result of replacement and modernisation of equipment, liberalisation of investment procedure for stimulating production in certain selected industries and for endorsement of excess production over licensed
capacity on the basis of a simplified procedure. Government feels that in several industries which are important from the point of view of national economy or are engaged in the production of articles of mass consumption, the productive capacity endorsed on the original licences or as amended in terms of the 1975 notifications may not reflect the full productive potential of the unit. As a result of increased labour productivity or technological improvements, the productive capacities may have increased.

Government propose to recognise such capacities on a selective basis. It would not be in public interest to permit licensing procedures or a rigid locational policy to stand in the way of maximising production. The necessary notifications listing the industries, and spelling out the simplified procedures for such endorsements will be issued separately.

Provision for Automatic Growth

22. In view of the constraints on resources in a developing country like ours, and also taking into account the considerable increases in the prices of capital goods, particularly those required to be imported it is necessary to ensure that no avoidable restrictions are placed on the fullest utilisation of the existing industrial capacities. This is particularly true of the core industries, of industries which have direct linkages with the core sector, and industries which have a long term export potential. All these industries are of basic,
critical and strategic importance for the growth of economy. In February, 1973, Government had announced a list of such industries, following the classification of industries, mentioned in the First Schedule to the Industries (Dev. & Reg) Act, 1951. Later in 1975, Government had permitted the facility for automatic expansion in respect of 15 industries. The extent of increased capacity permitted in respect of these industries was limited to 5 per annum or 25 in a five year plan period and could be undertaken in one or more stages. This expansion was to be in addition to the normal permissible expansion in production by 25% of the approved capacity. Government have now decided that this facility will also be extended to other industries included in Appendix I. In this behalf, the necessary notifications will be issued separately.

Export oriented Units

23. Industry must contribute its share in creating a more favourable balance to trade by catering to the ever increasing foreign markets. Government would sympathetically consider requests for setting up 100% export oriented units, request for expansion of existing units exclusively for purposes of export and for allowing
higher production for exploiting fully the emerging export opportunities.

**Advanced Technology for Economies of Scale**

24. In a number of cases Indian industry has not been able to compete in markets abroad because the scale of output which is related to the level of domestic demand is too small to give them the advantages of modern technology and economies of scale. In cases where a larger production base would increase the competitiveness of Indian Industry abroad, Government will consider favourably the induction of advanced technology, and will permit creation of capacity large enough to make it competitive in world markets, provided substantial exports are likely. The purpose of introducing such a policy would be not only to encourage exports but also to enable industry to produce better quality products at lower cost which will ultimately benefit the consumer in terms of price and quality.

**Research and Development**

25. The Indian Industry must earmark substantial resources for R & D to constantly update technologies with a view to optimal utilisation of scarce resources, better service to consumer and achieving greater exports. We also have to lay greater emphasis on bringing to benefits of the latest R & D to the medium and small units.
Transfer of Technology

26. Government will take active measures to facilitate the transfer of technology from efficiently operating units to new units. Companies which have well established R & D organisations, and have demonstrated their ability to absorb, adapt and disseminate modern technology will be permitted import such technology as will increase their efficiency and cost effectiveness. This will not only lead to saving of foreign exchange but would also ensure self sufficiency and higher foreign exchange earnings.

Modernisation Packages

27. "Modernisation Packages" will be involved to suit the requirements of each industry, and will include all aspects, i.e. appropriate location and optimum use of energy and the adoption of the right kind of scale and technology in order to minimise costs and improve efficiency in the use of scarce materials, the supply of which come from non renewable sources. It will be Government's endeavour to ensure that the process of modernisation percolates down to small units and the villages. As in the case of the large scale modern industry, where new processes and technologies must replace the old and the traditional ones in the decentralised sector also, improved tools and techniques
which will contribute to higher productivity and reduce the drudgery are an essential ingredient of the modernisation. Government will review the present arrangements in terms of special facilities and incentives such as soft loan, establishing of proper linkages in the field of marketing and strengthening the credit facilities particularly for the decentralised sector.

Energy Industry Devetailing

28. Until recently, little, effort has been made in the devetailing to industry and energy policies; not has enough attention been paid to the effects of industrial growth on environment and pollution of air and water. Government have decided that such industrial processes and technologies as would aim at optimal utilisation of energy or the exploitation of alternative source of energy, would be given special assistance, including finance or concessional terms.

Pollution Control

29. Similarly, activities which have a direct bearing on and will contribute to improve environment and reduce the deleterious effects on pollution of air and water would also be made eligible for special assistance on appropriate terms. Government will examine the present
scheme for soft loans with a view to including in it activities related energy conservation, exemption on non traditional sources of energy like solar energy and control of water and air pollution and also such other specific industrial activities as are in urgent need of modernisation and upgradation of technology. This will be a continuing exercise and the list of industries eligible for soft loan scheme will be reviewed from time to time.

Preserving Ecological Balance

30. Government are committed to the preservation of ecological balance and for improving living conditions in the urban centres of the country. In pursuance of this policy and with a view to encouraging the dispersal of industry, steps have been taken to prevent the growth of industry in the metropolitan cities and the larger towns. Setting up of new industrial undertakings within the limits of such urban centres is not permitted.

31. However, in the implementation of this policy; Government propose to remove genuine difficulties, without detriment to the basic objectives. It is therefore, proposed to provide for selective relaxation to enable utilisation of already installed capacities to provide for natural growth and to encourage production for export. The requisite simplification and procedural changes in the application of the present locatioal
policy are being announced separately.

**Streamlining Licensing Procedures**

32. There has already been considerable simplification and streamlining of licensing procedures. Nevertheless, there is scope for further improvement in reducing the period of time taken for disposal of applications for the creation of new capacities, proposals for substantial expansion and the production of new items. It is proposed to speed up the processes of examination and decision making and also to examine the possibilities of further rationalisation and simplification of the system of industrial licensing.

**Monitoring System and Data Bank**

33. It is also proposed that in future, the agencies connected with the issuance of letter of intent/industrial licences will not merely concern themselves with letters of intent/industrial licences but would also evolve a comprehensive system of monitoring the implementation of schemes. For this purpose to build up a Data Bank on the progress of various licensed/registered investment schemes.

34. The objectives of the Data Bank will be to have, in respect of all major investment proposals,
information regarding the progress in regard to the import of capital goods, the status in regard to the application for term lending also the physical implementation of the scheme. The establishment of such a Data Bank will also enable Government to ensure that where parties have willfully failed to implement the letters of intent or have tried to preempt capacity are dealt with suitably.

**Industrial Sickness Devising an early Warning System**

35. Government concerned at the growing problem of sickness in a large number of industrial undertakings. While it is recognised that it would be in the national interest to protect the investments in these undertakings by appropriate remedial action, it is also the view of Government that deliberate mismanagement and financial improprieties leading to sickness should be dealt with family. Various all India financial institutions have set up arrangements to detect sickness in undertakings at an early stage with a view to taking necessary corrective action. To ensure this the Government propose to introduce a checklist to serve as "an early warning system" for identifying symptoms of sickness.

**Merger and Amalgamation**

36. In the case of existing sick undertakings which show adequate potential for revival, it would be the policy of Government to encourage their merger with healthy units which are capable of managing the sick
undertakings and restoring their viability. For this purpose, the existing tax concessions under Section 72 A of the income Tax Act will be made more liberally available to amalgamation proposals which will serve the purpose of revival of sick units. The existing guidelines will be reviewed with a view to facilitating greater reliance on voluntary mergers of sick units with healthy units which are capable of implementing a viable revival scheme.

Take over to be in Exceptional Cases

37. It is also Government's policy to ensure that the State Governments, the financing institutions and the labour corporate effectively for the revival of the sick units. Recourse to take over of the management under the Industries (Development & Regulation) Act will be taken only in exceptional cases on grounds of public interest where other means for the revival of sick undertakings are not considered feasible. Where such take over becomes necessary the State Governments will, in appropriate cases, be expected to assume responsibility for the financing and management of the undertaking.

Industrial Relations

38. Deteriorating industrial relations in the last three years affected a number of important sectors of
economy and led to fall in the industrial production. Government attach great importance to the interest and welfare of labour but they also consider that the maintenance of constructive and cordial industrial relations in which both labour and management have to cooperate in a responsible manner is essential for the sustained growth of economy. Government have decided to revive the tripartite labour Conference and it is hoped that through an attitude of mutual understanding and constructive cooperation it will be possible to establish higher standards of productivity and industrial harmony.

Industrial Pricing Policy

39. It is Government's policy that while all reasonable facilities and incentives will be provided to industry, it must recognise and accept its social responsibility particularly in terms of maintaining the price line, avoiding hoarding and speculation, and maximising production on an efficient basis. It is proposed to start a dialogue with the industry to ensure that within a stipulated period of time, the prices are rationalised to the benefit of the consumer.

District Industries Centres

40. Government have reviewed the scheme of district industries centres which has not produced
benefits commensurate with the expenditure incurred. Government therefore propose to intimate more effective alternatives.

**Industrial Investment An Inter Disciplinary Concept**

41. Industrial development is an inter disciplinary concept. It pertains not only to the manufacturing activity but to all related infrastructural development, licensing and corporate policies; financial, fiscal and trade pricing policies; industrial relations and management; scientific and technological developments and broad socio-economic policies. As such, the implementation of the industrial policy requires close and effective coordination and monitoring at various levels at the Centre as well as between the Centre and the States. Its ultimate success will also depend on the extent of cooperation that Industry receives from the other sections of society.

42. Government of India trust that the objectives set out in this paper and the measures outlined herein to achieve them will receive this support of all sections of the people to enable the country to attain its larger goals, namely faster economic growth, prosperity to its citizens, and the establishment of an egalitarian society.
CHAPTER - IV
CHAPTER IV

POST 1980 INDUSTRIAL POLICIES

In the previous chapter, we have examined it is clear that a number of industrial policy statements along with the 1980 Industrial Policy Statement up to 1977 the government acted upon the Industrial Policy Resolution of 1956 in letter and spirit. It was in 1980 that some real changes were carried forward because of the legacy left by the Janata Government. Moreover, the country had become self-sufficient in matters of food, foreign exchange situation had eased and a number of public sector undertakings had come to fruition. Consequently, the standard of living of the sizeable portion of the population had also gone up. All these factors called for some basic changes in the industrial policy of the government. But the government was reluctant to effect these changes because of a number of potential pulls and pressures. However it pursued more liberal industrial policy towards hundred percent export-oriented industries and regularised the excess capacity installed over and above the licensed capacity to enable many industrial units to achieve full capacity and thereby increased production of various items which were in short supply. But the real beginnings towards liberalisation were made in 1985.
PHASE OF LIBERALIZATION (1985 onwards):

In this phase of liberalization suitable changes and modifications had been made in the industrial licensing system which primarily aimed at reducing the government control over industry so as to give a greater role to the market forces, streamlining the procedures so as to remove the various irritants in the operation of licensing system, and opening up the Indian industrial economy to the world economy. Globalization of the Indian economy was the main objective of the 1985 Industrial Policy Statement.

The Congress Government liberalised the industrial licensing policy in favour of large industrial houses particularly in terms of making them free from the provisions of MRTP and FERA Acts. This liberalization of the MRTP Act had led to anomalous situation where the large industrial houses became free to enlarge their activity, the smaller companies falling within the meaning of monopolies under the same Act started stagnate. This had mainly arisen because of the fact that the Government, while amending the provisions of the MRTP Act pertaining to the assets of the large industrial houses for the purpose of the Act, had not taken cognisance of provisions relating to monopolies which had in effect, stunted the
growth of large section of smaller undertakings. The major liberalisation measures which were introduced on March 19, 1985 are as follows:

1. Industrial licensing was abolished for all industries except for a short list of 18 specified industries; related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption.

2. Where industrial licensing applied, initially all units with a capital investments of less than Rs. 5 crores were exempted from seeking a licence. This limit was raised to Rs. 25 crores for the industrial units to be set up in the non backward areas and Rs. 75 crores for the units to be set up in Centrally notified backward areas.

3. A system of 'automatic licensing' was introduced in selected industries. These industries were free to have substantial expansion of their existing capacities so that they might get advantage of large scale production and produce better quality products at lowest cost.

4. Special concessions were extended to industry for modernization and replacement of obsolete machinery.

5. The Government introduced the significant policy initiative of 'broad-banding', that is, classification under broad categories of two wheelers, four wheelers, tractors, as well as machinery for fertilizers, pharmaceuticals, paper and pulp, etc., into generic categories. This measure was intended to enable the manufacturers to change their product mix to match changes in demand patterns without incurring procedural delays and other costs associated with seeking amendments to their industrial licences. It enabled the manufacturing industries to improve utilization of their installed capacities by diversifications of their product range. Nearly 17 MRTP companies availed of broad-banding facility by the end of December 1985, mostly in the automobile sector.

6. The Government extended a number of concessions for the industrial sector so as to promote investments and output in the sector, e.g., liberalized imports, specially for export production, liberal attitude towards foreign collaboration, fiscal concessions, like tax reliefs, etc., easy availability of institutional finance, and so on.

7. Total delicensing of 100 percent export oriented units in exports processing zones upto an
A scheme for re-endorsement of capacity was liberalised under which re-endorsement facility was available to all licensed units which had achieved 80 percent of their licensed facility during any of the previous five years preceding March 31, 1985. The capacity of their licences was re-endorsed to the extent of the highest production achieved during any of the previous years plus one third thereof. Industrial undertakings, where production exceeded the re-endorsement capacity, were eligible for further re-endorsement in subsequent year(s) to the extent of the production already achieved plus one third thereof. This re-endorsement facility was not, however, available for items reserved for small scale sector or for certain identified industries suffering from acute shortage of raw material or infrastructure or characterized by high pollution or for MRTP and FERA Companies in respect of non Appendix I industries. Besides, in cases where the capacity increased through the endorsement facility such units were left at economic scales of operation. In December 1985, in order to accelerate modernization and replacement in industry, automatic expansion was granted to the

units wanting to achieve economies of scale and an increase in capacity up to 49 percent of the licensed capacity due to modernization was allowed.\(^3\)

At the end of December, 1985, the Government notified a revised and expanded list of Appendix I industries specifying 30 broad groups of industries in which MRTP and FERA companies were permitted to set up capacities, provided that the concerned items of manufacture were not specifically reserved for the small scale or public sector. Outside Appendix-I industries, FERA and MRPT Companies continued to be permitted if the product was predominantly for exports. This required an export share of 60 percent normally and 75 percent if the item was reserved for the small scale sector.

The role of MRTP and FERA Companies in the industrialization of Centrally declared backward areas, where the conditions permitted these companies to establish non Appendix I industries in backward areas, was liberalized. All these measures reduced hurdles to entry into the high priority industrial sectors and thus encouraged the competitive forces operating to reduce costs and

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improve quality. On January 30, 1986, the Government decided to delicense 23 industries covered by MRTP and FERA Acts provided that the industrial units were located in any of the Centrally declared backward areas.4

9. The threshold asset limit of MRTP Companies was raised from Rs. 20 crores (fixed in 1969) to an unexpected level of Rs. 100 crores (in March, 1985). As a consequence, 112 companies came out of the purview of the MRTP Act leaving 379 units still under the Act. A large number of industrial giants which were virtually stagnating, were allowed to grow freely till such time as their assets touched the Rs. 100 crores mark. It was announced as the part of measures designed to reduce rigidities and improve the environment for industrial growth.5

10. The investment limit for small scale units was enhanced from Rs. 20 lakhs to Rs. 35 lakhs and for ancillaries from Rs. 25 lakhs to Rs. 45 lakhs. However, nearly 200 items which were on the reservation list were de-reserved and made open for


the medium and large scale sector. The decision had been taken by the Central Government keeping in view the escalation in the cost of plant and machinery since 1980 when the investment limits were fixed.

A notification under the Industries (Development and Regulation) Act, 1951, was issued to amend the Ministry of Industry's exemption notification dated February 16, 1973, to provide for exemption from licensing of small scale and ancillary industrial units up to investment in plant and machinery not exceeding Rs. 35 lakhs and Rs. 45 lakhs respectively. In view of this notification small scale units and ancillary units having investment in fixed assets in plant and machinery whether held on ownership term or by lease or by hire purchase not exceeding Rs. 35 lakhs and Rs. 45 lakhs respectively were exempted from the licensing provisions of the Industries (Development and Regulation) Act, 1951. This was, however, subject to the condition that such an undertaking would not be subsidiary of or owned or controlled by any other undertaking. The following clarifications were also made in this connection:

(i) Industrial undertakings which have crossed the limit of Rs. 20.1 lakhs in the case of small scale units and Rs. 25 lakhs in the case of ancillary units, but fall
within the revised investment limit and have not registered themselves with Directorate General of Technical Development (DGTD) or other technical authorities on or before the date of the notification raising the investment limits would be treated as small scale undertakings. Such undertakings were having an option to be transferred to State Directorate of Industries (SDI) or to continue with DGTD. This option was to be exercised within six months from the date of the notification. In the meanwhile (i.e. upto a period of six months) these undertakings would continue to receive their raw material assistance through the DGTD. However, an industrial undertaking exercising the option to continue with the DGTD or the concerned authority, would not be entitled for the incentives and concessions which were extended to small scale undertakings.

(ii) The small scale and ancillary units which were granted "carrying on business" (COB) licences, on crossing of the investment limits prescribed prior to the date of the notification, were eligible to be treated as small scale undertakings, if they fell within the revised investment limit. The COB licences, in their cases, were to be treated as dormant.

(iii) In case of undertakings which had crossed the previous investment limits, prior to date of notification,
and applied for COB licence, were no longer required to obtain COB licence provided their case fell within the enhanced limit fixed for small scale and ancillary undertakings. No further action was to be taken on their COB applications. They were to be treated as small scale and ancillary undertakings.

(iv) The undertakings which had crossed the previous investment limit of Rs. 20 lakhs prior to the date of notification raising the then investment limit, and which had neither obtained nor applied for COB licence, as was required under existing law would have breached the provisions of the Industries (Development and Regulation) Act. In view of the fact that they qualified for treatment as small scale and ancillary undertakings eligible for exemption under the licensing provisions, Government decided to treat such breach as a technical breach only to condone their non compliance with the provisions of the Industries (Development and Regulation) Act, during the period for which they had crossed the previously laid down investment limits and under which they were required to obtain COB licence provided their cases fell within the enhanced limits fixed for small scale and ancillary undertakings.6

The decision facilitated the small scale and ancillary industrial units to modernize their plant and machinery and to achieve rapid industrial development. In fact, it helped the small scale sector to play a more effective role in the process of industrial development of the country.

**THE 1988 LIBERALIZATION MEASURES:**

The Govt. introduced further liberalization of the Industrial Licensing System on June 3, 1988 in order to accelerate the pace of industrial growth and development and also provided incentives to give a strong stimulus to industrialization of backward areas.

**INDUSTRIAL LICENSING:**

Licensing and regulation of important industries are the main instruments of the industrial policy in India. Industrial licensing had its legislative sanction in the Industries (Development and Regulation) Act, 1951. The main objective of the IDR Act was to enable the Government to implement its industrial policy for the planned development and regulation of industries. It was the chief instrument in the hands of Government to guide development of industries in, the private sector in the directions indicated in the Five Year Plans. The Act sought to accomplish the following objectives:
* The regulation of industrial investment and production according to plan priorities and targets;

* Protection of small entrepreneurs against competition from large industries;

* Prevention of monopoly and concentration of ownership of industries in few hands; and

* balanced regional development with a view to reduce disparities in the levels of development of different regions of the economy.

In order to fulfil the above mentioned objectives, the Government assumed powers under the Act to issue licences for the establishment of new industries, for the expansion of old industries, production of new items by existing enterprises and for changing the location of an existing undertaking. The main provisions of the Act can be divided into the following:

1. **Restrictive Provisions**: This category included all measures designed to curb unfair practices adopted by industries. These provisions are as follows:

   (i) **Registration and licensing of industrial undertakings**:

   All the industries included in the schedule of the Industries (Development and Regulation) Act,
1951, were required to be registered whether they came under the private sector or the public sector.

(ii) **Enquiry of Industries listed in the schedule:**

The responsibility of the State did not end with the registration or granting of licences to the industries. If the working of a particular industrial undertaking was not satisfactory (e.g. if there was substantial under utilization of capacity or product was not upto the mark or cost of production and price were excessive), the Government could set up an enquiry into the affairs of that particular unit.

(iii) **Cancellation of registration and licence:**

If a particular industrial unit succeeded in obtaining industrial licence and registration by submitting wrong information, the Government could cancel the registration under Article 10(A) of the Act. Similarly, the government could also cancel the licence if the industrial unit was not set up within the stipulated period.

2. **Reformative Provisions:** In this category, the following provisions are worth mentioning:
(i) **Direct regulation or control by the Government**:

If the government feels that a particular industrial unit is not being run satisfactorily, it can issue directions for carrying out reforms. If these directions are not heeded to, the government can take over the management and control of that unit in its hands.

(ii) **Control on price, distribution, supply, etc**:

The government has been empowered in the Act to regulate or control the supply, distribution and price of the product manufactured by units belonging to the industries listed in the schedule of Act, if it so wishes.

(iii) **Constructive measures**:

In order to inspire mutual confidence and extend cooperation from the workers, the Government established Central Advisory Council and a number of Development Councils for different products. Representatives of the government, manufacturers, and workers meet together and discuss the measures for smooth conduct of the working of the industrial units.

The policy measures which were liberalized are the following:

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1. The Industrial Licensing system was liberalized in a very substantial manner for non MRTP and Non-FERA Companies. These companies were exempted from obtaining industrial licences under IDRA for projects involving investment in fixed assets upto Rs. 50 crores if they were located in centrally declared backward areas and upto Rs. 15 crores instead of Rs. 5 crores, if they were located in non backward areas. Under the policy package, the number of industries requiring compulsory licensing had been reduced from 56 to 26 by merging into one of the existing lists of industries in Schedule IV and V of the notification under the Industries (Development and Regulation) Act.\(^9\)

2. For the development of backward areas, the Government established 100 growth centres throughout the country during the five year period, and each growth centre was provided with funds of the order of Rs. 25 crores to Rs. 30 crores for creating infrastructural facilities, particularly in respect of power, water, tele-communications and banking.

3. In order to promote industrialization in backward areas, new industrial units established in centrally declared backward areas were entitled to be exempted from the Income Tax under Section 80 HH of the Indian

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Income Tax Act, 1961 by way of deduction of 20 percent of the profits which was available for a period of 10 years. Besides, under Section 80 I of the Income Tax Act, all new industrial units were entitled to be exempted from Income Tax by way of deduction of 25 per cent of the profits for the period of 8 years. The benefits of both these sections were available only to industrial units which were established in centrally notified backward districts.\(^{10}\)

4. The facility of delicensing given to non MRTP and non FERA Companies was not available if the project was located in urban areas (i) 50 km. of the periphery of cities having a population of more than 25 lakhs; (ii) 30 km. of the periphery of cities having a population of more than 15 lakhs but less than 25 lakhs; (iii) 15 km. of the periphery of cities having population of more than 7.5 lakhs but less than 15 lakhs; and (iv) 10 km. of the standard urban area municipal limits of other cities and towns.\(^{11}\)

However, there is no doubt that there was a justification for revision of asset limits of large industrial houses in view of the sharp escalation of prices that had already taken place but it was not expected that the Government would take a quantum jump and raise it 5 times. Considerations of liberalizing

\(^{10}\) The Hindustan Times, New Delhi, June 4, 1988, p.1.

\(^{11}\) The Times of India, New Delhi, June 4, 1988, p. 1.
investment with the objective of raising production had been paramount with the Government. Moreover, the Government also intended to promote computerization and electronics alongwith expansion of communications. The constraints in this regards in the form of MRTP and FERA regulations were sought to be removed. But in this process, the Government was making the small scale industry a victim of its programme of modernization. The de-reservation of approximately 200 items hit the small scale sector. The enormous benefits provided to the large industrial houses to compete with the small scale sector hit it further. As a consequence, the objective of promoting full employment via encouragement to smal scale sector had been jeopardized.

THE INDUSTRIAL POLICY STATEMENT OF 1990:

The National Frant Government announced a new industrial policy on May 31, 1990, which accorded further liberalization for speeding up the pace of industrial growth and development. The salient features of the policy were exemption from licensing or registration for new units with an investment of Rs. 25 crores in fixed assets in non backward areas and Rs. 75 crores in centrally notified backward areas, automatic approval for foreign direct investment upto 40 per cent, foreign collaboration capital goods imports and relaxation of the locational policy. In fact, the Government had practically removed
all bureaucratic shackles and controls hampering industrial growth. This had been done by freeing the entrepreneurs from the licence and permit regime and giving them a free 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. The Government had considered the need to take measures for the promotion of small scale and agro based industries and to change procedures for grant of industrial approvals.

**The Promotion of Small Scale and Agro based Industries:**

In pursuance of our policy to re-orient industrial growth and development, to serve the objective of employment generation, dispersal of industries in the rural areas and to enhance the contribution of small scale industries to exports, it had been decided by the Government to take the following measures:

1. The investment ceiling in plant and machinery for small scale industries, fixed in 1985, was raised from Rs. 35 lakhs to Rs. 60 lakhs and correspondingly, for ancillary industries from Rs. 45 lakhs to Rs. 75 lakhs. In order to enable small scale industries to play an important role in the total export efforts,

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such of the small scale industries which undertook to export at least 30 per cent of the annual production of the third year was permitted to step up their investment limit in respect of plant and machinery upto Rs. 75 lakhs.

2. Investment ceiling in respect of tiny units was raised from Rs. 2 lakhs to Rs. 5 lakhs. However, with regard to their location, the population limit of 50,000 as per 1981 census continued to apply. Steps were also taken to ensure better inflow of credit and other vital inputs and to improve the infrastructural support to the constituents of the tiny sector.\(^\text{13}\)

3. (i) The Government reserved 836 items for exclusive manufacture in the small scale sector. The efforts were also made to identify more items for similar reservation. Encroachment and violation by large scale industries into areas reserved for small scale sector was effectively dealt with.

(ii) New Scheme of Central Investment Subsidy exclusively for the small scale sector in rural and backward areas capable of generating higher level of employment at lower capital cost, was implemented.

\(^{13}\) The Hindustan Times, "Policy to re-orient industrial growth, Procedures", New Delhi, June 1, 1990, p. 15.
(iii) For improving the global competitiveness of the products manufactured in the small scale sector, programmes for modernization and upgradation of technology was also implemented. A number of technology centres, tool rooms, process and product development centres, testing centres, etc. were set up under the umbrella of an apex technology development centre in small Industries Development Organization.

4. To ensure adequate and timely flow of credit for the small scale industries, a new apex bank known as SIDBI had already been established. The major tasks of SIDBI and other commercial banks/financial institutions were channelized need based, higher flow of credit both by way of term loan and working capital, to the tiny and rural industries. A targeted approach was adopted to ensure implementation and to facilitate monitoring of this objective.

5. The existing regime of fiscal concessions was reviewed to provide sustained support to the units in the small scale sector besides removing the disincentives for their graduation and further growth.

6. An exercise was undertaken to identify locations in rural areas provided with adequate power supply to attract suitable entrepreneurs, to provide all other inputs for faster growth of small scale and tiny
industries. In the same way, industries which were not energy intensive were identified for proliferation in rural areas where power supply was a constraint.

7. In order to widen the entrepreneurial base, the Government laid particular emphasis on training of women and youth under the Entrepreneurial Development Programme. A special cell was established in Small Industries Development Organization (SIDO) and State Directorates of Industries to assist women entrepreneurs.

8. One of the persistent complaints of the small scale industries was that they are being subjected to a large number of acts/laws, being required to maintain a number of registers, submit plethora of returns and face an army of inspectors, particularly in the field of labour legislations. These bureaucratic controls were reduced so that unnecessary interference could be eliminated. Further, procedure was simplified and paper work cut down. 14

Agro based Rural Industries:

9. In order to assist a large number of artisans engaged in the rural and cottage industries, the activities of the Khadi and Village Industries Commission (KVIC) and

Khadi and Village Industries Boards (KVIBs) were expanded and these organizations were strengthened to discharge the responsibility more effectively. Special marketing organizations at the Centre and State levels were created to assist rural artisans in marketing their products and also in supply of raw materials. In addition, providing facilities and free consultancy to groups of artisans were also introduced.

10. The projects organized in close cooperation and on the basis of joint ownership with growers of agro products, were encouraged to establish processing units within the framework of cooperative societies. In sectors, where units required licensing, the policy, encouraged location of processing units in rural areas where growers were concentrated. Apart from the economic benefits of proximity to raw materials, it helped in dispersal of industries and increasing employment in rural areas. Besides, the agro processing industries received high priority in credit allocation from the financial institutions. In apportioning working capital banks gave higher priority to such industries as compared to the rest of the industrial sector.

11. In order to make the best technology available to these industries, technology approvals were given
within 30 days of presentation to Secretariat for Industrial Approvals in the Department of Industrial Development. The Government actively promoted generation, adaptation and adoption of new technologies in the field.\textsuperscript{15}

**HIGHLIGHTS**

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**NOTE:** MRTP and FERA Companies needed clearances under the respective Acts and hence did not benefit from the enhanced exemption limits.

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\textsuperscript{15} The Hindu, "Text of the New Industrial Policy", New Delhi, June 1, 1990, p. 12.
PROCEDURES FOR INDUSTRIAL APPROVALS

The industrial policy paper emphasised that Indian industry must be made more competitive internally as well as internationally and it also needed to be released from unnecessary bureaucratic controls by reducing the number of clearances required from the Government. While the Government continued to examine large projects in view of resources constraints, the decisions in respect of medium sized investments were left to the entrepreneurs. For achieving these objectives the following decisions were taken by the government.

1. Delicensing: All new units with an investment of upto 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. It pointed out that more than 60 per cent of investments in industry were exempted from requirement of obtaining licence or registration. 16

2. Capital Goods: For import of capital goods, the entrepreneurs were entitled to import upto a landed value of 30 per cent of the total value of plant and machinery needed for the units.

3. **Raw Materials and Components**: Imports of raw materials and components were permissible up to a landed value of 30 per cent of the ex-factory value of annual production the ex-factory value of production excluded the excise duty on the item of production. Raw materials and components on OGL were not included within this 30 per cent limit. For all licensable items of raw materials and components, import licensing procedures remained in force.

4. **Foreign Collaboration**: The Government gave freedom to the entrepreneurs to conclude technology transfer agreements with the collaborator without obtaining any approval from the concerned authorities or from the Government. This was, however, subjected to the condition that the royalty payment should not exceed 5 per cent on domestic sales and 8 per cent on exports. If, however, lump sum payment was involved in the import of technology and proposal required Government clearance, but the decision in this respect was required to be conveyed to the entrepreneur within a period of 30 days.\(^{17}\)

5. **Foreign Investment**: Keeping in view the need to attract effective inflow of sophisticated foreign technology and easing of balance of payments, the policy provided on automatic approval for foreign direct investment up to 40 per cent in terms of equity, instead of

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\(^{17}\) The Hindustan Times, "Policy to re-orient Industrial growth, Procedures", New Delhi, June 1, 1990, p. 15.
going in for external borrowing especially in the small scale sector. In such proposals too, the landed value of imported capital goods should not exceed 30 per cent of the value of plant and machinery.

6. **Minimum Economic Size**: In order to ensure that investment leads to production of goods of international standards and that of maximum efficiency ensured, the units were required to confirm to the minimum economic size. However, where such a size was prescribed the policy laid down that the deregulation suggested was required to cover all cases of expansion and was not restricted only to new units.

7. **Broad banding**: The new industrial policy not only made changes in the then existing broad banking scheme but also laid down that if no extra investment was required no clearance from the Government was necessary for production and sale of any new items by the then existing units. This did not include those items which were reserved for the small scale industries.18

8. **Locational Policy and Environmental Clearances**: The location policy of the Central Government was not applicable to small scale industries. It was applicable

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only when the industrial unit was to be located in and around metropolitan cities with a population of above 4 million. For these cities, location was not permissible within 20 km. calculated from the periphery of the metropolitan area except in prior designated industrial areas and for non polluting industries such as electronics, computer software and printing. It was upto the State Governments to regulate industrial locations keeping in mind local conditions and requirements and their respective spatial development plans and zoning and town planning laws. Similarly, environmental clearance was to be obtained from the prescribed authority at the State level.

9. Export Oriented Units: The Government offered inducements for establishing export oriented units, even with foreign collaboration. 100 per cent export oriented units (EOUs) and units to be set up in export processing zones (EPZs) were also delicensed under the scheme upto an investment limit of Rs. 75 crores.

10. Convertibility Clause: Investments were exempted from the convertibility clause applicable to financing by Indian Financial Institutions. It may be clarified that in the application of the proposals listed above 836 items which were reserved for production in the small scale sector were exempted. Units set up by MRTP/FERA companies
were covered by procedures set out above and needed clearances under the provisions of these two Acts. The then existing De-licensed Industries Scheme, Exempted Industries Scheme and DGTD Registration System were abolished.  

Though, the industrial policy gave unrestricted right to conclude foreign collaboration if the royalty payments did not exceed 5 per cent on domestic sales and 8 per cent on exports, it was quite deficient in meeting the requirements of the Eighth Five Year Plan approach document. Whatever, the critics may say about the changing pattern of Indian Industry, there can be no two opinions that the industrial growth during the Eighties had accelerated and this accomplishment can rightfully be attributed to the overall favourable industrial policy measures. Thus, the tempo of industrial growth witnessed in the Eighties gave a further push to the process of industrial liberalization. It is, however, the Industrial Policy of 1991 which seeks to bring about a sea change in the industrial and financial fields.

**THE INDUSTRIAL POLICY 1991**

**Policy Objectives:**

The foundation of Indian Industrial Policy was laid

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by Pt. Jawahar Lal Nehru. His vision and determination have left a lasting impression not only on industrial scenario but also on every facet of national endeavour since independence. It is because of his initiative that India is now having a strong and diversified industrial base and is considered a leader of the Third World Countries. The aims and objectives set out for the nation by Pandit Nehru on the eve of independence, were the rapid agricultural and industrial development of the nation, rapid expansion of opportunities for gainful employment, progressive reduction of social and economic disparities, removal of poverty and attainment of self reliance, remain as valid even today as at the time Pandit Nehru first set them out before the nation. Any industrial policy announced must contribute to the realization of these goals and objectives at an accelerated pace of industrial development. The present statement of industrial policy announced by the Congress (I) Government on July 24, 1991, is inspired by these very goals and objectives and represents a renewed initiative towards consolidating the gains of national reconstruction at this crucial stage.21

After nearly four decades of centralized planning, the Government has liberalized the economy to allow Indian industry to achieve its full potential. Widely, regarded as an instrument of dynamic industrial growth and development, the new industrial policy along with the

concurrent economic reforms and changes brought about in the new foreign trade policy are all symbols of the determination of the country to move ahead. Indian industry, over the years, has survived under an extremely adverse and complex set of rules and regulations which sought to control and inhibit rather than motivate and encourage the overall Indian economy to grow to its full capacity. The new industrial policy announced on July 24, 1991 together with other economic reforms will act as instruments of dynamic industrial growth and development.

**Changed Policy Accent:**

As already mentioned, the Government, immediately after independence, introduced the first Industrial Policy Resolution of 1948. This was inspired by the vision of building India rapidly into a modern industrial economy, providing higher employment, removing socio-economic disparities and attaining self-reliance. It also emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the constitution and the socio-economic goals, the industrial policy was comprehensively revised in 1956 by focussing more attention on achieving rapid industrial growth and development.
In order to meet new challenges from time to time, the industrial policy was subsequently modified and liberalized through Industrial Policy Statements of 1973, 1977, 1985, 1989, and 1990, which emphasized the need for promoting competition in the domestic market and technological upgradation and to make the Indian industry more competitive in the international market.

These policies created a climate for rapid industrial growth in the country. Thus, on the eve of the Seventh Five Year Plan (1985-90), a broad based infrastructure was built up. A high degree of self-reliance in a large number of items—raw materials, intermediates, finished goods—was achieved, new growth centres of industrial activity had emerged, as had a new generation of entrepreneurs. A large number of engineers, technicians and skilled workers were also trained.\textsuperscript{22}

The Seventh Five Year Plan (1985-90) recognized the need to consolidate Indian industry's strength to respond effectively to the emerging challenges. A number of policy and procedural changes were introduced in 1985 and 1988 which aimed at increasing productivity, reducing costs and improving quality. The emphasis was on opening the domestic market to increase competition and readying our

\textsuperscript{22} Statement on Industrial Policy, Ministry of Information and Broadcasting, Government of India, New Delhi, July 24, 1991.
industry to stand on its own in the face of global competition. The public sector was freed from a number of constraints and given a larger measure of autonomy. The technological upgradation and scientific management of industry were pursued as the key instrument for increasing productivity and improving our competitiveness the world over. The net result of all these changes was that Indian industry grew by an impressive average annual growth rate of 8.5 per cent during this period.

The pace of deregulation and injection of competition through the 1991 Industrial Policy are intended to improve efficiency, raise productivity and help globalization of Indian industry. The Government by abolishing controls, has sought to remove bureaucratic interference. The new open door policy will act as an instrument of encouragement and assist Indian entrepreneurs in exploiting and meeting global opportunities and challenges. Government is pledged to launching constant struggle for social and economic justice, to end poverty and unemployment and to build a modern democratic, socialist, prosperous and forward looking India. Such a society can be built if India grows as part of the world economy and not in isolation.23

Reflecting the changed thinking of the government, the policy states that the Government will continue to follow the policy of self-reliance and greater emphasis will now be placed on the ability to pay for imports through foreign exchange earnings. The Government is also committed to development and utilization of indigenous capabilities in technology and manufacturing as well as its upgradation to world standards.

Government will also continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development (R and D) bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialization to backward areas of the country will actively be promoted through appropriate incentives, institutions and infrastructure investments. The Government would also provide enhanced support to the small scale sector so that it flourishes in an environment of economic efficiency and continuous technological upgradation.

Foreign investment and technology collaboration will be welcomed to obtain higher and sophisticated technology, to increase exports and to expand the production base. The government will endeavour to abolish
the monopoly of any sector or any individual enterprise in any field of manufacture, except on strategic or military consideration and open all manufacturing activity to global competition.

The policy states that the Government will ensure that the public sector plays its rightful role in evolving socio-economic scenario of the country, but the public sector is run on business lines as envisaged in the Industrial Policy Resolution of 1956 and will continue to innovate and lead in strategic areas of national importance. In the Fifties and Sixties, the main instruments for controlling the commanding heights of the economy was investment in the capital of key industries. Today, the State has other instruments of intervention, particularly fiscal and monetary instruments. The State also command bulk of nation's savings. Banks and financial institutions are under State control. Where State intervention is necessary, these instruments will prove more effective and decisive.

Government will fully protect the interests of labour, enhance their welfare and equip them in the respects to deal with the inevitability of technological change. Government believes that no small section of society can corner the gains of growth, leaving workers to bear its pains. Labour will be made an equal partner in progress and prosperity. Workers' participation in
management will be promoted. Workers' cooperatives will be encouraged to participate in packages designed to turn around sick companies. Intensive training, skill development and upgradation programmes will be launched.

Government will continue to visualize new horizons. The major aims and objectives of the new industrial policy package will be 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 employment and attain global competitiveness. The pursuit of these objectives will be tempered by the need to preserve the environment and ensure the efficient use of available resources. All sectors of industry whether small, medium or large, belonging to the public, private or cooperative sector will be encouraged to grow and improve on their past performance. The Government will follow the policy of "continuity with change".24

The main aim of the new industrial policy of 1991 is to "unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic controls", to introduce liberalization with a view to integrate the Indian economy with the world economy to increase the limit of foreign equity upto 51% in many high priority

industries and to remove virtually all restrictions on MRTP companies, to clear the way for foreign trading houses and easier import of foreign technology to remove all existing registration schemes. Besides, the policy aims to circumscribe and redefine the role of the public sector enterprises which have shown a very low rate of return or are incurring losses over the years. In pursuit of all these reforms of industrial policy, the Government have decided to take a series of initiatives in respect of the policies relating to the following areas:

(a) Industrial Licensing Policy
(b) Foreign Investment
(c) Foreign Technology agreements
(d) Public Sector Policy
(e) MRTP Act
(f) Small and Tiny Sector.

Industrial Licensing Policy:

As it is evident that under the provisions of section 11 of the IDRA, an industrial licence is required for the setting up of an industrial undertaking in 38 specified industries listed in the First Schedule to the IDRA. These are referred to as Scheduled industries'.

Definition of 'industrial undertaking' and 'factory':
'Industrial undertaking' has been defined in clause (d) of section 3 of the IDRA as an undertaking pertaining to a
schedule industry carried on in one or more factories by any person or authority including government. 'Factory' has been separately defined in clause (c) of section 3 of the IDRA as any premises in any part of which a manufacturing process is carried on. This definition of 'factory' is subject to the condition that if the manufacturing process is carried out with the aid of power, working 50 or more workers. If the factory is being run without power, working minimum 100 workers, bring it within the ambit of the definition under the IDRA.

Exemptions from the requirement of licensing: The Central Government has the power under the provisions of section 29B of the IDRA to exempt any industrial undertaking, class of industrial undertakings, any scheduled industry or class of scheduled industries from the operation of all or any of the provisions of the IDRA.25

Industrial licensing is governed by the industries (Development and Regulation) Act, 1951. Over the years, keeping in view the changing industrial scene in the country, the policy has undergone modifications. Industrial licensing policy and procedures have also been liberalized from time to time. A full realization of the industrial potential of the country calls for a continuation of this process of change.26

In the sphere of industrial licensing, the role of the Government was to be changed from that of only exercising control to one of the providing help and guidance by making procedures fully transparent by eliminating delays. This calls for bold and imaginative decisions designed to remove restraints on capacity creation, which at the same time, ensured that overriding national interests are not jeopardised.

In the above context, as part of the new Industrial policy package outlined in the Statement of Industrial Policy dated 24th July, 1991 the Central Government have decided to abolish industrial licensing for all industries except for 18 specified industries included in Annexure II to the statement which continue to be subject to compulsory licensing for reasons related to security and strategic concerns, social reasons, problems related to safety and overriding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption. The exemption from licensing will be particularly helpful to many dynamic and medium entrepreneurs who have been unnecessarily hampered by the licensing system.\(^{27}\)

However, "Industrial undertakings for the manufacture of motor cars and white goods (i.e. item no.

\(^{27}\) The Economic Times, New Delhi, July 25, 1991, p.2.
ll and 18 respectively) have been deleted from the list of industries subject to compulsory industrial licensing. In addition, raw hides and skins, leather and patent leather (excluding chamois leather have been deleted from this list, this has been done vide Press Note No. 4 of 1993 dated 28th April 1993). 28

In view of the considerations mentioned above in respect of industrial licensing, the Government have decided to take a series of measures in order to unshackle that Indian industrial economy from the cobwebs of unnecessary bureaucratic controls as hereunder:

(i) Industrial licensing has been abolished for all industries irrespective of levels of investment except for 18 specified industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons, and items of elitist consumption (Annexure II). Industries reserved for the small scale sector will continue to be so reserved.

(ii) Industries where security and strategic concerns predominate, will continue to be reserved for the public sector (Annexure I).

(iii) Automatic clearance will be given in projects where imported capital goods are required:

a) In cases where foreign exchange availability is ensured through foreign equity,

b) If the CIF value of imported capital goods required is less than 25 per cent of total value (net of taxes) of plant and equipment, up to a maximum value of Rs. 2 crores. In view of the current difficult foreign exchange situation, this scheme (i.e. (iii)b) will come into force from April 1, 1992. In other cases, imports of capital goods will require clearance from the secretariat of Industrial Approvals (SIA) in the Department of Industrial Development according to availability of foreign exchange resources.

(iv) In locations other than cities of more than 1 million population there will be no requirement of obtaining industrial approvals from the Central Government except for industries subject for compulsory licensing. In respect of cities with population of more than one million, industries other than those of a non polluting nature such as electronics, computer software and printing will be located outside 25 km. of the periphery, except in prior designed industrial areas. 29

Appropriate incentives and the design of investments in infrastructure development will be used to promote the dispersal of industry particularly to rural and backward areas and to reduce congestion in cities.

(v) Existing units will be provided a new broad handling facility to enable them to produce any article without additional investment.

(vi) The exemption from licensing will apply to all substantial expansions of existing units.

(vii) The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

**SUMMARY OF HIGHLIGHTS OF NEW POLICY, 1991**

* No licensing except in 18 specified industries.
* No MRTP assets limit. No prior approval required for MRTP Companies.
* Foreign investment limit upto 51 per cent in 34 high priority industries.
* List of areas reserved for PSUs to be confined to 8. Steel, aircrafts deserved.
* Automatic approval for foreign technology agreements.
* Automatic clearance for import of capital goods provided foreign exchange requirement is covered by equity.
* Mandatory convertibility clause enabling financial institutions to convert loans into equity to go.

* Participation of industrial undertakings up to 24 per cent in the equity of SSIs in order to enable non SSIs units to acquire a stake in small units

* Investment limit of tiny sector raised.

**Procedural Consequences:**

All existing registration schemes (delicensed registration, exempted industries registration, Directorate General of Technical Development (DGTD) registration) have been abolished. The entrepreneurs will be required only to file an information memorandum on new projects and substantial expansions.  

**Foreign Investment:**

The Government of India, in the Statement on Industrial policy dated 24th July, 1991 has recognised that foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. Further, this was particularly necessary in the changing global scenario of industrial and economic cooperation market by mobility of capital.  

Therefore, in order to welcome foreign investment which was in the interest of the country's industrial development, the Government has not only liberalised country's policy on foreign direct investment and technology transfer but also simplified the procedure so as to make the policy and its implementation transparent and objective.

Before the announcement of the new Industrial Policy of 1991, FDI was allowed only if it accompanied transfer of technology. Moreover, all proposal for approvals of FDI and foreign technology agreement (FTA) were considered and decided on the basis of a case to case discretionary approach. In a major break with this practice, the new policy provides that FDI need not be linked to FTA. It also provides for automatic approval of FDI upto 51 percent of those proposals which conform to specified parameters. 31

This relaxation of foreign equity should send the right signal to attract several multinational companies. Moreover, the multinational corporations could have 100 percent foreign equity, provided that the entire production is exported. Direct foreign investment assumes importance in the context of a serious domestic resources

crunch and a slowdown in the flow of official development assistance. The resources of the multinational corporations, in terms of managerial expertise, technological know-how and global influence, without doubt, can play a significant role in promoting export competitiveness.  

For the promotion of exports of Indian products in the world markets, the government will encourage foreign trading companies to assist Indian exporters in export activities. Besides, a special empowered board will be constituted to negotiate with a number of multinational corporations and to approve direct investment in selected areas so that purposive negotiations can be carried out with such large technology in the national interest. Sustained efforts will be made in this regard to attract substantial investment that will be provided access to high technology and world markets.  

The Government of India has taken the following decisions in this respect:

(i) Approval will be given for direct foreign investment up to 51 percent foreign equity in high priority industries (Annexure III).

(ii) While the import of components, raw materials and

intermediate goods, and payment of know how fees and royalties will be governed by the general policy applicable to other domestic units, the payment of dividends will be monitored through the RBI so as to ensure that outflows on account of dividend payments are balanced by export earnings over a due course of time.

(iii) Other foreign equity proposals, including proposals involving 51 per cent foreign equity which do not meet the criteria under (i) above, will continue to need prior clearance.

(iv) To provide access to international markets, majority foreign holding upto 51 percent equity will be allowed for trading companies primarily engaged in export activities.

**Foreign Technology Agreements:**

Today, technology is the greatest competitive weapon in the armour of foreign companies and nobody is going to part with high technology for below the poverty line royalty payments.³⁴

In the fast changing world of technology, the relationship between the suppliers and users of technology

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must be smooth and continuous one. So with a view to approach the desired level of technological dynamism, the government has decided to provide automatic approval of foreign technology agreements for direct investment of upto 51 percent equity in high priority industries (Annexure III) within specified parameters, which includes 34 areas such as metallurgical industries, electrical equipment, boilers and steam generating plants, transportation, industrial machinery, nitrogenous and phosphatic fertilizers, chemicals, printing machinery, industrial synthetic diamonds, prefabricated building material, soya products, food processing industries and hotels and tourism related industry and so on. Similar facilities will be available for other industries as well, if such agreements do not require the expenditure of free foreign exchange. Indian companies will be free to negotiate the terms of technology transfer with their foreign counterparts according to their own commercial judgements. The predictability and independence of action will induce to develop indigenous competence for the efficient absorption of foreign technology. Specific decisions of the government in this respect are as follows:

(i) Automatic approval will be given for foreign technology agreements in high priority industries (Annexure-III) upto a lumpsum payment of Rs.1 crore, 5 percent royalty for domestic sales and 8 percent for exports, subject to total payments of 8 percent of sales over a 10 year period from the data of agreement or 7 years from commencement of production. The prescribed royalty rates are not of taxes and will be calculated according to standard procedures.

(ii) In respect of industries other than those in Annexure III, automatic approval wil be given subject to the same guidelines as above if no free foreign exchange is required for any payments.

(iii) No approval will be necessary for hiring of foreign technicians, foreign testing of indigenously developed technologies.

(iv) To provide access to international markets, majority foreign equity holding upto 51 percent equity will be allowed for trading companies primarily engaged in export activities.

Public Sector Policy:

The 1956 Industrial Policy Resolution gave the public sector a strategic role in the Indian economy. In
pursuit of development objectives, public ownership and control in critical sectors of the economy should play an important role in preventing the concentration of economic power, reducing regional disparities and ensuring that planned development serves the common good. However, public enterprises have shown a very low rate of return on the capital invested. This has inhibited their ability to regenerate themselves in terms of new investments as well as in technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Government. The most striking example is the take over of sick units from the private sector. This category of public sector units accounts for almost one third of the total losses of central public enterprises.36

However, the Government has adopted a new approach to public sector enterprises. Units which may be faultering at present but are potentially viable, must be restructured and given a new base of life. The priority areas for growth of public enterprises in the future will be the following:

* Essential infrastructure goods and services
* Exploration and exploitation of oil and mineral resources,
* Technology development and building of

manufacturing capabilities in areas which are crucial in the long term development of the economy and where private sector investment is inadequate,

Manufacture of products where strategic considerations predominate as defence equipment. 37

Besides, the public sector will not be debarred from entering areas not specifically reserved for it. Not only this but the Government will also strengthen its role in areas essential for Indian economy or those public sector enterprises which fall in the reserved areas of operation or are in high priority areas or are generating good or reasonable profits. Such enterprises will be provided a much greater degree of management autonomy through the system of memoranda of understanding competition will also be induced in these areas by inviting private sector participation. 38 Specific decisions of the Government in this regard are as follows:

(i) Public sector undertakings which are chronically sick and which are unlikely to be turned around for the formulation of revival and rehabilitation schemes will be referred to the Board for Industrial and Financial Reconstruction (BIFR) or other

similar high level institutions created for the purpose. A social security mechanism will be created by such rehabilitation package.

(ii) Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high tech and essential infrastructure. While some reservations for the public sector is being retained there would be no bar for these areas to be opened up to the private sector selectively. Similarly, the public sector will also be allowed entry in areas not reserved for it.

(iii) In order to raise resources and encourage wider public participation, a part of the government's share holding in the public Sector would be offered to mutual funds, financial institutions, general public and workers.

(iv) Boards of public sector undertakings would be made more professional and given greater power. 39

**Monopolies and Restrictive Trade Practices Act (MRTP Act):**

The MRTP Act became operative with effect from June, 1970. With the emphasis placed on productivity in the Sixth Plan, major amendments to the MRTP Act were carried out in 1982 and 1984 in order to remove impediments to industrial growth and expansions. This process of change was given a new momentum in 1985 by an increase of threshold limit of assets. 40


The Government's decision to scrap the asset limit for MRTP companies would have significant repercussions on the industrial scenario. The move has been welcomed by the industry as a much needed diversion from the cumbersome 'Licence Raj'. Industrial experts reason that the rigmarole of getting a clearance under the MRTP Act had become just another routine bureaucratic barrier to cross. The most important objectives which are to be achieved through the MRTP Act are as follows:

(i) Prevention of market monopoly or concentration of economic power in few hands, and

(ii) Prohibition of monopolistic and restrictive and unfair trade practices.

It is also pointed out that the liberalization will lead to more competitiveness in the market situation with the emergence of more players. Consumer requirements would become the counterpart of all corporate strategies, making it extremely difficult for the substandard products to find a market for themselves.41

With the growing complexity of industrial structure and the need for achieving economies of scale for ensuring higher productivity and competitive advantage in the international market, the interference of the Government

through the MRTP Act in investment decisions of large companies has become deleterious in its effects on Indian industrial growth. The main thrust of policy will be more on controlling unfair or restrictive business practices.

The MRTP Act will be restructured by eliminating the legal requirement for prior government approval for expansion of present undertakings and establishment of new undertakings. The provisions relating to merger, amalgamation, and takeover will also be repealed. Similarly, the provisions regarding restrictions on acquisition and transfer of shares will be appropriately incorporated in the Companies Act. Simultaneously, provisions of the MRTP Act will be strengthened in order to enable the MRTP Commission to take appropriate action in respect of the monopolistic, restrictive and unfair trade practices. The newly empowered MRTP Commission will be encouraged to require investigation suo moto or on complaints received from individual consumers or classes of consumers. The Government have taken the following measures:

(i) MRTP Act will be amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. This would eliminate the requirement of prior approval from Central

Governent for establishment of new undertakings, expansion of undertakings, merger, amalgamation and takeover and appointment of directors under certain circumstances.\(^\text{43}\)

(ii) Necessary comprehensive amendment will be made in the MRTP Act in this regard and for enabling the MRTP Commission to exercise punitive and compensatory powers.

(iii) Emphasis will be placed on controlling and regulating monopolistic, restrictive and unfair trade practices. Simultaneously, the newly empowered MRTP commission will be authorised to initiate investigations of all complaints received from individual consumers or classes of consumers regarding monopolistic, restrictive and unfair trade practices.

**Small and Tiny Sector**:

The small-scale industries sector emerged as a dynamic and vibrant sector of the economy during the Eighties. At the end of the Seventh Plan period, it accounted for nearly 25 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the total exports from the country. It also provided employment opportunities to around 12 million people. The primary objective of the small scale Industrial Policy during the Nineties will be to import more vitality and

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growth impetus to the sector to enable it to contribute its share fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further efforts will be made to deregulate and debureaucratise the sector with a view to remove all faders on its growth potential, reposing greater faith in small and young entrepreneurs.44

The New Industrial Policy for small and tiny sector was announced separately by the Government on August 6, 1991. It allowed industrial undertakings to participate up to 24 percent in the equity of small scale industries which will enable non SSI units to acquire a stake in small units. The investment limits in respect of 'TINY ENTERPRISES' were raised from Rs. 2 lakhs to Rs. 5 lakhs, irrespective of location of the unit. While the small scale sector (other than Tiny Enterprises) will be mainly entitled to one time benefits (like preference in land allocation/power concentration access to facilities for skill/technology upgradation), the Tiny Enterprises will also be eligible for additional support on a continuing basis, including easier access to institutional finance, priority in the Government Purchase Programme and relaxation from certain provisions of labour laws.

In addition, it has also been decided to widen the scope of the National Equity Fund Scheme (NEFS) to cover projects up to Rs. 10 lakhs for equity support (up to 15 per cent). Single Window Loan Scheme (SWLS) has also been enlarged to cover projects up to Rs. 20 lakhs with working capital margin up to Rs. 10 lakhs. Composite loans under Single Window Scheme, now available only through State Financial Corporation (SFCs) and twin function State Small Industries Development Corporation (SSIDCs), will also be channelized through commercial banks. This will facilitate access to a large number of entrepreneurs. The policy measures which have been taken for promoting and strengthening Small, Tiny and Village Enterprises are as follows:

**Financial Support Measures:**

1) Inadequate access to credit both short term and long term remains perennial problem facing the small scale sector. Efforts will be made to ensure both adequate flow of credit on a normative basis, and the quality of its delivery, for viable operations of this sector. A special monitoring agency would be set up to oversee that the entire genuine credit needs of the small scale enterprises are fully met.

2) To provide access to the capital market and to encourage modernization and technological upgradation it has been decided to allow equity participation by 45.

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other industrial undertakings in the SSI not exceeding 24 per cent of the total shareholding. This would also provide a powerful boost to ancillarization and sub contracting, leading to expansion of employment opportunities.

3) Regulatory provisions relating to the management of private limited companies have been liberalized. A Limited Partnership Act will be introduced to enhance the supply of risk capital to the Small Scale Sector. Such an Act would limit the financial liability of the new and non active partners/entrepreneurs to the capital invested.

4) A beginning has been made towards solving the problem of delayed payments to small enterprises by setting up of 'factoring' services through Small Industries Development Bank of India (SIDBI). The network of such services would be set up throughout the country and operated through commercial banks. A suitable legislation will be introduced to ensure prompt payment of Small Industries bills.46

Infrastructure Facilities:

1) To facilitate location of industries in rural and backward areas and to promote stronger coordination between industry and agriculture, a new Scheme of Integrated Infrastructural Development for Small Scale Industries would be implemented with the active participation of State Governments and financial institutions.

2) A Technology Development Cell (TDC) would be set up in the Small Industries Development Organization (SIDO) which provide technology inputs to improve productivity and competitiveness of the products of the small scale sector.

3) Adequacy and equitable distribution of indigenous and imported raw materials would be ensured to the small scale sector, particularly the mini sub-sector. A proper and adequate arrangement for delivery of total package of incentives and services at the District Level will be evolved and implemented.

Marketing and Exports:

1) In spite of the vast domestic market, marketing remains a problem area for small and tiny enterprises. Mass consumption labour intensive products are being predominantly marketed by the organized sector. The small scale and tiny sector will henceforth, be enabled to have a significant share of such markets.

2) National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name and organic links between NSIC and SSIDCs would be established.

3) Though the small scale sector is making significant contribution to total exports, both direct and indirect, a large potential remains untapped. The Small Industries Development Organization (SIDO) has been recognized as the model agency to support the small scale industries in export promotion. An Export

47. The Times of India, New Delhi, August 7, 1991, p. 1.
Development Centre (EDC) would be set up in SIDO to serve the small scale industries.  

Modernization Technological & Quality Upgradation:

1) A re-oriented programme of modernization and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector would be pursued. Specific industries in large concentration/clusters would be identified for studies in conjunction with SIDBI and other banks. Such studies will establish commercial viability of modernization, prescriptions, and financial support would be provided for modernization of these industries on a priority basis.

2) Indian Institutes of Technology (IITs) and selected Regional or other Engineering Colleges will serve as technological information, Design and Development Centres in their respective command areas.

Promotion of Entrepreneurship:

1) Government will continue to support first generation entrepreneurs through training and will support their efforts. Large number of EDP trainers and motivators will be trained to significantly expand the Entrepreneurship Development Programme (EDP). EDP would be built into the curricula of vocational and other degree level courses.

2) Women entrepreneurship will receive support through special training programmes. Definition of "women enterprises" would be simplified. The units in which

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women entrepreneurs have a majority shareholding and management control, would be defined as "women Enterprises." 49

**Simplification of Rules and Procedures:**

1. The persistent complaints of small scale enterprises of being subjected to a large number of Acts and Laws, being required to maintain a number of registers and submit returns, and face an army of inspectors, would be attended to within a specified time frame of three months.

2. Procedures would be simplified, bureaucratic controls effectively reduced, unnecessary interference eliminated and paper work put down to the minimum to enable the entrepreneurs to concentrate on production and marketing functions.

**Village Industries:**

*Handloom Sector:* Handloom sector constitutes about 30 per cent of the total textile production in the country. It is the policy of the Government to promote handlooms to sustain employment in rural areas and to improve the quality of life for handloom weavers. Keeping in mind the local and regional needs, the Government have decided to redesign the schemes for the handloom sector into three major heads:

(a) **Project Package Scheme:** Under this scheme, area based projects for product development, upgradation of technology, improvement of marketing facilities will be increased.
(b) **Welfare Package Scheme** : Number of welfare schemes and quantum of funds earmarked for them will be substantially augmented.

(c) **Organisation Development Package** : Schemes for participation in the share capital will be redrawn under organisational development scheme for imparting a better management system in the existing state agencies.  

The Janata cloth scheme which sustains weavers, often on a minimum level of livelihood, will be phased out by the terminal year of the Eighth Plan and replaced by omnibus project package scheme under which substantial funds will be provided for modernization of looms, training provision of better designs, dyes, chemicals and marketing assistance. The role of the National Handloom Development Corporation (NHDC) is also enhanced. NHDC will be the nodal agency for increasing the supply of hank yarn and of dyes and chemicals. The schemes for improving marketing of handloom products both domestically and internationally will be drawn up and accorded priority.

**Handicrafts Sector** : For the handicraft sector "Craft Development Centres" have been proposed to be set up which will ensure supply of raw materials design and technical guidance, market support, training and processing of related inputs in an integrated and area based manner. Measures have also been proposed to be initiated to increase exports from this sector through new marketing.

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50. *Indian Express, New Delhi, August 7, 1991, p.1.*
channels like trading companies, departmental stores, etc. In addition, the Government also recognizes the need to enhance the spread of rural and cottage industries towards stepping up non-farm employment opportunities. The activities of the Khadi and Village Industries Commission and the State Khadi and Village Industries Boards will also be expanded and the organization strengthened to discharge their responsibilities more effectively. 51

In a nutshell, the rapid expansion of the industrial sector in the Eighties was due to the reform undertaken in trade and industrial policies in the early and mid 1980's. Further, policy changes and modifications were needed to sustain this and to provide the competitive stimulus for accelerated industrial growth during the Nineties. The past 1980 industrial policies were designed to deregulate the industrial economy in a substantial manner. The new liberalized measures are also designed to enable the Indian industry to forge much more dynamic relationships with foreign investors and suppliers of technology. The implications of these industrial policy measures on the overall industrial development of the country have been analysed in the forthcoming chapter.

ANNEXURE I

PROPOSED LIST OF INDUSTRIES TO BE RESERVED FOR THE PUBLIC SECTOR

1. Arms and ammunition and allied items of defence equipment, defence aircraft and warships.
3. Coal and lignite.
5. (Omitted vide Press Note NO. 3 of 1993 series dated 26.3.1993.)
8. Railway transport.

ANNEXURE II

LIST OF INDUSTRIES IN RESPECT OF WHICH INDUSTRIAL LICENSING WILL BE COMPULSORY

1. Coal and lignite.
2. Petroleum (other than crude) and its distillation products.
3. Distillation and brewing of alcoholic drinks.
4. Sugar.
5. Animal fats and oils
6. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.

7. Asbestos and asbestos based products

8. Plywood (veneers of all types) and other wood based products such as particle board, medium density fibre board, block board.

9. Raw hides and skins, leather, chamois leather and patent leather.

10. Tanned or dressed furskins.

11. (Omitted vide Press Note No. 4 of 1993 series dated 28.4.1993.)

12. Paper and Newsprint except bagasse-based units.

13. Electronic aerospace and defence equipment all types.

14. Industrial explosive, including detonating fuse, safety fuse, gun powder, nitrocellulose and matches.

15. Hazardous chemicals

16. Drugs and pharmaceuticals (according to Drug Policy)

17. Entertainment Electronics (VCRs, Colour TVs, CD players, tape-recorders).

18. (Omitted vide Press Note. 4 of 1993 series dated 28.4.1993.)
ANNEXURE III

LIST OF INDUSTRIES FOR AUTOMATIC APPROVAL OF FOREIGN TECHNOLOGY AGREEMENTS AND FOR 51 PER CENT FOREIGN EQUITY APPROVAL

1. Metalurgical Industries
   i) Ferro alloys
   ii) Castings and forgings.
   iii) Non ferrous metals and their alloys
   iv) Sponge iron and pelletisation
   v) Large diameter steel welded pipes of over 300 mm diameter and stainless steel pipes.
   vi) Pig Iron

2. Boilers and steam generating plants

3. Prime movers (other than electrical generators)
   i) Industrial turbines
   ii) Internal combustion engines.
   iii) Alternate energy systems like solar wind, etc and equipment therefore.
   iv) Gas/hydro/steam turbines upto 60 MW.

4. Electrical Equipment
   i) Equipment for transmission and distribution of electricity including power and distribution transformers, power relays, HT switch gear synchronous condensers.
ii) Electrical motors.

iii) Electrical furnaces, industrial furnaces and induction heating equipment

iv) X-ray equipment

v) Electronic equipment, components including subscribers' and telecommunication equipment

vi) Components wires for manufacture of lead in wires

vii) Hydro/steam/gas generators/generating sets upto 60 MW.

viii) Generating sets and pumping sets based on internal combustion engines.

ix) Jelly filled telecommunication cables.

x) Optic fibre

xi) Energy efficient lamps and

xii) Midget carbon electrodes.

5. Transportation

i) Mechanised sailing vessels upto 10,000 DWT including fishing trawlers.

ii) Ship ancillaries

iii) a) Commercial vehicles, public transport vehicles including automotive commercial three wheeler jeep type vehicles, industrial locomotives.

b) Automotive two wheelers and three wheelers
c) Automotive components/spares and ancillaries.

iv) Shock absorbers for railway equipment

v) Brake system for railway stock and locomotives

6. Industrial machinery

i) Industrial Machinery and equipment.

7. Machine tools

i) Machine tools and industrial robots and their controls and accessories.

ii) Jigs, fixtures, tools and dies of specialised types and cross land tooling.

iii) Engineering production aids such as cutting and forming tools patterns and dies and tools.

8. Agricultural machinery

i) Tractors

Self propelled Harvester Combines.

ii) Rice transplanters.

9. Earth moving machinery

i) Earth moving machinery and construction machinery and components thereof.

10. Industrial instruments

i) Indicating recording and regulating devices for pressure, temperature rate of flow weights levels and the like.
11. Scientific and electromedical instruments and laboratory equipment.

12. Nitrogenous and phosphatic fertilizers falling under
   i) Inorganic fertilizers under 18 Fertilizers' in the First Schedule to IDR Act, 1951.

13. Chemicals (other than fertilizers)
   i) Heavy organic chemicals including petrochemical
   ii) Heavy inorganic chemicals
   iii) Organic fine chemicals
   iv) Synthetic resins and plastics.
   v) Man made fibres.
   vi) Synthetic rubber.
   vii) Industrial explosives
   viii) Technical grade insecticides, fungicides, weedicides and the like.
   ix) Synthetic detergents
   x) Miscellaneous chemicals (for industrial use only)
      a) Catalysts and catalyst supports.
      b) Photographic chemicals
      c) Rubber chemicals
      d) Polyols
      e) Isocyanates, urthanes, etc.
      f) Speciality chemicals for enhanced oil recovery
      g) Heating fluids
h) Coal tar distillation and products therefrom.

i) Tonnage plants for the manufacture of industrial gases.

j) High altitude breathing oxygen/medical oxygen.

k) Nitrous oxide.

l) Refrigerant gases like liquid nitrogen, carbon dioxide, etc. in large volumes.

m) Argon and other rare gases.

n) Alkali/acid resisting cement compound

o) Leather chemicals and auxiliaries

14. Drugs and pharmaceuticals
   According to Drug Policy

15. Paper
   i) Paper and pulp including paper products.
   ii) Industrial laminates.

16. Rubber products
   i) Automobile tyres and tubes.
   ii) Rubberised heavy duty industrial beltings of all types.
   iii) Rubberised conveyor beltings.
   iv) Rubber reinforced and lined fire fighting hose pipes.
   v) High pressure braided hoses
   vi) Engineering and industrial plastic products
17. Plate glass
   i) Glass shells for television tubes
   ii) Float glass and plate glass
   iii) HT insulators
   iv) Glass fibres of all types

18. Ceramics
   i) Ceramics for industrial uses

19. Cement products
   i) Portland cement
   ii) Gypsum boards, wall boards and the like.

20. High technology reproduction and multiplication equipment

21. Carbon and carbon products
   i) Graphite electrodes sand anodes.
      ii) Impervious graphite block and sheets

22. Pretensioned high pressure RCC pipes

23. Rubber machinery

24. Printing machinery
   i) Web fed high speed off set rotary printing machine having output of 300,000 or more impressions per hour.
   ii) Photo composing/type setting machines
   iii) Multi colour sheet fed off set printing machines of sizes of 18"x25" and above
   iv) High speed rotograture printing machines having output of 30,000 or more impressions per house
25. **Welding electrodes other than those for welding mild steel**

26. **Industrial synthetic diamonds.**

27.  
   i) Photosynthesis improvers.
   
   ii) Genetically modified free living symbiotic nitrogen fixer.
   
   iii) Pheromones.
   
   iv) Bio insecticides.

28. **Extraction and upgrading of minor oils**

29. **Pre fabricated building material**

30. **Soya products**
   
   i) Soya texture proteins
   
   ii) Soya protein isolates
   
   iii) Soya protein concentrates
   
   iv) Other specialised products of soyabean
   
   v) Winterised and deodourised refined soyabean oil.

31.  
   a) Certified high yielding haybrid seeds and synthetic seed.
   
   b) Certified high yielding plantlets developed through plant tissue culture.

32. **All food processing industries other than milk food, malted foods, and flour, but excluding the items reserved for small scale sector.**

33. **All items of packaging for food processing industries excluding the items reserved for small scale sector.**

34. **Hotels and tourism related industry.**
LIST OF ITEMS RESERVED FOR EXCLUSIVE MANUFACTURE IN SMALL SCALE SECTOR

1. Food and Allied Industries
2. Textile Products including hosiery
3. Art silk/man made fibre hosiery
4. Wood and wood products
5. Paper products
6. Leather and leather products including footwear
7. Rubber products
8. Plastic products
9. Injection moulding thermoplastic products
10. Chemicals and chemical products, laboratory chemicals and reagents.
11. Dye stuff (Basic dyes)
12. Azo dyes (Direct)
13. Acid dyes
14. Naphthols
15. Reactive dyes
16. Fast colour bases
17. Natural essential oils
18. Organic chemicals drugs and drug intermediates
19. Other chemicals and chemical product
20. Glass ceramics
21. Roofing tiles
22. Flooring tiles
23. Ceramic table wares and allied items in stone wares semi vitreous wares and earthen wares.

24. Mechanical Engineering excluding transport equipment

25. Electrical machines, appliances and apparatus including electronics electrical appliances.


27. Transport equipment boats and truck body building Autoparts, components and ancillaries and garge equipment.

28. Bicycle parts, tricycles and perambulators

29. Miscellaneous transport equipment.

30. Miscellaneous Mathematical and survey instruments.

31. Sports goods

32. Stationary items

33. Clock and watches

34. Others.
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.  

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 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 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

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 commodoty. It
appeared the time had come for the second round of
liberalization.

The process of liberalisation 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

2. Man Singh,L., Handbook of Industrial Policy & Procedures,
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.³

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 along with 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.4

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 at least 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,

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 gratated 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.\(^6\)

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

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</th>
<th>New Ceiling</th>
</tr>
</thead>
<tbody>
<tr>
<td>IN Vestment ceiling on plant and machinery (Rs. in lakhs)</td>
<td>Rs.</td>
<td>Rs.</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>

<table>
<thead>
<tr>
<th>II. Large New Units &amp; Expansion: Licensing exemption in terms of fixed asset (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) In non backward areas</td>
</tr>
<tr>
<td>b) In centrally notified backward areas</td>
</tr>
<tr>
<td>c) 100% EOUs &amp; Units set up in EPZs</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 upto 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 upto 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 per cent 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 indegenously. While automaticity was a good principle to apply, some form of regulation was required to prevent foreign exchange expenditure in wholly
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

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 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.\footnote{11 Datt, Ruddar; "New Industrial Policy: The Internal contradictions", Financial Express, June 23, 1990, p.5.}

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 because 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.\(^\text{13}\)

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

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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 upto 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.  

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 edge 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 Exort 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 aequity 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

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 privatisation 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.  

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 entrepreneurship 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.\textsuperscript{24} 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.\textsuperscript{25}

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

\textsuperscript{24} The Times of India, New Delhi, July 25, 1991, p.1.
\textsuperscript{25} The Economic Times, New Delhi, July 24, 1991, p.22.
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.

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 up to 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.  

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.  

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

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28. Yojna; Publication Division, Ministry of Information and Broadcasting, Government of India, New Delhi, March 31, 1992, P.  
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 participa-
tion 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

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, criticised 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 upto 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 a 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. 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 faltering 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 shedding 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.

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.\textsuperscript{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 counterproductive 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.\textsuperscript{40}

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

\textsuperscript{40} The Economic Times, New Delhi, July 24, 1991, p.22.
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.\(^\text{41}\)

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.\(^\text{42}\)


\(^{42}\) 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.
CHAPTER - VI
In the previous chapter we discussed at some length implications of post-1980 industrial policies on the industrial development of India. As a matter of fact, the programmes of industrial development have always attracted special attention of the planners and the Government. As already stated, industrialization in India has been promoted as a means of rapid economic growth. No wonder, industrial sector has made significant progress during the plans and different industrial policies over the period have played their own parts in carrying forward the process of industrialization in the country.

It is important to note that sweeping changes in the industrial policies have taken place in the country, particularly since 1985. Now controls and regulations are being dismantled or simplified. Policies relating to licensing, foreign collaboration, brand names, investments, location of industry, imports and exports, controls and monopolies are all being changed to remove the excessive bureaucratic controls that had characterized the Indian industrial scenario.
Issues such as who should do what, when, where and how, have so far been influenced and controlled by the Government in one from or the other. Various measures taken at different time to remove or minimize some of the regulations or controls were often subverted through apparently innocuous requirements. As a result, the broad regulatory policy frame work remained intact for over four decades while far-reaching changes were taking place elsewhere. At this juncture, it may be useful to review the progress made by different industrial sectors since 1981 and speculate how the recent liberalization moves influence the future.

External Sector—Balance of Payments:

The year 1993-94 saw a remarkable turnaround in India's external sector. Foreign currency assets of the RBI more than doubled during the year, increasing from US $ 6.4 billion at the end of March 1993 to US $ 15.1 billion at the end of March 1994. The large build up of reserves was due to a marked improvement in the current account and an increase in private capital inflows on the capital account. Exports responded to reforms in trade and grew upto 20 per cent in dollar terms in 1993-94. The surplus on the invisibles account doubled and the current account deficit shrank to $ 315 million

as compared to nearly $10 billion in 1990-91. The capital account was bolstered by sharp increases in direct foreign investments and portfolio investments rose from less than $600 million in 1992-93 to over $4 billion in 1993-94.

The balance of payments position has been further consolidated in 1994-95. Build up in foreign currency reserves, which reached a level of $19.6 billion at the end of January 1995, continued at the same pace as in the second half of 1993-94. This build up in spite of a sharp pick up in non-oil import growth of 28 per cent in the first six months of the current year, was a result, predominantly of continued strong flows of non-debt creating capital. The outstanding external debt declined marginally from $90.7 billion at the end of March 1994 to $90.4 billion at the end of September 1994. The continued strength in the balance of payments supported the successful transition of the country to current account convertibility.

Recent developments have been very encouraging and the short-term outlook for India's balance of payments remains comfortable. But in spite of the considerable improvement in external payment conditions in 1993-94 and 1994-95, there can be no let up in our

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2. Economic Survey 1994-95, Government of India, New Delhi, p.84.
efforts to expand exports and attract larger and potentially long-term flows of foreign direct investment into the economy.

The recent developments in India's external sector reflect a shift from a foreign exchange control regime to a more open, market oriented and liberalized economy. This has been facilitated by the structural change in the country's balance of payments which has occurred during the last few years. The most notable feature of this change has been the sharp increase in the coverage of imports by export earnings as born out by Table No. 6.1 given below:

**TABLE NO. 6.1 : Exports as percent of imports**

<table>
<thead>
<tr>
<th>Year</th>
<th>% Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>52.4</td>
</tr>
<tr>
<td>1985-86</td>
<td>54.7</td>
</tr>
<tr>
<td>1986-87</td>
<td>58.7</td>
</tr>
<tr>
<td>1987-88</td>
<td>63.8</td>
</tr>
<tr>
<td>1988-89</td>
<td>60.4</td>
</tr>
<tr>
<td>1989-90</td>
<td>69.5</td>
</tr>
<tr>
<td>1990-91</td>
<td>66.2</td>
</tr>
<tr>
<td>1991-92</td>
<td>86.7</td>
</tr>
<tr>
<td>1992-93</td>
<td>81.2</td>
</tr>
<tr>
<td>1993-94</td>
<td>94.6</td>
</tr>
</tbody>
</table>

In the beginning of the Eighties, this coverage ratio was only 52.4 per cent and led to a massive trade deficit. This had improved to about 70 per cent by the end of the previous decade. As is evident from the table, during the last three years export earnings have, on an average, accounted for nearly 90 per cent of the value of imports.

The marked improvement in the export–import ratio, combined with an improvement in the invisibles account, has resulted in a sharp reduction in the current account deficit, which has come down from unsustainable levels of more than 2 per cent of GDP (and as much as 3.3 per cent in 1990–91) to less than half a per cent in 1993–94. Table No.6.2 depicts the current Account Deficits from 1980–81 to 1993–94.

TABLE NO. 6.2 : Current Account Deficits

<table>
<thead>
<tr>
<th>Year</th>
<th>US $ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980–81</td>
<td>2095</td>
</tr>
<tr>
<td>1985–86</td>
<td>4845</td>
</tr>
<tr>
<td>1986–87</td>
<td>4563</td>
</tr>
<tr>
<td>1987–88</td>
<td>4853</td>
</tr>
<tr>
<td>1988–89</td>
<td>7996</td>
</tr>
<tr>
<td>1989–90</td>
<td>6837</td>
</tr>
<tr>
<td>1990–91</td>
<td>9680</td>
</tr>
<tr>
<td>1991–92</td>
<td>1178</td>
</tr>
<tr>
<td>1992–93</td>
<td>3526</td>
</tr>
<tr>
<td>1993–94</td>
<td>315</td>
</tr>
</tbody>
</table>

Source: Same as for Table No. 6.1
The industrial economy has thus moved to a more stable and sustainable balance of payments position in the last four years. As was expected by the Government, and contrary to the fears in some quarters, the liberalization of industrial policies and a shift to a market determined exchange rate regime have had a significant positive impact on the country's balance of payments position.

**Foreign Investment**:

Foreign investment inflows were the major factor behind the surge in capital inflows to the country from 1991-92 and uptodate. The contribution of foreign investment to capital inflows is expected to rise further in 1994-95 with an inflow of about $3.9 billion as the response of foreign investors to the liberalization of the foreign investment regime has been very encouraging. Portfolio investment, including GDRs, has responded swiftly, to rise from under $100 billion in 1992-93 to nearly $3.5 billion in 1993-94 and could be of the same order in 1994-95 as evident from the following table on next page.
TABLE NO. 6.3 : Foreign Investment Flows by Category (US $ million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Direct Investment</td>
<td>150</td>
<td>341</td>
<td>620</td>
<td>756</td>
</tr>
<tr>
<td>a) RBI automatic route</td>
<td>0</td>
<td>42</td>
<td>89</td>
<td>81</td>
</tr>
<tr>
<td>b) SIA/FIPB route</td>
<td>87</td>
<td>238</td>
<td>315</td>
<td>380</td>
</tr>
<tr>
<td>c) NRIs(40% &amp; 100%)</td>
<td>63</td>
<td>61</td>
<td>217</td>
<td>295</td>
</tr>
<tr>
<td>B. Portfolio Investment</td>
<td>8</td>
<td>92</td>
<td>3493</td>
<td>3141</td>
</tr>
<tr>
<td>a) FIIs</td>
<td>0</td>
<td>1</td>
<td>1685</td>
<td>1195</td>
</tr>
<tr>
<td>b) Euro equities</td>
<td>0</td>
<td>86</td>
<td>1463</td>
<td>1726</td>
</tr>
<tr>
<td>c) Offshore funds &amp; others</td>
<td>8</td>
<td>5</td>
<td>365</td>
<td>220</td>
</tr>
<tr>
<td>Total (A+B)</td>
<td>168</td>
<td>433</td>
<td>4113</td>
<td>3897</td>
</tr>
</tbody>
</table>

* Provisional

Source : Same as for Table 6.1

There have also been sharp increases in approvals of direct investment proposals, the value rising to Rs. 8957 crore ($ 2.9 billion) in 1994 from Rs. 534 crore($ 235 million) in 1991. The total foreign direct investment (FDI) proposals approved since 1991 till 1994 amounts to Rs. 22238 crore ($ 7.2 billion) against just under Rs. 1274 crore ($ 1.0 billion) approved during the whole of the previous decade (1981-90) It will take time for all these proposals to fructify into actual inflows but there
are already signs that the actual inflows are picking up, with the ratio of inflows to approvals rising since 1992. Besides pure equity issues, corporate entities are also allowed to issue foreign currency convertible bonds (FCCBs). About $915 million was raised through FCCBs in 1993-94. FCCBs form part of the country's external debt till their conversion into equity and in the current year, the Government has therefore followed a somewhat restrictive policy towards them to keep the growth of external debt in check. The following table gives the figures of foreign Direct Investment along with a breakup of approvals and actual inflows:

**TABLE NO. 6.4 : Foreign Direct Investment Actual Inflows VS Approvals.**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Approvals Rs. Crore</td>
<td>534.1</td>
<td>3887.5</td>
<td>8859.8</td>
<td>8956.8</td>
<td>22237.7</td>
</tr>
<tr>
<td>US $ Million</td>
<td>234.9</td>
<td>1317.5</td>
<td>2817.5</td>
<td>2854.8</td>
<td>7224.7</td>
</tr>
</tbody>
</table>

| Actual Inflows Rs. crore | 351.4 | 675.2 | 1786.0 | 2969.9 | 5782.5 |
| US $ Million            | 154.5 | 228.8 | 568.0  | 946.6  | 1897.9 |

| Actual as % of Approvals | 65.8 | 17.4 | 20.2 | 33.2 | 26.0 |

**Source:** Economic Survey 1994-95, Government of India, New Delhi, p.90.
It will be clear from the table that right from 1991 there has been a constant increase in FDI's approvals and actual inflows. However, when actual inflows are considered in terms of percentage of the approvals, the situation is not very satisfactory. In 1992 and 1993 the percentages of actual FDI inflows vis-a-vis the approvals were around 17 and 20 only. It rose to 33 per cent in 1994. This percentage is bound to increase substantially during the future years provided political stability of the country is not disturbed.

**Foreign Exchange Reserves:**

The movements in foreign exchange reserves is the net result of all external transactions. They, therefore, provide a summary index of the state of the country's balance of payments. The significant improvement in India's balance of payment during 1993-94, resulted in an unprecedented build up of foreign currency assets of RBI. These rose from Rs. 20140 crore($ 6.4 billion) at the end of 1993-94, i.e. an increase of Rs. 27147 crore($8.7 billion) during 1993-94. Table No.6.5 gives Foreign Exchange Reserves of India in historical perspective:
TABLE NO. 6.5: Foreign Exchange Reserves Historical Perspective

<table>
<thead>
<tr>
<th>Years</th>
<th>Forex Reserves</th>
<th>Import Cover (No. of months)</th>
<th>Current payment cover (No. of months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>5850</td>
<td>4.5</td>
<td>4.0</td>
</tr>
<tr>
<td>1985-86</td>
<td>5972</td>
<td>4.2</td>
<td>3.5</td>
</tr>
<tr>
<td>1990-91</td>
<td>2236</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>1991-92</td>
<td>5631</td>
<td>3.3</td>
<td>2.3</td>
</tr>
<tr>
<td>1992-93</td>
<td>6434</td>
<td>3.4</td>
<td>2.5</td>
</tr>
<tr>
<td>1993-94</td>
<td>15068</td>
<td>7.5</td>
<td>5.3</td>
</tr>
<tr>
<td>1994-95</td>
<td>19604</td>
<td>8.2</td>
<td>5.9</td>
</tr>
</tbody>
</table>


Foreign exchange reserves which include foreign currency assets of the RBI and also gold and special drawing rights (SDRs) rose from Rs. 30745 crore ($ 9.8 billion) to Rs. 60420 crore ($ 19.3 billion) during the same period. The rise in foreign reserves continued to be rapid in 1994-95 and foreign currency assets reached $ 19.8 billion on 31 October, 1994. These have since established at a level around $ 19.5 billion.

The unprecedented high level of reserves, with the prospect to continued growth and acceretion has raised
issues relating to the management of foreign exchange reserves. It is generally recognized that as payments on current and capital accounts become less restricted and more open, the need for holding international reserves increases. However, India's current level of reserves are not exceptionally high compared some other large developing economies.

Exports:

According to data from DGCI & S, exports in 1993-94 were of the order of $22.2 billion as compared to $18.5 billion in 1992-93. The growth rate of 20 per cent in exports during 1993-94 was indeed encouraging and has been followed up by a growth of 16.9 per cent during the period April-December, 1994. This demonstrates that recent policy measures, towards providing an impetus for exports, are beginning to show positive results. During April-December 1994, the overall exports were $18.3 billion. The growth rate in exports during the first nine months of 1994-95 has been markedly high. It is expected that there will be a continued pick up in exports for the remaining part of 1994-95.

The table No. 6.6 shows growth of India's exports by commodity group. Amongst the items which have shown a spurt in exports during April-September 1994, the rate of growth of manufactured goods has been the largest. Within this group, cotton yarn exports and electronic goods have shown an increase of 24.8 per cent vis-a-vis the
TABLE NO. 6.6: India's Exports by Commodity Group

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Agriculture &amp; Allied of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Tea</td>
<td>337.2</td>
<td>311.9</td>
<td>164.7</td>
<td>141.3</td>
<td>-7.5</td>
<td>-14.2</td>
</tr>
<tr>
<td>2. Coffee</td>
<td>129.9</td>
<td>177.1</td>
<td>60.9</td>
<td>187.7</td>
<td>36.3</td>
<td>208.4</td>
</tr>
<tr>
<td>3. Cereals</td>
<td>343.9</td>
<td>423.8</td>
<td>193.9</td>
<td>160.8</td>
<td>23.2</td>
<td>-17.1</td>
</tr>
<tr>
<td>4. Unmanufactured tobacco</td>
<td>122.8</td>
<td>118.0</td>
<td>61.0</td>
<td>34.2</td>
<td>-3.9</td>
<td>-44.0</td>
</tr>
<tr>
<td>5. Spices</td>
<td>135.8</td>
<td>178.9</td>
<td>85.7</td>
<td>78.4</td>
<td>31.7</td>
<td>-8.4</td>
</tr>
<tr>
<td>6. Cashew</td>
<td>257.2</td>
<td>332.1</td>
<td>159.3</td>
<td>204.5</td>
<td>29.1</td>
<td>28.3</td>
</tr>
<tr>
<td>7. Oil meals</td>
<td>533.5</td>
<td>736.2</td>
<td>303.4</td>
<td>254.1</td>
<td>38.0</td>
<td>16.2</td>
</tr>
<tr>
<td>8. Fruits and Vegetables</td>
<td>107.9</td>
<td>133.4</td>
<td>60.9</td>
<td>66.8</td>
<td>23.8</td>
<td>10.0</td>
</tr>
<tr>
<td>9. Marine Products</td>
<td>601.9</td>
<td>808.8</td>
<td>310.5</td>
<td>438.3</td>
<td>34.4</td>
<td>41.2</td>
</tr>
<tr>
<td>10. Raw Cotton</td>
<td>62.8</td>
<td>210.2</td>
<td>163.6</td>
<td>30.2</td>
<td>235.0</td>
<td>-81.5</td>
</tr>
<tr>
<td>II. Ores and Minerals, of which</td>
<td>737.8</td>
<td>888.0</td>
<td>402.7</td>
<td>435.1</td>
<td>20.4</td>
<td>8.0</td>
</tr>
<tr>
<td>11. Iron ore</td>
<td>381.2</td>
<td>432.7</td>
<td>211.5</td>
<td>188.7</td>
<td>13.5</td>
<td>-10.8</td>
</tr>
<tr>
<td>12. Processed minerals</td>
<td>143.0</td>
<td>195.0</td>
<td>88.8</td>
<td>109.1</td>
<td>36.3</td>
<td>22.8</td>
</tr>
<tr>
<td>13. Other ores and mineral</td>
<td>188.0</td>
<td>232.9</td>
<td>93.7</td>
<td>129.1</td>
<td>23.9</td>
<td>37.8</td>
</tr>
<tr>
<td>III. Manufactured goods, of which</td>
<td>14015.9</td>
<td>16789.0</td>
<td>7810.0</td>
<td>9059.6</td>
<td>19.8</td>
<td>16.0</td>
</tr>
<tr>
<td>14. Leather &amp; Manufactures</td>
<td>867.3</td>
<td>839.9</td>
<td>410.9</td>
<td>472.4</td>
<td>-3.2</td>
<td>15.0</td>
</tr>
<tr>
<td>15. Leather footwear</td>
<td>410.2</td>
<td>479.8</td>
<td>202.3</td>
<td>219.4</td>
<td>17.0</td>
<td>8.5</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>---</td>
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<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>16. Gems &amp; Jewellery</td>
<td>3071.7</td>
<td>3994.4</td>
<td>1875.0</td>
<td>2016.3</td>
<td>30.0</td>
<td>7.5</td>
</tr>
<tr>
<td>17. Drugs, pharmaceuticals and fine chemicals</td>
<td>529.3</td>
<td>642.1</td>
<td>289.1</td>
<td>346.2</td>
<td>21.3</td>
<td>19.7</td>
</tr>
<tr>
<td>18. Dyes/Vitmdles &amp; coal tar chemicals</td>
<td>330.8</td>
<td>366.5</td>
<td>185.5</td>
<td>214.2</td>
<td>10.9</td>
<td>29.4</td>
</tr>
<tr>
<td>19. Manufactures of metals</td>
<td>560.2</td>
<td>693.3</td>
<td>313.8</td>
<td>323.3</td>
<td>23.8</td>
<td>3.0</td>
</tr>
<tr>
<td>20. Machinery &amp; instruments</td>
<td>541.6</td>
<td>636.4</td>
<td>304.9</td>
<td>325.8</td>
<td>17.5</td>
<td>6.9</td>
</tr>
<tr>
<td>21. Transport equipment</td>
<td>533.7</td>
<td>566.7</td>
<td>252.9</td>
<td>338.6</td>
<td>9.9</td>
<td>33.9</td>
</tr>
<tr>
<td>22. Primary &amp; Semi finished iron and steel</td>
<td>164.4</td>
<td>432.1</td>
<td>222.7</td>
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<td>23. Electronic goods</td>
<td>212.3</td>
<td>311.8</td>
<td>137.9</td>
<td>172.1</td>
<td>46.9</td>
<td>24.8</td>
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<tr>
<td>24. Cotton yarn, fabrics, made ups etc.</td>
<td>1350.5</td>
<td>1542.3</td>
<td>713.4</td>
<td>1004.9</td>
<td>14.2</td>
<td>40.8</td>
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<tr>
<td>25. Ready made garments</td>
<td>2393.0</td>
<td>2579.6</td>
<td>1217.4</td>
<td>1325.4</td>
<td>7.8</td>
<td>8.9</td>
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<tr>
<td>26. Handicrafts</td>
<td>865.2</td>
<td>928.7</td>
<td>437.4</td>
<td>481.5</td>
<td>7.3</td>
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<td>IV. Crude &amp; Petroleum products</td>
<td>478.2</td>
<td>397.8</td>
<td>236.7</td>
<td>217.4</td>
<td>-16.5</td>
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<tr>
<td>V. Others and unclassified items</td>
<td>171.8</td>
<td>103.9</td>
<td>47.9</td>
<td>55.4</td>
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<td>Grand total</td>
<td>18537.2</td>
<td>22238.0</td>
<td>10345.0</td>
<td>11620.0</td>
<td>20.0</td>
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</table>
Amongst other items which have shown high growth are transport equipment (33.9 per cent) and dyes (29.4 per cent). The exports of gems and Jewellery have grown by around 7.5 per cent.

Table No. 6.7 deals with the composition of India's exports.

**TABLE NO. 6.7 : Composition of India's Exports**

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<td>I. Agriculture &amp; allied, of which</td>
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<td>1. Tea</td>
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<td>2. Coffee</td>
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<td>3. Cereals</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
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<td>4. Unmanufactured tobacco</td>
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<td>0.8</td>
<td>0.7</td>
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<td>6. Cashew</td>
<td>1.4</td>
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<td>1.8</td>
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<tr>
<td>7. Oil meals</td>
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<td>3.3</td>
<td>2.9</td>
<td>2.2</td>
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<td>8. Fruits &amp; Vegetables</td>
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<td>0.6</td>
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<td>9. Marine products</td>
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<td>10. Raw Cotton</td>
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<td>II. Ores and minerals, of which</td>
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<td>3.7</td>
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<tr>
<td>11. Iron ore</td>
<td>2.1</td>
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<td>1.6</td>
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<tr>
<td>12. Processed minerals</td>
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<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
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<tr>
<td>13. Other Ores and mineral</td>
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### Table 6.7

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<td>III. Manufactured goods, of which</td>
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<td>14. Leather &amp; manufactured</td>
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<td>21. Transport equipment</td>
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<td>22. Primary and semi-finished iron and steel</td>
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<td></td>
<td>23. Electronic goods</td>
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<td>1.4</td>
<td>1.3</td>
</tr>
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<td></td>
<td>24. Cotton yarn, fabrics, made ups etc.</td>
<td>7.3</td>
<td>6.9</td>
<td>6.9</td>
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<td></td>
<td>25. Ready made garments</td>
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<td>11.8</td>
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<td></td>
<td>26. Handicrafts</td>
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<td>4.2</td>
<td>4.2</td>
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<td></td>
<td>IV. Crude and Petroleum Products</td>
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<td>1.8</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>V. Others &amp; Unclassified items</td>
<td>0.9</td>
<td>0.8</td>
<td>0.5</td>
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<tr>
<td></td>
<td>Grand Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source:** Economic Survey 1994-95, Government of India, New Delhi, p.96.
It will be seen from the table that the composition of exports has remained virtually unchanged, with the bulk being contributed by manufactured goods during the first half of 1994-95 (78.0 per cent) as compared to the first half of 1993-94 (75.5 per cent). However, the share of agricultural exports has marginally declined from 17.9 to 15.9 per cent.

**Imports:**

Table 6.8 deals with composition of India's imports in US million dollars. The total imports for the year 1993-94 stood at an overall level of $ 23307 million. This represents an increase of 0.5 per cent over the previous year. The surge in imports has been on account of the increased buoyancy witnessed on the industrial front which caused a spurt in the imports of capital goods. The growth in imports for the period April-December 1994-95 has been 23.9 per cent. An analysis of the figures of imports for April September 1994 shows that among the products which have shown the highest growth were edible oils, which registered a rise of 413.5 per cent. This raised the overall growth rate of import of food products to 282.6 per cent. Amongst capital goods imports which have shown an increase of 28.0 per cent, machinery import registered an increase of 40.8 per cent and projects goods of 43.5 per cent. The next category of items that have shown substantial increases have been chemicals at 60.0 per cent, iron and steel at 60.2 per cent and non ferrous metals at 66.1 per cent.
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<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
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<td>I. Food and allied products, of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>814.1</td>
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<td>2. Pulses</td>
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<td>84.9</td>
<td>86.5</td>
<td>20.6</td>
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<td>3. Cashew nuts</td>
<td>115.5</td>
<td>180.9</td>
<td>60.9</td>
<td>87.0</td>
<td>-56.7</td>
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<td>4. Edible oils</td>
<td>129.9</td>
<td>153.9</td>
<td>44.9</td>
<td>111.7</td>
<td>18.4</td>
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<td>77.4</td>
<td>-9.4</td>
<td>413.5</td>
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<td>465.0</td>
<td>216.1</td>
<td>328.8</td>
<td>-2.6</td>
<td>56.7</td>
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<td>6. POL</td>
<td>5918.8</td>
<td>5756.5</td>
<td>3082.5</td>
<td>2758.6</td>
<td>-2.7</td>
<td>-10.5</td>
</tr>
<tr>
<td>III. Fertilizers</td>
<td>977.7</td>
<td>831.2</td>
<td>387.5</td>
<td>394.2</td>
<td>-15.0</td>
<td>1.7</td>
</tr>
<tr>
<td>IV. Paper Board, manufactures &amp; newsprint</td>
<td>177.2</td>
<td>222.1</td>
<td>85.4</td>
<td>103.0</td>
<td>25.3</td>
<td>20.6</td>
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<tr>
<td>V. Capital goods of which</td>
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<td>6040.0</td>
<td>2533.0</td>
<td>3243.4</td>
<td>33.3</td>
<td>28.0</td>
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<tr>
<td>7. Machinery except elec. &amp; machine tools</td>
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<td>823.5</td>
<td>1159.7</td>
<td>32.6</td>
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<td>8. Electrical Machinery</td>
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<td>475.4</td>
<td>547.8</td>
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<td>9. Transport Equipment</td>
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<td>1266.8</td>
<td>503.6</td>
<td>517.7</td>
<td>174.3</td>
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<td>10. Project goods</td>
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<td>1401.0</td>
<td>577.5</td>
<td>828.9</td>
<td>9.6</td>
<td>43.5</td>
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<td>VI. Others, of which</td>
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<td>2962.9</td>
<td>3142.8</td>
<td>5.1</td>
<td>6.1</td>
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<td>11. Chemicals</td>
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<td>1966.3</td>
<td>827.5</td>
<td>1323.7</td>
<td>-1.5</td>
<td>60.0</td>
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<td>12. Parts, precious, semi precious stones</td>
<td>2441.9</td>
<td>2641.2</td>
<td>1429.6</td>
<td>780.0</td>
<td>8.2</td>
<td>-45.4</td>
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<tr>
<td>13. Iron &amp; Steel</td>
<td>711.4</td>
<td>781.8</td>
<td>302.7</td>
<td>484.9</td>
<td>9.9</td>
<td>60.2</td>
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<tr>
<td>14. Non ferrous metals</td>
<td>394.8</td>
<td>474.9</td>
<td>210.2</td>
<td>349.3</td>
<td>20.3</td>
<td>66.1</td>
</tr>
<tr>
<td>15. Professional instruments, optical goods etc.</td>
<td>501.4</td>
<td>493.4</td>
<td>192.9</td>
<td>204.9</td>
<td>-1.6</td>
<td>6.2</td>
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<tr>
<td>VII. Unclassified items</td>
<td>3011.5</td>
<td>3064.0</td>
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<td>1.7</td>
<td>56.2</td>
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<td>Grand Total</td>
<td>21881.8</td>
<td>23306.7</td>
<td>10794.4</td>
<td>12851.1</td>
<td>6.5</td>
<td>19.0</td>
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</table>
Table No. 6.8 analyses the growth of imports by commodity group. Among the products which have shown the highest growth of 413.5 per cent are edible oils, this has raised the overall growth rate of import of food products to 282.6 per cent. Coal imports increased by 56.7 per cent. Amongst capital goods imports which have shown an increase of 28 percent, machinery imports registered an increase of 40.8 per cent and project goods of 43.5 per cent. The next category of items that have shown substantial increases have been chemicals at 60.0 per cent, iron and steel at 60.2 per cent and non ferrous metals at 66.1 per cent.

Figures regarding comprehensive composition of India's imports are presented in Table No. 6.9 It will be seen from the table that structure of imports has undergone a change in the first half of 1994-95, as compared to the previous year. The share of food and allied products has increased from 2.0 per cent in 1993-94 to 6.3 per cent in April-September 1994-95 while the imports of capital goods increased marginally from 23.5 per cent to 25.2 per cent. The latter can be attributed to the pick up in investment activity and is not due to the crowding out of the domestic capital goods industries which also shown a buoyancy. On the other hand, there has been a decline in the share of imports of fuels and fertilizers from 30.6 per cent to 23.1 per cent and 3.6 per cent to 3.1 per cent respectively registered between April-September 1993-94 and April-September 1994-95.
### TABLE NO. 6.9: Composition of India's Imports

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<tr>
<th></th>
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<tr>
<td>I. Food and allied products, of which</td>
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<td>1. Cereals</td>
<td>1.5</td>
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<td>2. Pulses</td>
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<td>0.5</td>
<td>0.6</td>
<td>0.7</td>
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<tr>
<td>3. Cashew nuts</td>
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<td>0.4</td>
<td>0.9</td>
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<td>4. Edible oils</td>
<td>0.6</td>
<td>0.7</td>
<td>0.4</td>
<td>0.9</td>
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<td>II. Fuel, of which</td>
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<td>5. Coal</td>
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<td>2.0</td>
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<td>6. POL</td>
<td>27.0</td>
<td>24.7</td>
<td>28.6</td>
<td>21.5</td>
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<tr>
<td>III. Fertilizers</td>
<td>4.5</td>
<td>3.6</td>
<td>3.6</td>
<td>3.1</td>
</tr>
<tr>
<td>IV. Paper board, manufactures &amp; newsprint</td>
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<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>V. Capital goods, of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Machinery except elec. &amp; Machine tools</td>
<td>7.6</td>
<td>9.4</td>
<td>7.6</td>
<td>9.0</td>
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<tr>
<td>8. Electrical Machinery</td>
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<td>3.4</td>
<td>4.4</td>
<td>4.3</td>
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<td>9. Transport goods</td>
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<td>10. Project goods</td>
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<td>8.5</td>
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<td>VI. Others, of which</td>
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<tr>
<td>11. Chemicals</td>
<td>9.2</td>
<td>8.5</td>
<td>7.7</td>
<td>10.3</td>
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<td>12. Pearls, precious, semi precious stones</td>
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<td>13.2</td>
<td>6.1</td>
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<td>13. Iron and steel</td>
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<td>3.8</td>
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<td>14. Non ferrous metals</td>
<td>1.8</td>
<td>2.0</td>
<td>1.9</td>
<td>2.7</td>
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<td>15. Professional instruments, optical goods etc.</td>
<td>2.3</td>
<td>2.1</td>
<td>1.8</td>
<td>1.6</td>
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<td>VII. Unclassified items</td>
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<td>Grand Total</td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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</table>

**Source:** Economic Survey 1994-95, Government of India, N. Delhi, 9-93
With the industrial sector displaying continuing buoyancy, regardless of the political uncertainties thrown up by the recent assembly polls, there is every possibility of the industrial growth rate even surpassing the 8 per cent projected in the Economic Survey for 1994-95. Official circles are pleasantly surprised with the remarkable upswing in production indicators of 24 selected industries during February, 1995, the figures of which are now available. With this set of figures of the industrial growth rate for the first 11 months of 1994-95, it has risen to 9.2 per cent.

There is general optimism now of 1994-95 closing with an industrial growth rate of 9.0 per cent or even more. There was a modest recovery in the industrial growth of 4.1 per cent in 1993-94 and a more impressive surge of 8.0 per cent in April–October 1994-95 as per table No. 6.10 given below:

**TABLE NO. 6.10**: Annual Growth rates in major sectors of Industry

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<th>Year</th>
<th>Mining</th>
<th>Manufacture</th>
<th>Electricity</th>
<th>General</th>
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<td>17.7</td>
<td>7.9</td>
<td>10.2</td>
<td>9.3</td>
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<td>1982-83</td>
<td>12.4</td>
<td>1.4</td>
<td>5.7</td>
<td>3.2</td>
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<td>1983-84</td>
<td>11.8</td>
<td>5.7</td>
<td>7.6</td>
<td>6.7</td>
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<tr>
<td>1984-85</td>
<td>8.8</td>
<td>8.0</td>
<td>12.0</td>
<td>8.6</td>
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</table>

contd....
The general Index of Industrial Production (IIP) recorded a growth of 4.1 per cent during 1993-94, aided by a growth of 2.5 per cent in mining and quarrying 7.4 per cent in electricity and 3.6 per cent in manufacturing. All
the major sectors performed better during 1993-94, compared to 1992-93. The table (no.6.10) also shows annual growth rates in major sectors of industry. The overall industrial production during April-October 1994-95 registered an increase of 8.0 per cent, supported by a growth of 8.3 per cent in manufacturing 7.7 per cent in electricity and 6.7 per cent in mining and quarrying.

As per an advance index of industrial production with a weight of 50 per cent in the index of industrial production (IIP), the industrial sector registered a growth of 9.3 per cent during April-December 1994. There are clear indications that a substantial and broad based industrial recovery is underway, as a result of the economic policy reforms of the early 1990's. The capital goods sector which had been in doldrums earlier has emerged as a leading contributor to industrial buoyancy turning in a growth of 21.7 per cent in April-October, 1994. This strong growth is partly attributable to the policy package in the last budget and partly reflects the normal lag in investment goods demand in response to recovery in other industrial sectors which, as noted in the last year's Economic Survey, was already detectable in the latter half of 1993-94.4

Consumer goods, both consumer durables and consumer non durables, are also performing very well. Textile products other than cotton and jute, paper and paper products, metals and metal products, electrical machinery and transport equipment has continued to record substantial growth. Six major infrastructural industries viz., electricity generation, coal, iron and steel, cement, crude oil and refinery products, constituting 28.8 per cent weight in the IIP, maintained their general uptrend and registered a growth rate of 8.0 per cent during April-December 1994.

The major policy initiatives taken during the year included delicensing of almost all bulk drugs and allowing automatic approval of foreign equity upto 51 per cent, in most drugs and formulations. Basic telecommunication services, hitherto reserved for the public sector, were opened for private sector participation. Another healthy development is that many states are undertaking procedural and policy reforms to effect liberalisation at the grass root level. The process of industrial policy reforms initiated since July 24, 1991 continued during the year. The policy changes during 1994-95 included extension of MODVAT to more Sectors, a thorough overhaul of the tax structure, further rationalization and reduction of customs duties, deregulation of bank lending rates, delicensing of most drugs and pharmaceutical products and
liberalization of the telecommunication sector. It is generally accepted that the existing data collection system does not fully capture the growth of some sectors, particularly small scale industries. This is because of the non availability of data for the unorganised sector and non reporting to some extent, by the organized sector.

Table 6.11 given presents the growth rates of industrial production by use based classification. The table reveals that the performance of the capital goods sector has been very impressive. It registered a growth rate of 21.7 per cent in April-October 1994 in contrast to a decline of 8.7 per cent in April-October 1993. Basic goods (4.2 per cent), intermediate goods of 4.6 per cent, consumer durables (8.6 per cent) and consumer non durables (7.0 per cent) also exhibited good performance.

An analysis of the growth rates of 17 broad groups within the manufacturing sector given in table no. 6.12 reveals that only four sectors, viz., cotton textiles, jute textiles, basic metals and miscellaneous manufacturing industries with a combined weight of 25.0 per cent recorded negative growth rates during April-October 1994. However, the decline in cotton textiles was only marginal. All other groups with a combined weight of 52.1 per cent recorded positive growth rates. Other textile products, paper and paper products,
electrical machinery, metal products and transport equipment recorded growth rates exceeding 12 per cent. This clearly indicates that the industrial turn around during 1994-95 has been widespread.  

An analysis of the production data for April October 1994 in respect of 172 selected industries, accounting for a weight of 88.1 per cent in the IIP, shows that generally the industrial recovery was widespread except for a few products such as sugar, railway wagons, ship building, jute manufacturing, jeeps, graphite, electrodes and anodes, machine tools and diesel engines. 121 industries with a weight of 74.2 per cent recorded positive growth rates while 51 industries with a weight of 13.9 per cent registered negative growth. Some important industries which recorded growth rates of over 10 percent include Radio Receivers (397.0 per cent), Road Rollers (369.2 per cent), tetracycline (73.8 per cent), Apatide and phosphorite (64.9 per cent), commercial vehicles (64.9 per cent), polythylene L.D. (63.8 per cent), Phosphatic fertilizers (47.4 per cent), Electric generators (37.2 per cent), Earth Moving equipments (28.9 per cent), Penicillin (20.7 per cent), crude petroleum (17.5 per cent), Cloth (decentralized sector) (16.9 per cent), Auto  

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**Use Based Classification**

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<td>6.6</td>
<td>13.4</td>
<td>9.2</td>
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<td>Leather &amp; fur products</td>
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<td>-6.4</td>
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<td>9.5</td>
<td>7.9</td>
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<td>Non metallic min Products</td>
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<td>4.2</td>
<td>1.0</td>
<td>3.1</td>
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<td>6.7</td>
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<td>7.1</td>
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<td>-15.0</td>
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<td>-2.3</td>
<td>16.9</td>
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<td>1.4</td>
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<td>12.6</td>
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<tr>
<td>Non electrical machinery</td>
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<td>Other mfg. industries</td>
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Ancillaries (15.5 per cent), Paper and paper Board (14.5 per cent), Giant tyres (14.1 per cent), Agricultural tractors (12.5 per cent) and Leather cloth (10.5 per cent). However, their performance was partially offset by a decline in output in several sectors such as Railway wagons (-28.5 per cent), Jute manufacturing (-12.9 per cent), Jeeps (-10.1 per cent), graphite electrodes and anodes (-8.9 per cent), Sugar (-6.9 per cent), Machine tools (-5.1 per cent), Ship building (including repair) (-5.1 per cent), Caustic soda (-3.4 per cent) and diesel engines (-3.1 per cent).

Investment Scenario:

It is to be noted here that economic reforms have had a positive impact on the investment climate in the country. They have also avoked a strong positive response from foreign investors and portfolio managers. The conventional indicators suggest that both the investment climate and the capital market remained buoyant. The buoyancy if reinforced by an increasing number of capital issues by Indian companies in both the domestic market and abroad, and the upgrading of Indian sovereign rating by international credit rating agencies such as the Japan Bond Research Institute (JBRI) and Moody's Investors service.

Capital raised through the new issues Table 6.13 presents figures of loans sanctioned and disbursed by the All India Financial Institutions and the capital raised through the new issues. With regard to the capital market it may be stated without any fear or favour that the Indian share market lacks in transparency. Since the ban on forward trading, the sensex has gone down by almost one third. The investors grievances are on the increase and despite SEBI's intermittent assurances and pronouncements nothing has come out so far. The companies are not transferring shares and returning the transfer deeds along with securities after four, five, six and seven months, as they please, on the smallest pretext. Consequently, the investors are becoming disinterested in the share market. The amount raised by the companies through new issues has also gone down considerably.

TABLE NO 6.13: Loans sanctioned and Disbursed by All India Financial Institutions and Capital raised in the Primary Market (Issues in number, and amongst in Rs.crore).

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<td>Sanctioned</td>
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<td>32675</td>
<td>41444</td>
<td>27982</td>
<td>44545</td>
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<tr>
<td>Disbursed</td>
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<td>22269</td>
<td>25632</td>
<td>15792</td>
<td>19946</td>
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<tr>
<td>No of issues</td>
<td>517</td>
<td>1034</td>
<td>1143</td>
<td>753</td>
<td>1032</td>
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<tr>
<td>Amount raised</td>
<td>5757</td>
<td>16749</td>
<td>21982</td>
<td>16276</td>
<td>11381</td>
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While the sanctions recorded an increase of 26.8 per cent in 1993-94, disbursement went up only by 15.1 per cent. The financial assistance sanctioned by the institutions in April December 1994 recorded an impressive growth of 59.2 per cent, but the disbursements have been very slow.

The number of Industrial Entrepreneurs Momorandum (IEM) filed from 1991 to 1994 totalled 17,014 with an overall investment intention of Rs. 3,45,000 crores.

**TABLE NO. 6.14 : Investment proposed in IEMs filed and FDI Approved**

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<tr>
<th>Year</th>
<th>IEMs filled (Nos.)</th>
<th>Proposed Investment (in crore)</th>
<th>FDI Number</th>
<th>Approved Amount (in crore)</th>
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<td>1991</td>
<td>3034</td>
<td>76300</td>
<td>289</td>
<td>534</td>
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<td>1992</td>
<td>4860</td>
<td>115900</td>
<td>692</td>
<td>3888</td>
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<tr>
<td>1993</td>
<td>4456</td>
<td>64000</td>
<td>785</td>
<td>8859</td>
</tr>
<tr>
<td>1994</td>
<td>4664</td>
<td>88800</td>
<td>1040</td>
<td>8957</td>
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Total 17,014 3,45,000 2,806 22,238

**Source :** Economic Survey 1994-95, Government of India, New Delhi, p.108.

The response by foreign investors was also encouraging. Since the declaration of NIP in 1991, the Govt.
approved 5,778 foreign collaboration proposals, including 2,806 foreign equity proposals, amounting to Rs. 22,238 crores. More than 80 per cent of these approvals are in priority sectors such as power generation, oil refinery, electrical equipment, chemicals and export related sectors. As a consequence of the amendments in FERA and the liberalization of foreign investment policy, many MNCS have increased their equity to over 51 per cent. Many companies like the Coca Cola, IBM, 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 telecommunications, hydrocarbons, coal, railways and postal services, the Government had adopted a more liberal approach towards private investments, including foreign investments. However, actual inflow of investments of foreign companies has been quite lower than the approvals.

In 1994-95, foreign investment was allowed for NRIs and persons of Indian Origin in a wide range of construction and real estate related activities. Foreign investment was also allowed in constructing, operating highways, expressways and bridges on a toll tax system, generating electricity on Build operate Own (BOO) basis, basic telephone services and certain operations in railways on Build operate Lease Transfer (BOLT) basis. Without prior approvals, foreign investors can now own upto
24 per cent equity in any Indian firm and upto 20 per cent in new private banks.

**Reforms in Public Sector Enterprises**

The Industrial Policy Statement announced by the Government on July 24, 1991 envisage disinvestment of a part of Government holdings in the share capital of selected Public Sector Enterprises (PSEs) in order to provide market discipline and to improve the performance of public enterprises. A total amount of Rs. 4,950 crores has already been disinvested in the public sector financial institutions, mutual funds and general public till March 1994.

To protect the interests of Public Sector workers, a National Renewal Fund (NRF) was set up in February 1992 and schemes have been proposed to assist the employees in re-training, redeployment and counselling. Provision of funds through NRF also exists for cases where workers retire voluntarily or are declared surplus. To implement the NRF schemes an empowered authority has been created and a provision of Rs. 700 crore has been made in the current year's budget. An amount of Rs. 542.23 crore was released from NRF during 1993-94 and an estimated 75,000 workers opted for voluntary retirement under the scheme. A major portion of the amount has been utilized in the textile sector.
In order to establish a system of rehabilitation and restructuring of PSUs without having Government to bear the whole financial burden, the provisions of the Sick Industrial Companies Act (SICA) have been amended to bring PSUs under its purview. Till the end of November 1994, 52 Central PSUs have already been registered with BIFR. The BIFR have so far issued orders for revival of IDPL and Biecco Lawrie Ltd. They have also, so far, recommended the winding up of National Bicycle Corporation Ltd., Cawnpore Textiles Ltd., Elgin Mills Ltd. and British India Corporation Ltd. 7

Development of Public Sector Undertakings:

The Public Sector has grown over the last more than four decades from five undertakings in 1951 to 188 in 1981-82 and on March 31, 1994 there were 240 Central Public Sector Undertakings (PSUs), excluding nine companies with Central Government investment but without direct responsibility for management, six insurance companies and three financial institutions. Out of these, six were in the construction sector, 74 in services and 166 in manufacture. Table 6.15 presents comprehensive statistics with respect to the Public Sector Undertakings from 1981-82 to 1993-94.

TABLE NO. 6.15 : Profitability Profile of Central PSEs

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Operating enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Profitable enterprises</td>
<td>104</td>
<td>123</td>
<td>133</td>
<td>131</td>
<td>120</td>
</tr>
<tr>
<td>ii) Loss making enterprises</td>
<td>83</td>
<td>111</td>
<td>102</td>
<td>106</td>
<td>117</td>
</tr>
<tr>
<td>(Rs. crore)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Capital employed</td>
<td>21935</td>
<td>102083</td>
<td>117991</td>
<td>140110</td>
<td>159307</td>
</tr>
<tr>
<td>3. Gross margin</td>
<td>4012</td>
<td>18312</td>
<td>22223</td>
<td>25227</td>
<td>27600</td>
</tr>
<tr>
<td>4. Gross profit</td>
<td>2654</td>
<td>11102</td>
<td>13675</td>
<td>15957</td>
<td>18438</td>
</tr>
<tr>
<td>5. Net profit</td>
<td>445</td>
<td>2272</td>
<td>2355</td>
<td>3271</td>
<td>4435</td>
</tr>
<tr>
<td>6. Profit of Profit making enterprises</td>
<td>1293</td>
<td>5394</td>
<td>6079</td>
<td>7384</td>
<td>9722</td>
</tr>
<tr>
<td>7. Losses of loss making enterprises</td>
<td>848</td>
<td>3122</td>
<td>3723</td>
<td>4113</td>
<td>5287</td>
</tr>
<tr>
<td>8. Ratio of gross margin to capital employed</td>
<td>18.29</td>
<td>17.94</td>
<td>18.83</td>
<td>18.01</td>
<td>17.33</td>
</tr>
<tr>
<td>9. Percentage of gross profit to capital employed</td>
<td>12.10</td>
<td>10.88</td>
<td>11.59</td>
<td>11.39</td>
<td>11.59</td>
</tr>
<tr>
<td>10. Ratio of net profit to capital employed</td>
<td>2.03</td>
<td>2.23</td>
<td>2.00</td>
<td>2.33</td>
<td>2.78</td>
</tr>
</tbody>
</table>

Out of 240 operating PSUs, 120 were profitable during 1993-94 as compared to 131 during the previous year. Profits of these profit making enterprises went up from Rs. 7384 crores in 1992-93 to Rs.9722 crore in 1993-94 recording an increase of 31.7 per cent. But the losses of the remaining loss making companies also increased from Rs. 4113 crores to Rs. 5287 crores, an increase of over 28.5 per cent during the same period.

The overall rate of return over capital employed in the PSUs increased from 2.33 per cent during 1992-93 to 2.78 per cent during 1993-94. But the gross margin of PSUs, as per cent of capital employed, declined from 18.01 in 1992-93 to 17.33 in 1993-94. The heavy capital investment in the past combined with a massive interest burden is reported to have reduced the gross margins of PSUs.

The profitability of PSUs in terms of ratios of gross margin and gross profits to capital employed have not improved over the last ten years. However, the ratio of net profit to capital employed showed marginal improvement in 1993-94. Out of the 15 large Public Sector Undertakings, which are monopolies and operate in the core sector, the loss making ones included Indian Airlines Corporation, Delhi Transport Corporation, Fertilizer Corporation of India, Hindustan Shipyard, Vayudoot, Rashtriya Ispat Nigam and Bharat Gold Mines.
It may be remarked here that most of the PSUs had been working on the budgetary support. The profits shown by the profit making PSUs were mostly government inter-departmental transfers and not because of that they sold their goods and services in the open market. Some of them showed profits simply because they enjoyed the monopoly and the private sector was discouraged to undertake the production of the items manufactured by them. Wherever there was competition among the products of the PSUs and the private sector, the general public preferred the products of the private sector because of their superior quality and competitive prices.

The Memorandum of understanding (MOU) system has been further strengthened. During 1993-94, 101 PSUs signed MOUs as against 98 in the preceding year. Based on audited accounts, performance of 100 PSEs was evaluated, out of which 46 were rated excellent (46 per cent), 29 as very good (29 per cent) 12 as good and 10 fair. In 1994-95, 106 PSUs have signed MOUs which is about five per cent higher than last year.

Small Scale and Village Industries:

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 liberalized. The number, employment,
output and exports in the small scale sector as estimated by the office of the Development Commissioner, Small scale Industries, are given in Table 6.16.

**Table 6.16 : Small Scale Industries — Number, Output, Employment and Exports.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of units (in lakh) (As on 31 Dec.)</th>
<th>Output at current prices (Rs. crore)</th>
<th>Employment (in lakh)</th>
<th>Exports ($cron)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>20.82</td>
<td>178699</td>
<td>129.80</td>
<td>13883</td>
</tr>
<tr>
<td>1992-93</td>
<td>22.35</td>
<td>209300</td>
<td>134.06</td>
<td>17785</td>
</tr>
<tr>
<td></td>
<td>(7.3)</td>
<td>(17.1)</td>
<td>(3.3)</td>
<td>(28.1)</td>
</tr>
<tr>
<td>1993-94</td>
<td>23.84</td>
<td>241648</td>
<td>139.38</td>
<td>24000</td>
</tr>
<tr>
<td></td>
<td>(6.7)</td>
<td>(15.5)</td>
<td>(4.0)</td>
<td>(34.9)</td>
</tr>
</tbody>
</table>

(Rough estimate)

Note: Figures in brackets given percentage increase over previous year.


As per data presented in table no. 6.16, the SSIs have shown substantial progress as far as the number of units, output at current prices, employment and value of exports are concerned. Their number increased from 20.82 lakhs in 1991-92 to 23.84 in 1993-94 while their output at current prices increased from Rs. 178699 crores in 1991-92 to Rs. 241648 crores in 1993-94. Likewise, there have been substantial increases in terms of employment and exports. These rates were significantly higher than the growth
rates achieved by the industrial sector as a whole. The small scale sector contributes 40 per cent to the gross turnover in the manufacturing sector and 35 per cent to total exports. Several policy measures which have been undertaken to assist the small scale sector and enhance its competitive strength are as follows:

1) A new scheme of integrated Infrastructural Development was launched recently to strengthen infrastructural facilities in 50 centres in rural and backward areas.

2) The concessional rate of excise duty available for units with a turnover of Rs. 30 lakh per annum was extended to the non registered sector also.

3) A Quality Certification Scheme was launched in 1994 to improve the quality standards of SSI products which are to be assisted by awareness programmes and financial support to acquire ISO 9,000 or similar international quality standards.

Modifications were effected in the 'Single Window Scheme' operated by SIDBI. The project outlay under the scheme was raised from Rs. 30 lakhs to Rs. 50 lakhs removing sub limits for working capital and term loan components. The Reserve Bank of India has accepted most of the recommendations of the Nayak Committee and has issued necessary guidelines. These include the following:

a) To give preference to village industries, tiny industries and other small scale units in that
order, while meeting the credit requirements of the sector.

b) To prepare annual budget on 'bottom up' basis to ensure that the legitimate requirements of the SSI sector are met in full.

c) The 'Single Window Scheme:' should be extended to all districts.

A new Entrepreneurship Development Institute has been set up in Guwahati, Assam, for improving the entrepreneurial base for the North Eastern Region.

**Khadi and Village Industries:**

Presently, KVIs produce goods worth at Rs. 3,490 crores and provide employment of 55.50 lakh persons. The Government of India has been extending infrastructural and input support to the sector. The policy package consists of supply of raw materials at reasonable prices, upgradation of technology and productivity through research programmes, training for artisans, flow of concessional and adequate institutional credit. Recently, the Government of India had appointed a High Powered Committee under the Chairmanship of the Prime Minister and the Committee has already submitted its report. An Action Plan incorporating its major recommendations has been formulated and launched on October 2, 1994. With the implementation of the Action Plan, the sector will get a
boost with a quantum jump in production and employment.

In brief, the industrial sector has made head way during 1994-95, with significant quantity improvements in capital goods and consumer durables. The capital goods sectors, which had been performing poorly since 1992, has shown a complete turn around, with a growth of 21.7 per cent in April October 1994. The Industrial recovery has also been broad based and only a few sub sectors such as Railway Wagons, Jute manufactures, Jeeps Graphite Electrodes and Anodes, Machine tools, Ship building, Caustic Soda and Diesel Engines still show negative growth rates. The industrial recovery and the strong growth have been made possible by several policy measures undertaken by the Government, including extension of MODVAT to more sectors, further rationalization and reduction in custom duties and corporate taxes and elimination of Government control over the interest rates. The upsurge has also been facilitated by suitable measures undertaken by State Governments in the reform process and implementation of the new industrial policy. There are no major supply bottle necks. The demand has picked up in a significant way. The dynamism and potential manifested by industry suggests, with certainty, that the high growth rates will not only be maintained by many even go-up in future. The year 1994-95 is expected to end with an industrial growth rate of above 8 per cent.
In fine, it must be conceded that the liberalisation measures initiated by the government in 1991 have created, beyond doubt, an atmosphere of competitive spirit in all the sectors of the economy. Since the Indian industry (including the PSUs) which enjoyed government patronage through protected market and budgetary supports leading to all round will no longer enjoy such concessions ultimately, inefficiency, there is much hue and cry in certain quarters of the country against the liberalisation measures. But the hard facts of the present times, especially after the dismemberment the USSR, are such that regard being had to them, India cannot afford to be isolated from the rest of the world economies. Some of which already ahead of us in conforming to the changing values of time. It should, however, be born in mind that if the gains of globalisation are to be had, each one of us in our place of work has to work hard with sincerity and devotion and develop the spirit of competition especially in developing our own technology cooperation in the real sense of the terms among the developing nations, whether regional or inter regional, will go a long way in solving their problems of overall development.
CHAPTER - VII
CHAPTER VII

SUMMARY AND CONCLUSIONS

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 on 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 toothpaste 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 petro chemicals 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 ammunition, 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 upto 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 guildelines 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.
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