

“India: Industrial Policy, Liberalization and Impact”

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Introduction:

One of the most important tasks of the government is to manage economy of the country. It has to decide the means and methods to be used towards this. However, this job was taken up by almost all countries only after great depression. In pre depression era, there was faith in laissez Faire model of economy, which literally means – no intervention and let market forces of demand and supply have free hand. This is also known as capitalist mode of economy, where goods and services to be produced are decided by purchasing power of the people. In this model need of people is not deliberately considered, but it is believed that free markets will automatically take care of everyone’s need. If there are any mismatches in demand and supply, then price of the products will fluctuate in order to rope in or out suppliers and consumers and consequently there will be demand supply equilibrium. This kept government intervention away till the end of great depression of 1920’s

Key words: latest technologies, Iron & steel, Cement, Crude Oil, Gas, Petro Refining, Mining, Power, Fertilizers.

After Decolonization many countries along with India, had uphill task of socio economic development. Their economies were in past deliberately made heavily dependent on respective colonial ruling powers. Industries and markets were

in infancy. New governments had to mark preferences for channelizing their scarce resources to achieve long term holistic development. Due to all these factors, Industrial Policy was adopted by various countries and India was first noncommunist democratic country to have an official industrial policy.

Industrial Policy is a typical character of a mixed economy. It is policy of government intervention which is sector specific and is aimed at giving preferential treatment to a particular sector over others. Sector are recognized by policy makers, which are worthy of government support and targets are set. We have already seen government support toward renewable energy sector, organic farming, food processing and export promotion of various products. All these are part of Industrial policy.

Industrial Policy Resolution, 1948: After gaining independence, it was necessary to have new policy for industry of the country, to decide priority areas and clear doubts in the minds of private entrepreneurs regarding nationalization of existing industries. In Industrial Policy Resolution of 1948, both public and private sectors were involved towards industrial development. Accordingly, the industries were divided into four broad categories:

(a) Exclusive govt. Monopoly-This includes the manufacture of arms and ammunition, production and control of atomic energy and the ownership and management of railway transport. These industries were the exclusive monopoly of the Central Government.

(b) Government Monopoly for New Units-This category included coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraphs and wireless apparatus (excluding radio receiving sets) and mineral oils. New undertakings in this category could henceforth be undertaken only by the State.

(c) Regulation-This category included industries of such basic importance like machine tools, chemicals, fertilizers, non-ferrous metals, rubber manufactures, cement, paper, newsprint, automobiles, electric engineering etc. which the Central Government would feel necessary to plan and regulate.

(d) Unregulated private enterprise-the industries in this category were left open to the private sector, individual as well as cooperative.

New Industrial Policy, 1991

The year 1991 witnessed a drastic change in the industrial policy governing industrial development in the country since independence. This land mark change was entirely a new chapter which was to enforce totally open economic system as compared to the earlier mixed system. The country decided to follow the lines of capitalism. It is also said that there was shift from 'imperative' to 'indicative' planning under new system.

Features of New Industrial Policy

Industrial licensing policy – New industrial policy abolished all industrial licensing, irrespective of the level of investment, except for a short list of 18 industries related to the security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption . However, of these 18 industries, 13 categories have been removed from the list gradually and currently only 5 category of health, strategic and security considerations industries needs license viz. Alcohol, cigarettes, hazardous chemicals, electronic, aerospace and all types of defense equipment.

Policy on Public Sector – The 1956 Resolution had reserved 17 industries for the public sector. The 1991 industrial policy reduced this number to 8. As of now only

3 industries are reserved for government – 1) Atomic Energy 2) Mining of Atomic Minerals 3) Railway Transport.

Privatization/disinvestment

Government announced its intention to offer a part of government shareholding in the public sector enterprises to mutual funds, financial institutions, the general public and the workers. A beginning in this direction was made in 1991-92 themselves by diverting part of the equities of selected public sector enterprises

Monopolistic and Restrictive Trade Practice limit

Under the Monopolistic and Restrictive Trade Practice Act, all firms with assets above a certain size (Rs.100 crore since 1985) were classified as MRTP firms. Such firms were permitted to enter selected industries only and this also on a case by case approval basis. In addition to control through industrial licensing, separate approvals were required by such large firms for any investment proposals. The New Industrial Policy removed the threshold limit in assets in respect of MRTP companies.

Policy on Foreign investment and Technology agreements

The New Industrial Policy, prepared a specified list of high technology and high investment priority industries, wherein automatic permission was to be made available for direct foreign investment up to 51 percent foreign equity. The industries in which automatic approval was granted included a wide range of industrial activities in the capital goods and metallurgical industries, entertainment electronic, food processing and the services sectors having significant export potential. List is being expanded since then. Current situation of FDI norms will be discussed in next article

Abolition of Phased Manufacturing Programs for New Projects – These programs was aimed at indigenization of technology. These were in force in a

number of engineering and electronic industries. The new policy abolished such program for future.

Removal of Mandatory Convertible Clause – In pre liberalization era, there was a mandatory convertible clause in loan agreement with borrower (industries in this case). As per this clause, banks had right to convert their loan amount into equity whenever they feel so. This will make them ‘owner’ from ‘lender’ in that enterprise. This clause was used by government as an instrument to nationalize private firms. This was removed under new economic policy.

New economic policy was culmination of long era of inefficient dominance of public sector. Nevertheless, public sector by this time had built strong industrial base on which other industries can thrive in future. This was one of the objectives of Nehruvian model. Unsurprisingly, Industrial and economic growth remained dismal during this period. Process of liberalization begun in 1980’s which showed up in better performance of economy. Recent high growth (as per some economists) can’t be attributed to initiatives of New industrial and economic policy as statistical evidence suggest better performance from early 1980’s. So much credit can’t go to intervention of International Monetary Fund.

In post liberalization era, government took up the role of facilitator and regulator. Some conclusive indications toward this are – replacing Foreign Exchange – Regulation Act with Management Act, latter one being more liberal and less harsh. Similar, MRTP act was replaced by competition Act. Now FDI is allowed in wide array of sectors, in many of them through automatic route. However, post 1991 growth is accused of lopsided growth with devastating social impact as government rolled back expenditure from social sectors too.

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