Industrial Policy Resolutions

January 23, 2021

Even though the reforms of the early 90s removed illogical growth barriers and turned the tide for the Indian industry, manufacturing still compares weakly to other Asian countries of similar economic maturity. In this context, a review of the industrial policy in India becomes critical for serious UPSC aspirants.

In news: First set of five bulk drug, pharma input projects under PLI scheme cleared
Placing it in syllabus: Economy
Dimensions:

- Evolution of Industrial Policy 1948-1991
- National Manufacturing Policy
- Make in India
- PLI scheme

Content

Evolution of Industrial Policy 1948-1991

- Industrial Policy is a **formal declaration** by the Government . It **outlines the government's general policies for industries**.
- It includes the actions and policies of the government which affects the industrial development of a country
- Through the policy the government takes measures aimed at **improving the competitiveness and capabilities of domestic firms and promoting structural transformation.**
- The quest for industrial development started in India soon after independence in 1947.
- The **Industrial Policy Resolution of 1948** defined the broad contours of the policy delineating the role of the State in industrial development both as an entrepreneur

and authority.

- This was followed by comprehensive enactment of **Industries (Development & Regulation) Act, 1951** (referred as **IDR Act**) that provides for the necessary framework for implementing the Industrial Policy.
- It also enables the Union Government to direct investment into desired channels of industrial activity inter alia through the mechanism of licensing keeping with national development objectives and goals.

The main objectives of the Industrial Policy of the Government are:

- to maintain a sustained growth in productivity
- to enhance gainful employment;
- to achieve optimal utilisation of human resources;
- to attain international competitiveness; and
- to transform India into a major partner and player in the global arena.

To achieve these objectives, the Policy focus is on deregulating Indian industry; allowing freedom and flexibility to the industry in responding to market forces; and providing a policy regime that facilitates and fosters growth.

Economic reforms initiated since 1991 **envisages a significantly bigger role for private initiatives.** The policy has been progressively liberalized over years to at present, as would be evident in subsequent paragraphs.

Historical Development of Industrial Policy in India

Industrial Policy Resolution, 1948

- Clarified that Indian economy would follow a Mixed Economic Model.
- It laid down the foundation of a mixed economy wherein the public sector (the state) and the private sector

were to co-exist and work in their demarcated areas.
- The small and cottage Industries were given importance.

It Classified industries into 4 categories:

1.Strategic Industries (Public Sector):

- included Arms and ammunition, Atomic energy and Rail transport
- The Central Government had the monopoly over these industries

2.Basic/Key Industries (Public-cum-Private Sector):

- 6 industries i.e. coal, iron & steel, aircraft manufacturing, ship-building, manufacture of telephone, telegraph & wireless apparatus, and mineral oil were included in this category.
- Existing private industries were allowed to function. However, new industries would be set up by the Union Government.

3.Important Industries (Controlled Private Sector):

- This included 18 industries including heavy chemicals, sugar, cotton textile & woollen industry, cement, paper, salt, machine tools, fertiliser, rubber, air and sea transport, motor, tractor, electricity etc.
- The government controlled and regulated the activities of the private companies in these sectors.

4. Other Industries (Private and Cooperative Sector): All industries not mentioned in the other 3 categories were kept open for the private sector

Industrial Policy Resolution, 1956 (IPR 1956)

- IPR 1956 is also known as the **"Economic Constitution of India"** or **"The Bible of State Capitalism"**.
- In December 1954, the Parliament adopted the

'Socialistic Pattern of Society' as the goal of economic policy.

- The new goal called for the state or the public sector to increase its sphere of activity in the industrial sector and thus prevent concentration of economic power in private hands.
- India had also launched a programme of planned economic development with the first five-year plan.
- IPR 1956 was based on the **Mahalanobis model** of economic growth which put **emphasis on the development of heavy industries.**
- It sought to give a dominant role to the public sector. It prioritised the development of power, transport, and financial sectors.
- Obtaining an **Industrial License** from the government was made a prerequisite for opening new industry or to expand production.
- Opening **new industries in economically backward areas was incentivised through easy licensing and subsidization** of critical inputs like electricity and water. This was done to counter regional disparities that existed in the country.
- Licenses to increase production were issued only if the government was convinced that the economy required more of the goods.

The IPR 1956 adopted the classification of industries into 3 categories as follows:

1.Schedule A industries:

- included 17 industries which were the exclusive responsibility of the State.
- Out of these 17 industries, four industries (arms and ammunition, atomic energy, railways and air transport) had Central Government monopolies
- new units in the remaining industries were developed by the State Governments.

2.Schedule B Industries:

- This category consisted of 12 industries.
- They were open to both the private and public sectors
- However, such industries would be progressively made State-owned.

3.Schedule C Industries:

- All the other industries not included in these two Schedules were put in this category.
- These were left open to the private sector.
- However, the State reserved the right to undertake any type of industrial production.

IPR 1956 has been criticised on the grounds that by enormously expanding the field of public sector it had **drastically curtailed the area of activity for the private sector.**

Industrial Policy Statement, 1977

- This Industrial Policy was announced by the Janata Government in the parliament in 1977.
- It **advocated the growth of small scale and cottage industries** as a remedy to widespread problems of unemployment and regional inequalities in industrial development.
- The small sector was **classified into three groups–cottage and household sector, tiny sector and small scale industries.**
- To **reduce the recurring Labour Unrest**, the policy encouraged the **worker's participation in management** from shop floor level to board level.

New Industrial Policy, 1991

- The Government of India released this policy in 1991 in the **midst of severe economic instability** in the country.
- The previous **licensing policies and regulations were**

responsible for lower growth rate and balance of payment crisis.
- By this time, the **public sector industries had become inefficient** and the government faced the burden of perpetual losses.
- The new industrial policy resolution 1991 **aimed at liberalizing the regulations and license controls** of the industrial sector to improve economic growth rate.

The important provision so of the policy include:

1.De-reservation of Public Sector:

- Sectors that were exclusively reserved for the public sector were reduced.
- However, public sector continued to its control in 5 core areas like arms and ammunition, atomic energy, mineral oils, rail transport and mining.
- At present only Atomic Energy is reserved exclusively for the public sector.

2.De-licensing:

- Industrial Licensing for all projects except for a short list of industries was abolished.

3.Disinvestment of Public Sector:

- Government stakes in Public Sector Enterprises were reduced to enhance their efficiency and competitiveness.

4.Liberalisation of Foreign Investment:

- This was the first Industrial policy in which foreign companies were allowed to have majority stake in India.
- In 47 high priority industries, upto 51% FDI was allowed. For export trading houses, FDI up to 74% was allowed.

National Manufacturing Policy (NMP)

- In order to bring about a quantitative and qualitative change to the manufacturing sector, GOI announced the NMP in 2012.
- The objective of e**nhancing the share of manufacturing in GDP to 25%** and **creating 100 million jobs** over a decade or so.
- The policy is based on the principle of industrial growth in partnership with the States.
- The Central Government would create the enabling policy framework, provide incentives for infrastructure development on a **Public Private Partnership (PPP) basis** through appropriate financing instruments
- State Governments would be encouraged to adopt the instrumentalities provided in the policy.
- **Manufacturing sector's share in India's GDP was stuck at 16% since the 1980s.**
- The policy aims to increase the share of manufacturing in the country's GDP from the current 16% to 25% by 2022.

Significant features of NMP are:

- Establishment of **National Investment and Manufacturing Zones (NIMZ)** equipped with world-class infrastructure. NMIZ would be **autonomous and self-regulated developed in partnership with the private sector**.
- Incentives to states for infrastructure development
- Incentives for **Green Manufacturing**
- **Rationalization of business regulations** to reduce burden of procedural and regulatory compliance on businesses
- **Increased focus on employment intensive industries**, capital goods industry, industries with strategic significance and those **in which India enjoys a competitive edge** and the SME sector.
- Make industrial land (land acquisition) available through **creation of land banks** by states.

India’s strengths to become a global manufacturing hub:

- India is one of the **fastest growing major economies** in the world. It is expected to be listed among the top three manufacturing destinations.
- India’s **workforce is among the youngest in the world** with an **average age of 29 years**. According to the Ministry of Labour and Employment, India has the **largest workforce** population of around **470 million**.
- The **cost of labour in India is relatively lower** as compared to other major manufacturing nations.
- India’s huge population provides **a strong domestic consumer base**.

Make in India:

- Make in India is a **national initiative** launched by the Government of India in 2014.
- It is aimed at **transforming India into a global design and manufacturing hub**.
- The **targets listed in the National Manufacturing Policy of 2012** such as increasing the share of manufacturing from present 16 percent to 25 percent of GDP by 2020 (earlier target was 2022), and creating employment for around 100 million people by 2022 **have now been subsumed under Make In India.**
- The initiative is designed to **facilitate investments, scale-up skill development, encourage innovation, protect intellectual property rights** with the overall objective of building the best in class manufacturing industry in India.
- Under Make in India, governments at national and state levels shall **strive to attract investments from across the globe** in a bid to strengthen India’s manufacturing sector.
- For ensuring investment promotion, **Ease of Doing Business, FDI reforms, skill development, infrastructure**

creation and fiscal incentives are at the focus of Make in India.

Activities under Make in India include:

- **Five industrial corridors** are proposed to be created.
  - Delhi – Mumbai Industrial Corridor.
  - Chennai – Bengaluru Industrial Corridor. (First defence industrial corridor is proposed to be developed along this corridor)
  - Visakhapatnam – Chennai Industrial Corridor.
  - Bengaluru – Mumbai Economic Corridor.
  - Amritsar – Kolkata Industrial Corridor.
- Key sectors such as Railways, Defence, Insurance and Medical Devices were opened up for higher levels of **Foreign Direct Investment (FDI).**
- Government has **identified 25 sectors** which will be **focused under Make in India**. They include automobiles, aviation, chemicals, IT & BPM, pharmaceuticals, construction, defence manufacturing, electrical machinery, food processing, textiles and garments, etc.
- **Department for Promotion of Industry and Internal Trade (DPIIT)** is entrusted with the task of formulation of FDI policy, monitoring of Ease of Doing Business reforms and Investment Promotion and Facilitation activities.
- Steps to improve the ease of doing business such as **Shram Suvidha Portal, eBiz portal** (provides single window access to 11 central government services related to starting a business) etc.

Production Linked Incentives (PLI) scheme

- In March 2020, the central government introduced the PLI scheme in **order to boost domestic manufacturing and cut down on import bills.**
- It aims to **give companies incentives** on incremental sales **from products manufactured in India.**
- The scheme also aims to encourage local companies to **set**

- **up or expand existing manufacturing units** and invite foreign companies to set shop in India.
- It was initially rolled out for **mobile and allied equipment** as well as **pharmaceutical ingredients and medical devices manufacturing**.
- In November 2020, it **was expanded to more than ten sectors**. This includes food processing, leather, textiles, advanced chemistry cell batteries, electronic and technology products, automobiles and auto components manufacturing.
- The **government will pay** the companies it selects for the scheme a **specific proportion of their turnover** from making and selling products made in India as an incentive over the next few years.
- The amount of the incentive would decrease as the years go by.
- The idea of PLI is important as the government cannot continue making investments in these capital intensive sectors as they need longer times to start giving the returns.
- Instead, what it can do is to invite global companies with adequate capital to set up capacities in India.

Mould your thought: Discuss the evolution of Industrial Policy in India. What are the recent developments to encourage manufacturing in India?

Approach to the answer:

- Introduction
- Historical development from 1948 -1991 and New Manufacturing Policy
- Discuss the recent initiatives of Make in India and PLI Scheme
- Conclusion