
 **Pathshala**
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 **MHRD**
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सर्वोत्तमं ज्ञानम्

An MHRD Project under its National Mission on Education through ICT (NME-ICT)


Subject: Management



Production of Courseware
-Content for Post Graduate Courses

ACCOUNTING

Paper: 12, Business Environment

Module: 19, Industrial Policy

 **मान-विज्ञान-विमुक्तये**

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QUADRANT-I

Items	Description of Module
Subject Name	Business Environment
Paper Name	Business Environment
Module Title	Industrial Policy
Module Id	Module no.19
Pre- Requisites	Basic knowledge about the meaning of industries
Objectives	To study the meaning of Industrial Policy and to know about various industrial policies in the Indian context
Keywords	Industrial Policy, Industrial Resolution

QUADRANT-I

Module 19: Industrial Policy
Learning Outcome
1. Introduction
2. Industrial policy 1948
3. Industrial policy 1956
4. Industrial policy 1973
5. Industrial policy 1977
6. Industrial policy 1980
7. Industrial policy 1990
8. New Industrial policy 1991
9. Industrial policy 2010 - 15
10. Summary

Learning Outcome: After completing this module the students will be able to:

- Understand the concept of Industrial Policy
- Understand the different provisions of industrial policy
- Understand the achievements and shortcomings of various industrial policies

INDUSTRIAL POLICY

INTRODUCTION

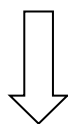
The Indian Economy Was Facing a Problem of Illiteracy, poverty, low per capita income, unemployment and industrial backwardness etc at the time of independence. After attaining independence in 1947 an effort was made to begin the era of planned industrial development. It causes rules, regulations and policies adopted by the government for industries. The industrial policy has injected a substantial measure of competitive environment and market thrust to industry. Many areas earlier reserved for the public sector are now open to private sector participation. The restrictions on the expansion of large industrial houses have been removed. Licensing requirements for industries have been abolished except for a strategic and defence industries.

Before going into the details of regulation of Indian Industries, let us have a look at the successive industrial policies adopted by the government.

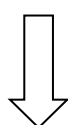
INDUSTRIAL POLICY 1948



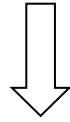
INDUSTRIAL POLICY 1956



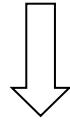
INDUSTRIAL POLICY 1973



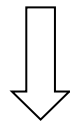
INDUSTRIAL POLICY 1977



INDUSTRIAL POLICY 1980



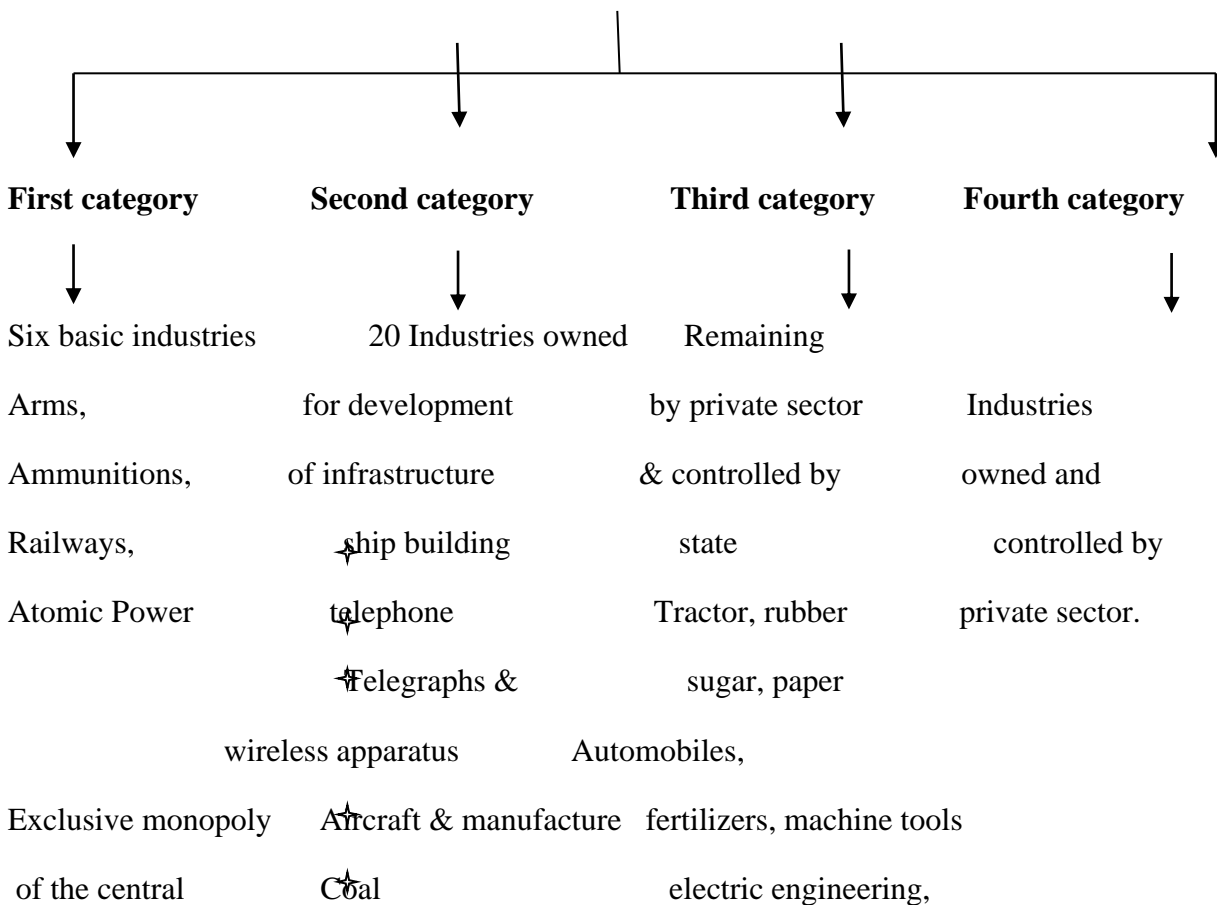
INDUSTRIAL POLICY 1990



NEW INDUSTRIAL POLICY 1991

INDUSTRIAL POLICY 1948

The first industrial policy was announced by late Shyama Prasad Mukherjee on 6th April, 1948. The aim was to accelerate the industrial development. This policy divides the Indian industries into following four categories.

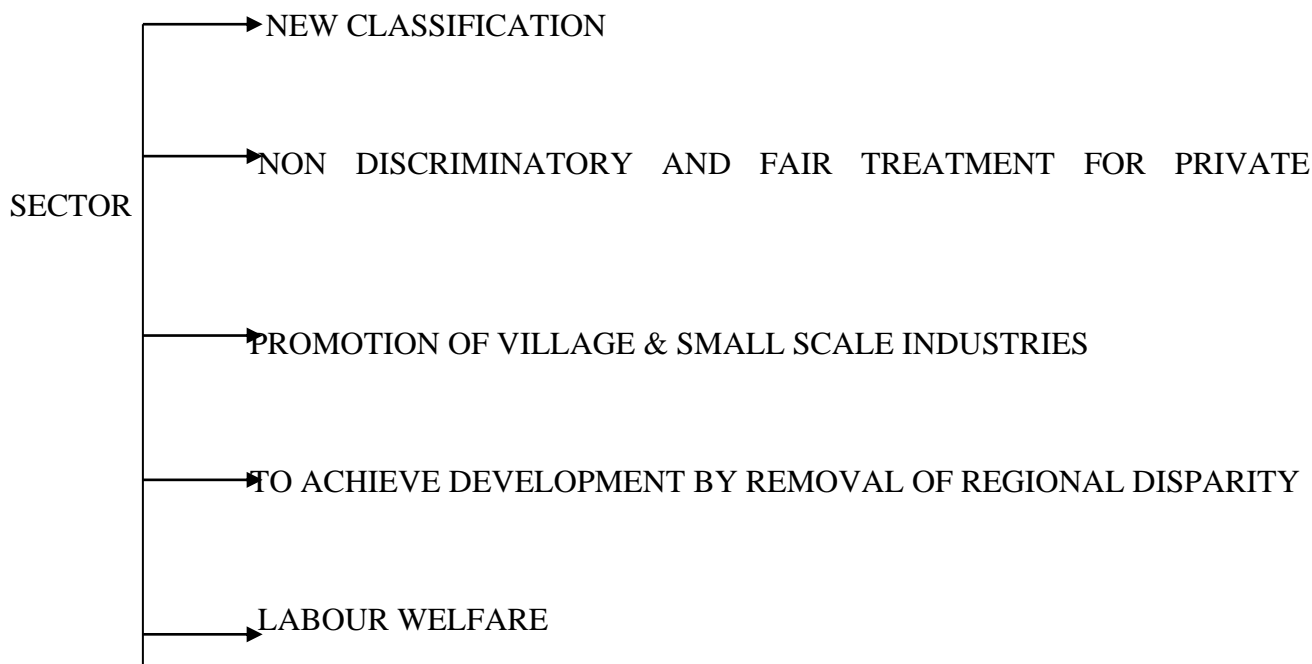


Government	Iron & Steel	heavy machinery, Cement, newsprint, chemical, sea transport & air transport etc.
	NOTE:	
	Exclusive monopoly of state government	

INDUSTRIAL POLICY 1956

A second industrial policy resolution was adopted in India on April 20, 1956 which replaced policy resolution of 1948. This policy has following features:

FEATURES



INDUSTRIAL POLICY 1973

The Industrial policy statement of 1973 identified high priority industries where investment from large industrial houses and foreign companies would be permitted.

FEATURES OF THE POLICY ARE AS FOLLOWS:

1. The industrial policy resolution of 1956 still remained valid, but certain structural distortions had crept in the system.
2. The new policy was hence directed towards removing these distortions.
3. It provided for a closer interaction between the agricultural and industrial sectors.
4. Highest priority was given to generation and transmission of power.

5. An exhaustive analysis of industrial products was made to identify products which are capable of being produced in the small sector
6. The list of industries reserved for small scale sector was expanded.
7. Special legislations to protect cottage and household industries was introduced.
8. Compulsory export obligations, merely for ensuring the foreign exchange balance of the project, would no longer be insisted upon while improving new industrial capacity.

INDUSTRIAL POLICY 1977

In 1977 a new industrial policy was announced by George Fernandez the then union industry minister in the parliament.

The features of this policy are as follows:

1. Target on development of small scale industries:

Main focus of this policy was development of small and tiny industries.

The small scale industries were divided into three parts:

- (1) Household and cottage industries for self employment.
- (2) Tiny sector investment upto 1 Lakh.
- (3) Small scale industries for investment upto 1 to 15 lacs.

2. Large scale sector:

The 1977 industrial policy fixes the areas of large scale sector. The basic role of large scale industries was to fulfil the requirement of public and to promote agriculture sector. The following areas covered in industrial policy 1977.

- (a) **Basic industries:** infrastructure and development of small scale and village industries.
- (b) **Capital goods industries:** meeting machinery requirements of cottage industry.
- (c) **High technology industry:** development of agriculture and small scale industries such as pesticides, fertilizers, petrochemicals.
- (d) **Other industries:** Remaining industries.

3. Big Business Houses:

The objective of this policy was to restrict the control of big business houses. This was to save the general public from monopoly of big business houses because if they will have the control and monopoly they can exploit the consumer or general public.

4. **Role of public sector:** The new policy 1977 has increased the role of public sector for

- (1) Promotion of essential goods for consumer.
- (2) Development of ancillary industries
- (3) To make available expertise in technology and management in small and cottage industries.

5. **Sick industrial units:**

The objective of industrial policy 1977 was to revival and rehabilitation of sick units and for this purpose it also issued certain guidelines.

INDUTRIAL POLICY 1980

The congress government announced the new industrial policy on 23rd of July, 1980.

Features of industrial policy are as follows:

1. Promotion of balanced growth.
2. Extension and simplification of automatic expansion.
3. Taking over industrial sick units.
4. Regulation and control of unauthorised excess production capabilities installed for industrial houses.
5. Redefining the role of small scale units.
6. Improving the performance of public sector.
7. Promotion of balanced growth.
8. Extension and simplification of automatic expansion.
9. Taking over industrial sick units.
10. Regulation and control of unauthorised excess production capabilities installed for industrial houses.
11. Redefining the role of small scale units.
12. Improving the performance of public sector.

INDUSTRIAL POLICY 1991

Congress Government then, the Prime Minister of India P.V Narsimhan Rao announced new industrial policy in July, 1991 and this policy has changed the economy to large extent.

OBJECTIVES OF NEW INDUSTRIAL POLICY:

1. Unshackle the Indian economy from cobweb of bureaucratic control
2. Liberalising the policy regarding FDI.
3. To abolish restriction on FDI.
4. Redefining the role of public sector.
5. Bringing of welfare scheme of Indian industries.
6. Remove restriction imposed by FERA on international trade.

7. To ensure quality standards.
8. Emphasis on research and development capabilities.
9. Abolishing of MRTP act.
10. Improve the productivity of Indian industry.
11. To prepare Indian industry for globally competitive.
12. Integration of Indian industry with the world.

MAJOR INITIATIVES OF NEW INDUSTRIAL POLICY:-

(I) **Abolishing Industrial Licensing:-** For liberalize the economy , need was felt to abolishing of industrial licence except 18 industries that require Compulsory Licensing. There **18** industries were:

1. Coal and Lignite
2. Petroleum
3. Sugar
4. Animals fats and oil
5. Cigars and Cigarettes of tobacco and manufactured tobacco substitutes
6. Motor cars
7. Paper& Newsprint
8. Defence equipment
9. Hazardous chemicals
10. Drugs & Pharmaceuticals
11. Entertainment Electronics (VCR,DVD, Tape recorders)
12. White goods (Domestic Refrigerator ,Dishwashing Machines Etc)
13. Tanned or Dressed Fur skins
14. Asbestos and its based products
15. Distillation and brewing of Alcoholic drinks
16. Raw hides & skin , Leather
17. Industrial explosives
18. Plywood and others wood based products and

With the passage of time this has been reduced to 14, then to 9 and later to 8 and now **5** industries require Compulsory licensing are as follows:-

1. Distillation and brewing of alcoholic drinks
2. Cigars and Cigarettes of tobacco and manufactured tobacco substitutes
3. Hazardous chemicals ,Drugs and Pharmaceuticals
4. Electronics aerospace and Defence equipment
5. Industrial explosives – including detonating fuses, safety fuses, gunpowder, nitrocellulose and matches.

(2) **Role of public sector:** In spite of huge investment public sector was not performing good so, need was felt to redefine the role of public sector. The number of industries reserved for public sector reduced from 17 to 8 and then further to 6. These six industries are as follows:-

- a) Defence products
- b) Mineral oil
- c) Atomic Energy
- d) Railway transport
- e) Coal and lignite
- f) Mineral

(3) **Foreign Investment:** Earlier it was necessary for every industry to take the prior approval of government which led to unnecessary delay and sometime due to frustration foreign investors do not invest to promote export of Indian goods in the world market unconditional approval was given under new industrial policy 1981 for FDI upto 51 % in high priority industries.

(4) **MRTTP Act:** New industrial policy 1991 removed the threshold limit of assets in respect of MRTTP companies this eliminates the company for prior approval of central government for expansion, establishment of new industries undertaking ,merger etc.

(5) **Foreign technology:**

(i) Automatic permission for foreign technology agreement in high priorities industries up to 1 crore

5% royalty for domestic sales

8% for export

(ii) No permission for hiring of foreign technicians

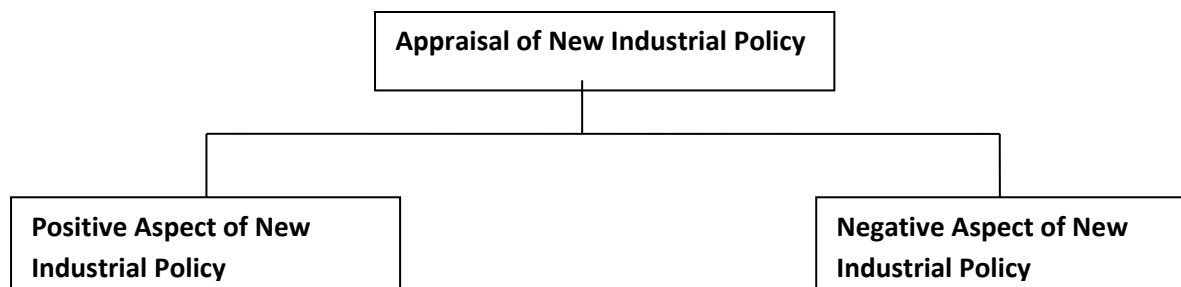
(6) **Convertibility of Rupee:** The new industrial Policy of the year 1991 has given the privileges to the industrial regarding import of raw material and technology. The new policy has introduced the rupee convertibility on current account as well as on capital account. The government made the current account fully convertible, while under the capital account the repayment of loan and depreciation of assets has been made convertible. Further, under the previous provisions the financial institution extending loans to industrial houses had an option to convert their 20% loans into equity it was a major threat to the industrialist in posing threat to their positions. Under the new industrial policy such as compulsory clause of conversion of loans in to equity has also been abolished.

(7) **Reservation for Small Scale Industries:** In the year 2006, small scale units were defined as a unit having investment of 5 cr. In Plant and machinery .In oct 2008, 21 items were reserved for manufacturing in small scale industries.

(8) **Encouragement to Industries in Backward Areas:** Government has taken various measures to encourage the industries in backward areas. Various incentives will be offered by govt to industries in the backward region for reducing regional disparities.

(9) **Freedom from Administrative Control:** Expansion programmes launched by government are exempted from administrative controls and already existing units will be free to produce any commodity on the basis of the licensed already issued.

APPRAISAL OF NEW INDUSTRIAL POLICY



POSITIVE ASPECT OF NEW INDUSTRY POLICY:

1. **Building Competitiveness in Indian Industries:-** the new industrial policy undoubtedly claims the credit of creating and promoting competitive economic conditions in the Economy. It includes:

- New Industrial policy almost removed all kinds of protections given to the domestic industry.
- It has opened the industries for private investment that were previously reserved for investment by the public sector only.
- The new industrial policy has also liberalized the location norm and has also made the import of technology free from government restrictions.
- The procedural delays have been removed leading reduced cost of the project.

2. **Attracting FDI:-** Under the new policy the government has broken up the natural monopoly of the public sector units by attracting the private and foreign capital in to the industries, that were earlier reserved for public sector. Now, in high priority industries no prior approval of the government is required for FDI Upto 51%.

3. **Import of Technology in India:-**The process of import of technology in India was simplified with grant of automatic permission in high priority industries to remove unnecessary delays that were hampering the decision making process regarding import of technology.

4. **Development of global Quality Standard in India:** The Objective of New industrial policy was to focus on development of global quality Standard in India for improving the quality of production in all respects .In order to promote exports and bring global competitiveness in Indian Industry. The

policy emphasized the shifting of quality standard from Indian Standard Industries and International Standard Organisation.

5. **Removal of MRTP act:** Removal of restrictive conditions of MRTP Act like pre entry scrutiny of investment decision by MRTP commission, prior approval of centre for expansion, establishment of new undertaking. Merger, amalgamations, takeover and provisions to appoint foreign Director will strength such units.

6. **Removal of Restrictive Condition of FERA:** The Industrial policy has abolished almost all the restrictive provisions of FERA. The abolition of FERA was a major relief provided to the industries engaged in export activities.

7. **Development of Consumerism in India:** The new Industrial Policy has shifted the role of state prove a regulatory in nature to managerial one .Under the new Industrial Policy the state has to create competitive economic conditions to make the industry more accountable to the society.

NEGATIVE ASPECT OF NEW INDUSTRY POLICY:

1. **More Weight age to Foreign Investor:** The New Industrial Policy has laid more emphasis on FDI in India. In fact, FDI considered a panacea of all the socio-economic problem of the country. It has been decided to provide approval for direct foreign investment upto 51% foreign equity in high priority industries. H.K. Para jape agreed that 34 high priority industries, having provisions for automatic permission for foreign investment, would make it possible for large multinational companies to dominate certain growing areas of our country argued that if the same amount of incentives and concessions are being provided to indigenous industry houses then better results can be expected without taking the risk of foreign capital.

2 **Exploitation of Domestic Resources:** - The natural resources are limited. Each country of the world, either developing or developed, intends to make optimum use of available resources for the overall growth and development of the country.

The critics of New Industrial policy are of the opinion that the provisions of huge foreign capital in the country will lead to wastage and even misuse of resources available with the country .The multinational companies have huge marketing and financial resources. They have the latest technologies and huge production capacities. The MNCs will utilize their natural resources to produce the products belonging to non-priority categories for serving the world market. It leads to the early depletion of available resources of the country.

3. **Threat to Environment:-** the environmental laws in all the developed countries of the world are very strict and their violation leads to harsh consequences for the industries. On the other side, the environment laws in developing and least developed countries and their implementations also ineffective. Further the developing countries are victims of corruption, favouritism and other malpractices.

4. **Reduction in growth of production of Industrial goods:-**The most negative indicator goes against the industrial policy is the sudden fall in production of industrial growth. In the initial years of liberalisation the growth of industrial goods has shown the negative figures.

SUGGESTIONS FOR EFFECTIVENESS OF INDUSTRIAL POLICY

1. **Effectiveness of private sector:-** There is a need that government should provide sufficient sources to the private sector in the form of technical support, infrastructural support, liberal credit policy so that they can develop their industries in a good manner and can compete with the foreign enterprises.

2. **Enhance the profitability of public sector:-** This is very important that public sector should be more efficient and profitable. The following steps should be taken

- More and more efficient human resources are appointed.
- Promotion to employees should be on the basis of merit not on seniority basis.
- Inspections should be done properly.
- Production capacity of older public sector enterprises should be increased.
- Accounting records are properly checked with time to time.
- Non planned expenditure should be reduced at most.

3. **Development of infrastructure:-** Government should take effective measures to strengthen the infrastructure of the economy, in the field of transportation, communication, power supply etc. In the lack of strong infrastructure, the economy of India cannot develop in the proper way.

4. **Not too much dependence upon the Foreign Investment:-** the government should ensure that there is not having too much independence upon the foreign capital inflow in the country. Too much flow of foreign inflows results the deficit finance in the country resultant into negative balance of payments.

5. **Proper attention to sector enterprises:-** Small Scale sector of India needs so much improvements .Various fiscal and non –fiscal incentives should be given to small scale units to support them . If proper attention to be given to this sector, unemployment situation of the country can be reduced to greater extent because of highly labour intensive utilisation.

6. **Set up units in backwards areas:-** To remove the regional imbalances there should be a proper set up of units in the backward areas. For this special assistance should be provided by the government to reduce the regional imbalance in the country.

7. **Support to Domestic Industrial units for their expansion:-** Government should provide financial assistance to domestic sector unit's so that they can expand their business not only to the domestic territory but also can expand business in foreign countries also.

INDUSTRIAL POLICY INITIATIVES ANNOUNCED & UNDERTAKEN IN THE BUDGET

2000-2001	2001-02	2002-03
1. Rationalisation of excise duty with the	1. Removal of corporate tax surcharge to boost profitability.	1. Dividend to be tax free from 1.4.2003 in the hands of

<p>introduction of CENVAT.</p> <p>2. SEBI has made the single regulator for venture capital fund.</p> <p>3. Reduction in custom duty on several items of IT & Telecommunication sector.</p> <p>4. 100% exemption in Export Profits extended to non-corporate assesses.</p>	<p>2. Reduction of interest rates.</p> <p>3. Further opening of FDI.</p> <p>4. Implementation of Privatisation.</p> <p>5. Removal of Income Tax surcharge to increase demand.</p>	<p>shareholder.</p> <p>2. All listed companies acquired on or after 1.03.2003 was exempted from incidence of capital gain tax.</p> <p>3. Concessional available to IT companies were remaining available.</p> <p>4. Incentive to tourism Industries etc.</p>
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INDUSTRIAL POLICY 2010-15

- The government has announced a new industrial policy for 2010-15, enhancing the investment limit of mega projects from Rs. 100 to Rs. 250 crore for the purpose of offering benefits to them.
- For micro and small industries the investment subsidy has been increased from Rs. 15 Lakh to Rs. 20 Lakh.
- In case of women entrepreneurs, not only ten percent of the plots in an industrial area but also offering 5 percent additional subsidy subject to a maximum of Rs. 5 Lakh.
- Attract investments in the industry and services sector
- Maximize employment opportunities, implement self employment schemes effectively, and provides jobs to local people in the upcoming industrial units in the states.(Pradhan mantra employment generation programme launched by the government of India.)
- Promote agro-based and food processing industry to make agriculture a most profitable proposition.
- In order to ensuring productive uses of land, multi stored complexes for micro and small enterprises/industries will be constructed either through department's corporations or through or private sector participation at potential sites.