UPSC Civil Services Examination

UPSC Notes [GS-III]

Topic: Industrial Policy [UPSC Economy Notes]

Industrial Policy is the set of standards and measures set by the Government to evaluate the progress of the manufacturing sector that ultimately enhances economic growth and development of the country.

The government takes measures to encourage and improve the competitiveness and capabilities of various firms.

Objectives of Industrial Policy

1. To maintain steady growth in productivity.
2. To create more employment opportunities.
3. Utilize the available human resources better
4. To accelerate the progress of the country through different means
5. To match the level of international standards and competitiveness

Industrial Policy in India

The various industrial policy introduced by the Indian government are as follows:

Industrial Policy Resolution, 1948

- It declared the Indian economy as Mixed Economy
- Small scale and cottage industries were given the importance
- The government imposed restriction on foreign investments

Industrial Policy Resolution, 1956 (IPR 1956)

- This policy laid down the basic framework of Industrial Policy
- This policy is also known as the Economic Constitution of India

It is classified into three sectors

- Schedule A – which covers Public Sector (17 Industries)
- Schedule B – covering Mixed Sector (i.e. Public & Private) (12 Industries)
- Schedule C – only Private Industries

This has provisions for Public Sector, Small Scale Industry, and Foreign Investment. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980.

Industrial Policy Statement, 1977

- This policy majorly focused on Decentralisation
- It gave priority to small scale Industries
- It created a new unit called "Tiny Unit"
- This policy imposed restrictions on Multinational Companies (MNC).

Industrial Policy Statement, 1980

- The Industrial Policy Statement of 1980 addressed the need for promoting competition in the domestic market, modernisation, selective Liberalization and technological upgradation.
- Due to this policy, MRTP Act (Monopolies Restrictive Trade Practices), FERA Act (Foreign Exchange Regulation Act, 1973) were introduced.
- The objective was to liberalize the industrial sector to increase industrial productivity and competitiveness of the industrial sector.
- The policy laid the foundation for an increasingly competitive export-based and for encouraging foreign investment in high-technology areas.

New Industrial Policy, 1991

The New Industrial Policy, 1991 had the main objective of providing facilities to market forces and to increase efficiency.

Larger roles were provided by

- L – Liberalization (Reduction of government control)
- P – Privatization (Increasing the role & scope of the private sector)
- G – Globalisation (Integration of the Indian economy with the world economy)

Because of LPG, old domestic firms have to compete with New Domestic firms, MNC's and imported items

The government allowed Domestic firms to import better technology so as to improve efficiency and to have access to better technology. Foreign Direct Investment ceiling was increased from 40% to 51% in selected sectors.

Maximum FDI limit is 100% in selected sectors like infrastructure sectors. Foreign Investment promotion board was established. It is a single-window FDI clearance agency. The technology transfer agreement was allowed under the automatic route.

Phased Manufacturing Programme was a condition on foreign firms to reduce imported inputs and use domestic inputs, it was abolished in 1991.

Under Mandatory convertibility clause, while giving loans to firms, part of the loan will/can be converted to equity of the company if the banks want the loan in a specified time period. This was also abolished.

Industrial licensing was abolished except for 18 industries.

Monopolies and Restrictive Trade Practices Act – Under his MRTP commission was established. MRTP Act was introduced to check monopolies. The MRTP Act was relaxed in 1991.

On the recommendation of SVS Raghavan committee, Competition Act 2000 was passed. Its objectives were to promote competition by creating an enabling environment.

To know more about the Competition Commission of India, check the linked article.

Review of Public sector under this New Industrial Policy, 1991 are:

- Public sector investments (Disinvestment of Public sector)
- De-reservations –Industries reserved exclusively for the public sector were reduced
- Professionalization of Management of PSUs
- Sick PSUs to be referred to the Board for Industrial and financial restructuring (BIFR).
- Scope of MoUs was strengthened (MoU is an agreement between a PSU and concerned ministry).