UPSC PREPARATION

Industrial Policy

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 restricted foreign investments
- Industries were divided into 4 categories
    - Exclusive monopoly of central government(arms and ammunitions, production of atomic energy and management of railways)
    - New undertaking undertaken only by state(coal, iron and steel, aircraft manufacturing, ship building, telegraph, telephone etc.)
    - Industries to be regulated by the government(Industries of basic importance)
    - Open to private enterprise, individuals and cooperatives(remaining)

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

Salient features of this resolution were:

1. New classification of Industries:
    - Schedule A – which covers Public Sector (17 Industries)
    - Schedule B – covering Mixed Sector (i.e. Public & Private) (12 Industries)
    - Schedule C – only Private Industries
2. Enacting licence quota - permit regime:
    - To open any agency, licence has to be acquired from related government agency.
3. Removal of regional disparities:
    - Reduction of regional disparities by opening PSUs in the under developed areas.

4. Encouragement of small and village level industries:
    - The government used various methods such as differential taxation and direct subsidies to restrict the volume of production of large scale industries.
    - The government took various measures to modernise technology in small scale industries to make them competitive.

This has provisions for Public Sector, Small Scale Industry, 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 was an extension of 1956 policy.
- The main was employment to the poor and reduction in concentration of wealth.
- 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, modernization, selective Liberalization, and technological up-gradation.
- It liberalised licensing and provided for the automatic expansion of capacity.
- Due to this policy, the MRTP Act (Monopolies Restrictive Trade Practices) and FERA Act (Foreign Exchange Regulation Act, 1973) were introduced.
- The objective was to liberalize the industrial sector to increase the 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
    a. L – Liberalization (Reduction of government control)
    b. P – Privatization (Increasing the role & scope of the private sector)
    c. 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 to improve efficiency and to have access to better technology. The Foreign Direct Investment ceiling was increased from 40% to 51% in selected sectors.
- The 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 the 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. 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 the 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 the Public sector under this New Industrial Policy, 1991 are:
    1. Public sector investments (Disinvestment of Public sector)
    2. De-reservations –Industries reserved exclusively for the public sector were reduced
    3. Professionalization of Management of PSUs
    4. Sick PSUs to be referred to the Board for Industrial and financial restructuring (BIFR).
    5. The scope of MoUs was strengthened (MoU is an agreement between a PSU and concerned ministry).

It is time to replace the 30-year-old Industrial policy and draft a new policy for better strategic engagement with the world. The Government is working on a new industrial policy that would be a road map for all business enterprises in the country.

Frequently Asked Questions on Industrial Policy in India

Q 1. When was the first Industrial Policy announced in India?

Ans. The first Industrial Policy in India was announced post-independence in 1948. It was presented by Dr. Shyama Prasad Mukherjee.

Q 2. What is 'LPG' as per the New Industrial Policy, 1991?

Ans. The main goals of the New Industrial Policy were:

- L – Liberalization
- P – Privatization
- G – Globalisation

This eligibility criterion differs for candidates belongs to different categories like SC/ST/OBC, etc. aspirants can check the RBI Grade B eligibility criteria at the linked article.

Q 3. What are the objectives of Industrial Policy?

Ans. The main objectives of Industrial Policy in India include:

- Maintaining steady growth and productivity
- Increasing employment opportunities
- Better usage of existing human resources
- To match up to the International standards of productivity

Q 4. What is the IDR Act?

Ans. The Industrial Development and Regulation Act provides the conceptual and legal framework for industrial development and industries in India.