

Analysis of Current Industrial Policy Responsible for Industrial Growth of India



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Abstract

In India the year 1991 is known for its long awaited liberalized Industrial policy which fuelled the growth of industrial production. In spite of this it is felt that with new policy framework, the amount of money spent & the government machinery involved, country is not getting the expected Industrial development. Critical evaluation of key factors and issues of India’s industrial policy was done. It was observed that policies are made with good intent but its practical implementation has not been taken care. Expectations of Industrialists are not fulfilled in total. Hence suggestions are given for improving upon the key determinants of industrial policy thereby promoting performance and overall growth of Indian industries.

Keywords: Industrial Policy, Industrial Licensing, Industrial Growth, Liberalization, Foreign Investment Policy.

Introduction

The current industrial policy of 1991 comes at the centre of economic reforms. The policy has termed as ‘reforming policy’ as it derived from all new industrial policy of the country. It has brought comprehensive amendments in economic regulation of the country. This is being considered as the new growth engine of industrial sector equipped with all necessary requisite with it for industries. Various provisions have been made and introduced various channels to wake up and help industrial units to perform its fullest. Detailed analysis of all features & characteristics was done through various sources. Focus was to understand impact, its potential & ability how the policy is helping Industrial growth. Whether it is adequate or required changes.

The main features of the policy and other government initiatives are discussed as below:

Key Economic Indicators

S.No.	Feature/Characteristic	Description
1.	Industrial Licensing & Ease of Running Industry	The most attractive feature of the current industrial policy is ‘Delicensing’ which also named as ‘End of Red Tapism’. This has led the existing or upcoming industries license free startups and proceeding. This has covered the 13 new sectors which now do not need any industrial license. Now only, 13 sectors remaining which need license to start industrial operation.
2.	Foreign Investment Policy	Another major feature of the economic reform measure was it has given welcome to foreign investment and foreign technology. This measure has enhanced the industrial competition and improved business environment in the country. Foreign investment including FDI and FPI were allowed. Similarly, loan capital has also introduced in the country to attract foreign capital

3.	Transfer of Foreign Technology, Technology Innovation & Upgradation	Under this policy Government had tried to ease the process of Foreign Technology Transfer. It has allowed transfer by means of foreign direct investment & foreign technology collaboration agreements. Government has also tried to focus on R&D and Technology Upgradation.
4.	Abolition of MRTP Act	MRTP Act has been amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. The new Competition Act was introduced
5.	Public Sector Policy, De-reservation of Industrial sector & Reforms to Sick Public Sector Units	The policy has made significant provision for the development of public sector units which are running in loss or suffering from lack of development. The policy reforms like De-reservation in various sectors for private players in public sector were aimed at enhancing the efficiency and competitiveness of the sector. Similarly, PSUs running in loss or sick units were sold to the private sector to revive and restart. Autonomy to the PSU for efficient functioning was also step up to elevate public sector units' status.
6.	Liberalization of Industrial Location Policy & Geographical Development	The new industrial policy provides that in locations other than cities of more than 1 million populations, there will be no requirement of obtaining industrial approvals from the centre, except for industries subject to compulsory licensing. Also special concession packages were designed for underdeveloped areas.
7.	Employment Generation	The Industrial policy contains several measures for enhancing new jobs, growing Entrepreneurship, Ease of Labour Laws & Skill development of workforce
8.	Medium, Small & Micro (MSME) Industries	Various structural and fundamental changes were done in policy framework for the MSME to cope up with the emerging challenges of globalization.

The GDP of our country which was growing from last three consecutive years 2014-15 it was 7.5%, 2015-16 its 8.0%, 2016-17 it was 7.1% and for

2017-18 it dropped to 6.5% as per the first advance estimate give by CSO.

Fig-1
Growth rate of GVAst basic price as constant (2010-2011) prices in (%)

Industry	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (PE)
I. Agriculture	1.5	5.6	-0.2	6	6.3	3.4
II. Industry	3.3	3.8	7	9.8	6.8	5.5
Mining & quarrying	0.6	0.2	9.7	13.8	13	2.9
Manufacturing	5.5	5	7.9	12.8	7.9	5.7
Electricity, gas & water supply	2.7	4.2	7.2	4.7	9.2	7.2
Construction	0.3	2.7	4.3	3.7	1.3	5.7
III. Services	8.3	7.7	9.8	9.6	7.5	7.9
Trade, Hotels, transport, communication & services related to broadcasting	9.8	6.5	9.4	10.3	7.2	8
Financial Services, real estate & professional services	9.7	11.2	11	10.9	6	6.6
Public administration, defence and others services	4.3	3.8	8.3	6.1	10.7	10
GVA at basic price	5.4	6.1	7.2	8.1	7.1	6.5
PE Provisional Estimates						

Source : Central Statistics Office

Fig-2
Year-wise/Scheduled Industry-Wise Distribution of Investment Indicated in Industrial Entrepreneurs Memoranda (in Rs. Crore)

Industry Groups	2010	2011	2012	2013	2014	2015	2016	2017
Food products	19663	30848	13704	15876	14429	24197	24365	15746
Formenations Industries	3139	6644	4365	4916	2229	4249	5162	1891
Textiles and Apparels	26566	26171	14839	81667	16634	15080	21669	15271
Wood & Wood Products	122	488	469	1182	760	151	1345	1149
Paper & Paper products	6264	5315	7428	3903	2175	2779	3208	4650
Leather & Leather Products	161	474	26	550	136	43	19	59
Chemicals & Chemicals Products	56110	57097	95146	89017	141442	32264	57626	22433
Rubber & Rubber products	5819	8292	1987	7191	4790	5609	1353	7825
Cement & Building Materials	101318	81406	40107	33149	21477	13960	21718	20380
Metals	391805	268895	141983	106893	27239	14342	49436	39311
Mechinery	955091	815030	170539	103674	46434	85485	160686	101323
Transport & auto Equipments	12290	9695	24591	7602	6109	5775	28204	21749
Other	80368	218777	50842	56340	118615	95574	34751	142752
Fuel	73015	8575	1804	17868	1870	7849	880	757
Total	1731731	1537710	567830	529828	404339	307357	410422	395296

Source: DIPP

Fig-3
Sectorwise FDI Inflow in (US\$ million)

Industry Groups	1991-2000	2000-10	2010-15	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Food products	707.4	1237.3	5708.2	4007.5	692	646	851.6	997.9	10148.4
Formenations Industries	24	770.1	1274.6	814.6	225.4	202.4	110.9	38.5	2420.4
Textiles	241.8	828.6	796.7	199.4	198.8	230.1	619	454.5	3170.7
Wood Products	0	18.8	75.7	6.2	9	53.2	10.2	9.9	167.6
Paper	250.5	716.9	848.3	140.6	189.5	208	250.8	299.6	2574.1
Leather	33.5	42.6	104.6	6.1	34.2	17.1	2.3	22	222.1
Chemicals	1480.9	4446.1	16778.1	2196.2	2739.4	2442.5	2445	2485.3	30078
Rubber, Plastic & Petroleum products (including oil exploration)	90.3	2953.6	5494.3	482.8	1363.5	399.2	443.2	416.4	9796.9
Non metallic Minerals	261.1	2263.6	1926.4	447.2	286.1	96.7	2197.2	140.5	6885.1
Metals and Metal Products	186.2	3143.2	5277.5	567.6	359.3	456.3	1440.2	371.8	10875.1
Mechinery and Equipments	2043.1	15670.4	15093.4	2759.6	4442.3	8101.7	7537.6	7842.8	56289
Transport Equipments	0	4603.2	8002.6	1517.3	2725.6	2526.8	1609.3	2089.3	18831.4
Other Manufacturing	1761.6	5705.6	4185.5	511.3	1046.1	727.3	420.3	631.8	13432
Mining (including mining services)	0	730.9	980.1	15.7	684.4	520.7	55.8	36.4	2323.8
Power	1038.9	5220.9	8036.2	1480.3	1323	1645.5	1896.6	2825.5	20665.4
Telecommunication	1089.4	8915.9	8167.5	1307	2894.9	1324.4	5563.7	6211.8	31272
Total (Industry)	9208.6	57267.7	82749.5	16459.3	19213.3	19597.7	25453.5	24874.1	219151
Services	3037.6	53021.6	51407.7	7840	11717	20403.3	18024.8	19982.7	165877.8
Other	4453.3	0	0	0	0	0	0	0	4453.3
Total	16699.6	110289.3	134157.2	24299.3	30930.5	40001	43478.3	44856.8	389482.1

Source: DIPP

Note: Total is the sum of FDI since 1991

Government has taken numerous steps to boost industrial development, capital formation and employment generation in the country. These, inter-alia, include, 'Make in India', 'Startup India' initiatives and 'Ease of Doing Business'. Steps taken to improve ease of doing business include simplification and rationalization of existing rules and introduction of information technology, setting up of an Investor Facilitation Cell, launch of e-biz Portal and liberalizing policy for industrial license for defence industries. Foreign Direct Investment (FDI) policy and

procedures have been simplified and liberalized progressively. Government has taken up a programme of building pentagon of industrial corridors across the country with an objective to provide developed land and quality infrastructure for development of industrial townships.

There are various factors and issues on which special emphasis has to be made to improve the quality of outcome & effectiveness in terms of investments received, employment generated & overall Industrial progress in the country.

Review of Litereture

Ahluwalia, Montek (2002) Critics of liberalization have blamed the slowdown on the effect of trade policy reforms on domestic industry. However, the opposite view is that the slowdown is not due to the effects of reforms, but rather to the failure to implement the reforms effectively.

Ajit Singh CERF (2008) Suggests that today a central challenge for the Planning Commission is to exploit India's lead in ICT and its institutional surplus' to raise the rate of growth while maintaining equitable distribution of the fruits of economic progress. To do so, India requires a somewhat different industrial policy than that pursued in the Nehru-Mahalanobis era, or that has been followed since then.

Prasad, H.A.C., and R. Sathish (2010) highlighted that service sector in India is growing at a nice pace but it requires many changes in Industrial policy to excel. The reforms suggested by them will not only help in GDP growth but also grow exports of our service led economy. Department of Industrial Policy & Promotion (2017-2018) Annual Report Over the period of time DIPP has played role regulator, administrator and felicitator for industrial development in India. It has focussed on new technology transfer and foreign direct investment inflow in India. This in

turn is often attributed to India's gradualist approach to reform, which has meant a frustratingly slow pace of implementation. Twelfth Five Year Plan, 2012-2017 Economic Sectors, (2013) Government support is essential to enable a country's industrial ecosystem to gain depth because technological learning takes a long time, requires large investments and is risky. Support to the enterprises should be in such a way that it motivates and enables enterprises to learn and develop complex capabilities and not become complacent and inefficient, which was the outcome of the industrial policy adopted by India until the 1980s.

Objectives of the Study

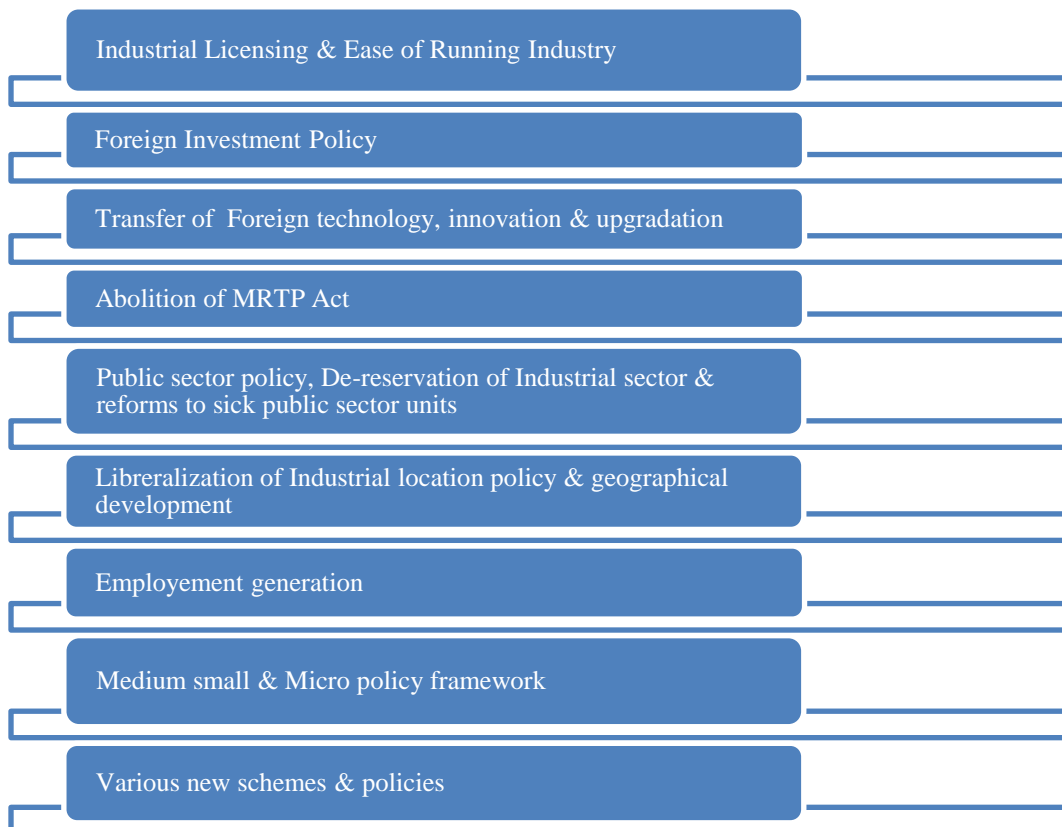
To analyse current industrial policy which is responsible for overall industrial growth of the country.

Research Methodology

This research is mix of descriptive and exploratory work and is based on the secondary data collected from books, magazines, journals, online publications, newspapers, various government departments, associations, past research, reports from various sources like The Annual Survey of Industries and websites.

Results & Findings

The results have been generated based on below parameters.



Industrial Licensing & Ease of Running Industry

De-licensing is applied in various sectors but other formalities, approvals and documentation are still very pathetic to start new venture. Such hectic system has flush the attractiveness of de-licensing. Ease of running Industry is yet to be achieved in full.

Foreign Investment Policy

FIP is quite liberalized from previous version but foreign investment is still subjected to various trade ban and provisions. Investors still are not allowed to make investment into industries without hustle free procedure. FDI is still awaited on large scale in SME sector.

Transfer of Foreign Technology, Technology Innovation & Up Gradation

Government had tried to ease the process of Foreign Technology Transfer. It has allowed technology transfer process but it has been observed that its benefit is being taken by large industries only & Small industries are still deprived. Also Government R&D and Technology Up gradation initiatives are leveraged to Large industries as it incurs heavy investment.

Abolition of MRTP Act

Abolition of MRTP act was a great decision to ensure flawless industrialization in the country. The new Competition Act was introduced with good intentions but still lot more is required to be done in this field.

Public Sector Policy, De-reservation of Industrial sector & Reforms to Sick Public Sector Units

Government has introduced good public sector policy & many reforms were introduced for sick public sector units but it was observed that when it comes to implementation it is very difficult to adopt. De-reservation also lost its importance to attract new entrepreneurs because working with government agencies or department is still very tough due to their policies and working system

Liberalization of Industrial Location Policy & Geographical Development

Government has tried and trying to get the preferred location for industrialists but it is still very hard to do so. Most favoured locations are highly populated and most of them are farm land which is quite impossible to get it free for industries.

Employment Generation

The Industrial policy contains several measures for enhancing new jobs, growing Entrepreneurship, Ease of Labour Laws & Skill development of workforce. But still it is observed that the amount of expenditure done by government in this field is not giving results as expected.

Medium, Small & Micro (MSME) Industries

Various structural and fundamental changes were done in policy framework for the MSME to cope up with the emerging challenges of globalization. It is felt that with the Digital age, world has shrunked into single market and in this scenario its important for government to support MSME with various reforms for their competitiveness & development.

Various New Schemes and Policy

It was found that through different government bodies it initiated National Manufacturing

Policy 2011, Ease of Doing Business Reforms, Make in India Initiative, Stand Up India, Start Up India, National Investment and Manufacturing Zones (NIMZ), FDI Reforms, Digital India, Skill India, Industrial/Economic Corridors but still lot more is required to be done for better coordination between various government departments for achieving the goal of 9-10% GDP growth rate.

Suggestions

1. Introduction of good policy for industrial development and promotion is not just enough, the government has to see whether it is being implemented properly or not? Many people finds difficulties in getting the benefits of such policies due to lack of awareness, availability of information & practical implementation.
2. Monitoring of policy measures and effectiveness is also a big recommendation of the study. Continuous monitoring is advised to get desired outcomes from the policy.
3. The Indian Industrial policy should be **PROACTIVE** and should be in line with globalization & market orientation. It should be capable enough to adopt all changes required in due time before it gets obsolete.
4. Based on geographical, social, technical, economic and natural resources country should be divided in separate industrial zones to get maximum output from that area.
5. Skill based technical training should be integrated in industrial policy and should be imparted in the traditional education system.
6. Government has brought Business Reform Action Plan but because of multiplicity of laws and different Industrial policies in different states for land acquisition, labour regulation and taxes make the investment climate complex and cumbersome for investors. The need of hour is to bring a **National Industrial Policy** acceptable to all states harmoniously for promoting ease of doing business.
7. For betterment of Industry Labour reforms have to be reconsidered. There should be a balance between the benefits given to the labour and its burden on Industry else a over burdened industry will ultimately turn out to be sick and labour will also not get any benefit out of it.
8. Infrastructure is the key for success of any Industry. Government has to come up with more aggressive planning in Real Estate & Infrastructure to get Industries push in the right direction.
9. R&D and innovation should be given special incentives and a tax rebate plan should be given in government policy so that industries can invest a greater part in R&D and Innovation. Also Government should open up Research centres in Industrial clusters so that Industries could take advantage of common facilities and save cost.
10. For making MSME units more competitive the investment limit in its definition should be increased so that they can invest in up gradation and there MSME status also remains, FDI limits in MSME should be increased, Limit of Collateral

free loan should be increased and its practical implementation should be monitored. Reservation of MSME products in various departments should be increased and common government body should be made for there product promotion.

Conclusion

It can be concluded that only making of good industrial policy alone can not achieve the goal of industrial growth of country. Continuous monitoring its practical implementation with a systematic time frame is the need of hour which will lead to its full utilization for the industrial growth of the country.

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