CHAPTER: 4

NEW INDUSTRIAL POLICY 1991

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CHAPTER:-4

NEW INDUSTRIAL POLICY 1991

4.1 INTRODUCTION

1. Pandit Jawaharlal Nehru laid the foundations of modern India. His vision and determination have left a lasting impression on every facet of national endeavour since Independence. It is due to his initiative that India now has a strong and diversified industrial base and is a major industrial nation of the world. The goals and objectives set out for the nation by Pandit Nehru on the eve of Independence, namely, the rapid agricultural and industrial development of our country, rapid expansion of opportunities for gainful employment, progressive reduction of social and economic disparities, removal of poverty and attainment of self-reliance remain as valid today as at the time Pandit Nehru first set them out before the nation. Any industrial policy must contribute to the realisation of these goals and objectives at an accelerated pace. The present statement of industrial policy is inspired by these very concerns, and represents a renewed initiative towards consolidating the gains of national reconstruction at this crucial stage.

2. In 1948, immediately after Independence, Government introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasised the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980.

3. The Industrial Policy Resolution of 1948 was followed by the Industrial Policy Resolution of 1956 which had as its objective the acceleration of the rate of economic growth and the speeding up of industrialisation as a means of achieving a socialist pattern of society. In 1956, capital was scarce and the base of entrepreneurship not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development.

4. The Industrial Policy statement of 1973, inter alia, identified high-priority industries where investment

from large industrial houses and foreign companies would be permitted.

5. The Industrial Policy Statement of 1977 laid emphasis on decentralisation and on the role of small-scale, tiny and cottage industries.

6. The Industrial Policy Statement of 1980 focused attention on the need for promoting competition in the domestic market, technological up gradation and modernisation. The policy laid the foundation for an increasingly competitive export based and for encouraging foreign investment in high-technology areas. This found expression in the Sixth Five Year Plan which bore the distinct stamp of Smt. Indira Gandhi. It was Smt. Indira Gandhi who emphasised the need for productivity to be the central concern in all economic and production activities.

7. These policies created a climate for rapid industrial growth in the country. Thus on the eve of the Seventh Five Year Plan, a broad-based infrastructure had been built up. Basic industries had been established. A high degree of self-reliance in a large number of items - raw materials, intermediates, finished goods - had been achieved. New growth centres of industrial activity had emerged, as had a new generation of entrepreneurs. A

large number of engineers, technicians and skilled workers had also been trained.

8. The Seventh Plan recognised the need to consolidate on these strengths and to take initiatives to prepare Indian industry to respond effectively to the emerging challenges. A number of policy and procedural changes were introduced in 1985 and 1986 under the leadership of Shri Rajiv Gandhi aimed at increasing productivity, reducing costs and improving quality. The accent was on opening the domestic market to increased competition and readying our industry to stand on its own in the face of international competition. The public sector was freed from a number of constraints and given a larger measure of autonomy. The technological and managerial modernisation of industry was pursued as the key instrument for increasing productivity and improving our competitiveness in the world. The net result of all these changes was that Indian industry grew by an impressive average annual growth rate of 8.5% in the Seventh Plan period.

9. Government is pledged to launching a reinvigorated struggle for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialist, prosperous and forward-looking India. Such a society can be built if India grows as part of the world economy and not in isolation.

10. While Government will continue to follow the policy of self-reliance, there would be greater emphasis placed on building up our ability to pay for imports through our own foreign exchange earnings. Government is also committed.

11. The Industrial Policies pursued till 1990 enabled India to develop a vast and diversified industrial structure. India attained self-sufficiency in a wide range of consumer goods. But the industrial growth was not rapid enough to generate sufficient employment, to reduce regional disparities and to alleviate poverty. It was felt that government controls and regulations had put shackles on the growth of different segments of Indian industry. Lack of adequate competition resulted in inadequate emphasis on reduction of costs, upgradation of technology and improvement of quality standards. It is to reorient and accelerate industrial development with emphasis on productivity, growth and quality improvement to achieve international competitiveness that the Industrial Policy of 1991 was announced. [58]

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[58] *See, Government of India, available at www. siadipp.nic.in/publicat/nip0791.htm, last visited on 12/10/2009*

4.2 Objectives and Salient Features

NEW INDUSTRIAL POLICY 1991

The overall objectives of industrial policy in India have been periodically articulated in the Industrial Policy resolution of 1948, 1956 & 1973, the industrial policy statement of 1980 and 1990.

On July 24, 1991 the government announced a new industrial policy in parliament. The major objective of this policy.

- Development and utilization of indigenous capabilities in technology and manufacturing as well as its up gradation to world standard.
- Dismantling of the regulatory system, development of the capital market and increasing competitiveness for the benefit of the common man.
- Running of the public sector on business lines, and
- Promoting workers participation in management, enhancing their welfare and equipping them to deal with inevitability of technological change.

In order to attune Industrial policy with the liberalized economy, the government is soon expected to come up with a new Industries Act, 2000. It would give statutory back-up to the service sector, as also to the approvals for FDI and NRI investment. The proposed legislation would also replace the Industries (Development and Regulation) Act, 1951. [59]

Since the focus has shifted from state-regulated planned development to the market-driven economy, it has been felt that industrial policy should go in tandem with liberalization, said minister of state for commerce and industry Raman Singh. [60]

The proposed Act would be in nature of enabling the government to exercise the powers of industrial licensing only when required, he said. "The government is not eager to interfere in the affairs of running industry."

Apart from providing a statutory back-up to the service sector, which has been outside the scope of industrial development, proposed legislation would also stress on protecting the interests of consumers and ensuring quality standards, Dr Singh told The Financial Express. It may be recalled that the government had constituted an expert group under the chairmanship of secretary, department of industrial policy and promotion, which recommended the formulation of a new Industries Act, 2000, and repeal of the Industries (Development & Regulation) Act, 1951.

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[59] *Ibid 58*
[60] *Ibid 59*

Till July 1991, the emphasis was on "regulation." The New Industrial Policy of 1991 shifts emphasis from regulation to development. "Now, the government endeavors to spread industrialization in backward areas not by directly setting up units in the public sector, but by appropriate incentives and infrastructure development initiatives to facilitate flow of private investment to backward areas, "Dr Singh said.

Though the primary role in developing backward areas is played by state governments, the Union government supplements their efforts through fiscal initiatives, infrastructure development, subsidies, and regional development packages, the minister said.

The department of industrial policy and promotion is responsible for the Growth Centre Scheme, Dr. Singh said. The scheme, operational from 1991, promotes industrialization in backward areas, he added.

Out of total of 71 growth centers planned, 68 have already been sanctioned, he said. The cost of each growth centre is Rs. 25-30 crore. While the share of Centre is fixed at Rs. 10 crore, the rest is contributed by state governments. For the North-Eastern region, however, the Central share is Rs. 15 crore.

The state governments implement the scheme through state corporations, Dr. Singh said. The progress is monitored by state-level committees, while it is reviewed quarterly by the department of industrial policy and promotion.

4.3 NEW INDUSTRIAL POLICY

1. The Committee has been informed that the new Industrial Policy announced in July 1991, besides liberalization of economy and globalization, also aimed at building upon the gains achieved, to correct the distortions, maintain a sustained growth in productivity and gainful employment and attain international competitiveness. It envisaged pursuit of these objectives to be tempered by the need to preserve the environment and ensure the efficient use of available resources. All sectors of industry whether small, medium or large, belonging to public, private or cooperative sectors were to be encouraged to grow and improve on their post performance.

   The New policy also encompasses encouragement of entrepreneurship, development of indigenous technology through investment in research and development, brining in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialization to backward areas of the country will be actively promoted through appropriate incentive, institutions and infrastructure investments. While recognizing the role of public sector, the new policy seeks to ensure that the public sector is run on business lines envisaging privatization, disinvestments and public sector restructuring.

The Committee have also been informed that in pursuit of the above objectives, it was decided to take a series of initiatives covering the following areas:

(a) Industrial Licensing
(b) Foreign Investment
(c) Foreign Technology Agreements
(d) Public Sector Policy
(e) MRTP Act (Monopoly and Restrictive Trade Practices Act

2. When asked about the impact on the socio-economic conditions of various sections of the society of the economic policy, the Committee was informed that under the new economic policy, the role of the Government and Public Sector are getting redefined. Requirement of manpower of the Government Department is being reassessed and fresh recruitment in Government Departments and institutions is kept limited to the minimum essential needs.

3. In the Budget Speech for 2001-02, it has also been indicated that all requirement will be scrutinized to ensure that fresh recruitment is limited to 1% of total civilian staff strength. As about 3% retire every year, this will reduce the manpower by 2% per annum achieving a reduction of 10% in five years as announced by Prime Minister.

4. The New Industrial Policy of 1991 which seeks to strengthen the forces of technological upgradation and modernisation in Indian industries with a view to make it more efficient and globally competitive. Fully considering the dire need to safeguard the interest of working class, on account of their growing obsolescence resulting from the technological transformation, the National Renewal Fund (N.R.F.) has been established with the following objectives. [61]

   (a) to provide funds, where necessary, for compensation to employees affected by restructuring or closure of industrial units.

   (b) to provide assistance to cover the cost of retraining and deployment of employees arising as a result of modernisation, technological upgradation and industrial restructuring.

   (c) to provide funds for employment generation in order to to provide social security net for labour

[61] *Ibid 58*

needs arising from the consequences of industrial restructuring.

The Industrial Relations Policy derives its philosophy and content from the Directive Principles of State Policy laid down in the Constitution, the Plan documents and the Industrial Policy Resolution, and has been evolving in response to the specific needs of the situation and the requirements of planned economic development, social justice and industrial peace in the country. It is the product of tripartite consultations. The aim is to promote harmonious relations between labour and management in order to improve production and working conditions, and to promote the interests of the community at large.

The Industrial Relations Policy of the government as enunciated in the various Five-Year Plans incorporates principles and guidelines for the prevention and resolution of disputes. As a means of preventing disputes a large number of voluntary measures have been evolved by the state. These consist of:

(a) Codes of behavior for employers and workers in their day-to-day dealings with each other; and

(b) The holding of meetings at the national level between employers' and workers' organizations under the auspices of the Indian National Labour Conference to discuss problems of mutual interest and to evolve criteria or principles for the resolution of disputes or issues of controversy.

As a means of resolving disputes, comprehensive legislative measures have been evolved and guidelines made available to workers and employers for the regulation of their relationship. Thus, where a dispute arises or is likely to arise, the parties are expected to resolve their differences by negotiation. If the dispute is not resolved, they are, in the second stage, expected to sort out their differences either through conciliation or voluntary arbitration. Only after this stage, if a solution is not found, are the parties allowed to resort to direct action, i.e., strike or lockout. But even here, the state may intervene and refer the dispute to an industrial court/ tribunal for compulsory arbitration. The award given by the court/industrial tribunal is binding on both the parties.

With new developments in the industrial field, the relationship between management and workers has changed from one of "masters and servants" to that of "joint responsibility" as equal partners in industry. The whole arena of industrial relations has shifted from adjudication to persuasion, moral pressure and voluntary arbitration for the settlement of industrial disputes.

4.4 SOCIO-ECONOMIC IMPACT OF THE NEW POLICY

1. As regards the economic impact of the new policy, it was stated that the new industrial policy is aimed at development of the national economy as a whole. As a result of this policy, there have been changes in the foreign investment, industrial development, infrastructure development as well as reforms in the financial sector and public sector. In the Budget speech for 2001-02, it has been stated that economic reforms began in 1991, the economy has grew at an average rate of 6.4% per a year since 1992-93 in comparison to 5.8% recorded in the 1980s.

   Further, poverty had shown declining trend from 36% in 1993-94 to 26% or less now. While no specific information is available on the impact of the new economic policy of the Government in the improved conditions of the Scheduled Castes and Scheduled Tribes in particular, the new policy has led to higher rate of growth of the economy. It is expected that the SCs and STs might have also been benefited as a result of these new economic reforms.

2. The Committee has also been informed that according to Department of Economic Affairs, in view of the economic reforms in 1991-92, the country has

recorded a growth rate of 6-7 per cent annually. Though this is an improvement over the previous decade it is still inadequate to reduce the backlog of the country's poor masses and common man Economic reforms are aimed at accelerating the GDP growth, particularly in sectors which are important for employment generation.

Acceleration in growth of employment in various sectors is possible only if the country registers a minimum GDP growth rate of 8 to 9 percent per annum. Socially disadvantaged groups such as Scheduled Castes (SCs), Scheduled Tribes (STs) Other Backward Classes (OBCs) and Minorities have received special focus over the years. Various programmes for welfare and development of SCs, OBCs and Minorities are implemented by the Ministry of Social Justice & Empowerment.

For STs the Ministry of Tribal Affairs was set up in October, 1999 exclusively to attend to the needs of tribal population keeping in view their special needs and problems. The financial institutions viz. National Scheduled Castes and Scheduled Tribe Finance and Development Corporation (NSFDC), National Backward Classes Finance and Development Corporation (NBCFDC) have been strengthened by enhancing their authorized share capital with the aim of improving their performance and coverage.

3. It was also clarified by the Ministry of Tribal Affairs that as regards the Scheduled Tribes, the purpose of economic liberation is to put resources to the social sector from the Industrial and other sectors where Government was investing on a large scale. With private sector funds coming into industrial and other infrastructure development sectors, the Government would be in a better position to invest more in the social sectors like health, education, rural development, drinking water supply and other social activities. This increased allocation to the social sectors will be beneficial for the Scheduled Caste and Scheduled Tribes and they will be able to get better coverage in health, education, drinking water supply etc. from the Government budgetary resources.

4. When asked to explain whether profit making public sector undertaking are being disinvested, the Department of Disinvestment in a written note have stated that the decision of the Government for disinvestments of its equity in any public sector enterprises is governed by the declared disinvestment policy.

This policy of the Government is applicable to all public sector enterprises, irrespective of the fact whether it is profit making or loss incurring. As stated in the Budget speech for the year 2000-2001, the disinvestments policy of the Government, applicable to the public sector enterprises in the non-strategic sector, is to bring down the Government equity to 26% or below in the generality of cases. IN cases of public sector enterprises involving strategic considerations, Government will continue to retain major holding.

5. The Committee have also been informed that the public sector enterprises have been classified as strategic and non-strategic as indicated below:

(i) The Strategic Public Sector Enterprises would be those in the areas:
Arms and ammunitions and the allied Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture medicine and non-strategic industries). Railway transport.
(ii) All other public sector enterprises would be non-strategic. For the non-strategic Public Sector Enterprises, the reduction of Government share to 26% would not be automatic and the manner and pace of doing so would be worked out on a case-to-

case basis. A decision in regard to the percentage of disinvestments i.e. Government share going down to less than 51% to 26% would be taken on the following considerations:

(a) Whether the industrial sector as a countervailing force to prevent concentration of power in private hands, and

(b) Whether the industrial sector requires a proper regulatory mechanism to protect the consumer interests before Public Sector Enterprises are privy.

4.5 A Critical View on Industrial Development Policy

I - The Wider Context

The left front government's recent move for industrial development in west Bengal needs to be viewed in the national context of discussions and debates going on since the late colonial period, particularly the early post-colonial period, particularly the early post-colonial period of the 1950s and early 1960s, on industrialization and economic development and social justice.

The crucial issue in the industrialization debate, whether in the Bombay plan, better known as the Tat-Birla plan, as well as in the first three post - independence five year plans, was creation, protection and consolidation of a relatively autonomous domestic space in relation to the world imperialist system and foreign capital. The concern was not just economic growth but self-reliant growth with social justice. In the government was to play an active and large role. The industrial economy was divided into public sector and private sector.

Because of the large role assigned to the government, the emphasis laid on the public sector which was to attaint he commanding heights, the extensive power retained by the government through the licensing system and various other regulatory measures as well as the socialist resorted to by the congress leaders.

The economy and policy were viewed by some quarters as socialist ones. But it was basically a strategy and policies were viewed by some quarters as socialist ones. But it was basically a strategy and policy for fostering capitalist development, a relatively self reliant one with large space for the play of private market force, though within some limits. The existence of what came to be known as the world socialist system and particularly the Soviet Union facilitated the pursuit of such a strategy and helped the loosening of the imperialist and creation of indigenous industrial capabilities to a considerable extent.

The policy was of course marked by basic contradiction from the very beginning. It came to be increasingly diluted since the early 1980s, if not still earlier. The new economic policy launched in 1991-92 marked almost total abandonment of that policy in the name of globalization and liberalization, resource and increased competitiveness. This included, among others the following.

- An open door policy towards and red carpet treatment of international productive, commercial and financial capital in its new form of multi national companies.
- Curtailment and/or withdrawals of subsided for food grains and virtual dismantling of the public distribution of essential commodities.
- Privatization of public sector units
- Opening up of vital infrastructural areas and social sectors to private market forces
- Attempted introduction of flexibility in the labour market and euphemism for hire and fire policy.

Essentially, it involves the convergence of the Fund bank package prescribed in the interests of international capital with the secular interest of important sections of Indian capital who had also been pressing for a similar policy.

It would not be wrong to suggest that the policy being pursued is no policy at all, policy involves the putting forward of a well formulated perspective. Identification of thrust areas and prioritization among those area, forging of appropriate instruments and pursuit of suitable measures. But all this is absent under the Rao-singh dispensation. [62]

In justification of the new package request reference are being made to the cast and south East Asian experience of industrialization and economic development in Japan. South Korea and Taiwan. But the Rao- Singh policy if that can be called a policy at all is in sharp contrast to the East Asian experience.

There is a large and growing volume of detail. Foreign capital did not have unrestricted entry. It is striking that South Koreas pursued a policy of exclusion for many years and did not allow the use of the use of foreign brand names till the early 1980s. Taking advantage of such protectionist measure, the growth of giant conglomerates like the Hyundai and Samsung. The largest two companies took & place during the 1970s. [63]

To pt it somewhat differently, cast and some of the south east Asian governments exercised and industrial leadership role which is in sharp contrast with the role of the Rao- Singh government. [64]

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[62] *See, Rajnidas Gupta Eco & Political weekly, Vol. 30, July 29, 1995*
[63] *Ibid 62*
[64] *Ibid 62*

II- LEFT FRONT POLICY

The point in dwelling upon all this is to make a critical examination and assessment of the left front government's industrial policy. It would not be wrong to suggest that it is hard to find any basic difference between this policy and that of the central government. Some of the key components of the left front government's and public sector and by implication gradual withdrawal of the government from many key areas. [65]

- Virtual absence of any mention of promotion and expansion of government and public sector and by implication gradual withdrawal of the government from many key areas.
- Privatization of several state public sector units as well as social sectors.
- Virtual open door policy with regards to MNCs and foreign capital and foreign technology
- Development of the infrastructural sector through government of through private.

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[65] *Ibid 62*