

## **UNIT- IV**

Industrial Policy in India, Classification of Industries - Licensing System- Regulative Measures- Role of Public Sector and Private Sector – MNCs and Transfer of Technology.



# INDUSTRIAL POLICY OF INDIA





The World Bank (1992) has provided a working definition of industrial policy as “government efforts to alter industrial structure to promote productivity based growth.”

Industrial policy is probably the most important document , which indicates the relationship between government and business.



The major objectives of industrial policy are:

(i) Rapid Industrial Development:

(ii) Balanced industrial Structure:

(iii) Prevention of Concentration of Economic Power:

(iv) Balanced Regional Growth:



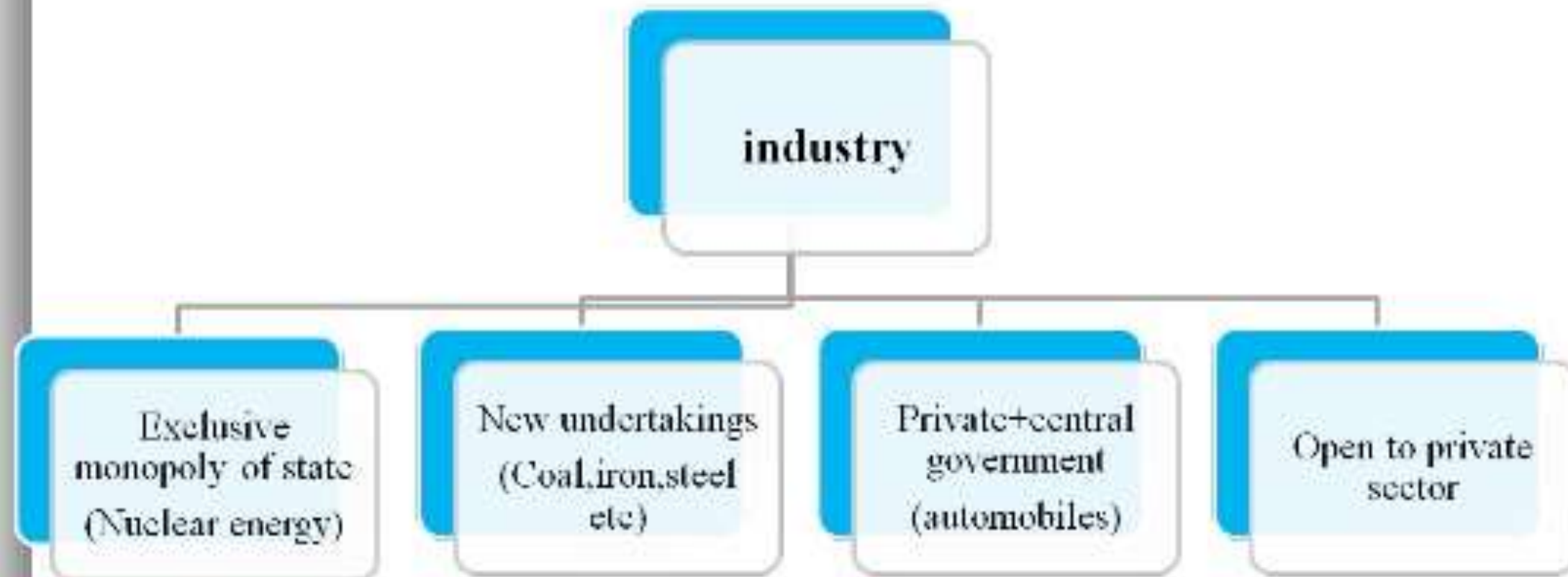
# **RESOLUTION OF INDUSTRIAL POLICY OF INDIA**

- 1. INDUSTRIAL POLICY RESOLUTION 1948  
(6 April, 1948)**
- 2. INDUSTRIAL POLICY RESOLUTION (30th  
April, 1956)**
- 3. INDUSTRIAL POLICY FEB 2, 1973**
- 4. INDUSTRIAL POLICY DEC 23, 1977**
- 5. INDUSTRIAL POLICY STATEMENT OF  
JULY, 1980**
- 6. INDUSTRIAL POLICY, JULY 24, 1991**

(6 April, 1946)

The Resolution emphasized at the following-

State must play of progressively active role in the development of Industries.







nature of public utility services, should be in the public sector.

- ❖ **The Government of India would stress the role of cottage and village and small scale industries in the development of the national economy .**
- ❖ **The policy emphasis on the provision of adequate incentives to workers and improvement in their working and service conditions All industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector.**




2. An exhaustive analysis of industrial products was made to identify products which are capable of being produced in the small scale sector.
3. The list of industries exclusively reserved for the small scale sector was expanded from 180 items to more than 500 items.
4. Within the small scale sector, a tiny sector was also defined with investment in machinery and equipment upto Rs.1 lakh and situated in towns with a population of less than 50,000 according to 1971 census figures, and in villages.
5. Special legislation to protect cottage and household industries was also proposed to be introduced.
6. In the areas of price control of agricultural and industrial products, the prices would be regulated to ensure an adequate return to the




marketing arrangements.

2. **The nucleus plant would also work for upgrading the technology of small units .**
3. **To boost the development of small scale industries, the investment limit in the case of tiny units was enhanced to Rs.2 lakh, of a small scale units to Rs.20 lakh and of ancillaries to Rs.25 lakh.**
4. **A scheme for building buffer stocks of essential raw materials for the Small Scale Industries was introduced for operation through the Small Industries Development Corporations in the States and the National Small Industries Corporation in the Centre**

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- (i) Optimum utilisation of installed capacity;**
  - (ii) Maximum production and achieving higher productivity;**
  - (iii) Higher employment generation;**
  - (iv) Correction of regional imbalances;**
  - (v) Strengthening of the agricultural base through agro base industries and promotion of optimum inter-sectoral relationship;**
  - (vi) Promotion of export-oriented industries;**
  - vii) Promotion of economic federalism through equitable spread of investment and dispersal of returns;**
  - (viii) Consumer protection against high prices and bad quality**







**for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialist, prosperous and forward-looking India.**

- 2. Such a society can be built if India grows as part of the world economy and not in isolation . .**
- 3. The spread of industrialisation to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments**
- 4. Government will provide enhanced support to the small-scale sector so that it flourishes in an environment of economic efficiency and continuous technological upgradation.**



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- 6. Government will endeavour to abolish the monopoly of any sector or any individual enterprise in any field of manufacture, except on strategic or military considerations and open all manufacturing activity to competition.**
  - 7. The Government will ensure that the public sector plays its rightful role in the evolving socioeconomic scenario of the country. Government will ensure that the public sector is run on business lines as envisaged in the Industrial Policy Resolution of 1956 and would continue to innovate and lead in strategic areas of national importance.**
  - 8. Labour will be made an equal partner in progress and prosperity.**



be to and on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness

**11. Need to preserve the environment and ensure the efficient use of available resources**

**12. In pursuit of the above objectives, Government have decided to take a series of initiatives in respect of the policies relating to the following areas:**

**A. Industrial Licensing**

**B. Foreign Investment**

**C. Foreign Technology Agreements**

**D. Public Sector Policy**

**E. MRTP Act(Monopolies and restrictive trade practices act)**





### **Positives of the new policy are:**

- Delicensing of most industries will help entrepreneurs to quickly seize business opportunities.
- Removal of controls under the MRTP Act will facilitate expansion and growth.
- There will be greater inflow of foreign capital and technology due to easing of restrictions.
- Burden on the public sector will be reduced and reforms relating to the public sector like transferring sick units to BIFR will help improve their performance.
- In case of women entrepreneurs, not only ten percent of the plots in an industrial but also offering 5 percent additional subsidy subject to a maximum of Rs.5 lakh.


### **Watch- outs :**

- The policy environment is much more conducive for both domestic and foreign investment than in the past. However, a host of countries are now trying to woo foreign investment with a much more conducive economic environment than in India. Also, cultural factor do also tend to tilt the balance in favor of other nations.
- Further, foreign investors still regard the policy and procedural system in India confusing. Rather many feel that policy and development environment in China is superior to India.





- **It will lead to domination of MNC on the Indian Economy. Threat from foreign competition due to cheaper imports and inability to meet the challenge from MNCs due to their weak economic strength vis-à-vis the MNCs. CII did raise the point that we have moved away from too much protectionism to too little protectionism.**
- **Trade Unions oppose the policy due to fear of unemployment which may arise due to privatization.**
- **Distortion in industrial pattern would occur due to slow pace of investment in few basic and strategic industries. Absence of a mechanism would slow down the development of backward areas.**
- **Government is silent about tackling the growing industrial sickness. The Government has not announced a clear exit policy for sick units**



be done to reap the full benefits. There is a need for Second  
**Generation Reforms:**

**A. Exploiting the Knowledge based Global Economy:**

- Revolutionizing the telecom sector to help to integrate India's economy into the world economy.
- Build institutes for higher education .
- A system of intellectual property rights to reward innovations adequately.
- Venture capital funds to finance risk projects of the knowledge based economy.

**B. Growing Indian Transnational Corporations:**

- Indian firms to enjoy flexibility in entry and exit. Freedom to diversify and close down unsuccessful units.
- Liberalize and move towards capital account convertibility.





agricultural research, infrastructure and agricultural input.

**D. Empowering the Poor:**

- Integrate and consolidate anti poverty measures.
- Set up a system for old age security.

**E. Human Development**

- Primary education made compulsory.
- Involve private sector to provide better primary education.

**F. Clean Environment:**

- Arrest damage to environment
- Promote clean and healthy environment.

**G. Improvements to Governance:**

- Rationalize electricity prices
- Bring in legal reforms that ensure inexpensive and speedy justice and at the same time facilitate economic growth.





<b>INDUSTRY</b>	<b>Enterprises engaged in the manufacture of productions of goods: investment in plant and machinery</b>	<b>Enterprises engaged in providing or rendering of services: investment in equipment.</b>
<b>MICRO</b>	Not exceeding Rs.25 Lakh	Not exceeding Rs.10 lakh
<b>SMALL</b>	Between Rs. 25 lakh and Rs.5 core	Between Rs.10 lakh and Rs.2 crore.
<b>MEDIUM</b>	Between Rs.5 crore and Rs.10 crore	Between Rs. 2 crore and Rs.5 crore.

## Financial institutes in India


- Industrial finance corporation of India(IFCI)
- Industrial credit and investment corporation of India(ICICI)
- Industrial development bank of India(IDBI)
- Small industries development bank of India(SIDBI)
- Industrial investment bank of India.
- National Bank of Agricultural and Rural Development of India(NABARD)
- State industrial development corporations.





Rs.250crore for the purpose of offering benefits to them.

- The policy provides a 25 percent VAT reimbursement for five years for large and medium enterprises, 50 percent for small enterprises and cent percent for micro units.
- For micro and small industries the investment subsidy has been increased from Rs.15lakhs to Rs.20lakhs.
- 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.5lakhs.
- Attract investments in the industry and service sector by developing



industrial units in the states.(Pradhan mantri 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 ensure 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.
- Trade Related Intellectual Property Rights (TRIPR) under WORLD TRADE ORGANISATION will be widely publicized so that these could be used to generate more employment and trade opportunities.



# INDUSTRIAL LICENSING POLICY:

The most important part of the new industrial policy of 1991 was the end of the industrial licensing or the license raj or red tapism. Under the industrial licensing policies, private sector firms have to secure licenses to start an industry. This has created long delays in the start up of industries. The industrial policy of 1991 has almost abandoned the industrial licensing system. It has reduced industrial licensing to fifteen sectors. Now only 13 sector need license for starting an industrial operation.

- ▶ The public sector is that portion of an economic system that is controlled by national , state or local governments.
- ▶ The composition in most countries it includes defence, public health ,public education etc.
- ▶ The main intention of the public sector is to provide quality services and product to the citizens.

Examples: SAIL, Indian Oil Corporation, Coal India





- ▶ The private sector is part of a country's economic system that is run by individual or group of individuals.
- ▶ The most private sector organizations are run with the intention of making profit.
- ▶ The capital are arranged by the owners.
- ▶ It is managed without any government participation.

Examples: Tata Consultancy Services, ICICI Bank Limited



- ▶ Helps in rapid economic growth.
- ▶ To earn return on investment.
- ▶ For the development of infrastructure.
- ▶ To Act as effective competition to other private sector.
- ▶ For generating employment in government administration , defence etc.



# Role of Private sector

- ▶ To provide adequate competition.
- ▶ To generate more employment opportunities.
- ▶ To reduce political interference.
- ▶ To increase the standard of living of the people.
- ▶ Increase the number of private industry in India.

## What is Multinational Corporations?

- Multinational corporation refers to the corporate giant business firm having extended its productive activity in many nations besides its home country.
- According to David E. Littlefield, MNCs as “Corporations which have their home in one country but operate and live under the laws and customs of other countries as well”.



- MNCs have managerial headquarters in home countries, and they also carry out their business in other country as well.
- A large part of capital assets of the parent company is owned by the citizens of the company's home country.
- MNCs are predominantly large-sized and exercise a great degree of economic dominance.
- The absolute majority of the members of the Board of directors are citizens of the home country.

## Role of MNC in Developing Countries:

MNCs have contributed significantly to development of world economy at large.

- MNCs help a developing host country by increasing investment, income and employment in its economy.
- They contribute to the rapid process of development of the country through transfer of technology, finance and modern management.
- MNCs promoting exports of the host country.



## Role of MNC in developing countries....

- MNCs by producing certain required goods in the host country help in reducing its dependence on imports.
- MNCs due to their wide network of productive activity equalize the cost of production in the global market.
- Entry of MNCs in the host country makes its market more competitive and break the domestic monopolies.
- MNCs accelerate the growth process in the host country through rapid industrialization and allied activities.

## Role of MNC in Developing Countries....

- MNCs integrate national and international markets. Their growth in these days has remarkably influenced economic, industrial, social environment.
- MNCs are regarded as agents of modernization and rapid growth.
- MNCs bring ideas and help in exchange of cultural values.





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