INDIANCIVILS *Sample Material*
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INDUSTRIAL POLICY
Sample Material

Q: What is Industrial Policy?

The government takes measures aimed at improving the competitiveness and capabilities of domestic firms and promoting structural transformation.

A country's infrastructure (transportation, telecommunications and energy industry) is a major part of the manufacturing sector that usually has a key role in IP. Industrial policies are sector specific, unlike broader macroeconomic policies. They are sometimes labelled as interventionist as opposed to laissez-faire economics. Examples of horizontal, economy wide policies are tightening credit or taxing capital gain, while examples of vertical, sector-specific policies comprise protecting textiles from imports or subsidizing export industries. Free market advocates consider industrial policies as interventionist measures typical of mixed economy countries.

Q: What is the Importance about the Industrial policy and its time line?

Industrial activity is a major source of stability in an economy. It is more crucial in a planned economy wedded to the achievement of such an objective of economic growth and social justice. Achievement of such an objective requires active State participation in the process of industrialization to give the required directions as demanded by the situation.

An industrial policy provides guidelines for the effective co-ordination of the activities of various sectors of the economy. The evolution of industrial policy in India may be studied in this background to see how far it has worked as a potent tool to realize the goal of planned development.

INDUSTRIAL POLICY RESOLUTION, 1948

The IPR, 1948 created a mixed economy reserving a sphere for the private and public sectors. It divided the industries into four groups:

- Industries with exclusive Central Govt. monopoly, arms and ammunitions, atomic energies and railway transport.
- Mixed sector - State controlled new undertaking in coal, iron and steel, air craft, telephone, etc.
- Under State resolution and control consumer goods industries, and
- Under cooperative and private enterprises remainder industries. The policy further emphasized the role of cottage and small scale industries and of foreign capital in industrializing the Indian economy.

INDUSTRIAL POLICY RESOLUTION, 1956

In April 1956, the Govt. of India announced its new industrial policy which acted as a turning point of industrial growth in the economy. The new policy was based on certain important economic and political developments in the country, the adoption of the Constitution of India in 1950, the emphasis on socialistic pattern of society, the success of 1st Five Year Plan and the launching of 2nd Five Year Plan with emphasis on industrialization.

The Industrial Policy Resolution of 1956 laid down the various objectives as follows:

- To accelerate the growth-rate of the economy:
- To speed up industrialization;
- To expand the public sector;
- To develop heavy, basic and key industries;
- To build up a co-operative sector;
- To reduce concentration of wealth and assets in few hands; or to prevent private monopolies and concentration of economic power;
- To undertake State trading on increasing scale;
- To set up new undertakings and develop new transport facilities by the State.

IMPORTANT PROVISIONS OF IPR, 1956

1. The 1956, IPR divided the industries in to three groups, such as,
   - Schedule A industries which were under the exclusive monopoly of the State. It included arms and ammunitions, atomic energy, iron and steel, coal, oil, power, heavy machinery, railways and etc.
   - Schedule B industries comprising 12 industries which would be progressively State-owned. The existing units under this category in private sector will continue, but new units have to be set up by the State. This category included chemicals, fertilizers, drugs, transport and etc.
   - Schedule C industries comprising all other enterprises development of which has to be left to the private sector.

2. The Industrial Policy also emphasised the mutual co-existence of both the private and public sectors.
3. It emphasised the role of State in the development of private sector through provision of financial assistance and technical guidance.
4. The Policy also encouraged both the cottage and small scale units.
5. The Policy further emphasised to reduce the level of disparity in levels of industrialization between different regions of the country. The Policy also stressed on the balanced development of both agriculture and industry in different regions.
6. The Policy also aimed at establishing proper technical and managerial cadres by providing training facilities in universities and other industrial centres.
7. The Policy also emphasised improving the working conditions of workers for maintaining industrial peace.
8. Emphasis was also given to the role of foreign capital in the economic development of India.

Q: Briefly Explain about the Industrial Policy 1956

What are the Main Features of the Industrial Policy of 1956 (India)?

1. Classification of Industries:

The government of India has classified industries into three categories. These categories are as under:

(a) Government Enterprises:

In schedule 'A', 17 industries have been kept. These industries are reserved for public sector. The industries that have been put under this category are of basic and strategic importance. They need enormous capital for development. The government has the exclusive control over these industries. The industries under the Schedule 'A' are as follows:

(i) Arms, ammunitions and allied items of defence equipment;
(ii) Atomic energy;
(iii) Heavy casting and forging of iron and steel;
(iv) Iron and Steel;
(v) Heavy plants and machinery required for basic industries;
(vi) Heavy electrical plants including large hydraulic and steam turbines;
(vii) Coal and Lignite;
(viii) Mineral Oils;
(ix) Mining of iron ore, manganese ore, gypsum, sulphur, gold and diamond;
(x) Minerals for atomic energy;
(xi) Mining and processing of copper;
(xii) Aircraft;
(xiii) Air transport;
(xiv) Railway transport;
(xv) Ship-building;
(xvi) Telephones and telephone cables;
(xvii) Generation and distribution of electricity.

(b) Mixed Enterprises:

In the second category, there are twelve industries shown in schedule 'B' which will be progressively state owned and in which the state will generally take the initiative in establishing these new undertakings. At the same time, private enterprise will also have the opportunity to develop in these fields. Under Schedule 'B', the industries are:

(i) All minerals except minor minerals as defined in Section 3 of the Minerals Concession Rules, 1949;
(ii) Aluminium and other non-ferrous metals not included in Schedule 'A';
(iii) Machine tools ;
(iv) Ferro alloys and tool steels;
(v) Basic and intermediate products required by chemical industries like drugs, dye-stuffs and plastics;
(vi) Antibiotics and other essential drugs;
(vii) Fertilizers;
(viii) Synthetic rubber;
(ix) Carbonization of coal;
(x) Chemical pulp;
(xi) Road transport and
(xii) Sea transport.

(c) Private Enterprises:

All the remaining industries come under the third category and their development, in general, has been left open though it will be up to the state government to start any industry in this category. The state has proposed to facilitate and encourage the development of these industries in accordance with the programmes formulated in successive five year plans. They also ensured the facilities of transport, power and other services and all other appropriate fiscal measures.

2. **Role of Cottage and Small Scale Industries:**
   The Industrial Policy has laid special emphasis on giving every encouragement to cottage and small scale industries. The role of such industries has been approved by the resolution in the development of the national economy since they provide immediate large-scale employment, equitable distribution of the national income and facilitate an effective mobilization of resources and skill which might otherwise remain unutilized. The new policy supports the idea of establishing the industrial estates and the rural community workshops to eliminate their deficiencies. The state has been endeavouring to foster by restricting the value of production in large scale industries by giving incentives, facilities of raw material, marketing facilities, cheap electricity and finance etc.
3. **Private Sector Assistance and Control:**
   The policy of 1956 will facilitate and encourage the private enterprise in the development of industries according to the programmes and policies of the successive five-year plans. Industrial undertakings in the private sector are required to fit into the framework of the social and economic environment of the state. This will be strictly to the subject of control and regulation of the State Development and Regulation Act 1951 and other relevant legislations. The policy further added that the state would continue to provide fair and non-discriminatory treatment to both public and private enterprises when both exist side by side in a particular industry.
4. **Reduction of Regional Disparities:**
   The industrial policy resolution stresses the reduction of disparities in levels of development between different regions. It aims at industrialization which may benefit the economy of the country as a whole. The resolution supports the idea of a balanced and coordinated development of the industrial and the agricultural sectors in each region for attaining higher standards of living. To achieve this aim, transport, power supply and other facilities will be made available to the backward sector.
5. **No Water-tight Compartments:**
   The division of industries into different categories does not imply that they are placed in water-tight compartments. Towards this end, the private sector might produce an item for meeting the requirements of the industry. Similarly, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector. Therefore, the public and private enterprises are expected to operate closely together in spite of the fact that the major partner is the public sector.
6. **Technical and Managerial Personnel:**
   The industrial policy of 1956 emphasizes on the provision of managerial and technical personnel in public services to meet the rapidly growing needs of the public sector and for the development of the cottage and small scale industries. This includes setting up of technical staff cells in the public sector and to organize apprenticeship schemes on a large scale. They also laid down the stress on the training in business management.
7. **Decentralization of Powers:**
   The industrial policy recognizes that with the growing participation of the state in industry and trade, the management of these activities will assume considerable importance. Thus, government recommends that there should be decentralization of authority and the management of the state undertakings. In their working, public enterprises should be given the largest possible place of freedom and their success should be judged on the basis of total performance.
8. **Labour Participation in Management:**

The resolution accepted that in a socialist democracy, labour participation is very essential. Thus, they must be provided a share in management i.e. the facility of joint consultation of workers with management. Some laws governing industrial relations have been enacted. The entrepreneurs in public sector have been asked to set an example in this regard.

9. **Attitude towards Foreign Capital:**
   The attitude regarding foreign capital remained unchanged. The government suggested following the directions of Industrial Policy of 1948.

INDUSTRIAL POLICY STATEMENT, 1977

The main emphasis of Industrial Policy Statement, 1977 was to encourage small scale and cottage industries as against the big industrial houses and multinationals. The areas reserved for public sector were extended further. The Policy emphasised decentralization of industries and development of backward industrial areas. The District Industries Centres were created to serve as a focal point for development of small scale units. The small scale sector was classified into the three categories:

- Cottage and small industries providing self-employment on a wide scale;
- Tiny sectors with investment in machinery and equipment up to Rs.1 lakh in town areas and Rs.50, 0007- in rural areas; and
- Small scale sectors with investment of Rs.10 lakhs and in case of ancillary units with an investment in fixed capital up to us 18 lakhs.
- Policy also proposed to revitalize the Khadi and-village industries by drawing special programmes in the Khadi and handloom sectors.

INDUSTRIAL POLICY, 1980

The basic objectives of 1980 Policy were as follows:

- Optimum utilisation of the installed capacity,
- Maximizing production and achieving higher productivity,
- Higher employment generation,
- A speedy promotion of export-oriented and import-substitution units,
- Strengthening agricultural base by according a preferential treatment to agro-based industries and promoting an inter-sectorial relationship, and
- Protecting consumer interest against high prices and bad quality, certain measures were outlined to achieve these objectives. These policies included re-orientation of the public sectors, assistance for the growth of private sectors and promotion of small scale units.

INDUSTRIAL POLICY, 1990

The Janata Dal Govt.’s 1990 Policy emphasised the growth of small scale and agro-based industries and at the same time, made an effort to permit blanket liberalization with a view to accelerate the growth of medium and large scale units.

NEW INDUSTRIAL POLICY, 1991

The basic objective of the New Industrial Policy is to make the industrial economy free from the unnecessary bureaucratic control, to introduce liberalization in order to integrate the Indian economy to the rest of the world, to remove restriction on direct foreign investment and also to free the domestic industrialists from the restriction of M.R.T.P Act. Further the Policy aims to shed the load of public enterprises which have shown a very low rate of return or are incurring losses over the years. The salient features of the New Policy are as follows:

1. **Industrial licensing:**
   Industrial Policy abolished all industrial licensing's irrespective of the level of investment. In all, only 18 industries required compulsory licensing but in April 1993, Government exempted three more industries from licensing keeping only 15 industries required for compulsory licensing. The substantial expansions of existing units were also exempted from licensing.
2. **Foreign investment:**
   - In case of 34 priorities industries, 51% equity was given directly to foreign investment like metallurgy, electrical equipments, software, hotel and tourism.
   - Clearance has to be given if foreign equity covers the foreign exchange requirement for import of capital goods.
   - Direct foreign investment beyond 51% in sectors other than 34 specified industries is also permitted subject to the approval of Government.
   - All payments flowing from approval of foreign technology agreement will have to be made through foreign exchange purchase at market rent.
3. **Foreign technology agreement:**
   - In order to modernize the Indian industries and to bring technological dynamism, the Policy provided automatic approved foreign technology agreements related to high priority industries subject to
     a) Lump sum payment of rupees 1 crore,
     b) 5% royalty for domestic sale,
     c) 8% of export for 7 years from the commencement of production.
   - No permission will be necessary for hiring of foreign technicians and foreign testing of indigenously developed technology.
   - Specially empowered Foreign Investment Promotion Board has-been constituted to negotiate with international forums to approve direct foreign investment in selected sectors.
4. **Public Sector:**
   - Portfolio of public sector has to be reviewed in order to focus the public sector on strategic, high-tech and essential infrastructure. The numbers of industries resolved for public sector have been reduced from 17 to 8 and the private sectors were allowed to expand in those selected sectors. Similarly the public sector is also allowed for areas previously not reserved for it.
   - Those public sector units earning continuous loss and are conically sick are to be referred to the Board for industrial and financial reconstruction for their revival and rehabilitation. A social security mechanism has to be created to protect the interest of the workers likely to be affected by rehabilitation package.
   - In order to raise resources and encourage wide public participation, the Policy intended to disinvest public sector equity in favour of financial institution, mutual funds, employees and general public.

RATIONALE OF ECONOMIC REFORMS – CRISIS OF 1991

1. There was inefficient management of the Indian economy in the 1980s. The public expenditure was more than the government revenues. Government was not able to generate sufficient revenue from internal sources such as taxation.
2. To finance the deficit the government borrowed heavily from banks, people of the country and international financial institutions.
3. Development policies required that even though the revenues were low, government still had to spend to solve the problems like unemployment, poverty and population explosion. Such programmers did not generate additional revenue.
4. Prices of many essential goods rose sharply.
5. The income from PSUs was also not high enough meeting additional expenditure. Many PSUs were suffering losses. Foreign Trade
6. Imports grew at a very high rate without matching growth of exports.
7. Sufficient attention was not paid to boost exports to pay for the growing imports.
8. Scarce foreign exchange was spent on meeting consumption needs.
9. Foreign exchange reserves dropped to levels that were not sufficient for even a fortnight.
10. The government was not able to make repayments on its borrowings from abroad.
11. There was not sufficient foreign exchange to pay the interest on international loans.
12. Die approached IBRD and IMF for long term loans. While granting the loan, the World Bank and IMF insisted on major changes in development policies. In this way the idea of New Economic Policy (NEP) germinated. NEP included three main polices namely, Liberalization, Privatization and Globalization (LPG).

ASSESSMENT OF THE 1991 POLICY

Positive Impact

1. The growth of GDP increased from 5.6% during 1980-91 to 6.4% during 1992-2001. The Tenth Plan (2002-2007) has projected the GDP growth rate at 8%.
2. Foreign investment increased from about US $ 100 million in 1990-91 to US $ 150 billion in 2003-04.
3. Foreign exchange reserves increased from about US $ 6 billion in 1990-91 to US $ 125 billion in 2004-05.
4. The growth of agriculture and industrial sector has declined whereas the growth of service sector has gone up.
5. India became a successful exporter of auto parts, engineering goods, IT software and textiles.
6. There has been high growth of the service sector in India, There is increase in demand for services because:
7. It is more profitable for the other countries to contract services from developing countries.
8. There is easy availability of skilled manpower at lower wage rate.

Negative Impact

1. LPG could not solve the basic problems facing our economy in the areas of employment, agriculture, industry, infrastructure development and fiscal management Growth and Employment
2. NEP could not generate sufficient employment opportunities, adverse effect on agriculture.
3. The growth rate in agriculture has been decreasing during the reform period because of the following reasons:

4. There has been reduction in public investment in agriculture especially in infrastructure which includes irrigation, power, roads, research and development (R&D)
5. Removal of fertilizer subsidy has led to increase in the cost of production – adversely affected small nod marginal farmers
6. Increase d international competition had an adverse effect on farmers because of Reduction in import duties on agricultural products
7. Removal of minimum support prices
8. Lifting of quantitative restrictions on agricultural products
9. There has been a shift from production for the domestic market towards production for the export market. The focus of the farmers is on cash crops rather than food grains. This has created pressure on prices of food grains.

Adverse effect on Industrial Sector

1. Industrial growth has recorded a slow down because of cheaper imports and inadequate investment in infrastructure.
2. Foreign Competition resulted in cheaper imports (especially Chinese goods) replacing the demand for domestic goods.
3. Infrastructure facilities, including power supply remained inadequate due to lack of investment.
4. No access to developed countries markets because of non-tariff barriers. India removed quota restrictions on import of textiles from USA and other developed countries. However USA has not removed their quota restriction on import of textiles from India and China. Disinvestment
5. The assets of PSUs have been undervalued and sold to the private sector. It has resulted in substantial loss to the government.
6. Ends collected from disinvestment were used to finance the budget deficit (to fill the gap between government expenditure and government revenue). It should have been used for the development of PSUs and building social infrastructure.

Reforms and Fiscal Policies

1. Tax reductions have not resulted in increase in tax revenue.
2. Tariff reduction have curtailed the scope for raising revenue through custom duties
3. Tax concessions given to promote foreign investment further reduced the scope for raising tax revenues

LIBERALIZATION

Liberalization means freeing the economy from govt. control. It put an end to all the rules and laws which were aimed at regulating the activities of private sector. Following are the major changes taking place in important areas under the liberalization policy:

Deregulation of Industrial Sector

1. Industrial licensing was abolished for almost all industries except a few industries. Private sector was allowed in the industries which were so far reserved for public sector. Only six industries are now reserved for public sector.
2. Many goods reserved for SSI have been de-reserved.
3. In most of the industries market has been allowed to determine the prices.

Financial Sector Reforms

1. The role of RBI changed from regulator to facilitator in context of Foreign Exchange.
2. Financial sector was allowed to take decisions on many matters independently.
3. The government allowed establishment of private sector banks, Indian as well as foreign.
4. Freedom was given to banks to set up new branches without the prior approval of RBI
5. Foreign Institutional Investors (FII) such as merchant bankers, mutual funds and pension funds are now allowed to invest.

Tax Reforms

1. The government reduced the Income tax and corporation tax rates. Higher taxation rate was thought to be causing tax evasion.
2. The government tried to broaden the tax net in various ways in order to raise the tax revenue.
3. Simplification of tax procedures was done to remove the hassles for the tax payers. Foreign Exchange Reforms
4. Devaluation of Rupee in 1991 led to increase in the inflow of foreign exchange
5. The exchange rates were allowed to determine by the market forces. The govt. intervention in the matter was progressively removed.

Trade and Investment Policy Reforms

Liberalization of trade and investment policies was initiated to promote the efficiency of the local industries and the adoption of modern technologies. The reforms included:

1. Removal of quantitative restrictions on exports and imports
2. Reduction of tariff rates
3. Import licensing was abolished except in case of hazardous and environmentally sensitive industries.

Reserve Bank of India and Financial Institutions

1. There has been a shift in the role of the RBI from a regulator to facilitator. Earlier as a regulator, commercial banks and other financial institutions were completely controlled by RBI. RBI would fix the interest rate structure for the commercial banks.
2. The banks required prior approval of RBI on all policy issues including opening of new branches, now the role of RBI is more of a facilitator. The banks and financial institutions are given more autonomy, with more independence in deciding the policy matters. The interest rates and foreign exchange are allowed to be determined by market forces.

Q: Explain the LPG concept with IP 1991?

Through this 'Industrial Policy of 1991' major changes have been introduced during the last few years is 'new' to Indian economy such as:

- Industrial licensing system has been almost abolished. No license is required from the government.
- Producers are free to decide their scale and level of production.
- Whole of the economy has been left open to the private capital. Exclusive reservation for the public sector has been cut down to only areas of strategic importance.
- Doors have been left open for MNC's. These are given automatic approval.
- MRTP Act has been liberalised.

- Foreign exchange regulation has been almost totally dispensed with.
- Imports of almost all the goods are freely allowed without any restrictions.
- All price and distribution controls have been removed.
- Liberal incentives are being given to private enterprise to enter infrastructure industries. In short, we can say, the economic policy in post -1991 period has taken U-turn. The new economic policy revolves around the following liberalisation, privatization and globalization (LPG) policy of Government.

Economic liberalisation after 1991 came to forefront giving greater freedom to economic agent to take their own decisions. Thus, making a sharp departure from the Industrial Policy Resolution, 1956, the Government announced a new industry policy, heralding new objectives to be set out by Indian economy.

Q: What are the Important Changes in Industrial policy 1991?

A new industrial policy was introduced on 24th July 1991 which aimed and effected liberalization in economy, promotion of global trade via globalisation and to some extent provisions for private partnership.

For these major measures proposed were:

- Elimination of requirements of registration and licensing for establishing new Industry or expanding the existing units.
- No requirement to get government's permission for foreign technical cooperation.
- Raise the limits of foreign investment up to 51 percent from 40 percent in most priority sectors.
- Except industries listed in the second schedule, all other industries were excluded from licensing process.
- All Industrial sectors opened for private enterprises except Arms and ammunitions, nuclear energy, oil, coal, railway and some listed minerals

These steps are taken to boost the economical progress and industrial growth in India.

Q: What are the Lapse issues on Industrial Policy?

The new industrial policy announced by the Govt, recently ushered in a new era in the industrial sphere of the country. It paves the way for liberalization which again will result in a faster industrial growth as the industrial sector is being relieved of unnecessary control and regulation. On the contrary, politics bureau of the CPM described the policy, the surrender to the IMF - World Bank pressures. Further, it represented a major victory for those agencies that had been systematically pushing the government to adopt the path of outright liberalization and privatization. However, the main drawbacks of new industrial policy are mentioned below.

1. **Unresolved Issues:**

   The new industrial policy seems to have neglected some very important matters regarding the pattern of industrial development. There is a great need to reorient industrial production to confirm it to the country's potentials. There are many industries which need to be provided support. For instance, garment manufacturing which is labour intensive has a great potential for further increase in exports. But due to inadequate weaving and manufacturing facilities we have to export raw cotton on a considerable scale. In the same fashion, viability of engineering industry needs to be re-examined as its growth is declining.

2. **No Exit Provision:**
   Another pitfall of the new policy is that it overlooked some important requirements without which the policy loses its strong hold in industrial sector. For instance, there are various relaxations which facilitate easy entry into the industry. But, in the new policy, there is little scope to exit if business makes losses and there is no scope for recovery.
3. **Administrative Hurdles:**
   The new industrial policy represents the intentions and actions of the central Govt, which are important and not sufficient for the effective implementation of the liberal policy. But there are a number of things which are needed to be done at the state level and below.

   For instance, an industrialist intending to establish a producing unit may not require license from the central Govt, but he has to get land, seek electricity and water connection and to get sanctioned building plans. For all these he has to approach administration at the state, district level.

4. **Little for Labour:**
   The new industrial policy makes little provisions for labour. A practical exit policy requires co-operation from labour. This pre- supposes that provisions should be made to compensate labour to find jobs somewhere else.

   Moreover, it is necessary that labour-employer relations should be placed on such basis which minimizes the conflict arising from changes in the industrial profile of the country.

5. **Overlooking Employment:**
   The generation of employment opportunities to cope with the increase in labour force has been neglected in the new industrial policy. In the eighties, the employment generation in the large and medium industries was as slow as 1.55 per cent a year while the labour force grew at 2.1 per cent a year.

   Similarly, in the organized public sector also the annual employment growth rate dropped from 5 per cent in sixties to 2.6 per cent in 1980's. Thus, the new policy seems to turn its focus away from this problem and displays the same fetish for growth alone as has been during the eighties.

6. **Uncertain Prospects for SSI:**
   In the new industrial policy the future of small sick units is not clear. As, regarding the supply of credit, it stresses on the adequacy of credit rather than cheap credit. Similarly, this policy in its zeal to integrate the production programmes of these industries with large industries may actually make them dependent on big industries.

Q: Explain about Small Scale Industries?

Meaning and Concept of Small Scale Industry:

In most of the developing countries like India, Small Scale Industries (SSI) constitutes an important and crucial segment of the industrial sector. They play an important role in employment creation, resource utilisation and income generation and helping to promote changes in a gradual and phased manner. They have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. The reasons are obvious.

The scarcity of capital in India severely limits the number of non-farm jobs that can be created because investment costs per job are high in large and medium industries. An effective development policy has to attempt to increase the use of labour, relative to capital to the extent that it is economically efficient.

Small scale enterprises are generally more labour intensive than larger organisations. As a matter of fact, small scale sector has now emerged as a dynamic and vibrant sector for the Indian economy in recent years. It has attracted so much attention not only from industrial planners and economists but also from sociologists, administrators and politicians.

Definition of Small Scale Industry:

Defining small-scale industry is a difficult task because the definition of small-scale industry varies from country to country and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country.

Every country has set its own parameters in defining small-scale sector. Generally, small-scale sector is defined in terms of investment ceilings on the original value of the installed plant and machinery. But in the earlier times the definition was based on employment. In the Indian context, the parameters are as follows.

The Fiscal Commission, Government of India, New Delhi, 1950, for the first time defined a small-scale industry as one which is operated mainly with hired labour usually 10 to 50 hands.

Fixed capital investment in a unit has also been adopted as the other criteria to make a distinction between small-scale and large-scale industries. This limit is being continuously raised up wards by government.

The Small Scale Industries Board in 1955 defined, “Small-scale industry as a unit employing less than 50 employees if using power and less than 100 employees if not using power and with a capital asset not exceeding Rs. 5 lakhs”.

The initial capital investment of Rs. 5 lakhs has been changed to Rs. 10 lakhs for small industries and Rs. 15 lakhs for ancillaries in 1975. Again this fixed capital investment limit was raised to Rs. 15 lakhs for small units and Rs. 20 lakhs for ancillary units in 1980. The Government of India in 1985 has further increased the investment limit to Rs. 35 lakhs for small-scale units and 45 lakhs for ancillary units.

Again the new Industrial Policy in 1991 raised the investment ceilings in plant and machinery to Rs. 60 lakhs for small-scale units and Rs. 75 lakhs for ancillary units.

As per the Abid Hussain Committee’s recommendations on small-scale industry, the Government of India has, in March 1997 further raised investment ceilings to Rs. 3 crores for small-scale and ancillary industries and to Rs. 50 lakhs for tiny industry.

The new Policy Initiatives in 1999-2000 defined small-scale industry as a unit engage in manufacturing, repairing, processing and preservation of goods having investment in plant and machinery at an original cost not exceeding Rs. 100 lakhs.

In case of tiny units, the cost limitation is up to Rs. 5 lakhs. Again, the Government of India in its budget for 2007-08 has raised the investment limit in plant and machinery of small-scale industries to 1.5 corers An ancillary unit is one which is engaged or proposed to be engaged in the manufacture c production of parts, components, sub-assemblies, tooling or intermediaries or rendering services and the undertaking supplies or renders or proposes to supply or render not less than 50% of its production or services, as the case may be, to one or more other Industries undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or lease or on hire-purchase does not exceed Rs. 75 lakhs.

For small-scale industries, the Planning Commission of India uses terms ‘village a small-scale industries’. These include modern small-scale industry and the traditional cottage and household industry.

COMPETITION COMMISSION OF INDIA

Q: Which bodies regulates the industrial things?

Q: What is Computation Commission of India?

Competition Commission of India is a body of the Government of India responsible for enforcing The Competition Act, 2002throughout India and to prevent activities that have an adverse effect on competition in India. It was established on 14 October 2003. It became fully functional in May 2009.

The Competition Act, 2002, as amended by the Competition (Amendment) Act, 2007, follows the philosophy of modern competition laws. The Act prohibits anti-competitive agreements, abuse of dominant position by enterprises and regulates combinations (acquisition, acquiring of control and Merger and acquisition), which causes or likely to cause an appreciable adverse effect on competition within India.

The objectives of the Act are sought to be achieved through the Competition Commission of India (CCI), which has been established by the Central Government with effect from 14 October 2003. CCI consists of a Chairperson and 6 Members appointed by the Central Government. It is the duty of the Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India. The Commission is also required to give opinion on competition issues on a reference received from a statutory authority established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues.

Composition

The Commission comprises a Chairperson and six members. Ashok Chawla is the current Chairperson of the CCI. The members of the Competition Commission of India are:

1. S.L. Bunker
2. S.N. Dhingra

3. Geeta Gouri
4. Anurag Goel
5. M.L. Tayal
6. (member vacant)

MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969

The MRTP Act aims to prevent concentration of economic power to the common detriment, provide for control of monopolies and probation of monopolistic, restrictive and unfair trade practice, and protect consumer interest.

Monopolistic trade practice is that which represents abuse of market power in the production and marketing of goods and services by eliminating potential competitors from market and taking advantage of the control over the market by charging unreasonably high prices, preventing or reducing competition, limiting technical development, deteriorating product quality or by adopting unfair or deceptive trade practices.

MEASURES OF INDUSTRIAL PRODUCTION

Q: What is Index of Industrial Production?

Who calculates	Central Statically Organisation CSO
Ministry	Statics and Programme implementation
Base Year	2004
Items	682 items clubbed in 399 groups 1 in Mining 1 in electricity 397 in Manufacturing
Categories	**Sector** 1. Mining 2. Manufacturing 3. Electricity **Based on USE** 1. Basic goods 2. Capital goods 3. Intermediate goods 4. Consumer goods 1. Durable 2. Non Durable
Measures the Increases / Decreases	production

Q: What Government has done to boost the industrial sector?

To boost the industrial sector in India 12th five year plan has given some valuable projects to Indian government. Govt has done the following things are as follows…

1. DMIC
2. FDI Relaxation
3. NMP 2011
4. E –Biz project

National Manufacturing Policy NMP 2011:- Objectives

- Increase the share of Manufacturing in GDP to 25% within a decade
- Create additional 100 million jobs over
- Special focus to industries that are employment intensive
- Give vocational skills / training to rural youth
- Industrial growth in partnership of states
- Industrial regulation will be simplified and rationalized

National Investment and Manufacturing zones (NIMZ)

NIMZ provided under National Manufacturing policy 2011. Out of 12 NIMZ so far announced, eight are along the DMIC. Beside, four other NIMZ have been given in principal approval

- Nagpur in Maharashtra
- Tumkur in Karnataka
- Chittoor district in AP
- Medak district in AP

Manufacturing Industry promotion Board

- It is been provided under national manufacturing policy 2011
- And it chairman will be Commerce Minister

E - Biz	• A Mission mode project under the National e governance plan (NeGP) • Provides online registration and filling payment services to investors and businessmen.
INVEST INDIA	• A joint venture company between the department of industrial policy and promotion and FICCI • Provides inputs on all aspects of doing business in India • Guides investors on all policy and regulatory.

Q: What is the difference between CCI and MRTP Acts?

The enactment of the competition bill will lead to the termination of the MRTP Act and the dismantling of the MRTP Commission. It will now be replaced by the Competition Commission of India (CO) which will be empowered to fight unfair competition, restrict emergence of monopolies and keep an eye on Mergers and Acquisitions (M&A's).

According to this act more dominance will not be considered restrictive but abuse of such dominance will. Further no prior notification will be required from Mergers and Acquisitions and only companies with a turnover in access of Rs. 3000 crore or with an asset size of Rs. 1000 will fall under its purview. As against MRTPC, the CCI won't seek to curb dominance but only abuse of such dominance.

Secondly, it will have a say in Mergers and Acquisitions.
Thirdly, CCI will operate in a free market economy and hence will have a more complicated policing job.
Fourthly CCI will have nothing to do with unfair trade practices. As against 14 restricted practices of MRTPC. The CCI has only 4.

Again, CCI does not provide for registration of agreements as compulsory. CCI can probe foreign cartel and it has a more simplified concept of group.

PRIVATIZATION

Privatization in generic terms refers to the process of **transfer of ownership**, can be of both permanent or long term lease in nature, of a once upon a time state-owned or public owned property to individuals or groups that intend to utilize it for private benefits and run the entity with the aim of profit maximization. Privatization is essentially an effective tool for restructuring and reforming the public sector enterprises *running without significant aim and mission* as private sector is perceived to be fundamentally more self-motivated, prolific and reliable for superior quality of products and services.

TYPES OF PRIVATIZATION

Privatization can be of three prominent types:

1. Delegation
2. Government keeps hold of responsibility and private enterprise handles fully or partly the delivery of product and services.
3. Divestment or Disinvestment
4. Privatization of PSUs by **selling off part of the equity** (share) to the public is known as disinvestment or divestment. The purpose of Disinvestment is to improve financial discipline and to facilitate modernization. There are following main methods for disinvestment:
5. **Minority Sale**: Equity is offered to investors through domestic public issue. They got transfer's minority share to private persons. The management control is not transferred. *In minority sale, the government sells only a part of the equity which is* Privatization is a critical tool for economic policies pertaining to progress and development in developing economies.
6. Source of enhanced competitive characteristics to the hitherto public sector companies
7. Vital source to enhance economic enticements, magnetize better managerial skills of the private sector, extend the share ownership, lower the public borrowings in order to sustain sustainable services.
8. Enhances market potencies. *Essentially less than 51% so that ownership and management rights can be hold by the Government itself.* • **Strategic Sale**: Got sells majority share above 51% to the private sector. It is called strategic as management is transferred to the private sector as a matter of strategy. *Further, in Strategic sale, the disinvestment / privatization take place by auctioning a state-owned enterprise to the highest bidder.* • It is in contrast with the minority sale where shares in an enterprise are sold as public offers. One of the dangers of the strategic sale is that it may be possible that a huge stake is sold at cheap prices, if there are no bidders. The emphasis on strategic sale in Indian privatization is relatively recent in origin.
9. From 1991 until 2000, the general policy was to sell minority shares in public sector companies. In March 2000, the finance minister's budget speech spoke of a "fresh impetus to privatization programmed that will emphasize increasingly on strategic sales of identified PSUs." The first important strategic sale in India was of Modern Foods to the multinational subsidiary, Hindustan Lever during times of NDA Government. The strategic sale invited lesser criticism from political parties mainly because the process is aimed at maximizing revenues to the government. Today, strategic sale is the most important route of disinvestment of Indian PSUs.

Displacement: The private enterprise expands and gradually is places the government entity.

ADVANTAGES AND DISADVANTAGES OF PRIVATIZATION

Advantages of Privatization

Privatization indeed is beneficial for the growth and sustainability of the state-owned enterprises. The advantages of privatization can be perceived from both **microeconomic and macroeconomic** impacts that privatization exerts.

Microeconomic advantages

1. State owned enterprises usually are outdone by the private enterprises competitively. When compared the latter show better results in terms of revenues and efficiency and productivity. Hence privatization can provide the necessary impetus to the underperforming PSUs.
2. Privatization brings about radical structural changes providing momentum in the competitive sectors.
3. Privatization leads to adoption of the global best practices along with management and motivation of the best human talent to foster sustainable competitive advantage and improvised management of resources.

Macroeconomic advantages

1. Privatization has a positive impact on the financial health of the sector which was previously state dominated by way of reducing the deficits and debts.
2. The net transfer to the State owned Enterprises is lowered through privatization.
3. Helps in escalating the performance benchmarks of the industry in general.
4. Can initially have an undesirable impact on the employees but gradually in the long term, shall prove beneficial for the growth and prosperity of the employees.
5. Privatized enterprises provide better and prompt services to the customers and help in improving the overall infrastructure of the country.

Disadvantages of Privatization

1. Privatization in spite of the numerous benefits it provides to the state owned enterprises, there is the other side to it as well. Here are the prominent disadvantages of privatization:
2. Private sector focuses more on profit maximization and less on social objectives unlike public sector that initiates socially viable adjustments in case of emergencies and criticalities.
3. There is lack of transparency in private sector and stakeholders do not get the complete information about the functionality of the enterprise.
4. Privatization has provided the unnecessary support to the corruption and illegitimate ways of accomplishments of licenses and business deals amongst the government and private bidders. Lobbying and bribery are the common issues tarnishing the practical applicability of privatization.
5. Privatization loses the mission with which the enterprise was established and profit maximization agenda encourages malpractices like production of lower quality products, elevating the hidden indirect costs, price escalation etc.
6. Privatization results in high employee turnover and a lot of investment is required to train the lesser-qualified staff and even making the existing manpower of PSU abreast with the latest business practices.
7. There can be a conflict of interest amongst stakeholders and the management of the buyer private company and initial resistance to change can hamper the performance of the enterprise.

8. Privatization escalates price inflation in general as privatized enterprises do not enjoy government subsidies after the deal and the burden of this inflation affects the common man.

Extent of Privatization in India

In our country, Privatization **has been on a minimalist level**. Privatization by way of sale of public sector enterprises is almost negligible while divestment is existent by way of selling of a portion of shares some of the public sector enterprises.

1. Still being a socialistic economy, the successive governments have not ever favoured complete privatization for the very basic reason that private players shall enter into the strategically important industries and shall use them for their own benefits and profit maximization.
2. However, some opine that the Government of India *wrongly positioned its disinvestment strategy by dangling between the principles and accommodating approaches.* Though all political parties acknowledged the doctrine of privatization but all adopted an escapist attitude towards complete privatization for safe guarding their vote banks. They employed tactics of "Videshi" and "Swadeshi", and strategies like getting a strategic partner or enlarge the equity base through an initial public offer before divesting.
3. Indian government has been conservative in allowing partial privatization of strategic sectors like power supply, telecom, banking, roadways, insurance, civil aviation, postage and telegraph services etc.
4. Mostly, both state owned enterprises and privately run enterprises co-exist in these sectors. Government uses the shield of social interests of the employees of the PSUs to camouflage the interest of the bureaucrats and politicians.
5. However, intensified competition of the deli censed and liberalized sectors have surely made the lethargic state owned enterprises to pull up their socks and shedding the complacency of monopoly to face the competition.
6. Government has not divested the profit making companies. These PSUs are not only earning profit which means revenue for the government, they are also serving social welfare. There is a need to modernize them and make them more competitive and efficient. Therefore profit making PSUs were given autonomy in taking managerial decisions. They were given special status such as Nirvanas and Mini Ratnas. Later a new category of Maharatna companies was created in recent years.

THE RANGARAJAN COMMITTEE ON DISINVESTMENT (APRIL 1993)

The Rangarajan Committee of 1993 was constituted by the government for making recommendations in context with the disinvestment. The committee said that the units to be disinvested should be identified and disinvestment could be made up to any level, except in defence and atomic energy where the government should retain the majority holding in equity.

1. Disinvestment should be a transparent process duly protecting the right of the workers.
2. An autonomous body for the smooth functioning and monitoring of the disinvestment programmed should be established. *This recommendation led to the Disinvestment Commission in 1996 as an advisory body having a full time chairman and four part-time members.* The Commission was required to advise the government on the extent, made, timing and prancing of disinvestment.
3. It suggested **four modes of disinvestment viz. Trade sale, Strategic Sale, Offer of shares and Closure or sale of Assets.**

4. In its budget speech of 2000-01, the government emphasized that more emphasis would now be paid on the strategic sale of public sector enterprises.

Tracing the Later Developments

Up to November 1999, the Disinvestment commission had submitted 12 reports to the government covering 58 public sector enterprises. On 30th November 1999, the term of the Commission expired. However, it was reconstituted in July 2001. Initially the Department of Disinvestment was constituted which was later on upgraded as the ministry of disinvestment in order to streamline and speed up the process of disinvestment including restructuring. The Disinvestment Commission also recommended creation of **separate disinvestment fund** in which the disinvestment proceeds would be placed to be used for the purpose of financial restructuring of the concerned unit before disinvestment and for carrying out voluntary retirement schemes. It also suggested merger of National Renewal Fund with the disinvestment fund.

Current Issues with Disinvestments

As we read above, post 2000, the focus of the disinvestment has shifted to strategic sale of the identified public sector units. For the period 1991-2012, the progress of disinvestment has been a normal and Government could seldom collect more than what it had targeted. The pace of disinvestment has been largely restricted due to political opposition.

Do we disinvest only loss making companies?

The policy at privatization pursued by the NDA regime was disinvestment of the profit making CPSUs. However, later UPA Government declared that no profit making PEs will be disinvested. However, currently, it is not a policy of the Government to disinvest or privatize only profit making or only loss making companies.

What is the Philosophy of the Government?

The Government says that as long as it retains control over the PE, and its public sector character is not affected, the government may dilute its equity and raise resources to meet the social needs at the people. Thus, the government takes the Disinvestment and privatization as useful economic tools and wishes to use them selectively. Examples of companies in which disinvestment has taken place

- Shipping credit and Investment Corporation of India
- Container Corporation of India Ltd.
- Videsh Sanchar Nigam Ltd. (VSNL)
- Oil and Natural Gas Corporation (ONGC)
- Gas Authority of India Ltd. (GAIL)
- Steel Authority of India Ltd. (SAIL)
- Mahan agar Telephone Nigam Ltd. (MTNL)
- Indian Petrochemicals Corporation Ltd. (IPCL)
- Power Grid Corporation
- Shipping Corporation of India
- National Aluminium Company (NALCO)
- National Fertilizers Ltd. (NFL)
- Indian Airlines
- Dredging Corporation

- LNG Petro Net
- Madras Refineries Ltd.
- Hindustan Zinc Ltd.
- Marti Udyog Ltd.
- Modern Food Industries (India) Ltd.
- Indian Tourism Development Corporation (10 Hotels)
- Hotel Corporation of India etc

NATIONAL INVESTMENT FUND

A major question in context with the Disinvestment in India has been the routing and utilization of the money obtained via disinvestment. In January 2005, the Government decided to constitute a 'National Investment Fund' (NIF) into which the realization from sale of minority shareholding of the Government in profitable CPSEs would be channelized. The income from the fund is used in investment in **various social projects, capital investment in some selected profitable and revivable enterprises**. This is based upon the idea that disinvestment does not affect the social objectives of the government.

1. The corpus of the National Investment Fund is of permanent nature, this means that generally only income generated is used for social expenditures and investments and the **corpus is kept permanent.**
2. However, it is not a hard and fast rule. Earlier the government decided that the proceeds from disinvestment of CPSEs for a period of three years – from April 2009 to March 2012 – i.e. disinvestment proceeds during this period would be available in full for meeting the capital expenditure requirements of selected social sector programmers decided by the Planning Commission/Department of Expenditure.
3. NIF is professionally managed by selected Public Sector Mutual Funds. 75% of the annual income of the Fund is used to finance selected social sector schemes, which promote education, health and employment.
4. The residual 25% of the annual income of the Fund is used to meet the capital NIF : Fund Managers
   - UTI Asset Management Company Ltd.
   - SBI Funds Management Company (Pvt.) Ltd.
   - LIC Mutual Fund Asset Management Company Ltd.

NATIONAL INVESTMENT FUND AND CONSOLIDATED FUND OF INDIA

Money obtained from disinvestment is shown in India's receipt budget as other non-tax revenue. Prior to the global economic crisis in 2008- 09, 75 per cent of the corpus of NIF was utilized for social sector schemes and 25 per cent for revival for sick PSUs. However, since November 2009, the disinvestment proceeds are entirely routed to Consolidated Fund to be used for funding social sector schemes. The proceeds first go to Consolidated Fund of India under the designated Head such as other non-Tax revenue. Thereafter, these amounts are appropriated from the CFI, with due approval of parliament and transferred to the selected Fund Managers through CEO of NIF. Similarly, the income from NIF is deposited in CFI and would be appropriated from it for specific purposes as per the scheme of appropriation approved from time to time. Schemes in which NIF income is invested

1. Mahatma Gandhi National Rural Employment Guarantee Scheme
2. Indira Awas Yojana

3. Rajiv Gandhi Grameen Vidyutikaran Yojana
4. Jawaharlal Nehru National Urban Renewal Mission
5. Accelerated Irrigation Benefits Programme
6. Accelerated Power Development Reform Programme

Investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/ diversification.

Reorientation of NIF

Since 2012, a new plan was making rounds for utilization of the NIF proceeds. Under the new plan, disinvestment proceeds would remain in a specially assigned public account as a specified equity fund, which would be available to the government as ways and means elbow room, allowing the government borrowing to reduce to that extent.

1. The proposed plan sought to turn the National Investment Fund (NIF) into a **Sovereign equity fund**, which would then be segregated into following three, keeping in mind specified objectives of the government.
2. One third of the proceeds would go to the public account. The amount credited in the fund with the interest accrued would be available to the government as a ways and means window.
3. One third of the disinvestment proceeds and the interest accrued would be utilized either for securing energy and raw materials assets abroad by public sector companies or available to the government as ways and means. This will add to the sovereign fund planned for this purpose by the Planning Commission and currently being discussed by the economic affairs department
4. One third would be kept as corpus and the interest income would be invested for meeting specified objectives, including meeting the capital investment requirement of profitable and revivable public sector companies.
5. The above plan has not been implemented so far.

Special National Investment Fund

1. In August 2013, the Cabinet Committee on Economic Affairs (CCEA) approved a mechanism to bring down the government equity in its six sick companies to the required 90 per cent or less. The CECA decided that a Special National Investment Fund will be created to transfer shares of six sick PSUs viz. HMT, Scooters India, Hindustan Photo Films Manufacturing Co, ITI, Andrew Yule & Co and Fertilizers & Chemicals (Travancore) Ltd.
2. This was to adhere to the minimum public shareholding norms of SEBI. These norms say that all government-owned units will have to have at least 10 per cent of public holding. This fund will be managed by independent professional managers. It will sell the transferred shares within five years. He funds realized from the sale would be used for social sector schemes of the government. How to sell the shares would be decided by an empowered group of ministers.