Major Objectives of India's New Industrial Policy 1991

With the gradual liberalisation of the 1956 Industrial policy in the mid-eighties the tempo of industrial development started picking up. But the industry was still feeling the burden of many controls and regulations.

For a faster growth of industry, it was necessary that even these impediments should be removed. The new government by Shri Narasimha Rao, which took office in June 1991, announced a package of liberalisation measures under its Industrial Policy on July 24, 1991.

Objectives:

The New Industrial Policy,1991 seeks to liberate the industry from the shackles of licensing system Drastically reduce the role of public sector and encourage foreign participation in India's industrial development. The broad objectives of New Industrial Policy are as follows:

(i) Liberalising the industry from the regulatory devices such as licenses and controls.

(ii) Enhancing support to the small scale sector.

(iii) Increasing competitiveness of industries for the benefit of the common man.

(iv) Ensuring running of public enterprises on business lines and thus cutting their losses.

(v) Providing more incentives for industrialisation of the backward areas, and

(vi) Ensuring rapid industrial development in a competitive environment.

The New Industrial Policy has made very significant changes in four main areas viz., industrial licensing role of public sector, foreign investment and technology and the MRTP act. The major provisions of this policy are discussed below.

(1) Abolition of Industrial Licensing:

In the earlier industrial policy, industries were subjected to tight regulation through the licensing system. Though some liberalisation measures were introduced during 1980's that positively affected the growth of industry. Still industrial development remained constrained to a considerable extent.

The new industrial policy abolishes the system of industrial licensing for most of the industries under this policy no licenses are required for setting up new industrial units or for substantial expansion in the capacity of the existing units, except for a short list of industries relating to country's security and strategic concerns, hazardous industries and industries causing environmental degradation.

To begin with, 18 industries were placed in this list of industries that require licenses. Through later amendment to the policy, this list was reduced. It now covers only five industries relating to health security and strategic concerns that require compulsory licensing. Thus the industry has been almost completely made free of the licensing provisions and the constraints attached with it.

(2) De-reservation of Industries for Public Sector:

The public sector which was conceived as a vehicle for rapid industrial development, largely failed to do the job assigned to it. Most public sector enterprises became symbols of inefficiency and imposed heavy burden on the government through their perpetual losses.

Since a large field of industry was reserved exclusively for public sector where it remained a virtual non performer (except for a few units like the ONGC). The industrial development was thus the biggest casualty.

The new industrial policy seeks to limit the role of public sector and encourage private sector's participation over a wider field of industry. With this view, the following changes were made in the policy regarding public sector industries:

(i) Reduced reservation for public sector:
Out of the 17 industries reserved for the public sector under the 1956 industrial policy, the new policy de-reserved 9 industries and thus limited the scope of public sector to only 8 industries.

Later, a few more industries were de-reserved and now the exclusive area of the public sector remains confined to only 4 industrial sectors which are: (i) defence production, (ii) atomic energy, (iii) railways and (iv) minerals used in generation of atomic energy.

However, if need be even some of these areas can be opened up for the private sector. The public sector can also be allowed to set up units in areas that have now been thrown open for private sector, if the national interest so demands.

(ii) Efforts to revive loss making enterprise:
Those public enterprises which are chronically sick and making persistent losses would be returned to the Board of Industrial and Financial Reconstruction (BIFR) or similar other high level institutions created for this purpose. The BIFR or other such institutions will formulate schemes for rehabilitation and revival of such industrial units.

(iii) Disinvestment in selected public sector industrial units:
As a measure to raise large resources and introduce wider private participation in public sector units, the government would sell a part of its share holding of these industries to Mutual Funds, financial institutions, general public and workers.

For this purposes, the Government of India set up a ‘Disinvestment Commission’ in August 1996 which works out the modalities of disinvestment. On the basis of recommendations of the ‘Disinvestment Commission’ the government sells the shares of public enterprise.

(iv) Greater autonomy to public enterprises:
The New Industrial Policy seeks to give greater autonomy to the public enterprises in their day-to-day working. The trust would be on performance improvement of public enterprises through a mix of greater autonomy and more accountability.

(3) Liberalised Policy Towards Foreign Capital and Technology:
The inflow of foreign capital and import of technology was tightly regulated under the earlier Industrial policy. Each proposal of foreign investment was to be cleared by the Government in advance. Wherever foreign investment was allowed, the share of foreign equity was kept very low so that majority of ownership control remains with Indians.

But such a policy kept the inflow of foreign capital very small and industrial development suffered for want of capital resources and technology. The July, 1991 Industrial policy made several concessions to encourage flow of foreign capital and technology into India, which are follows:

(i) Relaxation in Upper Limit of Foreign Investment:
The maximum limit of foreign equity participation was placed at 40 per cent in the total equity capital of industrial units which were open to foreign investments under the 1991 policy; this limit was raised to 51 per cent. 34 specified more industries were added to this list of 51 per cent foreign equity participation.

In some industries the ratio of foreign equity was raised to 74 percent. Foreign Direct Investments (FDI) was further liberalised and now 100 per cent foreign equity is permitted the case of mining, including coal and lignite, pollution control related equipment, projects for electricity generation, transmission and distribution, ports, harbours etc.

Recent decision taken to further liberalise FDI include permission for 100 per cent FDI in oil refining, all manufacturing activities in Special Economic Zones (SEZ’s), some activities in telecom see tor etc.

(ii) Automatic Permission for Foreign Technology Agreement:

The New Industrial Policy states that automatic permission will be granted to foreign technology agreements in the high priority industries. Previously technology agreement by an Indian company with foreign parties for import of technology required advance clearance from the government.

This delayed the import of technology and hampered modernisation of industries. Now the Indian companies could enter into technology agreements with foreign companies and import foreign technology for which permission would be automatically granted provided the agreements involved a lump sum payment of upto Rs. 1 crore and royalty upto 5 percent on domestic sales and 8 per cent on exports.

(4) Changes in the MRTP Act:

According to the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969, all big companies and large business houses (which had assets of Rs. 100 crores or more, according to the 1985 amendment to the Act) were required to obtain clearance from the MRTP Commission for setting up any new industrial unit, because such companies (called MRTP companies) were allowed to invest only in some selected industries.

Thus, besides obtaining a licence they were also required to get MRTP clearance. This was a big impediment for industrial development as the big business firms which had the resources for development could not grow and diversify their activities.

The Industrial Policy, 1991 has put these industries on par with others by abolishing those provisions of the MRTP Act which mediate mandatory for the large industrial houses to seek prior clearance from MRTP Commission for their new projects.

Under the amended Act, the MRTP Commission will concern itself only with the control of Monopolies and Restrictive Trade Practices that are unfair and restrict competition to the detriment of consumer s interests. No prior approval of or clearance from the MRTP Commission is now required for setting up industrial units by the large business houses.

(5) Greater Support to Small-Scale Industries:

The New Industrial Policy seeks to provide greater government support to the small-scale industries so that they may grow rapidly under environment of economic efficiency and technological upgradation. A package of measures announced in this context provides for setting up of an agency to ensure that credit needs of these industries are fully met.

It also allows for equity participation by the large industries in the small scale sector not exceeding 24 per cent of their total shareholding. This has been done with a view to provide small scale sector an access to the capital market and to encourage their upgradation and modernisation the government would also encourage the production of parts and components required by the public sector industries in the small-scale sector.

(6) Other Provisions:

Besides above discussed measures, the Industrial Policy 1991 announced some more steps to promote rapid industrial development. It said that the government would set up a special board (which was established as Foreign Investments Promotion Board—FIPB) to negotiate with a number of international companies for direct investment in industries in India.

It also announced the setting up of a fund (called National Renewal Fund) to provide social security to retrenched workers and provide relief and rehabilitate those workers who have been rendered unemployed due to technological changes.

The New Policy also removed the mandatory convertibility clause under which the Public Sector Financial Institution were asked to convert the loans given by them to private industries in equity (shares) and thus become partners in their management.

This removed a big threat to the private sector industries as they were always under threat that their management and control could pass on into the hands of the Government owned financial institutions.

Evaluation of the New Industrial Policy:

The New Industrial Policy 1991 aims to unshackle Indian's industrial economy from the cobwebs of unnecessary bureaucratic control. According to this policy the rate of the government should change from that of only exercising control over industries to that of helping it to grow rapidly by cutting down delays.

Removal of entry barriers and bringing about transparency in procedures. This policy therefore also at virtually ending the 'Licence-Permit Raj' which has hampered private initiative and industrial development. The new policy therefore throws almost the entire field of industry wide upon for the private sector.

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REFERENCE:

[Major Objectives of India's New Industrial Policy 1991 (yourarticlelibrary.com)]