Course– Indian Economy, ECON(H)221

Lecture 32: New Industrial Policy, 1991

Topics to be Discussed

- New Industrial Policy, 1991
    - Features and Policy Initiatives

Importance of Industrial Sector in India

- Provide Employment
- Development of tertiary sector, i.e. trade, transport & communication, banking insurance, etc.
- Better utilization of natural resources like minerals, forests, fisheries, etc.

- Development of infrastructure
- Contribution to national defence
- Increase in Income and Saving
- Increasing Economies of Scale
- Increase in Farm Productivity
- Better Utilisation of Raw Materials

Industrial Sector on the Eve of Independence

- Weak Industrial Base
- Low Capital Intensity
- De-industrialisation of the Country
- Limited Role of Public Sector
- Decline of Handicraft Industry
- Iron & Steel and Jute Industries

Strategies for Industrialisation

- State Intervention in Industrial Development.
- Role of Public Sector
- Regulations for Control and Direction of Industrial Sector.
- Industrial Licensing to Regulate Private Sector (IDR act 1951)
- Industrial Policy

Issues of Industrial Development

- Under-utilisation of Capacity
- Irregular Increase in Industrial Production
- Increase in Monopoly Power
- Poor Performance of Public Sector
- Industrial Sickness
- Industrial Disputes
- Poor Quality Production
- Regional Imbalances

Industrial Policy

- Industrial policy is a combination of all government regulation aimed at regulation and control of industrial activities in a country.
- Need of Industrial Policy:
  - Limited Capacity of Private Sector
  - Regulation of Private Sector
  - Regulation of Foreign Sector

Industrial Policy in India

Industrial Policy Resolution 1948

Industrial (Dev. & Reg.) Policy 1956

Industrial Policy 1977

Industrial Policy 1980

New Industrial Policy 1991

Pre-1991 Policies

- Under Utilization of Capacity
- Concentration of Economic Power
- Licensing Promoted Corruption, Rent-seeking and Discrimination
- Delay in Processing of Applications
- Increased Regional Imbalances

Genesis of New Industrial Policy, 1991

- Balance of Payment Crisis
- Gulf War (1990-91)- Higher oil prices depleted foreign reserves
- Fiscal deficit rose to 8.4% of the GDP
- Decline in foreign exchange to just two weeks of import coverage
- To Unshackle the Industrial Sector from Administrative and Legal Controls.
- To Make Industry Competitive by Increasing Efficiency

Features of New Industrial Policy, 1991

Public Sector Policy

- Dilution of Public Sector Role**: only 08 industries**
  - Currently only 02 industries (i) Atomic Energy, nuclear research and related activities like mining, fuel fabrication, export import and waste management (ii) Rail Transport
- Divestment of PSUs
- Greater Autonomy to PSUs
- Chronically Sick Enterprises to be Referred to Board for Industrial and Financial Reconstruction (BIFR).
- Facilities to Labourers

Industrial Licensing Policy

- Abolition of Industrial Licensing: Only 18 Industries Related to Security and Strategic Concerns, Social Reasons, Hazardous Chemicals and Items of Elitist Consumption.

- Currently only 05 Industries (i) Alcohol (ii) Cigarettes (iii) Hazardous Chemicals (iv) Electronics, Aerospace and Defense Equipments, and (iv) Industrial Explosive

- Requires Industrial License.

Foreign Investment Policy

- Encouragement to Foreign Investment- Direct (FDI) and Indirect (Portfolio Investment)

- Automatic Approval for FDI up to 51 % Foreign Equity in High Priority Industries.

  - This is Subsequently Increased to 74% in Some Industries and With the Replacement of FERA (1973) with FEMA (1999), 100% FDI is Permitted in Many Areas.

- Automatic Approval for Import of Capital Goods (Maximum Limit 2 Crore)

Foreign Technology Agreements (FTAs)

- Automatic Permission will be Given for FTAs in High Priority Industries up to a Lump-sum Payment of Rs. 1 Crore.
  - 5% Royalty for Domestic Sales and 8% for Exports, Subject to Total Payment of 8% of Sales for 10 Year Period
- No Permission will be Necessary for Hiring of Foreign Technicians and Foreign Testing of Indigenously Developed Technologies.

Industrial Location Policy

- In Cities with Less Than 1 Million population, No Requirement of Obtaining Location Clearance (Except for Industries Subject to Compulsory Licensing)

- In Cities with more than 1 Million Population, Industries will be Located Outside 25 kms (other than Non Polluting Industries such as Electronics, Computer Software and Printing)

IMPLEMENTATION OF NIP 1991

- Contraction of Public Sector
- Liberalisation of Industrial Licensing Policy: Only Five Industries are under Compulsory Licensing
- Introduction of Industrial Entrepreneurs' Memorandum (IEM) for industries not requiring compulsory licensing
- Liberalisation of the Location Policy
- Five Year Tax Holidays to Power Generation Industries
- Encouragement to Private Sector Participation in Infrastructure
- Encouragement to Foreign Investment

POSITIVE IMPACT OF NIP 1991

- Increase in Production
- Removal of Bureaucratic Hurdles
- Increase in Competition
- Increase in Efficiency of Public Sector
- Increase in Foreign Investment
- Increase in Exports
- Balanced Regional Development
- Less Economic Burden on Government

CRITICISM OF NIP 1991

- Concentration of Economic power
- Increase in Unemployment
- No Evidence of Positive Effect on Productivity
- Ignore Social Objectives
- Distortion in Production Structure: Growth of Capital Goods Industries Declined
- Increase in Regional Imbalances

Thank you

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