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Changing Face of India's Industrial Policies: A Look

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Abstract- Policies are framed to provide direction to obtain an end. The Industrial Policies of India were also framed to meet the challenges as an end and to give direction to obtain economic development and growth through industrialization after independence at the latter stage. The present paper highlights the changing face of India's Industrial Policies. The evolution of India's industrial policies can be seen by dividing the entire study into three phases namely: - first, Industrial Policies of India prior to Independence; second, Industrial Policies of India after Independence up to 1990 and; third, Industrial Policy of 1991 and thereafter policies. In the first phase an attempt is made to understand the industrial policy pursued by the British rulers. In second phase it is discussed that how India pursued and modified industrial policies which could put India on the road to progress. In the third phase how developing India gave new direction to industrial activities through New Industrial Policy and its following Industrial Policies which could cope up with rest of the world economies under the banner of LPG (Liberalization, Privatization and Globalization) is discussed.

I. INDUSTRIAL POLICIES OF INDIA PRIOR TO INDEPENDENCE

It is a known fact that India was never industrially developed country prior to independence. It was an agrarian country where in handicrafts attained supremacy unmatched anywhere else in the world. India with abundance of natural wealth had attained excellence in handicrafts. There are very few lines of economic activity which became traditional in nature and could be included under the products produced under the factory system of 19th and 20th century. For instance silk manufacturing, utensil manufacturing, wood works, some products under pharmaceuticals etc. could be categorized as industrial activity. The evidence of India having indulged in production of certain products like textiles can be traced from the fact that the manufactured handicrafts and textile products were traded outside the country also.

During the colonial period, industrial policies and economic policies were shaped by the British Government in favour of British interests. The tariff policy pursued by British rulers in India was based on the principal of one way free trade while the Indian interest for industrialization in India remained deliberately neglected. England was principal supplier of manufactured goods and raw materials in the world. In return, England imported food stuffs and raw material for mainly its colonies. Interestingly, imports were tariff free whereas the exports were not duty free. This one sided free trade in raw material and semi manufactured items was the established norm which very partially was industry oriented but the industrialization could not take place in India. It took place in England.

It has been an established view that the British rulers in India pursued the industrial policies which were more destructive for Indian industrial base and more purposeful for England. Though the British Government established Department of Commerce and Industry in 1905 but the activities pursued through this department favoured industrial activity in England. This department was to execute the industrial policy and also act as an observer of industrial performance by the provincial governments. So the provincial governments in the country pursued the industrial activities through this department.

Thereafter, the prevailing Government established board of Scientific and Industrial Research in 1940 but not much could come out of it. India was keen to become independent and adopt industrialization as its policy. This is evident from the fact that prominent industrialists of India prepared Bombay Plan in 1944 emphasizing the importance of industrialization of the country. With the Bombay plan the leading Indian industrialists had sided with Jawaharlal Nehru and his preferences for planning, with emphasis on large scale industry for an extensive control over the private sector.

In 1945, the government had announced an industrial policy but this policy could never see the light. The industrial policy drafted in 1945 was referred as the Industrial Policy of 1946 also but since the said policy was drafted in haste so it could not satisfy the new leaders of independent country. Most probably this was the strong reason to frame well thought out industrial policy which could at least give a direction to the industrial sector in the country at the initial stage of free India. Therefore, Industrial Policy of 1948 was drafted on 6th April by the Government of India. All the scanty efforts made by the British Government to develop industry in the country took back seat and new revolution in industry was sought by the planners.

II. INDUSTRIAL POLICIES OF INDIA AFTER INDEPENDENCE UPTO 1990

Independent India had big challenges to face. One such challenge was to put the country on the path of economic growth for which industrialization was imperative. To industrialize the country, to achieve objectives of economic growth framing an industrial policy effective to meet the end was prime requirement. Therefore, Industrial Policy of 1948 came up to give direction to industrial movement in the county.

III. INDUSTRIAL POLICY OF 1948

The Industrial Policy of 1948 broadly divided industries into four categories such as:-

1. The first category enlisted (a) arms and ammunitions, (b) production and control of atomic energy, and (c) the ownership

and management of rail transport. These three were the exclusive monopoly of the Central government.

2. The second category included six basic industries and all new undertakings in these industries were reserved for the State except where, in the national interest, the State itself found it necessary to secure the co-operation of private enterprises. Such industries included:- Coal (the India Coal fields Committee's proposal will be generally followed), (b) Iron and Steel, (c) Aircraft manufacture,(d) Ship building, (e) Manufacture of telephone, telegraph and wireless apparatus (excluding radio sets), and (f) Mineral oils.

3. Eighteen industries under the third category were left to the private sector though their operation by the private sector was subject to Central regulation and control.
These were:- (a) Salt, (b) Automobiles and tractors, (c) Prime movers, (d) Electric engineering, (e) Other heavy machinery, (f) Machine tools, (g) Heavy chemicals, fertilizers and pharmaceuticals and drugs, (h) Electro- chemical industries, (i) Non- ferrous metals, (j) Rubber manufactures, (k) Power and industrial alcohol, (l) Cotton and woolen textiles, (i) Cement, (j) Sugar, (k) Paper and Newsprint, (l) Minerals, (m) Air and Sea transport, and (n) Industries related to defense.

4. The rest of the industries were left open to the private enterprises, individual as well as co- operative. The State would intervene whenever the progress of any industry under private enterprise was found to be unsatisfactory.

In order to regulate the industry and to promote planned industrial development according to the Industrial Policy of 1948, the Industrial (Development and Regulation) Act in 1951 was passed. The principal objective of the Industries (Development and Regulation) Act 1951 was to arm the Government with sufficient power. The important provisions of the Act were:-

(1) No new industrial units could be established or substantial extension to existing plants be made without a license from the Central Government, and while granting license for new undertakings, Government could lay down conditions regarding location, minimum size, etc., if necessary;
(2) Government could make investigation into certain specified industries or undertakings in industries – (a) which showed a fall in production, a deterioration in the quality of the product, a rise in the price of the product, or which showed tendencies in these directions; (b) which used resources of national importance; and (c) which were managed in a manner likely to do harm to the interests of the shareholders or consumers and issue proper directions for rectifying the drawbacks;
(3) Government could take over the management of industries which failed to carry out its instructions for improvement in management and policies;
(4) The Act empowered the Government to prescribe prices, methods and the volume of production and channels of distribution;
(5) The Act also empowered the Government to set up Development Councils for the individual or groups of industries; and
(6) Industrial units employing less than 100 workers and having fixed assets of less than Rs. 10 lakhs were not required to obtain a license.

For the development of small scale industrial sector it was decided in the Industrial Policy of 1948 to develop this sector on co- operative lines as far as possible. Industrial Policy of 1948 also recognized the need for securing the participation of foreign capital and enterprises, particularly related to industrial technique and knowledge.

The main thrust of the 1948 Industrial Policy was to lay the foundation of a mixed economy where both the private and public enterprises were to be given importance and work together to develop economy to accelerate the pace of industrial development. The Industrial Policy of 1948, despite very effective and concrete, was not without criticism.

The first criticism was regarding the provision of the Act to retain control over private enterprises which was to be obviously held by the Government through the Industries (Development and Regulation) Act 1951. This has been levelled by a noted economist A.H. Hanson when he expressed that, at that time Government was more interested in the control of private enterprises than in the public- private balance. Elaborating this point The Industries (Development and Regulation) Act of 1951 empowered the government with the power to control the private sector. In the Industries (Development and Regulation) Act 1951, it was clearly mentioned that no new industrial units could be established or substantial extension to the existing plants could be made without obtaining a license from the Central Government. The Act further stated that while granting license for new undertakings, Government could lay down conditions regarding location, size, etc., if necessary. The Act also empowered the government to prescribe prices, methods, volume of production and the channels of distribution. This clearly states that the control of the private sector was totally in the hands of government. The Industries (Development and Regulation) Act 1951 developed a feeling of uncertainty in the minds of industrialists as it gave the government the power to investigate into any enterprise, if it had sufficient reason to believe that there had been usual decline in output or quality, or increase in price. In such a case, directions could be issued by the government to such enterprises following such investigation, and failure to follow these could result in takeover of management by the government. This was contrary to the belief that in independent India industry was to be allowed to flourish independently without stern checks. This presumption was belied by the Industries (Development and Regulation) Act of 1951.

Despite these criticisms, the Industrial Policy of 1948 determined the nature and pattern of industrial development in the country for full eight years.

IV. Industrial Policy Resolution of 1956

The Industrial Policy Resolution of 1956 was meant to give a concrete shape to the mixed economy model and the ideology of Socialist pattern of society.

The Industrial Policy Resolution of 1956 classified the entire industrial sector in three Schedules:- **Schedule A:** In the first category, those industries were included whose future

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development was the exclusive responsibility of the State. 17 industries were included in this category. The industries were:- Arms and ammunition and allied items of defense equipment; Atomic energy; Iron and Steel; Heavy castings and forgoing of iron and steel; Heavy plant and machinery required for iron and steel production for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government; Heavy electric plant including large hydraulic and steam turbines; Coal and lignite, gypsum, Sulphur, gold and diamond; Mining and processing of copper, lead, zinc, tin, molybdenum and wolfarm; Minerals specified in the schedule to the atomic energy (control of production and use) order 1953; Aircraft; Air transport; Railway transport; Ship- buildings; Telephones; Telephone cables; Telegraph and Wireless apparatus (excluding radio receiving sets); and Generation and distribution of electricity. Of these, four industries- arms and ammunition, atomic energy, railways and air transport were to be government monopolies. In the remaining thirteen industries, all new units were to be established by the State. However, existing units in the private sector were allowed to be subsist and expand. The state was to render assistance to them whenever the need arises. **Schedule B:** In this category those industries were included which were progressively State- owned and in which the private enterprises would be expected only to supplement the efforts of the State. In this category 12 industries were included. These were:- All other minerals (except minor minerals); Aluminium and other non- ferrous metals not included in schedule A; Machine tools; Ferroe- alloys and steel tools; Basic and intermediate products required by chemicals industries such as manufacture of drugs; Anti- biscuits and other essential drugs; Fertilizers; Synthetic rubber; Carbonization of coal; Chemical pulp; Road transport; and Sea transport. In these industries, State would increasingly established new units and increases its participation but would not deny the private sector opportunities to set up units or expanded existing units. **Schedule C:** All industries not listed in schedule 'A' or 'B' were included in the third category. These industries were left open to the private sector. Hence, the responsibility with regard to establishment, function and development was of private sector, though even here the state could start any industry in which it was interested. However, the main role of the state in this category was to give favourable atmosphere and facilities to private sector to develop it.

The lines of industrial activity given under all the three Schedules- A, B and C virtually became specified industrial activities for the entrepreneurs in the country, for a long time. Therefore, the Industrial Policy Resolution of 1956 became very powerful industrial Vedanta in the industrial history of the country.

To encourage small sector, in the policy resolution, various steps were proposed such as:- (a) Direct subsidy was provided to small scale sector, (b) Suitable taxation relief was given to this sector, and (c) It was made objective of the State to protect small scale sector by advancing technical assistance required for the production and improvement of competitiveness. The 1956 Industrial Policy Resolution allowed foreign capital participation in Indian economic development but the major share should belong to India. In case of already existing foreign establishments, these will be replaced by Indian technicians gradually.

Even though the policy rightly laid emphasis on building up of the basic and heavy industry in the public sector and encouragement of consumer goods production in the cottage, village and small- scale industries were visualized in the 1956 Industrial Policy Resolution as something to be patronized. But unfortunately the Government failed to integrate these industries and their programmes with the production programmes of the large- scale sector. Moreover, the government also failed to establish suitable machinery for public sectors planning and execution.

The Industrial Policy Resolution of 1956 was based on the ideology of socialism and in order to achieve this, expansion of public sector was must. The Resolution of 1956 expanded the scope of the public sector by reserving the future development of 17 most important industries to the public sector in Schedule A. Besides these, 12 very important industries were listed in the Schedule B for the development which the public sector was to play a dominant role. But the critics pointed out that for several years even after the adoption of the Resolution, licences were issued to private sector units in areas exclusively reserved for state ownership or where future expansion was intended to be in the public sector. These included coal, oil, fertilizers, chemicals, engineering etc.

One of the major objectives of Industrial Policy Resolution of 1956 was reduction in regional inequalities and imbalances. But contrary to this, the actual operation of this policy resulted in increased regional inequalities. This becomes evident from the report of Dutt Committee which noted that the four industrially advanced States of Maharashtra, Gujrat, West Bengal and Tamil Nadu benefited the most from the operation of this policy. In this context the Dutt Committee report further mentioned that, in the decade 1955-65, these four industrially advanced States accounted for 59.3 per cent of the applications and 62.42 per cent of the licences approved. On the other hand, the poor States of Bihar, Orissa, Uttar Pradesh and Madhya Pradesh received only 15.5 per cent of total licences approved.

Inspite of all above, the Policy Statement of 1956 became a Constitution of Industrial Economics for about two decades. What required after a long period of trial was another modification awaiting in 1977.

V. Industrial Policy of 1977

The Industrial Policy of 1977, classified the small sector into three categories:-

a) Cottage and household industries which provide self-employment on a wide scale.
b) Tiny sector incorporating investment in industrial units in machinery and equipment upto Rs. 1 lakh and situated in towns with a population of less than 50, 000.
c) Small- scale industries comprising industrial units with an investment of Rs. 10 lakh and in case of ancillaries with an investment in fixed capital upto Rs. 15 lakh.

The purpose of the classification was to design policy measures for each category. The measures suggested for the promotion of small- scale cottage industries included the

following: (a) The number of items raised from 180 enlisted in the earlier resolution to 807, (b) Special assistance to be given to tiny sector and cottage and household industries in the form of margin money assistance, (c) Setting up of District Industries Centre (DIC) in each district as an agency to serve as the focal point of development for small- scale and cottage industries. This agency would provide under a single roof all the services and support required by small and rural entrepreneurs. (d) Revamping the Khadi and Village Industries Commission. It was found that the promotional work of 22 village industries which came under the control of Khadi and Village Industries Commission has been haphazard, and the pace of the progress is also very slow. Hence, the government decided to work out detailed plans for the development of these village industries by adopting modern management techniques.

The Industrial Policy of 1977 attempted to define the role of large scale sector by declaring them: (a) Basic industries for providing infrastructural items like cement, non- ferrous, steel, oil etc. to small industries and others; (b) Capital goods industries required by small- scale industries; (c) High technology industries widely required by small scale and agriculture sector producing items such as fertilizers, pesticides and petro- chemicals; and (d) Other industries not enlisted as reserved items for small scale but essential for the development of economy. For the promotion of technological self- reliance, the Policy had place for indigenous technology. It was envisaged that all possible efforts be made in the direction of development of indigenous technology, which should ensure efficient production, continued inflow of technology in sophisticated and high priority areas where Indian skills and technology are not adequately developed.

The Industrial Policy of 1977 specified that the public sector would not only be the producer of important and strategic goods of basic nature, but it would also be used effectively as a stabilizing force for maintaining essential supplies for the consumer.

The strategy of Industrial Policy of 1977 depended on the enforcement of Foreign Exchange Regulations Act (FERA). Accordingly, foreign investment would be encouraged only for those industries in the national interest decided by the Government. This clearly meant that in areas where the foreign collaboration was not required, such case would not be reviewed.

Yet, the Industrial Policy of 1977 came under the attack of critics. For encouraging small- scale industries, the 1977 policy suggested measures to reserve exclusive production of certain articles for the small- scale industrial sector only, thereby, limiting the productive capacity of large- scale industries. To achieve this, 1977 Industrial Policy had increased the number of goods to be produced by small scale industrial sector from 180 to 807. But though this number was increased, the critics point out that most of these articles were continued to be produced by large scale sector contrary to the provision of Industrial Policy of 1977. Reference of the cases where Government failed to effectively shift their production to the small- scale sector was given by Alak Ghosh. He stated that articles like footwear, bread and biscuits, brushes etc. continued to be produced by large-scale industries and multinational companies. The critics also pointed out that the lengthened list of 807 items which the Industrial Policy of 1977 reserved for small scale sector was deceptive as these were more repetitive rather new lines of small units. As pointed out by Nirmal K Gupta that the Policy had created confusion by bringing 807 items on the list of small scale sector, many of these items were repetation.

The Industrial Policy of 1977 was short lived to pave way for another policy of 1980.

VI. INDUSTRIAL POLICY OF 1980

The industrial policy regularized 34 industries producing items not reserved for small scale sector and which had installed capacity in excess of licensed capacity. These industries were not under the MRTP Act, 1989 or FERA, 1973. The Industrial Policy of 1980 decided that while regularizing installed capacities in excess of the ‘licensed capacities’, Foreign Exchange Regulation Act (FERA) and Monopolies and Restrictive Trade Practices Act (MRTP) Companies would be considered on a selective basis, (and that) this facility would not be given in respect of items reserved for the small sector.

Beside the 19 industries included in Appendix 1 to the Industrial Policy Statement of February 2, 1973, the following industries would also be benefitted from the regularization of excess capacity:- Oil drilling accessories; Power transmission accessories; Railway safety equipment and signaling equipment; Special alloy castings and stainless castings; Pumps and compressors; High tensile steel nuts and bolts; Electric generators; Engineering production aids; Two- wheelers and three- wheelers; Refrigerators up to 167 liters; Electric ceiling fans; Dry cell batteries; GLS lamps and fluorescent tubes; Bicycles; and Drugs and pharmaceuticals other than those in Appendix 1.

In order to fasten the pace of growth of small scale industrial sector, investment limits were raised for definition purpose as under- for small scale units from Rs.10 lakhs to Rs.20 lakhs; for tiny units from Rs.1 lakh to Rs.2 lakhs; and for ancillaries from Rs.15 lakhs to Rs.25 lakhs. In order to promote village industries, the 1980 Industrial Policy decided to promote industrialization in the country in such a way as it can generate economic viability in the villages. Promotion of handlooms, handicrafts, khadi and other village industries would receive greater attention to achieve a faster rate of growth in the villages.

With the objective of creating a more favourable balance of trade, the Industrial Policy of 1980 decided to sympathetically consider requests for setting up of 100 percent export oriented units and for expansion of existing units exclusively for purpose of export. The Industrial Policy of 1980 made provision to facilitate the transfer of technology from efficient operating units to new units. Those companies which have well established Research and Development (R&D) organization and have demonstrated their ability to absorb, adapt and spread modern technology would be permitted to import such technology as they were supposed to increase the efficiency and cost- effectiveness of new units.

The Industrial Policy Statement of 1980 made provision for the development of industry in backward areas and attain economic federalism through restructuring the locational policy, introducing technological changes, providing infrastructural facilities to industrial sector, introduce special incentives for both small and cottage industries at times. In the light of energy crisis

faced by India, the Industrial Policy of 1980 proposed search for other forms of energy. These included solar insulation, biogas, tidal and sea- power energy etc. The Industrial Policy of 1980 also proposed advanced technology and transfer of technology at national and international level to improve industrial competitiveness.

Though industrial policy of 1980 aimed at removing constraints to industrial production by revising the definition of small industries, regularization of installed capacity beyond the licensed capacity, a scheme of automatic expansion of capacity and evolution of monitoring system yet it was also not free from criticism.

The policy approach of regularization of installed productive capacity in excess of licensed capacity came under the attack of critics. In this context Nirmal K.Gupta observed that there were also more chances of not genuine cases availing benefits.

In order to fasten the pace of growth of small scale industries, the Industrial Policy of 1980 decided to gave priority to this sector in allocation of raw material. But in actual practice this sector was given a residuary treatment. The Seventh Plan expressed its dissatisfaction in this regard in the following words, "While various measures have been taken for supply of raw materials to the small scale units through State Small Industries Development Corporations, import quota etc., in actual practice the sector gets more or less a 'residuary' treatment in raw material distribution/ allocation." (Planning Commission, Seventh Five Year Plan (1985-90), Vol II, p. 9)

Despite the policy of encouraging dispersal of industries in industrially backward areas adopted by the Industrial Policy of 1980, in actual practice it has been observed that still these units remained concentrated in developed States like Maharashtra, Tamil Nadu, West Bengal and Gujarat. The States like Bihar, Madhya Pradesh and Orissa still lagged behind. Not only had this but within developed State also the industrial units remained concentrated only in developed areas.

The Industrial Policy of 1980, in short, focused attention on the need for promoting competition in the domestic market, technological up gradation and modernization. The policy laid the foundation of an increasingly competitive export base and for encouraging foreign investments in high- technology areas.

VII. Industrial Policy of 1991 and Thereafter Policies

The year 1991 witnessed a drastic change in the industrial policy governing industrial development in the country since decades. This land mark change which in the economic history of India in the form of Industrial Policy of 1991 actually was entirely a new chapter which was to enforce totally open economic system as compared to the earlier mixed system. The country decided to follow the lines of capitalism.

VIII. Features of the New Industrial Policy

Industrial licensing policy:- In a major move to liberalize the economy, the new industrial policy abolished all industrial licensing, irrespective of the level of investment, except for a short list of 18 industries related to the security and strategic concerns, social reasons, hazardous chemicals and over riding environmental reasons and items of elitist consumption (list attached as Annex II). However, of these 18 industries, three industries (motor cars, white goods and raw hides and skins and leather) were delicensed in April 1993. In 1996, another industry was delicensed namely entertainment and electronic industry. Further, in July 1997, five other industries were delicensed (animal fats and oils, tanned or dressed fur skins, chamois leather, asbestos and asbestos- based products, plywood and other wood and paper and newsprint). In continuation with the process of delicensing, three other industries were included in this category in 1998-99 namely coal and lignite, petroleum products and sugar. Later on drugs and pharmaceuticals industries were also exempted from licensing. Thus, at present only 5 items of health, strategic and security considerations remain under the purview of industrial licensing – alcohol, cigarettes, hazardous chemicals, electronic, aerospace and all types of defense equipment. The exemption from licensing will apply to all substantial expansion of existing units. The projects where imported capital goods are required, automatic clearance will be given- In cases where foreign exchange availability is ensured through foreign equity; or If the CIF value of imported capital goods required is less than 25 percent of total value (net of taxes) of plant and equipment, upto a maximum value of Rs.2 crore. In view of the current difficult foreign exchange situation, this scheme, (i.e.,(iii)b) will came into force from April, 1992. In other cases, imports of capital goods will require clearance from the Secretariat of Industrial Approvals (SIA) in the Department of Industrial Development according to availability of foreign exchange resources.

In respect of locations other than cities of more than 1 million population, the industrialists will not be required to obtain industrial approval from the Centre, except for industries subject to compulsory licensing. In the cities with population greater than 1 million, industries other than those of non-polluting nature such as electronics, computer software and printing, will be allowed outside 25 km of the periphery, except in prior designated industrial areas.

Major amendments were made in the industrial location policy during 1997-98. The requirement of obtaining industrial approvals from the central government (except for the industries under compulsory licensing) for establishing units at locations not falling within 25 kms the periphery of cities having a population of more than 1 million was dispensed with. However, notified industries of a non- polluting nature such as electronics, computer software and printing, may be located within 25 kms of the periphery of cities with more than 1 million population. Other industries are permitted only if they are located in designated industrial area set up prior to July 25, 1991. Zoning and land use Regulations as well as Environment Legislation continue to regulate industrial locations.

Policy on Public Sector:- The 1956 Resolution had reserved 17 industries for the public sector. The 1991 industrial policy reduced this number to 8 naming- Arms and ammunition; Atomic energy; Coal and lignite; Mineral oils; Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond; Mining of copper, lead, zinc, tin, molybdenum and

wolfarm; Minerals specified in the schedule to the atomic energy (control of production and use order), 1953; and Rail transport.

But later on five during these reserved industries under public sector were also dereserved. On May 9, 2001, the government opened up arms and ammunition sector also to the private sector. Now there were only three industries left reserved exclusively for the public sector.

The policy also suggested that those public enterprises which are chronically sick and which are unlikely to be turned around will, for the formation of revival/ rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose, in order to protect the interests of workers likely to be affected by such rehabilitation package a social security mechanism will be created.

The government has announced its intention to offer a part of government share holding in the public sector enterprises to mutual funds, financial institutions, the general public and the workers. A beginning in this direction was made in 1991-92 themselves by diverting part of the equities of selected public sector enterprises.

Monopolistic and Restrictive Trade Practice limit:- Under the Monopolistic and Restrictive Trade Practice Act, all firms with assets above a certain size (Rs.100 crore since 1985) were classified as MRTP firms. Such firms were permitted to enter selected industries only and this also on a case by case approval basis. In addition to control through industrial licensing, separate approvals were required by such large firms for any investment proposals. The New Industrial Policy therefore remove the threshold limit in assets in respect of MRTP companies and dominant undertakings. This eliminates the requirements of prior approval of the Central Government in respect of the activities concerning expansion, new undertakings etc. The MRTP Act has been accordingly amended. In the now amended Act, emphasis has shifted to taking appropriate action against monopolistic, restrictive and unfair trade practices on the part of monopolies. These dominant undertakings or monopolies have now been identified as those who control over 25 percent share of the market. The New Industrial Policy has widened and strengthened the provisions of the MRTP Act, and their implementation through the Monopoly Commission.

Policy on Foreign investment and Technology agreements:- In the case of both foreign technology agreements sought by the Indian firms as well as foreign investment, it was necessary to obtain specific prior approval from the government for each project. It was argued that this caused undue delays and government interference and also hampered business decision making. The New Industrial Policy, therefore, prepared a specified list of high technology and high investment priority industries, wherein automatic permission was to be made available for direct foreign investment up to 51 percent foreign equity. The industries in which automatic approval was granted included a wide range of industrial activities in the capital goods and metallurgical industries, entertainment electronic, food processing and the services sectors having significant export potential. Besides, these included a number of other industries which were important for the rapid growth of the economy.

In January 1997, the government also announced the first ever guidelines for foreign direct investment for expeditious approval of foreign investment in areas not covered under automatic approval. Priority areas for foreign direct investment proposals as mentioned in the guidelines included infrastructure, export potential, large- scale employment potential particularly for rural areas, items with linkages with the farm sector, social sector projects like hospitals, health care and medicines, and proposals that led to induction of technology and infusion of capital.

The list of industries eligible for foreign direct equity investment under the automatic approval route by Reserve Bank was further expanded in 1997-98 and 1998-99. In 1997-98, equity investment upto 100 percent by NRIs/ OCBs (Overseas Corporate Bodies) was permitted in high priority industries. These included 9 high priority industries in metallurgical and infrastructure sectors and 13 other priority industries, hitherto eligible for 74 percent and 51 percent equity investment respectively. Foreign equity investment in mining (3 categories of industries) was also allowed upto 100 percent for NRIs/ OBCs. During 1998-99, the scope of foreign direct equity investment under the automatic approval route of Reserve Bank was enhanced. In a major drive to simplify foreign direct investment procedures, Indian companies were permitted to accept investment under automatic approval route without obtaining prior permission from Reserve Bank of India. Foreign equity up to 100 percent has been permitted in electricity generation, transmission and distribution (excluding atomic reactor power plants) and in construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, parts and harbours. However, foreign equity in projects of these industries under the automatic approval route was not to exceed Rs.1, 500 crore.

During 1991-2000, the government decided to pull all items under the automatic route for foreign direct investment/ NRI & OCB investment except for a small negative list, which includes all proposals requiring industrial license under the Industries (Development and Regulation) Act, 1951; cases having foreign investment more than 24 percent in the equity capital of units manufacturing items reserved for the small- scale sector; and for all its requiring industrial license in terms of the location policy notified under the New Industrial Policy, 1991.

In order to licensed foreign direct investment policy further, the government took some important decisions such as: 100 percent foreign direct investment allowed in Special Economic Zones (SEZs) for all manufacturing activities; 100 percent foreign direct investment permitted for Business to Business commerce; Removal of cap on investment in the power sector; 100 percent foreign direct investment permitted in oil refining; 100 percent foreign direct investment allowed in telecom sector for certain activities with some conditions; Off shore Venture Capital Funds/ Companies allowed to invest in domestic venture capital undertakings as well as other companies through the automatic route, subject to only SEBI (Securities and Exchange Board of India) regulations and sector specific caps on foreign direct investment; Existing companies with foreign direct investment are eligible for automatic route to undertake additional activities covered under automatic route; Foreign direst investment upto 26 percent is eligible under automatic

route in the Insurance sector, as prescribed in the Insurance Act, 1991, subject to obtaining a licence from the Insurance Regulatory and Development Authority (IRDA); and Automatic route is available to proposals in the Information Technology sector, even when the applicant company has a previous joint venture or technology transfer agreement in the same field, etc.

On May 9, 2001, the government announced a number of concessions and incentives to foreign direct investment (FDI). The main incentives given by the government are as follows:
In the pharmaceutical sector, 100 percent Foreign Direct Investment has been allowed through the automatic route (earlier on, the limit was 74 percent); 100 percent Foreign Direct Investment has been allowed in airports against the prevailing 74 percent; For the hotels and tourism industry the Foreign Direct Investment limit has been raised to 100 percent through the automatic route from the prevailing 51 percent; 100 percent Foreign Direct Investment has also been allowed in two fresh areas- Courier services and Mass Rapid Transport System (MRTS); 100 percent Foreign Direct Investment has been allowed in township development; In the telecom sector, Foreign Direct Investment limit has been raised to 74 percent from the existing 49 percent for Internal Service Providers (ISPs); Subject to Reserve Bank guidelines, the foreign investment limit in the banking sector has been hiked from 20 percent to 49 percent; and Foreign Direct Investment upto 267 percent has been allowed in defence production.

Abolition of Phased Manufacturing Programmes for New Projects:- In order to force the pace of indigenization in manufacturing sector, Phased Manufacturing Programmes have been in force in a number of engineering and electronic industries. The new policy abolished such programmes for future.

Removal of Mandatory Convertible Clause:- Since large part of industrial investment in India is finance by loans from banks and financial institutions, these institutions followed a mandatory practice of including a convertibility clause in their lending operations for new projects which provide them adoption of converting part of their loans into equity of felt necessary by their management. This has been interpreted as an unwarranted threat to the private firms to be taken over by the financial institutions. Hence, the new industrial policy provided that financial institutions will not impose this mandatory convertible clause.

IX. CONCLUSION

From the above discussion, it can be concluded that prior to independence during the colonial period, both the industrial policies as well as economic policies were completely shaped by the British Government in favour of British interests.

Immediately after independence, India came up with Industrial Policy of 1948 which adopted mixed economic system approach, where in public and private sectors were to operate together but the ground practicalities insisted to frame another Industrial Policy within short period of time. The 1956 Industrial Policy Resolution gave effective space to the Centrally controlled industries, State controlled industries and Joint ventures for industrial development. The Policy Resolution introduced the proposals to liberalize the Industrial Policy by relaxations to MRTP and FERA Acts, re- defining the investment limits, de-licensing and exemption to same categories of industrial sector, incentives for export promotion, broad banding of industries, introduction of cottage industries and several other financial concessions. After 1956 Industrial Policy Resolution, came Industrial Policy of 1973, 1977, 1980, 1982-83 and 1990, with very minor changes.

The Industrial Policy approach turned full circle with the advent of the Narsimha Rao government in 1991 in the form of New Industrial Policy of 1991. The country decided to follow the lines of capitalism. The watchword for the New Industrial Policy thus became liberalization, globalization and privatization and towards this end, the Government introduced three sets of reforms:- first, deregulation, delicencing, decontrol and debureaucratisation of industrial licensing system; two, liberalization of foreign trade and currency transactions and third, institute several measures to facilitate foreign direct investment inflows. All these measures were launched in the year 1991 and since then, further liberalizations have been introduced every year with each new budget.

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