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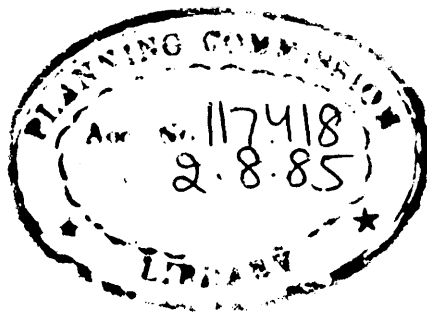
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# NATIONAL INDUSTRIAL POLICY



LOK SABHA SECRETARIAT  
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## PREFACE

This factual study seeks to describe briefly the evolution of the industrial policy of the Government of India and its implementation. It is based largely on published sources. The sources have been indicated in the text by way of footnotes for facility of reference.

The Lok Sabha Secretariat does not accept any responsibility for the accuracy or veracity of the information contained in the brochure.

It is hoped that the study will be found informative and useful by members of Parliament and other interested readers.

NEW DELHI;  
*January, 1965.*

SUBHASH C. KASHYAP,  
*Secretary-General.*

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## **NATIONAL INDUSTRIAL POLICY**

### **INTRODUCTION**

The striking feature of modern civilization is industrialisation. What the previous thousands of years of human history had achieved has been far surpassed by the gains made by the industrial culture of a couple of centuries. Today those countries which were the pioneers in the process of industrialisation are foremost among the nations insofar as winning the struggle for a higher standard of life for their peoples is concerned. It has now become almost axiomatic that a nation must industrialise or perish.

India too had a well developed industrial set up, "modern" as per the standards of the time, when the European traders came here a few centuries ago. It is an irony of fate that at the hands of the colonialists India's wealth as well as industry all but vanished and the Indians began to look to the outside world in awe and wonder at their increasing wealth and ever-growing industrial progress. The national leaders who fought for the freedom of the country from foreign rule and exploitation had a tremendous task before them. Getting the foreigners out of the country was only a beginning of the gigantic task. If the teeming millions of India were to be assured of a life worth living, a lot had to be done on the positive side. Poverty and ignorance had to be eradicated and firm foundations of rapid progress, to catch up with the two centuries of lost time, had to be laid, assuring the dignity of the individual citizens and ensuring, too, that the nation never again would become dominated by any foreign power. The State and the enterprising citizen both had important roles in transforming the subsistence, agrarian, economy to an industrial giant, capable of fulfilling the present and emerging needs of the second largest nation on earth. Indeed, long before the country became free, the Indian National Congress and its leaders had decided on a planned way of progress with stress on industrialisation. Even before a Constitution was adopted for the country, an industrial policy for the nation had been hammered out and implemented. The Industrial Policy Resolution of 1948 was the first formal, official, pronouncement of the government in this regard.

## INDUSTRIAL POLICY RESOLUTION, 1948

The aim of the 1948 Industrial Policy was that the "State must play a progressively active role in the development of industries". It also conceded that the mechanism and the resources of the state may not permit it to function *forthwith* in industry as widely as may be desirable. Hence the decision to have complete state monopoly only on three industries, namely, arms and ammunition, atomic energy and railway transport. Also any future ventures in 6 other industries were to be the exclusive monopoly of the State. These were coal, iron and steel, aircraft manufacture, ship building, manufacture of telephones, telegraph and wireless apparatus, excluding radio receiving sets, and mineral oil. The result of this Policy was the acceptance of mixed economy as a model for development of the country. It allowed the establishment of industries in the private sector in a wide field. Gradually, however, more stress was laid by the Government on the attainment of a socialistic pattern of society. A Resolution adopted by Lok Sabha in December 1954 declared that the object of the country's economic policy should be a socialistic pattern of society. Speaking on the Resolution, Prime Minister Nehru said that "progressively as the socialist pattern grows, there is bound to be more and more nationalised industry—but what is important is not that there should be an attempt to nationalize everything, but the results of that. That is, what you are aiming at is production and employment. If by taking any step you actually stop the production process from growing, this does not lead you to that socialistic pattern, although that little step might be called socialistic." It is this pragmatic thinking that has informed the government's industrial policy throughout the post-independence period.

## INDUSTRIAL POLICY RESOLUTION OF 1956

The intervening years from 1948 when the first Industrial Policy Resolution was adopted and 1956 when the policy was restated, certain momentous developments had taken place in the country. The Constitution of India had been enacted guaranteeing certain Fundamental Rights and enunciating the Directive Principles of State Policy. Planning had proceeded on an organised basis, and the First Plan was successfully completed. A socialistic pattern of society was accepted as the objective of social and economic policy. Whereas the Preamble to the Constitution said *inter alia*, about securing social and economic justice the Directive Principles had called upon the State (i) to secure to all citizens an adequate means of livelihood, (ii) to ensure that the ownership and control of material resources of the community are so distributed as best

to subserve the common good, and (iii) to ensure that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

In this context it was but natural that the industrial policy of the Government should undergo some changes in its thrust and direction. The basic and general principles in this regard were given a precise direction when Parliament accepted, in December 1954, the socialistic pattern of society as the objective of social and economic policy.

The Industrial Policy Resolution of 1956 laid stress on accelerating the speed of industrialization, in particular heavy industries, expansion of public sector and the growth of the cooperative sector. The State was to progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. State trading was another important area stressed by the Policy Resolution. Industries of basic and strategic importance and those in the nature of public utility services were to be in the public sector. Those industries which required huge investment, which only the State could mobilize, also had to be in the public sector.

Taking into account all aspects of the problem, industries had been classified into three categories, though a certain element of overlapping amongst them was natural and unavoidable. In the first category were industries the future development of which would be the exclusive responsibility of the State. The second category consisted of industries which would progressively be State-owned and in which the State would, therefore, generally take the initiative in establishing new industries, but in which private enterprise would also be expected to supplement the effort of the State. The third category included all the remaining industries and their future development was, in general, to be left to the initiative and enterprise of the private sector. However, it was always open to the State to undertake any type of industrial production.

In the first category (Schedule A industries) were included Railways and Air transport, arms and ammunition and atomic energy which were to be the exclusive monopoly of the State. In respect of other industries in this Schedule, cooperation of the private sector could be sought by the State in setting up industries when the national interests so demanded.

The second category of industries (included in Schedule B of the Resolution) included, among others, machine tools, antibiotics and

other essential drugs, fertilizers, synthetic rubber, and road and sea transport. With a view to accelerating their future development, the State was increasingly to establish new undertakings in these industries. At the same time private enterprise also was given the opportunity to develop in this field either on its own or with State participation.

In regard to the other industries, which were not listed in either of the schedules, private enterprise was given a free hand. It was the policy of the State to facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in successive Five Year Plans, by ensuring the development of transport, power and other services and by appropriate fiscal and other measures including fostering institutions providing financial assistance to industries.

It was the policy of the Government that the industrial undertakings must fit into the framework of the social and economic policy of the State and would be subject to controls and regulations under the relevant legislation. They would be allowed as much freedom as possible consistent with targets and objectives of the national plan. When there were to exist in both privately and publicly owned units of the same industry, the policy was to give fair and non-discriminatory treatment to both of them.

An element of overlapping between the different categories had always been recognised. A water-tight compartmentalization was neither envisaged nor desirable. In fact, there was often the need for a dovetailing of the public and private sectors. Again the relationship between large and small industries was not to be one of hostility but of complementarity.

The development of cottage, village and small industries was stressed by the Industrial Policy Resolution. Some of the methods to be adopted for this purpose were restricting the volume of production in the large-scale sector, differential taxation, direct subsidies, etc. The establishment of industrial estates, community workshops, and constant upgradation of techniques of production were envisaged to achieve the competitiveness of the small sector *vis-a-vis* the large scale sector.

Dispersal of industries, thus thwarting unplanned and uncontrolled urbanisation, development of proper managerial and technical cadres, etc., were also stressed by the Policy. Maintenance of industrial peace and the realisation that in a socialist democracy, labour

was a partner in the common task of development, demanded that there should be a machinery for joint consultation. The participation of workers and technicians in management, where possible, was encouraged. With the growing role of the State in industry there was also to be a decentralisation of authority. The Industrial Policy statement promised steps in the right direction in this regard too. <sup>1</sup>[For text of the Industrial Policy Resolution 1956, please see Appendix I].

#### INDUSTRIAL POLICY DURING 1977—79

The industrial policy of the Government did not undergo any basic change during 1977—79. The Industrial Policy Resolution of 1956 continued to govern the Government's policy for achieving the objectives of growth, social justice and self-reliance in the industrial sphere. In the statement of Industrial Policy announced on December 23, 1977 the Government emphasized the inter-action between the agricultural and industrial sectors, the need for strengthening the small scale industries and the tiny sector, the need for reliance on appropriate technology, dispersal of industries, the need for maximising employment, etc.

#### INDUSTRIAL POLICY STATEMENT OF 1980

The industrial policy of the Government of India was restated by Shri Charanjit Chanana, Minister of State for Industry in July, 1980.<sup>2</sup> The announcement emphasized the commitment of the Government to rapid and balanced industrialisation of the country with a view to benefiting the common man in the shape of increasing availability of goods at fair prices, larger employment and higher per capita income. A dynamic industrial economy capable of distributing the benefits of industrialisation to the maximum number of people was envisaged. The socio-economic objectives of the new policy were:

- Optimum utilisation of the installed capacity.
- Maximising production and achieving higher productivity.
- Higher employment generation.
- Correction of regional imbalances through a preferential treatment to agro-based industries, and promoting optimum inter-sectoral relationship.

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<sup>1</sup>Industrial Policy Resolution, 30-4-56.

<sup>2</sup>For text of the Policy Statement please see Appendix-II.

- Faster promotion of export-oriented and import substitution industries.
- Promoting economic federalism with an equitable spread of investment and the dispersal of returns amongst widely spread-over small but growing units in rural as well as urban areas.
- Consumer protection against high prices and bad quality.

For the attainment of these objectives a rehabilitation of faith in public sector was considered essential. The development of managerial cadres in functional fields such as operations, finance, marketing and information system was sought to be achieved rapidly.

It was at the same time conceded that the private sector would continue to play a vital role in pursuing the goal of a vibrant, self-reliant and modern economy.

The artificial differences created between small and large scale industry were to be abolished. In order to achieve an integrated industrial development it was proposed to promote the concept of economic federalism with the setting up of a few nucleus plants in each district, identified as industrially backward, to generate as many ancillaries and small and cottage units as possible.

The proposed nucleus plants in industrially backward districts were to generate a spread-out network of small scale units or the existing network of small scale units in an area was to acquire a faster growth by the coming up of a nucleus plant in the area. Such a two-way traffic was to create an ancillarisation effect in terms of larger employment, more equitable distribution of the benefits of such an industrialisation in the shape of higher per capita income for the larger number of people in the area.

Financial support to small units, building up of buffer stocks for critical inputs, marketing support and reservation of items for small scale industries, correcting regional imbalances by a planned and government-aided dispersal of industries, and periodic evaluations of the various incentives were some of the major aspects of the new policy.

Generation of additional employment and increase in production and productivity were essential for solving the country's problems. Accordingly, it had been decided to recognise additional capacities as a result of replacement and modernisation of equipment, over and above the originally endorsed capacities. Again, stress was laid

on the adoption of advanced technology, allocation of substantial resources for research and development, a dovetailing of industry and energy, pollution control and environmental improvement.

Industrial sickness has for some time been a growing problem. The policy statement laid stress on devising an early warning system for identifying symptoms of sickness. In the case of existing sick units, voluntary mergers with healthy units were to be encouraged. Government take-overs were intended to be resorted to only in exceptional cases.

Improvement of industrial relations through constructive and cordial industrial relations and revival of tripartite labour Conference, was emphasized in the new policy.

#### IMPLEMENTATION OF THE INDUSTRIAL POLICY

The industrial policy of the Government is implemented through the Industries (Development and Regulation) Act, 1951. This Act has set up the administrative institutions for co-ordinating the energies of the private and public sector, with a view to utilising the limited local and foreign exchange resources of the country for maximum industrialisation. The industries which are subject to Central Government regulation have been listed in the First Schedule. This is amended from time to time through legislative amendments. Thus, the Industries (Development and Regulation) Act is the major device in the hands of the Government for implementing and articulating the industrial policy. The general scheme of the Act is regulation of the scheduled industries through (i) the registration of the existing industrial undertakings, (ii) the licensing for the establishment of new undertakings, and expansion of the licensed undertakings, (iii) investigations into the operation of the private industrial undertakings in certain specified circumstances with a view to ensuring their working in conformity with the policy and standards laid down under the Act, (iv) the power of the Central Government to issue directions to private industries, (v) the assumption of management and control of the industries by the Government under certain circumstances, and (vi) the control of supply, distribution and prices of the production of such industries. The Government determines the pattern of industrial development and expansion with the help of these powers. Government regulation is also exercised through licensing and registration of the private undertakings and through administrative supervision of the private industrial undertakings with a view to ensuring their compliance with the terms and conditions of the licence. The planning of future indus-

trial development on sound lines is also sought to be secured through licensing of industrial expansion. It is through licensing that Government exercises control over the location, expansion and setting up of private industrial undertakings with a view to channelise investments into the desired direction, promote balanced regional development, protect small scale and cottage industries and prevent concentration of economic power in a few hands.

For licensing purposes, the Industries (Development and Regulation) Act, 1951 requires the owner of every existing industrial undertaking to register his firm within such period as the Central Government may, by notification in the Official Gazette, fix in this behalf with respect to industrial undertakings generally or with respect to any class of them. Upon such registration the owner of the undertaking is given a certificate of registration containing such operations and capacities as may be prescribed. The Act forbids the establishment of a new industrial undertaking by any person or authority other than the Central Government, except in accordance with a licence issued in that behalf by the Central Government. The owner of an industrial undertaking which is registered or in respect of which a licence or permission has been issued shall not produce or manufacture any new article without obtaining a licence for producing and manufacturing such new article or getting his existing licence amended so as to have authorisation for producing or manufacturing such new article. Similarly the owner of the industrial undertaking which has already been authorised under the Act shall not effect any substantial expansion of the industrial undertaking except under, and in accordance with, a licence issued in that behalf by the Central Government.<sup>3</sup>

#### *Objectives of licensing*

The system of licencing which is an essential part of the industrial policy of the Government is aimed at securing the following:

- (a) Optimal utilisation of investible resources; and
- (b) Allocation of investible resources with a view to:
  - (i) meeting need-based requirements of industries in accordance with national priorities;
  - (ii) preventing concentration of economic power;
  - (iii) securing balanced development of various parts of the country;

<sup>3</sup>Nafes Baig : Government Controls and Industrial Expansion in India. Ali Printwell Publications, 1983, pp. 46-49.

- (iv) securing widest possible dispersal of entrepreneurship and distribution of income;
- (v) stimulating employment with particular accent on absorption of agricultural surplus as well as discouragement of urban migration;
- (vi) locating nucleus of economic activity in a dispersed manner so as to achieve widening of the industries base; and
- (vii) achieving optimal inter-sectoral balance between public sector, organised private sector and small scale sector.<sup>4</sup>

#### LICENSING POLICY

Responding to the changing situation and requirements, the industrial licensing policies have been modified from time to time over the years, keeping in view the priorities and production objectives of the successive five year plans. A consolidated list of core industries, and those involving high technology and long-term export potential had been drawn up in February, 1973. A time-bound programme was adopted for disposal of applications. Government also introduced a number of steps to further liberalise licensing requirements, the more important ones being:

- (i) diversification in the allied area of activities;
- (ii) maximum utilization of plant and machinery;
- (iii) automatic growth of capacity in selected industries;
- (iv) de-licensing of certain industries; and
- (v) recognition of additional capacities as a result of replacement and modernisation of equipment and recognition of excess production over licensed capacity.

In 1978, the exemption limit for licensing was further raised to Rs. 3 crores. (The investment limit for exemption was Rs. 1 crore from 1970).<sup>5</sup>

Considering the general escalation of project costs in the last few years the investment limit for exemption for purposes of industrial licensing has been raised from Rs. 3 crores to Rs. 5 crores with

<sup>4</sup>Government of India, Ministry of Industry, Department of Industrial Development *Annual Report for 1983-84*, p.-8.

<sup>5</sup>*Ibid.*

effect from April, 1983. This exemption is subject to the conditions imposed earlier, i.e.:

- (a) The item of manufacture is not reserved for production in the small scale or public sector;
- (b) The industry is not subject to special regulation or to capacity constraints;
- (c) The proposed investment does not require foreign exchange either for import of raw materials (other than steel) or for parts and components exceeding 15 per cent of the ex-factory value of annual production or upto a ceiling of Rs. 40 lakhs for raw materials and parts and components taken together;
- (d) The location of the project is not within the standard urban limits of a city having a population of 10 lakhs or more or within the municipal limit of a city having a population of 5 lakhs or more; and
- (e) The industrial undertaking does not belong to a MRTP/ FERA\* company.<sup>6</sup>

Restrictions were also imposed on the issue of licences for the setting up of new industries or for substantial expansion in metropolitan cities having a population of more than 10 lakhs and urban areas having a population of 5 lakhs, subject to relaxation in accordance with the laid down guidelines. The list of industries reserved for the small scale sector was also enlarged and reclassified.

#### *Recent measures in the licensing sphere*

A number of measures have been taken recently to accelerate the rate of industrial growth and also to keep abreast of changes in other sectors of government activity. The important ones among these are the following:

(i) *Environmental requirements:* In view of the importance attached by the Government to protecting the environment, more particularly in the vicinity of national parks, sanctuaries and national monuments, essential particulars like the location of the factory, its nearness to any park, sanctuary, monument, etc. and whether the project would have any adverse effect on these, are now being obtained from applicants for industrial licences. This in-

<sup>6</sup>*Ibid.*, pp. 10-11.

\*MRTP Company: Company covered by Monopolies and Restrictive Trade Practices Control Act; FERA Company: Company covered by Foreign Exchange Regulation Act.

formation is of relevance in imposing suitable conditions in cases where pollution from the proposed industrial undertaking may adversely affect the environment in the national park, game sanctuary or the national monument. Similarly, information regarding the impact of the project on forest conservation programmes also has to be furnished at the time of applying for licences. Representatives of the Department of Environment and the Ministry of Agriculture have been included in the Project Approval Board, Licensing Committee, etc., to ensure that the environmental angle is kept fully in view in considering applications for industrial licence. Government have also announced a test of 20 high polluting industries in respect of which a letter of intent is not to be converted into an industrial licence unless pollution control equipments are not installed and siting of project is not decided to the satisfaction of appropriate Government agencies.

(ii) *Re-endorsement of capacity on Industrial Licence/Registration Certificates*: A scheme was introduced in April, 1982, to give a positive production orientation to the industrial economy by removing capacity constraints on production without compromising basic and socio-economic objectives. Under this scheme industrial units could claim an endorsement of higher capacity to the extent of 1/3rd of the best production achieved in any of the five years ending, and including 1981-82. Industrial units were permitted to add balancing equipment subject to the condition that it did not result in an increase of capacity of more than 25 per cent. The scheme also allowed that units could be permitted to produce 25 per cent in excess of the re-endorsed higher capacity and they would be eligible to avail of 25 per cent of the automatic growth on the re-endorsed capacity. These facilities were not made available in respect of reserved items and industries subject to special regulation and licensing whether due to shortage of raw materials or to structural policy of Government. For MRTP/FERA companies, these facilities were restricted to Appendix I items having long-term export potential. (So described because these were included in the Appendix I to the Industrial Licensing Policy, 1973 as modified *vide* Press note dated 21st April, 1982).

In order to give continued emphasis to higher production the scheme has been extended by a further period of two years. In other words, industrial undertakings desirous of availing of the scheme can ask for re-endorsement of capacity based on best production in the five years ending and including 1982-83 or 1983-84.

(iii) *Special Approval Committee for non-resident Indians*: A Special Approval Committee for non-resident Indians has been constituted under the Chairmanship of Secretary, Department of Industrial Development. This Committee is empowered to clear all industrial investment proposals received from non-resident Indians. This Committee is empowered to clear at a single point all proposals relating to industrial investments which involve (a) grant of Industrial Licence, registration with the technical authorities or any other similar permission, (b) foreign collaborations, and (c) import of capital goods. The procedures have been so streamlined that all applications would be processed and finalised within 45 days.

(iv) *Industries (Development and Regulation) Amendment Ordinance, 1984*: The Industries (Development and Regulation) Act, 1951 has been amended to confer specific powers on the Central Government to define "small scale undertakings" and on the advice of a high level Committee reserve specific items for exclusive production in such undertakings. Where existing industrial undertakings are already manufacturing "reserved" items, the Central Government will have powers to call for the Industrial Licence and endorse thereon the productive capacity of that unit and impose such conditions as may be appropriate. Any breach of these provisions is punishable under the Act.<sup>7</sup>

#### MEASURES FOR DISPERSAL OF INDUSTRIES

An important objective of government's policy as also of industrial licensing is to correct regional imbalances and secure the industrialisation of backward areas. In this context, the government has taken several measures to encourage dispersal of industries to backward regions of the country. A survey was undertaken in 1981 to identify districts without any medium or large scale industrial units. A total of 90 such districts have been identified. The scheme of incentives has been recast to take into account the special requirements of the No-Industry Districts.

#### *Central Investment Subsidy Scheme*

The Central Investment Subsidy Scheme, started in 1971, originally provided for an outright subsidy at the rate of 10 per cent on fixed capital investment viz. land, building, plant and machinery in relation to industrial units in any of the notified 101 backward districts/areas. From 1st March, 1973 the rate of subsidy was

<sup>7</sup>*Ibid*, p. 9, 11.

enhanced to 15 per cent subject to a maximum of Rs. 15 lakhs. In respect of the North-Eastern Region and Sikkim these limits were 20 per cent and Rs. 20 lakhs respectively.

In April 1983, the backward areas have been recategorised as under:

- (i) Category A — No-Industry Districts plus special regions— 118 districts, now increased to 131 districts.
- (ii) Category B — Districts earlier eligible for Central Investment Subsidy minus districts included in Category A (55 districts); and
- (iii) Category C — Districts earlier eligible for concessional finance minus districts included in Categories A and B (113 districts).

The Central Investment Subsidy for the three categories will be 25 per cent subject to a maximum of Rs. 25 lakhs, 15 per cent subject to a maximum of Rs. 15 lakhs and 10 per cent subject to a maximum of Rs. 10 lakhs, respectively. Concessional finance, which was earlier available in 246 districts, has now been extended to all the 299 districts included in Categories A, B and C. Blocks/Taluks/urban agglomerations/extensions of townships in which there was industrial investment of Rs. 30 crores or more as on the 31st March, 1983 are excluded from the ambit of the Scheme.

The revised Scheme will remain in force upto the end of the Sixth Five Year Plan.

#### *Transport subsidy scheme*

The transport subsidy scheme was also started in 1971. Industrial units located in hilly, remote and inaccessible areas in specified States/Union territories are entitled to 50 per cent subsidy on the expenditure incurred on the movement of raw materials and finished goods to and from designated rail-heads to the actual site of the industrial unit. With effect from 1st April, 1983 the quantum of subsidy has been raised from 50 per cent to 75 per cent. Further recognised promotional institutions which transact business on behalf of small, village and cottage industries have also been brought within the ambit of the scheme. As in the case of the Central Investment Subsidy Scheme, this scheme has also been extended upto the end of the Sixth Five Year Plan.

From the inception of the Central Investment Subsidy Scheme and Transport Subsidy Scheme upto 31st December, 1983, a total

amount of over Rs. 207 crores had been made available to the State Governments and Union Territory Administrations by way of reimbursement of claims received from entrepreneurs.

*Special incentives for No-Industry Districts*

In addition to the subsidy available under the Central Investment Subsidy Scheme, entrepreneurs in the No-Industry Districts are eligible for the following further incentives and concessions:

- (i) over-riding preference in industrial licensing;
- (ii) availability of finance from All India Term Lending Institutions at concessional rates;
- (iii) MRTP/FERA Companies can set up units for the manufacture of non-Appendix 1 industries, but not reserved for the small scale sector, with export obligation of 30 per cent only.

*Infrastructural Development Assistance*

One of the most important impediments in the industrialisation of the backward regions, more particularly the No-Industry Districts, is the absence of infrastructural facilities. In this context a scheme has been drawn up for assisting the State Governments to take up infrastructural development in one or more identified growth centres in each No-Industry District. The assistance from the Central Government will be limited to 1/3rd of the total cost of infrastructural development, subject to a maximum of Rs. 2 crores per district. The Industrial Development Bank of India (IDBI) has also drawn up a scheme for supplementing the efforts of the State Governments through loan assistance.

*Nucleus Plant Programme*

Based on the Industrial Policy Statement of July, 1980, the Nucleus Plant Programme was initiated in selected backward areas. This programme is based on the consideration that the industrialisation of backward areas would be facilitated by establishing such industries with strong ancillarisation possibilities. While the nucleus plant can be set up in any identified backward area, it will have to fulfil the basic condition that 50 per cent of the production of the plant would be achieved through off-loading specified assemblies/sub-assemblies and components to ancillaries. The nucleus plant would be under obligation to supply technology, design, documentation and training as well as new raw materials, wherever required to its ancillaries. Whereas nucleus plants located in Cate-

gory A districts will continue to receive Central Investment Subsidy at the rate of 25 per cent, in Categories B and C districts, the subsidy element has been increased to 20 per cent and 15 per cent respectively. Nucleus plants are also eligible for other relaxations, like non-applicability of the convertible clause, higher inter-corporate investments (subject to clearance by the Department of Company Affairs) and a composite package of assistance as is available to Pioneer Units in Maharashtra (e.g. exemption from sales tax liability, interest-free sales tax loan, capital investment subsidy from State funds, etc.)

This Programme will also be in force upto the end of the Sixth Five Year Plan.

#### *Preference in Licensing and change of Locations*

The earlier over-riding preference for grant of industrial licences in favour of locations in No-Industry Districts has now been extended to all Category A districts. This preference will also be available for registration with the technical authorities. Thereafter the order of preference will be locations in Categories B and C districts.

In order to ensure that the above order of preference is not negated through applications for change of locations, the Government has decided that:—

- (a) No request for change of location from Category A will be entertained unless it is from a special region to a No-Industry District.
- (b) Similarly, requests for change of location from Category B and C districts will be discouraged unless the change in location is from Category B to Category A or from Category C to Category B or Category A (within the same State).
- (c) Any change of location to an area which falls within the standard urban limits of a metropolitan city with a population of 10 lakhs or more or within the municipal limits of a city with a population of five lakhs or more (1981 census) will not be permitted.<sup>8</sup>

#### FOREIGN COLLABORATIONS

Government's policy towards import of technology in selective and based on national priorities. Import of technology is permitted

Government of India, Ministry of Industry, Department of Industrial Development  
*Annual Report*, for 1983-84, pp. 12-13.

in sophisticated and high priority areas, in export-oriented or import substitution manufacturing or for enabling indigenous industry to update existing technology in India to meet domestic requirements and/or, to become competitive in the export market. The Government is keen to reduce dependence on external resources and become self-reliant through proper utilisation of various resources—industrial, human and technical—as speedily as possible. The policy, is, therefore, selective and is designed to channelise imports of technology into areas which will reinforce indigenous efforts to accelerate economic growth. It is recognised that with constant technological advancement in the developed countries, the need to update indigenous production technology to match the best in the world is a *sine-qua-non* for remaining competitive in the world market.

While considering applications for import of technology, the main considerations are the technical competence of the applicant, the magnitude of his operation, economic viability of the project, availability of indigenous resources as well as the applicant's present and future technological capabilities. The basic objective is to develop technologies suited to the needs of the country within a given time-frame and increasing degree of self-reliance. In areas where there is need for latest technology or where there are critical production gaps or where it is necessary to exploit the export potential of a product, import of technology is allowed.

#### *Foreign Investment and Collaborations*

In order to facilitate flow of modern technology, foreign collaborations are allowed in a number of industries except where foreign technology is not considered necessary. Under certain circumstances, import of technology may be considered even where foreign collaboration is not considered necessary, *viz.*, (i) if the technology is too closely held and is not available for use by entrepreneurs on competitive terms; (ii) if the technology is required for up-dating existing technology to meet higher domestic requirements or to become competitive in export market; or (iii) for manufacturing items with substantial exports backed by buy-back guarantees.

Foreign investment is viewed as a vehicle for transfer of technology. Foreign investment is allowed where it is accompanied by transfer of technology needed by the country and in export-oriented ventures. The normal ceiling for foreign investment is 40 per cent of the total equity capital. A higher percentage of foreign equity can be considered in priority industries if the technology is sophisticated and not available in the country, or if the venture is

largely export-oriented. Foreign equity of higher levels can also be considered on the merits of specific projects on technology considerations. For wholly export-oriented units, even 100 per cent foreign equity can be considered. Foreign share capital should be contributed in cash without any link to tied imports of machinery and equipment or payment for know-how, trade marks, etc. Payment for technology and know-how can be made either in the form of annual royalty or as lump sum or both. The rate of royalty depends on the nature of technology and this is normally limited to 5 per cent and for a period of five years. Higher rate of royalty and longer duration may be considered in exceptional cases, where the technology involved is sophisticated or a major part of the production is exported. Employment of foreign experts can be permitted, if considered necessary and they are allowed to repatriate a part of their earnings.

While it is the general rule that foreign investment must be accompanied by transfer of technology, an exception has been made in respect of Oil Exporting Developing Countries (OEDC). In their case, investment upto 40 per cent in the equity of new ventures even without technology transfer will be permitted in specified industries. Portfolio investments in such ventures are also permitted. A number of tax incentives have been provided for such industries. Repatriation of capital along with appreciation in capital stock is freely allowed.

#### *Simplified Procedure for Import of Design and Drawings*

In order to strengthen indigenous design capabilities and to facilitate utilisation of existing fabrication capacity in machinery manufacturing industry, a special scheme for import of drawings and designs has been introduced. This facility is available to all scheduled Industries for import of designs and drawings and related technological inputs upto a limit of Rs. 25 lakhs.

#### *Special Facilities for Non-Resident Indians*

With the twin objectives of developing the economy and also providing for reasonable rate of return on investments by non-resident Indians, the Government has extended special facilities to non-resident Indians on a repatriable as well as non-repatriable basis. According to this scheme, non-resident Indians can invest upto 40 per cent of the equity capital with full benefits of repatriation in all industries and 74 per cent in priority industries. In non-priority industries, 74 per cent investment can be made provided 60

per cent of the output is exported (75 per cent in the case of industries reserved for small scale sector). Capital equipment is allowed to be imported against the foreign exchange brought by non-resident investors. Non-resident Indians have also been allowed special facilities for import of capital goods into India as under:—

- (i) Import of Capital Goods (new or second hand) except banned items without any value limit. The restriction on import of banned capital goods may also be relaxed, where the machinery in question has been used by the applicant for at least one year before his return to India or where the c.i.f. value of such machinery is not more than 10 per cent of the c.i.f. value of the total machinery being allowed for import.
- (ii) Import of professional equipment (new or second hand) purchased out of the applicant's own foreign exchange earnings and resources abroad, and used by him abroad for at least one year before returning to India. In case such equipment has not been used by the applicant abroad for at least one year, its import will be limited to Rupees One lakh (c.i.f.);
- (iii) Import of generating set of rating 500 KVA and above;
- (iv) Import of office equipment and furniture used by them abroad upto rupees one lakh c.i.f. (when new), for use in their industry.
- (v) Import of a computer system if they have been using it abroad for at least one year before returning to India provided its c.i.f. value is not more than rupees 5 lakhs, whether new or old or where the computer is a built-in part of the equipment being allowed for import;
- (vi) Import of prototypes;
- (vii) Import of cement for construction of factory buildings;
- (viii) Import of raw materials components, consumables and spares for meeting the requirement of their Industry upto three years (one year at a time), subject to a maximum of Rs. 5 lakhs each year. This facility will also be available in cases where the machinery is not imported but purchased indigenously.
- (ix) Import of machinery except banned types for agricultural production/developments, provided they are returning to India for permanent settlement.

### *Special Approval Committee*

In order to provide a further impetus to industrial investments by non-resident Indians and to clear their applications expeditiously a Special Approval Committee has been constituted in November, 1983 under the Chairmanship of the Secretary, Department of Industrial Development, to clear all industrial investment proposals emanating from non-resident Indians. This Committee will decide and monitor the progress of all applications received from non-resident Indians regarding industrial investments involving (a) industrial Licences/registration/permissions; (b) foreign collaborations; and (c) import of capital goods. A Special Cell has also been established in the Secretariat for Industrial Approvals to process and monitor applications for industrial approvals received from non-resident Indians.<sup>9</sup>

### ACHIEVEMENTS IN THE INDUSTRIAL SECTOR

During the years of planned development since India's independence, industrial production has made rapid strides both in terms of variety and quality. In the first two Plan periods the growth and diversification of industry were remarkable. Progress during the Third and the 3 Annual Plans which followed was uneven as the economy was subjected to considerable stress and strain and the growth rate in industrial production declined. In the Fourth Plan too the expectations could not be fulfilled. However, the average growth rate since 1970 was about 5 per cent per annum. While almost all groups of industries contributed to this, the growth has been particularly marked in areas such as petroleum products, chemicals and chemical products, metal products, electronics and other electrical machinery, transport equipment and power generation. The share of manufacturing sector in the net domestic product at constant prices increased from 13.4 per cent in 1970-71 to 15.0 per cent in 1982-83.

The different five year plan periods saw the expansion and diversification of the industrial structure with the establishment of new units in the existing fields as well as the setting up of new enterprises. As a result, the number of industrial units has increased significantly. In 1951, there were only two major units producing iron and steel. There are now six major steel plants with a capacity of about 87 lakhs tonnes. The steel produced by these plants has provided the basis for achieving self-sufficiency in making a number of engineering goods, from pin to giant machinery. In the field of new industries, agricultural tractors, electronics and fertilizer

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<sup>9</sup> *ibid.*, pp. 14-16.

industries which practically did not exist in 1951, have progressed to such an extent that the import of these products has been brought down to the minimum. The drug and chemical industries have also made rapid progress. The textile industry is no longer confined to the cotton and jute textiles. Today, there are quite a few units producing different types of synthetic fibres. The machine building industry too, has made rapid strides. The engineering industry can supply virtually the entire requirement of power generating equipment for railways, road transport and communications. Self-sufficiency has been reached with regard to sugar and cement machinery, power boilers, material handling equipment and a large number of consumer durables.

The turn-over of some of the major industries in Public Enterprises during 1981-82 and 1982-83 has been as under:

[Rs. in Crores]

Sl. No.	Group of Industries	Turnover <sup>10</sup>			
		1981	82	1982	83
1	Steel . . . . .	2,981.63		3,408.18	
2	Minerals and Metals . . . . .	607.13		664.63	
3	Coal . . . . .	1,549.09		1,919.54	
4	Petroleum . . . . .	15,002.59		18,401.50	
5	Chemicals, Fertilizers and Pharmaceuticals . . . . .	1,805.07		2,206.37	
6	Heavy Engineering . . . . .	1,294.70		1,611.21	
7	Medium and Light Engineering . . . . .	892.05		1,008.07	
8	Transportation Equipment . . . . .	704.13		813.59	
9	Consumer Goods . . . . .	216.31		254.75	
10	Agro-based Products . . . . .	46.90		47.77	
11	Textiles . . . . .	560.44		571.89	
12	Power . . . . .	@		59.35	
		25,759.04		30,966.85	

<sup>10</sup>Bureau of Public Enterprises, Public Enterprises Survey, 1982-83, Vol. I, BPE.

@Under Construction.

## THE PUBLIC SECTOR

One of the important aspects of the country's industrial policy has been the stress laid on the public sector. There has accordingly been a spectacular growth of the public sector since the inception

of planning. In 1951 there were only 5 public sector undertakings but their number rose to 223 by the end of 1982-83. Investment in public sector has also grown from Rs. 29 crores to Rs. 30039 crores during this period. Similarly in regard to the number of employees, profits earned, capacity utilisation, quantum of goods produced and exports, the public sector has been growing rapidly. The contributions of the public sector cannot be measured in terms of profitability alone. Their role in discharging certain socio-economic objectives too is important. In matters like development of backward regions, provision of public utility services at subsidised rates, selling basic inputs or products at administered prices, providing medical, educational and housing facilities to employees, etc. also, the public sector as a whole has been an effective instrument of government policy.<sup>11</sup>

The public sector enterprises occupy a pivotal position in the Indian economy. They are prominent in key areas of industries, supplying basic inputs like coal, steel, minerals, metals and heavy equipment including those required for generating power, to commerce and industry. The public sector is also operating service enterprises in the fields of trading and marketing, and transportation, consultancy and tourism, etc. The health and well-being, current performance and future development plans, etc. of these undertakings are a matter of public concern and interest. The performance of the country in almost every economic activity depends on the public sector performance. While the concept of professionalised management and autonomy have been accepted for the public sector units, a system of continuous appraisal of their performance and accountability through administrative ministries to the Parliament and the tax-payer is always maintained.

<sup>11</sup>Address by Shri N.D. Tewari, the then Minister for Industry at the Seminar on "Industrial Development", New Delhi, May 4, 1984.

**APPENDIX I**  
**INDUSTRIAL POLICY RESOLUTION**

*New Delhi, 30 April, 1956*

No. 91|CF|48.—The Government of India set out in their Resolution dated 6 April 1948, the policy which they proposed to pursue in the industrial field. The Resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the State must play a progressively active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government, the State would be exclusively responsible for the establishment of new undertakings in six basic industries—except where, in the national interest, the State itself found it necessary to secure the co-operation of private enterprise. The rest of the industrial field was left open to private enterprise though it was made clear that the State would also progressively participate in this field.

2. Eight years have passed since this declaration on industrial policy. These eight years have witnessed many important changes and developments in India. The Constitution of India has been enacted guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy. Planning has proceeded on an organised basis, and the first Five Year Plan has recently been completed. Parliament has accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy, more particularly as the second Five Year Plan will soon be placed before the country. This policy must be governed by the principles laid down in the Constitution, the objective of socialism, and the experience gained during these years.

3. The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens—

“JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all;

FRATERNITY assuring the dignity of the individual and the unity of the Nation.”

In its Directive Principles of State Policy, it is stated that—

**“The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life.”**

Further that—

**“The State shall, in particular, direct its policy towards securing—**

- (a) that the citizens, men and women equally, have the right to an adequate means of livelihood;
- (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
- (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;
- (d) that there is equal pay for equal work for both men and women;
- (e) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength;
- (f) that childhood and youth are protected against exploitation and against moral and material abandonment.”

4. These basic and general principles were given a more precise direction when Parliament accepted in December, 1954, the socialist pattern of society as the objective of social and economic policy. Industrial policy, as other policies, must therefore be governed by these principles and directions.

5. In order to realise this objective, it is essential to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries, to expand the public sector, and to build up a large and growing co-operative sector. These provide the economic foundations for increasing opportunities for gainful employment and improving living standards and working conditions for the mass of the people. Equally, it is urgent, to reduce disparities in income and wealth which exist today, to prevent private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly, the State will progressively assume a predominant and direct responsibility for setting up new

industrial undertakings and for developing transport facilities. It will also undertake State trading on an increasing scale. At the same time, as an agency for planned national development, in the context of the country's expanding economy, the private sector will have the opportunity to develop and expand. The principle of co-operation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed along co-operative lines.

6. The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The State has therefore to assume direct responsibility for the future development of industries over a wider area. Nevertheless, there are limiting factors which make it necessary at this stage for the State to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play a dominant role. After considering all aspects of the problem, in consultation with the Planning Commission, the Government of India have decided to classify industries into three categories, having regard to the part which the State would play in each of them. These categories will inevitably overlap to some extent and too great a rigidity might defeat the purpose in view. But the basic principles and objectives have always to be kept in view and the general directions thereafter referred to be followed. It should also be remembered that it is always open to the State to undertake any type of industrial production.

7. In the first category will be industries the future development of which will be the exclusive responsibility of the State. The second category will consist of industries, which will be progressively State owned and in which the State will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. The third category will include all the remaining industries and their future development will in general, be left to the initiative and enterprise of the private sector.

8. Industries in the first category have been listed in Schedule A of this Resolution. All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the

State securing the co-operation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies. Whenever co-operation with private enterprise is necessary, the State will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking.

9. Industries in the second category will be those listed in Schedule B. With a view to accelerating their future development, the State will increasingly establish new undertakings in these industries. At the same time private enterprise will also have the opportunity to develop in this field, either on its own or with State participation.

10. All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State to facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in successive Five Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant financial assistance to the private sector. Such assistance especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital.

11. Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them.

12. The division of industries into separate categories does not imply that they are being placed in water-tight compartments. In-

evitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the State to start any industry not included in Schedule A and Schedule B when the needs of planning so require or there are other important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other light-craft, generation of power for local needs and small scale mining. Further, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector. The same principle would apply with even greater force to the relationship between large scale and small scale industries.

13. The Government of India would, in this context, stress the role of cottage and village and small scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

14. The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these defi-

ciencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial co-operatives. Such co-operatives should be encouraged in every way and the State should give constant attention to the development of cottage and village and small scale industry.

15. In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable. Only by securing a balanced and co-ordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.

16. This programme of industrial development will make large demands on the country's resources of technical and managerial personnel. To meet these rapidly growing needs for the expansion of the public sector and for the development of village and small scale industries, proper managerial and technical cadres in the public services are being established. Steps are also being taken to meet shortages at supervisory levels to organise apprenticeship schemes of training on a large scale both in public and in private enterprises, and to extend training facilities in business management in universities and other institutions.

17. It is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standard of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach has developed with the growing recognition of the obligations of both management and labour. There should be joint consultation and workers and technicians should, whenever possible, be associated pro-

gressively in management. Enterprises in the public sector have to set an example in this respect.

18. With the growing participation of the State in industry and trade, the manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom.

19. The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritative statements of policy. The division of responsibility between the Central Government and the State Governments in regard to industries has been set out in the Industries (Development and Regulation) Act. The Prime Minister, in the statement in Parliament on 6 April 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with these subjects in this resolution.

20. The Government of India trust that this restatement of their Industrial Policy will receive the support of all sections of the people and promote the rapid industrialisation of the country.

## SCHEDULE A

1. Arms and ammunition and allied items of defence equipment.
2. Atomic energy.
3. Iron and steel.
4. Heavy castings and forgings of iron and steel.
5. 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.
6. Heavy electrical plant including large hydraulic and steam turbines.
7. Coal and lignite.
8. Mineral oils.
9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
10. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram.
11. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.
12. Aircraft.
13. Air Transport.
14. Railway transport.
15. Shipbuilding.
16. Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets).
17. Generation and distribution of electricity.

## SCHEDULE B

1. All other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949.
2. Aluminium and other non-ferrous metals not included in Schedule 'A'.

3. Machine tools.
4. Ferro alloys and tool steels.
5. Basic and intermediate products, required by chemical industries such as the manufacture of drugs dyestuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilizers.
8. Synthetic rubber.
9. Carbonisation of coal.
10. Chemical pulp.
11. Road transport.
12. Sea transport.

APPENDIX II  
STATEMENT ON INDUSTRIAL POLICY

*By*

DR. CHARANJIT CHANANA

*Minister of State for Industry*

*July, 1980*

*Industrial Policy Resolution 1956*

The Industrial Policy Resolution 1956 has served as the corner stone of the Congress Government Policy-frame for the past quarter of a century. The Industrial policy announcement of 1956 in fact reflect the value system of our country and has shown conclusively the merit of constructive flexibility. In terms of this Resolution the task of raising the pillars of economic infrastructure in the country was entrusted to the public sector for reasons of its greater reliability, for the very large investments required and the longer gestation periods of the projects crucial for economic development. The 1956 Resolution, therefore, forms the basis of this statement.

*Take off stage*

2. Industrialisation in a developing country has two aspects viz., optimum utilisation of installed capacity and expansion of industries. The industrial progress of India during the past three decades can be attributed to the policies pursued by the Congress Government. While the country had reached a take off stage towards mid-1970s, both the growth channels—optimum utilisation of installed capacity as well as expansion of industries were choked off by the 33-months-rule of the Janata Party and its successor Government. The runway of the economy has been damaged by the last two governments and the entire process of development was put in reverse gear.

*Revival of the Economic Infra-structure*

3. The first task before us, therefore is the revival of the economy which is presently inhibited by infrastructural gaps and inade-

quacies in performance. This put the economy into a vicious cycle of shortage of major industrial inputs like energy, transport and coal. To normalise the situation, Government are working on war-footing to break this vicious circle and to put the economy again on its feet.

#### ***Industrialisation and Economic Progress***

4. Industrialisation is a *sine qua non* of economic progress. Our Government is committed to rapid and balanced industrialisation of the country with a view to benefiting the common man in the shape of increasing availability of goods at fair prices, larger employment and higher per capita income. A higher standard of living implies that more of industrial goods go into the consumption basket of the people. Industrialisation is also essential to provide the much-needed support for agriculture and for the development of infra-structural facilities like energy and transport. The net economic impact of industrialisation must travel down ultimately to the maximum number of people.

#### ***Distribution of Benefits of industrialisation***

5. The pattern of distribution of benefits of industrialisation should be such as to cover as large a segment of the country's population, both rural and urban, while avoiding economic concentration in a few hands. New thrusts need to be made to establish a dynamic **industrial economy** as indicated in the election manifesto of the Congress Party. Now that the Congress party has been entrusted with the responsibility of the Government, what is needed above all is a set of pragmatic policies which will remove the lingering constraints to industrial production and, at the same time act as catalysts for faster growth in the coming decades, within the following socio-economic objectives:

#### ***Socio-Economic Objectives***

Optimum utilisation of the installed capacity.

Maximising production and achieving higher productivity.

Higher employment generation.

Correction of regional imbalances through a preferential development of industrially backward areas.

Strengthening of the agricultural base by according a preferential treatment to agro-based industries, and promoting optimum inter-sectoral relationship.

**Faster promotion of export-oriented and import substitution industries.**

**Promoting economic federalism with an equitable spread of investment and the dispersal of returns amongst widely spread over small but growing units in rural as well as urban areas.**

**Consumer protection against high prices and bad quality.**

#### *Role of Public Sector*

6. An unfortunate development during the recent political vacuum in the country has been an erosion of faith in the public sector which has been reflected in its rather poor performance in recent years. Public sector, which was conceived to provide the pillars of the Country's economic infrastructure, was rendered hollow. The gigantic task before us, therefore, is to rehabilitate faith in the public sector. We have not only to restore people's faith in the public sector but also evolve effective operational systems of management in the public sector undertakings. The public sector has to be identified as people's sector and not as "No body's sector" as was rendered by the last Government. Public sector constitutes a substantial segment of industrial activity in the country and its contribution in terms of generating surpluses and employment for further growth of the economy needs to be improved.

#### *Unit-by-unit Examination for Corrective steps*

7. Government have decided to launch a drive to revive the efficiency of public sector undertakings. Industrial undertakings in this sector will be closely examined on a unit-by-unit basis and corrective action will be taken in terms of a time-bound programme wherever necessary. Some of the units were allowed to get into chronic problems and instead of contributing surpluses, tended to put a drain on the public exchequer. Priority will be accorded to convert losing concerns into viable ones through broad restructuring of the system and by providing dynamic and competent management.

#### *Management Cadre*

8. On the positive side, public sector will continue playing an increasingly important role. Part of the reason for unsatisfactory performance of some of the units in the public sector has been the absence of proper management cadre. It is proposed to take effective steps to build the public sector undertakings and emphasis will be placed on developing management cadres in functional fields such as operations, finance, marketing and information system.

### *Role of Private Sector*

9. The Government would pursue the goal of a vibrant, self-reliant and modern economy in which all sectors and all segments of the society have a positive role to play. The Industrial Policy Resolution of 1956 assigned a role for industrial undertakings in the private sector within the framework of socio-economic policy of the State and subject to certain regulations in terms of relevant legislations. Government recognises that it would be, in general, desirable to allow private sector undertakings to develop in consonance with targets and objectives of national plans and policies but shall not permit the growth of monopolistic tendencies or concentration of economic power and wealth in a few hands.

### *Economic Federalism*

10. It will be Government's endeavour to reverse the trends of the last three years towards creating artificial divisions between small and large-scale industry under the misconception that these interests are essentially conflicting. While making all efforts towards integrated industrial development, it is proposed to promote the concept of economic federalism with the setting up of a few nucleus plants in each district, identified as industrially backward, to generate as many ancillaries and small and cottage units as possible.

### *Nucleus Plants*

11. A nucleus plant would concentrate on assembling the products of the ancillary units falling within its orbit on producing the inputs needed by a large number of smaller units and making adequate marketing arrangements. The nuclei will also ensure a widely spread pattern of investment and employment and will distribute the benefits of industrialisation to the maximum possible. The nucleus plants would also work for upgrading the technology of small units. Small is beautiful only if it is growing just as the phased manufacturing programme with a view to reducing reliance on imported components and materials played an important role in diversifying our industrial structure, a carefully worked out time bound programme for greater ancillarisation in certain industries will contribute considerably towards dispersal of industry and growth of entrepreneurship.

### *Ancillarisation Effect*

11A. The proposed nucleus plants in industrially backward districts would generate a spread-out network of small scale units or

the existing network of small scale units in an area would acquire a faster growth by the coming up of a nucleus plant in the area. Such a two-way traffic would create an ancillarisation effect in terms of larger employment, more equitable distribution of the benefits of such an industrialisation in the shape of higher per capita income for the larger number of people in the area.

In between the nucleus large plants and the satellite ancillaries, the Government would promote a system of linkages for an integrated industrial development. The Government would evolve a scheme of phased development of industrially backward areas through ancillarisation.

#### *Redefining of Small Scale Units*

12. In order to boost the development of small scale industries and to ensure their rapid growth, Government have decided:

- (i) to increase the limit of investment in the case of tiny units from Rs. 1 lakh to Rs. 2 lakhs;
- (ii) to increase the limit of investment in the case of tiny units scale units from Rs. 10 lakhs to Rs. 20 lakhs; and
- (iii) to increase the limit of investment in the case of ancillaries from Rs. 15 lakhs to Rs. 25 lakhs.

13. This would eliminate the tendency to circumvent the present limit by understating the value of machinery and equipment, falsification of accounts or resort to 'benami' units. The enhancement of the limit in terms of investment in plants and machinery will also help genuine small scale units particularly those being set up by young and technically qualified entrepreneurs, to come up. This measure will also facilitate long over due modernisation of many of the existing small scale units.

#### *Financial Support to Small Units*

14. One of the major constraints to the growth of de-centralised-sector has been the difficulties to finance experienced particularly by industrial entrepreneurs in small, cottage and rural sectors. Although, there is adequate network of institutional finance, yet there is need for coordinating the flow of capital, both short term and long term. Government would evolve a system of coordination to ensure the flow of credit to the growing units in the de-centralised sector at the right time and on appropriate terms. Government proposes to strengthen the existing arrangements and make such changes as may be necessary to facilitate the availability of credit to the growing units in the small scale sector.

*Buffer Stock for Critical Inputs*

15. In order to assist the growth of small scale industries it is proposed to introduce a scheme for building up of buffer stocks of essential materials which are often difficult to obtain. For this the existing set-up such as Small Industries Development Corporations in the States and the National Small Industries Corporation in the Centre will also be utilised. Special needs of States which rely heavily on a few essential raw materials will receive priority.

*Marketing Support and Reservation of Items for Small Scale Industries*

16. Policies regarding marketing support to the decentralised sectors and reservation of items for small scale industries, shall continue to be in force in the interest of growth of the small scale industries.

*Village Industries*

17. Government is determined to promote such a form of industrialisation in the country as can generate economic viability in the villages. Promotion of suitable industries in rural areas will be accelerated to generate higher employment and higher per capita income for the villagers in the country without disturbing the ecological balance. Handlooms, handicrafts, khadi and other village industries will receive greater attention to achieve a faster rate of growth in the villages.

*Correcting Regional Imbalances*

18. Industrialisation will play an important role in correcting the regional imbalances and reviving the industrial growth to lead the economy once again to the take-off stage. For the achievement of this goal, Government have decided to encourage dispersal of industry and setting of units in industrially backward areas. Special concessions and facilities will be offered for this purpose and these incentives will be growth and performance oriented.

*Evaluation of Incentives*

19. In the past, numerous incentives had been provided to industries from time to time. It is Government's considered view that all incentives given to industry must be performance oriented. It is, therefore, proposed, that a regular periodic assessment will be made of the impact of these incentives to see the extent to which they have fulfilled their initial purpose. Unless it is apparent that

the purpose is being served Government will review the system of incentives.

*Generation of Employment and Higher Production*

20. Industrial development has to be viewed in the broader context of generating higher production and employment. Overcoming the problems of poverty and backwardness need a multi-pronged approach. An integral part of this approach would be to create new focal points of industrial growth which have the maximum effect on the quality of life. This will have to be based essentially on the utilisation of local materials and locally available man-power. The ripple effect of substantial investments in backward districts in the past has in many cases not been adequate, mainly because such investments did not have effective linkages with local resources. Government, therefore, propose to encourage investment by public and private sector which will meet these criteria and would also promote a net-work of spread out ancillaries.

*Endorsement of Licences to reflect Existing Productivity Capacity*

21. In 1975, Government had taken certain decisions in regard to the recognition of additional capacities as a result of replacement and modernisation of equipment, liberalisation of investment procedure for stimulating production in a certain selected industries and for endorsement of excess production over licensed capacity on the basis of a simplified procedure. Government feels that in several industries which are important from the point of view of national economy or are engaged in the production of articles of mass consumption, the productive capacity endorsed on the original licences or as amended in terms of the 1975 notifications may not reflect the full productive potential of the unit. As a result of increased labour productivity or technological improvements, the productive capacities may have increased.

Government propose to recognise such capacities on a selective basis. It would not be in public interest to permit licensing procedures or a rigid locational policy to stand in the way of maximising production. The necessary notifications listing the industries, and spelling out the simplified procedures for such endorsements will be issued separately.

*Provision for Automatic Growth*

22. In view of the constraints on resources in a developing country like ours, and also taking into account the considerable increases in the prices of capital goods, particularly those required to be

imported, it is necessary to ensure that no avoidable restrictions are placed on the fullest utilisation of the existing industrial capacities. This is particularly true of the core industries, of industries which have direct linkages with the core sector, and industries which have a long-term export potential. All these industries are of basic, critical and strategic importance for the growth of the economy. In February, 1973, Government had announced a list of such industries, following the classification of industries, mentioned in the First Schedule to the Industries (Dev. & Reg.) Act, 1951. Later in 1975, Government had permitted the facility for automatic expansion in respect of 15 industries. The extent of increased capacity permitted in respect of these industries was limited to 5 per cent per annum or 25 per cent in a five-year plan period and could be undertaken in one or more stages. This expansion was to be in addition to the normal permissible expansion in production by 25 per cent of the approved capacity. Government have now decided that this facility will also be extended to other industries included in Appendix I. In this behalf, the necessary notifications will be issued separately.

#### *Export Oriented Units*

23. Industry must contribute its share in creating a more favourable balance of trade by catering to the ever increasing foreign markets. Government would sympathetically consider requests for setting up 100 per cent export oriented units, requests for expansion of existing units exclusively for purposes of export and for allowing higher production for exploiting fully the emerging export opportunities.

#### *Advanced Technology for Economies of Scale*

24. In a number of cases Indian industry has not been able to compete in markets abroad because the scale of output which is related to the level of domestic demand is too small to give them the advantages of modern technology and economies of scale. In cases where a larger production base would increase the competitiveness of Indian industry abroad, Government will consider favourably the induction of advanced technology and will permit creation of capacity large enough to make it competitive in world markets, provided substantial exports are likely. The purpose of introducing such a policy would be not only to encourage exports but also to enable industry to produce better quality products at lower costs which will ultimately benefit the consumer in terms of price and quality.

*Research and Development*

25. The Indian Industry must earmark substantial resources for R & D to constantly up-date technologies with a view to optimal utilisation of scarce resources, better service to the consumer and achieving greater exports. We also have to lay greater emphasis on bringing the benefits of the latest R & D to the medium and small units.

*Transfer of Technology*

26. Government will take active measures to facilitate the transfer of technology from efficiently operating units to new units. Companies which have well established R & D organisations, and have demonstrated their ability to absorb, adapt and disseminate modern technology will be permitted to import such technology as will increase their efficiency and cost-effectiveness. This will not only lead to saving of foreign exchange but would also ensure self-sufficiency and higher foreign exchange earnings.

*Modernisation Packages*

27. "Modernisation Packages" will be evolved to suit the requirements of each industry, and will include all aspects, i.e. appropriate location and optimum use of energy and the adoption of the right kind of scale and technology in order to minimise costs and improve efficiency in the use of scarce materials, the supply of which come from non-renewable sources. It will be Government's endeavour to ensure that the process of modernisation percolates down to small units and the villages. As in the case of the large-scale modern industry, where new processes and technologies must replace the old and the traditional ones in the decentralised sector also, improved tools and techniques which will contribute to higher productivity and reduce the drudgery are an essential ingredient of the modernisation, Government will review the present arrangements in terms of special facilities and incentives such as soft loans, establishing of proper linkages in the field of marketing and strengthening the credit facilities particularly for the decentralised sector.

*Energy Industry Dovetailing*

28. Until recently, little effort has been made in dovetailing the industry and energy policies; nor has enough attention been paid to the effects of industrial growth on environment and pollution of air and water. Government have decided that such industrial processes and technologies as would aim at optimal utilisation of energy or the exploitation of alternative sources of energy, would be given special assistance, including finance on concessional terms.

### *Pollution Control*

29. Until recently, little effort has been made in devetailing the contribute to improved environment and reduce the deleterious effects on pollution of air and water would also be made eligible for special assistance on appropriate terms. Government will examine the present scheme for soft loans with a view to including in it activities related to energy conservation, exploitation of non-traditional sources of energy like solar energy and control of water and air pollution and also such other specific industrial activities as are in urgent need of modernisation and upgradation of technology. This will be a continuing exercise and the list of industries eligible for soft loan scheme will be reviewed from time to time.

### *Preserving Ecological Balance*

30. Government are committed to the preservation of ecological balance and for improving living conditions in the urban centres of the country. In pursuance of this policy and with a view to encouraging the dispersal of industry, steps have been taken to prevent the growth of industry in the metropolitan cities and the larger towns. Setting up of new industrial undertakings within the limits of such urban centres is not permitted.

31. However, in the implementation of this policy. Government propose to remove genuine difficulties, without detriment to the basic objectives. It is, therefore, proposed to provide for selective relaxation to enable utilisation of already installed capacities to provide for natural growth and to encourage production for export. The requisite simplification and procedural changes in the application of the present locational policy are being announced separately.

### *Streamlining Licensing Procedures*

32. There has already been considerable simplification and streamlining of licensing procedures. Nevertheless, there is scope for further improvement in reducing the period of time taken for disposal of applications for the creation of new capacities, proposals for substantial expansion, and the production of new items. It is proposed to speed up the processes of examination and decision-making and also to examine the possibilities of further rationalisation and simplification of the system of industrial licensing.

### *Monitoring System and Data Bank*

33. It is also proposed that in future, the agencies connected with the issuance of letters of intent/industrial licences will not

merely concern themselves with letters of intent/industrial licences but would also evolve a comprehensive system of monitoring the implementation of the schemes. For this purpose, it is proposed to build up a Data Bank on the progress of various licensed/registered investment schemes.

34. The objectives of the Data Bank will be to have, in respect of all major investment proposals, information regarding the progress in regard to the import of capital goods, the status in regard to the application for term lending and also the physical implementation of the scheme. The establishment of such a Data Bank will also enable Government to ensure that where parties have wilfully failed to implement the letters of intent or have tried to pre-empt capacity are dealt with suitably.

*Industrial Sickness: Devising an Early Warning System*

35. Government are concerned at the growing problem of sickness in a large number of industrial undertakings. While it is recognised that it would be in the national interest to protect the investments in these undertakings by appropriate remedial action, it is also the view of Government that deliberate mismanagement and financial improprieties leading to sickness should be dealt with firmly. Various all-India financial institutions have set up arrangements to detect sickness in undertakings at an early stage with a view to taking necessary corrective action. To ensure this the Government propose to introduce a checklist to serve as "an early warning system" for identifying symptoms of sickness.

*Merger and Amalgamation*

36. In the case of existing sick undertakings which show adequate potential for revival, it would be the policy of Government to encourage their merger with healthy units which are capable of managing the sick undertakings and restoring their viability. For this purpose, the existing tax concessions under Section 72-A of the Income Tax Act will be made more liberally available to amalgamation proposals which will serve the purpose of revival of sick units. The existing guidelines will be reviewed with a view to facilitating greater reliance on voluntary mergers of sick units with healthy units which are capable of implementing a viable revival scheme.

*Take-over to be in Exceptional Cases*

37. It is also Government's policy to ensure that the State Governments, the financing institutions and the labour cooperate effec-

tively for the revival of the sick units. Recourse to take-over of the management under the Industries (Development & Regulation) Act will be taken only in exceptional cases on grounds of public interest where other means for the revival of sick undertakings are not considered feasible. Where such take-over becomes necessary the State Governments will, in appropriate cases, be expected to assume responsibility for the finance and management of the undertaking.

#### *Industrial Relations*

38. Deteriorating industrial relations in the last three years affected a number of important sectors of economy and led to fall in the industrial production. Government attach great importance to the interests and welfare of labour, but they also consider that the maintenance of constructive and cordial industrial relations in which both labour and management have to cooperate in a responsible manner is essential for the sustained growth of economy. Government have decided to revive the tripartite labour Conference and it is hoped that through an attitude of mutual understanding and constructive cooperation it will be possible to establish higher standards of productivity and industrial harmony.

#### *Industrial Pricing Policy*

39. It is Government's policy that while all reasonable facilities and incentives will be provided to industry, it must recognise and accept its social responsibility particularly in terms of maintaining the price line, avoiding hoarding and speculation, and maximising production on an efficient basis. It is proposed to start a dialogue with the industry to ensure that within a stipulated period of time, the prices are rationalised to the benefit of the consumer.

#### *District Industries Centres*

40. Government have reviewed the scheme of district industries centres which has not produced benefits commensurate with the expenditure incurred. Government therefore propose to initiate more effective alternatives.

#### *Industrial Investment: An Inter-disciplinary Concept*

41. Industrial development is an inter-disciplinary concept. It pertains not only to the manufacturing activity but to all related infrastructural development: licensing and corporate policies; financial, fiscal, trade and pricing policies; industrial relations and management; scientific and technological developments; and broad

socio-economic policies. As such, the implementation of the industrial policy requires close and effective coordination and monitoring at various levels at the Centre as well as between the Centre and the States. Its ultimate success will also depend on the extent of cooperation that Industry receives from the other sections of society.

42. Government of India trust that the objectives set out in this Paper and the measures outlined herein to achieve them will receive the support of all sections of the people to enable the country to attain its larger goals, namely faster economic growth, prosperity to its citizens, and the establishment of an egalitarian society.

