CHAPTER-III

INDUSTRIAL DEVELOPMENT & PROGRESS AFTER INDEPENDENCE

India has made considerable economic progress since its Independence. Most noticeable are the expansion and diversification of production both in industry and agriculture. New technologies were introduced in many industries. Industrial investment took place in a large variety of new industries. Modern management techniques were introduced. An entirely new class of entrepreneurs have come up with the support system from the Government, and a large number of new industrial centres have developed in almost all parts of the country. Over the years, the Government has built the infrastructure required by the industry and made massive investments to provide the much-needed facilities of power, communications, roads etc. A good number of institutions were promoted to help entrepreneurship development, provide finance for industry and to facilitate development of a variety of skills required by the industry as well as agriculture. The Government also followed a policy of encouraging indigenous industries and provide them all facilities and encouragement. As a result, we have now a widely diversified base of industry and an increased domestic production of a wide range of goods and services. The index of industrial production has gone up from 7.9 in 1950-51 to 154.7 in 1999-2000. Electricity generation went up from 5.1 billion Kwh to 480.7 billion Kwh in the same period.

3.1 Particularly significant achievement has taken place in the field of agriculture. Between 1950-2000, the index of agricultural production increased more than four-fold. Between 1960 and 2000, wheat production went up from 11 to 75 million tonnes, and the production of rice increased from 35 to 89.5 million tonnes. We are now having a problem of plenty, with Government godowns overflowing with wheat stocks. This is not a mean achievement for a country that relied on imported food aid until the early 1960s. The credit for this green revolution goes to Indian scientists as well as to millions of Indian farmers, who wholeheartedly cooperated with the Government, to make India self-sufficient in the matter of its food requirements.

3.2 This economic expansion contributed to a steady and impressive growth in India's GNP. With the exception of 4 years, India experienced a positive rate of growth. As a result, India's per capita Net National Product (NNP) in 1999-2000 was 2.75 times higher than that of 1951. The rate of growth before 1980 was 1.2% per capita. Thereafter, it grew at the rate of 2.4%, and between 1950-90, by 3.2% on average every year. Between 1993-94 and 1999-2000, it registered an average rate of growth of 4.8% per year.

3.3 A variety of promotional policies were followed by the Government to achieve this success. In the early years, Indian industry thrived within protective tariff walls. The policy was to encourage Indian industries and though foreign technical collaborations were encouraged, direct foreign investment in any corporate body was restricted to 40%. In 1991, this policy was changed completely and foreign majority investment was encouraged in a variety of industries, import restrictions were removed, customs tariff was brought down and the doors of the Indian economy were opened for foreign competition.

3.4 In this chapter, we will briefly trace the developments that took place in the field of industrial economic policy of India during these years. The year 1991 will now be regarded as a landmark in the economic history of India. Therefore, a more detailed review of the economic policies after 1991, and their effect on Indian economy has been attempted in the next chapter.

INDUSTRIAL POLICY AND INCENTIVES SINCE 1947

3.5 After India became independent in 1947, the country embarked upon an ambitious plan of industrial development and encouraged the setting up of new industries and the expansion of existing industries.

3.6 We may briefly recapitulate some of the steps that were taken to achieve these objectives.

3.7 PROTECTION TO INDIAN INDUSTRIES: India is probably one of the few countries in the world which used its import policy for the healthy development of local industries. Barring the first few years after Independence, the country was facing a shortage of foreign exchange, and because of this shortage, imports had to be restricted. Imports of consumer goods were, therefore, disallowed. A good number of restrictions were put on the import of industrial goods, and the effort of the Government was to encourage the production of these goods indigenously. Local industries were encouraged to have foreign collaborations and to import the technical know-how needed to produce what was being imported into the country.

3.8 Levying higher tariffs restricted imports, and there was also a total or partial physical ban on the imports of such products. This gave a much-needed sheltered market for Indian goods, and many industries thrived within these protective walls. Initially, products produced by Indian industries were not of good quality. But as years went by, industries acquired experience in manufacturing and turned out quality products comparable with imported products. There was a continuous effort to improve quality.

3.9 During the Second and Third plans, the emphasis was on the development of capital goods industries. India wanted to make machines that helped to produce other machines. Therefore, greater emphasis was given to the development of machine tools, textile machinery, power equipment and so on. We were importing these mother machines, and the new effort was to produce them in India, to achieve self-sufficiency. As a result of this policy, encouragement was given to import technical know-how and to enter into foreign collaborations to undertake manufacture of capital equipment locally. This gave further fillip to industrial development.

3.10 Protection from imports encouraged Indian industry to undertake the manufacture of a variety of products. There was a ready market for all these products. The Government also gave encouragement to industries to import parts and components that were required for indigenous production. The import policy was meant to serve two categories of importers - actual users and established importers. Actual users of imported raw materials or products were given preference over the category of established importers i.e. traders. Certain items that were scarce and not available were channelised through the State Trading Corporation, Mines & Minerals Trading Corporation and such other Government bodies. They arranged for the import of such products and distributed them to indigenous industries according to requirements. Thus, imports were strictly controlled by the import policy announced every year by the Government of India.

3.11 HIGH CUSTOMS TARIFFS: Apart from strict control over imports and the physical ban on the imports of many products, customs tariffs were raised in some cases to 200 to 300% on imported products. This gave protection to local industries. The price of local products was comparatively cheaper than those of imported goods. The Government also followed a policy of low tariffs on the import of raw materials, parts and components compared to those on finished products. This encouraged Indian industries to import parts and components, and to manufacture or assemble final products in India.

3.12 FINANCIAL INFRASTRUCTURE: To provide the financial infrastructure necessary for industry, the Government set up a number of development banks. The principal function of a development bank is to provide medium and long-term investments. They have to also play a major role in promoting the growth of enterprise. With this objective, the Government of India established the Industrial Finance Corporation of India (IFCI) (1948), Industrial Credit and Investment Corporation of India (ICICI) (1955), Industrial Development Bank of India (IDBI) (1964), Industrial Reconstruction Corporation of India (1971), Unit Trust of India (UTI) (1963), and the Life Insurance Corporation of India (LIC) (1956). For financial assistance to small entrepreneurs, Finance Corporations were established in all states on the basis of an Act that was passed by Parliament in 1951. In addition to this, the National Small Industries Corporation was also established at the Centre and a Small Industries Development Bank of India was established in 1989.

3.13 CONTROL OF INDIAN BUSINESS: As a consequence of the restrictions on imports, those who were importing products entered into collaboration with their principals and entered the field of manufacturing. Thus, what was once a trading community, gradually transformed into a community of industrialists.

3.14 Regulations under the Foreign Exchange and Regulation Act (FERA) restricted foreign investment in a company to 40%. This ensured that much of the control in companies with foreign collaboration remained in the hands of Indians. To succeed, Indian businessmen had to learn and apply modern management and production techniques.

3.15 ENCOURAGEMENT TO SMALL INDUSTRIES: Though some of the policies of the Government resulted in inhibiting the growth of large-scale industries, they gave encouragement to small-scale industries by providing a number of support measures for growth. Policy measures undertaken by the Central and State Governments addressed the basic requirements of the SSI like credit, marketing, technology, entrepreneurship development, and fiscal, financial and infrastructural support. These promotional measures covered:

a) Industrial extension services through small industries service institutes and other organisations.

b) Factory space in industrial estates through cooperative and other industrial estates, ready built shades and developed industrial plots made available through State Government agencies.

c) Credit facilities at concessional rates of interest and credit guarantees through commercial banks and State Finance Corporations.

d) Special financial assistance schemes at concessional rates of interest and low margins for technician entrepreneurs.

e) Availability of indigenous scarce raw materials through special quotas and imported materials through import licenses.

f) Provision of training facilities.

g) Subsidised power tariffs and exemption of electricity duties.

h) Supply of local and imported machinery on hire purchase basis.

i) Assistance for domestic as well as export marketing.

j) Special incentives for setting up units in backward areas.

k) Differential central excise levies for the small-scale sector.

l) Preference for products produced in small-scale industries and 15% price preference to them in State Government purchases.

m) Reservation of products for exclusive manufacture in the small-scale sector.

n) Creation of a large number of institutions both by the State Governments and the Central Government to help small enterprises.

o) Special effort to promote new entrepreneurs by providing them training in entrepreneurship development.

3.16 While most of the institutional support services and some incentives were provided by the Central Government, the State Governments offered others in varying degrees to attract investments and to promote small industries.

3.17 INVESTMENT IN INFRA-STRUCTURE: Energy-Transport-Communications facilities are extremely essential for smooth and accelerated industrial growth. The Government made huge investments in providing such infrastructure facilities to industries. The Central Government, as well as the State Governments invested huge funds in power generation and distribution, and many new power projects were undertaken and completed. Similarly, investments were made in road building, communications, creation of port facilities etc. Apart from this, various State Governments made developed plots of land or industrial estates with power, water, roads, and communications available to entrepreneurs who wanted to set up industries. This helped considerably in the growth of industries.

3.18 Changes in the production of primary commercial energy since 1950-51 are summarised in the following table:

Table 3.1

Production of Commercial Energy

Form of energy	Unit	1950-51	1990-91
Coal	**Million tonnes**	**33.00**	**211.73**
Lignite	Million tonnes	-	14.07
Crude oil	Million tonnes	0.26	33.02
Natural gas	Million cubic mets	-	17,998.00
Thermal power	Billion Kwh	3.00	186.45
Hydro power	Billion Kwh	2.52	71.54
Nuclear power	Billion Kwh	-	6.24

3.19 Oil and natural gas emerged as significant sources of energy since the eighties.

3.20 The pattern of sectoral consumption has also undergone noticeable changes over the years as can be seen from the following table:

Table 3.2
Shares Percentage in Final Energy Consumption

Sector	1953-54	1990-91
Industry	39.8	50.4
Transport	46.2	24.5
Domestic	9.9	13.8
Agriculture	1.7	9.0
Others	2.4	2.3
Total	100.0	100.0

3.21 Power shortages caused by substantial shortfalls in achieving power targets have been a recurring theme from plan to plan.

3.22 OIL AND NATURAL GAS: The Oil and Petroleum industry must be considered a gift of the planning era. The indigenous oil exploration programme gained credibility in the seventies. New sources of oil were discovered, and considerable refining capacity was created. The Oil and Natural Gas Commission was set up for oil exploration. Additional refining capacity was created through the expansion of some of the existing plants, and the commissioning of new refineries.

3.23 TRAINING AND SKILLS DEVELOPMENT: Trained manpower is necessary for industrial growth. To cater to the growing needs of industries during the last fifty years, the Government set up a large number of industrial training institutes, all over the country to train skilled workers. It also set up Indian Institutes of Technology, Management Institutes and Engineering Colleges to train persons with higher management and technical skills.

3.24 Our youth have been quick at learning skills. We have therefore had no shortage of skilled manpower to cater to the growing requirements of industry.

3.25 SCIENTIFIC RESEARCH : Research in science and applied technology is very much needed in order to sustain technological development in industries. The Government of India set up 48 national laboratories to undertake applied research in chemistry, physics, electronics, botany, etc., and these research institutes developed a number of new processes which are commercially exploited by industries. Indian scientists and technologists also ushered in the Green Revolution, and the White Revolution, and developed space technologies on their own.

3.26 BACKWARD AREA DEVELOPMENT: Before Independence, industries were mostly located in and around port cities like Mumbai, Kolkata or Chennai. After Independence, new centres of industries were developed as a result of the infrastructural facilities that were made available by the State Governments. Baroda, Coimbatore, Bangalore, Pune, Hyderabad, Faridabad, Rajkot, and many others, grew up as new industrial cities.

3.27 Both the Central Government and the State Governments followed a deliberate policy of encouraging industries in backward areas. The Central Government selected a few backward districts and offered 25% capital subsidy for industries set up in these areas. Various State Governments also offered similar capital incentives, exemption from sales tax levy, subsidies on power rates, cheap developed land, sales tax, loans and other facilities for the growth of industries in these areas. This considerably helped the growth of under developed or backward areas in the different states.

EMPHASIS ON PUBLIC SECTOR

3.28 Right from the beginning, the planners attached great importance to the public sector. It was expected that the sector would control the 'Commanding heights of the Indian economy.'

3.29 In the Industrial Policy Resolutions of 1948 and 1950, a very important role was assigned to the public sector. Power, telephones, communications, atomic energy, defence industries and some areas were reserved for the public sector. Certain industries like life insurance, civil aviation, banks were nationalised and were included in public sector. Thereafter, whenever there was a shortage, the Government stepped in to bail out, as it did with the cement and paper industries. The Government took over sick industries to provide employment. That is how a large number of textile industries came into the public sector.

3.30 Upto the year 1999, there were 235 public sector undertakings and the Government had invested an amount of Rs. 273700 crores in such undertakings. In 1998-99, they made a gross profit of Rs. 397.7 crores.

EVOLUTION OF INDUSTRIAL POLICY IN INDIA

3.31 Before Independence, the policy of the British Government was against encouraging industrial development in India. No incentives were offered to Indian industries for their growth. There were many desired and undesired hurdles placed in the way of the growth of Indian industry. Whatever industrial development took place in India was in spite of the negative and hostile attitude of the British Government. Credit must be given to pioneers like Jamshedji Tata, Walchand Hirachand, Lala Sriram, G.D. Birla and others, who laid the foundations of modern industry in India.

3.32 AFTER INDEPENDENCE : Immediately after Independence, the Government of India announced its industrial policy in 1948 and laid down the plan for future industrial growth in the country. It also declared its policy on foreign capital in 1949, and invited foreign capital for investment in the country. The Government was keen to dispel the apprehension that foreign enterprises may be taken over.

3.33 INDUSTRIAL POLICY RESOLUTION, 1948: The first Industrial Policy Resolution, announced in 1948, broadly laid down the objectives of the Government's policy in the industrial field and clarified industries and enterprises into four categories, namely:

a) Those exclusively owned by the Government, e.g. arms and ammunition, atomic energy, railways, etc.; and in emergencies, any industry vital for national defence.

b) Key or basic industries, e.g. coal, iron and steel, aircraft manufacture, ship building, telephone, telegraphs and communications equipment except radio receivers, mineral oils, etc. The undertakings already existing in this group were promised facilities for efficient working and 'reasonable' expansion for a period of ten years, at the end of which, the State could exercise the option to nationalise them.

c) The third category of 18 specified industries were to be subject to the Government's control and regulation in consultation with the then provincial (now State) Governments.

d) The rest of the industrial field was, more or less, left open to the private sector.

3.34 INDUSTRIAL (DEVELOPMENT & REGULATION) ACT, 1951: The Industrial Policy Resolution of 1948 was followed by a Government of India (GOI) Resolution on 2nd September 1948, constituting a Central Advisory Council of Industries under the chairmanship of the Minister for Industry.

3.35 In 1951, the Industrial (Development and Regulation) Act was passed by the Parliament. The main provisions of the Act were:

a) All existing undertakings at the commencement of the Act, except those owned by the Central Government were compulsorily required to register with the designated authority.

b) No one except the central Government would be permitted to set up any new industrial undertaking "except under and in accordance with a licence issued in that behalf by the Central Government."

c) Such a licence or permission prescribed a variety of conditions, such as, location, minimum standards in respect of size and techniques to be used, which the Central Government may approve.

d) Such licenses and clearances were also required in cases of 'substantial expansion' of an existing industrial undertaking.

e) The industries to be brought under regulation were divided into two parts, Part I and II in the Schedule to the Act.

3.36 In regard to the industries listed in Part I of the Schedule, the Central Government could issue necessary directions in respect of quality of its products, falling production, rise in prices etc.

a) Government could transfer industries specified in one part to another.

3.37 IMPLEMENTATION OF THE INDUSTRIAL DEVELOPMENT AND REGULATION ACT, 1951 (IDR): The IDR Act gave very wide powers to the Government. This resulted in more or less complete control by the bureaucracy on the industrial development of the country. They had full control over:

a) approval of any proposal on capacity, location, expansion, manufacture of new products etc;

b) approval of foreign exchange expenditure on the import of plant and machinery;

c) approval for the terms of foreign collaboration.

3.38 INDUSTRIAL POLICY RESOLUTION, 1956 : After 1948, India adopted a democratic constitution, guaranteed fundamental rights and also enunciated certain directives of state policy. The Parliament accepted the socialistic pattern of society as the objective of social and economic policy.

3.39 A new Industrial policy was therefore announced in 1956.

3.40 This Industrial Policy divided industries into three categories. All basic and strategic industries were to be set up in the public sector, and were called category A type of industries. In category B industries were private enterprises who could participate along with public enterprises. This sector was called the joint sector. All remaining industries falling in category C, were left to be developed by the private sector.

3.41 The Industrial Policy of 1956, for the first time, emphasised the role of small-scale industries in the development of the national economy. The statement pointed out the importance of the SSI Sector in providing employment. It also laid emphasis on the equitable distribution of national income and the effective mobilisation of resources. The industrial policy, therefore, recommended the development of ancillary industries in areas where large industries were to be set up.

3.42 MONOPOLIES COMMISSION: In April 1964, the Government of India appointed a Monopolies Inquiry Commission "to inquire into the existence and effect of concentration of economic power in private hands." The Commission was requested to look at the prevalence of monopolistic and restrictive practices in important sectors of economic activity, the factors responsible for these and the legal solutions for them. The Commission looked at concentration of economic power in the area of industry, and examined industrywise and productwise concentration. The Commission also examined the concentration ratio. This Commission drafted a law to control monopolies and recommended the setting up of a permanent Monopolies and Restrictive Trade Practices Commission. On this basis, an Act was passed and a Monopolies Commission was appointed by the Government in 1969.

3.43 INDUSTRIAL LICENSING POLICY INQUIRY COMMITTEE: In July 1969, an Industrial Licensing Inquiry Committee was appointed to examine the shortcomings in licensing policy. The Committee felt that the licensing policy had not succeeded in preventing the practice of pre-empting capacity by large houses; it had not ensured development of industries according to announced licensing policies; it did not prevent investment in non-priority industries etc. In 1969, the Monopolies and Restrictive Trade Practices Act (MRTP) Act was passed by the Government and following the report of Industrial Licensing Policy Inquiry Committee (ILPIC), a number of new restrictions were put on the large industrial houses in the industrial licensing policy announced in February 1970.

3.44 FERA AMENDMENT, 1973: The Foreign Exchange and Regulation Act (FERA) was amended in 1973. This brought a great change in the foreign investment policy of the Government of India. Foreign equity was to be permitted only in companies in Appendix 1 industries, or in those that were engaged in exports. Foreign firms were not allowed more than 40% of equity. Only certain industries in the area of sophisticated technology were allowed 51% foreign capital. FERA companies were subject to many restrictions, and were not allowed to participate in certain industries. They were also not allowed to expand and take up production of new products.

3.45 INDUSTRIAL POLICY STATEMENT, 1973 : The Policy Statement of 1973 drew up a list of Appendix 1 industries to be started by large business houses so that the competitive effort of small industries was not affected. The entry of Competent Small and medium entrepreneurs was encouraged in all industries including Appendix 1 industries. Large industries were permitted to start operations in rural and backward areas with a view to developing those areas and enabling the growth of small industries around. A Secretariat for Industrial Approvals (SIA) was set up in November 1973, and all industrial licenses, capital goods, import licenses, terms of foreign collaboration were brought under the SIA.

3.46 INDUSTRIAL POLICY STATEMENT, 1977: The thrust of the Industrial Policy Statement of December 1977 was on effective promotion of Cottage and Small Industries widely dispersed in rural areas and small towns. It emphasised that "whatever can be produced by small and cottage industries must only be so produced." The focal point of development of small-scale industries was taken away from the big cities to districts. The concept of District Industries Centres was introduced for the first time. Each district would have such a district centre which would provide all the support and services required by small entrepreneurs. These included economic investigation of the districts, supply of machinery and equipment, raw material and other resources, arrangement for credit facilities, call for quality control, research and extension etc.

3.47 Within the SSI sector, a new concept of tiny sector was introduced. It was defined as an industrial unit with investment in machinery and equipment upto Rupees one lakh, and situated in towns with a population of less than 50,000 according to the 1971 census. This tiny sector was to be given special attention and extended help, by way of provision for margin money assistance.

3.48 The policy statement considerably expanded the list of reserved items for exclusive manufacture in the small-scale sector. This concept was recommended by the Karve Committee and was introduced in 1967 with 47 products. The list of such reserved items was 504 till 1977. The new policy expanded this list to 807.

3.49 ERA OF LIBERALISATION: After 1980, an era of liberalisation started, and the trend was gradually to dilute the strict licensing system and allow more freedom to the entrepreneurs. The steps that were taken in accordance with the policy included:

a) Re-endorsement of licenses: The capacity indicated in the licenses could be re-endorsed, provided it was 25% more than the licensed capacity (1984).
b) Automatic re-endorsement of licensed capacities (1988).
c) Broad banding and selective de-licensing (1985-86) extended to 25 industries.
d) Liberalisation of 31 May 1990. This policy included:
   - Exemption from licensing for all new units and those having an investment of Rs.2.5 crores in fixed assets, and an entitlement to import upto 30% of the total value of plant and machinery.
   - Investment of foreign equity up to 40% was freely allowed.

- Location restrictions were removed.
- Investment ceiling for small industries were removed.

3.50 Though the Government policies and procedures were aimed at industrial development of the country, the enactment of the IDR Act, procedures laid down for obtaining industrial licensing and various rules made under the Act acted as a great deterrent to the growth of industries in the country. The bureaucracy acquired unprecedented powers and authority over all kinds of industrial activities and industrial entrepreneurs felt that they were placed at the mercy of these bureaucrats. Apart from the IDR Act, there were a number of other Acts which were enacted and which acted as obstacles and retarded the industrial development of the country. Despite industrial licensing, an entrepreneur had to obtain clearance from many Agencies, like:

(i) Secretariat for Industrial Approvals (SIA)
(ii) Department of Industrial Development
(iii) Chief Inspector of Factories
(iv) Pollution Control Board
(v) Director of Town Planning
(vi) Department of Company Affairs
(vii) Registrar of Companies
(viii) Exchange Control Department of RBI
(ix) Chief Controller of Explosives
(x) Chief Inspector of Boilers
(xi) Commissioner, Food & Drug Administration
(xii) Director of Mines
(xiii) Controller of Capital Issues
(xiv) Chief Controller of Imports and Exports etc.

3.51 Thus, when the Government of India announced the new economic policy in July 1991, Indian industries were not competitive in the world market. We propose to deal with the consequences in the next Chapter.

3.52 Our industries were suddenly required to face international competition. It is no wonder that many of these industries allowed their foreign collaborators to take over, sold their interests or preferred to close down. Those who remained in the field are trying to downsize and reduce their operations. For the existing ones, it is becoming increasingly difficult not only to face competition in the world, but also competition at home with the products of multinationals, either produced in the country or imported from abroad.