Unit-4

Industrys

New industrial Policy 1991 - Making a sharp departure from the industry policy resolution (IPR) 1956, the govt announced a new industrial policy on July 24th, 1991. The basic philosophy of the new policy has been summed up as 'Continuity with Change'

Objectives of New Industrial Policy-(NIP)

object of NIP can be summed up as follows:

1) To consolidate the strength build up during the last four decades of economic planning & to build on the gains already made.

2) To correct the distortions or weaknesses that may have crept in the industrial structure as it has developed over the last 4 decades.

3) To maintain a sustained growth in the productivity and gainful employment.

4) To attain international competativeness the pursuit of these objectives will be tempered by - a) The need to preserve the environment
b) The need to ensure the efficient use of available resou

Major Policy changes undertaken since 1991

or

The main features of Industrial policy 1991

To much of regulation which led to slow rate of economic growth & balance of payment crisis led to the initiation of liberation era after 1991 under the then finance minister Dr Manmohan Singh. These new policy deregulates the industrial economy in a big way. objective of the industrial policy was to increase domestic competition & integrate India with globan economy. The main features of the industrial policy 1991 were as follows :-

1) Abolition of Industrial licencing -

At present only 7 items remain under the periview of industrial licencing (listed in annenture II of the policy). These are alcohol, cigarates, hazadous chemicals, electronics, aero space & defense equiptment, Industrial explosive & drugs & pharmaceuticles. Industries comming under delicencing category donot require approval from the Govt. Entrepreneurs are only required to submit a memorendum of intention to set up a unit to the ~~Sect~~ Secretariat of Industrial Approvals (SIA)

2) Public Sectors role diminished-

The no. of industries reserved for the public sectors has been reduce to 4. These are -

1) ARMS & Ammunation & allied items of defense equiptments, defense aircrafts & warships

2) Atomic Energy

3) Railways

4) ~~Minerals~~ Minerals, specified by Department of Atomic Energy.

3) M.R.TP Limit Scrapped - Under the MRTP act all firms with assest above size of rupees 100 crores were classified as M.R.TP firms. MRTP firms have to take govt approval for each decision like increase in investment, expansion of capacity, acquisition & merger etc. The ~~new~~ NIP ~~of~~ scrapped the rupees 100 crores limit of assest in defining MRTP firms. companies of assest of more then rupees 100 crore will now be at par with others & will not be required to take prior approval from the govt for investment in ~~delicen~~ delicenced industries

4) Abolition of ~~pke~~ aPhased Manufacturing Programme

Devaluation of currency and increase in foreign direct investment led govt to liberali-ze local content requirement for indegenious firms.

5) Liberalization of industrial location Policy

No approval is reqd from the central govt. Except for the industries under compulsory licencing) for estb units at location not falling with in 25 km of ~~pheufe~~ Periphery of cities having a population of 1 million. Notified industries of a non polluting nature such as electronics, computer software etc may be located with in 25 km of periphery of cities with more than 1 million population without govt approval.

6) Removal of Mandatory Convertibility Clause

Private sector is mostly financed by public sector institution and development banks through long term loans. At the time of granting such loans clause of mandatory convertibility are included in the ~~aggu~~ agreement. This provide public financial institution with an option of converting part of these loans into equity if felt necessary by the financial institute. It has often been interpreted as an unwarranted trade to private companies of take over by financial institute

7) <u>Condition for entry for foreign invest-ment & technology liberalized</u>—

In 1991 the govt decided to put all items ~~over~~ under the ~~olo~~ automatic route for FDI & NRI investment except for a small negative list. The negative list includes

a) All proposal requiring industrial license under the industries (development & regulation) act 1951.

b) cases having share of foreign investments more than 24% in the equity capital of units manufacturing items reserved for the small scale sector.

c) All items requiring industrial license in terms of locational policy

d) The foreign collaborator has an existing venture or tie up in india activities etc.

Unit-4

Q) Explain the short ~~co~~ comings of Industrial development in India —

Some of the imp difficulties of industrial development in India are as follows

1) Gaps between Targets & Achievement —

Accepting the period of 1980's when the targets of overall growth in the industrial sector were achieved in the entire earlier period of earning achievements were below the target. It has been estimated that the average short fall in industrial achievement was about 20% in each plan period during the pre liberalization phase.

2) Under utilization of capacity — A large no of industries suffer from substantial under utilization of capacities. Because of the difficulties in defining capacity there are vast differences in estimates of under utilization of capacities in indian industries The estimates vary from 20% to 30% to 60-70%. The various causes of under utilization of capacity ranges from technical to raw material shortages, frequent power failures, govt policies, labour disputes, demand factor etc. to

3) Lack of infrastructural facilities - One of the major constrains in industrial development is poor quality & high cost of infrastructure particularly power & transport net work. Such infrastructural constrain not only adversely effect industrial growth but will also reduce the competativeness in indian industries in the new global economic environment that is fast emerging.

4) Poor capital formation - Poor rate of capital formation is considered as one of the major constrain which has been responsible for slow rate of industrial growth in India.

5) Political factors - During the pre independence period the industrial policy followed by british rulers were not at all favourable for the interest of the country. Thus india remain as a primary producing country during 200 yr of British rule which ultimately retarded the industrial development of the country in its early period.

6) Industrial sickness - Another prob faced by industrial sector of the country is its growing ~~sick~~ sickness due to bad & inefficient management. While showing the reason of such ~~sick~~ sickness, the 6th plan 1980-85 observe "The pattern of

industrial development has not been sufficiently guided by cost consideration. Adequate attention has also not been given to improvements in technology & quality of product. All these factor have led to the emergence of sickness in certain industries."

7) Emerging Challenges - As the founder member of the WTO, india has withdrawn all quantitative restriction on imports. This results in intense competition with imports in comming years forcing a no of industrial unit to close down

8) Poor performance of public sector - Inspite of attaining a ~~substatia~~ substantial expansion during the planning period the performance of public sector enterprises remained all along very poor.

Unit-4

Remedial measures for overcoming the difficulties of industrial sector -

The ongoing structural adjustment & the accompanied economic reforms process aimed at making indian industry more competative including ~~foto~~ foreign competition by encouraging need to encourag moderni-zation, tech upgradation & economic of scale in prod". In this regard action along the following lines can be suggested.

1) Public sector units must be manage professionaly & ~~comf~~ commercial consideration much be the only guiding criteria.

2) Removing the deficiency & bottleneck in the supply of basic infrastructural facilities like power, energy & transport

3) It is necessary to develope competant & highly motivated entrepreneurs - ~~manger~~ - cum - managers. ~~The~~ There is a need to to revitalised the ~~Interg~~ Integrated Enterpreneurship Development programme

4) Formation of regional economic blocs aimed at combined effort for develop-ment should be encouraged. ~~Over comming the Stagnati~~

5) Over comming the Stagnation in produc-tivity by improving the insentives to worke & also by reducing the degree of industrial disputs.

Unit-2

paradigm.

Industry

① Performance of Industry during plan periods —

On the eve of the 1st plan, the industrial development was confined largely to the consumer good sector, the imp industries being cotton textile, sugar, salt, soap, leather & paper. The industrial structure ~~this~~ exhibit the feature of an underdeveloped economy. As far as the capital good sector is concerned only a small beginning had been made. On the whole, while consumer good industries were well esth, producer good industries lagged considerably behind.

~~The~~ The 1st plan didnot emphasis much on industrializtn. Accordingly only 55 crore out of 1960 crore ~~in the~~ were spent on industry. The plan attempted to promote ~~an~~ the concept of mixed economy by providing for development of both, the Public & private sector.

The 2nd plan accorded top priority to programmes of industrialisation as would be clear from the fact that the expenditure on industry & minerals was hiked to ₹ 938 crore under this plan which was 20.1 per cent of the total exp of ~~₹~~ ₹ 4672. Based on Mohalanobis Model, the <u>Second</u> plan set out the task of estb basic and capital good industries on a large scale so that strong base for industrial development in the future ~~cold~~ could be built. Thus following such ~~a~~ goal, 3 steel plants were set up at Bhilai, Rourkela & Durgapur besides the expansion and modernistn program undertaken in the private sector.

The 3rd plan also pressed forward with the estb of basic capital & producer good industries - with special emphasis on machine building programme - so that the growth of the economy in the ~~pre~~ subsequent period can become self sustained. Thus programmes for expansion & diversificatn of ~~a~~ heavy engineering & machine building industries were taken up along with steps to increase output of fertilizer & petroleum industries.

The growth of the consumer good industries was mostly left ~~tt~~ to the private sector and the heavy industries were kept under the public sector. This structure of industrial development was promoted & nurtured in the 4th & 5th plans also with minor changes. out of total exp, industry received 18.2%. (in 4th plan) & about 22.8% of total exp. in (5th plan).

The 6th plan was recorded ~~a 13~~ to receive 13.7% of total exp for industrial development. During the 6th plan industrial & trade policies were liberalised. As a result industrial prodn started picking up but it also created certain distortion in the economy as the import-intensive sector of consumer durables. & the group of chemicals & allied industries marched ahead of other group of industries.

In the 7th plan period, industrial sector received about 11.9% of total exp and the actual average growth rate of industrial productn was estimated to be 8.5 % per annum.

~~For Duer~~ During 8th plan period, industry recieved about 9.3% of total exp as outlay. The reduced allocatn ~~on~~ for industry & mineral in the 8th plan was in line with the liberalizatn measure announced in the New ~~econ~~ Industrial policy 1991, acco to which private sector is now destined to play an increasingly imp role in industrial activities.

The 9th plan recieved 7.3% of total exp as over all outlay for industrial sector & the ~~i~~ ~~registared~~ registered industrial growth ~~was~~ rate was about 5.0% per ~~ann~~ annum.

The 10th plan recieved ~~an outlay of~~ 4.0% of the total ~~ex~~ plan exp as ~~an~~ industrial outlay. The reductn of alloctn to industry was in line with govt strategy of giving more space to private sector. The ~~or~~ 10th plan achieved a indus growth rate about 8.2% p.annum

~~The 11th plan~~ The allotment of fund proposed for 11th plan was 4.2% of the total exp with a ~~plan~~ aim of achieving a industrial growth rate of 10% p.a. However the actual allotment of fund were recorded to be 5.1% of total exp & the registered growth rate stood up to be 6.9% p.a.

The 12th plan is said to recieve an outlay of 4.9% of total exp and the targeted growth rate has been kept at around 10% p.a.

1/3/14

7 Briefly discuss the trend / inflows of FDI in India?

or

Recent changes in FDI inflows in India. (FDI before 2001)

In India, FDI inflow was recorded under 5 heads —

(i) RBI's automatic Approval route for ~~equity~~ ownership of shares holding upto 51% shares.

(ii) Foreign Investment Promotion Board's (FIPB) or Secretariat of Industrial Approval's (SIA) discretionary approval Role.

(iii) Acquisition of shares route

(iv) RBI's non-residents ~~Indi~~ Indian (NRI) schemes

(v) External commercial borrowing.

This definition differed from that of IMF. In an effort to bring the Indian definition in line with IMF's definition, the coverage of FDI since 2000-01 includes, besides equity capital (i.e RBI automatic route, SIA/FIPB route, NRI &

acquisition of shares), reinvested earning (including earnings of FDI companies) and other direct capital (intercorporate debt transaction) between related entities.

As a result of this revision in definition of FDI, the estimate of FDI was $ 4031 million ~~dollar~~ in 2000-01 which has increased to $ 23,364 million ~~dollar~~

This reflect the continued trend of sustained economic activity and positive investment climate (with inflows channeling into financial, manufacturing and construction sectors). The strength of the corporate performance, positive investors sentiment, further liberalisation of FDI policies in sectors such as telecom, retail and expanding promotional efforts also played a role in attracting FDI.

According to the UNCTAD (United Nations Conference on Trade and Development), World Investment Report 2011, India has emerged as an important FDI destination in recent years. India's share in global FDI flows increased from 0.3% in 2000 to 1.3 in 2007 and further to 2% in 2010

8. Sources of FDI:

Largest inflows of FDI over the period 2000-08 were received from Mauritius, the share of inflows was as high as 40.5%, Singapore was second with a share of 7.1%, UK third with a share of 6.6% and USA the fourth with a share of 2.8%. In 2010-11, the share of Mauritius in total FDI was 37.6% and the second largest source of FDI was Singapore with its share being 10.3%.

However, it should be noted that Mauritius based investment are nothing but US investments and investments of other developed countries. They are routed through Mauritius because of the tax advantage. The tax advantage emerged emanates from the Double tax avoidance agreement (DTAA) that India has with that country. This agreement means that any foreign investor has the option of paying tax either in India or in Mauritius. Since the tax rates prevailing in Mauritius are amongst the lowest in the world, many MNCs prefer to route via their investments to India through Mauritius.

9. Sectoral ~~Contrib~~ Composition of FDI in India:

Over the period 2000-08, the largest receipient of FDI in India was the service sector with a share of 20.2%. It was followed by computer software & hardware (share 11.1%), telecommunication (share 6%), housing and real estate and automobile construction (share 5.1%), industry. These six sectors accounted for 51% of total FDI received over the period.

During 2010-11, FDI was mainly channeled into the manufacturing sector (32.1%), followed by construction sector (10.7%), financial services (9.1%) and electricity and other energy generation (9%). Thus these four sectors accounted for 61% of FDI in 2010-11.

*** 10. Critical Appraisal of Foreign Investment Inflows since 1991:

(i) While the FDI approvals reveal a quantum jump since the liberalisation of policy in 1991, the actual inflows have seen much less. Infact, actual inflows have been less than half of the approvals.

(ii) A worrisome feature is the nature of deployment of natural resources. A substantial part of these resources is not going into fresh capital formation but ~~it~~ in mergers and acquisition

(iii) Delhi, Maharastra, Dadra and Nagar Haveli, Daman & Diu, Haryana, selected parts of UP and Karnataka have received more than half of FDI inflows. A large part of the country has received only negligible parts of such inflows. Thus FDI has accentuated regional disparities still further.

(iv) Nagaraj has estimated that over 2/3rds of the total value of FDI approvals has gone to projects of size greater than ₹100 crore. Thus, relatively smaller projects received a very small proportion of FDI approvals.

(v) While the actual FDI inflow in India in the 1990's increased significantly, it was insignificant in comparison to China. According to Report on Currency & Finance, FDI inflows to China in 1990's were 10 times of the inflows to India.

India's rank in FDI - 122.
China - 51.