

# Industrial Policy: - Strategy to change Economic Landscape in India

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## I. INTRODUCTION

COVID-19 halted many economic activities around the world, as several countries shut down their ports, airports, and domestic transit while enforcing nationwide lockdowns, causing widespread disruption in business and civil life. While India recovered rather well from the first wave, it was hit the hardest by the second wave in terms of fatalities. In corona crisis, India's manufacturing industry has gone through several stages of upheaval. The sector accounts for over 16-17 percent of GDP and employs nearly 20% of the country's workforce, now recovering at fast pace.

According to the IMF, India's broad variety of monetary, fiscal and health measures to the Corona crisis boosted recovery and, when combined with economic reforms, are helping to limit the crisis's longer-term negative effects. This could have been possible because of timely and appropriate policies of the nation. This depicts that first and foremost requirement of rapid economic development and Industrialization of a country is robust "Industrial policy". Because industrialization improves commerce, transportation, agriculture, international trade, services, and the social sectors of the economy, it is a win-win situation. It raises people's living standards, national income, per capita income, and employment opportunities. As a result, an industrial policy is required to guide, regulate, and control industrial development and to establish healthy industrialization traditions. The philosophy and beliefs of the government have an impact on the country's industrial strategy. By creating the foundation for industrial growth, sound industrial strategy helps the country become self-sufficient and affluent. As a result, the government's industrial strategy has to be well-defined, transparent, and progressive. It must also be carefully adhered to and enforced. As a result, governments may employ industrial policy to encourage industrial development and boost economic growth.

Industrial policy is at the heart of the nation's development. Industrial policy is a statement or document that provides the tone for the government's regulatory functions to be implemented and promoted. It is a venture to expand

industrialization and restore the economy to pre-industrial levels. It exemplifies the government's commitment to the growth of the industrial sector. According to *Chen & Xie, (2019)* the government intervenes in the process of resource allocation and benefit distribution, controls or stimulates enterprise activity, and impacts the direction of industrial growth through enacting industrial policy.

## II. MEANING & DEFINITION

One of India's most important contributions to GDP is the industrial sector. In terms of factory output, the country is ranked tenth in the globe. Manufacturing, mining and quarrying, as well as the power, gas industries and water supply make up the industrial sector. UNCTAD (2009) defines industrial policy as "government's deliberate, targeted, and conscious effort to encourage and promote a certain industry or sector through a variety of policy tools." "Any type of selective government intervention or policy that attempts to alter the structure of production in favor of sectors that are expected to offer better prospects for economic growth in a way that would not occur in the absence of such intervention in the market equilibrium," according to *Pack and Saggi (2006)*. Industrial policy refers to the procedures, principles, rules, and regulations that affect a country's industrial enterprises and determine the pattern of industrialization, according to economic advisor SHRI SRIKARA NAIK.(Government handbook,2009) Any industrial policy is divided into two sections. The first section focuses on the current political dispensation's philosophy, while the second gives a framework of norms and principles. Thus procedures, principles policies, incentives and penalties, rules and regulations, tariff policy, labor policy, government attitude toward foreign capital, and so on are all included in Industrial policy.

## III. OVERVIEW

Industrial development in India prior to independence was in disarray before the formulation of the Industrial Policy. Illiteracy, poverty, industrial backwardness, per capita income and unemployment plagued the Indian economy. India's industrial development began in 1948 with the establishment

of the Industrial Policy, and accelerated in 1991 with the liberalization of the economy. For a range of enterprises, the government developed laws and regulations. The announcement of an industrial policy was a watershed moment in Indian industrial history. Overall changes to the industrial policy framework have shifted the country's future industrialization in a new direction. On a variety of fronts, there are promising tendencies. In 1991-92, industrial growth was 1.7 percent, but by 2007-08, it had risen to 9.2 percent. The World Bank's "Doing Business Report 2018" ranked India 77th. The Bankruptcy and Insolvency Act of 2017 and the Goods and Services Taxes (GST) were both significant reforms to provide benefits to manufacturing sector in the long run but implementation didn't go as plan. However, electricity shortages and high prices, financial constraints, political intervention, high unit labour costs owing to labour restrictions, and other regulatory burdens continue to be impediments to India's industrial sector's continuous progress. The Indian government also saw the need to create a new Industrial Strategy to replace the previous 27-year-old policy and pave the way for the promotion of new technologies and decreased restrictions, which would serve as a road map for the country's economic progress.

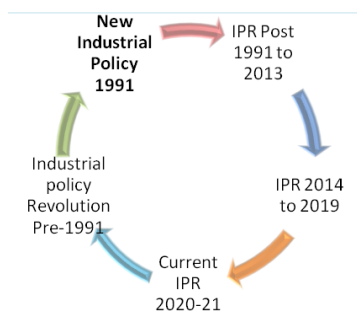


Figure: - 1. Industrial Policy Revolution Process in India  
(Source: - Researcher’s own creation)

S.N.	Industrial Policy	Highlights
1	Industrial Policy 1948	Declared India as mixed Economy, classified the industries in 3 categories-public, public cum private and controlled private industries. Importance given to small & cottage industries.
2	IP 1956	Classified industries in schedule A, B, C. Set up the industrial co-operative societies, special provisions & facilities for regional growth.
3	IP 1977	Extension of previous policy, more jobs given to poor, mainly focused on decentralization, increased participation of workers in management.

4	IP 1980	<b>MRTP</b> act (Monopolies Restrictive Trade Practices) & <b>FERA</b> (Foreign Exchange Regulation act) were introduced to promote competition in domestic market and to liberalize industrial sector to increase productivity.
5.	IP 1991	<b>LPG (Liberalization, Privatization, and Globalization)</b> policy was introduced to make domestic firms competitive in global market. De-reservation & privatization of public sector by de-investment. Liberalized FDI policy, Technological up gradation through Foreign Technology agreement (FTA).Dilution of protection to SSI & emphasis on competitive enhancement
6.	IP 1992 to 2001	Two major reforms took place 1. Rise in international competition due to removal of quantitative restrictions on import under LPG policy. 2. Decline in role of public sector due to disinvestment policy.
7.	IP 2002 to 2013	National Manufacturing Policy (NMP) was implemented in 2011 with the goal of boosting the sector's contribution of GDP to 25% from 16% by giving incentives for infrastructure development through Public Private Partnership (PPP). NIMZs (National Investment and Manufacturing Zones) were an important part of the Policy.

Indian Industrial Policy from 2014 to 2021:-

S. N.	Year	Governmental Initiatives	Highlight
1.	2014	<b>Make in India</b>	Launched to position India as an efficient and competitive global manufacturing powerhouse. The initiative aspires to transform India into the "World's Factory" by promoting and developing India as a premier manufacturing destination and a hub for manufactured products

			production.
2	2015	<b>FDI</b>	FDI restrictions in defence and insurance have been raised from 26 to 49 percent. Telecommunications, single-brand retail, medical products, construction, asset reconstruction firms, and railway operations and maintenance have all been granted 100 percent FDI.
		<b>Industrial corridors</b>	Cities/regions have been designated for development as investment hubs along the Delhi-Mumbai Industrial Corridor in collaboration with state governments.
		<b>Business regulatory framework reforms</b>	Aimed to simplify the regulatory system so that businesses may start up quickly, contracts can be easily implemented and registered, and compliance costs can be lowered
		<b>Digital India</b>	This initiative enables Indian people to access government-provided internet services. One of its goals is to eliminate corruption through increasing digitization. This initiative also includes a strategy for connecting rural regions to high-speed networks.
		<b>Skill India</b>	National policy on skill development and entrepreneurship 2015 was established with the goal is to become India the world's skill capital. The policy's goal is to train India's young in "speed, standard (quality), and to connect the skilled with demand centers.
		<b>Smart cities</b>	Eco-friendly 100 smart cities will be developed along the Delhi-Mumbai industrial corridor to quadruple industrial production and double employment prospects
3.	2016	<b>Demonetization Start-up India</b>	The government demonetized 500 and 1000 banknotes, ostensibly to combat corruption, black money, the

			use of counterfeit currency, and terrorism
4.	2017	<b>GST</b>	GST policy was implemented to create common market in India as before different sales tax existed in different states.
5.	2018	<b>Industrial Development Scheme for Himalayan States  North East Industrial Development Scheme (NEIDS)</b>	This initiative was aimed to boost industrialization in the industrially backward and hilly States.
6.	2021	<b>Production linked Incentive (PLI) Scheme</b>	PLI covers 13 industries & introduced to encourage businesses to increase production and scale up.

**IV. IMPACT OF INDUSTRIAL POLICIES ON INDUSTRIALIZATION**

One of the most important factors affecting India's Gross Domestic Product (GDP) is industrial growth & it's directly affected by industrial policy of the nation. The Pre and Post 1991 Industrial Policies charted a course for industrialization in an economy that had just begun its liberalization process. It addressed licensing reform as well as steps to stimulate foreign investment.

India's GDP rose at an average rate of 7.23 percent during Modi's first four years in power, above the previous government's rate of 6.39 percent. In 2017, economic disparity increased, while unemployment reached its greatest level in 45 years. The 2016 demonetization, as well as the consequences of the Goods and Services Tax, were blamed for the employment losses in 2017. The final year of Modi's first term saw little economic progress, with the focus being on defense programs and the hindutva. . In 2018-19, the economy grew at a pace of 6.1 percent, which was lower than the average rate throughout the first four years of the Modi Government.

In 2020 the Indian economy suffered a significant economic loss as a result of the statewide lockdown and suspension of industry. It saw an unprecedented **drop of - 23 percent in GDP**. In July 2021, manufacturing, mining, and electrical output all grew by double digits. According

to early National Statistical Office (NSO) estimates, India's industrial production climbed by 11.5 percent in July 2021, compared to a 10.5 percent fall the previous year. According to the Index of Industrial Production, production climbed 13.6 percent in June 2021 and 28.6 percent in May 2021 as a result of the base effects of the national lockdown in 2020, which disrupted most economic activity (IIP). Although the overall IIP in July was still roughly 0.3 percent lower than in 2019, the little difference shows the industrial sector could be on the verge of returning to pre-pandemic levels if the current trend continues in the next months. Over the previous seven years, the economic policies of the Narendra Modi government have been an unusual combination of orthodox and heterodox. Even during a once-in-a-generation epidemic, the government has erred on the side of fiscal caution when it comes to macroeconomic management. It has been more receptive to a more interventionist approach in industrial policy. In fact, the government may be on the right road in increasing the contribution of industry to GDP. It simply needs to become more adaptable and brave.

## V. CONCLUSION

Above literature shows that industrial strategies have played a significant influence in countries' successful economic development. After 1991, India's industrial policy transitioned from a predominantly socialist to a capitalist paradigm. Governments intervene in the market's sectors resource allocation and technology selection through these policies. Industrial policy in the past had a limited reach and used a limited set of tools. India's industrial policy has become significantly more liberalized in recent years, with an emphasis on increasing international investment and lowering restrictions. The Make in India and Start-up India initiatives have aided in the development of the country's economic environment.

**Future Prospects:** In this world of **Hyper-digitalization** due to COVID-19 crisis, new Industrial Policy is required to enhance the country's industrial sector. Industrial policies are not always intended to promote industrialization. The word refers to any policy that has an impact on the economy's sectoral makeup or technological choices. Thus, corporate governance, antitrust and competition policy, monetary policy and bankruptcy frameworks, as well as tax and expenditure policy, should all be regarded as part of industrial policy. A globally competitive Indian industry that leverages skill, scale, and technology demands the creation of an outcome-oriented, executable industrial strategy that offers direction and sets out a plan of action. To better understand the perspectives of all stakeholders, consultations will be held with industry bodies, industry captains, central government agencies, state governments, think tanks, academia, and R&D institutes. It should provide an overarching umbrella policy framework to address key issues such as:-

- ✓ What concrete actions can MSMEs take to help them adopt and upgrade technology as the world

moves toward Smart Manufacturing & Industry 4.0 technology?

- ✓ What can be done to encourage the commercialization of innovation?
- ✓ What can be done to encourage industries to innovate and utilize smart technology?
- ✓ What steps can be taken to make it easier for international companies to transfer their technology to domestic businesses?

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