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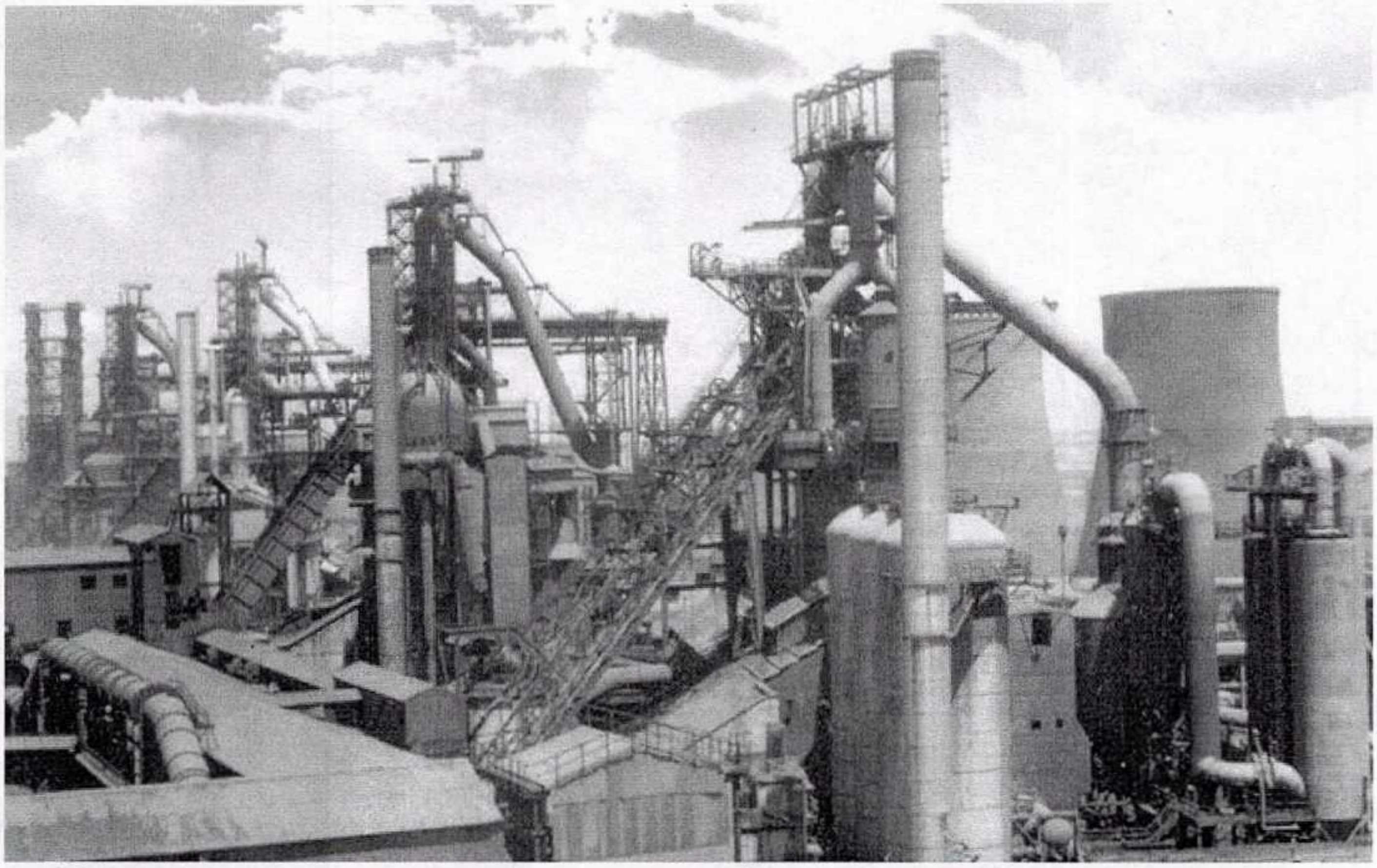
25 years of industrial de-licensing: hopes belied



An expert committee recommended the clearance for the Kalwar-Nagur iron ore mine, which is spread over 17 hectares.

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Do we have a choice but to live with the country's policy choices?

Circa 1991, liberalisation started by reducing the number of industries that required a licence either to set up a new undertaking, or for substantial expansion, or for production of new articles, or for change in location, among others. Surprisingly, this was done by a minority government through executive orders. Today, only five industries require a compulsory licence.

Pre-1991, during the 40 years since it was first introduced, the industrial licensing regime had failed to meet its objectives—increasing the share of manufacturing in the gross domestic product (GDP), ensuring adequate supplies of industrial goods, employment generation, dispersal of industries and preventing concentration of economic power.

The natural question to ask is: if licensing was the main culprit holding back industrial growth, then consequent to de-licensing, why didn't the share of manufacturing in GDP rebound? Why has the share of manufacturing continued to hover around 15% of the GDP for the last 35 years, which included 25 years of the de-licensed regime?

That de-licensing was only a necessary condition to raise the growth rate of manufacturing above the GDP growth rate was missed out by policymakers till the announcement of the National Manufacturing Policy (NMP) in 2011. Prior to that, the manufacturing sector was left to fend for itself and at the mercy of market forces.

De-licensing shifted the locus of promoting manufacturing to the states. As per the constitutional scheme of things, industries, but for two exceptions, figures in the state list under schedule 7 of the Constitution. The exceptions which find a place in the Union list are industries required for purpose of defence and conduct of war, and those whose control by the Union is declared to be expedient in the public interest and are subject to compulsory licensing. As the number of industries requiring a license decreased, the states became increasingly free to chart their industrial destinies. At that stage, a cohesive federal policy was required to synergise the efforts of the states and the Union. A point that has hardly figured in discussions on the subject.

A fragmented approach to industrial policy at the federal level did not help matters either. Slices of the pie were, and are, allocated to different ministries and departments on the basis of size—heavy and small—and sectors—steel, pharmaceuticals, food processing, chemicals and petro-chemicals, fertilisers.

In leaving industrial development entirely to market forces, lessons posed by the rapid growth of manufacturing in China and the countries known as east Asian tigers were overlooked. Industries in these countries were, and are, protected and nurtured till they are in a position to withstand international competition.

At the time of de-licensing, most Indian industries were unprepared for liberalisation. They lacked the competitive edge and had few exportable products. The domestic market was their fiefdom, courtesy the entry barriers created by the industrial licensing system. Quantitative restrictions and tariffs buffeted them from imports. This advantage also disappeared with the liberalisation of international trade in the 1990s.

Countries, typically, make policies to match their stage of economic development. De-licensing was not an end in itself. Concomitantly, a comprehensive set of reforms expressed through an industrial policy aimed at increasing the global competitiveness of Indian industry was necessary. Lack of a holistic approach has proved to be costly for the nation. In its absence, manufacturing could not provide the expected traction to GDP growth. Verdoorn's law kicked in and productivity of both the manufacturing and the non-manufacturing sectors was adversely affected.

Outside the world of oil and gas exporting countries, the largest trade surpluses belong to Germany, China, Japan and South Korea—all manufacturing giants. India, meanwhile, has a huge manufacturing trade deficit, particularly with China. But the biggest casualty of below par manufacturing growth was job creation. Between 2005 and 2010, the number of jobs in the manufacturing sector actually fell. If the surplus labour from the agriculture sector is not absorbed in the industrial sector, then the country is staring at a demographic disaster. Where will the bulk of the annual accretion of about 10 million to the workforce be accommodated?

Outpaced in growth by China and other similarly placed Asian countries, falling employment and rising manufacturing trade deficit were some of the imperatives for NMP. Increasing global competitiveness was at the heart of this policy. Industrial growth in partnership with the states was its bedrock. To achieve its objective of raising the share of manufacturing in GDP to 25% and creating 100 million jobs in 10 years, it sought to address the major problems plaguing the manufacturing sector for decades, such as inadequate physical infrastructure mainly power and transport, heavy compliance burden on account of a complex regulatory regime, inefficient use of factors of production, shortage of skilled manpower, lack of technological depth, low domestic value addition and a simple expeditious exit mechanism for closure of sick units.

NMP remained one of the many policy measures of the United Progressive Alliance government, till the 'Make in India' campaign of the present National Democratic Alliance government caught the imagination of the nation.

Finally, manufacturing was centre stage and accepted as the key to solving the biggest problem facing the nation—unemployment. The moot point is whether at this belated stage, it would succeed in creating jobs. Are we locking the stable door after the horse has bolted? Scepticism has crept in because of the results of the latest quarterly quick employment survey conducted by the Labour Bureau. Failure is, however, not an option—the nation is sitting on an unemployment time bomb with the clock ticking away fast.