October 16, 2016 | Saurabh Chandra (http://www.infracircle.in/author/saurabhchandra/)
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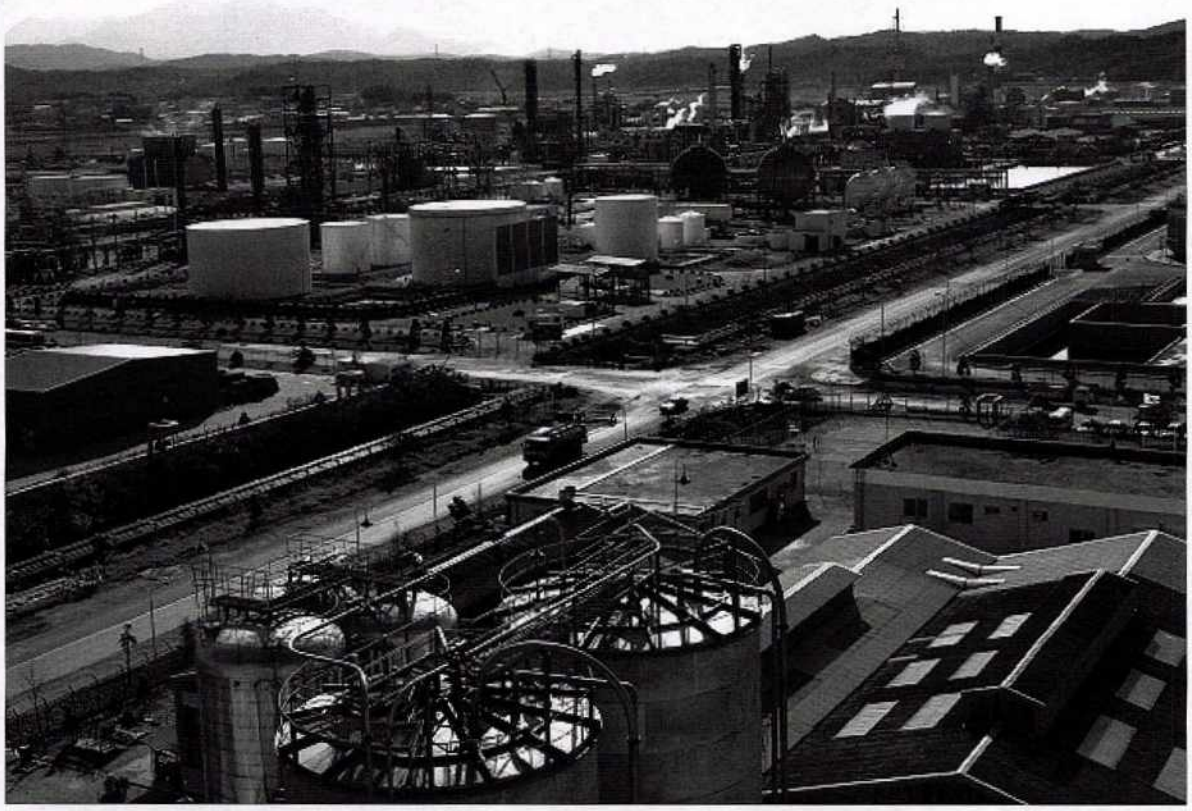
The post-liberalisation path of industrialisation



The pace of industrial growth was largely in tandem with the gross domestic product growth.

ndustrial policy resolutions and statements were the key to industrial development since Independence up to 1990.

The Congress lost the national elections in 1989. In 1990, the successor government came out with an industrial policy containing measures for the promotion of small-scale and agro-based industries and changes in procedures for industrial approvals. The ink was barely dry, when it lost power and the short-lived Chandrashekhar-led government was sworn in. It was during this period that the blueprint for the path-breaking industrial reforms of 1991 was prepared. It was left to the Congress-led government to materially change the contours of the philosophy governing industrial policy since 1956, largely under duress from the International Monetary Fund to overcome the prevailing foreign exchange crisis.

Statement of Industrial Policy, 1991

Unshackling 'the Indian industrial economy from the cobwebs of unnecessary bureaucratic control' was the governing philosophy of these reforms, which covered industrial licencing, foreign investment, foreign technology agreements, public sector policy and the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act).

Industrial licencing was abolished except for a short list of industries, industries reserved for small-scale sector and eight industries reserved for the public sector. High priority industries and trading companies primarily engaged in export activities were opened up for direct foreign investment up to 51%. Foreign technology agreements in high priority industries were eligible for automatic approval subject to certain conditions. This facility was also available for non-priority industries if no free foreign exchange was required. Divesting a portion of the government's shareholding in public sector undertakings, professionalising and empowering their management, and performance improvement through the memorandum of understanding system were some of the measures outlined to improve the functioning of the public sector. Removal of threshold limits in respect of MRTP companies and dominant undertakings was proposed to eliminate the requirements of prior approval for establishment, expansion, merger, amalgamation and takeover of undertakings. After this statement, reform measures such as privatisation of some public sector units during 1999-2002, doing away with the policy to reserve items for production in the small-scale sector and liberalisation of the foreign direct investment policy were undertaken.

These reforms did little to increase the share of manufacturing in gross domestic product (GDP) which has hovered around 15% for the last 25 years. Employment in the manufacturing sector fell from 55.77 million to 50.74 million between 2004-05 and 2009-10.

These reforms were necessary but not sufficient to accelerate annual manufacturing growth rate to 10%-plus level. Global competitiveness is the key to manufacturing growth. This requires reforming the factors market, removing infrastructural bottlenecks, easing the regulatory burden, availability of skilled manpower and constantly increasing factor productivity through technological depth. For two decades after 1991, policymakers left the market to take care of these essential and enabling requirements for industrialisation.

National Manufacturing Policy, 2011

The National Manufacturing Policy (NMP), announced in 2011, attempted to change this mind-set. It sought to raise the share of manufacturing in GDP to 25% in a decade, up from a level of 15-16% prevalent since 1980, while creating 100 million jobs. It was 'based on the principle of industrial growth in partnership with the states'. Easing the complex regulatory environment, ensuring availability of skilled manpower, financial and institutional mechanisms for technology development, simple and expeditious exit mechanisms, incentives for small and medium enterprises, leveraging infrastructure deficit and government procurement, clustering and aggregation, and trade policy were some of the specific policy instruments conceptualised to achieve the objectives. An enabling policy framework and incentives for infrastructure development on public-private-partnership through appropriate financing instruments was envisaged to reduce the infrastructure deficit. National investment and manufacturing zones (NIMZs)—integrated industrial townships spread over at least 50 sq. km 'of developed land with requisite ecosystem for promoting world-class manufacturing activity'—were to be the prime movers.

Make in India

The Make in India programme of the National Democratic Alliance government, which assumed power in May 2014, brought manufacturing centre-stage and gave it the highest priority it deserved. Its success is critical and imperative to maintain growth and social cohesion and harmony by addressing the biggest challenge to the Indian polity—provide jobs to the one million youth who enter the employment market every month.

The journey so far

The founding father of Indian Independence set out on a mission to build a prosperous egalitarian society. The industrial policy was the most important set measure for achieving the socioeconomic objectives. This 70-year journey can broadly be broken up into three periods of 20 years each.

The first two decades were defined by the primacy given to the public sector and control and regulation of the private sector through issuance of licences under the ambit of Industrial (Development and Regulation) Act, 1981. The period was characterised by cornering of licences, rent seeking, shortages and poor quality of products, income inequalities, wealth disparities, structural distortions and uneven regional development. The only ray of hope was provided by an increase in the share of manufacturing from 8.98% in 1950-51 to 13.07% in 1969-70 (both at 2004-2005 prices) and development of some basic industries.

The next two decades were periods of gradual and incremental reforms aimed at correcting distortions that had crept in the process of industrialisation. Priorities changed when a non-Congress government assumed power. The movement towards achievement of the socioeconomic objectives remained slow (share of manufacturing grew to 15.16% in 1989-90), since the crux of the problem lay with the policy, rather than its implementation.

Industrialisation in the 1990s and the first decade of the millennium was largely left to market forces. States and the private sector were called upon to play a larger role. During this period, the pace of industrial growth was largely in tandem with GDP growth, as the share of manufacturing increased marginally to 16.17% in 2009-10.

Way ahead

The annual manufacturing growth has to attain a level of 12-14% to bring about a structural change in the economy, reduce inequalities and address the problem of unemployment, without waiting for the next crisis. Some enabling measures are:

i. Manufacturing has to become increasingly technology dominated and driven by innovation and knowledge.

ii. Integrating manufacturing clusters into the global value chain.

iii. Empowering small- and medium-sized firms to undertake the next generation of manufacturing, using smart software.
iv. Implementing NMP and accelerating the setting up of NIMZs, and the five industrial corridors.
v. Above all, obtaining a national consensus across parties and the federal polity on environmental issues, action plan to lower the regulatory burden and measures to reform the factor markets, i.e., land, labour and capital (particularly toxic assets), so that industrialization becomes a seamless and an uninterrupted process.

This is the concluding column of a three-part commentary on India's industrialisation since Independence.

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