**Industrial Policy Of 1991 – Industrial Development in India**

In order to accelerate [Industrial Development in India](http://www.allexamnotes.com/2017/01/industrial-development/), and in accordance with the changing circumstances, various industrial policies were declared in the years 1948, 1956, 1977, 1980 and 1985, but in spite of all efforts, the pace and as well as the level of Industrial Development in India, could not reached according to its need. Therefore, in order to lift unnecessary restrictions on Industries, under the licensing policy, and to increase their efficiency, development and technological level, in order to make Indian goods usable in the competitive global market, on 24th July, 1991, in Lok-Sabha the Minister of States for industries, Mr. P. J. Kurian declared the **Industrial Policy, 1991.**

OBJECTIVES OF NEW INDUSTRIAL POLICY, 1991

1. To liberalise the economy
2. To increase employment opportunities
3. To encourage foreign assistance and co-partnership
4. To make the Public Sector more competitive
5. To increase the production and productivity, give encouragement to industries
6. To liberate the economy from various government restrictions
7. Industrial development of backward areas
8. To give liberty to private sector to work independently
9. To make development for modem competitive economy
10. To give encouragement for expansion of production capacity
11. To increase exports and liberalize (facilitate) imports.

**SALIENT FEATURES OF NEW INDUSTRIAL POLICY, 1991**

1. **Liberalized Industrial Licensing Policy**

Under this policy, with the exception of 18 industries, licensing system has been removed for all other industries. Some of those 18 industries, where the licensing system is still mandatory are; Army and Defence, Forest Conservation, Industries engaged in manufacturing goods which are harmful to the Environment and industries, which are manufacturing luxury goods, for the affluent (very rich) class, etc.

1. **Localisation Policy**

Those industries which are situated in cities, where the population is less than 1 million, industrial permission from the government, to start any industry is not required. In cities having population of more than 1 million, with the exception of electronics and other pollution free industries, all industrial units may be 25 kilo meters away from the city’s boundary.

Industrial licensing is the most important instrument, which has been used by the Government for directing allocation of resources between industries and region.

**Following changes are introduced in Industrial Licensing:**

i. All areas of industrial activity excluding areas of security and strategic importance are thrown open to private investments.

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ii. Industrial licensing has been abolished for all industries including those (a) which either strategic and environmental concerns dominate or the import content is exceptionally high (Annexure II) and (b) which are reserved (836 items, reduced to 749 by 2001- 02) for small industry manufacturing.

iii. Industrial licensing is not needed in location other than cities having a population of more than one million, as per the 1991 census.

iv. Industrial licensing is not required not only for new units but also for new products, as also substantial expansion and change of the location for existing units.

v. Phased Manufacturing Programmes (PMP) have been abolished for all new industries and subsequently for all industrial projects. Under a PMP, a concerned enterprise has to progressively replace imported materials, parts, and components with materials, parts and components produced in house or by other Indian firms. The PMPs accompanied industrial licences in a wide range of industries involving assembly of parts and components (notably the vehicle, machinery and electronics industries) prior to IP, 1991.

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vi. Re-endorsement scheme is applicable only (a) for industries where licensing is compulsory and (b) within cities having a population of more than one million, for all those industries. Re-endorsement scheme was introduced in 1982. As per the scheme, all those industrial units, which had utilised 94 per cent of the licenced capacity over the previous five years, were allowed to expand their production by one-third thereof, without licence. In 1986, the scheme was further liberalised by reducing the cut-off limit to 80 per cent capacity utilisation.

vii. All industrial units, which have obtained licence for an item covered under Annexure II of IP 1991 prior to July 25,1991, have to obtain Carry on Business (C.O.B.) licence.

viii. All entrepreneurs, who initiate new industrial units and indulge in substantial expansions in delicenced industries, are required to file Industrial Entrepreneurs Memorandum (IEM). IEM has to be obtained from and submitted (6 copies) to Secretariat of Industrial Approvals (SIA) in the department of Industrial Policy and Promotion, Ministry if Industry as per the Industries Development and Regulation (IDR) Act 1951, along with a crossed demand draft for Rs1000/-.

ix. For licensing, application has to be obtained from and submitted to (with 8 spare copies) the Secretariat of Industrial Approvals under IDR Act, 1951 along with a crossed demand draft of Rs 2500/-.

x. All the industrial undertakings are required to submit monthly production returns to concerned technical authorities (e.g. Textile Commissioner, etc.) and a copy to concerned- administrative ministry or department.

xi. An Investment Promotion and Project Monitoring Cell is set up in the Department of Industrial Policy and Promotion, Ministry of Industry to provide information to entrepreneurs and to monitor progress of implementation of various projects.

1. **Foreign Investment**

Provision has been made to invest up to 51 percent by foreign investors in the equity shares of Indian Companies. Earlier, this limit was limited up to 40% only. This will increase the flow of foreign capital into India and make possible technical exchange from developed countries.

. Automatic approval is available to FDI in almost all sectors except for a few sensitive ones. Automatic approval is available for 50 per cent, 51 per cent, 74 percent and 100 per cent in specified industry groups.

ii. To provide access to international markets, majority foreign equity holding of upto 51 per cent will be allowed for trading companies primarily engaged in export activities.

iii. A Foreign Investment Promotion Board has been constituted to negotiate with a number of large international firms and approve direct foreign investment in select areas.

1. **Workers’ Participation in Management**

Under this industrial policy, emphasis has been laid on safeguarding the workers’ interest. Provision has been made for workers’ participation in management, in order to manage sick units, provision has been made to form co-operative societies of workers, to run them.

1. **Role of Public Sector**

Those public sector undertakings which are not doing well at present, but in which there are enough chances of improvement, shall be re-constituted. Public sector undertakings, which are facing constant financial crisis, shall be kept under observation by ‘Board of Industrial and Financial Reconstruction’ or by any other institution, which is fixed by the government.

i. Portfolio of public sector investments will be reviewed with a view to focus its investments in strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained, there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly, the public sector will also be allowed entry in areas not reserved for it.

ii. Public enterprises which are chronically sick and which are unlikely to be turned around will be referred to the Board of Industrial and Finance Reconstruction for revival/rehabilitation schemes.

1. **Change in the MRTP Act**

In the industrial policy 1991, major changes have been made in the *Monopolistic and Restrictive Trade Practice Act*. Companies having investment of Rs. 100 crores, will not be required to take prior Government permission, for opening new subdivisions, or to expand the present industry or for amalgamation of companies. This industrial policy has also eliminated the investment limit, which was fixed by MRTP Act.

i. The MRTP Act has been amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings.

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ii. Provisions relating to concentration of economic power, pre-entry restrictions with regard to prior approval of the central government for establishing a new undertaking, expanding an existing undertaking, amalgamations/mergers, etc. have been removed.

iii. Emphasis will be placed on controlling and regulating monopolistic, restrictive and unfair trade practices.

1. **Creation of Productive Capacity**

In order to increase the productive capacity of new industries, all administrative controls have been removed. Industrialists will only have to inform the government of opening of new units or increasing their production capacity.

1. **Promotion of Industries in Rural Areas**

In order to remove the regional imbalances, under this industrial policy, various provisions have been made to encourage industries in rural areas.

1. **Foreign Technology**

No prior permission from government will be required in importing foreign technology, up to the limit of One Crore rupees. Indian companies, will be free to negotiate their terms and conditions, with their foreign collaborators, in matters of technology transfers (exchange of ‘technical know-how).

i. Automatic permission will be given to foreign technology agreements in identified high priority industries up to a lump­sum payment of $2 million, 5 per cent royalty for domestic sales and 8 per cent for exports, subject to total payment of 8 per cent of sales over a 10 year period from the date of agreement or 7 years from commencement of production.

ii. In respect of industries other than those specifically mentioned, automatic permission will be given subject to the same guidelines as in cases where no foreign exchange is required for any payment.

1. **Reservation of Small Scale Industries**

This policy has stated that the government shall keep giving assistance to small scale industries. The limit for small scale industries has been reduced from Rs 3 Crores to Rs. 1 Crore, since 24 December, 1999.

1. **Broad branding facility and FMP:**

Existing and new industrial units have been pro­vided with the broad branding facility to produce any article so long as no additional investment in plant and machinery is undertaken. The Phased Manufacturing Programme (PMP) will no longer be applicable to new projects.

1. **Abolition of licensing procedures:**

The NIP has abolished the industrial licensing require­ment irrespective of the level of investment in all industries except those 18 industries specified in Annexure II of the ID & R Act (1951). The indus­tries where industrial licensing will be necessary include areas like coal, petroleum, sugar, cigarettes, motor cars, hazardous chemicals, drugs and phar­maceuticals and some luxury items.

1. **Foreign collaboration:**

On foreign tech­nology agreements, the Government intends to combine the need for updating technology in high priority areas with incentives for domestic sales and export promotion.

The stress is on foreign technology agree­ments in high priority areas with incentives for domestic sales and export promotion.

Foreign technology agreements in high pri­ority industries will be given automatic permis­sion up to a lump-sum payment of Rs. 1 crore. In non-high priority areas, automatic permission would be given as per the same guidelines pro­vided no free foreign exchange is required for the payments.

So far as hiring foreign technicians or for­eign testing of indigenously developed products, no permission would be required. Payments may be made from blanket permits or free foreign ex­change as per RBI guidelines.

1. **Import of capital goods:**

The NIP envis­ages automatic clearances for import of capital goods provided the foreign exchange requirement for such imports is ensured through foreign eq­uity. In addition, with effect from April 1992, such automatic approval would be given provided the cost, insurance and freight (c.i.f.) value of the capi­tal goods to be imported was less than 25% of the total value of plant and machinery and subject to maximum limit of Rs. 2 crores.

1. **Non-applicability of convertible clause:**

In a significant step, the NIP has dispensed with the applicability of the mandatory convertibility clause which enabled financial institutions to con­vert loans into equity for the term loans extended by financial institutions for new projects.

#### Comments:

The New Industrial Policy announced by the Government is a landmark policy in the history of industrial development of the country. It is in line with the current economic philosophy of the Government to liberalise the existing industrial and commercial policies with the objective of increasing efficiency, competi­tive advantage and modernisation in the economy.

The abolition of the system of licensing in most industrial areas as also the break from the ‘big is evil’ syndrome in terms of the withdrawal of the asset criterion from the MRTP Act are policy initiatives which are likely to boost industrial growth in the country.

Similarly, the raising of the automatic for­eign equity participation to 51% in 34 high prior­ity areas will lead to greater foreign portfolio in­vestment and thereby reverse the phenomenon of capital flight from the economy. This—in con­junction with the liberalised foreign technology agreements and doing away with the Phased Manu­facturing Programmes (PMP) provisions for new projects—will lead to technology up-gradation and modernisation of the industrial sector.

A novel feature of NIP has been the effort to encourage direct foreign investment. In particu­lar, the constitution of a special empowered Board to negotiate with large international firms for this purpose is a step in the right direction. The Board should perform a promotional role so that domes­tic firms can derive the benefits of international markets.

By the removal of the convertibility clause on term loan of financial institutions, the new policy will give a fillip to the capital market as the profitability and the consequent rise in dividend payments is likely to promote equity culture in the country.

In view of the drain on the exchequer the large and public sector imposes, the new policy rightly emphasised the need to promote privatisa­tion in the economy. The commitment to run the existing PSUs on commercial lines will, however, have to be watched. However, the revival package for the perpetually sick PSUs needs to be formu­lated without any delay so that the burden on the Centre’s financia resources can be removed at early as possible.

EVALUATION OF INDUSTRIAL POLICY, 1991

*“Industrial Policy 1991”* is also known as ***“Open Industrial Policy”***, because it contains several revolutionary schemes and plans. If, we make an analytical study of the special features of Industrial Policy 1991, it becomes clear that several fundamental changes have been, made, in this policy.

1. Liberalization of industrial licensing system
2. Welcoming of foreign capital
3. Facility of Import of Technical Know-how
4. Exemption to industrial structure from several unnecessary government controls
5. Aiming to make Indian industries more competitive at national and international level
6. Safeguarding the interest of workers, etc.