NATIONAL MANUFACTURING POLICY OF INDIA: AN OUTLOOK

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ABSTRACT

India's manufacturing sector is vital for its economic progress. Its contribution to the GDP is 16 per cent, with the potential to grow more. The government has realized the importance of this sector to the country's industrial development, and has taken a number of proactive steps to further enhance the industry. The Government of India has announced a National Manufacturing Policy with the objective of enhancing the share of manufacturing in GDP to 25% within a decade and creating 100 million jobs. The National Investment & Manufacturing Zones (NIMZs) are an important instrumentality of the manufacturing policy. The National Maufacturing Policy, which is the first such dedicated policy measure for the manufacturing sectoe in the country, is expected to change the manufacturing landscape of the Indian economy through increased capital formation; industrial infrastructure of global standards; technology upgradation; creation of innovation and vocational skill development infrastructure; and industry, worker and enviornment-friendly regulations.

Key Words: *National Maufacturing Policy, National Investment and Manufacturing Zones*

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INTRODUCTION

After independence, the Government of India spelt out its approach to the development of the industrial sector in the Industrial Policy Resolution, 1948. This was followed by the Industrial Policy Resolution, 1956. In between, the government introduced the Industries (Development and Regulation) Act, 1951 to regulate and control the development of the private sector. In 1969, the MRTP Act (Monopolies and Restrictive Trade Practices Act) was adopted to prevent the concentration of economic power and control monopolies.

Another legislation that had considerable implications for industrial policy (as far as the participation offoreign companies in the industrial sector of India is concerned) was the Foreign Exchange Regulation Act (FERA) adopted in 1973. However, all these measures which guided and determined the State intervention in the field of industrial development failed in achieving the objectives laid down for them. They also created a number of inefficiencies, distortions and rigidities in the system. Therefore, the government started liberalizing the industrial policy in 1970s and 1980s. The most drastic liberalizations were carried out in 1991 when a New Industrial Policy was announced.

Since 1991, as a part of the liberalization process, the then-Prime Minister, Mr. P.V. Narsimha Rao and finance Minister, Dr. Manmohan Singh changed the overall industrial policy and encouraged labour saving and other concepts prevalent in developed countries. Multinationals made an entry into the country as a result of reduced government control over industry and commerce, which gave a boost to exports. India’s hard currency reserves increased and balance of payment position also turned favorable.

The basic requirements of a country are the essential things such as food, clothing, shelter and safe drinking water, all of which determine the quality oflife. It may also be included that the access to opportunities such as education and employment help one escape from basic requirements or allow one to enjoy the respect offellow citizens. Generation of employment opportunities is the only way through which the quality of life can be increased for the citizens of a country. This can be made possible through the industrial sector, particularly by the manufacturing sector (Ghosh, p. 1968) . The Manufacturing sector has acquired an important place in the industrial and socio-economic development of our country.

The manufacturing industries playa significant role in the Indian economy. Manufacturing industries contribute significantly to employment generation, dispersal of industrial activity to different areas, ushering in all round economic growth by value addition, ensuring the mobilization of local capital and developing entrepreneurial skills. The manufacturing sector is important not only for its contribution to the GDP, but also for its stellar performance in exports and generating employment. The manufacturing sector is widely recognized as a powerful instrument for socio- economic growth and balanced industrial development. The growth rate recorded by the manufacturing sector has normally been higher than that of the industrial sector as a whole. The manufacturing sector has emerged over five decades as a highly vibrant and dynamic sector of the Indian economy. World over, contribution of the manufacturing sector to economic growth, diversification, employment generation potential, reduction of regional inequalities and higher export earnings are well recognized. The present paper makes an attempt to probe the National Manufacturing Policy in the Indian industrial sector.

OBJECTIVE OFTHE STUDY

The present study aims to evaluate the National Manufacturing Policy in the Indian industrial sector with a fresh perspective.

METHODOLOGY

The present study is based on the data obtained from secondary sources. The secondary data had been collected from books, journals, Ph.D. thesis, published and unpublished annual reports, Govt. Manuals/Orders, websites etc.

LITERATURE REVIEW

While accepting that the National Manufacturing Policy is a ‘well-crafted document having its various sections or parts clearly delineated, Mani (2011, pp. 16-19) criticized it on the following counts:

(i) The National Manufacturing Policy aims to increase the share ofthe manufacturing sector in India’s GDP from the present level of around 15-16 percent to about 25 percent by 2022 and, in that process, create 100 millionjobs. Crucial to this will be increasing the ratio of domestic value added to the domestic value of output through an enhancement of technological depth in manufacturing. In other words, the policy aims at improving local value addition by ensuring that the industry has most ofthe components, spare parts and raw materials locally available. However, “no specific targets are fixed on value added and so, the goal is expressed in vague terms, which makes its monitoring impossible.”

(ii) The National Manufacturing policy has failed to identify a small set of manufacturing industries in which India has a competitive position or is likely to attain one in the near future. In this context, it may be pointed out that China's success is basically due to the reason that it carefully defined with due diligence, a small set of those manufacturing industries in which it could graduate to world-class positions.

According to Government of India's Economic Survey (2012, p. 215): "The National Manufacturing Policy, which is the first such dedicated policy measure for the manufacturing sector in the country, is expected to change the manufacturing landscape of the Indian economy through increased capital formation; industrial infrastructure of global standards; technology upgradation; creation of innovation and vocational skill development infrastructure; and industry, worker, and environment- friendly regulations."

INDUSTRIAL POLICIES OF THE GOVERNMENT

The industrial policy is discussed in this section. The focus of discussion in this section, therefore, is on:

- Industrial Policy Resolutions of 1948 and 1956 ;
- Industries (Development and Regulation) Act, 1951;
- Critical review of the pre-1991 industrial policy and liberalization trends;
- New Industrial Policy, 1991 and its critical appraisal;
- National Manufacturing Policy, 20 II .

Industrial Policy Resolution, 1948 and 1956: The first important industrial policy statement was made in the Industrial Policy Resolution, 1948 issued by the Government of India on April 6, 1948. The Resolution accepted the importance of both - the private and the public sectors in the industrial economy ofIndia. It divided the industries into the following four categories:

i. Industries where the State had a monopoly;
ii. The Mixed Sector;
iii. The field of govemment control;
iv. The field of private enterprise.

The 1948 Resolution also accepted the importance of small and cottage industries as they are particularly suited for the utilization oflocal resources and for the creation of employment opportunities.

The 1956 Resolution laid down the following objectives for the industrial policy:

i. To accelerate the rate of growth and to speed up industrialization;
ii. To develop heavy industries and machine making industries;
iii. To expand the public sector;
iv. To reduce disparities in income and wealth;
v. To build up a large and growing cooperative sector; and
vi. To prevent monopolies and the concentration of wealth and income in the hands of a small number of individuals.

These objectives, it was thought, would help in generating more employment opportunities and help in raising the standard ofliving of the masses. For this purpose, stress was laid on cooperation between public and private sectors, but an increasing role was envisaged for the former so that, in due course of time, it could gain 'commanding heights' of the economy. The 1956 Resolution divided the industries into the following three categories:

i. Monopoly of the State.
ii. The Mixed sector of the public and private enterprise.
iii. Industries left for the private sector.

Industries (Development and Regulation) Act, 1951: To control and to regulate the process of industrial development in the country, an Act was passed by the Parliament in October 1951. Known as the Industries (Development and Regulation) Act, 1951, the Act came into force on May 8, 1952. Though it aimed at both, development and regulation of the private sector, its main task over the years has been to concentrate more on the 'regulation' aspect. The objectives that the Act sought to accomplish were (Paranjape, 1991; p. 2476):

i. The regulation of industrial investment and production according to planned priorities and targets;
ii. The protection of small entrepreneurs against competition from large industries;
iii. Prevention of monopoly and concentration of ownership of industries; and
iv. Balanced regional development with a view of reducing disparities in the levels of development of different regions of the economy.

It was hoped that through the instrument of industrial licensing, the State would be able to :

i. Direct investment into the most important branches;
ii. Correlate supply and demand in the domestic market;
iii. Eliminate competition; and
iv. Ensure optimum utilization of social capital.

The 1951 Resolution divided the industries into the following two categories:

i. Restrictive Provisions; and
ii. Reformative Provisions .

Critical Review of Pre-1991 Industrial Policy and Liberalization Trends: The actual operation of the industrial policy (particularly the industrial licensing policy) has been a subject of much debate and criticism. Several studies on the implementation of the licensing policies and the functioning of the industrial approval system pointed out a number offlaws and deficiencies. Reports of the various Committees and Commissions appointed by the government itself(Monopolies Enquiry Comission in April 1964, Dr. R.K. Hazari in 1965 andDutt Committee in 1967) pointed out that the licensing policy had failed to achieve its objectives. In many cases, the results were just the opposite of what the govemment had planned. The main points of criticism have been as follows:

i. Licensing and underutilization of capacity ;
ii. Licensing and concentration of economic power;
iii. Discretionary powers oflicensing authorities;
iv. Licensing and regional imbalances;
v. Delays in processing of applications.

Because of the above criticisms indicating the failure of the industrial licensing policy in achieving its objectives, the Government ofIndia announced a number ofliberalization measures in the Industrial Licensing Policy announced in 1970,1973 and 1978. In 1980, the government came forward with an Industrial Policy Statement which served as a guideline to various liberalization measures undertaken all through the 1980s. Some of these measures were as follows:

i. Exemption from Licensing;
ii. Relaxations to MRTP and FERA Companies;
iii. Delicensing;

iv. Re-endorsement of Capacity;
v. Broad-banding ofIndustries;
vi. Minimum Economics of Scales of Operation; **(vii)** Development of Backward Areas;
vii. Incentives for Export Production and Enhancement of Investment Limit for SSI Units and Ancillary Units (Handbook of Industrial Policy and Statistics, Government ofIndia (1980 to 2008).

New Industrial Policy, 1991: In line with the liberalization measures announced during the 1980s, the government announced a New Industrial Policy on July 24, 1991. This new policy deregulated the industrial economy in a substantial manner. The major objectives of the new policy were "to build on the gains already made, correct the distortions or weaknesses that might have crept in, maintain a sustained growth in productivity and gainful employment, and attain international competitiveness." In pursuit of these objectives, the policies relating to the following areas are:

- Abolition ofIndustrial Licensing;
- Public Sector's Role was Diluted;
- MRTP Limit Goes;
- Freer Entry to Foreign Investmentand Technology.

Others Liberalization Measures were:

i. Industrial location policy liberalized.
ii. Abolition of Phased Manufacturing Programmes.
iii. Removal of mandatory convertibility clause.

A package for the Small and Tiny Sectors ofthe industry was announced separately in August 1991. However, the new industrial policy of 1991 invited scathing criticism from a number of quarters. The main points of criticism are as fo llows (Sandesara, 1991 ; p.23) :

i. Erratic and fluctuating industrial growth;
ii. Distortions in production structure;
iii. Threat from foreign competition;
iv. Dangers of business colonization;
v. Misplaced faith in foreign investment;
vi. Persanalistic relationships and corrupt practices.

EVALUATION OFTHE NATIONAL MANUFACTURING POLICY

The Twelfth Five-Year Plan Commenced on April 1, 2012 and covers the five-year period from 2012-17. However, the draft document was not yet ready and only the Approach paper was so far available. Therefore, the researcher shall focUS an this paper only. The Approach Paper to the Twelfth Plan was released by the Planning Commission in october 2011. It emphasizes faster, sustainable and more inclusive growth. It aims at a 9 percent rate of growth. It accepts that although this is a feasible target from a macroeconomic perspective, yet it cannot be viewed as an assured outcome.

According to the Approach Paper: “Global economic conditions are very uncertain and energy prices are likely to remain high. To achieve rapid growth, the economy will have to overcome constraints posed by limited energy supplies, increase in water scarcity, shortages in infrastructure, problems of land acquisition for industrial development and infrastructure, and the complex problem of managing the urban transition associated with rapid grawth. Greater efforts also need to be made in agriculture, health and education to ensure inclusion of the most excluded and sometimes invisible parts of our papulation.”

India’s recent economic growth has been due to a massive surge in the services sector with the manufacturing sector cantinuing to stagnate, contributing only 15-16 percent of the GDP. As against this, the manufacturing sector in China accounts far about 42 percent of its GDP. ‘In fact, India’s manufacturing sector is only about l3 percent of that of China’s. It is naw being increasingly recognized that unless India’s manufacturing sector picks up strongly, it will be difficult ta sustain rapid economic growth an the one hand, and provide productive employment opportunities to the increasing labaur force on the other hand. History of all developed countries, Asian Tigers (South Korea, Hang Kong, Singapore and Taiwan) and China shows that all of them have attained economic growth by focusing more on the manufacturing sector where output is more tangible and where most of the innovations are first generated. All these considerations have once again brought back the industrial policy into focus in the form of the National Manufacturing Policy (NMP) released by the Government of India.

Objectives of The National Manufacturing Policy (NMP):

The main objectives of the National Manufacturing Palicy are as under:

1) Increase manufacturing sector growth to 12-14 percent over the medium term.
2) Increase the share of manufacturing in GDPfrom the present level of about 16.0percentto 25

percent by 2022.

3) Create 100 millian additional jobs in the manufacturing sector by 2022.
4) Create appropriate skill sets among the rural migrants and urban poor far their easy absorption in the manufacturing sector.
5) Increase domestic value addition and technological depth in manufacturing.
6) Enhance glabal competitiveness ofIndian manufacturing.

The national Manufacturing Pahcy noted that the contribution of the manufacturing sector at about 16 % of India's GDP is much below its potential and is a cause of concern, especially in the context.of ather Asian Countries in similar stages of development. This also has its socio-economic manifestations and prevents India from fully leveraging the opportunities of globalization. India is a young country, with over 60 percent of its papulation in the man lng age graup. With aver 220 million people estimated to join the workforce in the next decade, the manufacturing sector will have to create gainful employment opportunities far at least half this number.

Policy Interventions : With a view to accelerating the growth of the manufacturing sector, the manufacturing proposes to create an enabling environment suitable far the sector to flourish in India. The National Manufacturing Policy envisages simplification of business regulations without diluting their intent. Recognizing the importance of Small and Medium Enterprises (SMEs) in the country's economy, the policy contains dedicated interventions for SMEs in addition to other interventions for the manufacturing industry generally. These interventions relate primarily to technology upgradation, adoption of environment-friendly technology, and equity investments. Skill development to make young people employable has been given high priority in the policy, through fiscal incentives for the private sector and government schemes. National investment and Manufacturing Zones (NIMZs) are also provided for on lands which are degraded and uncultivable. NIMZs are envisaged as integrated industrial townships with world-class physical and social infrastructure .

National Investment And Manufacturing Zones:

- The National Manufacturing Policy provides for the development ofNIMZs as integrated industrial townships with state-of-the-art infrastructure and land use on the basis of zoning; lean and energy-efficient technology; necessary social infrastructure; and skill development facilities to provide a productive environment to persons transiting from the primary sector to the secondary and tertiary sectors. Key features of the proposed NIMZs are as follows (Mani, 2011 ; pp. 16 - 19) :

- The State government would be responsible for the selection of suitable land having an area of 5,000 hectares in size. At least 30 percent of the total area proposed under NIMZs will be utilized for location of manufacturing units .
- A Special Purpose Vehicle (SPV) will be constituted to discharge the affairs of the NIMZ.
- The State government would facilitate the provisioning of water, power connectivity, and other infrastructure and utilities linkages .
- The Central government will bear the cost of master planning· and will improve/provide external physical infrastructure linkages to NIMZs including rail, road (national highways), airports, and telecommunications in a time-bound manner.
- The Central government will provide financial support in the form of viability gap funding (VGF) not exceeding 20 percent of the project costs .
- Soft loans from multilateral financial institutions will be explored, and the developers ofNIMZs will be allowed to raise external commercial borrowings (ECBs) for developing internal infrastructure of the NIMZs.

HIGHLIGHTS THE FOLLOWING PRIORITY SECTORS :

1) **For Creating "large Employment:** Textiles and garments, leather and footwear, gems and jewellery, food processing industries, handlooms and handicrafts.
2) **For Deepening Technology Capabilities In Manufacturing:** Machine tools, and **IT** hardware and electronics.
3) **For Providing Strategic Security:** "Telecommunication equipment, aerospace, shipping and defence equipment.
4) **Manufacturing-technology Sectors For Energy Security:** Solar energy, clean coal technologies, and nuclear power generation.
5) **Capital Equipment For India's Infrastructure Growth:** Heavy electrical equipment, and heavy transport, earth moving and mining equipment.
6) **Sectors Where India Has A Competitive Advantage:** Automotive sector, pharmaceuticals and medical equipment.

7) **The MSME Sector:** The base for the manufacturing sector-employment and enterprise generation.

CONCLUSION

The National Manufacturing Policy, which is the first such dedicated policy measure for the manufacturing sector in the country, is expected to change the manufacturing landscape of the Indian economy through increased capital formation; industrial infrastructure of global standards; technology upgradation; creation of innovation and vocational skill development infrastructure; and industry, worker, and environment - friendly regulations.

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