# CUTS' VIEWS ON INDIA'S INDUSTRIAL POLICY IN THE CHANGING GLOBAL SCENARIO

## I. Background

1.1 Following independence, India conceived a comprehensive industrial policy with a thrust on 'commanding heights' of the economy by keeping strategic industries under public ownership. This state-controlled model remained in force from 1950-1980. The external liquidity crisis of 1991 challenged the adopted model with emergence of liberalisation, deregulation and market orientation. Concomitantly, the World Trade Organisation also came into force in 1995 which had several impacts on the industrial policy.

1.2 This necessitated a review of the objectives of the industrial policy to include sustained growth in productivity, gainful employment, optimal utilisation of human resources, international competitiveness and a transformation to a major player in the global arena through a policy focus on deregulation, freedom and flexibility in responding to market changes and ushering in of a regime facilitating growth of Indian industry.

1.3 The Planning Commission rightly points out that it is not dearth of resolve but the persistent inability of India's manufacturing sector to meet targets that necessitates a rethink of the approach, design and implementation strategies. It further pinpoints with accuracy that as compared with countries that have a developed and competitive manufacturing sector, things do not get done in India.

1.4 There are a host of issues that could be suggested on India's industrial policy but it would be worthwhile to concentrate on strategies that have the maximum impact. The analysis of the Planning Commission mentioned at 1.3 above clearly indicates that the industrial policy should be re-designed to 'get things done.' This challenge exists in all other sectors as well and, therefore, solutions to this lacuna can improve outcomes in other sectors as well.

1.5 For this to happen, India finds itself well-equipped demographically where the young population is expected to increase over the next two decades while it will fall in industrialised countries as well as in China. Further, the advanced economies' share in global GDP is projected to shrink from 65 in 2011 to 51 percent in 2025 and China's growth expected to slow down, India has the potential to become the 3rd largest economy in the world in next two decades.

## II. Systematic consensus

2.1 Poor implementation is the single biggest threat and needs to be addressed by aligning stakeholders in the process of development and implementation of industrial policies. Often Germany's success (along with that of Japan and

China) is cited in creating an industrial ecosystem that is the envy of the rest of the world. This is based on a ‘social contract’ between the government, industry, labour unions, banks and research centres.

2.2 Two root causes for poor implementation identified in the strategies of the National Manufacturing Plan are: inadequate consensus amongst stakeholders for policy changes and very poor coordination amongst agencies in execution. The present system to address these causes is appointing more committees to coordinate and more monitoring agencies, which itself have become a problem.

2.3 The Planning Commission has rightly suggested the concept of India Implementation Backbone Network. Creation of professional, democratic and competent institutions for representation, such as employee unions, employer association, civil society organisations has been envisaged to ensure fairness to all stakeholders. Such organisations are the reason for continuing competitive strength of Germany and Japan.

## III. Investment climate

3.1 India ranks a low 132 out of 185 in the overall ‘ease of doing business’ rank in 2013 according to a report of a World Bank Group*. What is worse is that it has slipped over the past year in its ranking in resolving insolvency (-7); getting electricity (-6); starting a business (-4) and protecting investors (-3). In enforcing contracts, it lies at the bottom with a rank of 184. The industrial policy needs to address these issues.

3.2 A relatively low level of value addition and growing imports of capital equipment are therefore evidenced, that in turn, have held back industrial competitiveness.

3.3 There is an urgent need of constant investment flows, both domestic as well as foreign to expand Indian industry. One of the key instruments to catalyse the growth of manufacturing will be the establishment of a National Investment and Manufacturing Zones (NIMZs) as manufacturing hubs and investment, both foreign and domestic will be promoted therein.

3.4 An improved government-industry and industry-academic collaboration would encourage technology transfers through foreign direct investment/joint ventures.

## IV. National Competition Policy

4.1 It is important to acknowledge that a Competition Policy has a significant role to play in promoting competitiveness and growth. The Ministry of Corporate Affairs has scripted such a policy after a long-drawn consultative process with policymakers, state governments, experts, civil society organisations, media and business. The NCP, when implemented, will usher in the second big wave of economic reforms after 1991.

## V. Infrastructure

5.1 Improving ‘hard’ physical infrastructure (such as power, transport, etc.) as well as ‘soft’ infrastructure (such as knowledge creation, skills, industrial relations, etc.) is the need of the hour. Lack of arrangement of adequate and assured supply of raw materials coupled with the high cost of doing business discussed above (3.1) have been acknowledged as major threats in the Approach Paper to the 12th five year plan.

5.2 The demographic dividend (1.5) would be able to contribute to the industrial growth if adequate and skills-specific training systems are in place particularly targeting the minimally educated workforce. Modernising labour regulations, improving skills availability and industrial relations should be prioritised.

5.3 Handling global business would also need development of skills in contract drafting, dispute settlement and follow up and monitoring. Under the topic ‘enforcing contracts,’ the World Bank report referred to above India has been ranked at 184 out of 185.

## VI. Involvement of States

6.1 For an Industrial Policy to deliver efficient and desired results, it is important that various individual states contribute to its success. The need for partnership of the Centre with the States has also been spelt out in the National Manufacturing Policy, 2011 which has suggested creation of a Manufacturing Industry Promotion Board for coordination between the Centre and the States.

6.2 Such a coordinating agency would ensure, for example, a consistent Single Window System, among others, across the States with the aim of simplifying processes for doing business in India.

6.3 This assumes special importance in view of the assessment (1.5) that the fall in GDP of developed countries by 14 percent over the next 10-12 years affords an opportunity for India to take its share.

## VII. South-South trade

7.1 The South has become a major player in the world industry and trade and is promoting global interdependence. The traditional global trade pattern of primary commodity exports from developing countries and manufactured exports from developed countries is changing on account of industrialization of China, India and other countries and serving as ‘new growth poles’ in the global industrial economy. South-South cooperation assumes special importance in the scheme of India’s industrial policy.

## VIII. Regulatory and Administrative reforms

8.1 The regulatory reforms initiatives on the table need to be speeded up. Besides the National Competition Policy, transparency in allocation of natural resources based on the Chawla Committee report which suggests adoption of open, transparent and competitive mechanisms and greater disclosure of approval processes would have far-reaching consequences on the industrial policy. Some other reforms include land acquisition, often cited as a barrier for industrial growth, a sound anti-corruption law, reforms ensuring regulatory coherence, ensuring better inter-ministerial coordination, judicial, financial and efficient public procurement reforms.

8.2 The regulatory and administrative reforms should address the need for policy coherence.

8.3 Little can be achieved unless the bureaucracy shakes out of inaction and becomes proactive which requires a substantial change in mind-set.

## IX. Institutional Framework

9.1 A firmly entrenched and politically accepted institution, namely, the Planning Commission is available to guide industrial growth and exploit the country's lead in various areas. The Planning Commission should be institutionalised as a statutory body.

9.2 Institutions such as the National Productivity Council, the Indian Institute of Public Administration and State Planning Boards and Administrative Training Institutes should be given the importance they deserve in the context of the industrial policy and should work in a network manner.

## X. Conclusion: Green Paper

It is apparent that industrial policy *per se*, however well drafted, would not be a panacea for all that ails the sector unless there is an attendant and holistic enabling environment in place. The Government of India may publish a **green paper** on the topic for more meaningful discussions.

*www.doingbusiness.org/data/exploreeconomies/India accessed on January 30, 2013