



New Industrial Policy, 2018

The Government of India will be introducing a New Industrial Policy that will replace the 27-year-old existing policy and pave the way for the promotion of new technology and reduced regulations.

- The policy aims to create jobs over the next two decades, promote foreign technology transfer and attract \$100 billion FDI annually.

Why the need for a new industrial policy?

- It is time to shift from a policy of continuity to radical and accelerated reforms for greater strategic engagement with the world, i.e., it is time to Reform, Perform and Transform.
- A comprehensive, actionable, outcome-oriented industrial policy will enable Industry to deliver a larger role in the economy; to fulfil its role as the engine of growth and to shoulder the responsibility of adding more value and jobs.

Constraints to Industrial Growth

- **Inadequate infrastructure:** Rapid growth of the economy has put further stress on infrastructure. Lack of quality industrial infrastructure has resulted in high logistics cost and has in turn affected cost competitiveness of Indian goods in global markets.
- **Restrictive labour laws:** The labour laws have been overly protective of the labour force in the formal sector. Though labour protection and security are required, the flipside is that it discourages employers from hiring workers on a regular basis. It has probably also led to entrepreneurs choosing to stay away from labour-intensive sectors.
- **Complicated business environment:** Complex and time taking business processes and clearances have been a disincentive for businesses.
- **Slow technology adoption:** Indian industry has been a slow adopter of new and advanced technologies. Inefficient technologies led to low productivity and higher costs adding to the disadvantage of Indian products in international markets.
- **Low productivity:** Workers in India are overwhelmingly employed in low productivity and low wage activities. Productivity as measured by value added per worker and average wages in manufacturing in India are only one-third of that in China.
- **Challenges for trade:** Manufacturing sector especially exporters are facing challenges of stagnant/shrinking global demand and rising protectionist tendencies around the world. Indian MSME sector is particularly facing tough competition from cheap imports from China and FTA countries.
- **Inadequate expenditure on R&D and Innovation:** Investments in these areas is essential to ensure growth in the industry. Public investments have been constrained and private investment is not forthcoming as these involve long gestation periods and uncertain returns.

Earlier Industrial Policies of India

- The **Industrial Policy Resolution of 1956** set the stage for state-owned and government-run enterprises, as well as establishing a private sector that was regulated by a "system of licences." It did so by dividing India's industries into three categories:
 - Industries in which the government was going to be the primary actor and the exclusive actor, thereby setting a state monopoly in defence production, iron and steel production,

electricity production and distribution, and mining.

- Industries where the state would be the primary actor in creating enterprises, but there was no state monopoly, and private actors could “supplement the effort of the state.”
- Industries that would be open to private enterprise, but had to obtain a license from the government for standard business practices such as opening a new firm, or expanding production.
- In 1991, when India faced a severe economic crisis, the government passed a new Industrial Policy resolution. The **Industrial policy of 1991** set out directions for industrialisation in an economy that began its journey in liberalisation. It dealt with liberalising licensing and measures to encourage foreign investments. A policy for public sector enterprises and the Monopolies and Restrictive Trade Practices Act were introduced.
- The Government decided to take a series of initiatives in key areas: (a) Industrial Licensing (b) Foreign Investment (c) Foreign Technology Agreements (d) Public Sector Policy (e) MRTP Act

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