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Government Policies, Acts And Industrial Reconstruction: A Glimpse

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ABSTRACT:

Policies and acts both are very important mechanisms for economic development. Without implementation of certain policies and acts precise development is impossible. Among the economic sectors manufacturing needs specific rules and regulations. On the eve of independence India experienced a lopsided industrial development. Industrial activities were flourishing mainly in the textile group with a very weak infrastructure due to lack of colonial rulers' initiatives to promote indigenous industries. The first government intervention was made in independent India in 1948 by adoption of the Industrial Policy Resolution. In this article, government policies, acts and industrial reconstruction has been highlighted.

Keywords: Government, Policies, Acts, Industrial, Reconstruction

INTRODUCTION:

The New Economic Policy of the Government of India in 1991 was a magnificent one which has changed the economic scenario of India. "...The year 1991 is an important landmark in the economic history of post-independent India. The country went through a severe economic crisis... The crisis was converted into an opportunity to introduce some fundamental changes in content and approach to economic policy." [1]

POLICIES FROM 1947 TO 1991:

During early 1990s a large number of policies were adopted to restructure the status of economy. The structural reforms included some important industrial areas like licensing, foreign trade and investment along with exchange rate management.

Industrial Control Regime up to Fourth Five Year Plan Period

In different Five Year Plans and Annual Plans few industrial initiatives were taken to improve the industrial scenario. Most important dimensions up to Fourth Five Year Plan are Industrial Policy Resolution of 1948 and 1956 as well as Industrial Policy Statement of 1973.

a) Industrial Policy Resolution, 1948: It was the first resolution after independence for promoting strong industrial ground. Major facets of this resolution are:

- It emphasized on the matter of promoting, assisting and regulating the development of industry in the national interest.
- It declared that public sector would play an effective and dominant role in the future economic development of India.
- It was particularly significant in the establishment and development of heavy and basic industries.
- Major importance was given on six basic industries, namely iron and steel, coal, aircraft manufacture, ship building, mineral oils, manufacture of telephone, telegraph and wireless apparatus.
- The resolution listed certain industries like the manufacture of arms and ammunition, atomic energy and railways as being reserved exclusively for the Central Government.
- In the cases of other major industries also such as coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraph wireless apparatus and mineral oils, the State, including the Central and State Governments and other public authorities, would be responsible for further development except to the extent that it regarded the co-operation of private enterprise necessary for the purpose.
- The rest of the industrial field was to be open to private enterprise, individual as well as cooperative, but the state would intervene whenever the progress of any industry under private enterprise was to be unsatisfactory.

b) Industrial Policy Resolution,1956: After gaining few experiences, another Industrial Policy Resolution was taken with slight variations on 30thApril of 1956. Major thrust areas of this resolution were categorization of industries, encouragement for small scale industries and identification of the role of foreign capital for rapid industrial development, uniform regional development and emphasis on labor welfare approach.

- Categorization of industries was most important feature of this resolution. The industries were categorized into three broad schedules.

- In the previous resolution no major importance was given on small scale industries but in this resolution the importance on small scale and cottage industries was recognized for exploration of employment opportunities and rural development.
- Emphasis was given on uniform regional development through improvement of basic infrastructural facilities mainly in backward areas of the country.
- The role of foreign capital and enterprise was documented to ensure smooth supply of capital goods and technical know-how.
- It was first time when labor welfare approach was taken for betterment of working conditions.

c) Industrial Policy Statement of 1973: The Industrial Policy Statement, 1973 identified high-priority industries and permitted investment from large industrial houses and foreign companies. The approach to the Fifth Five Year Plan made some certain modifications in the industrial policy. Accordingly, the coverage of the core sector was enlarged by an addition of 19 industries (though the basis of selection defied any logical scrutiny). The core sector was split in two parts; the first part consisted of the items reserved for small entrepreneurs and public sectors. In this section production of mass consumption goods was to been courage through cooperatives also. The second part was left open to large industrial houses, foreign concerns and their subsidiaries.

Industrial Policy Reforms from late 1970s to the end of 1980s:

During late 1970s the focus of industrialization has been changed. More emphasis was given on foreign capital, technological up-gradation and modernization, expansion of cottage and small scale industries. In fact, at this time a competitive industrial environment was developed. From late 1970s to end of 1980s two industrial policy statements were recorded in1977 and 1980; and a framework of different measures of New Economic Policy in the Seventh Five Year Plan (1985-90) was adopted for preparation of a strong and versatile industrial environment.

a) Industrial Policy Statement of 1977: In this policy statement special emphasize was given on the promotion of cottage and small scale industries both in rural and urban areas with revamp of Khadi and Village Industries Commission. Continuous expansion of public sector and an interest towards foreign private capital were also in consideration.

b) Industrial Policy Statement of 1980: Creation of competitive domestic market, application of upgraded technologies with modernization and encouragement of foreign investment in high-technology areas were most important features of this statement. The policy raised the investment limit of small scale industries. From this policy faint light of liberalized economy and change in industrial licensing procedures may be observed.

c) Some measures of New Economic Policy in Seventh Five Year Plan (1985-90): In1985, Government of India announced a series of measures for deregulation and liberalization of industries. Many of these measures were coincided with the policy framework of the Seventh Five Year plan (1985-90). These measures are:

i) De-licensing of non-Monopolies and Restrictive Trade Practices (MRTP) Act and non-Foreign Exchange Regulation Act (FERA) companies for 31 industry groups and MRTP /FERA compares in centrally declared backward areas for 72 industry groups.

ii) Broad-banding of certain industries, e.g. machine tools.

iii) The threshold (minimum) asset limit for companies under MRTP Act was raised from Rs. 20 crore to Rs. 100 crore. In consequence, 112 companies were freed from the purview of the MRTP Act leaving 379 under the same act.

iv) Investment limit in small scale industries was drastically revised upward from Rs. 20lakh to Rs. 35 lakh.

Economic Crises of 1991 in India:

The national economy of India faced a crucial crisis situation since independence. The crisis was generated from different sources:

- Steep fall in foreign exchange reserves
- More domestic expenditure than income that raised the fiscal deficit up to eleven percent
- Large public and current account deficits (approximately ten percent and three percent of GDP respectively) and a heavy as well as growing burden of domestic and foreign debt led the economy to its biggest crisis ever [2].
- Low quality domestic production with high costing
- Escalating losses of public sector enterprises destroying the fiscal balance of both at the Central and State level
- The Indian economy faced an external shock in 1979-81 when world oil prices doubled that changed India's current account position from a near balanced one in 1978 to a deficit of two percent of GDP and 30 percent of exports in 1981 [3].
- The fiscal deficit of the Government of India that averaged about 4.5 percent of GDP in second half of 1970s crept up to 8.5 percent of GDP by the end of 1985-86 that led to persistence of both current account deficit and inflationary upsurge at the end of the decade.

- The General Agreement on Tariffs and Trade(GATT) was a multilateral agreement regulating international trade. GATT was signed in 1947 and lasted until 1994.GATT was revised in 1986 after Uruguay round of talks under the Chairmanship of Sir Arthur Dunkel and it was institutionalized through the World Trade Organization (WTO) in 1995. It was a provisional agreement for the expansion of trade of developing counties as a means of furthering their economic development, reduction or elimination of tariffs and other barriers to trade, and access to markets for agricultural and other primary products. It was not a successful step for strong economic development.

At this crisis situation one option was left for India that was to borrow foreign exchange against the gold reserves sent abroad. During this down streaming economic situation the Government of India announced New Economic Policy in 1991 to establish a stable economic condition in the country [4].

EXTERNAL REFORMS AND THEIR IMPACT ON INDUSTRIAL SECTOR:

During 1990s some important initiatives had been taken for external reforms mainly on control of exchange, tariff reforms, import licensing and export subsidies. These reforms have played great role in industrial sector. [5] All these facets control trade activities which have great influence in productivity, import of raw materials and export of industrial products. In1991 when the market economy of India became liberalized, some different strategies were taken to smoothen the trading activities [6].

Exchange Control:

The flow of trade always depends on the rate of exchange of the currency of a country. The rate of exchange determines the import and export prices. A positive reception in the rate of exchange of a currency involves a fall in import prices and a rise in export prices, thus, stimulating imports and dispiriting exports. However, the extent to which the import prices fall and export prices raise is a function of the price-elasticity of demand for imports and exports. In 1991, the economy faced a severe foreign exchange crisis. Major three events were conspicuous: a) deterioration of balance payments, b) decline in export and c) huge surge in imports. After 1991 different strategies were taken to recover trading problems. The value of rupee is fluctuating in terms of US dollar which affects the trading status. During recession period the trading completely faced an economic disaster and its maximum impact was observed on industrial activities.

Tariff Reforms:

Tariff rate is very important factor for sustenance of domestic industry and it acts as a major source of revenue for the central government through high import duty. The liberalization policy reformed the rate of tariff and introduced a rationalized system. In 1992 Tax Reform

Committee had taken some major decisions: a) diminution of general level of tariff, b) more simplification of tariff system and c) abolition of numerous exemptions and concessions.

Major objective of tariff reforms was that more availability and accessibility to the imported capital goods and technological know-how. During the pre-liberalization period, the rate of import tariff was highest in India. The Chelliah Committee (1992) proposed that the import weighted average duty rate should go down from 87 percent in 1989-90 to 45 percent in1995-96 and further to 25 percent by 1998-99. This committee recommended seven different rates of tariff, namely, 5, 10, 15,20,25,30 and 50 percent to be achieved by 1997-98. Due to cut off of the tariff rate the domestic industries experience a tough competitive market and huge goods start to enter in the country with low price. Tariff was main barrier to these companies. A major portion of the Indian market was grabbed by the foreign companies [7].

Import Licensing:

Import licenses are considered to be non-tariff barriers to trade when used as a way to discriminate against another country's goods in order to protect a domestic industry from foreign competition. Each license specifies the volume of imports allowed, and the total volume allowed should not exceed the quota. Licenses can be sold to importing companies at a competitive price, or simply a fee. India's import and export system is governed by the Foreign Trade (Development and Regulation) Act of 1992 and India's Export Import (EXIM)Policy. Exports and imports of all goods are free, except for the items regulated by the EXIM policy or any other law currently in force. Registration with regional licensing authority is a prerequisite for the import and export of goods. In different years the quantity of export and import varies and as a result it makes great impact on trading as well as production. Huge import indicates deficit and insufficiency in production while large quantity export implies an optimistic aspect of production. In India quantity of import is much higher than the quantity of export and moreover, trade balance is negative in nature. [8].

Export Subsidies:

Subsidies are provided indirectly to the exporters through duty and tax concessions, export insurance and guarantee, export promotion and marketing. The export incentive systems were changed in 1991. The role of duty-free import licenses (for exporters) has been enhanced since 1991 by duty free import licenses. To stimulate imports of capital goods, a special scheme known as Export Promotion of Capital Goods (EPCG), was liberalized in April 1992.The concessional import duty was reduced from 25 to 15 percent.

NEW INDUSTRIAL POLICY OF THE GOVERNMENT OF WEST BENGAL IN 1994:

The Government of West Bengal adopted a different industrial policy in 1994 to recover the unstable industrial scenario. West Bengal is composed of both types of the economy-agrarian and industrial. There are so many opportunities for the development of industrial economy because this State has a well-developed transport network through of railways, roadways, river and airports. Not only the existence of transport and communication networks act as catalyst but plenty of raw materials are also available in proximity along with skilled labor.

PERSPECTIVE AND APPROACHES:

Industrialization of any State depends on the policies at the national level. There were so many discriminations at the national level against the State.

- Discrimination in granting industrial licenses
- Stealing of comparative locational advantages in terms of raw materials by implementation of Freight Equalization Policy
- Gloomy condition in credit-deposit ratio of the nationalized commercial banks in this State (West Bengal: 46.5%, National average: 60%).

There was a palpable discrimination in the direct investment of the Government of Indian the State. In 1981, the share of West Bengal in total central investment in the country had been at 8.2 percent and that of the comparable State Maharashtra at 8.6 percent. But in 1991-92 the share of Maharashtra increased to 16.3 percent but that of West Bengal came down to seven percent only.

Agricultural productivity was improved due to implementation of these measures. The strategy of this industrial policy was growth of both rural and urban economy through the establishment of new industrial units and employment generation. [8] Different approaches of this policy were:

- More importance on agro-based industries and horticulture as well as floriculture to establish a linkage between rural agrarian and urban industrial economies
- Considering the potential for generating employment and income all over the State through utilization of local resources and skills
- Set up of micro and small scale enterprises as ancillary and supportive industries for bimodal sustainability of large scale as well as micro and small scale enterprises
- Promotion of modern large scale industries along with strategy of generating employment in downstream
- Rehabilitation of large number of sick units with an approach to protect productive

employment in different large scale industries like engineering, jute and cotton textile industries.

DIFFERENT POLICIES FOR VARIOUS CATEGORIES OF INDUSTRIES:

On the bases of available opportunities and the regional potentiality the Government of West Bengal had identified certain segments of industries for special attention. These are as follows:

- Petrochemical and Downstream Industries: The efforts of the Government had led to the finalization of the project parameters of the Haldia Petro-chemical complex. Planning for "Downstream Growth Zones' has been initiated. In this process, dispersal of activities and the development of downstream industries were prioritized.

- Electronics and Information Technology: The Government encouraged the establishment of Electronics and Information Technology Complexes in large scale as Public, Private and Joint enterprises.

- Iron and Steel, Metallurgical and Engineering: There are so many scopes for development of these types of industries due to easy availability of raw materials, stable power and skilled man-power in this State. Since colonial period this group of industries has been expanded and many downstream units have also been established. Outmost attention has been given on set up of Ferro Alloys producing units.

- Textiles: The State occupied an important position earlier in the textile sector. In 1994, the Government had taken few important decisions to formulate a new strategy for development of hosiery, knit-wear, readymade garments etc. In the silk and silk weaving sector, the State committed to encourage processing and value addition activities as well as more importance was on sericulture.

- Leather and Leather Products: Easy availability of raw materials like hides and skins provides a great opportunity for the growth of this type of industries. The Government took a fruitful step for export of leather products through the establishment of the 'Integrated Leather Complex' near Kolkata. The key objective was for the benefit of export oriented units.

- Agro- based Industries and Aquaculture: The Government emphasized on these types of activities to strengthen the rural as well as urban economy by which decentralization of industries could be possible. The State explored creation of a linkage between growers and processing units that can help optimum utilization of resources.

- Manufacture of Basic Drugs, Chemicals and Pharmaceuticals: To strengthen this segment the State formulated an action plan for more investment in this area.

- Optimal Utilization of Minerals and Development of Mine-based Industries: Scientific utilization of minerals was encouraged and the process of high temperature coal carbonization was also initiated.

- Gems and Jewellery: Manufacturing units of gems and jewellery got importance because sophisticated, skilled labour is available in this State. The Government decided to establish Special Economic Zone — 'Mamkanchan at Bidhan Nagar and industrial parks in many places for their development.

- Promotion of tourism and Tourism Related activities: The presence of versatile nature in this State 1s responsible for promotion of tourism in the different parts of the State.

HIGHLIGHTS OF THE SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985 WITH COMMENTS:

In the wake of sickness in the country's industrial climate prevailing in the eighties, the Government of India set up in 1981, a Committee of Experts under the Chairmanship of Shri T. Tiwari to examine the matter and to recommend suitable remedies. Based on there commendations of the Committee, the Government of India enacted a special legislation namely, the Sick Industrial Companies (Special provisions) Act, 1985 that is commonly known as the SICA.

COVERAGE OF INDUSTRIES UNDER THE ACT:

The Act shall in first instance apply to 'scheduled-industries' other than the industry relating to ship and vessels drawn by power. Any industry engaged in the manufacture or production of any of the articles has been mentioned as under, namely:

1. Metallurgical (Ferrous and Non-ferrous), 2. Fuels, 3. Boilers and steam generating plants,4. Prime movers other than electrical generators, 5. Electrical equipment, 6.Telecommunications, 7. Transportations, 8. Industrial machinery, 9. Machine tools, 10.Agricultural machinery, 11. Earth-moving machinery, 12. Miscellaneous mechanical and engineering industries, 13. Commercial, office and household equipment, 14. Medical and surgical appliances, 15. Industrial instruments, 16. Scientific instruments, 17. Mathematical, surveying and drawing instruments, 18. Fertilizers, 19. Chemicals (Other than fertilizers),20. Photographic raw film and paper, 21. Dye-stuffs, 22. Drugs and pharmaceuticals, 23.Textiles (including those dyed, printed or otherwise processed), 24. Paper and pulp including paper products, 25. Sugar, 26. Fermentation industries, 27. Food processing industries, 28. Vegetable oils and Vanaspathi, 29. Soaps, cosmetic and toilet preparations,30. Rubber goods, 31. Leather, leather goods and pickers, 32. Glue and gelatin, 33. Glass,34. Ceramics, 35, Cement and gypsum products, 36. Timber products, 37. Defense industries, 38. Miscellaneous industries.

Exclusion of shipping industries: The shipping industry has, for the time being, been kept out of the purview of the Act. This may be due to special nature of the industry requiring specialization which differs from other industries engaged in the production.

ACT FOR PUBLIC SECTOR ENTERPRISES:

The SICA, 1985 did not include the Government companies. In view of this the Government companies in the public sector which were sick but could be revived as well as those which were chronically sick and cannot turn around did not fall within the purview of Board for Industrial and Financial Reconstruction (BIFR). With a view to bring the public sector companies within the jurisdiction of BIFR, the Sick Industrial Companies (Special Provisions) Act, 1985 was amended in 1991.

Public Sector Undertakings (PSUs) in India came into being to accelerate the pace of industrialization and also to achieve balanced development, help development of backward areas, remove the regional disparities in industrial development and to bring about equity in distribution of income and to reduce the gap between the urban and non-urban development. The Government has realized that PSUs have failed to a major extent in meeting these objectives. As a sequel to this the Government has been constantly reducing the budgetary support to the PSUs on one hand and trying to off-load the PSUs' equity in the market on the other. The Government's attention was focused especially towards the potentially viable PSU's and the sick PSU's. H.P.S. Pahwa (2011) has identified following problems:

CONSTITUTIONAL STATUS OF BIFR:

BIFR is a quasi-judicial body. The Board itself cannot be called a fully fledged tribunal although it has to discharge adjudicatory functions along with the various administrative functions. It is an independent body which 1s free from any political and executive influences. The matters which fall within the jurisdiction of the Board are related to:

i) industrial sickness, ii) industrial undertakings, iii) institutional finance, iv) rehabilitation of the units / companies, v) revival of the units / companies, vi) amalgamation of the units / companies, vii) winding-up of the company and viii) other allied matters related to the company [9].

NEED OF AN APPELLATE AUTHORITY:

The Appellate Authority for Industrial and Financial Reconstruction (AAIFR) was constituted on 15" April, 1987 for hearing appeals against the orders of the Board only. The primary aim and objective of the AAIFR 1s to redress the grievances of the companies against the orders of the BIFR. It makes a conscious effort that no injustice is done to anybody. The appeal is to be taken up objectively without taking into consideration the order of the BIFR but the merit of the case will be the main criterion for the AAIFR while taking up an appeal against the order of the BIFR. The prime objective of the AAIFR is to see that it is also an instrument for carrying out the objects of the state and also to see that in process no one is affected by the decision of the BIFR adversely or no injustice 1s done whether advertently or inadvertently. The compliance of the Act is also to be noted by the AAIFR while attending to the appeals against the orders of the BIFR.

SECURITIZATION ACT:

The enactment of the Securitization Act can be treated as one of the most radical legislative measures taken up by the Government. It has been implemented for ensuring the dues of secured creditors like banks and financial institutions which are recovered from the defaulting borrowers without any obstruction. For the first time the secured creditors have been empowered to take measures for recovery of their dues without the intervention of the courts or Tribunals.

NEED FOR SARFAESI ACT:

A survey conducted by the Ministry of Finance, Government of India revealed that as in 2001asum of more than Rs. 1,20,000 crore was due to the banks and financial institutions and this was adversely affecting the economy of the country. Therefore the Government of India asked the Narastmham Committee to suggest measure for expediting the recovery of debts due to banks and financial institutions. In its second report the Narastmham Committee noted that the non-performing assets of most of the public sector banks were abnormally high and the existing mechanism for recovery of the same was wholly insufficient. The Committee made various suggestions for bringing about radical changes in the existing adjudicatory mechanism. The And hyaarujina Committee constituted by the Government of India for examining banking sector reforms also considered the need for change in the legal system. Both the above mentioned Committees suggested enactment of new legislation for securitization and empowering the banks and financial institutions to take possession of the securities and to sell them without intervention of the court. The Government accepted the recommendations of both the committees and that led to the implementation of the enactment of SARFAESI Act.

CONCLUSION:

After independence, Government of India had to grapple with different issues for shaping a vibrant industrial policy. The emphasis was given on various sectors among which mentionable are more expansion of public sector; participation of foreign companies in industrial initiatives; assessment of role for large vis-a-vis small scale industries; licensing policy, procedures, rules and regulations to control industrial activities. These initiatives were taken in different policy statements and resolutions.

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