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ANALYSIS**

TOPIC

**NEED FOR A NEW
INDUSTRIAL POLICY IN
INDIA**

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Context

- In recent years, there has been a **resurgence of interest in industrial policy**—a topic that often walks a **tightrope between government intervention and market forces**. India, like many other countries, is grappling with the need for a **fresh approach to industrial policy**—one that can facilitate **sustained economic growth** and transform the nation into a **global manufacturing hub**.

India's Historical Industrial Policies

- **Licence-Permit Raj Era:** Post-Independence, India's industrial policy was characterised by what became infamously known as the 'License-Permit Raj'.
- The **Industries (Development and Regulation) Act of 1951** mandated government approval for every industrial decision, resulting in excessive bureaucracy.
- The **Monopolies and Restrictive Trade Practices (MRTP) Act of 1969** and the **Foreign Exchange Regulation Act (FERA) of 1973** further restricted growth and isolated Indian industries from global competition.
 - ♦ Unfortunately, these policies stifled innovation and hindered progress.
- On the other hand, **laissez-faire approaches** left gaps in addressing market failures and public goods provision, resulted in **inefficiency and stifled innovation**.

Shift Towards Liberalisation

- The 1980s marked a shift towards liberalisation, and the landmark reforms of 1991 dismantled barriers like industrial licensing and reduced import tariffs.
 - ♦ These changes aimed to boost efficiency and encourage private investment.
- However, India's manufacturing sector still faced challenges related to infrastructure, labour laws, and regulatory complexities.

Need for a New Industrial Policy

- **Industrial Policies** are conceptualised as **policies and government interventions** specifically designed to alter the **composition of economic activities** in pursuit of **predetermined public objectives**.
- These objectives typically encompass **enhancing innovation, increasing productivity, and fostering economic growth**.
- However, they may also extend to objectives such as facilitating the **climate transition, improving labour market outcomes, reducing regional disparities and expanding export capacity**.
- A defining feature of industrial policy is its **inherent selectivity**, wherein policy makers exercise allocative discretion — strategically prioritising certain sectors or industries over others to induce structural transformation, albeit with the implicit trade-off that some sectors may be de-prioritised.

Role of Industrial Policy

- **Strategic Interventions:** Industrial policies should be purposeful. Governments can strategically intervene to correct market failures, promote innovation, and guide resource allocation.
- **Balancing Act:** It's about finding the sweet spot—enough regulation to address inefficiencies but not so much that it stifles growth. Economic progress must not be sacrificed.
- **Public Objectives:** Industrial policies can target specific sectors, such as automakers, energy companies, or semiconductor manufacturers. These policies may create new costs or provide incentives for R&D and manufacturing investments.

Key Features of the New Industrial Policy

- **Make in India:** The policy aims to **transform India into a manufacturing hub** by promoting domestic production and attracting foreign investment. It encourages industries to set up manufacturing units within the country.

- **Smart Technologies:** The new policy incorporates modern technologies like the Internet of Things (IoT), artificial intelligence (AI), and robotics. These technologies enhance productivity and competitiveness in manufacturing.
- **Ease of Doing Business:** Simplifying regulatory processes and reducing bureaucratic hurdles are essential components. Streamlining approvals and licences can attract more investment.
- **Sectoral Missions:** Initiatives like the **Semiconductor Mission and Gati Shakti** focus on specific sectors, fostering growth and innovation.

Related Concerns

- **Global Trends and Shift:** Worldwide, there's a rethinking of market-driven approaches, because of **technological disruption, economic stagnation, and geopolitical competition**.
- **China's Rise:** China's rapid industrialisation has prompted both admiration and concern. As it becomes a global manufacturing powerhouse, other countries are reevaluating their own strategies.
- **Technological Changes:** Automation, digitalisation, and Industry 4.0 underscore the need for government involvement. Industrial policies can shape economic activities, enhance innovation, and boost productivity.
- **Weak Manufacturing Base:** Countries worldwide recognise that a robust manufacturing sector is crucial for sustained economic growth. No major economy has achieved poverty reduction or long-term prosperity without a **strong manufacturing base**.
 - ♦ India's recent manufacturing push, including initiatives like **'Make in India'** aligns with global trends.
 - ♦ While the **Production Linked Incentive (PLI) scheme** is often seen as an industrial policy, it **primarily offers financial incentives to boost manufacturing in specific sectors** and **does not fully address** the broader structural challenges needed to transform India into a global manufacturing hub.
- **Declining Manufacturing Employment:** Advanced economies are grappling with this challenge. They seek ways to maintain competitiveness and create jobs.
- **Challenges Faced By Fourth Industrial Revolution:** India's new industrial policy acknowledges the challenges and opportunities posed by the Fourth Industrial Revolution.
 - ♦ It aims to position India as a global leader in emerging technologies such as artificial intelligence, blockchain, and drones.
 - ♦ The policy emphasises ease of doing business, production-linked incentives, and sectoral missions. By leveraging digital technology, India aims to leapfrog into the global supply chain.

Do You Know About Washington Consensus

- It emerged as a **set of economic policy prescriptions** promoted primarily by institutions based in Washington, D.C., including the **International Monetary Fund (IMF), the World Bank**, and the United States Department of the Treasury.
- It was **first introduced in 1989** by economist John Williamson and laid out **Ten Broad Policy recommendations (Decalogue of Consensus Policies)** that constituted this **"standard" reform package** that were meant for **crisis-hit developing countries**, aiming to guide their **economic recovery and growth**.
- It includes:
 - ♦ **Fiscal Policy Discipline:** Keep those fiscal deficits in check relative to your GDP.
 - ♦ **Redirect Public Spending:** Move away from indiscriminate subsidies and focus on essential services like primary education, healthcare, and infrastructure.
 - ♦ **Trade Liberalisation:** Open up your markets, embrace global trade, and let those goods flow.
 - ♦ **Privatisation:** Sell off state-owned enterprises and let private hands manage them.
 - ♦ **Financial Liberalisation:** Free up your financial markets—let capital flow, but keep an eye on stability.
 - ♦ **Monetary Policy:** Tame inflation, stabilise your currency, and keep the money supply in check.

Conclusion and Way Forward

- India's industrial policy is no longer trapped in the maze of bureaucracy. Instead, it seeks a balanced approach—enough regulatory nudge to correct market failures while allowing businesses to thrive.

- As India continues its journey toward economic transformation, a dynamic and forward-looking industrial policy remains crucial.
- A well-crafted industrial policy—one that balances pragmatism with ambition—can propel India forward.

Source: BL



Mains Practice Question

[Q] Given the changing global economic landscape, technological advancements, and India's aspirations to become a global manufacturing powerhouse, critically evaluate the need for a new industrial policy.

