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The Road to the 1991 Industrial Policy Reforms and Beyond: A Personalized Narrative from the Trenches

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For those of us beyond the age of fifty, India has been transformed beyond what we might even have dreamt of before the 1990s. In real terms, the Indian economy is now about five times the size it was in 1991. This, of course, does not match the pace of change that the Chinese economy has recorded, which has grown by a factor of ten over the same period and has acquired the status of a global power. Nonetheless, the image of India, and its own self-image, has changed from one of a poverty-ridden, slow-growing, closed economy to that of a fast-growing, open, dynamic one. Though much of the policy focus has been on the economy, change has permeated almost all aspects of life. India now engages with the world on a different plane. The coincident collapse of the Soviet Union opened up new directions for a foreign policy more consistent with a globalizing world. With the acquisition of nuclear capability in the late 1990s, its approach to defence and security has also undergone great transformation. Though much has been achieved, India is still a low–middle income emerging economy and has miles to go before poverty is truly eliminated. Only then will it be able to hold its head high and attain its rightful place in the comity of nations.

This book chronicles the process of reform in all its different aspects through the eyes of many of the change-makers who have been among the leaders of a resurgent India. The contributors to this volume include some of the key policymakers of the period who designed and implemented the reforms; business leaders who grasped the new opportunities that emerged and built some of India's most successful businesses; and analysts and observers who have been among the most critical and thoughtful of this tribe.

In this introductory chapter, I focus on how it all started: the genesis and implementation of the 1991 industrial policy reforms, which constituted a transformational break with the long-standing 'command-and-control' Indian economic policy stance that had broadly survived since Independence. I have had the privilege of being associated with the overall process in different ways, on a continuous basis from 1990 till 2015, but most closely with the design and implementation of the original comprehensive industrial policy reform of 1991. Though this was only one segment of the comprehensive reforms that have been in process over the whole period since 1991, it was symbolic of the mindset change that has contributed to India's new economic trajectory. It is important to understand how such a change took place; hence, this detailed account of the process of change that really started in the early 1980s.

There have been a number of accounts narrating the process with which the 1991 reforms were initiated. These accounts have essentially given a top-down view of what transpired during that time. What I propose to do is to give a much more workmanlike, technocratic view of how the industrial policy reforms were initiated and then implemented in 1991. In some sense, this is a worm's-eye view from the trenches, where much of the work was done. I leave the larger political questions to those who were nearer the political decision-making process.[1] Since the 1991 economic reforms were a clear break from the direction followed in the previous forty years since Independence, how was it that such reforms could take place? There was no ideological break as exemplified by the ascendance of Margaret Thatcher in the UK and Ronald Reagan in the US, which led to the spread of market fundamentalism in the world in the 1980s; or the market-oriented big-bang lurch in the hitherto socialist countries in Eastern Europe and Russia, which took place after the fall of the Soviet Union in 1990. In India, it was the same Congress party that had presided over the central-planning-dominated, import-substituting Licence Permit Raj earlier, which ushered in the new India in 1991. Moreover, the progenitors of the 1991 reforms were a trio of self-effacing leaders: Prime Minister Narasimha Rao provided the political leadership; Finance Minister Manmohan Singh the intellectual and technocratic heft; and Principal

Secretary Amar Nath Verma was the indispensable bureaucratic enforcer. How did this happen? In this essay, I attempt to provide some answers to this question by giving a detailed genesis of the industrial policy reform that formed the backbone of reforms of 1991. To quote Finance Minister Manmohan Singh's 1991 budget speech (citing Victor Hugo): 'No power on earth can stop an idea whose time has come.'

But let me start with some of the questions that have typically engaged observers of the reforms:

- Who was more responsible for the 1991 reforms: Prime Minister Narasimha Rao or Finance Minister Manmohan Singh?
- Were these reforms home-grown or were they pushed down India's throat by the IMF and the World Bank?
- How was it that such radical reforms could be undertaken at that time despite long-lasting resistance by the Indian political and bureaucratic elites for a very long time?

Until recently, the general view had given Finance Minister Manmohan Singh the pride of place as the key driver of reforms during the 1991–96 period. However, the revisionist view now gives greater prominence to the role of Narasimha Rao in actually getting the 1991 reforms politically accepted and implemented.[2] It was clearly a partnership: Manmohan Singh certainly provided the intellectual leadership to the comprehensive nature of economic reforms carried out over that five-year period, while Narasimha Rao's political sagacity, management skills and courage were essential to the reform project. It was perhaps his very lack of flamboyance and charisma that provided the necessary gravitas that made political acceptance feasible. And he clearly gave full, explicit political backing to Manmohan Singh to do what had to be done. The fact that, since the early 1970s, Manmohan Singh had held every conceivable leadership position in the Ministry of Finance, the Reserve Bank of India (RBI) and the Planning Commission—the highest organs of economic policymaking in the government—provided confidence in the measures that were taken.

This was certainly an unlikely team to carry out the radical changes in economic policies that were implemented. Both of them were known much more as loyal deputies to the Congress leadership from Indira Gandhi's time and neither was particularly known for decisive leadership. Both certainly rose to the occasion and delivered the country from a serious economic crisis and set it on a sustainable high-growth path that has lasted for twenty-five years so far, despite a number of changes in the government over this period. But it was the third member of the team who is seldom given credit for what transpired during that five-year period—Principal Secretary Amar Nath Verma—whose role was crucial to the implementation of economic reforms. Despite no previous familiarity between the two, it was providential that Narasimha Rao appointed him as his principal secretary: he clearly turned out to be the right man for the right job at the right time.

As I relate below, it was Verma who was responsible for the initiation of industrial policy reforms much earlier as industry secretary, so he could usher in the radical reforms in no time once given the opportunity. Perhaps even more important, having gained success in implementing this radical reform, he acquired enough confidence to be the enforcer of the economic reforms regime over the next five years.

Thus, it was this unlikely trio that should be given somewhat equal credit for what transpired in the economic policy realm between 1991 and 1996.

I am not qualified to say much more on the first question, and I leave it to those who were nearer the political decision-making process at the top at that time to give a clear verdict.[3] In his chapter in this volume, T.N. Ninan[4] has provided an insightful political-economy framework, within which the economic reforms have been carried out (and constrained) in India.

Could these reforms have been accomplished without the pressure of the IMF and the World Bank? Possibly not. There is nothing like a crisis to focus the political and bureaucratic mind. But then, there is no shortage of crises that different countries have suffered over the last half-century or so: in fact, more than 100 countries have suffered such crises and have been subjected to IMF programmes. If they had all succeeded in carrying out IMF-imposed programmes, the world would perhaps be a much better place now!

After the excesses of the late 1980s, the dual balance-of-payments and fiscal crises had been building up in India for a couple of years before 1991, but action could not be taken because of the then ongoing political instability in the country. By the time the new government came to power on 21 June 1991 the economic situation was dire—inflation was well into double digits and foreign-exchange reserves had hit rock bottom; something just had to be done. In their contributions to this volume, C. Rangarajan[5] and Montek Singh Ahluwalia provide vivid first-person accounts of the macroeconomic mess that the country found itself in 1991. The IMF and World Bank pressure was undeniable. However, resorting to an IMF programme in 1981–82 had not resulted in a similar well-organized reform programme. The balance-of-payment difficulties arising from the oil price increase in 1989–90 had necessitated the use of a loan of SDR 3.9 billion from the IMF's 'Extended Fund Facility' at that time.

This time it succeeded because, as I document, there was actually an emerging technocratic consensus on the direction of reforms over the previous decade or so. Moreover, the collapse of the Soviet Union in the previous year added to the Reagan–Thatcher ideological winds that had been blowing in the 1980s. The 1980s also saw developing countries launching economic reforms—the so-called wave of structural adjustment programmes. The East Asian miracle was grounded in more liberal industrial and trade regimes with an export focus. Dr Manmohan Singh has also talked of how his work for the South Commission raised his awareness of how East Asia was progressing relative to India. The world was changing around us, and we became aware that we were being left behind.

A great deal of work had been done towards liberalization within different arms of the economic policy establishment during the 1980s. So, in some sense, the country was ready and a good part of the reform programme was indeed home-grown. Montek Ahluwalia has provided an overview of the overall reform programme in his chapter.[6] My general conclusion is that the reforms were much more home-grown than often thought by observers.

With this general background, I now focus on one aspect of the programme, the industrial policy reforms of 1991, as an illustration of the domestic generation of the overall reform process. These reforms were somewhat different in that they were comprehensive in the industry policy realm and were carried out in one shot on 24 July 1991, less than five weeks after the new government came into power. Most of the other reforms had to be done over a period of time: fiscal, trade, monetary and financial sector policy reforms were carried out gradually over the next decade or so.

My Personal Journey to the 1991 Industrial Policy Reforms

I first came back to India in 1980 to work as a 'senior consultant' on urban development in the Planning Commission, after having spent almost sixteen years abroad. It was Professor Raj Krishna, as a member of the Morarji Desai government's Planning Commission, who, in 1979, had invited me to come to the commission in recognition of my work on housing and urban development with the World Bank. At that time, there was very little work in the country on urbanization and its attendant problems; hence, the interest in inviting me to the commission. By late 1980, when I was finally able to extricate myself from the large multiyear research project that I was involved in, 'The City Study' on Bogota and Cali, Colombia, and obtained leave from the World Bank, the government had changed and Professor Raj Krishna had returned to academia. In those days of a relatively depoliticized Planning Commission, my appointment was honoured but no one in the commission really knew why I had arrived when I did and what I was supposed to. Those were the days when people like me, returning to India from abroad, from institutions such as the World Bank and the International Monetary Fund, were viewed with suspicion. In fact, the welcome greeting I received from a senior member of the administration on the first day went something like this: 'Why have you come here? Is there something wrong with you? Or is there some problem in your family? Why would you leave a cushy job in the World Bank to come here? You know that we don't treat people like you well here!'[7]

I survived all this and worked exclusively on housing and urban development for three years before returning to the World Bank after my leave ended. There was really very little interest shown in what I was doing except for Dr Manmohan Singh who was then the member secretary of the Planning Commission. To keep me busy, and perhaps to get me out of his hair, he agreed to appoint four task forces on housing and urban development, with me as the member secretary to each of them.

This turned out to be a very rewarding experience for me, since the members of each of the task forces were senior civil servants engaged in housing and urban development issues, and other independent experts and academics from across the country. Each of the meetings of the task forces was held in different cities of the country, so I was also able to get familiarity with the working of state and city governments, as also some personal knowledge of our main cities. From my perch at the Planning Commission, I was able to get to know most of the senior economists in the country as well. As someone who lived abroad from the age of sixteen to thirty-two, this was indeed a great opportunity. The result was preparation of four comprehensive task-force reports on planning, financing and management of urban development, and on housing and shelter for the urban poor, which attempted to provide a blueprint for what was needed to anticipate the course of urbanization in the country for the following twenty years or so, and the approach that needed to be adopted. These reports did arouse a great deal of interest among the cognoscenti of urban development, but did not succeed in catching the attention of mainstream policymakers, and hence, were essentially buried in the archives of the Planning Commission. The one concrete result was the founding of the National Housing Bank, which was an indirect descendent of one of the recommendations of the Task Force on Financing of Urban Development, chaired by the redoubtable Raja Chelliah.[8]

However, having achieved what I came out to do, I returned to the World Bank at the end of my three-year leave. I also concluded that the time was not ripe for policy work in urban development in India. There were too many moving parts in the system between the central, state and urban local governments and too few policy instruments at the central level to be effective and, in any case, too little interest. Consequently, I decided that I needed to retrain myself and work on more mainstream policy areas, such as industrial and trade policy, and on macroeconomic policy.

After returning to the World Bank in late 1983, I spent a year finishing the earlier work on the City Study, which resulted in two full-fledged monographs on the 'developing metropolis'. It was then time to move on and abandon urban development. I was fortunate to get appointed as a senior country economist in the World Bank's Philippines division in early 1985. This was a momentous time for the Philippines when the transition took place from President Marcos to President Aquino, and the IMF and the World Bank got active in designing macro-stabilization and structural adjustment programmes for the country. Among other activities at the macro level I was designated to lead a large team to design industrial policy reforms. This was fortuitous as it gave me some idea of the policy process involved in designing countrywide macroeconomic strategy, including tax reforms, but particularly focused on industrial policy.

Meanwhile, in India, after Indira Gandhi's assassination, her successor Rajiv Gandhi appointed Dr Manmohan Singh as the deputy chairman of the Planning Commission. Just as I was completing the industrial strategy report for the Philippines in 1986, I got a call from him to return to India to join the Planning Commission as one of the three economic advisers in the newly formed development policy division in the commission. I readily agreed and returned to India at the end of 1986. This was a prescient attempt by the then deputy chairman Dr Manmohan Singh to begin the transformation of the Planning Commission towards a greater and active role in formulating policy. It is ironic that twenty-eight years after that largely failed initiative, the whole Planning Commission has now been transformed into the NITI Aayog, the 'Policy Commission'!

The development policy division never really took off, especially after Dr Manmohan Singh got appointed to the South Commission in Geneva and left in late 1987. But with members such as Abid Hussain, Yoginder Alagh and Raja Chelliah, and advisers such as old-timer Nitin Desai, newly appointed economic advisers, Arvind Virmani and Srinivas Madhur, and Jairam Ramesh[9] for company, that commission was an intellectually absorbing place to be. Abid Hussain,[10] in particular, as one of the early liberalizers, was constantly pushing the policy envelope and consistently on the lookout for new ideas. He encouraged each of us to contribute: Srinivas Madhur assisted him on a committee on capital markets; among other activities, he asked me to assist him as member secretary in a High-Level Committee (HLC) on Restructuring the Textile Industry, and later in a similar capacity in an HLC on Industrial Exports.[11] Both these roles brought me into direct contact with industrial policy as it was at the time, and also brought me face-to-face with the powerful vested interests as they existed in trade unions, incumbent industrialists and in the entrenched bureaucracy. The work for the textile committee, which included a research project that I commissioned Omkar Goswami (one of the contributors to this volume) to do, brought home to me in very vivid form how irrational and dysfunctional our industrial control system was. In the garb of protecting employment, it had essentially succeeded in almost destroying an industry that was once India's pride. To give but one example: a weaving mill was not allowed to replace an ageing loom without specific permission from the textile commissioner, in the interest of protecting employment in handlooms. Thus, little investment took place and much of the textile industry in India was either aged or deceased by the late 1980s. India lost its place in the global textile industry, ceding its place to East and South East Asian countries and lately to Bangladesh.

With this experience whetting my appetite for more active policy work, and the development policy division in the Planning Commission becoming increasingly moribund, I was on the lookout for a more regular mainstream economic adviser appointment. I was also keen to avoid returning to the arid confines of the World Bank in Washington. I was pipped to the post of economic adviser in the Ministry of Commerce by my friend Jayanta Roy,[12] but then came the providential opportunity to become economic adviser in the Ministry of Industry in late 1988. I jumped at it as I felt qualified enough to do this after the experience I had had in charting industrial strategy for the Philippines and my industry-related work in the Planning Commission. Moreover, although the Philippines itself was seen as the sick man of Asia, I had become fascinated by the unfolding East Asian miracle and had taken pains to familiarize myself with the successful macro, industrial and trade policies of the East Asian tigers.

This turned out to be another challenge as the ministry had not had an effective economic adviser for some years, so his role had become restricted to compilation of the weekly wholesale price index and routine analysis of the index of industrial production, and hence far removed from policy issues. I therefore busied myself by doing research on the extant industrial policy and how it had evolved since Independence. India had been known to have among the most complex and comprehensive command-and-control economic systems, which was known pejoratively as the Licence Permit Raj. The result of my labors was a comprehensive paper co-authored with my colleague Vandana Aggarwal, who was then a young senior research officer from the Indian Economic Service.[13] This turned out to be fortuitous as it provided a pretty comprehensive understanding of the origins of the Indian economic control system as it operated at the time, and enabled me to insert myself in the ministry's policymaking process when the opportunity came later. I also learnt a great deal about how the control system really worked by participating in the myriad of committees that an entrepreneur had to negotiate before he would actually invest in a new industrial project.

From my personal viewpoint, this was the beginning of the process of what later culminated in the 1991 industrial policy reforms.

Given the transformational changes that have taken place since then, it is useful to relate what I found: how the system actually operated even as late as the late 1980s, and how desperate the need for reforms were.

A Detour: Contours of the Licence Permit Raj

Prior to the sweeping industrial policy reforms of 1991, the establishment and operation of an industrial enterprise in India required approval from the central government at almost every step.[14] Before making an investment, an entrepreneur had to obtain an 'in principle' approval from the Ministry of Industry. The granting of this approval resulted in the issuance of a 'Letter of Intent' (LoI), which usually included a requirement for a phased manufacturing programme (PMP) aimed at progressive indigenization of the manufacturing process. Armed with this LoI, the entrepreneur could then tie up other requirements for setting up the project. If he needed to import capital goods, he had to obtain a capital goods import licence from the Chief Controller of Imports and Exports (CCI&E), in the Ministry of Commerce. The approval for the import, however, was given by a committee set up in the Ministry of Industry. If there was also a need for a foreign-collaboration agreement, as there usually was, the entrepreneur had to obtain a specific approval for this, an 'FC' approval, from a committee chaired by the finance secretary, but serviced by the Ministry of Industry, which then enabled the allocation of foreign exchange from the RBI. In order to raise funds for the project, if an entrepreneur wanted to go to the capital market, he needed separate approval from the Controller of Capital Issues (CCI) in the Ministry of Finance. For import of raw material and components, separate licences had to be obtained on an annual basis from the CCI&E, with the list each year having been determined by the requirements of the PMP. In each case, an essentiality and indigenous non-availability clearance had to be given by the technical wing of the Ministry of Industry, the Directorate General of Technical Development (DGTD). Once everything was tied up and the unit was about to go into production, the entrepreneur had to go back to the Ministry of Industry for an Industrial Licence, and then approach the government-owned development finance institutions for funding. In this whole approval process, the DGTD was the linchpin as it alone was supposed to possess the technical knowledge needed to process the approvals at this stage.

In their respective chapters in this volume, Baba Kalyani and Narayana Murthy provide a flavour of the command-and-control raj in their evocative personal accounts of what they went through to set up their businesses in the 1980s. The incredible expansion that Bharat Forge and Infosys demonstrated in the 1990s and 2000s, along with international competitiveness, once they were liberated, give some idea of the power of earlier constraints.

As it happens, it is important to understand that each of these controls was inherited from the Second World War when the Defence of India Act was promulgated in 1939. Comprehensive economic controls were put in motion through issuance of Rules 81 and 84 of the Defence of India Rules.[15] Rule 81 had a blanket provision for 'regulating or prohibiting the production, treatment, keeping storage, employment, transport, distribution, disposable, acquisition, use or consumption of articles or things of any description whatsoever'; under Rule 84, the central government was also empowered to prohibit or restrict import or export of all kinds and to control the purchase of foreign exchange and to make restrictions on payments, etc. These powers were later enshrined in a flurry of specific legislative enactments soon after Independence in 1947: the Foreign Exchange Regulation Act (FERA); the Imports and Exports (Controls) Act; the Capital Issues (Continuance of Controls) Act; and a little later in 1951, the Industries (Development and Regulation) Act (IDR Act). These main instruments of economic administration were extensions of the Defence of India powers acquired by the government during the Second World War. They essentially served as the administrative instruments designed to implement the thinking on industrial policy as had been expressed in the Statement of Industrial Policy (1945), the Industrial Policy Resolution (1948), and later, the 1956 Industrial Policy Resolution. This panoply of controls has usually been seen to result from the practice of planning in India. It is important to understand that, first, the economic and industrial control system was actually put in place before planning started in 1952; and second, that the system originated in the war powers of 1939. Given these origins, the system was much more for control and less for development. This was also consistent with the colonial bureaucratic mindset more designed to control rather than foster development: a system that we inherited and have not changed to this date.

As if this old set of controls was not enough, new forms of control were added over the years. There had traditionally been great concern in India with the concentration of economic power. As a result, the Monopolies and Restrictive Trade Practices Act (MRTP) was promulgated in 1969. Under the provisions of this Act, companies with assets over a specified limit[16] had to obtain separate clearance from the MRTP Commission. Moreover, such companies could invest in only a specified set of industries; foreign direct investment (FDI) was also permitted (up to a limit of 40 per cent equity) in the same list of industries.[17] Further, the promotion of small-scale industries had been an objective of Indian planning from the beginning. It was assumed that most consumer goods were produced with low technology, which was labor-using and exhibited constant returns to scale. Hence, manufacturing employment would be promoted by confining the production of such items to small-scale enterprises, thereby disallowing their production in large manufacturing units. The list of such items was expanded significantly during the Morarji Desai-led Janata Party government during 1977–80, when the Left-leaning George Fernandes was the industry minister. By 1990, as many as 836 items of production were reserved for production in small-scale enterprises.[18] Almost all consumer goods items that led the East Asian manufacturing push in the 1960s, 1970s and 1980s, such as clothing of all kinds, shoes, toys, hand tools, dinnerware, cutlery and stationery, were included in this list.

Indian manufacturing was thus rendered uncompetitive in world markets and, ironically, manufacturing employment growth was severely stunted in the bargain. By the mid-1990s, while India had fewer than 10 million organized manufacturing-sector workers, China had more than a hundred million. There was an additional list of industries reserved for exclusive production in the public sector. A prospective investor had to make sure that he did not intend to produce an item included in any of these lists. From 1977, there was also a ban on the location of industries in the twenty to thirty largest cities. In 1988, this ban was extended to include municipal areas of all towns and cities and to specific areas of influence around the twenty-one largest cities. This was among the most irrational policies adopted, bordering on the bizarre; ever since the industrial revolution, industrialization and urbanization have gone hand in hand. By prohibiting the location of industries in urban areas, they were deprived of the productivity gains that arise from agglomeration economies, and towns and cities were deprived of the energy and entrepreneurship that industries bring with them.

Such a system of detailed physical controls can be interpreted as the private-sector arm of the command economy. If the desire is to run a command system in the private sector, the natural inclination of a bureaucracy is to use quantitative and physical controls. The instruments of an indicative fiscal system are too indirect for administrators whose general training is for control. To turn an old saying on its head, you can stop a horse from drinking water but you cannot bring him to it!

In the presence of such a Byzantine system of industrial and trade controls, it is a miracle that Indian industry grew at all over the long period of forty years since 1950. In fact, Indian industrial growth averaged around 6 per cent per annum over the 1950–90 period as a whole, and over 7.5 per cent from 1950 to 1965 and during the 1980s. In the beginning, when the primary aim of planning was to push up the extremely low levels of savings and investment rates, and when brand-new investments into new areas were being planned in the public sector, the command mode of planning proved to be quite successful in helping to achieve a high growth rate in industry and in the economy as a whole. This very system found it difficult to adapt to the changing circumstances and to the series of serious exogenous shocks that the economy was subject to between 1965 and 1975. The failure of Indian planning and economic policy was that it did not adapt to changing circumstances as the country grew, and the industrial economy became more complex, and as the international environment changed from the relatively stable period of the 1950s and early 1960s to an environment that was characterized by rapid change on a regular basis. The higher industrial growth of the 1980s was brought with fiscal excesses financing higher public-sector investments, along with the beginning of hesitant liberalization of the control system.

In retrospect, it is very difficult to understand why such a system persisted over this long period, particularly when the rest of the world had moved on, especially in East and South East Asia with spectacular results. Remarkably, and what is ironic is that, even by the early 1960s, it was well understood that this system was ill-suited to directing investments. Accordingly, in the 1960s, the government appointed one committee after another to examine the industrial licensing system (see Government of India 1964a, 1964b, 1965, 1967, 1969a, 1969b).[19] According to H.K. Paranjape, a member of the Industrial Licensing Policy Inquiry Committee of 1969, the committee had firmly concluded that the system had failed practically on all counts, whether it was regional dispersal, import substitution, preventing concentration of economic power, enforcement of licensing conditions, or even implementation of planning priorities.[20]

Even with such damning indictments, it is instructive to examine what such committees actually recommended. They would typically conclude that, despite its defects, the industrial licensing system was useful and should continue. Although they recognized that since preparing detailed perspective plans for all industries was neither necessary nor practicable, and industrial licensing should be confined to industries in the basic, strategic and critical sectors, no significant change took place in the industrial regulation system until the 1980s.[21] Instead, what the Industrial Licensing Policy Inquiry Committee of 1969, for example, actually recommended were:

- There should be a list of reservations for small-scale industry production.
- Bans on further capacity creation should be utilized to prevent the creation of 'undesirable industries', particularly the production of non-essential luxury goods.

This committee recommended a host of other measures that would require more, not less, detailed quantitative direction. The findings of these committees illustrate the kind of thinking that dominated the Indian industrial regulatory environment. There was always a persistent reluctance to learn from past experience and to change course. The disjunction between plan aspirations and the war-derived control instruments persisted. It would be easy to ascribe this impermeability of the system to vested interests, rent-seeking, etc. Bureaucrats gain due to the vast discretionary powers such a system grants them, in addition to the opportunities for corruption. Politicians gain in a similar manner. Bigger industrialists gain because of the advantages of preferential access they enjoy. Such a system always favours incumbents while discriminating against those who are not. Entry is made expensive in more ways than one. Perhaps it was the structure of the Indian administrative service that explains this persistence. The top levels of Indian ministries are staffed by generalists who have spent most of their time as administrative officers in Indian states. Apart from exceptions, they are usually talented generalists who have little domain knowledge. Their prior training is really on exercising control in an administrative fashion. So, what comes naturally to them is control rather than informed development. It was therefore not surprising that this 'command-and-control' system existed for such a long time. What is more difficult to comprehend is the continued allegiance of the majority of informed academic opinion to this system.

It was only in the 1980s that deregulation gained some support; ironically, there was more support for deregulation in the bureaucracy than in academe. It is difficult to find scholarly articles from Indian economists arguing for industrial deregulation during that period. The majority of academic opinion still believed that this control system supported the ideals of planned development.

The complexity of the system itself challenged the comprehension of most observers despite a comprehensive description of the system in all these government reports. Interestingly, there was also little academic pressure for deregulation, apart from the seminal work of Jagdish Bhagwati and Padma Desai,[22] which came as early as 1970. A further exhaustive update was provided by the 1979 Dagli Committee report commissioned under the Morarji Desai government.[23] Again, there was no action taken; perhaps the interlinkages within the control system were such that it was difficult to implement incremental change and the framework and mechanisms available in the government militated against systematic change. There were also considerable risks attached, which made it difficult for anyone to take responsibility for radical changes. As a result, the fig leaf of planned development through licensing and controls remained for a long time. That the emperor had no clothes was too painful for the system to acknowledge.

The Impetus for Industrial Policy Reforms

Such was the situation at the beginning of the 1980s when Indira Gandhi returned to power as prime minister. Stagnation in industrial growth since the mid-1960s had started becoming obvious,[24] so political perception of the need to act gathered some force. She laid the groundwork for tentative economic policy reforms towards deregulation by appointing a succession of committees headed by noted technocrat civil servants, L.K. Jha,[25] M. Narasimham,[26] Abid Hussain[27] and Arjun Sengupta,[28] on overall deregulation, trade reform and public enterprise reform respectively. The reports of these committees were in the direction of some liberalization, however tentative. Similarly, the Bureau of Industrial Costs and Prices, which had hitherto acted as the czar of administered industrial prices ranging from steel to cement, copper to pharmaceuticals, and all manner of other industrial intermediate inputs, began to change track in the 1980s under the successive leadership of another set of modernizing civil servant technocrats: Lovraj Kumar, Yoginder Alagh and Vijay Kelkar.[29] A succession of reports on steel, cement, aluminium, etc. ensued, each of which recommended some price deregulation. The success of East Asian economies had perhaps made the government more receptive to these recommendations Thus, as Rajiv Gandhi came into power after his mother's assassination in late 1984, the environment for trade and industrial deregulation became more positive, but still resulted in rather half-hearted measures, which Arvind Panagariya has characterized as 'liberalization by stealth'.[30] Nonetheless, positive results were seen with industrial growth recovering from its previous stagnation.

Back to My Story

It was towards the end of this period that I came to the Ministry of Industry as economic adviser in December 1988, full of enthusiasm to work on further industrial policy reforms. By this time, however, the reformist steam in Rajiv Gandhi's government was beginning to peter out in the aftermath of the political maelstrom caused by the Bofors scandal unfolding over the next few months. So, there really was not much to do in the ministry and, as mentioned earlier, I busied myself with research and sponsorship of research projects. But then came T.N. Seshan, as Cabinet secretary, who started a flurry of activity in the government as a whole. He, of course, later achieved great fame as a very effective chief election commissioner from 1990 to 1996. Seshan was seen by many as a control freak who saw himself as a no-nonsense leader who needed to know everything going on in the government. The post of Cabinet secretary was perhaps too inactive for him, so he asked all the major departments to prepare detailed presentations on what they did and where they were proposing to go. The bureaucracy, of course, saw this as a time-wasting, fruitless exercise that the joint and additional secretaries were loath to do. Such thankless tasks were generally placed in the laps of economic advisers so that the others could continue with their licence-permit activities!

Thus, I was confronted with the task of preparing the ministry's presentation before Seshan. The question I had to answer, in principle, was fairly simple: what is India's industrial policy? It turned out that this was actually quite a complex task in light of the description I have already given of the many different components of what comprised industrial policy at the time. The complexity had actually increased as a consequence of the piecemeal reforms of the previous few years that I have alluded to, and which the ministry was very proud of. The very process of compiling and collating all the existing industrial licensing policies, and lists of industries subject to different provisions, involved interaction with all parts of the ministry so that an accurate rendition could be given to the fearsome Seshan. This, ironically, was perhaps the first step that then led to the industrial policy reforms of 1991. Personally, it gave me an opportunity to document and become familiar with all aspects of industrial licensing and control policies, and also to establish relationships with all parts of the ministry. The resulting presentation was perhaps the first time that the many different licensing and control mechanisms that existed could be seen in one place, giving rise to the possibility of designing a package of comprehensive industrial policy reforms. However, although the exercise was thus very instructive, not much came of it as the Rajiv Gandhi ministry started unravelling towards the end of 1989—new elections were called for, the Congress party lost power, as did Seshan in the process.

When the V.P. Singh government came to power in early December 1989, the new non-Congress government wanted to differentiate itself from the Congress history of Licence Permit Raj. Moreover, during his time as finance minister in Rajiv Gandhi's government, Singh had acquired a reputation for being a liberal reformer in the context of those days. And so, when V.P. Singh became the prime minister, there was a renewed expectation that economic reforms would be undertaken towards liberalization of the economy.

Ajit Singh was appointed the new industry minister. Though relatively unknown at the time, he was the son of former prime minister Charan Singh, the most prominent farmer leader of India. He was also a breath of fresh air. While today, his reputation has been sullied for repeatedly and opportunistically changing parties and coalitions, he was then seen as a smart 'techie'. His IIT education followed with further specialization in computer science at the Illinois Institute of Technology, and experience working within the American corporate culture of IBM, had made him impatient and instinctively critical of the industrial Licence Permit Raj of the time. With the new government came a reshuffle of secretaries. Amar Nath Verma, the commerce secretary at the time, succeeded Otima Bordia as industry secretary. Verma had spent a number of years in the UN ESCAP (Economic and Social Commission for Asia and the Pacific) secretariat in Bangkok. Therefore, he had also become familiar with the East Asian economic miracle. He was very open and reform-minded, as evidenced by his inclination to empower his imported economic advisers wherever he was! In the commerce ministry, he had made extensive use of my friend Jayanta Roy. I was therefore able to establish a great rapport with him as soon as he came.

Whenever a new minister comes, the civil servants make a presentation describing the ministry and its work content. With Verma being new, this new thankless task again fell on me. So, what did I do? In no time, I dug out the presentation prepared earlier for Seshan, impressing Verma no end! He could brief Ajit Singh very quickly and in detail.

Living up to his image of a technocratic modern man, Ajit Singh's reaction was one of shock, something to the effect of 'What is all this nonsense? How can we function this way?' And we were tasked to prepare an agenda for industrial reforms.

The lightning rod was the annual World Economic Forum summit at Davos, held in late January 1990, where developing countries eager to attract global attention and capital displayed their wares to the assembled collectivity of 'Davos Man'. V.P. Singh was keen to promote a reformist image of India and nominated Ajit Singh to lead the Indian contingent. This in itself was significant since any action attracting foreign direct investment to India would be a departure from previous policy.

Once again, a presentation had to be prepared, this time for the minister, including a pitch for liberalization of FDI. I had already had the opportunity to see the whole picture on control mechanisms that were in place, including industrial licensing, phased manufacturing programmes, monopolies regulation, control of capital issues, export–import controls and foreign-technology control. Having got the opportunity, I now went further in proposing changes that could possibly pass muster with the powers that be and which could be put forward in an elite international setting. With only a few weeks to go before the end January Davos meeting, those were busy weeks, with frequent meetings between the minister, the secretary and me as he prepared for the trip. We were encouraged by Ajit Singh's positive receptivity. Since none of us had known each other earlier, it also meant an intense effort to understand each other's views in the short period. This was then the second stage of preparation of what later became the industrial policy reforms of 1991.

Unfortunately, however, this effort also came to naught since, at the last minute, Prime Minister V.P. Singh ditched Ajit Singh and inexplicably nominated Arif Mohammad Khan, the minister for civil aviation and energy, to go in his stead. The powerful official delegation—comprising

A.N. Verma, Montek Singh Ahluwalia, secretary in the prime minister's office (PMO), and Nitin Desai, the finance ministry's chief economic adviser, and with me carrying the bags, had already left Delhi, and it was only when we arrived in Zürich that we learnt of the ministerial switch. Since Arif had no background on industrial or economic policy issues and there had been no time for a briefing, there could be no productive presentation in the meeting. So, the trip ended up being a fiasco. For me personally, however, it was an extremely enriching experience being exposed to the global business and policymaking elite in a concentrated course of four days, and also becoming familiar with the titans of Indian business who comprised the Indian business delegation. This came to be extremely helpful over the next two decades during my policymaking period in India, as they became personal friends and very useful interlocutors for understanding business viewpoints over the following couple of decades. In fact, some of them are contributors to this volume: Tarun Das, in his chapter on government–industry interaction, has talked about the value of consistent government–industry relations fostered in an environment of mutual trust.

This experience, however, did not deter Ajit Singh from continuing the work to prepare a new industrial reform blueprint. Under the continued leadership of A.N. Verma, then ensued a very intense period of due diligence and research as we prepared a detailed comprehensive framework for what could constitute a very significant departure for Indian industrial policy after a period of almost four decades. This was indeed an opportunity of a lifetime, which I felt fortunate to get. A.N. Verma was a demanding taskmaster who wanted to cover all possibilities before putting forward any proposals to the government. We did a mountain of quantitative research on all the different aspects of industrial policy so that we could answer most questions that may be expected to arise. Much of this work fell on my office—the Office of the Economic Adviser. The enthusiasm and hard work of my small staff of half a dozen Indian economic service officials had to be seen to be believed.

For his part, Ajit Singh kept a busy schedule of public meetings and speeches to gauge the reaction of the country's businessmen on possible radical approaches to industrial policy. He also held meetings with economists and businessmen to solicit suggestions. The task of ministerial speeches usually falls on the lot of the economic adviser, since this is also seen to be a thankless one. With Minister Ajit Singh's encouragement, I used this opportunity to keep pushing the envelope for possible industrial policy reforms as a sounding board for testing public reactions to propose changes. Given the long record of controls, I found that expectations from the private sector in terms of reforms were indeed very modest. They simply could not imagine the possibility of implementation of wide-ranging policy reforms.

Much of the difficulty that arose in pushing reform was really within the government. The Cabinet consisted of a motley group of leaders from different parties, with different backgrounds and ideologies, assembled in an unwieldy coalition. Finance Minister Madhu Dandavate was an old socialist and his senior staff consisted of Bimal Jalan[31] as finance secretary and Nitin Desai as the chief economic adviser.[32] As we sought the prime minister's in-principle approval to go ahead with a liberalizing industrial policy, he asked Ajit Singh to forge a consensus with the other main economic ministries, particularly the finance ministry. This we failed to do, since Dandavate, backed by his advisers, was not in favor, and nor were some other members in the government, including some in the Planning Commission. In a stormy meeting of the two ministers, backed up by their respective senior officials, we did not succeed in reaching a consensus on the kind of reforms that we wanted.

We barrelled on regardless, and all our hard work eventually resulted in something concrete, though much diluted: the New Industrial Policy of 1990. This document was a relatively comprehensive policy statement, clumsily titled 'Policy measures for the Promotion of Small-Scale and Agro-based Industries and Changes in Procedures for Industrial Approvals'. Reflecting the many different views in the government, the new directions in the policy were effectively camouflaged under the rubric of even greater protection being given to small industries! This long-forgotten policy[33] had made it past the Cabinet and was formally announced by Ajit Singh in Parliament on 31 May 1990, and the document was laid on the table of the House. This can be seen as the third stage in the preparation of the 1991 industrial policy reforms.

The policy addressed issues ranging from the promotion of small and medium enterprises, removal of 'unnecessary bureaucratic shackles' and easing raw-material import restrictions to delicensing, deregulation and welcoming foreign investment. Among other ideas, it proposed that various licensing requirements be withdrawn for certain sets of priority industries. Similarly, it proposed a major departure in liberalizing FDI, once again in a specified list of industries. The major drawback of the document was a lack of clarity over these lists. The policy announcement had just mentioned, in principle, that there would be these lists of industries to be notified later; but these lists were yet to be prepared.

There was then a comical bureaucratic interlude, which effectively buried the policy even before it got into political difficulties. As part of the modernization effort embedded in the policy announcement, I had attempted to make these industry lists in the new globally accepted harmonized system of international trade classification (ITC-HS), a departure from the antiquated classification system used in the original 1951 IDR Act. As we labored to make these lists in the new classification, we prepared documents to be taken to the committee of secretaries, then headed by Seshan's successor, V.C. Pande, for approval. As luck would have it, the first entry in the ITC-HS classification[34] happens to be: 0101 Live Horses, Asses, Mules and Hinnies-Horses.

As the document was opened in the meeting, Pande's eyes fell on this unfortunate line and he exploded, exclaiming (in Hindi), 'Have we assembled here to discuss horses, asses and mules?' The mirth that then ensued among the assembled group of dour-faced secretaries of the economic ministries sitting in the rarefied confines of the Cabinet room can only be imagined. The curmudgeonly V.C. Pande led the charge, and I was unceremoniously hustled out of the room to my great and lasting embarrassment. Thus ended the life of the stillborn 1990 Industrial Policy Statement! This was fortunate since the eventual 1991 policy statement was far more comprehensive and radical.

In any case, a number of political forces, starting with Chandra Shekhar's rebellion (ostensibly) over the industrial policy, Deputy Prime Minister and Agriculture Minister Devi Lal's farmer agitation, and the BJP's Rath Yatra as a counter to the Mandal Commission, combined to bring down the V.P. Singh government on 10 November 1990. Consequently, Chandra Shekhar finally realized his dream to become the prime minister, with outside support from the Congress.

As one of the leading faces behind the opposition to industrial reforms, Prime Minister Chandra Shekhar chose to retain the industry portfolio: a first in Indian government history. As industry minister, he then visited Udyog Bhawan, the headquarters of the industry ministry, where he addressed the assembled senior bureaucrats in that ministry. He told us, 'I have just come to see you. I have become industry minister because I had disagreed with what you had done. However, I want you to know that I want you to keep giving me your best, impartial advice of whatever you think is correct. Don't worry about what I said in the past few months!'

As the new government came in, there was another reshuffle of secretaries and A.N. Verma got shifted to the Planning Commission as the member secretary and was succeeded by his close friend and colleague Suresh Mathur, who was another liberal-minded bureaucrat. After Chandra Shekhar's visit, I asked whether we should take his words at face value and continue working on the New Industrial Policy. He said, 'Why not? You keep trucking on. And we will see what happens.' So we continued the process of refinement of the policy document as it existed then.

The economic crisis was already gathering force by then. Save for firefighting on the economic and political fronts, the government was paralysed. There was certainly no question of initiating any significant policy reforms in any sphere. Within a few months, by mid-March 1991, Chandra Shekhar's rump administration collapsed without even facing a parliamentary test, but it continued as a caretaker government while elections were called. In view of the political confusion and instability experienced over the previous year and a half, there was general expectation that the Rajiv Gandhi-led Congress party would come back to power. It was rumoured that his secretariat, which included Jairam Ramesh, was working on radical economic policy reforms to be set in motion once he came to power. His tragic assassination, however, extinguished all those expectations.

The 1991 Industrial Policy Reforms

In the event, a new Congress government did get elected and P.V. Narasimha Rao became the prime minister. He retained many of the faces of the outgoing regime. Perhaps of most consequence was the decision to select Amar Nath Verma as his principal secretary. This made Verma the prime minister's personal enforcer and the most powerful bureaucrat, along with Cabinet Secretary Naresh Chandra.

Narasimha Rao, like Chandra Shekhar, chose to retain the industry portfolio. Whether it was out of personal inclination or because he simply followed the portfolio allocation of his predecessor is a contested fact. Perhaps the new principal secretary, Verma, influenced Rao. In any case, that one of the authors of the 1990 New Industrial Policy landed in the PMO and that the prime minister chose to retain the industry portfolio turned out to be a fortunate coincidence. Along with Verma, he also chose to induct Jairam Ramesh in the PMO. This was perhaps a signal that he wanted to pursue a liberalization agenda and implement what had been in Rajiv Gandhi's mind. Furthermore, in view of the grave economic crisis, he appointed Dr Manmohan Singh as the finance minister.

Within a few days of his appointment, Manmohan Singh called a meeting of all the secretaries of the major economic ministries and the chief economic adviser. I was the only non-secretary present, as the new industry secretary, Suresh Mathur, took me along with him. Manmohan Singh outlined the full economic reform programme that was to be followed over the next five years—and more importantly, over the next six weeks. The latter included immediate action to be taken on industry policy. He said quite clearly that he had the full mandate of the prime minister to do whatever had to be done to solve the crisis and to put India on a self-sustained medium- and long-term growth path. Since he knew that some of the mandarins present were not on board with the kind of liberalizing economic reforms envisaged, he added, 'If any of you have any difficulty with the proposed reform programme, we can find other things for you to do!' This was perhaps the most firm and forceful that I ever saw Dr Manmohan Singh.

Manmohan Singh knew that a framework on industrial policy reforms had already been prepared. With the looming economic crisis, Prime Minister Chandra Shekhar had appointed him as his economic adviser (with Cabinet rank) when he returned from Geneva in late 1990. It was during that period, as he was grappling with all the measures that needed to be taken to ward off the dual fiscal and balance-of-payments crises, that Dr Singh called me to say that he had heard that we had prepared an industrial policy document and, if so, could he see it? So, I trotted off to the Cabinet secretariat with alacrity the next day, where his office was (those were the days of hard copy and no Internet). Therefore, he knew that all the groundwork had already been done and he could be confident that they could deliver a credible document within a period of a few weeks.

After the 'horses, asses and mules' fiasco of June 1990, and as the emerging instability in the political situation gathered force, with Suresh Mathur's concurrence, we had continued our work in the industry ministry economic adviser's office to refine the 1990 policy document. We had filled in the blanks with respect to the missing lists and had also purged it of the camouflaging parts related to protection of small-scale industry. This was the refurbished draft document that I handed over to Dr Singh in December 1990.

With the finance minister having given a clear direction, a steering committee for economic reforms was created in the PMO under Principal Secretary A.N. Verma. The committee, consisting of the secretaries of the major economic ministries, particularly from finance and commerce, along with us from the industry ministry, met almost every day over the next six weeks. The draft policy document served as the basis for discussion and was refined almost daily. It was fortuitous of course that A.N. Verma knew every detail of the document and could hence shepherd the discussion very forcefully and efficiently. The main difficulties ironically came from the finance ministry officials, S.P. Shukla[35] as the finance secretary and Deepak Nayyar[36] as the chief economic adviser, who were holdovers from Chandra Shekhar's government. They had honest and principled differences in views and did not hesitate to express them.[37] The discussions were helped greatly by the strong support of Jairam Ramesh and Montek Ahluwalia,[38] then commerce secretary, in the meetings.

As a consequence of these daily meetings, we in the industry ministry had to redraft the policy every night, burning the midnight oil. In those days, few people in the government knew how to use a word processor efficiently. My personal assistant, Ajay Gupta, was one of them, and he used to churn out draft copies, in *WordStar,* on stencils, to be duplicated and distributed to other ministries every night!

As the document emerged from the steering committee discussions, it then had to go to a newly formed Cabinet committee, which also met quite frequently in order to meet the six-week deadline.

It was decided that the industrial policy would be presented along with the budget on 24 July 1991. A Cabinet note was prepared by my office in the industry ministry, which had to be approved by the new Cabinet on 19 July. Meanwhile, a note prepared for the prime minister by Jairam Ramesh on the radical new policy measures was leaked and published in the *Hindustan Times* on 12 July. The cat was out of the bag, and the reaction in the Cabinet meeting was predictable.

However innocuous those reforms might seem today, they were revolutionary in 1991. Years of ideological baggage was being shed. Years of rhetoric was effectively being disowned. It seemed to some that Jawaharlal Nehru and Indira Gandhi were being repudiated.

The note did not pass the Cabinet. Instead, a group of ministers was set up to look into the policy proposals again, and it met on the evening of 20 July to discuss an amended, toned-down Cabinet note. But it did little to assuage the other side. Much of the opposition came from the old-guard, Gandhi family loyalists such as M.L. Fotedar[39] and Arjun Singh.[40] From the liberalization of industrial location policies and the relaxation of MRTP controls to 'anti-PSU' measures and openness to FDI, every proposal under the policy came under attack. The meeting broke up without a final decision. To assuage Arjun Singh, I was sent to lobby him along with my colleague from the industry ministry, Additional Secretary N.R. Krishnan, who had worked very closely with Arjun Singh as his special assistant when he was the chief minister of Madhya Pradesh. But this was to no avail. We failed miserably!

It was felt that the 'political packaging' of the reforms was not right. Instead of tinkering with the policy proposals again, a long preamble to the Cabinet note was then prepared. Authored by the deft hands of wordsmiths Jairam Ramesh and Commerce Minister P. Chidambaram,[41] in consultation with Manmohan Singh, it stressed continuity and change in the proposed policy reforms. It stressed that all interests were being taken care of, and mentioned the successive contributions of Prime Ministers Jawaharlal Nehru, Indira Gandhi and Rajiv Gandhi to industrial policy over the years, and how this document was in the same proud tradition. Not a word was changed in the substantive part of the document that had failed to pass muster earlier![42]

The new preamble did the trick and the Cabinet gave its seal of approval to the industrial reforms on 23 July. The Congress Working Committee (CWC) followed suit later that afternoon.

Having learnt the 'Horses, asses and mules' lesson, this time, I had retreated to the original antiquated classification of industries in the different lists embodied in the policy document. These lists were notified later in the ITC HS classification. The only discussion that took place late at night with Naresh Chandra,[43] the Cabinet secretary, was whether the industry lists appended to the policy statement should be called 'Annexes' or 'Annexures'. I insisted that the world 'annexure' did not exist in any dictionary that I had come across, even though it was in common usage in Indian official documents. So, various dictionaries were consulted in the middle of the night and I had my little victory: among other innovations in this path-breaking New Industrial Policy was the use of the term 'Annex' rather than 'Annexure'.

The next day, at 12.50 p.m. on 24 July 1991, quite unceremoniously, a reluctant P.J. Kurien,[44] the minister of state for industry, stood up in the Lok Sabha and tabled the New Industrial Policy, ushering in a new India, along with Finance Minister Manmohan Singh's path-breaking Budget speech later in the day at 5 p.m.[45]

The New Industrial Policy consisted of announcements related to:

A. **Industrial Licensing** was abolished for all industries, except for a specified list (Annex II in the document), irrespective of levels of investment. Some industries were to continue to be subject to compulsory licensing, ostensibly 'for reasons related to security and strategic concerns, social reasons, problems related to safety and overriding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption'. All other existing lists were to be abolished. Phased manufacturing programmes were no longer to be imposed and the previous stringent location restrictions were also abolished, except in cities with population of over 1 million.[46]

B. **Foreign Investment:** 'In order to invite foreign investment in high-priority industries, requiring large investments and advanced technology', it was decided to provide approval for direct foreign investment up to 51 per cent foreign equity in a specified list of industries, which hitherto had been known as the 'Appendix I Industries' and were areas in which FERA and MRTP companies had already been allowed to invest on a discretionary basis. This list was appended as Annex III. It was hoped that this framework would make it attractive for companies abroad to invest in India. It was expected that 'foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. This is particularly necessary in the changing global scenario of industrial and economic cooperation marked by mobility of capital. The government will therefore welcome foreign investment, which is in the interest of the country's industrial development.' This was a major departure from previous thinking and practice, where foreign investment was at best tolerated, a far cry from now being welcomed.

C. **Foreign Technology Agreements:** Contrary to the previous practice of the need to obtain specific approvals for every technology agreement, there would now be automatic approvals for foreign technology agreements within specified parameters. Indian companies would be free to negotiate the terms of technology transfer with their foreign counterparts, according to their own commercial judgements.

D. **Public-sector Policy:** Eighteen industries were reserved earlier for investment by public-sector enterprises only. This list was pruned down to a list of only eight industries (listed as Annex I of the document), which essentially covered only minerals, atomic energy, defence equipment and railways. The government therefore moved away from the 'commanding heights' philosophy of the 1950s. The policy also paved the way for disinvestment in public-sector companies through the public floatation of shares. It was also stated that private investment would be allowed in these areas selectively, and that this list would be kept under review. An intention was also expressed that action would be taken on sick public-sector enterprises so that they could be closed down after due process. To enable this, a social security mechanism would be created to protect the interests of workers likely to be affected by such rehabilitation packages. This is one aspect of the reform that remains to be implemented even today.[47]

E. **MRTP Act:** In another major departure from extant policy, the concept of 'MRTP' companies was abolished.[48] The MRTP Act was to be amended significantly so that it would only deal with competition issues and restrictive trade practices.

Follow-up to the Industrial Policy Statement

What we hoped was that this policy would let loose animal spirits in the country as never before: delicensing would set in motion new domestic competition; foreign investors would find new opportunities for investment; entrepreneurs' enhanced access to foreign technology would upgrade Indian industrial technology; and large companies would become free to become larger and also invest in areas where they could not earlier, including those that were earlier restricted to public-sector companies only. In short, we hoped that the Indian private sector would finally be unleashed and that India could now exhibit the kind of energy that had been demonstrated by the rest of Asia.

This initial policy action was, of course, confined to industrial policy: much more was needed to be done with respect to the comprehensive reforms outlined by Finance Minister Manmohan Singh. Having seen the effectiveness of centralizing the process in the PMO, A.N. Verma made his steering committee for economic reforms a permanent feature for the following five years of the Narasimha Rao government. The committee met over lunch every Thursday over the next five years, except when A.N. Verma was not in town. Almost all aspects of reforms were first discussed in this relatively informal committee and bureaucratic resistance was hammered in no uncertain terms whenever it came up. The permanent membership of the committee consisted of the secretaries of the main economic ministries: finance, commerce and industry. I had the privilege of attending almost all these meetings on the coat-tails of the successive six industry secretaries over this period. Depending on the subject matter of each meeting, the secretaries of the relevant ministries would be invited in turn. For example, the huge transformation of telecom policy was initiated in this committee, despite the great reluctance of the then telecom ministry, with their officials being dragged, kicking and screaming.

In addition, Verma set up the Foreign Investment Promotion Board (FIPB), which was announced in the Industrial Policy Statement,[49] in the

PMO but was serviced by the industry ministry. He chaired this personally every Saturday over the following five years. The expectation was that it was this opening of foreign direct investment that might receive the most opposition, so it was important to give a signal that it was regarded with the utmost importance. The original intention was that there would be active solicitation of large multinationals to invest in India. But it was quickly realized that this was not really feasible in the Indian system and the FIPB soon became and remained an approval mechanism rather than a promotional one. It was shifted out later from the PMO to the finance ministry.[50]

As a follow-up to the New Industrial Policy, the Directorate General of Technical Development (DGTD) was soon abolished. Although little commented on, this must rank as one of the most important and consequential administrative decisions to be taken at the time. Abolition of any agency is almost unheard of in the Indian government firmament, let alone one that was as powerful as the DGTD. It was the linchpin of the whole industrial 'command-and-control' system as described earlier. It had a large staff, which was rendered non-functional in one stroke. Since civil servants in India cannot just be fired, the staff was reassigned to different ministries, but the organization itself lost its existence. Had there been an industry minister, it is highly unlikely that this could have been done. In comparison, for example, even a strong, committed and powerful liberalizer such as Commerce Minister Chidambaram was not able to abolish and disband the Chief Controller of Imports and Exports: this agency was merely renamed as the Directorate General of Foreign Trade (DGFT), with the same staff continuing in this new avatar, and it continues to exist even today! With the abolition of the DGTD, there was no administrative apparatus left for any kind of administrative industrial controls to creep back into the system, and they mercifully didn't. As it happened, with the continuation of DGFT, trade reforms took much longer to implement—almost a decade. In any case, with the departure of Commerce Minister Chidambaram in July 1992, there was no driving force to continue with the reforms in a more purposive manner. It is possible that the IMF programme helped in continuing the process despite changes in personnel.

What Was Not Done

Although the 1991 Industrial Policy Statement was comprehensive and self-contained, there were three important elements of industrial policy that were not addressed, presumably due to perceived political difficulties—promotion of industrial restructuring, labor reforms and the abolition of small-scale industry reservations. If these areas had also been addressed in the first flush of enthusiasm for reforms during the 1991–96 period, it is likely that the response of Indian industry could have been such that an East Asian-type high growth might have been possible.

The first issue had actually been thought about a great deal and found mention in the Industrial Policy Statement, related particularly to the public sector, which already had a number of so-called 'sick' enterprises.[51] Such enterprises were to be referred to the Board for Industrial and Financial Reconstruction, and a social-security mechanism was to be created to protect the interests of workers likely to be affected.

Given the comprehensive economic reforms that were being envisaged, it was natural to expect that there would be need for considerable industrial restructuring in light of the new competition and technology modernization that would occur. With the existing labor legislation that effectively prohibited labor flexibility in the industrial sector, and inoperative bankruptcy procedures, the likelihood of smooth industrial restructuring was deemed to be low. Moreover, if the new policies would result in widespread labor distress, the political consequences could be fatal for the success of the new policies. It was also understood that there would be little chance of initiating labor legislation reforms without first putting in place adequate social-security schemes for any displaced labor.

It is worth recalling that, in recognition of this issue, Finance Minister Manmohan Singh announced the establishment of the National Renewal Fund (NRF) in his 1991–92 Budget speech:

> This Fund will provide a social safety net which will protect the workers from the adverse consequences of technical transformation . . . The Fund will not merely provide ameliorative measures for the workers affected in the course of technical change but, more importantly, provide retraining to them, so that they are in a position to remain active productive partners in the process of modernization.

As a follow-up to the industrial policy and the finance minister's Budget speech, we immediately got to work in the industry ministry. We held widespread consultations with other ministries, including the labor ministry, trade unions and industry bodies. As with other reform activities, this also went through Verma's steering committee for economic reforms. The NRF was set up by a government resolution on 3 February 1992 to protect the interest of workers affected by industrial restructuring. The Cabinet Committee on Economic Affairs approved the guidelines on 28 October 1992 for operationalizing the NRF. The guidelines were notified on 21 December 1992.[52]

The objectives of the fund were:

- To provide assistance to cover the costs of retraining and redeployment of employees arising as a result of modernization, technology upgradation and industrial restructuring.
- To provide funds for compensation of employees affected by restructuring or closure of industrial units, both in the public and private sectors.
- To provide funds for employment-generation schemes both in the organized and unorganized sectors in order to provide a social-safety net for labor needs arising from the consequences of industrial restructuring.

During the ten months or so that it took to set up the NRF in 1992, the government also succeeded in negotiating an adjustment loan from the World Bank for the purpose.

After all the work had been done, and the World Bank loan disbursed, for reasons that remain unclear to me to this date, the finance ministry resiled from its own initiative and commitment.

Had the NRF been successfully put in operation, I do believe that the course of Indian industrialization could well have been different over the twenty-five years that followed. In particular, it is possible that progress could also have been made on labor reforms if the NRF had indeed succeeded in convincing organized labor that industrial restructuring was in their favor, and that they actually had appropriate social protection. A concomitant reform that was also necessary was the overhauling of bankruptcy laws in order to enable the kind of industrial restructuring that was envisaged. Work was also done on this issue under the able guidance of the then additional secretary Jagmohan Bajaj[53] in the Planning Commission, but there was no follow-up. In the event, a new bankruptcy law has only just been passed in 2016. The NRF, of course, remained stillborn.

Coming to labor reforms, this was not really part of any thinking at the time. It was perhaps too hot a political potato to handle, and it remains so to this date. The consequence is there for all to see. Industrial growth over the last twenty-five years has mostly been jobless. Prior to reforms, there was obviously a great deal of redundant labor in many large enterprises. With new technology, modernization, new machinery and new practices, a great deal of productivity enhancement took place in industry, so there was little need for new labor. Given the extant labor laws and inoperative bankruptcy machinery, investors were loath to invest in labor-using industry. Unlike China and other East Asian countries, there has been almost no investment in export-related labor-using industries.

The third issue relates to the reservation of small-scale industries. There was little thinking or discussion on this issue leading up to the 1991 industrial policy reforms. In fact, a perusal of the 1990 policy document would suggest that, if anything, the prevailing views were much more in the opposite direction. As noted earlier, almost all labor-using consumer industries were reserved for the small-scale sector, the very industries where East Asian industrial exporters made their mark in the world. For example, Chinese clothing exports increased from $30 billion to $190 billion between 1990 and 2014, while Indian exports grew from $5 billion to just $18 billion over the same period; similarly, Chinese footwear exports increased from $9 billion to $56 billion over the same period while Indian exports went up from $0.6 billion to only $3 billion. To be competitive even in these industries requires the use of technology, organization, and marketing skills that can really only be done in large firms. In the clothing industry, for example, almost 60 per cent of employment in China is in firms that employ more than 500 workers; in India, in contrast, the legacy of small-scale reservations and continuing restrictive labor legislation is such that more than 90 per cent of employment in this industry is in firms with less than fifty workers.[54] These examples give some idea of the industry and employment losses that India has suffered because of these misguided policies ostensibly aimed at preserving employment.

This brings me to my last significant failure as an advocate of industrial policy reforms. By the mid-1990s, concern with small-scale industry reservation had begun to grow. I had by then moved to head the National Council of Applied Economic Research (NCAER). Around the same time, the Ministry for Agro and Small-Scale Industries asked Abid Hussain to head the Expert Committee on Small-Scale Enterprises. He once again asked me to become the member secretary of this committee, recalling our earlier association in the textile and industrial export committees of the late 1980s. I readily agreed and formed a small secretariat in the NCAER. As it happened, we had already begun research on this issue in the Council.[55] As always, under the sagacious leadership of Abid Hussain, we were able to reconcile the many irreconcilable, different vested interests in the sector and emerge with a unanimous report that recommended the immediate de-reservation of small-scale industries.[56] We did, of course, recommend a host of consequent promotional measures to help in the transition. I had assumed that, given the credibility of Abid Hussain, the report would gain serious traction and policy action would follow. Alas, this was not to be, and no action was taken until 2002 when about fifty items were de-reserved.[57] This was also the period (1996–99) of unstable governments, between Prime Ministers Narasimha Rao and Atal Bihari Vajpayee. De-reservations did continue in dribs and drabs, and it was not until 2015 that the remaining twenty items were finally de-reserved and the list abolished. The irony is that starting around 2001, as a consequence of WTO commitments, almost all these items could be imported freely: large enterprises abroad could export them freely to India, but similar large enterprises in India were not allowed to manufacture them! Yet, successive governments during the period did not regard this issue as a priority, nor was there any pressure at any time from organized Indian industry.

This sorry tale provides some idea of the political strength shown in carrying out the comprehensive policy reforms in 1991.

To conclude, the interconnected failure in carrying out reforms related to industrial restructuring, labor legislation and small-scale industry reservations have cost us dearly. Consequently, Indian industry has missed many buses over the last couple of decades and much remains to be done to complete the process started in 1991. One can only hope that, given the consolidation of political power that has now occurred, such reforms can be carried forward and that we can look forward to a new resurgence of industry. With Chinese wages rising consistently, the current time is a great new opportunity for attracting industries that would definitely move out of China over the next decade or so. The current beneficiaries are countries such as Vietnam, Cambodia and the Philippines. There is no reason why we cannot take advantage of this turn of events.

Other Reforms: A Continuous Process in the 1990s and 2000s

The industrial policy reforms, as important as they were, were only the first segment of the comprehensive economic policy process that was set in motion in 1991. The first priority was macroeconomic stabilization, which needed simultaneous action on the fiscal front and on the external sector. Finance Minister Manmohan Singh's 1991 landmark budget immediately set in motion policy actions that brought macroeconomic stability within one year.

One of the distinguishing features of macroeconomic policymaking during this period was the very cooperative relationship between the ministry of finance and the RBI resulting in coordinated monetary, banking, fiscal and exchange-rate policies right through the 1990s. In his chapter in this volume, C. Rangarajan provides a first-hand account of the sequence of reforms that were carried out in this realm. The gradual, calibrated sequence of financial-sector liberalization contributed to the maintenance of financial stability throughout the 1990s and 2000s despite the occurrence of the East Asian and North Atlantic financial crises. As documented by Jaimini Bhagwati in his chapter, the sequenced financial-sector reforms enabled the institutional reforms and infrastructure building that were needed to develop the capital market. This process continues to this day and still has some way to go.

Infrastructure investment is crucial for accelerating the growth process. Although this had been a preoccupation of the planning process, the quality and extent of existing infrastructure was much below par in the 1990s. Power shortages were endemic; there were no four-lane highways; port capacity was inadequate; airports and airlines were underdeveloped; and the railways were severely stretched in terms of both capacity and quality of service. The 1994 World Development Report of the World Bank happened to focus on infrastructure development. I took this opportunity to suggest to Finance Minister Manmohan Singh to commission a similar report for India. He responded by saying, 'This is your idea, so you do it!' A distinguished expert committee was assembled, and we took two years to produce a report that proposed commercialization of infrastructure, along with much greater participation of the private sector, which had hitherto not been permitted.[58] In their chapter, N.K. Singh[59] and Jessica Seddon have skilfully provided a relatively comprehensive account of the many twists and turns that have characterized developments in the infrastructure sector ever since. Despite much progress made since the mid-1990s, Vinayak Chatterjee gives a first-hand view of the difficulties that the private sector faces in contributing significantly to infrastructure investment in the country. This is another area that remains a work in progress despite considerable development in some sectors such as telecommunications, civil aviation and roads. Significant problems continue to dog expansion and modernization of the railways. Although there has been relative success in capacity expansion of power generation, particularly through private-sector investment, much remains to be done in terms of pricing and organizational reform in the sector.

Among the consequential changes that have slowly begun to take shape as a consequence of loosening of central government economic regulations and control, and retreat of planning, are the evolving contours of Centre–state relations. Y.V. Reddy[60] provides an overview of how Centre–state fiscal federalism is gradually shifting fiscal powers to the states. Before coming to the central government in the early 1990s, he had spent most of his administrative career in Andhra Pradesh. As exemplified by his recommendations as chairman of the Fourteenth Finance Commission, he is a clear proponent of getting greater fiscal autonomy to the states. The abolition of the Planning Commission is another move in this direction. The contribution by Laveesh Bhandari shows how states have begun to respond to the new degrees of freedom that they are now experiencing in the economic sphere. These are new uncharted waters of fiscal federalism in India, and we can expect constant adjustments in the years to come.

The opening up of the Indian economy continued over more than a decade through a continuous process of trade reform, encompassing gradual elimination of trade restrictions on the one hand, and reduction in tariffs on the other. In his chapter, Harsha Vardhana Singh documents the progression of trade reforms in a comprehensive chapter that provides new data on the openness of the economy that has now been achieved. It shows that the current effective tariffs are now not very different from some of the most open economies in the world, even though some foreign perceptions of the economy being relatively closed are yet to change. In his contribution, as one of the most perceptive international economic commentators, Martin Wolf[61] has used his long-standing engagement with the Indian economy to provide an external view of how perception of the Indian economy's stance on trade has changed over the reform period. With India's newly found status as a market-oriented, open economy, he feels that India will increasingly need to take a leadership role in the evolving global economy.

As the Indian economy became more open and started becoming significant on the global scene, India's foreign, strategic and security policies also had to adopt corresponding new approaches and directions. Ambassadors Shyam Saran[62] and Shivshankar Menon[63] provide first-hand accounts of this progressive change in their insightful essays in this volume. The initiation of economic reforms in 1991 being accompanied by the geopolitical shift that occurred by the fall of the Soviet Union necessitated a fundamental rethinking on the part of the Indian foreign-policy establishment. In his contribution, Sanjaya Baru[64] shows how the increasing Indian defence expenditure contributed to the fiscal excesses of the 1990s. He also goes on to document how fiscal prudence that followed the 1991 reforms has served to possibly handicap the Indian defence forces to reduce expenditures.

The Way Ahead

The chapters in this volume document the considerable success of the New Industrial Policy that has indeed lasted over the last twenty-five years. In the initial phase, there was exuberant response from domestic industry in the first five to six years. The ex ante real-exchange rate devaluation had helped in providing some continued effective protection as new competition was introduced, trade restrictions were relaxed and tariffs were reduced. There was some slowdown in the late 1990s as the real-exchange rate caught up and some companies perished because of increasing international and domestic competition. Industrial growth then accelerated again in the 2000s, along with creditable growth in manufactured exports, as meticulously documented by Harsha Vardhana Singh in this volume. After the impact of the North Atlantic financial crisis, there has been somewhat of a pause in industrial growth and exports once again. Global trade has, of course, slowed down considerably, but even within this context, Indian export growth has been too low in recent years, leading to a loss in the Indian share in global trade. Moreover, there is no sign of any pickup in the labor-using industrial activity leading to exports in those areas. With the emergence of balance-sheet stress in many of the largest Indian companies, with a corresponding reflection in banks' balance sheets, industrial investment is exhibiting a new low, along with that in corporate profitability.

The time is therefore ripe for new thinking and action on industrial policy to inject new enthusiasm for industrial investment in the country. This has to be done with the realization that the global economic environment is going to be less hospitable than it was in the first decade of this century.

The great churning that occurred in the late 1990s among the leading companies in the country is documented in a very evocative fashion by Omkar Goswami and Gita Piramal in their respective chapters. As exemplified by Mukesh Ambani, Baba Kalyani and R. Gopalakrishnan, those who grabbed the new opportunities flourished beyond their wildest dreams. Others fell by the wayside. Narayana Murthy, Sunil Mittal, Deepak Parekh and Vinayak Chatterjee illustrate the new entrepreneurship that recognized the new opportunities provided by economic reforms over the years. The largest service-sector companies now eclipse the old industrial titans. While the flourishing of the new service sector is to be welcomed, there needs to be new introspection on how the manufacturing sector can become the leading growth generator for India again. We need to see the emergence of new Indian manufacturing entrepreneurs who can successfully leverage the burgeoning market provided by Rama Bijapurkar's new Indian consumer to attain competitiveness in international consumer markets.

Naushad Forbes provides new data on the lack of technology investment in Indian industry relative to East Asian countries, and suggests some solutions. What becomes clear is that Indian industry has simply not evinced enough interest in technology investment and that there has been excessive dependence on foreign technology, without adequate, corresponding domestic technology generation for efficient absorption and substitution. The one area where there has indeed been greater attention to technology investment, both through technology imports as well as domestic technology generation, has been pharmaceuticals. Kiran Mazumdar Shaw has provided us a very personalized account of her own journey in biotechnology: what stands out is the consistent positive support that she received from the government at different levels, particularly, the department of biotechnology. This is unusual in that this technical department provided both promotional and technological support, which helped this nascent industry; being a new department mostly staffed with technical personnel, it does not seem to have exhibited a control mindset. This is a pointer to the kind of promotion that can be done to help Indian industry.

Average industrial growth in the twenty-five years since 1991 has been around 7 per cent, higher than any previous twenty-five-year period, but not spectacular in comparison with the fast-growing East Asian countries. If India is to ascend to middle-income levels from its current low- and middle-income status, economic growth has to be consistently above 8 per cent a year over the next couple of decades. This cannot be achieved without a consistent growth in industry of around 10 per cent, along with similar growth in services. Even with such a growth, Indian per capita income will only reach the current Chinese level in about twenty years from now. So, there is no time to be lost.

This will not happen in a business-as-usual context. There has to be a renewed, focused effort towards the revival of Indian industrial growth in a manner similar to what was done almost a quarter century ago. Such an effort would include specific policy reforms in the areas of:

- labor legislation;
- social protection of labor in the context of industrial restructuring, of the national renewal fund variety;
- specific encouragement through fiscal and other measures for large investments in areas that were hitherto reserved for small-scale industries;
- promotion of investment in industrial technology, including both research and development; and
- trade promotion measures, in particular trade facilitation.

The high industrial growth achieved by East Asian countries shows that there was continuous and active organized communication and cooperation between the government and the private sector. Even though it was not as well organized, such communication and cooperation did exist during the 1990s years of reforms, as portrayed by Tarun Das in his chapter. Devising a successful strategy for implementing the kind of reforms necessary for accelerating industrial growth once again, and on a sustainable basis for the future, requires a similar process of continuous interaction between the government and the private sector. It is essential to build such mutual trust for the strategy to be successful. Export growth did respond to the successive opening of the external sector, as shown by Harsha Vardhana Singh in his comprehensive chapter on trade, but once again, perhaps, not as much as had been hoped for. In particular, there has been no exuberant investment in large labor-using export-oriented industry as exhibited by all the successful East Asians.

A review of East Asian countries that have particularly succeeded in achieving consistently high economic growth shows that consistent attention to human development was a key component of the strategy for rapid economic development. One lasting puzzle of the democratic political economy in India is the consistent neglect of health, education and agriculture through both the earlier import-substituting closed economy period and the period subsequent to the economic reforms. As narrated by Ashok Gulati and Shweta Saini in this volume, policy towards agriculture has seldom received the kind of attention it deserves, except during the green revolution period of the late 1960s and 1970s. The reduction in industrial protection did benefit the agriculture sector but little else has been done. Given that more than half of the Indian labor force is still in agriculture, the case for a major reorientation of policy to agriculture is compelling. Similarly, as shown by Nachiket Mor, Diva Dhar and Sandhya Venkateswaran, despite some attempts at reform in the 2000s, and noted improvements in health outcomes over the twenty-five years since the reforms, public-health services in India remain very poor. The improvements that have taken place are basically due to the tremendous expansion of the private sector. The poor have little recourse to affordable health services. The success stories from other developing countries do suggest a more active role for the state in the financing and delivery of health services; the governance challenges facing the health sector are yet to be resolved.

A similar situation exists in the education sector, which has seen explosive expansion over the twenty-five years post-reforms, including in higher education as documented by Devesh Kapur in his contribution to this volume. Once again, most successful countries exhibit the provision of free or low-cost education services up to the secondary level. Just as in the case of health, the Indian state has failed in serving its young through a quality education system. That people recognize the value of education is demonstrated by the resources that families are willing to spend, usually beyond their means, at every level. The private sector has responded to the increasing demand at every level but quality remains poor in both the private and public sectors at all levels of education. Once again, policy solutions are yet to be found in this intractable sector.

As these examples suggest, the way forward for accelerated growth in India is being held back by major governance deficits in all areas connected with the delivery of public goods and services. Sarwar Lateef's thoughtful contribution on governance provides much food for thought on the way forward. The economic reform process so far has concentrated on empowering the private sector to do what it can do best. But it has done little to empower the public sector, broadly defined, to do what it has to do to serve the public interest. In fact, it is probably the case that the private sector is now being constrained because of inadequate progress in the delivery of public services, particularly those related to human development. The demographic dividend can become a demographic burden if the quality of India's burgeoning youth population continues to be handicapped by poor health and poor education.

I hope that this volume will help in focusing our minds to launch a new, focused strategy to accelerate India's industrial development that will sustain itself over the next quarter century.

Annex 1

GOVERNMENT OF INDIA
MINISTRY OF INDUSTRY
STATEMENT ON INDUSTRIAL POLICY
New Delhi, 24 July 1991

POLICY OBJECTIVES

1. Pandit Jawaharlal Nehru laid the foundations of modern India. His vision and determination have left a lasting impression on every facet of national endeavour since Independence. It is due to his initiative that

India now has a strong and diversified industrial base and is a major industrial nation of the world. The goals and objectives set out for the nation by Pandit Nehru on the eve of Independence, namely, the rapid agricultural and industrial development of our country, rapid expansion of opportunities for gainful employment, progressive reduction of social and economic disparities, removal of poverty and attainment of self-reliance remain as valid today as at the time Pandit Nehru first set them out before the nation. Any industrial policy must contribute to the realisation of these goals and objectives at an accelerated pace. The present statement of industrial policy is inspired by these very concerns, and represents a renewed initiative towards consolidating the gains of national reconstruction at this crucial stage.

2. In 1948, immediately after Independence, the Government introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasised the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980.
3. The Industrial Policy Resolution of 1948 was followed by the Industrial Policy Resolution of 1956, which had as its objective the acceleration of the rate of economic growth and the speeding up of industrialisation as a means of achieving a socialist pattern of society. In 1956, capital was scarce and the base of entrepreneurship not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development.
4. The Industrial Policy statement of 1973, inter alia, identified high-priority industries where investment from large industrial houses and foreign companies would be permitted.
5. The Industrial Policy Statement of 1977 laid emphasis on decentralisation and on the role of small-scale, tiny and cottage industries.
6. The Industrial Policy Statement of 1980 focused attention on the need for promoting competition in the domestic market, technological upgradation and modernisation. The policy laid the foundation for an increasingly competitive export base and for encouraging foreign investment in high-technology areas. This found expression in the Sixth Five-Year Plan which bore the distinct stamp of Smt. Indira Gandhi. It

was Smt. Indira Gandhi who emphasised the need for productivity to be the central concern in all economic and production activities.

7. These policies created a climate for rapid industrial growth in the country. Thus, on the eve of the Seventh Five-Year Plan, a broad-based infrastructure had been built up. Basic industries had been established. A high degree of self-reliance in a large number of items—raw materials, intermediates, finished goods—had been achieved. New growth centres of industrial activity had emerged, as had a new generation of entrepreneurs. A large number of engineers, technicians and skilled workers had also been trained.
8. The Seventh Plan recognized the need to consolidate on these strengths and to take initiatives to prepare Indian industry to respond effectively to the emerging challenges. A number of policy and procedural changes were introduced in 1985 and 1986 under the leadership of Shri Rajiv Gandhi aimed at increasing productivity, reducing costs and improving quality. The accent was on opening the domestic market to increased competition and readying our industry to stand on its own in the face of international competition. The public sector was freed from a number of constraints and given a larger measure of autonomy. The technological and managerial modernisation of industry was pursued as the key instrument for increasing productivity and improving our competitiveness in the world. The net result of all these changes was that Indian industry grew by an impressive average annual growth rate of 8.5% in the Seventh Plan period.
9. The Government is pledged to launching a reinvigorated struggle for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialist, prosperous and forward-looking India. Such a society can be built if India grows as part of the world economy and not in isolation.
10. While the Government will continue to follow the policy of self-reliance, there would be greater emphasis placed on building up our ability to pay for imports through our own foreign exchange earnings. Government is also committed to development and utilisation of indigenous capabilities in technology and manufacturing as well as its upgradation to world standards.
11. Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system,

development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialisation to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments.

12. The Government will provide enhanced support to the small-scale sector so that it flourishes in an environment of economic efficiency and continuous technological upgradation.
13. Foreign investment and technology collaboration will be welcomed to obtain higher technology, to increase exports and to expand the production base.
14. The Government will endeavour to abolish the monopoly of any sector or any individual enterprise in any field of manufacture, except on strategic or military considerations, and open all manufacturing activity to competition.
15. The Government will ensure that the public sector plays its rightful role in the evolving socio-economic scenario of the country. The Government will ensure that the public sector is run on business lines as envisaged in the Industrial Policy Resolution of 1956 and would continue to innovate and lead in strategic areas of national importance. In the 1950s and 1960s, the principal instrument for controlling the commanding heights of the economy was investment in the capital of key industries. Today, the State has other instruments of intervention, particularly fiscal and monetary instruments. The State also commands the bulk of the nation's savings. Banks and financial institutions are under State control. Where State intervention is necessary, these instruments will prove more effective and decisive.
16. The Government will fully protect the interests of labor, enhance their welfare and equip them in all respects to deal with the inevitability of technological change. The Government believes that no small section of society can corner the gains of growth, leaving workers to bear its pains. Labour will be made an equal partner in progress and prosperity. Workers' participation in management will be promoted. Workers' cooperatives will be encouraged to participate in packages designed to turn around sick companies. Intensive training, skill development and upgradation programmes will be launched.
17. Government will continue to visualise new horizons. The major objectives of the New Industrial Policy package will be to build on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and

attain international competitiveness. The pursuit of these objectives will be tempered by the need to preserve the environment and ensure the efficient use of available resources. All sectors of industry whether small, medium or large, belonging to the public, private or cooperative sectors will be encouraged to grow and improve on their past performance.

18. The Government's policy will be 'continuity with change'.
19. In pursuit of the above objectives, the Government has decided to take a series of initiatives in respect of the policies relating to the following areas:

    a) Industrial Licensing.
    b) Foreign Investment.
    c) Foreign Technology Agreements.
    d) Public Sector Policy.
    e) MRTP Act.