

# Standing Committee Report Summary

## Industrial Policy in the Changing Global Scenario

- The Standing Committee on Commerce (Chair: Mr. Bhupender Yadav) submitted a report on ‘Industrial Policy in the Changing Global Scenario’ on December 2, 2016. Key observations and recommendations of the Committee include:
  - **Industrial reforms:** The Committee noted that reforms must be taken up regarding a number of aspects in the industrial sector. To ensure transparency in the allocation of natural resources, an open, competitive mechanism must be undertaken, along with greater disclosure of the approval process for industries. Other reforms suggested include industry-friendly land acquisition frameworks by state governments, anti-corruption reforms, better inter-ministerial coordination, and judicial, financial and efficient public procurement reforms. The National Manufacturing Policy must be reoriented to promote smart manufacturing, which includes zero emission, zero-incident, and zero-defect manufacturing.
  - **Research and Development:** The manufacturing sector is mainly composed of low value addition industries, and thus cannot create technological capabilities. India’s manufacturing value addition is \$226 billion, compared to China’s \$1,923 billion and USA’s \$1,856 billion. In addition, India spends 0.8% of its GDP on research and development, compared to 1.2% by China and 2.6% by USA. The Committee recommended that the government needs to provide an enabling environment for private enterprises to invest in technology creation in order to achieve high value addition. Special focus must be placed on machine tools, heavy electrical equipment, transport and mining equipment.
  - **Foreign direct investment in small enterprises:** The Committee noted that the recent measures taken to promote foreign direct investment (FDI) mainly benefit large industries. It recommended that the government may take measures to promote FDI in the small and medium enterprises sector. In addition, for FDI in any industry, the ownership may be allowed to be transferred to the Indian partner after a specified period (15-20 years), including the transfer of technology. Foreign investors may be encouraged to source their inputs other than technology, from within India.
- **Multiplicity of laws:** Presently, 35 laws govern the industrial sector. This impedes the setting up of new industries and also affects their survival. The Committee recommended that a single window system should be established to give all statutory clearances including environment, forest and pollution clearances, particularly for small and medium industries. The labour laws and social security laws should also be reviewed.
- **Inclusion of MSME sector:** The Micro, Small and Medium Enterprises (MSME) sector accounts for about 45% of the manufacturing output of the country, and about 40% of the total exports. However, the sector faces issues such as lack of access to credit, technology, infrastructure, and skill development, among others. The Committee recommended that access to finance for the MSME sector should be supplemented by alternative sources such as private equity, venture capital and angel funds. MSMEs may also be provided assistance under the Micro Units Development and Refinance Agency scheme. In addition, the definition of MSMEs should be revised, and a dynamic definition may be developed which is indexed to inflation and international best practices.
- **Future opportunities:** By 2020, the median age in India is projected to be 28.1 years, as compared to China (38.1 years), Japan (48.2 years) and USA (37.3 years). Presently, a majority of the working population in the country is in the unorganised sector, making it difficult to gauge the skill requirement in the sector. The Committee recommended that planned skill development would help India make productive use of its young population. The low cost of production in India will also help in giving it a competitive global advantage in manufacturing and production.

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