Feedback for the Discussion Paper
Industrial Policy: 2017

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Submitted by

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At the outset, the government must be complimented for thinking about the need for an industrial policy. Given the state of India's manufacturing sector, it would be a timely expression of the government's resolve to reverse the adverse sentiments in the sector. The forthcoming statement on industrial policy, one expects, will show the pathway to substantially improve the share of manufacturing in GDP.

The Discussion Paper (DP), "Industrial Policy: 2017", issued by the Department of Industrial Policy and Promotion (DIPP) identified certain constraints on industrial growth and also underlined important problems relating to foreign direct investment (FDI) especially in respect of transfer of technology and increasing production capabilities. The DP made a number of propositions relating to establishment of global linkages, competitiveness, employment, sustainability and technology adoption and innovation. This note, while discussing certain issues that in our opinion a new industrial policy of India should take into consideration at this juncture, underlines the problems in relying on FDI to achieve India's industrialisation goals. This is because FDI has received increasing importance from the time the policy liberalisation started in 1991 and the Discussion Paper targets $100 bn. annual inflows in the medium term.

It is more than 25 years since the last policy statement on industry was announced. The Statement on Industrial Policy, issued on July 24, 1991, came in the backdrop of a severe external payment crisis and also in the context of prevailing industrial regulations. A major component of the statement was liberalisation of the foreign investment regime, though initially it was restricted to high priority industries requiring large investments and advanced technology. It also pruned the industries reserved for the public sector to facilitate greater private sector participation and to infuse competition in the reserved areas. Importantly, it went by the assumption that India will be able to gradually build the capacity to pay for imports through own foreign exchange earnings and foreign companies will help achieve this objective. In terms of specifics, the Statement on Industrial Policy welcomed foreign investment and technology collaboration to obtain "higher technology, to increase exports and to expand the production base". In parallel, approval process for technology payment was also liberalised and the phased manufacturing programme, a key policy instrument for forcing foreign enterprises to indigenise production, was dispensed with. The Budget Speech made on the same day added that

> Direct foreign investment would provide access to capital, technology and markets. It would expose our industrial sector to competition from abroad in a phased manner. Cost, efficiency, and quality would begin to receive the attention they deserve.

The opening up thus had the implied objective of disciplining the Indian entrepreneurs as well.

Although the opening up to FDI started in 1991, it was only from 2006-07 that the inflows started witnessing a quantum jump *i.e.*, after India allowed 100% FDI through the automatic route in the construction development sector and initiated the SEZ scheme. The dilution of FDI policy from a predominantly manufacturing oriented one to other sectors paved the way for the entry of a variety of foreign investors most of whom would not have the qualities that are associated with FDI, be it possession of advanced technologies or the ability to export. On the other hand, to encourage technology transfer, the terms of payment were liberalised progressively and substantially. The freedom to channelize FDI into select sectors and by investors having specific characteristics was progressively lost. A stage was reached when attracting foreign investment became an imperative to meet current account deficits rather than for its specific attributes like technology, management skills, providing access to external markets, etc. (Budget Speech 2013-14). Even while this was going on, a Group constituted by the then Prime Minister in the National Manufacturing Competitiveness Council (NMCC) underlined the problems with the liberal FDI policy regime particularly in terms of technology transfer. It underlined the disadvantages of relying on spillovers and increasing cost of technology and near impossibility of procuring technology whether through the FDI route or outright purchase in high technology areas. The Group suggested a review of the country's FDI policy. It is, therefore, not surprising that the Discussion Paper issued by the DIPP also finds problems with technology transfer and calls for a relook at the FDI policy.

It is widely acknowledged that FDI is not an unmixed blessing. The problems are not confined to technology transfer only. They range from adverse impact on BoP to crowding out of domestic investment. In fact, RBI expressed concern over the reported recent spurt in inflows as it felt that they could cause future problems for CAD.

> "... robust FDI inflows which were at the forefront in financing CAD in the previous three years, entail servicing through higher income payments which could have implications for CAD." [RBI Annual Report: 2016-17]

It is not only income payments. There are also other payments and transfers associated with FDI. During the last few years thirty percent of the equity inflows were straight away balanced by repatriations and disinvestments. Foreign manufacturing subsidiaries have also been reporting consistent large negative trade balances (even trading companies report adverse trade balance). Simultaneously payments for technology have been increasing fast. While no separate data for such payments are available for the country as a whole, a quick perusal of annual reports of the large corporates suggest that payments in foreign exchange for services have also been increasing. One can therefore, surmise that the above mentioned payments will offset a substantial proportion of the annual inflows. Implications of attracting large amount of FDI that place additional burden on the external payments position cannot pay for itself are obvious. The remedy can aggravate the problem that it is meant to cure!

Compared to 1991 India is now in a vastly different situation. In 1991 the task of dismantling the regulatory regime was clearly laid out for the then policy makers. India is now far more integrated with the global economy. It is now subject to international discipline due to a variety of agreements and arrangements it had entered into and hence does not enjoy the same level of autonomy. There is a lot more awareness with regard to environment and sustainability. These cannot be dismissed as easily as the erstwhile domestic regulations in 1991.

Having accelerated along the path of past policies the attempt now is to find a way out of the problems encountered in its implementation and to prepare for Industry 4.0. In the process of taking forward the reforms initiated in 1991 none of the three major agencies namely, public, Indian large private corporate and foreign sectors responded in the manner they were expected to. Share of the manufacturing sector in GDP has remained stagnant. For the more recent period it is less than 17%. Against the estimated requirement of 12-14% of the manufacturing sector for the country's overall growth rate to touch 8%, the annual average growth rate of the manufacturing sector during the last two years was just about 4%. In case of exports too, the picture is not very encouraging. In 2016-17 manufactured exports including petroleum rose by more than 5 per cent but this should be seen in the backdrop of a steep fall in the earlier year. The average annual growth rate during the last two years remains negative. The number of investment proposals (Industrial Entrepreneur Memoranda-IEMs) and the proposed investment through them increased in 2016. But it is yet to reach the peak of 2011 or the grossly reduced figure of 2013. For the past seven years India's rank in the global Competitive Industrial Performance Index has been hovering around 40.

Further, the global market scenario not being encouraging is only one additional dimension of the problem. Internationally, there has been some turnaround in the US and the European economy in the recent past but non-tariff barriers are likely to rise in global trade because of protectionist tendencies in advanced counties. An outward looking industrial policy might not help at this juncture especially for a large country like India. In fact countries like China having higher dependence on exports compared to India are in a process of rebalancing growth. The declining growth rate in the recent past in India together with deflationary situation signals a deficient demand scenario and the recovery of the domestic economy through increased government spending/intervention should be the focus of the new industrial policy.

The experience of a quarter of a century shows that adhering to commitments made under the WTO and other international agreements in their letter and spirit and taking steps to facilitate more foreign investment and depending upon it have serious limitations. Keeping this inescapable requirement in view a few suggestions, which we feel need to be taken note of while drafting the new Industrial Policy Statement, have been made in this note. The main suggestions are:

- Reduce the freedom for **FDI** by restricting the proportion of foreign-held shares in individual Indian companies.
- **FDI** targeting on the basis of mere amounts without considering its composition and the mode of entry is not desirable.
- Distinguish between acquisitions by foreign and by local companies under the **Competition** policy. There are issues which are beyond market competition.
- Establish a national statutory body which reports to the Parliament on matters relating to **FDI** including foreign acquisitions.
- Fully utilise the potential of **Public Procurement Policy** to indigenize production/improve local content.
- Encourage **joint ventures** and licensing to facilitate technology transfer.
- Review the bilateral investment agreement framework which offers protection to foreign investors without concomitant obligations on their part.
- Emphasize on '**acquisition' of technology** beyond mere '**access'** in technical collaborations whether linked to FDI or not.
- Approach the issue of **Investment Facilitation** at WTO cautiously.
- Undertake an in-depth review of the existing agreements before entering into more **FTAs**.
- Identify the ways and means to get around the binding **international obligations**.
- Review the **outward FDI** policy along with the inward FDI policy as there appears to be no clear focus in India's outward FDI.
- Revive **development financial institutions**. Excessive reliance on alternative investment vehicles will result in losing promising startups and even industry leaders to foreign companies as also lead to large capital outflows.
- Develop **PSUs** as nuclei for different sectors. Treat PSUs as institutions and not as investments.

- The playing field should be made to tilt in favour of local entrepreneurs. The industrial policy should facilitate the emergence of **local entrepreneurs** in technology intensive sectors.
- Make provisions for capital to be available for the **MSME** sector through institutional mechanism, quite akin to making credit available to agriculture.
- Exploitation of labour to gain price competitiveness would not be sustainable in the long run. Labour market flexibility in India boils down to **wage flexibility** and freedom for employers to 'hire and fire'.
- **Technological upgrading** also gets delayed because of the easy option of pushing down wages in a labour surplus economy. This would further push the industrial activities towards low wage and low productivity segment.
- Identify the reasons for the failure of **past S&T policies**. Basic research should get as much recognition as that of commercial-oriented research.
- Indigenous technological capabilities and presence of local enterprises which can take advantage of them are sine qua non for **setting standards**.
- Strengthen **monitoring and evaluation systems** within the government, improve inter-departmental coordination and minimize reliance on private consultants.
- The announcement of new industrial policy should be preceded by a thorough **analysis of the issues** it needs to address.

Issue-wise rationale behind the above suggestions is provided in the Annexure.

The industrial policy cannot be a standalone one without being linked to other relevant policies. Trade, investment, competition, intellectual property and science, technology and innovation policies should be complementing each other. Fiscal and other support measures follow from it. The new policy statement should propose a comprehensive framework for addressing the inter-related issues that impact the industrial development of the country. This should necessarily involve an objective stocktaking of the ongoing schemes of the government and also policy recommendations available from previous policy documents. For instance, it would be very relevant to consider the National Manufacturing Policy 2011. Further, more than policy announcements, it should be kept in mind that implementation has been the country's Achilles' heel. The new policy statement should address this crucial dimension which goes far beyond Ease of Doing Business.

Lastly, an important policy statement like this one cannot be based on public discussions and debates. It should draw inferences from hard empirical evidence. Specialised centres created by the government like the IP Chairs in universities, scientific establishments, IISc, IITs, IIMs and other public institutions should be actively involved in arriving at the strategies. General stakeholder responses can only help in fine-tuning clearly stated objectives and the steps proposed to be taken.

Annexure

Rationale for the Suggestions

FDI Policy

No country has developed solely on the back of FDI. Developing countries which used FDI strategically benefited the most from it. FDI as it is measured now falls into at least three major categories: (i) what can broadly be called as investments by MNCs which will have the necessary attributes like technology, management skills, export potential, etc.; (ii) investments by a variety of financial investors who seek large gains in relatively short periods; and (iii) India-related investments -- both round-tripped and others. FDI that falls into the first category constitutes only a little more than half of India's FDI inflows. Only a part gets into the manufacturing sector and even smaller portion is invested in greenfield projects. M&As account for much of the remaining inflows. The second category of FDI mainly gets into services and eventually leads to M&As (thereby causing repatriation/disinvestment). The third category need not always add to the investible resources or the technology base. Targeting a lump sum $100bn. annual inflow without clearly understanding the different types of inflows in fact, might aggravate the problems.

In an open FDI regime, the DP's objective of channelising "FDI into sectors to increase domestic value addition, strengthen linkages and enable brand building" is hard to achieve. The recent examples of imposing customs duty on mobile phones and introducing local sourcing requirement on single brand retail trading should provide an indication of the type of steps that would be required to achieve the objectives.

India has to break free from the routine approach and should not feel shy of deviating from following 'predictable and stable' FDI policy regime. It should, however, be prepared to face some disruption in inflows in the initial stages. Transfer of technology can take place even without 100% FDI through licensing and through joint ventures. Possibilities should be explored to reverse the 100% FDI policy in case of new investments, even by existing foreign companies, especially in critically important sectors like pharma. Policies should be devised to promote joint ventures.

Indian subsidiaries of foreign companies should be barred from paying royalties/know-how fees to group companies for using their technology and brand names/trademarks. International payments should be examined not only from the point of transfer pricing but also from the point of their essentiality. There is something seriously wrong if foreign companies which have been operating in the country for decades pay under heads like management fees and IT support. In fact, in some cases a major portion of the reported FDI inflow could be nothing but surpluses taken out on one pretext or the other. Declared profits in India thus do not truly reflect the advantage that foreign investors derive from their Indian operations. Most of the foreign companies being unlisted ones, their operations are little subjected to public scrutiny. The problem goes beyond Base Erosion Profit Shifting (BEPS).

Under the prevailing arrangements typically, a loop of perpetual technological dependence on foreign counterparts becomes unavoidable which also significantly results in draining of resources. Technology transfer may not advance beyond the initial zone of 'access' for usage unless forced through measures to secure its deeper absorption in the economy. A stringent and purposive monitoring of technical collaboration contracts is, therefore, imperative.

China did not get technology on a platter. It had to force it from the foreign companies using market access as the bargaining tool. It would be futile to expect that they will do it for India (this also goes against the experience so far). The two leading measures under the "China Manufacturing 2015" announced are:

- Forced technology transfers in exchange for market access; and
- Market access and government procurement restrictions for FIEs

The European Chamber of Commerce in China described these are other measures like standards, subsidies and government-backed investment funds, as

> … taken together they demonstrate a consistent approach to industrial development driven by political masters, not markets. In this respect CM2025 represents a considerable step back from the Third Plenum's 2013 commitments to make the market the decisive force in China's economy. [European Union Chamber of Commerce in China, *China Manufacturing 2025, Putting Industrial Policy Ahead of the Markets, 2017]*

Granting market access to FDI should be made conditional on transfer of technology, employing local people and establishing linkages with local industry and academia. Compulsory license should also be used appropriately to get access to foreign technology. The leeway countries have under the WTO TRIPS and TRIMS Agreements should be exploited to the maximum extent possible. Similarly, the public procurement policy is another powerful tool. All public enterprises should also be brought under its scope.

Increasingly countries are using 'national security' arguments to prevent foreign acquisitions. The ambit of national security in case of USA covers not only internal security but also related critical infrastructure and critical technologies. National security questions are increasingly being raised with regard to industries and sectors that have not historically been considered ''sensitive.'' ["CFIUS After Lattice: What Boards, Investors, and Bankers Need to Know Now"]

Given the key position occupied by foreign capital in the economy and because it will continue to be relevant in future, a review and monitoring mechanism should be developed. A statutory body entrusted with this responsibility should report directly to the Parliament.

Trade Policy

Inverted duty structure is only one of the many problems with India's trade policy. The huge increase in import dependence and the low level of FDI into the manufacturing sector can both be linked to the market failures associated with non-strategic trade and investment liberalisation, which have negated the incentives of both domestic and foreign producers to undertake production locally. Trade liberalisation in most sectors has not been undertaken in a strategic manner to be aligned with the country's development needs. In addition to unilateral tariff liberalisation, successive governments have signed up to free trade agreements (FTAs) on the basis of the argument that India's participation in FTAs will enable it to become part of global value chains (GVCs) and help Indian firms to improve export capabilities. Thus in its FTAs with ASEAN, Japan and South Korea, India committed to reducing or eliminating tariffs in almost all consumer goods, capital goods and intermediate goods.

In the absence of active industrial policies to guide and upgrade the domestic manufacturing base, what we have seen is that tariff liberalisation has led to India's FTA partners achieving greater market penetration in India than what India could achieve in their markets. In fact, in the case of non-oil products, India has experienced a higher level of import dependence on her FTA partners as compared to world at large. Against this backdrop, India should not sign more FTAs before completing a review of the existing agreements, which was the policy stance when the Parliamentary Committee on FTAs was set up in 2013.

A thorough review should be made of the current duty structure along with the trade agreements the country had entered into. India should not get into further engagements without clearly ascertaining the benefits. All available flexibilities should be taken advantage of to encourage local production. Use of other public policies in the form of non-tariff measures (NTMs) such as sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), environmental/resource protection, consumer rights, labour rights, etc. should be resorted to. All these assume significance in the context of developing climate change mitigation strategies and green technologies too.

Value Chains

We need to take into account the global trends of distribution of value addition through global production network (GPN). In spite of the fact that increased fragmentation and spatial distribution through GPNs has increased opportunities for developing countries to participate in global production and trade, it is also true that countries like India or China who primarily engage in labour intensive manufacturing activities receive the lowest share in the value chain. Integration through GPNs is leading to capital deepening and declining share of wages for developing countries. Moving up the value ladder hence cannot be achieved relying on cheap labour as such labour cost-based competition ultimately leads to declining share of value added for competing developing countries.

On the other hand, knowledge and design remains highly protected and largely dominated by the advanced countries. In this backdrop we need to calibrate our engagement with global market or production networks. Success stories of South East Asian countries however suggest that our capabilities need to be enhanced in a strategic manner creating dynamic comparative advantage relying more on long term capabilities through strategic intervention rather than competition based on labour costs.

Entry and the level at which developing country entities integrate into any value chain is conditional upon their existing technological capabilities. This also clearly underlines the need to re-evaluate India's current trade and investment policies, including those being pursued with the purported objective of promoting engagement in global value chains (GVCs).

Public Sector

Public sector has for long been either treated as a whipping boy or a cash cow. A number CPSUs are more than 50 years old. However, none could assume leadership role. It is a reflection on the Indian policy makers' failure than that of PSUs themselves particularly seen in the context of SOEs being used to serve the country's strategic interests by China. If the Indian Oil Corp spends very little on R&D and pays out huge amounts in the form of dividends or use surpluses in inter-corporate investments to meet disinvestment targets, it cannot serve the country's needs. There is no advantage of it being in the Global 500. Dividend pay-outs should not have been guided by budgetary requirements/constraints.

Successive governments in India have indeed failed to pursue two major roles that were assigned to the public sector in the 1991 Industrial Policy: (i) technology development and building of management capabilities in areas crucial for long term development of the economy where private sector investment is inadequate; and (ii) manufacture of products where strategic considerations predominate. These roles of the public sector continue to be of critical significance and need to be re-emphasised in any new vision of the industrial policy and be pursued vigorously.

If CPSUs have to provide the nuclei for different sectors, they should no longer be seen as investments but as institutions that serve specific long term national objectives. Each of the major PSUs should be developed as strategic centres. India suffers from lack of entrepreneurs. If used properly, public sector could be a powerful instrument to fill this gap.

Entrepreneurship

Disciplining the Indian entrepreneur was one of the implied objectives of the 1991 policy. Far from paving way for the emergence of new entrepreneurs in technology intensive sectors, liberal trade and FDI policies have taken away the incentive/scope for the emergence of global leaders. The seven Indian companies among the Fortune Global 500 do not exhibit any such strength. Three are oil PSUs and another one is a bank. Another private sector company is also in the petroleum sector. One of the private sector companies is in the gold business which entered the 500 league following the acquisition of refining capacity in Switzerland. The other one namely, Tata Motors reached the list probably not on its own strength but because of the turnover that got added to it following the takeover of UK's Jaguar Land Rover. In contrast, China has 109 of them: a mix of SOEs and private sector companies. China is next only to USA which has 132 entries. The third placed Japan is far behind at 51. While the top rank of an Indian company is 168, China has three in the top 10 and the remaining ones are distributed in different ranges indicating the possibility of their gradual climbing up the rankings ladder.

Given this scenario if the same set of policies is followed there is very little scope for large number of Indian companies finding a place in the global 500 list on their own strength. Looking at it differently, being in the Global 500 should be an outcome rather than a goal by itself. The Global 500 list, however, serves one purpose at least: the avenues that are available to foreign companies and their resources are far more than those of the domestic Indian companies.

Many Indian companies have receded into/confined to low technology areas. Absence of large local companies is resulting in the startups getting absorbed by foreign MNCs. In the name of achieving short term growth targets the extant policies are increasing the dependence on external sources in more ways than one. Free FDI policy has also affected independent transfer of technology which further increased the disadvantage of Indian companies. In the given uncertain situation many Indian companies may be unwilling or unable to spend substantial amounts on R&D. In this context, the policy makers may review the stipulation of spending a minimum percentage of profits on CSR. Indian companies' need is to strengthen their technological strength instead of spending on tasks which should be undertaken by the government.

Notwithstanding the reported sharp jump in the recent period, the FDI inflows constituted only about 7% of the capital formation in the country. Even these figures can be qualified in multiple ways. The interests of the domestic investors who contribute an overwhelming part of the capital formation have to be protected and promoted in the long term interest of the country. It is not a question of restoring level playing field but is of tilting the balance in favour of local entrepreneurs.

Research & Development

Science and Technology Policies announced in various years by India have expressed the need for raising the investment in R&D. Still, the R&D spending as percentage of GDP has been hovering around 0.9% of GDP since the early 1980s. Neither the current form of incentives, nor the compulsion to withstand competition has forced vast majority of the corporate sector (private and public) to give due importance to R&D. But no study has been done so far to understand why the Indian industry is not increasing the investment in R&D. Action plan to address this issue needs to be based on a proper study.

Instead of insisting on commercialisation, equal emphasis should be placed on basic research. Unless there are large local enterprises which can utilise the research, the outcome would end up as (indirect) contract research for foreign companies. More than retaining FDI the emphasis should be on utilising the outcome of the R&D and retaining the personnel involved in it in India. Even from this perspective there should be Indian companies which can take advantage of the R&D conducted in universities, institutions and specialised start-ups.

R&D by foreign companies will have limited impact on India unless the outcome is shared appropriately with India. Benefits percolating through employee mobility are not enough. In fact, it only further strengthens MNCs which will sell the technologies embodying the research conducted in India back at a premium. It is relevant to note that some of the foreign companies who claim to spend on R&D are not registered with DSIR probably because they not wish to share the details. Also, taking advantage of tax incentives will be relevant for them only if they declare substantial profits. Profits are going to be nominal if R&D subsidiaries of foreign companies work on cost plus pricing basis and thus do not earn much profit.

Outward FDI (OFDI)

Given the domestic requirements for investment, outward FDI by Indian companies it may not be appropriate to encourage it without a clear focus. In India the objectives have not been spelt out clearly. The main objectives could be acquiring resources, technology and market. According to the Annual Census of Foreign Liabilities and Assets (FLA), the market value of the equity investments in overseas ventures at the end of March 2016 was Rs. 4,65,900 crore ($70 billion approx.). Seen against the $142 billion overseas FDI stock reported in India's International Investment Position, the reported value of investments under the FLA appear to hide more than what they reveal. It is pertinent to ask, both being measured at market prices, why there is a staggering gap of $70 billion between the two.

The data reported alongside FLA also reveals that the 3,320 overseas subsidiaries of Indian companies generated combined sales of Rs. 3,30,100 crore (approx. $50 bn.). That the manufacturing ones among these happen to be net exporters from their overseas locations probably implies that they could actually be exporting back to India instead of promoting India's exports. Far from persisting with the liberal outward investment regime India has to review the investments made so far.

MSMEs

The discussion paper proposes peer to peer lending and crowd funding in order to improve access to capital. This suggestion seems to be going a few steps backward. This is because lack of access to capital through any formal institution has been one of the key constraints for the growth of the MSMEs. Given the fact that small and medium enterprises require capital at lower cost for the operations, the industrial policy must make provisions for capital to be available for this sector through institutional mechanism. Peer to peer lending is no solution to this problem. On the other hand, crowd funding is not relevant for a vast majority of the MSMEs.

Competition Policy

With huge resources at their disposal, foreign companies have the capacity to steamroll many Indian companies that they target. In the process many industry leaders and promising startups are being taken over (e.g. Microsoft acquired InMage Systems, Google acquired an artificial intelligence startup Halli Labs, and Facebook took control of Little Eye Labs). It is not always that struggling companies are acquired. The solution cannot always be foreign acquisition. The process is resulting in another type of erosion – Base Erosion and Advantage Shifting!

The competition policy cannot ignore this aspect and not to distinguish between acquisitions by foreign and local companies. There should be a separate review of foreign acquisitions in sectors of priority. Priority sectors can be decided based on certain factors including national security and promoting and protecting the technological base of India.

Finance

In the new policy regime specialised development financial institutions which were meant to provide risk capital were converted into commercial banks. The involvement of private equity investors (foreign and Indian) is creating the problem of acquisitions by foreign companies. If such alternate asset funds are involved the start-ups are more likely to end up in the fold of foreign MNCs especially if there are no capable domestic companies. India's role will be relegated to that of a surrogate mother.

China is reported to be deploying massive state-controlled resources to finance local enterprises. For instance, by the end of 2015, reportedly there were 780 state-investment funds having EUR 294 billion of capital. China Reform Holdings, a central government-owned state asset investment vehicle, has set up a EUR 13.7 billion fund for supporting SOEs in advanced manufacturing sectors like robotics, deep-sea engineering equipment and new materials. [European Union Chamber of Commerce in China]

It is, therefore, appropriate to reinvent development banks and grant them the rightful place in financing long-term investment and technological change. To ensure this, it is critical that they be designed in ways that preclude political leverage, which in the past led rent-seeking behavior and generated gross inefficiencies. It is critical that government support for production, technological and skill development, exports, etc. must be time bound and periodically modified based on performance monitoring.

Labour Market Flexibility

In the factory sector the productivity of workers however increased much faster than the growth of their real wage and that has led to a declining share of wages in value added. The vast majority of the workers in our country do not have any employment or wage protection. This unprotected segment is the repository of cheap labour which is being used through outsourcing and subcontracting as producers primarily rely on 'low road' competition based on reducing labour cost. Technological upgrading also gets delayed because of the easy option of pushing down wages in a labour surplus economy that allows producers to remain buoyant at least for the short term. No country in the world did achieve high industrial growth without having a healthy, educated and skilled workforce. Labour market flexibility in our country finally boils down to wage flexibility and freedom for employers to 'hire and fire'. This would further push the industrial activities gravitating towards low wage and low productivity segment.

We did not come across any authentic study which finds that current labour laws in India are pushing entrepreneurs to capital intensive or skilled-labour intensive sectors. A detailed study is required to understand the relationship between low wages by the industry. Without understanding this dynamics, further informalisation of labour may become counterproductive.

Public Procurement

It is one of the effective instruments India still possesses. Its ambit should be extended to cover public enterprises as well. The administrative ministries should issue clear guidelines in this regard to PSUs so that their practices will not be found fault with the CAG. It should also be explored whether PSUs, as individual companies, can consciously choose supplies with high local content without attracting the provisions of international trade agreements.

Developing Indigenous Standards

Developing indigenous standards is another strategy that could help take advantage of FDI. Local standards will compel foreign investors to invest in R&D to make their products meet the standards. If appropriate policy measures are in place, this will also lead to local people being employed in the R&D process and to establishing linkages with the academia. Here again the presence of capable domestic enterprises and local technological capabilities are pre-requisites. The standards can give them the lead time to compete with foreign companies.

Regional Balance

A federal country like India cannot ignore the problem of regional imbalances. There has been simmering discontent due to vast disparities between states and regions within states. While grappling with other issues, the industrial policy statement should not lose sight of this issue. It will, however, be a challenging task when many direct instruments have been given up.

Institutional Mechanism

For the success of any policy or to undertake mid-term course corrections, the administrators should be armed with relevant data, information and analysis on a continuing basis. The institutional set up in India at present is not in tune with such a requirement. Most government departments are deficient in domain knowledge and in institutional memory. Mobility of personnel is a major factor. The departments that generate and collate data often restrict the analysis to routine tabulations.

It is worrying that the government, industry bodies and individual large companies have come to rely on almost the same set of private consultants for analysis and advice. Leaving aside the possible risk of conflict of interest, it should be noted that such analysts would not venture beyond established models and to come out with alternative postulations.

Conventional statistical offices should give way to policy research establishments within the government. Such centres should be provided relevant data on real time basis. Besides conducting in-house analysis, they can involve public institutions, with necessary safeguards, for identifying policy responses and emerging trends and to look into the future.