Industrial Policy Discussion Paper

Why in news?

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Industrial Policy Discussion Paper (DP) was recently released by department of industrial policy and promotion (DIPP).

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What are the key features of the discussion paper?

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- The stated objective of the new policy is to provide an umbrella policy framework.
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- It is aimed at building a globally competitive Indian industry equipped with skill, scale and technology.
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- The paper reviews the progress made in the last 25 years and provides thoughts on facilitating discussions for the formulation of a new industrial policy.
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- It recognizes the need to gainfully employ a growing workforce, among others, and lists long-term and medium-term measures and related challenges.
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- It also recognizes the importance of competition, enhancing the competitiveness of domestic industry, and strengthening global linkages and value chains.
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What are the shortcomings?

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- **Fragmentary approach -** It had failed to propose a comprehensive

framework that addresses the inter-related issues impacting industrial performance.
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- The document considers FDI, exports, domestic value addition, technology development, employment in a fragmentary manner.
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- **Lack of vision -**There is no mention of the ongoing industrial slowdown and growing import dependence of Indian industry after 25 years of liberalisation of trade and FDI policies.
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- **Trade liberalisation -** Trade liberalisation in most sectors has not been aligned with development needs, this has been worsened by signing free trade agreements (FTAs)
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- In the absence of active industrial policies to upgrade the domestic manufacturing and technological base, such tariff liberalisation has led trade partners achieving greater market penetration in India than what India could achieve in their markets.
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- **More Emphasis on FDI -**Indian policymakers have also liberalised FDI-related regulations over and above what is required under the WTO's Trade Related Investment Measures agreement.
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- **Market based mechanism -** Despite the evidence that the credit needs of MSMEs are unmet by private commercial banking and financial entities, the DP has recommended other market-based financing instruments such as peer-to-peer lending and crowd sourcing.
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- Purely market-based mechanisms suggested by the DP may play only complementary roles.
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What needs to be done?

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- The DP must recommend that more FTAs should not be signed before evaluating the existing agreements.
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- Technological strength and its continuous up gradationwill help domestic firms attract/utilise FDI sustainably and gainfully.
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- Active interventions to build and upgrade domestic entrepreneurial is required.
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- SME industries need a long-term development through public financing mechanisms and by building of management capabilities.
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- To ensure this, financing mechanisms must be designed in ways that prevent political leverage to avoid inefficiency.
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Source: Business Line

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