State of India's Industrial Policies

Why in news?

States which have robust industrial policies are also the ones which have the highest contributions to the overall growth performance of the national economy.

What does industrial policy mean?

- Industrial policy is a set of interventions which seeks to extract economic performance from firms as a trade-off against subsidies/benefits accrued from the government.
- **Significance** - India aspiration to be a developmental state by 2047 is built on the shoulders of robust industrial policies.
- The transformation of East Asian economies into industrial behemoths was driven by carefully designed industrial policies which tapped into their own comparative advantages by leveraging institutional synergy.

To know more about the industrial policy, click here

What is the role of governments in industrial policy?

- **Achieving the goals** - The framework of designing robust industrial policies is dependent on the ability of the state to achieve two goals:
  - Facilitate economic performance
  - Discipline stakeholders towards the goals of industrial policy
- **Incentivising the firms** - Firms are incentivised towards achieving performance targets which are critical to the overall growth and development of the economy.
- Depending on the ability of the firms to achieve those performance targets, they can be provided with subsidies, incentives or concessions.
- The state should be able to allocate resources to the set of potential firms and at the same time be able to take away resources when underperformance becomes evident.
- **Convergence of stakeholders** - There are three key stakeholders, whose interest needs to converge -governments, capital and labour.
- The governments, at multiple levels, need to assume the responsibility of co-ordinating the stakeholders and achieve the necessary synergy to meet the goals of industrial policy.
- **Implementing industrial policies** - It includes monitoring of projects, mapping of performance targets, releasing subsidies, and in cases of project default, finding ways to reduce financial exposure to the exchequer.

How to remove the structural bottlenecks that affect industrial performance?

> *There is empirical evidence to suggest that States which have designed robust industrial policies are the ones which have the highest contributions to the overall growth performance of the economy.*
>
> *States such as Tamil Nadu, Maharashtra, Gujarat and Karnataka contribute a bulk of India's output in various sectors.*

- **Revamping the institutional setup** - To remove the structural bottlenecks, there is a need to revamp the present institutional setup which is responsible for implementing industrial policy in these States.
- An institutional setup which reduces turnaround time and limits the number of implementing departments can be created.
- **Setting up of SIPA** - A State Industrial Policy Authority (SIPA) which will have overarching jurisdiction over all aspects of industrial policy design and implementation can be set up.
- This will reduce the timelines of project scrutiny, approval, monitoring, and disbursement of subsidies and at the same time cause accountability to a particular body.
- A body like SIPA must have three key elements
    - A planning authority
    - A network of nodal agencies which communicate the vision of industrial policy with the stakeholders
    - An organisational structure which has the necessary skill-sets to facilitate and extract performance from firms

Reference

1. The Hindu Businessline | The 'State' of India's industrial policies

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