## Appendix C: Economic / Industrial Climate of India

M.J. Peterson Revised March 3, 2008

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#### References used in this section:

Paul Shrivastava, *Bhopal: Anatomy of a Crisis* (Cambridge, MA: Ballinger 1987)

Dilip K. Sheth, *Treatise on FERA (Law and Practice)* vol. 1 New Delhi: Bharat Law House Pvt Ltd, 1991. [Legal textbook and reference for practicing lawyers]

R.N. Mukherjea, R.N. Bagchi, and S.C. Banerjee, "Safety in Indian chemical process industries: A case study," pp. 919-937 in *Report of the 9th International Symposium on the Prevention of Occupational Accidents and Diseases in the Chemical Industry. Lucerne, Switzerland 5-7 June 1984.* Heidelberg: Berufsgenossenschaft der chemischen Industrie, 1984. [Assessment of conditions in the various types of firms comprising the Indian chemical industry by Indian specialists published a few months before the Bhopal gas leak.]

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## India's Approach to Economic Development

M.J. Peterson, 2008

The Indian government's approach to economic development from independence in 1948 through the 1980s was shaped powerfully by the experience of colonial rule and the economic beliefs of its post-independence leaders. Both contributed to the creating of a highly regulated mixed economy, popularly referred to even at the time as the "license Raj" because of the pervasiveness of requirements to secure permits for various forms of economic activity.

The British East India Company was the largest economic enterprise operating in India between actor in India between 1750 and 1850, and also the de facto ruler of an increasingly large part of the country between 1770 and 1833. The British government brought its political activities under parliamentary supervision in 1833, replaced it with a crown colony administration in 1858, and reduced its economic significance by opening the India trade to other firms later on. In the 18th century, the Company's trading activities focused on purchasing India-made textiles, dyes, and spices for export to England (India did not become a major tea producer until the 1880s). As textile production in England increased with introduction of industrial methods after 1780, the British Parliament did what all mercantilists of the time did: it adopted laws closing the British home market to Indian textiles and ensured the opening of colonial markets to British goods. The East India Company then shifted its main activities to selling British-made manufactured goods in India and buying Indian raw materials for sale in the British home market and elsewhere. Even after the East India Company's monopoly was abolished, British tariffs remained high until adoption of Free Trade legislation lowering tariffs in 1846. At that point, however, Indian firms did not regain British customers because British firms were far enough ahead in the mechanization of production to out-compete Indian firms despite lower Indian wages. The British kept India's tariffs low, allowing British manufacturers to dominate even Indian domestic markets for textiles, shipbuilding, metalworking, glassmaking, and papermaking. The "British Raj" did supply infrastructure in the form of ports, railways, and better roads in major towns, but these were designed to facilitate administration, the export of Indian raw materials and the distribution of imported manufactured goods around the country rather than the activities of Indian manufacturing.

At independence all educated Indians agreed that India's current lack of industrialization and economic development more generally was the result of these colonial-era policies. The new central government could expect widespread support for any policy that appeared to set the country on the path to industrialization. At the same time, the partition of British India into India and Pakistan (today's Bangladesh was originally the eastern part of Pakistan) further disrupted economic patterns by separating some local processing plants from their sources of materials. In all, the new Indian political elite had a daunting task ahead.

The new political elite brought to this task a set of social democratic beliefs very similar to those guiding the British Labour Party, which was in power in the UK from 1945 until 1951 and returned to power periodically in later years. In the view of both the Labour Party and the Indian political elite, private enterprise was too focused on profitability of the firm to be left to operate on its own. Political leadership with a broader view of the social good was needed to establish an effective welfare state providing more equal opportunity and greater distribution of social services (both countries), transform an economy from agricultural to industrial (India), or address the effects of years of declining economic competitiveness (Britain). Neither sought to abolish private enterprise and institute Soviet-style central planning, but both believed that only a mixed

economy, with major sectors of the economy reserved to state-owned enterprises operating as instructed, and powerful state agencies able to set traditional social interests aside and provide the services of a welfare state while collecting the tax revenues needed to maintain it would successfully meet the economic challenges facing the country.

The new Indian leadership immediately began using its powers to reverse the long dependence on outside industry and capital. Provisions of the 1950 Constitution strengthening the powers of the Union (central) government vis-à-vis the States included the stipulation that "the regulation of foreign and interstate commerce falls within the exclusive domain of the Parliament." The further stipulation that "The executive power of the Union Government extends over matters that are within the competence of the Parliament of India and the executive power of the states" meant that administrative regulations issued by the central government decisions could override contrary state government regulations.

The Indian government's policies on dealings with foreign companies and investors were made clear in its 1948 Resolution on Industrial Policy:

... while it should be recognized that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialization of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. Suitable legislation will be introduced for this purpose. Such legislation will provide for the scrutiny and approval of the Central Government of every individual case of participation of foreign capital and management in industry. Such legislation will provide that, as a rule, the major interest in ownership and effective control should always be in Indian hands; but power will be taken to deal with exceptional cases in a manner calculated to serve national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon. ... Import of technology is at the core of collaborations. ... Where technology is available in India, it must be preferred to foreign technology. Where it is not available, it should be imported at the lowest cost. All technology, once imported into India, is Indian technology. It should not be paid for beyond a period of five years and its use must be preferred to import of similar technology.

The Indian Government proceeded to establish state-owned enterprises in the major sectors of the economy, with steel, railways, shipping, aviation, and electrical power generation most prominent among them. The Industrial Policy Resolution of 1956 outlined a division of the Indian economy into three sectors: industries reserved exclusively to state-owed enterprises, industries in private ownership but under the initiative of the state to nationalized later, and industries left in the hands of privately-owned firms. The government had already begun extending its control over private business, including a number of large Indian conglomerates that became multinational firms in their own right during the 1960s by establishing subsidiaries in other developing countries, through the Industries Development and Regulation Act of 1951. All private businesses (or at least all of the large enough to be noticed; India quickly developed a large "underground" economy of tiny enterprises that did not bother with licenses) needed a government license to make significant changes in their activities. Licensing requirements covered establishing a new factory or plant, using an existing factory or plant to make additional products, substantially increasing production capacity in any factory or plant, taking over the existing business of a firm previously exempt from licensing requirements, and changing the location of an existing factory or plant.

The rules did not cut off all foreign private investment. Some foreign-owned firms had been doing business in India before independence; others, attracted by the large potential market suggested by India's population and relative wealth, decided they could live with the regulations. The rules did mean, however, that the government could exercise a great deal of influence over the sorts of foreign investments made and the activities of foreign investors. Successive Indian governments used these powers to channel foreign investment into areas where foreign technology was more advanced than local technology, and away from trade and finance. Government guidance of foreign investors was reinforced through provisions of the Foreign Exchange Regulation Act, which imposed controls on cross-border currency movements. These controls permitted the government to guide the amounts and types of investments as well as control the rate at which dividends on those investments were taken out of the country.

## Chemical Industries in India, summer 1984

from R.N. Mukherjea (Chemical Engineering Department Jadavpur University), R.N. Bagchi (same), and S.C. Banerjee (Directorate of Factories, West Bengal), "Safety in Indian chemical process industries: A case study," pp. 919-937 in *Report of the 9<sup>th</sup> International Symposium on the Prevention of Occupational Accidents and Diseases in the Chemical Industry. Lucerne, Switzerland 5-7 June 1984.* Heidelberg: Berufsgenossenschaft der chemischen Industrie, 1984

### 1.0 Introduction

The chemical process industry in India has shown remarkable growth during the last three decades. With about 18% annual growth rate the chemical industry's turnover increased from only Rs. 1200 million in 1956 to more than Rs. 30,000 million in 1976. Its contribution to the Gross National Product is more than Rs. 15,000 million. It occupies forth place after engineering, textiles, and mining industries in terms of investment and turnover. The projected investment in the eighties is of the order of Rs. 10,000 crores (US \$10 billion). The direct employment in the chemical industry is more than 2 million people.

The expansion of the chemical industry has been not only quantitative, but there has been also rapid qualitative growth in the industry, which is now producing an increasing range of new chemicals, which still have recently been imported. The capabilities in design and plant engineering have also made spectacular progress and it is expected that the annual turnover of chemical plant and equipment will reach Rs. 5000 million in 1990.

## 2.0 Safety Requirements

Increased diversification in the range of products requiring in many cases sophisticated process technology and equipment would involve increased safety hazards. This would demand a concurrent growth in safety consciousness and application of adequate safety measures. Unfortunately, however, it is found that the progress in safety technology has not been quite satisfactory due to various constraints. The problems in the area of safety and occupational health appear to be particularly complex in the small and medium scale sector, which plays an important role in the Indian chemical industry, producing a large number of small volume, high value chemicals employing sophisticated technology. Due mainly to economic and organizational factors these units often cannot afford to introduce adequate safety devices and equipment nor to employ specially trained safety personnel to plan and ensure proper safety measures. In the large scale industry, also particularly those in the private sector, sometimes the motivation and sense of responsibility to ensure safety is not adequate. This is deplorable particularly in a developing country like India where the level of education and safety consciousness of the workers at the shop level is rather poor. This would warrant that at the process design and project engineering stages efforts should be made to realize maximum safety in the plant by applying the modern techniques of safety analysis and reliability engineering. Unfortunately, however, education and training facilities in different aspects of safety engineering are not adequate.

## 3.0 Safety Administration

In this context the role of government agencies to ensure the safety of human lives and properties involved in potentially hazardous operations of chemical process industries becomes very important. The administration of safety and industrial health is undertaken by the Factories Inspectorate of the State Governments with close co-operation of Factories Advisory Service under the Central Government. The State Inspectorates have safety engineers and technologists as well as experts in industrial hygiene and

occupational medicine. The Central Factory Act provides power to the State Governments to enact rules relating to safety, health and welfare of employees. The schedule of safety measures in relation to some specific machineries and processes framed in the State Factories Rules are very helpful in ensuring safe working environments with provisions for health care of workers requiring special precautions. Apart from [specific] safety precautions... the Rules have specific provisions for declaring some operations as dangerous. Almost all chemical industries are included in this list and there are guidelines for safe handling and use of dangerous chemicals. Specific rules regarding storage and handling of chemicals susceptible to fire and explosion are enforced by the Directorate of Explosives, while the Boiler Inspectorate supervises installation and operation of boilers and other pressure vessels.

Accidents in the chemical industry are mainly due to poor design, fabrication, or operation of the plant along with failure in maintaining good housekeeping, improper storage of combustible substances, inadequate discharge or prevention of static charge. In case of a serious accident there is provision in our Act for involving outside experts as "competent persons" and assessors drawn from the Universities and consultancy organizations to conduct inquiries and studies in order to draw significant safety conclusions for devising better control measures.

# Excerpts from and Comments on Union of India Foreign Exchange Regulation Act 1973 (Act 46 of 1973)

Gazette of India Extra, Part II, section 1, 20 Sept 1973 pp. 535-584

[This compilation of provisions relevant to industrial enterprises relies on text as given in Dilip K. Sheth, *Treatise on FERA (Law and Practice)* vol. 1 New Delhi: Bharat Law House Pvt Ltd, 1991]

#### Preamble

An Act to consolidate and amend the law regulating certain payments, dealings in foreign exchange and securities, transactions indirectly affecting foreign exchange and the import and export of currency and billion, for the conservation of the foreign exchange reserves of the country and the proper utilisation thereof in the interests of the economic development of the country.

## Section 1. Short title, extent, application and commencement

- (2) [This Act] extends to the whole of India.
- (3) It applies also to all citizens of India outside India and to branches and agencies outside India of companies or bodies corporate, registered or incorporated in India.

## Section 28. Restrictions on the appointment of certain persons and companies as agents or technical or management advisers in India.

- (1) Without prejudice to the provisions of section 47 and notwithstanding anything contained in any other provision of this Act or the Companies Act 1956 a person resident outside India (whether a citizen of India or not) or a person who is not a citizen of India but is resident in India, or a company (other than a banking company) which is not incorporated under any law in force in India or in which the non-resident interest is more than forth percent, or any branch of such company, shall not, except with permission of the Reserve Bank,
  - (a) act, or accept appointment, as agent in India of any person or company, in the trading or commercial transactions of such person or company; or
  - (b) act, or accept appointment, as technical or management adviser in India of any person or company; or
  - (c) permit any trademark which he or it is entitled to use, to be used by any person or company for any direct or indirect compensation.
- (2) Where any such person or company (including its branch) as is referred to in subsection (1) acts or accept appointment as such agent, or technical [or] management adviser, or permits the use of any such trademark, without the permission of the Reserve Bank, such acting appointment or permission, as the case may be, shall be void.

Explanation: For the purposes of this section,

- (a) "agent" includes any person or company (including its branch) who or which buys any goods with a view to sell such goods before any processing thereof;
- (b) "company" means any body corporate and includes a firm or other association of individuals;
- (c) "processing" means any art or processing for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electrical, or any other like operation but does not include any process incidental or ancillary to the composition of a manufactured product such as the dividing, pressing, compressing, packing, repacking, labelling, relabelling, branding, or the adoption of any such treatment as is necessary to render such product marketable to the consumer.
- (d) "technical or management adviser" includes any person or company (including its branch) required to tender any technical or management advice, even though the tendering of such advice is incidental to any other services required to be rendered by such person or company.

## Section 29. Restrictions on establishment of places of business in India

- (1) Without prejudice to the provisions of section 28 and section 47 and notwithstanding anything contained in any other provision of this Act or the provisions of the companies Act (1 of 1956), a person resident outside India (whether a citizen of India or not) r a person who is not a citizen of India but is resident in India, or a company (other than a banking company) which is not incorporated under any law in force in India or in which the non-resident interest is more than forth percent or any branch of such company shall not, except with general or special permission of the Reserve Bank:
  - (a) carry on in India, or establish in India a branch, office or other place of business for carrying on any activity of a trading, commercial, or industrial nature, other than an activity for which the carrying on of which permission of the Reserve Bank has been obtained under section 28; or
  - (b) acquire the whole or any part of any undertaking in India of any person or company carrying on any trade, commerce, industry or purchase the shares in India of any such company.

[Summary of note on related Government rules in Sheth, vol. I, p. 405-406: Related rules issued on 20 December 1973 required that (1) Indian operations of foreign companies that are not separately incorporated in India must be organized as an Indian company, (2) no such Indian companies may be wholly foreign-owned – thee must be at least 26% Indian ownership, (3) large companies must progressively sell additional shares to indiand so that foreign ownership is no more than 40%. On 28 October 1980 the government added a rule permitting investors from oil exporting developing countries to acquire 40% of a new or existing company incorporated in India with a minimum of licensing and permit formalities.]

## Section 30. Prior permission of Reserve Bank required for taking up employment, et in India by nationals of foreign states.

(1) No national of a foreign State shall, without the previous permission of the Reserve Bank,

- (a) take up any employment in India, or
- (b) practice any profession or carry on any occupation, trade, or business in India,

in a case where such national desired to acquire any foreign exchange (such foreign exchange being intended for remittance outside India) out of any moneys received by him in India by reason of such employment or the practicing of such profession or the carrying on of such occupation, trade, or business as the case may be.

(2) Where any national of a foreign State desires to obtain the permission of the Reserve Bank under subsection (1), he may make an application to the Reserve Bank in such manner and containing such particulars as may be prescribed.

[Summary of comments in Shelth, *Treatise on FERA* vol. I, pp. 428-432:

Though the plain wording of the section suggests that foreigners who will not exchange part of their salary out of Rupees into home currency for sending out of the country are not covered, Indian courts ruled that section 30 applied even to those foreigners because of (i) the possible "indirect effects" on India's foreign exchange situation and/or (ii) because the Reserve Bank's decisions are based on "policy" it has wide discretion to decide what may indirectly affect India's foreign exchange situation. Arum Kumar v. Reserve Bank of India (1983) 54 Co. Cases 176 (Delhi).

In 1977 and 1979 the Reserve Bank adopted special regulations for Indian companies intending to employ foreign technical staff in the construction, set-up, and initial running of a new or expanded industrial plant pursuant to government license> They could get blanket approval for use of the foreigners from the Department of Industrial Development. The Indian employer (not the foreigner) had then to notify the Reserve Bank of the names and expected durations of employment of the foreigners.]

## Section 31. Restriction on acquisition, holding, etc. of immovable property in India

(1) No person who is not a citizen of India and no company (other than a banking company) which is not incorporated under any law in force in India or in which the non-resident interest is more then forty percent shall, except with the previous general or special permission of the Reserve Bank, acquire or hold or transfer or dispose of by sale, mortgage, lease, gift, settlement or otherwise any immovable property situate in India.

Provided that nothing in this sub-section shall apply to the acquisition or transfer of any such immovable property by way of lease for a period not exceeding five years.

Section 76. Factors to be Taken into Account by the Central Government and the Reserve Bank while giving or granting permissions or licenses under the Act.

Save as otherwise expressly provided in this Act, the Central Government or the Reserve Bank, as the case may be, shall while giving or granting any permission or licence under this Act, have regard to all or any of the following factors, namely:

- (i) conservation of the foreign exchange resources of the country;
- (ii) all foreign exchange accruing to the country is to be properly accounted for;
- (iii) the foreign exchange resources of the country are utilized as best to subserve the common good; and
- (iv) such other relevant factors as the circumstances of the case may require.

## Some Criticisms of the 1973 Foreign Exchange Regulation Act

[Remarks from debates in the Lok Sabha ("House of the People") of the Indian Parliament, quoted in Dilip K. Sheth, *Treatise on FERA (Law and Practice)* vol. 1 New Delhi: Bharat Law House Pvt Ltd, 1991]

## Mr. Jyotirmoy Basu

"... Any company having 15% or more equity participation should be termed as foreign controlled company. To prevent drainage of foreign exchange, financial collaboration with foreigners should be totally banned. Technical collaboration, however, in genuine priority section where technical know-how is not readily available in this country, foreign participation can be allowed for a limited period of time. There should be a rigidly applicable maximum ceiling on the quantum of royalty on technical know-how etc. Under no circumstances should it exceed a maximum of five percent of the labor cost. Use of international brandnames, capitalization of trade-marks, etc should be banned."

#### Mr M.R. Venkataraman

"After 25 years of independence it is pointless and harmful to allow any foreign capital whatever to operate here. It will do so only to the detriment of our economy. ... This participation of foreign capital covers one of the important sources of the leakage of foreign exchange. This does not mean we cannot take loans on reasonable interest and on our terms from other countries for the needs of our economy. But where is the need to allow foreign capital to continue to exploit us, and even to recognize it by a statute?"

## Government of India 4th Five-Year Plan

[Originally issued in July 1970; accessed from Government of India, National Planning Commission website (http://planningcommission.nic.in/plans/planrel/fiveyr/default.html) in January 2008]

### **Preface**

Planning is the vital instrument we have adopted to realise the social objective enshrined in our Constitution. Though the Five Year Plans we have already achieve a significant increase in the national income in the past eighteen years and laid the foundations of technological advance. The Plan is fast modernising our agriculture and strengthening and diversifying our industry. Above all, it has reinforced national unity and purpose.

The attack on our territory in 1962 and again in 1965 forced us to modify the pattern of national expenditure. Before we could reconcile the competing claims of development and defence, drought struck us. Foreign credits became uncertain, Recession followed. All these seriously restricted our freedom of choice. We had to divert our energies to fight drought and near famine and their aftermath. For some time, long-term planning had to be virtually suspended. But we succeeded in turning adversity to good use. We concentrated on import substitution which further enlarged our industrial base. This along with the need for more foreign exchange put us on the path of a more fruitful export drive. We maintained our investment in development work, especially in intensive agricultural programmes.

A new period has how opened. There is a welcome upsurge in the economy, and the increases in agricultural production have brought us nearer to self-sufficiency in foodgrains. But, inevitably, there are other problems, and a fresh challenge to face. Rural disparities have increased, partly owing to the very efforts we have made to move rapidly towards self-sufficiency in food, and partly owing to a certain tardiness in the matter of implementing the land reforms. Although the industrial recession has waned, new industries are not coming up fast enough and unemployment, especially of technically trained persons, continues to be acute. We have a larger and, understandably enough, a more articulate population.

Planning is the method to which we are committed for meeting such challenges. We have carried out three Five Year Plans. Each Five Year Plan has addressed itself specially to problems which have emerged either because of new political and economic developments in the country and in the world, or as a consequence of progress already achieved. The priorities and the emphasis have necessarily changed and have had to be adjusted from Plan to Plan, but we have always kept in view our long-term objectives.

The Fourth Plan represents a conscious, internally consistent and carefully thought out programme for the most efficient exploitation of our resources possible in existing conditions. The basic aim is to raise the standard of living of the people, especially of the less privileged sections of society. Our planning should result not only in an integrated process of increased production, but rational distribution of the added wealth. The overriding inspiration must be a burning sense of social justice. While increased production is of the utmost importance it is equally important to remove or reduce, and prevent the concentration of wealth and economic power. The *benefits* of development should accrue in increasing measure to the common man and the weaker sections of society, so that the forces of production can be fully unleashed. A sense of involvement, of participation by the people as a whole, is vital for the success of any plan of rapid economic growth. This can only be evoked by securing social justice, by reducing disparities of income and wealth, and by redressing regional imbalances. A reorientation of our socio-economic institutions in this spirit is accordingly, a first necessity.

One year of this Plan has already gone by. Between the Draft Plan and the present document, certain important changes have been made. The projected investment in the public sector has been stepped up so as to enable us to undertake a larger and bolder agenda of work. New schemes have been added to help the small farmer throughout the country, especially in the unirrigated areas. The emphasis is squarely on areas that have hitherto suffered from neglect. Transport and housing problems in urban regions will receive more attention. A small but significant beginning is also being made with special programmes for children.

The Fourth Plan thus provides a necessary corrective to the earlier trend which helped particularly the stronger sections in agriculture as well as in industry to enable them rapidly to enlarge and diversify the production base. In the long run, the full potential of growth cannot be realised unless the energies of all our people are put to profitable use. The emphasis on spreading the impetus and benefits of economic growth to the weaker sections is thus necessary in the interest of equality as well as growth. The Plan will now assist the less prosperous sections of our farming population to improve their position and make a yet bigger contribution to the national economy. Greater industrial activity and the modernisation of agriculture such as is proposed through the wider use of electric power and the adoption of intensive methods of cultivation in both irrigated and dry areas, would mean that a larger proportion of young people seeking jobs could find employment nearer home. At the same time, there are some new schemes, *e.g.*, for a network of service centres in the rural areas, which will open out opportunities for young entrepreneurs.

The nationalisation of the fourteen big banks is evidence of our determination to bring a greater volume of resources within the area of social decision. It has effected a major change in our economic structure. It enables us to pay more attention to the "small man's" needs, and it restricts the scope for the monopolistic operations of the privileged few. Among other areas where social considerations have still to make a comparable impact are the enforcement of land laws, the management of public sector enterprises, and the toning up of the administration as a whole.

There can be no doubt that the responsibilities devolving upon the public sector —without diminishing those of the private sector, in our mixed economy—will grow in range and volume. Socialism involves a reordering of society on a rational and equitable basis and this can only be achieved by assigning an expanding role to the public sector. Following the reorganisation of credit policies resulting from the nationalisation of major banks, the public sector can be expected more and more to occupy the commanding heights of the economy. It alone would be in a position to undertake investments of the requisite magnitude in such industries of vital importance to us as steel, machinery, machine tools, power generation, ship-building, petrochemicals, fuels and drugs. Naturally, the administration of public enterprises poses some problems of its own (here as in other countries) but they are not insuperable and will be overcome as we gain experience.

In addition to the fight against poverty and economic inequalities, the Plan seeks to enlarge the area of self-reliance in terms of financial resources and technological inputs. Here, too, the public sector has an important part to play. Besides striving to set an example in better management methods and ushering in a new pattern of worker management relations, the public sector should increasingly base itself on domestic know-how. The public and private sectors have both been too ready to look to foreign collaboration not only for financial but for technological resources. Such collaboration may be unavoidable when new processes have to be introduced but excessive reliance on it has induced a state of mind which inhibits the development of our own technological skills and managerial talents. We should rely more and more on our own machinery and technical know-how, even though it may entail some initial risks and difficulties. This

does not mean that we should be indifferent to the latest developments in technology, especially in the fast-growing sectors. But it would be folly to forget that a nation's strength ultimately consists in what it can do on its own and not in what it can borrow from others.

There has been a noticeable change in recent years in the climate of international economic cooperation. It is now increasingly reaffirmed by responsible sections of public opinion in the lending as well as in the borrowing countries that development assistance should not be regarded as an instrument of foreign or commercial policy but as a means of correcting dangerous imbalances in the world economy. However, "aid" is in reality credits which have to be repaid; and even if such credits are available on terms which are concessional in some respects, they often have features which are not consistent strictly with the objective of development. For some time to come we can benefit by more external credits, especially untied credits on concessional terms. But we have to take note of international realities as they are and reduce our reliance on foreign credits.

The policy of self-reliance does not mean that we should be actually reducing imports from the rest of the world. In fact, as the pace of development quickens, imports of industrial raw materials, intermediates and special components will go up. But we propose to pay for them increasingly through our own earnings from exports. Economic independence, therefore, hinges to a considerable extent on how we fare in export markets; and our export performance in turn would depend on the state of our economy at home and our success in developing a purposive, planned approach to the problem.

The complaint that planning has led to a rise in prices and that planning is, therefore, harmful, is misconceived and unfounded. Consumers with fixed incomes, particularly in urban areas face hardship when prices rise; but at the other extreme, when prices are reduced or depressed to uneconomic level, producers suffer and employment sags. If development means larger real incomes to ever larger numbers of people, some price increases can hardly be avoided. What we must ensure, however, is stability in respect of the core items of family consumption. An adequate supply of foodgrains and articles of everyday use must be maintained at fairly stable prices. Agricultural scientists who have brought about such notable increases in yields of wheat, and to some extent of millets and rice, have now turned to the task of bringing about similar gains in pulses and cash crops like oilseeds, cotton and sugarcane. In general, the possible impact of development plans on the price situation has been carefully studied, and every effort will be made to keep production and prices in balance.

Planning certainly has its critics, but the fact remains that in modern conditions, and in a developing country like ours, economic planning has become indispensable. Compared to the tasks to be accomplished, the resources of money, trained manpower and administrative and managerial skills are in short supply, and they have to be allocated primarily with a view to the national interest rather than the interest of any private individual or group. This is, after all, what the Plan seeks to do. At the same time, and through such rational allocation, it can lead to an augmentation of the now scarce resources, and this gradually extend the limits of our economic freedom.

For us in India, planning is a charter of orderly progress. It provides a framework of time and space that binds sectors and regions together and relates each year's effort to the succeeding years, impelling us all constantly to greater cooperative endeavour. By strengthening the economic fabric of the country as a whole and of the different regions, it makes a powerful contribution to our goal of national integration.

The Plan gives concrete expression to our national purpose. With its implementation, we shall have advanced yet another stage towards our goal of a prosperous, democratic, modern, socialist society. In

meetings of the National Development Council, I have found that all States, irrespective of the political beliefs their Governments hold, have very similar expectations of the Plan. This is so, because our people as a whole have pinned their hopes on the Plan, and want it to succeed, I am confident that they will not spare themselves in a determined effort to ensure that it does succeed.

### Indira Gandhi [Prime Minister]

## From Chapter 1 Approach and Policy

## Aims and Objectives of Planning

1.5. The term 'Socialistic Pattern of Society" was commented upon and elaborated in the Second Five Year Plan document and a long term strategy for economic advance was formulated based on that concept. In the words of the Second Five Year Plan, as quoted in the Third Five Year Plan document:

"The task before an underdeveloped country is not merely to get better results within the existing framework of economic and social institutions, but to mould and refashion them so that they contribute effectively to the realisation of wider and deeper social values.

"These values or basic objectives have recently been summed up in the phrase "socialist pattern of society". Essentially, this means that the basic criterion for determining lines of advance must not be private profit, but social gain, and that the pattern of development and the structure of socioeconomic relations should be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution, consumption and investment—and in fact all significant socio-economic relationship—must be made by agencies informed by social purpose. The benefits of economic development must accrue more and more to the relatively less privileged class of society, and there should be progressive reduction of the concentration of incomes, wealth and economic power. The problem is to create a milieu in which the small man who has so far had little opportunity of perceiving and participating in the immense possibilities of growth through organised effort is enabled to put in his best in the interests of a higher standard of life for himself and increased prosperity for the country. In the process, he rises in economic and social status. Vertical mobility of labour is thus no less important than horizontal mobility for nothing is more destructive of hope and more inhibitive of effort than a feeling that the accident of birth or of a poor start in life is likely to come in the way of a capable person rising in like in terms of economic and social status ....

"The socialist pattern of society is apt to be regarded as some fixed or rigid pattern. It is not rooted in any doctrine or dogma. Each country has to develop according to its own genius and traditions. Economic and social policy has to be shaped from time to time in the light of historical circumstances. It is neither necessary nor desirable that the economic should become a monolithic type of organisation offering little play for experimentation either as to forms or as to modes of functioning. Nor should expansion of the public sector mean centralisation of decision-making and of exercise of authority. In fact, the aim should be to secure an appropriate devolution of functions and to ensure to public enterprises the fullest freedom to operate within a framework of broad directives or rules of the game....

- "....The accent of the socialist pattern of society is on the attainment of positive goals, the raising of living standards, the enlargement of opportunities for all, the promotion of enterprise among the disadvantaged classes and the creation of a sense of partnership among all sections of the community. These positive goals provide the criteria for basic decisions. The directive principles of State policy in the Constitution have indicated the approach in broad terms: the socialist pattern of society is a more concretised expression of this approach. Economic policy and institutional changes have to be planned in a manner that would secure economic advance along democratic and egalitarian lines. Democracy, it has been said, is a way of life rather than a particular set of institutional arrangements. The same could well be said of the socialist pattern."
- 1.6. The Third Plan stated that "economic activity must be so organised that the tests of production and growth and those of equitable distribution are equally met. A high rate of economic growth sustained over a long period is the essential condition for achieving a rising level of living for all citizens and specially for those in low income groups or lacking the opportunity to work. ... A socialist economy must be efficient, progressive in its approach to science and technology and capable of growing steadily to a level at which the well being of the mass of population can be secured." It was clearly envisaged that "with the rapid expansion of the economy wider opportunities of growth arise for both the public and the private sectors and in many ways their activities are complementary .... The Five Year Plans enlarge the scope for individual initiative, as well as for cooperative and corporate effort .... In the context of the planned development the private sector has a large area in which to develop and expand. It has to function, of course, within the framework of national planning and in harmony with its overall aims, and there must be continuous stress on undertakings in the private .sector acting with an understanding of obligations towards the community as a whole. At the same time it is essential to ensure that the opportunities available in the private sector so not lead to the concentration of economic power in the hands of small numbers of individuals and businesses and that disparities in income and wealth are progressively reduced ..... On behalf of the community as a whole the State has a large responsibility for assessing the wider long-term needs of the nation as against the claims of individuals, sectional or regional interests, and in setting tile goals to be achieved."
- 1.7. Planning in India has thus to organise the efficient exploitation of the resources of the country, increase production and step up the tempo of economic activity in general and industrial development in particular to the maximum possible extent. The basic goal is a rapid increase in the standard of living of the people, through measures which also promote equality and social justice. Emphasis is placed on the common man, the weaker sections and the less privileged. It is laid down that planning should result in greater equality in income and wealth, that there should be progressive reduction of concentration of incomes, wealth and economic power and that benefits of development should accrue more and more to the relatively less privileged classes of society, and, in particular, the scheduled castes and the scheduled tribes whose economic and educational interests have to be promoted with special care.
- 1.8. Rapid economic development which is oriented towards establishing social justice must involve refashioning of socio-economic institutions. In part, tile social objectives will be the end result of economic development, but in a large measure their realisation will depend on how the course of development is charted and to what extent an appropriate structure of socio-economic institutions is evolved and operated. The strengthening of democracy in its social and economic aspect has to be attained through this refashioning. It means that major economic decisions and decisions regarding socio-economic relationships will be made by agencies informed with social purpose that there will be a devolution of functions and that there will be scope for experimentation. Democratic values are given effect to by

encouraging the growth of a feeling of participation on the part of the small man, the promotion of enterprise among the disadvantaged classes and the creation of a sense of involvement in the transformation of society among all sections of the community. The broad objectives of planning could thus be defined as rapid economic development accompanied by continuous progress towards equality and social justice.

## Tempo of Development

- 1.30. The Fourth Plan has to provide the next step forward in attaining accepted aims and objectives of Indian planning. In formulating it, note has to be taken of the successes and failures so far, the observed continuing trends in the economy and the specific experience of recent years. The most notable lesson is that the current tempo of economic activity is insufficient to provide productive employment to all, extend the base of social services and bring about significant improvement in living standards of the people. The continuity of even this moderate rate of growth is likely to be threatened if instability emerges because of the weakness on the food front and too great a dependence on foreign aid. The Fourth Plan aims at acceleration the tempo of development in conditions of stability and reduced uncertainties. It is proposed to introduce safeguards against the fluctuations of agricultural production as well as the uncertainties of foreign aid in the period of the Fourth Plan. Together with programmes of increased agricultural production the Plan provides for the building of sizeable buffer stocks to even out of supplies of food-trains and other measures to stabilise foodgrain prices and the price level in general. Further in regard 10 the financing of the Plan emphasis is being placed on additional mobilisation of internal resources in a manner which will not give rise to inflationary pressures. The outlays on the Plan are proposed to be closely related to the possibility of raising resources in a non-inflationary way. National self-reliance and growth with stability can be attained only if additional effort is put forward at every level. Dependence on foreign aid will be greatly reduced in the course of the Fourth Plan. It is planned to do away with concessional imports of foodgrains under PL 480 by 1971.\* Foreign aid net of debt charges and interest payments will be reduced to about half by the end of the Fourth Plan compared to the current level. Planned increases in production of foodgrains, raw materials and manufactured goods are calculated to make it possible to limit the growth of other imports to manageable proportions. A sustained increase of exports by about 7 per cent a year is another essential element of strategy in the Fourth Plan to secure balance on foreign account and approach speedily towards the goal of self-reliance.
- 1.31. These measures which seek to limit the extent of foreign aid and to avoid inflationary financing have influenced the total investment outlays proposed in the Plan. The resource position having improved it is possible to increase investment in public sector industrial activity, although the outlays will still be modest. It is hoped, however, that even with these outlays the tempo' of economic activity will be stepped up significantly in the initial years of the Plan, If the performance is better, the Plan outlays in later years could be larger than provided for now. Success depends essentially on the extent of internal effort made in saving and investment and on the operational efficiency and economic discipline displayed by official and non-official agencies and establishments. In this context special attention needs to be paid to the public sector where investment is expected to reach 60 per cent of the total. The original expectation of an expanding public sector yielding, in due course, substantial resources for its continued development have not been realised.

## From Chapter 2 The Long Term Perspective

2.41. Manpower Planning — Some of the important decisions which need to be taken in the immediate future for fulfilling the physical targets of agriculture and industry have been outlined earlier. Manpower

planning is another critical area where long-term requirements will have to determine current decisions. The decisions on the intake capacity in engineering and medical education are cases in point. The expansion of training facilities during the Third Plan has been on a scale which has eliminated the risk of quantitative shortages of engineering and medical personnel during the Fourth Plan. With marginal adjustments in the intake capacity of the institutions, the requirements during the Fifth Plan are expected to be met. The emergence of temporary imbalances of supply and demand should not be allowed to influence admissions to long duration courses: these judgments, based as they are on current market conditions, are net relevant to evaluating the supply and demand position several years ahead when the trainees will be seeking jobs. A long-term view of development of the economy can alone provide guidance for such calculations. Even then the task of analysis is by no means simple. There is need for sharpening the tools and techniques relevant to manpower planning and making a periodic review of demand for specialised personnel and their training requirement both in numbers as well as quality.

- 2.42. Fresh thought needs to be given to the effective training of large numbers of middle level personnel oriented to the changing requirement of dynamic development and modernisation of the economy. Such training should aim at developing the creative ability of individuals, equipping them for effectively performing their tasks in life and motivating them to serve the best interests- of society.
- 2.43. Design Organisation—Self-reliance in the technological sense implies the existence and effective functioning of indigenous organisations for design, construction and engineering of projects as well as capability for design and development of machinery, equipment and instruments indigenously manufactured. At present there is unwholesome dependence on foreign agencies for these services. As long as this deficiency remains, local talent will not have the scope to develop, and dependence on foreign help will be prolonged. It will expose development to uncertainties, besides involving an avoidable and large drain of foreign exchange resources. The capacity of the country to undertake large development projects on the basis of indigenous talent will not be developed despite very large expenditure on complex projects and precious time will be lost by not fully availing of the learning opportunities offered by these projects. It is only by participating actively and in positions of responsibility that skills and confidence are generated and scarce, high talent human resource is developed. It is, therefore, of importance for the future that urgent attention is given to promoting and encouraging healthy development of adequate design and engineering organisations, staffed by qualified personnel and working under proper technical leadership. Wherever competent organisations exist, they should be ensured adequate work.

## From Chapter 14 Industry

14.4. In spite of this rather uneven performance significant achievements contributing towards the realisation of diversified industrial structure were made during this period [1963-68]. Substantial capacity has been created in many new lines. A fairly sound base for future growth has been laid. Several of the large projects initiated at the commencement of the Third Plan have been completed and brought into production. In particular, in the field of heavy engineering and machine building industries, the commencement of production of the different units in the Heavy Engineering Corporation, Mining and Allied Machinery Corporation and of heavy electrical projects has now made it possible, largely through indigenous effort, the expansion, of further capacity in vi al sectors like iron and steel, mining and power generation. In the field of rail and road transport and communications, virtual self-sufficiency for the supply of equipment and rolling stock has been realised. Machinery manufacturing capacity for a variety of traditional industries like textiles, sugar and cement has been developed. Design and engineering capabilities have been expanded. Process technology has been either acquired or developed to enable the

planning, designing and construction of industrial projects with maximum indigenous effort in fields like fertilisers, rayon and dissolving pulp. There has been appreciable increase in the production capacity of steel and non-ferrous metals. Progress has also been made in the expansion of capacity in petroleum, fertiliser, and petro-chemical industries. In wide range of industries, it will be possible merely by the fuller utilisation of existing capacity—as distinguished from new investment to achieve substantially higher levels of production in the initial years of the Fourth Plan.

## **Approach**

14.12. There is first the need to achieve speedy self-reliance. With investment growing at a higher rate than aggregate income and given the rapid expansion of demand for manufactured inputs going into agriculture, the economy's requirements of capital equipment, metals, petroleum products and chemicals are growing fast. It is in these areas that dependence on imports is specially large. Consequently, the projected developments along with a progressive movement towards self-reliance necessitate a relatively faster expansion of the domestic production in these industries over the next decade or so. These industries are capital intensive and the optimum size of the units is relatively large. While the compulsion of circumstances makes it necessary to devote a substantial part of resources available for industrial development to such large and capital intensive industries, it is necessary to bear in mind that capital is a scarce resource in the economy.

## **Licensing Policy**

- 14.18. Both from the point of view of accelerating industrial development and improving administrative efficiency, a review of the system of controls has been considered necessary. The primary purpose of control is to ensure proper allocation of scarce resources. Regulation of industrial development has to be considered primarily in relation to the allocation of foreign exchange. Thus, import control and control on commodities in short supply would have to continue. Within the broad frame-work of control in strategic areas there is advantage in allowing the market much fuller play. The supply of a variety of industrial commodities has considerably eased and the need is one of stimulating demand and production. With the broader industrial base and growing availability of capital equipment and raw materials from within the country, the need to control further expansion in industries which are largely based on domestic resources has assumed less importance. Accordingly, the Draft Fourth Five Year Plan suggested the following industrial licensing policy:
- (1) all basic and strategic industries, involving significant investments or foreign exchange should be carefully planned and subjected to industrial licensing. It is necessary to ensure effective performance and to keep a close watch on the development of these industries. Hence, once the licence is granted, credit, foreign exchange and scarce raw materials would be earmarked for them and made available in time. This should be done for units both in the public and the private sectors;

## Foreign Collaboration

14.28. The basic policy in regard to foreign collaboration and foreign investment has been laid down and docs not call for any material modification. In the detailed application of this policy, care has to be taken to ensure that foreign collaboration is resorted to only for meeting a critical gap and does not inhibit the maximum utilisation of domestic know-how and services. Thus, for example, foreign collaboration in the

production of consumer goods, whether they can be produced within the country or not, will not ordinarily be permitted except in the interest of larger exports. Collaboration in directions in which indigenous effort can within a short time provide the services or goods or a substitute, ought not to be allowed. It is necessary to subject every proposal for foreign collaboration to fairly rigid tests. Import of foreign know-how particularly in sophisticated industrial fields would continue to be required. Even here, it would be essential to make simultaneous efforts for the adaptation of such know-how through indigenous effort and to improve on it to avoid the need for future purchases. In order to identify the fields in which foreign collaboration is required and to streamline the procedure for acceptance or otherwise of foreign collaboration proposals, a Foreign Investment Board has been set up. Broad guidelines regarding the terms on which foreign collaboration might be permitted have been indicated.

\*Note added by MJ Peterson: PL (Public Law) 480 was the United States law authorizing provision of food aid at no or low cost to developing countries. India's use of such aid was so widespread during the droughts of the early 1960s that nearly all Indians would have understood the reference.

## Government of India TENTH FIVE YEAR PLAN: 2002-07

[From Government of India Planning Commission website, http://planningcommission.nic.in/plans/planrel/fiveyr/default.html accessed January 2008]

## **FOREWORD**

I have a vision of an India free of poverty, illiteracy and homelessness – free of regional, social and gender disparities – with modern physical and social infrastructure – and a healthy and sustainable environment. Above all, an India which stands tall and proud in the comity of nations, confident in her capability to face all possible challenges. In short, I dream of an India which is counted among the ranks of developed nations before the end of the second decade of this new century.

The most pressing challenge facing us in the coming years will be to provide every Indian with the opportunity to realize his or her full creative potential. Demographic trends indicate that the rate of growth of our working age population during the next ten years will be the highest we have ever experienced, and unless we achieve a significant improvement in the pace of creation of work opportunities, there will be an increase in the level of unemployment. Such a situation cannot be allowed to materialize.

Unemployment not only entails high human costs, it can also lead to serious social disruption, and put enormous strain on the fabric of our society. More importantly, the youth of our country is our most valuable resource and there can be no greater shame than to let it go waste for the lack of will and determination. Future generations will not forgive us for opportunities lost. We have, therefore, made a commitment to the young people of this country that our economy will generate one crore work opportunities each year for the next ten years so that their talents and potentials are utilized for the benefit of the Nation.

These dreams cannot be realized without rapid growth and development. We must, therefore, explore every conceivable way to accelerate the rate of growth of the economy. We must collectively show the firm resolve to actualize the latent potentialities of our great country, putting behind all doubts and differences.

Planning has been one of the pillars of our approach to economic development since independence, and has stood us in good stead. Planning is not a static concept, and each of our Plans has reflected the changing imperatives of the times. The Tenth Plan carries forward this tradition.

While working out the road-map we need to follow to realize my vision of doubling the per capita income of our country and providing one crore work opportunities in the next ten years, the Planning Commission has firmly kept in view the ongoing process of transition to a market economy. The changing role of the Government and its relationship with the private sector, forms the cornerstone of the Plan.

There are four dimensions of this transformation that I consider to be of critical importance, which need to be guided at the highest political level.

First and foremost is the centrality of good governance to the development process. The best policies and programmes can flounder on the rock of poor governance and shortcomings in implementation. The Tenth Plan document has highlighted this issue by focusing on governance and implementation in a significant

manner. We need to bring about dramatic improvements in the functioning of our administrative, judicial and internal security systems in order to foster a dynamic and vibrant market economy.

Second, over the years, we have created numerous barriers to inter-state, and even intra-state, trade and commerce. Creation of a common economic space is one of the basic advantages of nationhood. All over the world, countries are coming together for this purpose, but we have continued to maintain and erect barriers. We must reverse this process decisively.

Third, we have inherited from the past a wide range of controls and restrictions on entrepreneurial initiatives, which have retarded the emergence of an investor-friendly climate in the country. We must shed the mind-set of shortages that had given birth to this regime of pervasive controls, and create an environment which welcomes entrepreneurship with open arms.

Finally, effective delivery of basic social services to our people cannot be ensured unless the institutions that are charged with these functions are made accountable to the people themselves. For this it is necessary to empower the Panchayati Raj Institutions by transferring to them both functions and resources. The Panchayati Raj Institutions must become the cutting edge of our three-tier political structure and the focal point of democratic decentralization.

The unanimous adoption of the Tenth Five Year Plan by the National Development Council is an affirmation of our collective belief in the potential of our country and the extent to which we share a common vision of our future. I congratulate the Deputy Chairman, Members and officials of the Planning Commission for having done a commendable job in shaping and giving substance to this shared vision. I would like to express my appreciation for the contribution made by a wide cross-section of our political leadership, representatives of civil society, academics, industrialists, and individuals from various walks of life, in this truly National effort. The process of Plan formulation encapsulates our deep commitment to democracy and the consultative process that form the core of our National ethos.

It is, however, important that we effectively communicate the goals, strategies and tasks of the Tenth Plan to the various constituencies of our diverse society, without whose support we cannot hope to move ahead rapidly. We need to generate enthusiasm about the Plan and its targets among our people, especially our youth. We can achieve these ambitious targets only when we are able to make development a people's movement, and the Tenth Plan a people's Plan. I seek the cooperation of all political parties, social organizations, voluntary agencies and the media in this important endeavour.

Atal Bihari Vajpayee

Prime Minister of India, and Chairman, Planning Commission

New Delhi

December 21, 2002