BOX 7.1

Comparative Growth Rates in the Industrial Sector 1980-2000

- The average growth rate of Industrial sector (measured by the Index of Industrial Production) during the period 1992-93 to 1999-2000 was lower than that observed during the period 1980-81 to 1991-92. The growth rate was lower in all the three sectors i.e. manufacturing, mining and electricity.
- In terms of use-based classification also there was a lower growth rate in basic and capital goods.
- However, the GDP from manufacturing sector at constant prices showed higher growth rates during the period 1992-93 to 1999-2000 when compared to the period 1980-81 to 1991-92 at the aggregate (total) level and amongst both registered and unregistered segments.

Parameter	Weight (Base : 1993-94=100)	Avg. Annual growth rate (1980-81 to 1991-92)*	Avg. Annual growth rate (1992-93 to 1999-2000)*
Index of Industrial Production			
General	**100.0**	**7.8**	**6.0**
Manufacturing	79.4	7.6	6.3
Mining	10.5	8.4	3.3
Electricity	10.2	9.0	6.6
Use-based classification			
Basic goods	35.6	7.4	6.1
Capital goods	9.3	9.4	5.9
Intermediate goods	26.5	4.9	9.1
Consumer goods	28.7	6.0	6.3
of which			
(i) Consumer durables	5.4	10.8	11.2
(ii) Consumer non-durables	23.3	5.3	5.1
GDP-Manufacturing at 1993-94 prices			
Total		6.1	7.4
Registered		6.8	8.1
Unregistered		5.0	6.2

*** Simple average of the annual growth rates.**

BOX 7.2

Industrial Policy initiatives announced in the Budget 2000-01

i) Rationalisation of excise duty by introduction of Central Value Added Tax (CENVAT) and reducing the number of rates of excise duty.

ii) Extension of the Maximum Retail Price (MRP) based excise duty to an increasing number of items, which will lead to simplification of the excise procedure.

iii) The Security and Exchange Board of India (SEBI) has been made the single regulator for Venture Capital Funds (VCF).

iv) Permission to raise FII equity limit to 40 per cent through a special resolution by shareholders.

v) Limit for providing collateral to obtain finance raised from Rs. 1 lakh to Rs. 5 lakh for SSI Units in the tiny sector.

vi) Reduction of import duty on cinematic camera and other related equipment for use in the entertainment industry and 100 per cent exemption on export profits extended to non-corporate assesses.

vii) Reduction in custom duty on several items of the IT & Telecommunication Sector.

viii) Enhancing the corpus of Rural Infrastructure Development Fund (RIDF) VI and reducing the interest charged on this by half a percent.

ix) MODVAT credit of CVD paid on project imports allowed up to 100 percent.

Industrial Policy

7.5 In order to consolidate the recovery in industrial growth during 1999-2000 and to push further the industrial policy reforms, major policy initiatives were announced in the Budget 2000-01 which are given in Box 7.2.

7.6 The Union Budget 2000-2001 also announced a number of fiscal incentives and other measures for strengthening the capital markets and the banking system. These include: i) 100 per cent exemption to the income of Investor Protection Funds of Stock Exchanges, exemption of income distributed under the US - 64 and other open-ended equity oriented schemes of UTI and mutual funds, and abolition of interest tax paid by banks and financial institutions. ii) Special thrust for the housing sector was continued by announcing measures like extending the benefits already available to this sector for two more years, raising the level of rebate on repayment of housing loans to Rs. twenty thousand per year under Section 88 of the Income Tax Act and removing the ceiling of ownership of one house for granting exemption from tax on long term capital gains if the capital gain from transfer of capital assets is invested in a house. iii) Reforms intending to restructure the public sector were carried forward making liberal the tax exemption of voluntary retirement benefits of employees. iv) The benefit for the infrastructure sector have been extended to essential sectors of urban infrastructure, *viz.* water treatment and solid based management.

7.7 In pursuance of Government's commitment to facilitate industrial growth through foreign participation, Foreign Direct Investment (FDI) has been permitted through the automatic route for all industries except a small negative list. The time frame for consideration of FDI proposals has been reduced from 6 weeks to 30 days for communicating Government decisions.

7.8 Recent decisions taken to further liberalise the FDI policy include : i) 100 per cent FDI permitted for Business to Business e-commerce. ii) Removal of cap on investment in the power sector. iii) 100 per cent FDI permitted in oil refining. iv)100 per cent FDI allowed in Special Economic Zones (SEZs) for all manufacturing activities. v) Condition of Dividend Balancing on 22 consumer items removed forthwith. vi) 100 per cent FDI allowed in Telecom Sector for certain activities with some conditions. vii) Payment of royalty up to 2 per cent for exports and 1 per cent for domestic sales allowed under automatic route on use of trademarks and brand name of the foreign collaborator without technology transfer. viii) Payment of royalty up to 8 per cent on exports and 5 per cent on domestic sales by wholly owned subsidiaries to offshore parent companies allowed under the automatic route without any restriction on the duration of royalty payments. ix) Offshore Venture Capital Funds/ Companies allowed to invest in domestic venture capital undertakings as well as other companies through the automatic route, subject only to SEBI regulations and sector specific caps on FDI. x) Existing companies with FDI are eligible for automatic route to undertake additional activities covered under automatic route. xi) FDI up to 26 per cent is eligible under automatic route in the Insurance sector, as prescribed in the Insurance Act, 1999, subject to obtaining a license from the Insurance Regulatory & Development Authority. xii) Automatic route is available to proposals in the Information Technology Sector, even when the applicant Company has a previous *joint venture or* technology transfer agreement in the same field.

7.9 In the process of review of laws, regulations and simplification of procedures, an Expert Group constituted by Government has finalised its recommendations. The Group has proposed enactment of a new Industry Act, which would focus on promotion and development of industry instead of regulation. The Government has initiated the process of examining the feasibility of framing a new enactment in this regard.