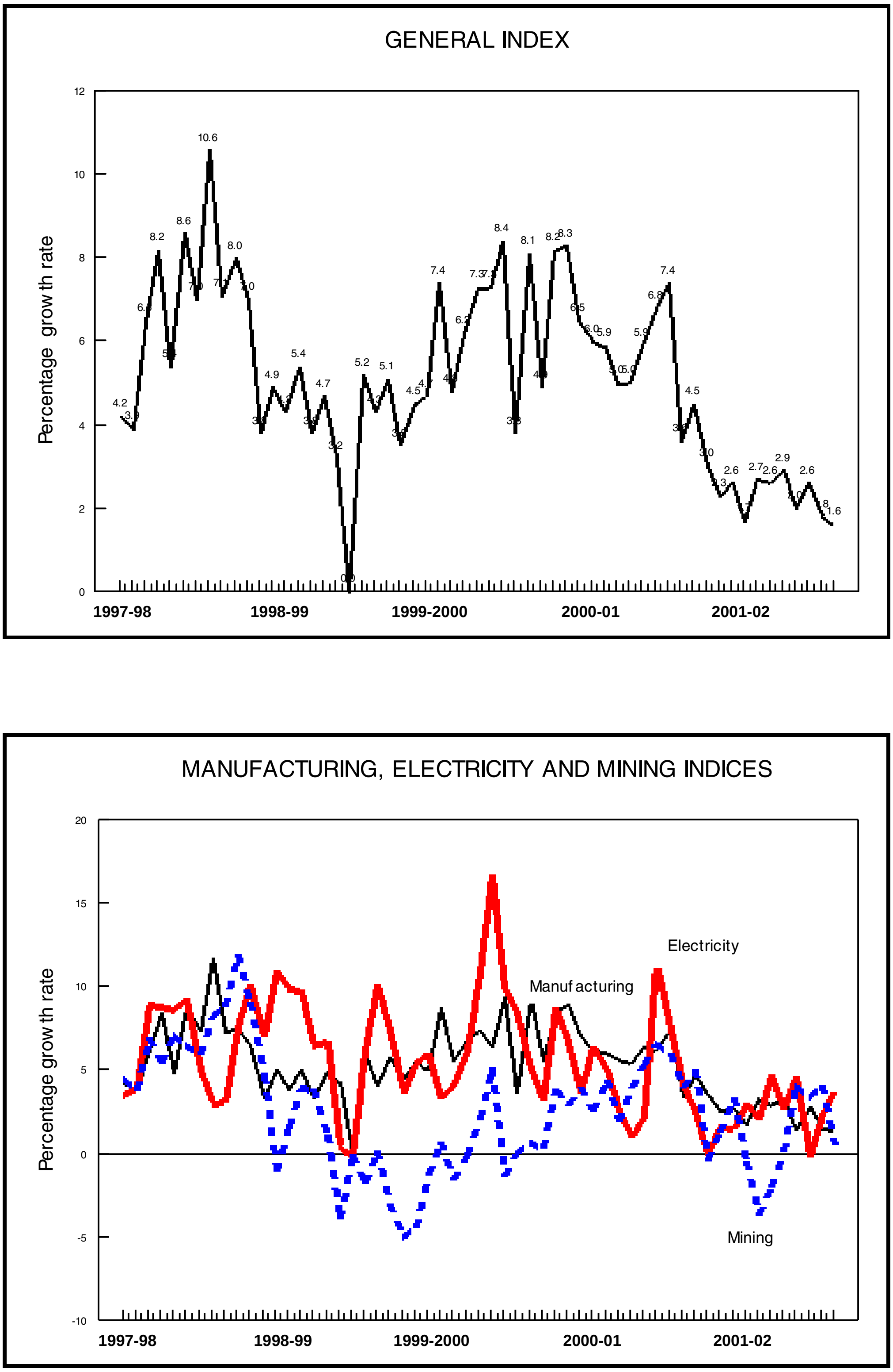
Industrial Policy

7.4 The government's approach to industrial sector development and growth as outlined in the last year's Economic Survey is 'that the Indian industry must be an efficient and competitive one able to stand on its own in the face of foreign competition.' The test of an efficient industry lies in its capability to provide goods and services of high quality and low cost. On its part the government has committed itself to 'removal of

Fig. 7.1 **Monthly Growth Rates of Industrial Production**
(1993-94 = 100)



BOX 7.1

Widespread Industrial Slowdown

The Slowdown

Industrial slowdown is widespread covering all broad sectors such as manufacturing, electricity and mining and all end use based groups such as capital goods, intermediate goods, consumer goods both durables and non-durables. The slowdown in domestic and global demand appear to be the major factors constraining industrial growth. This is reflected by low level of prices for manufactured goods in 2001-02. However, given the relatively low level of external sector for the Indian economy, domestic demand and supply side factors have played the key roles for industrial slowdown.

Causes of Slowdown

The slowdown in Industrial growth in 2000-01 and 2001-02 is due to a number of Structural and Cyclical factors.

Structural factors

- The adjustment process of industry in response to increased competition in the form of Mergers and Acquisitions is taking longer time than expected.
- Infrastructural bottlenecks and high costs and inadequate and unreliable supply of services in transport, communications and the power sector.
- Low levels of productivity in the industry because of low volumes and inability to reap economies of scale, outdated technology and restricted labour laws.
- Lower speculative demand for sectors like automobiles and real estate due to expectation of lower prices and reduction of taxes and duties in the short and medium term.
- High real interest rates.

Cyclical factors

- Periodic investment cycles, reinforced by government's decision to reduce customs duties to levels in East Asian countries by 2004, which might have deferred investment decisions.
- Business cycles affecting demand of some cyclical industries like cement, automobiles and steel.
- There is no pent up demand for consumer durables. The above cycles have been reinforced by reduction in inventory levels resulting from the introduction of e-business and e-commerce and better management of supply and demand by industry to cut costs.

Remedial Measures

- 100 per cent FDI has been permitted in many of the sectors such as B to B commerce, manufacturing activity in Special Economic Zones with some exceptions, many activities of the telecom sector, airports, courier services, for development of integrated townships, drugs and pharmaceuticals, hotel and tourism sector.
- Defence industry sector has been opened up for private sector participation with FDI permitted upto 26 per cent.
- Foreign equity upto 100 per cent will be allowed in Non-Bank Financial Companies (NBFCs).
- Excise duty rationalised to a single rate of 16 per cent CENVAT.
- Central Excise Rules, 1944 were simplified and a drastic reduction of rules made.
- Peak duty of customs reduced from 38.5 per cent to 35 per cent with the abolition of 10 per cent surcharge.
- Interest rates have been reduced.

infrastructural constraints in the power, transport and telecommunications sectors'. The following steps have been taken in 2000-01 and over April – December 2001, to facilitate efficiency in Indian industry.

(1) Rationalisation of excise duties.

(2) Removal of Corporate Tax surcharge to boost corporate profitability.

(3) Removal of income tax surcharge to stimulate demand.

(4) Reduction in interest rates.

(5) Further opening of FDI.

(6) Implementation of privatisation.

7.5 Progress has also been achieved in removing some infrastructure bottlenecks: implementation of the National Highways

Development Project, implementation of the National Telecommunication Policy, 1999 through the opening up of Domestic Long Distance (DLD) telephony and the introduction of the Convergence Commission of India Bill, 2001 in Parliament. Improvements in the telecommunications sector are visible, with sharp reductions in tariffs for Domestic Long Distance (DLD) and mobile telephony. Similar reductions in rentals and call charges for fixed lines and International Long Distance (ILD) tariffs and other services could come about through increased competition. They would help reduce input costs for industry.

Measures taken to improve the Legal framework

7.6 The shift from an economy laden with controls to one based on the principles of a free market necessitates safeguarding interests of consumers. It also needs to provide for companies to wind up inefficient operations. Important developments to address these and related issues introduced are detailed below.

1. Introduction of Competition Law Bill

The Competition Bill, 2001 to amend the MRTP Act, 1969 and to propose a modern Competition Law has been introduced in the Lok Sabha on August 6, 2001. The Bill is largely based on the recommendations of a High Level Committee. This Bill has been referred to the Standing Committee of Parliament.

2. Amendment in Companies Act, 1956 for incorporating new provision on corporate sickness and insolvency.

In order to solve the problems experienced and to reduce the time taken in the winding up/liquidation of companies under the Companies Act 1956, based on the recommendations of a High Level Committee, a Bill namely the Companies (Amendment) Bill, 2001 has been introduced in the Lok Sabha on August 30, 2001. This Bill has also been referred to the Standing Committee of Parliament.

3. The Abolition of Sick Industrial Companies Act (SICA) bill was introduced in the Lok Sabha on August 30, 2001.

4. Amendment in Companies Act, 1956 for incorporating new provisions for formation and conversion of co-operatives into companies.

Recognising the role performed by co-operatives and to enable formation of co-operative business as companies and to convert existing co-operative business into companies under a regulatory framework similar to that for private limited companies, the Companies (Second Amendment) Bill, 2001 has been introduced in the Lok Sabha on August 31, 2001. This Bill has also been referred to the Standing Committee of Parliament.

5. The Companies (Amendment) Ordinance, 2001 (Ordinance 7 of 2001)

Considering the market sentiments and recent developments in the United States of America and other places it was decided to liberalise certain provisions of the Companies Act, 1956 relating to buy back of shares. Accordingly, the Companies (Amendment) Ordinance, 2001 (Ordinance 7 of 2001) was promulgated on October 23, 2001. This ordinance has been replaced with Companies (Amendment) Act, [no. 57 of 2001] by Notification dated December 24, 2001.