

## **Policies for Efficiency and Productivity**

7.33 Efficiency and productivity in Indian manufacturing has long been inhibited by a few major policy problems. These include (a) reservation of items for the small scale sector; (b) high customs tariffs, distorting resource allocation and inhibiting the ability of Indian firms to participate in global production chains; (c) some rigidities in labour law acting as an impediment to efficiently building large firms; (d) some frictions faced in the creation and closure of firms in response to normal competitive market dynamics; and (e) distortions in the structure of domestic trade taxes and excise duties.

7.34 One of the most important developments in the world economy in the last 20 years has been the rise of Chinese

manufacturing. China appears to differ from India to a considerable extent on these five issues, which has helped high growth in GDP and employment, and hence poverty reduction in China. As discussed above, India achieved significant progress in 2003-04 in the area of external liberalisation by reducing "peak" custom tariffs on non-agricultural goods to 20 per cent and eliminating the special additional duty of customs (SAD) of 4 per cent. The liberalization also included reduction in customs duty on power transmission & distribution projects and projects imports with investment of at least Rs. 5 crore from 25 per cent to 10 per cent; on specified raw material/ inputs used for manufacture of electrical components or optical fibre cables from 15 per cent/5 per cent to 5 per cent/nil; and reduction in duty on iron and steel.