Industrial investment activities

7.51 The lead information suggests a perceptible improvement in the overall investment climate, despite some limitations pertaining to quality infrastructure and entry and exit barriers (Box 7.5).

7.52 Industrial investment intentions peaked in 2004 at nearly double the value of even the best year since 1991 (Table 7.15). Improved investment prospects were facilitated to a large extent by the considerable procedural simplifications introduced during the year. Industry-wise distribution of investment intentions continues to show a preference for textiles, metallurgical industries and chemicals other than fertilizers. The preference to textiles is a reflection of the intention of tapping the opportunities in the post-ATC regime.

7.53 The Government has also constituted the Investment Commission. The Commission will interact with industry groups/ houses in India and large companies abroad, particularly in sectors where there is a dire need for investment but adequate investment has not taken place so far. The Commission would endeavour to secure a certain level of investments every year and will make recommendations to the Government both on policies and procedures to facilitate greater FDI inflows into India.

Box 7.5 : India's investment climate from international perspective

- A new report from the World Bank "Doing Business in 2005; Removing Obstacles to Growth", indicates that India has made the highest progress among the South Asian Nations in improving its investment climate last year and was rated among the top ten reformers in the world. India established a private credit registry and made improvements in enforcing debt contracts and bankruptcy laws. But India still has a heavy regulatory burden on business and, India still ranks in the bottom quartile on the ease of doing business. The World Bank's "Doing Business" database shows that in China the average time taken to secure the necessary clearances for a start up, or to complete a bankruptcy procedure, is much shorter than in India Also, Indian labour laws allow firms less latitude with their employees than the labour court does in China, Brazil or Mexico.

Doing Business Indicators

Procedure	Brazil	China	India	Sweden
Time required for Starting a Business (Days)	152	41	89	16
Time required for registering a property (Days)	42	32	67	2
Time required for enforcing contracts (Days)	566	241	425	208
Time required to complete insolvency proceedings (Year)	10	2.4	10	2

Source: Doing Business in 2005; World Bank, IFC and Oxford University Press.

- Indirect taxes and Import duties also affect Investment climate. Since a major share of tax revenue of the Central and State Government comes from indirect taxes on the manufactured goods, fiscal policy can be a major determinant of the investment climate in the country. At the Central level, and excise duties and at the State level, sales and other local taxes influence investor behaviour. Although, there has been a substantial reduction in duty on industrial products during 1991 and 2004, the peak rate of 20 per cent, which is also the minimum rate in most cases and the high total duties, act as a drag on the efficiency of the Indian manufacturing industry. Excise duty is levied mostly at a comparatively high rate of 16 per cent. In addition, the states apply tax on the sales of goods with rates varying from 1 to over 30 per cent. Furthermore, sales tax is applied at every point of sale, with no credit set-off for the sales tax paid at the earlier stages. The high rate of taxes raises unduly the price paid by the consumer.

- Entry-exit barriers also adversely affect the Investment climate. One of the determinants of the investment climate for industry is the ease with which firms are able to enter into and exit from business activities. Various Studies have underlined the excessive regulation of entry and exit conditions. It is stated that a large number of clearances have to be taken, particularly in power and mining projects, both at the Central and State level. Such a system not only introduces delays but also creates avenues for corruption. As far as the exit barriers are concerned, one of the problems is Chapter VB of the Industrial Disputes Act, 1947. According to the provisions contained in this chapter, an undertaking with more than 100 employees is required to obtain permission from the appropriate Government before effecting retrenchments.