7

Industry

Overview

The year 2004-05 started on a positive note in April 2004 with annual growth of 8.9 per cent in the Index of Industrial Production (IIP). The deceleration in growth observed in May was quickly reversed, and IIP growth gained momentum until October and declined only marginally in November but revived again in December. During October, the IIP registered the highest growth (10.1 per cent) since November 1997. The current year conforms to the normal historic pattern of industrial buoyancy following a good agricultural year. Industrial growth of 8.4 per cent during April – December 2004-05 is the highest after 1995-96. Robust growth of 9.0 per cent in manufacturing – a sector with a weight of 79.4 per cent in IIP – in the first three quarters of the current year not only came in succession to the high growth in the two previous years, but also contributed significantly to the satisfactory performance of IIP overall (Table 7.1 and figures 7.1 & 7.2). In April-December 2004, mining and electricity grew by 4.8 per cent and 6.4 per cent, respectively.

Table 7.1 : Annual growth rate of industrial production in major sectors of industry

(Based on the index of industrial production)

Base: 1993-94=100

(per cent)

Period	Mining & Quarrying	Manufacturing	Electricity	Overall
Weights	**10.47**	**79.36**	**10.17**	**100.00**
1994-95	9.8	9.1	8.5	9.1
1995-96	9.7	14.1	8.1	13.0
1996-97	-1.9	7.3	4.0	6.1
1997-98	6.9	6.7	6.6	6.7
1998-99	-0.8	4.4	6.5	4.1
1999-00	1.0	7.1	7.3	6.7
2000-01	2.8	5.3	4.0	5.0
2001-02	1.2	2.9	3.1	2.7
2002-03	5.8	6.0	3.2	5.7
2003-04	5.2	7.4	5.1	7.0
2004-05 (April-December)	4.8	9.0	6.4	8.4

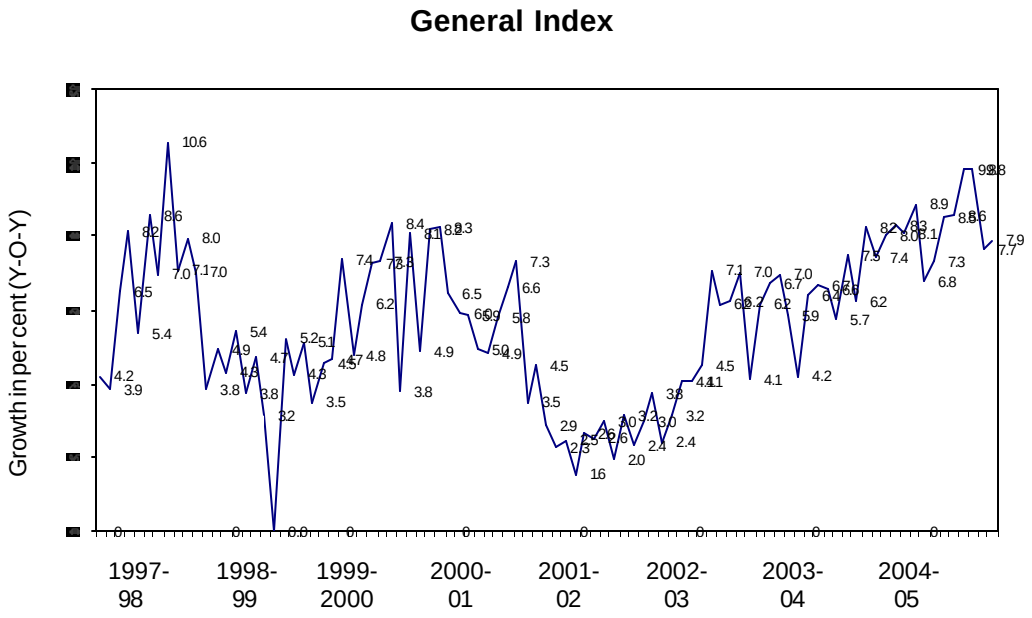
Source : Central Statistical Organisation.

7.2 In terms of use-based classification, in the first three quarters of the current year, continuation of double-digit growth in the capital goods industry observed in the previous two years was an encouraging sign (Table 7.2). The significant growth acceleration in capital goods production to 13.3 per cent in April-December from 10.1 per cent in the same period of the previous year indicates a possible step-up in investment activity. Machinery and equipment, with a growth rate of 21.9 per cent, remained the major contributor to the impressive growth in the capital goods sector. Growth in consumer goods sector, after being moderate during the initial months of the current year, picked up momentum subsequently to register a double-digit growth of 11.2 per cent during April–December 2004-05. Growth in consumer durables at 15.3 per cent was particularly pronounced. Low interest rates may have partly fuelled this growth of consumer goods. Growth in basic and intermediate goods was moderate.

7.3 Out of the seventeen industry groups at the two-digit level of classification, in April-December 2004-05, four registered double-digit growth; four growth between 5 and 10 per cent and six growth between 0 and 5 per

Fig. 7.1

Monthly Growth Rates of Industrial Production (1993-94=100)



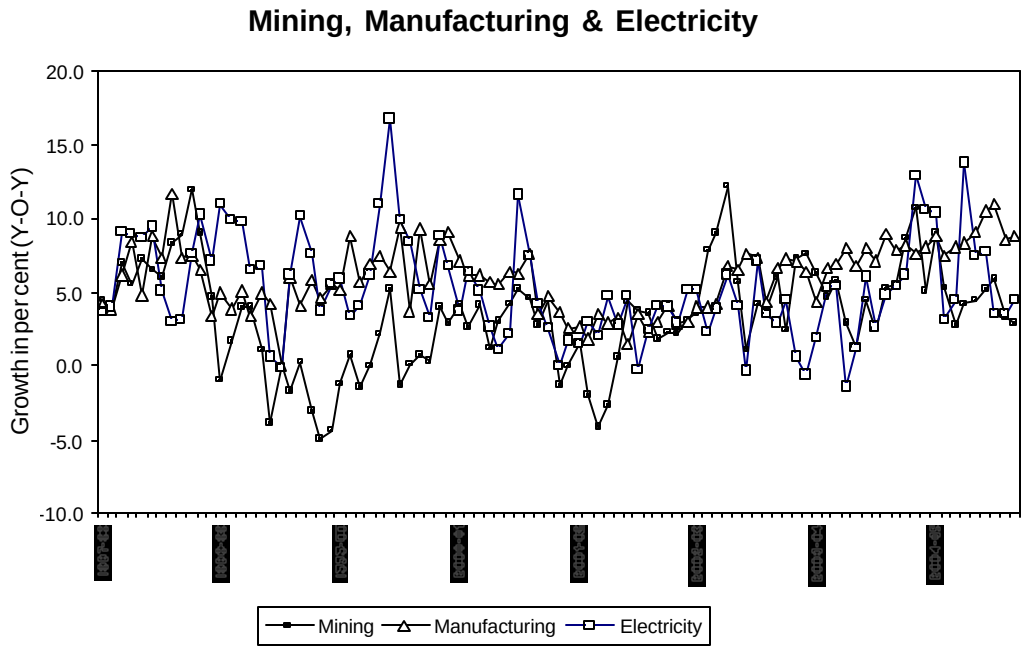


Table 7.2 : Growth rates of industrial production by use-based classification
(Base : 1993-94 = 100)

(per cent)

Sectors	Weight	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	April-December	
								2003-04	2004-05
Basic Goods	35.5	1.6	5.5	3.7	2.6	4.9	5.4	4.6	5.9
Capital Goods	9.3	12.6	6.9	1.8	-3.4	10.5	13.6	10.1	13.3
Intermediate Goods	26.5	6.1	8.8	4.7	1.5	3.9	6.4	6.5	6.7
Consumer Goods Of Which	28.7	2.2	5.7	8.0	6.0	7.1	7.1	7.7	11.2
(Consumer Durables)	5.4	5.6	14.1	14.5	11.5	-6.3	11.6	9.2	15.3
(Consumer Non-Durables)	23.3	1.2	3.2	5.8	4.1	12.0	5.8	7.3	9.8
IIP (Index of Industrial Production	100	4.1	6.7	5.0	2.7	5.7	7.0	6.6	8.4

Source : Central Statistical Organisation.

cent (Table 7.3). Three key groups, namely, basic chemicals and chemical products (except products of petroleum and coal), other manufacturing industries, and machinery and equipment other than transport equipment, with aggregate weight of about 32.9 per cent in the manufacturing sector and 26.1 per cent in the total IIP, recorded impressive growth rates of 15.7 per cent, 19.4 per cent and 21.9 per cent, respectively. Food products was the only important sector, which registered a negative growth of 1.1 per cent

Table 7.3 : Growth rates of industrial production by broad groups of manufacturing
(Base : 1993-94=100)

(per cent)

Code (NIC-1987)	Industry group	Weight	2002-03	2003 04	Apr'	May'	Jun'	Jul'	Aug'	sep'	Oct'	Nov'	Dec'	Apr-Dec.	
														2003-04	2004-05
20-21	Food products	9.1	11.0	-0.5	-22.4	-16.4	2.0	4.4	0.5	6.7	15.0	2.1	6.1	5.7	-1.1
22	Beverages, tobacco and related products	2.4	27.9	8.5	9.5	15.9	6.9	7.0	8.7	6.9	7.4	15.3	2.3	10.5	8.8
23	Cotton textiles	5.5	-2.7	-3.1	12.3	6.5	7.8	6.0	8.2	6.9	13.3	6.9	7.3	-5.7	8.3
24	Wool, silk and man-made fibre textiles	2.3	3.0	6.8	85.2	8.0	-12.5	2.1	-1.0	-6.2	1.7	-2.4	2.6	3.9	4.4
25	Jute and other vegetable fibre textiles (except cotton)	0.6	8.3	-4.2	6.7	-11.4	-25.0	-16.4	7.1	10.9	7.7	0.3	8.6	-1.2	-1.3
26	Textile products (including wearing apparel)	2.5	14.4	-3.2	27.4	-8.3	-1.3	-1.0	12.0	14.1	25.5	36.5	38.2	-2.8	14.8
27	Wood and wood products; furniture and fixtures	2.7	-17.6	6.8	-9.4	-7.0	-15.5	-11.8	-10.6	-10.1	-11.3	-4.3	-12.8	9.6	-10.4
28	Paper & paper products and printing, publishing & allied industries	2.7	6.8	15.6	2.5	7.0	2.9	8.4	3.2	-0.4	-5.6	0.6	36.6	21.0	6.3
29	Leather and leather & fur products	1.1	-3.2	-3.9	9.9	10.0	8.0	8.7	-3.5	1.2	-3.2	-1.6	-2.3	-1.4	2.7
30	Basic chemicals & chemical products (except products of petroleum & coal)	14.0	3.7	8.7	24.1	26.0	20.0	15.6	14.1	14.9	9.0	12.9	8.0	5.1	15.7
31	Rubber, plastic, petroleum and coal products	5.7	5.5	4.5	6.9	8.4	0.2	1.5	2.1	2.2	7.6	-3.5	-6.9	6.4	1.9
32	Non-metallic mineral products	4.4	5.1	3.7	2.9	-5.2	-1.5	-0.9	-1.2	2.7	5.3	13.1	3.3	4.8	1.9
33	Basic metal and alloy industries	7.5	9.2	9.2	-4.9	-2.3	-3.2	-3.5	4.1	12.6	9.4	10.9	11.1	10.6	3.8
34	Metal products and parts, except machinery and equipment	2.8	6.4	3.7	-5.6	7.9	7.3	16.6	14.7	9.4	0.8	7.0	1.9	1.7	6.7
35-36	Machinery and equipment other than transport equipment	9.6	1.6	15.8	25.6	23.1	31.1	27.8	25.3	18.3	21.3	11.6	16.9	10.6	21.9
37	Transport equipment and parts	4.0	14.6	17.0	4.2	-5.4	-1.7	1.5	5.1	6.4	13.9	1.7	2.9	19.1	3.2
38	Other manufacturing industries	2.6	0.1	7.7	0.1	16.2	16.3	10.0	18.1	48.6	30.8	18.3	19.0	6.0	19.4

Growth rates are estimated over the corresponding period of the previous year.
Source: Central Statistical Organisation.

Highlights of some industries

Automobiles

7.4 The high growth observed since 2001-02 in automobile production continued in the first three quarters of the current year. Annual growth was 16.0 per cent in April-December, 2004; the growth rate in 2003-04 was 15.1 per cent (Table 7.4). Consequent to liberalisation, the arrival of new and contemporary models, easy availability of finance at relatively low rate of interest and price discounts offered by the dealers and manufacturers appear to have stimulated the demand for vehicles and a strong growth of the industry. The automobile industry grew at a compound annual growth rate (CAGR) of 22 per cent between 1992 and 1997. With investment exceeding Rs. 50,000 crore, the turnover of the automobile industry exceeded Rs. 59,518 crore in 2002-03. Including turnover of the auto-component sector, the automotive industry's turnover, which was above Rs. 84,000 crore in 2002-03, is estimated to have exceeded Rs. 1,00,000 crore in 2003-04.

7.5 The progressive liberalisation of the norms for foreign investment and import of technology appear to have benefited the automobile sector with production of total vehicles increasing from 4.2 million in 1998-99 to 7.3 million in 2003-04. It is likely that the production of such vehicles will exceed 10 million in the next couple of years. The global standards achieved by the industry have manifested in the increasing exports of the sector. After a temporary slump during 1998-99 and 1999-00, such exports registered robust growth rates of well over 50 per cent in 2002-03 and 2003-04 each to exceed two-and-a-half times the export figure for 2001-02 (Table 7.5). Growth of exports of 32.8 per cent in the first three quarters of 2004-05 augurs well for the current year.

Table 7.4 : Automobile production (Numbers)

Category	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05*
Passenger Car	390,709	577,243	513,415	564,052	608,851	842,437	699,082
Multi Utility Vehicles	113,328	124,307	127,519	105,667	114,479	146,103	178,187
Commercial Vehicles	135,891	173,521	156,706	162,508	203,697	275,224	247,797
Two Wheelers	3,374,508	3,778,011	3,758,518	4,271,327	5,076,221	5,624,950	4,758,639
Three Wheelers	209,033	205,543	203,234	212,748	276,719	340,729	271,983
Total	**4,223,469**	**4,858,625**	**4,759,392**	**5,316,302**	**6,279,967**	**7,229,443**	**6,155,688**
Percentage Growth	**5.4**	**15.0**	**-2.0**	**11.7**	**18.1**	**15.1**	**16.0**

*** Figures relate to period April-December, 2004.**

Source: Ministry of Heavy Industry & Public Enterprises (Department of Heavy Industry).

Table 7.5 : Automobile export (Numbers)

Category	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05*
Passenger Car	25,468	23,271	22,990	50,088	70,828	126,249	121,478
Multi Utility Vehicles	2,654	5,148	4,122	3,077	1,177	3,067	3,892
Commercial Vehicles	10,108	9,912	13,770	11,870	12,255	17,227	19,931
Two Wheelers	100,002	83,237	111,138	104,183	179,682	264,669	256,765
Three Wheelers	21,138	18,388	16,263	15,462	43,366	68,138	51,535
Total	159,370	139,956	168,283	184,680	307,308	479,350	453,601
Percentage Growth	**-16.6**	**-12.2**	**20.2**	**9.7**	**66.4**	**56.0**	**32.8**

*** Figures relate to period April-December, 2004.**

Source: Ministry of Heavy Industry and Public Enterprises (Department of Heavy Industry).

7.6 Contrary to the misconception that the growth in automobile industry has catered only to the top income-stratum of society by producing mostly passenger cars, the fastest growth in volumes has come from commercial vehicles. Between 1998-99 and 2003-04, output of such vehicles has grown 2.8 times compared to the 2.2 times increase in passenger cars. Furthermore, two-wheeler output continues to dominate the volume statistics of the sector. In 2003-04, for every passenger car turned out by the sector, there were 7 two-wheelers produced. In the two-wheeler segment, there is a greater preference for motorcycles followed by scooters, with both production and domestic sales of motorcycles increasing at faster rates than for scooters in the current and previous years. However, mopeds have registered low or negative growth. Export growth rates have been high both for motorcycles and scooters.

7.7 Sales incentives, introduction of new models as well as variants coupled with easy availability of low cost finance with comfortable repayment options continued to drive demand and sales of automobiles during the first two quarters of the current year. The risk of an increase in the interest rates, the impact of delayed monsoons on rural demand, and increase in the costs of inputs such as steel are the key concerns for the players in the industry. As the players continue to introduce new models and variants, the competition may intensify further. The ability of the players to contain costs and focus on exports will be critical for the performance of their respective companies.

7.8 The auto component sector has also posted significant growth of 20 per cent in 2003-04, to achieve a sales turnover of Rs.30,640 crore (US$ 6.7 billion). Further, there is a potential for higher growth due to outsourcing activities by global automobiles giants. Today, this sector has emerged as another sunrise sector.

Textiles

7.9 Indian textiles industry is at the crossroads with the phasing out of quota regime on January 1, 2005 and the full integration of the textiles sector in the WTO (Box 7.1). Over the last few years, preparations have been on for meeting this challenge and opportunity by revamping textile legislation,

Box 7.1 : Impact of the expiry of agreement on textiles and clothing (ATC) on india

- The global trading regime in textiles and clothing sector has a long history. Starting with voluntary export restraints for cotton textiles in the 1950s, the Long-Term Agreement in International Trade in Cotton Textiles (LTA) of the 1960s and early 1970s, it graduated to the Multi-Fibre Agreement (MFA) from 1974 to 1994. On January 1, 1995, MFA was replaced by the WTO Agreement on Textiles and Clothing (ATC), with a commitment to a 10-year transitional process for the ultimate removal of these quotas and fully integrating the sector into WTO rules by January 1, 2005.
- Most of the studies conducted to estimate the impact of ATC expiry on textile trade, share the finding that some Asian countries are most likely to benefit from the dismantling of the quotas. They predict a substantial increase in market shares for China and India. According to a recent study by CRISIL, the Indian textile and apparel industry can achieve a potential size of US$ 85 billion by 2010, with a domestic market size of US$ 45 billion and nearly 60 per cent of exports comprising of garments. The potential translates to creation of 12 million job opportunities, 5 million directly in the textile industry, and 7 million in allied sectors.
- India has a natural competitive advantage in terms of a strong and large multi-fibre base, abundant cheap skilled labour and presence across the entire value chain of the industry ranging from spinning, weaving, and madeups to manufacturers of garments. But, with prices expected to fall in the post- quota regime with increased international trade and competition, such an advantage may not be enough. Enhanced efficiency and productivity is a must to meet this emerging challenge of global competition. Further, while textile and cloth buyers had been sourcing products from multiple sources because of quota limitations, there is an increasing trend towards reducing the number of vendors and opting for vertically integrated companies to eliminate inefficiencies in the supply chain. Indian players need to focus on reduction in lead time through cost-cutting measures. Low labour cost benefits tend to get neutralized by high infrastructure expenses.

Contd.....

- The Indian companies have been expanding capacities in anticipation of the opportunities emerging from the phase-out of the quota system. Under the Technology Up-gradation Fund Schemes (TUFS), applications with a project cost of Rs. 18,467 crore have been sanctioned for a loan amount of Rs. 8,505 crore. Indian textile industry needs to make for more investments in the coming years to capitalse on the post quota regime opportunities. Assuming a capital-to-turnover ratio of one, there is a need to invest Rs. 1,40,000 crore in the next six years to achieve the vision of reaching the textile and clothing exports target of US$ 40 billion by 2010 and to meet the growing domestic demand.

- Close attention needs to be paid to the composition, volume and value of products as well as competitive strengths vis-a-vis countries like China, Sri Lanka, Bangladesh and Pakistan. Textiles contribute around 19 per cent of India's total annual export earnings. Despite India's comparative advantage, a number of constraints continue to restrict the growth of Indian textile markets abroad. These include: (a) more than 60 per cent of the fabric production in the decentralised power loom sector, which is unable to compete with the cheaper and flawless fabric from state of the art plants of China or Taiwan; (b) infrastructure constraints; and (c) emergence of Preferential Trade Arrangements (PTA) as an important factor in the global textile trade.

- Ensuring a technology-induced self-sustained and multi-fibre base to enlarge its share in global exports of textiles and clothing, and maintaining its present leading position in the domestic market despite the removal of import restrictions, remain as the major challenges before the Indian textile industry. Areas where national policy measures will be necessary include reduction of disincentives for the factory mode of production (production in the industry is based on a decentralised system with continuing small-scale reservation for many items), introduction of a more flexible labour policy, removal of policy bias (although narrowing) against synthetic fibres, modernization and technological upgradation of the sector and easing of other trade and investment constraints.

- Several steps have already been taken to improve India's textile industry. Apart from the setting up of the Technology Upgradation Fund Scheme (TUFS), these include new schemes of Apparel Parks for Exports, and Textile Centres Infrastructure Development Scheme, de-reservation of the garments sector, increase in investment ceilings, and introduction of a Technology Mission on Cotton to improve the productivity and quality of cotton. FDI is freely allowed in the sector. Basic customs duty on designated textile machinery and spare parts have been reduced, and the Additional Excise Duty on Textiles & Textile Articles (AT&T) and Additional Excise Duty (Goods of Special Importance) Act have been abolished. Furthermore, except for mandatory excise duty on polyester filament yarn including texturised yarn, synthetic and artificial fibres and synthetic and artificial filament yarn, the option of excise exemption has been given to the whole value addition chain in the textile industry.

regulations and inspection system, introduction of an optional CENVAT regime in cotton textile, rationalization of duty on manmade fibres, removing the small-scale reservation of the woven garment sector and enhancing the investment ceilings for small-scale units in the knitwear sector.

7.10 The evidence on substantial improvement in the performance of the textile sector, however, remains sketchy as yet. After registering a growth rate of 8.5 per cent in 1999-2000, growth of fabric production remained at 2.6 and 4.5 per cent in the next two years and actually fell by 0.1 per cent in 2002-03. Fabric production increased only marginally by about 1 per cent in 2003-04 to touch a peak of 42,383 million square meters. There are some signs of resurgence in the current year, with production of fabrics in April-November 2004 rising by 4.8 per cent over the corresponding period last year. Similarly, for example, textile products (including wearing apparel) have registered a growth of 10.6 per cent in April-November, 2004-05 with a robust growth of 26 per cent in the last two months. The growth rate in 2003-04 of this category was negative. Cotton textiles has shown a good performance consistently in almost all the months of the current year and 8 per cent growth in the first eight months of the current year. The preference for textiles sector in recent industrial investment intentions is also a reflection of the growing interest of investors in this sector. In the first eight months (April-November) of the current year, there was a marginal increase in the share of the power

Table 7.6 : Production of textiles

(in million square meters)

Sector	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	April-November	
							2003-04	2004-05 (P)
Mills	1,785 (4.9)	1,714 (4.4)	1,670 (4.2)	1,546 (3.7)	1,496 (3.6)	1,434 (3.4)	953 (3.4)	976 (3.3)
Powerlooms (incl. Hosiery)	26,966 (74.7)	29,561 (75.3)	30,499 (75.7)	3,2259 (76.8)	33,835 (80.6)	34,794 (82.0)	23,159 (82.0)	24,541 (82.8)
Handlooms	6,792 (18.8)	7,352 (18.8)	7,506 (18.7)	7,585 (18.0)	5,980 (14.2)	5,493 (13.0)	3,701 (13.1)	3,660 (12.4)
Others	584 (1.6)	581 (1.5)	558 (1.4)	644 (1.5)	662 (1.6)	662 (1.6)	441 (1.5)	441 (1.5)
Total	**36,127**	**39,208**	**40,233**	**42,034**	**41,973**	**42,383**	**28,254**	**29,618**

(P)- Provisional

Source: Office of Textile Commissioner, Mumbai

Note: Figures in parenthesis indicate share in output

loom sector (including knitwear) in total fabric production to 82.8 per cent compared to 82.0 per cent during the corresponding period in the previous year (Table 7.6).

7.11 The signs of resurgence in textiles are also corroborated by an increase in textile exports by 14.1 per cent to US$ 6,542.8 million in April–September 2004-05, from US$ 5,732.0 million during the first six months of 2003-04 (Table 7.7). The item group 'other,' which includes handicrafts, coir and coir manufactures and jute goods, registered a negative growth of 5.0 per cent. A detailed analysis of this fall along with the issue of data classification needs to be carried out.

Gems and jewellery

7.12 The exports of gems and jewellery registered a buoyant growth of 34.2 per cent in dollar terms during April – September 2004-05. In 2003-04 the exports of this sector increased by 16.8 per cent and crossed a level of US$10.5 billion. This is a particularly interesting industry from an Indian standpoint, since it involves imported raw materials, domestic value added, and global markets and provides skilled employment. Indian gems firms are tightly integrated into global production chains.

7.13 In order to give a boost to exports of gems and jewellery, Government took major

Table 7.7 : Export of textiles

(in US$ million)

item	2001-02	2002-03	2003-04	2003-04 (April-Sept.)	2004-05 (April-Sept.)	Percent Variation
Ready made garment	4,618.7	5,334.3	5,625.8	2,491.2	2,779.1	11.6
Cotton textiles	3,081.9	3,361.4	3,501.1	1,419.5	1,662.5	17.1
Wool& woollentextiles	289.1	269.3	358.3	155.9	231.0	48.2
Manmade textiles	1,088.5	1417.5	1,817.6	805.1	990.4	23.0
Silk	437.0	451.3	534.2	227.7	278.8	22.4
Others@	1,249.6	1,578.9	1,322.6	632.6	601.2	-5.0
Total textiles	10,764.8	12,412.7	13,159.6	5,732.0	6,542.8	14.1

@ Includes Handicrafts, Coir & coir manufactures and Jute Goods.

Source: Foreign Trade Statistics of India (Principal Commodities & Countries) DGCIS,Kolkata.

policy initiatives during 2004-05, which include lowering import duty on platinum from Rs.550 per 10 gms to Rs.200 and exempting rough coloured precious gems stones from customs duty at the first stage itself instead of claiming reimbursements later. Rough semi precious stones are already exempt. This will further increase the exports of studded jewellery and platinum jewellery. The policies for this sector announced in the Foreign Trade Policy include duty free import of consumables for metals other than gold and platinum up to 2 per cent of f.o.b. value of exports; duty free re-import entitlement for rejected jewellery up to 2 per cent of f.o.b. value of exports; increased duty free import of commercial samples of jewellery to Rs.1 lakh; and import of gold of 18 carat and above under the replenishment scheme.

Electronics and Information Technology

7.14 In information technology (IT), India has built up valuable brand equity in the global markets. In IT-enabled services (ITES), India has emerged as the most preferred destination for business process outsourcing (BPO), a key driver of growth for the software industry and the services sector. The ITES-BPO industry is estimated to have grown by about 54 per cent with export earnings of US$ 3.6 billion during 2003-04. Output of the Indian electronics and IT industry is estimated to have grown by 18.2 per cent to Rs. 1,14,650 crore in 2003-04 (Table 7.8).

7.15 The share of hardware and non-software services in the IT sector has declined consistently every year in the recent past. The share of software services in electronics and IT sector has gone up from 38.7 per cent in 1998-99 to 61.8 per cent in 2003-04 (Table 7.8). However, there has been some welcome acceleration in the hardware sector with a sharp deceleration in the rate of decline of hardware's share in electronics and IT industry. Output of computers in value terms, for example, increased by 36.0, 19.7 and 57.6 per cent in 2000-01, 2002-03, and 2003-04, respectively. All the sub-sectors of the non-software component of electronic and IT industry grew at over 8 per cent in 2003-04, but this was far below the rate of growth of software services. Overall, after declining precipitously from 61.4 per cent in 1998-99 to 40.9 per cent in 2001-02, the share of hardware in this important industry declined only marginally to 38.2 per cent in the two subsequent years.

7.16 On the demand side of the software section of the industry, export markets continue to dominate the domestic segment. The size of the domestic market in software relative to the export markets for Indian software, which was 45.2 per cent in 1998-99, after declining rapidly to 29.8 per cent in 2001-02, fell only to 29.1 per cent and 27.7 per cent in the two subsequent years. Value of software and services export is estimated to have increased by 30 per cent to US$12.5

Table : 7.8 Electronics production

(Rs. crore)

Item	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
Consumer Electronics	9,200	11,200	11,950	12,700	13,800	15,200
Industrial Electronics	3,300	3,750	4,000	4,500	5,550	6,100
Computers	2,300	2,500	3,400	3,550	4,250	6,700
Communication. & Broadcasting Equip.	4,400	4,000	4,500	4,500	4,800	5,200
Strategic Electronics	1,300	1,450	1,750	1,800	2,500	2,700
Components	4,750	5,200	5,500	5,700	6,600	7,900
Sub-total	**25,250**	**28,100**	**31,100**	**32,750**	**37,500**	**43,800**
Software for Exports	10,940	17,150	28,350	36,500	46,100	55,500
Domestic Software	4,950	7,200	9,400	10,874	13,400	15,350
Total	**41,140**	**52,450**	**68,850**	**80,124**	**97,000**	**114,650**

Source: Ministry of Communication and Information Technology (Department of Information Technology).

Table : 7.9 Electronics exports

(Rs. crore)

Item	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
Electronics hardware	1,800	1,400	4,788	5,800	5,600	7,700
Computer software	10,940	17,150	28,350	36,500	46,100	55,500
Total	**12,740**	**18,550**	**33,138**	**42,300**	**51,700**	**63,200**

Source: Ministry of Communication and Information Technology (Department of Information Technology).

billion in 2003-04 (Table 7.9). The Software Technology Parks of India have reported software exports of Rs. 31,578 crore (US$ 6,947 million) during April – December 2004-05 as against Rs. 22,678 crore (US$ 4,913) during the corresponding period last year.

7.17 The IT-enabled service industry in India began to evolve in the early nineties when companies such as American Express, British Airways, GE and Swissair set up their offshore operations in India. Today a large number of foreign affiliates operate IT-enabled services in India. The different service lines of IT-enabled services offshored to India include customer care, finance, human resources, billing and payment services, administration and content development (Table 7.10).

7.18 The vision of IT policy is to use IT as a tool for raising the living standards of the common man and enriching their lives. Towards this end, the Department of Information Technology has taken up an ambitious programme of PC and Internet penetration to the rural and underserved urban areas. The Department has also announced a programme to establish State Wide Area Network (SWAN) up to the block level to provide connectivity for e-governance. The Department has also set up Community Information Centres (CICs) in hilly, far-flung areas of the North-East and Jammu and Kashmir to facilitate the spread of benefit of information and communication technology. It is also proposed to set up CICs in other hilly, far-flung areas of the country like Uttaranchal, Andaman & Nicobar and Lakshadweep.

7.19 A number of steps have been taken to meet the challenge of zero duty regime in 2005 under the Information Technology Agreement (ITA-1). Tariffs on raw materials, parts, other inputs and capital goods have been rationalized to make domestic manufacturing viable and competitive (Box 7.2).

Table 7.10 : Service lines in IT-enabled services in India, 2001-2004

(number of employees; revenue in US$ million)

Service line	2001-2002		2002-2003		2003-2004	
	Employment	Revenue	Employment	Revenue	Employment	Revenue
Customer care	30, 000	400	65, 000	810	95, 000	1,200
Finance	15, 000	300	24, 000	510	40, 000	820
Human resources	1, 500	30	2,1 00	45	3, 500	70
Payment services	7, 000	110	11, 000	210	21, 000	430
Administration	14, 000	185	25, 000	310	40, 000	540
Content development	39, 000	450	44, 000	465	46, 000	520
Total	**1,06, 500**	**1,475**	**1,71,100**	**2,350**	**2,45, 500**	**3,580**

Source: World Investment Report 2004, UNCTAD.

Box 7.2 : Policy initiatives taken during 2004-05 for Electronics and IT sector

- Customs duty on parts of computer, static converters for automatic data processing machines and parts thereof has been fully exempted.
- Computers have been exempted from excise duty.
- Import of second-hand capital goods has been permitted without any age restriction.
- The export obligation under EPCG scheme can also be fulfilled by the supply of Information Technology Agreement (ITA-1) items to the DTA provided the realization is in free foreign exchange.

Steel

7.20 The steel industry, in general, is on the upswing, due to strong growth in demand propelled particularly by the demand for steel in China. The world scenario coupled with strong domestic demand has benefited the Indian steel Industry. During April-December 2004-05, production of finished steel recorded a growth of 4 per cent over the corresponding period of the previous year to reach 28.3 million tonnes (Table 7.11). This growth rate, however, was lower than the growth rate in the preceding two years. Consumption of finished steel grew by 5.9 per cent and increased to 24.9 million tonnes, during the same period. The faster growth of domestic consumption relative to production was reflected in a decline in exports of finished steel (2.6 million tonnes) by 18.2 per cent compared to the corresponding period of previous year. Production of pig iron is falling due to the integration of the steel making process with the production of pig iron being consumed as a raw material in the process itself.

7.21 World steel prices rose from December 2001 onwards. The price increase of hot-rolled (HR) coils, during January 2002 to December

Table 7.11 : Production, consumption, export and import of finished carbon steel and pig iron

(in million tonnes)

Item	2001-02	2002-03	2003-04	2003-04 (April-Dec)	2004-05* (April-Dec)
PRODUCTION					
Finished steel					
Main producers	13.05	14.38	15.19	11.15	11.44
	(4.5)	(10.2)	(5.6)		(2.7)
Secondary producers	17.58	19.28	21.77	16.12	16.90
	(4.8)	(9.7)	(12.9)		(4.9)
Total	30.63	33.67	36.96	27.26.	28.34
	(4.7)	(9.9)	(9.7)		(4.0)
Pig iron					
Main producers	1.02	1.11	0.97	0.81	0.38
	(6.2)	(8.5)	(-12.7)		(-53.5)
Secondaryproducers	3.06	4.17	2.80	2.13	1.73
	(26)	(36.3)	(-32.9)		(-18.8)
Total	4.08	5.28	3.76	2.94	2.11
	(20.3)	(29.4)	(-28.7)		(-28.2)
EXPORTS					
Finished steel	2.70	4.51	4.84	3.24.	2.65
	(1.50)	(66.6)	(7.3)		(-18.2)
Pig iron	0.31	0.63	0.52	0.40	0.13
	(34.5)	(101.6.)	(-17.6)		(-99.7)
IMPORTS					
Finished steel	1.27	1.51	1.54	1.23	1.45
	(-9.1)	(18.8)	(2.0)		(17.9)
Pig iron	0.002	0.001	0.002	0.002	0.003
		(-50.0)	(100.0)		(50.0)
APPARENT CONSUMPTION					
Finished steel	27.43	28.89	31.17	23.56	24.94
	(3.4)	(5.3)	(7.9)		(5.9)
Pig iron	3.79	4.64	3.26	2.52	1.96
	(17.0)	(22.4)	(-29.7)		(-22.3)

Source: Joint Plant Committee. Note: Figures in parenthesis indicate variation over the previous year; * Provisional

2004 was from US$ 140 - 175 per tonne to about US$ 550 - 600 per tonne. The prices of steel melting scrap rose from a low of US$ 93 - 94 per tonne to US$ 275 - 285 per tonne. Domestic steel demand rose due to significant construction activity, particularly the highway construction undertaken by the National Highways Authority of India (NHAI). The increased production of steel has in turn led to rise in prices of raw materials like scrap, coking coal and metallurgical coke.

7.22 The wholesale price index (WPI) for iron and steel, after going up by 5.1 per cent in 2002-03 to 150.2, increased by 35 per cent to 202.1 in 2003-04, and further to 237.8 in the current year up to December 31, 2004. In budget 2004-05, the customs duty on non-alloy steel was reduced from 15 per cent to 10 per cent and on alloy steel from 20 per cent to 15 per cent. In August 2004, the customs duty on non-alloy steel was further reduced from 10 per cent to 5 per cent; on melting scrap from 5 per cent to 'zero' and on ships for breaking from 15 per cent to 5 per cent. Further, customs duty on several raw materials used by the steel sector like non-coking coal, metcoke and nickel has been reduced to 5 per cent and on coking coal to 'zero'.

7.23 To bring down the prices of steel, the excise duty on steel products was reduced from 16 per cent to 8 per cent with effect from February 28, 2004 with a caveat that the duty regime will be reviewed. Budget 2004-05 revised this partially by increasing the duty from 8 per cent to 12 per cent, as the intended impact of duty cut on moderating prices was not achieved.

7.24 While the increase in the domestic prices of steel because of an increase in international demand cannot be avoided, attention needs to be paid to the problem of adequate and reliable supply of coal to the steel industry. Efforts are required for securing assured linkages of coking coal from overseas sources. Furthermore, cross-border investment in captive coal mines, especially for coking coal, in major source countries as well as investment for developing coal mines in India, need to be encouraged. Further, the movement of raw materials and finished steel would need good rail and road network as well as substantial improvement in port handling, storage and haulage facilities.

Chemical, petrochemical and pharmaceutical industry

Basic chemicals

7.25 The Indian chemical industry comprises both large and small units. The fiscal concessions granted to small scale sector in mid-eighties led to establishment of a large number of units in the small scale industry sector. Currently, the chemical industry is in the midst of a major restructuring and consolidation. During 2003-04, the production of major chemicals increased by 6.8 per cent and reached a record level of 7,062 thousand tonnes. During 2004-05, the production is estimated to grow by 4.8 per cent, to reach a level of 7,403 thousand tonnes. With the shift in emphasis on product innovations, brand building and environmental friendliness, this industry is increasingly moving towards greater consumer orientation.

Petrochemicals

7.26 With growth of about 18 per cent per annum during the 1990s, the Indian petrochemical industry is an established industry today. It comprises of synthetic fibres, polymers, elastomers, synthetic detergents and performance plastics. Production of major petrochemicals in 2003-04 increased by 6.9 per cent over that in the previous year (2002-03) and reached a level of 7,006 thousand tonnes. During 2004-05, production of major petrochemicals is expected to grow by 5.0 per cent and reach a level of 7,355 thousand tonnes. The current basic customs duty on commodity polymers is 15 per cent and excise duty is 16 per cent. The domestic prices of polymers are benchmarked against international prices. During January 2004 and January 2005, the average price of commodity polymers in South East region increased from US$ 800 per MT to US$ 1100 per MT. Naphtha and natural gas (C2/C3 fraction) are the basic

feed stocks for petrochemicals and are also used as fuels for power generation. One of the major reasons for the relatively lower growth rate during the current year is the increase in the prices of crude oil from about US$32.2 per barrel in March 2004 to about US$50-55 per barrel in October – November 2004, though the prices started coming down thereafter.

7.27 The Government has been taking various policy measures for the growth of the petrochemical industry. Realizing the potential of growth in this sector, the Department of Chemicals and Petrochemicals is considering policy initiatives in the areas of modernisation and upgradation of technology, recycling, exploring the possibility of setting up sub-sector specific studies on the emerging areas of application, setting up a fund for technology upgradation on the lines of the scheme for textiles and rataionalisation of tax structure in this sector. A National Policy on Petrochemicals, including the policy initiatives mentioned above, is currently under consideration in the Department.

Pharmaceuticals

7.28 The Indian pharmaceutical industry, with US$4 billion in domestic sales and over US$3 billion in exports, is showing satisfactory progress in terms of infrastructure development, technology base and product use. The industry now produces bulk drugs belonging to all major therapeutic groups requiring complicated manufacturing processes and has also developed excellent 'good manufacturing practices' (GMP) compliant facilities for the production of different dosage forms. The strength of the industry is in developing cost-effective technologies in the shortest possible time for drug intermediates and bulk actives without compromising on quality. This is realized through the country's strengths in organic synthesis and process engineering. The country's fame as a low cost producer of antiretroviral and supplier of the same to international organisations and, more importantly, to the needy patients in Africa, is now well known.

7.29 The Department of Chemicals and Petrochemicals is working on issues of price management of drugs, including making life-saving drugs available at reasonable prices, reducing trade margins on generic drugs and data protection. A task force has been constituted to suggest options other than price control for making prices of life saving drugs reasonable.

7.30 The focus under the R&D effort is to encourage development of new molecules. A provision of Rs. 150 crore has been made under the Pharmaceutical Research & Development Support Fund. A Drug Development Promotion Board under the Department of Science & Technology has also been set up for the utilisation of this fund. Feasibility of setting up a Mega Chemical Industrial Estate in the country with world-class infrastructure facilities is also being studied.

7.31 For the first time in many years, the international pharmaceutical industry is finding great opportunities in India. The process of consolidation, which has become a generalised phenomenon in the world pharmaceutical industry, has started taking place in India. The pharmaceutical industry, with its rich scientific talent and research capabilities, supported by Intellectual Property Protection regime, is well set to take a great leap forward. As regards product patents for drugs, an amendment to the Indian Patents Act has been carried out through the Patent (Amendments) Ordinance, 2004 on December 26, 2004. The Ordinance amends the Indian Patents Act, 1970 for the third time with a view to introducing product patents for drugs, food and chemicals (see Box 7.3).

Cement

7.32 The Indian cement industry not only ranks second in the production of cement in the world but also produces quality cement to meet global standards. The induction of advanced technology has helped the industry immensely to conserve energy and fuel and to save materials substantially. Apart from meeting the entire domestic demand, the industry is also exporting cement and clinker.

Box 7.3 : Patents and India

- During 1947 to 1972, with a strong product patent regime under the Indian Patent Act of 1911, most of the effective drugs patented by foreign companies were not produced in India, and the drug prices in the country were the highest in the world. Under the Indian Patent Act, 1970, product patents were not allowed, and only process patents were granted in respect of inventions relating to drugs and medicines. This enabled the indigenous drug industry to manufacture the products patented in other countries by developing and using a different process.
- In 1995, India agreed to adopt the product patents regime by 2005, as a part of its WTO commitments. This has encouraged our pharmaceutical companies to adopt a strategy of R&D based innovative growth. This can transform the Indian chemical and pharmaceutical industry, particularly, the biotech sector, in which it has good prospects.
- Government has issued the Patent (Amendments) Ordinance, 2004 on December 26, 2004 to further amend the Patent Act, 1970. The Ordinance amends the Indian Patents Act, 1970 for the third time (the earlier two amendments were enacted in 1999 and 2002) to introduce product patents for drugs, food and chemicals. With this, Government has adhered to the January 1, 2005 deadline for implementation of the Product Patent Regime, in conformity with the Trade – Related Intellectual Property Rights (TRIPS) Agreement of the World Trade Organisation (WTO).
- The salient features of the third amendment to the Patent Law are as under:

  a) Extension of product patent protection to all fields of technology, by extending it to drugs, food and chemicals.

  b) Deletion of the provisions relating to Exclusive Marketing Rights (EMRs) (which would now become redundant), and introduction of a transitional provision for safeguarding EMRs already granted.

  c) Introduction of a provision for enabling grant of compulsory licence for export of medicines to countries, which have insufficient, or no manufacturing capacity, to meet emergent public health situations (in accordance with the Doha Declaration on TRIPs and Public Health).

  d) Modification in the provisions relating to opposition procedures with a view to streamlining the system by having both pre-grant and post-grant opposition in the Patent Office.

  e) Addition of a new proviso to circumscribe rights in respect of mailbox applications so that patent rights in respect of the mailbox shall be available only from the date of grant of patent, and not retrospectively from the date of publication.

  f) Strengthening the provisions relating to national security and to guard against patenting abroad of dual use technologies.

  g) Clarification of the provisions relating to patenting of software related inventions when they have technical application to industry or are in combination with hardware.

  h) Rationalisation of provisions relating to time-lines with a view to introducing flexibility and reducing the processing time for patent applications, and simplifying and rationalizing procedures
- There have been apprehensions from a few quarters that the Patent Amendment will drive up drug prices by ruling out access and availability of medicines at low cost. However, such apprehensions are unfounded. In the first place, the fact remains that 97 per cent of all drugs manufactured in India are off-patents, and so will remain unaffected. These cover most of the life saving drugs, as well as medicines for common ailments. In patented drugs also, in most of the cases there are always alternatives available. Further, the country has 13 Sections under Chapter XVI pertaining to Compulsory Licensing in place; and the Act has strong provisions under Chapter XVII for outright acquisition of patents to meet national requirements. Besides, there is also the Drug Price Control Order administered by the National Pharmaceuticals Price Authority. With such a framework in place, the concerns and fears relating to rise in drug prices are misplaced. Besides, there are adequate safeguards to protect the interests of domestic industry and the common man from any increase in the prices of drugs.
- The important public interest provisions in the Patent Law are as under:

  a) **Conditional grant of patent (Section 47) :** Empowers the Government to import, make or use any patent for its own purpose. For drugs, it also empowers import for public health distribution.

Contd.....

b) **Revocation of patent in public interest (Section 66):** Empowers the Government to revoke a patent where it is found to be mischievous to the State or prejudicial to the public.

c) **Grant of compulsory licence (Sections 82 to 94):** Chapter XVI deals with the general principles and circumstances for grant of compulsory licences in order to protect public interest particularly public health and nutrition. These provisions check the abuse of patent rights. They can be invoked if the reasonable requirements of the public with respect to patented inventions have not been satisfied, and the patented invention is not available for public at a reasonably affordable price, and if the patented invention is not worked in the territory of India. Section 92 of this law provides for action in case of national emergency, extreme urgency and public non-commercial use, and can be invoked without the grace period of 3 years from grant of patent.

d) **Use of invention for the purpose of Government [Sections 100 & 101]**: Compliments Section 47.

e) **Acquisition of invention and patent for public purpose [Section 102]:** Empowers the Government to acquire a patent to meet national requirements.

f) **Bolar provision [Section 107 (A) (a)]:** Facilitates production and marketing of patented products immediately after expiry of the term of patent protection by permitting preparatory action by non-patentees during the life of the patent.

g) **Parallel import [Section 107 (A) (b)]:** Provides for import so that patented product can become available at the lowest international price.

- Apart from manufacture of drugs, the product patent regime will help the pharmaceutical industry to tap outsourcing of clinical research. By participating in the international system of IPR protection, India, with its vast pool of scientific and technical personnel, and well-established expertise in medical treatment and health care, has unlocked vast opportunities in both exports and outsourcing and has the potential to become a global hub in the area of R&D based clinical research. The Patent Ordinance also provides adequate safeguards to protect the interest of the domestic industry, and the citizen from any increase in prices of drugs.

The export of cement during 2002-03 and 2003-04 was 6.92 million tonnes and 9.00 million tonnes, respectively. Export during April-December, 2004-05 was 7.32 million tonnes.

7.33 Growth rate of the cement industry, with 128 large and over 300 mini cement plants with estimated annual installed capacity of 151.69 million tonnes and 11.10 million tonnes, respectively, has been decelerating in recent years (Table 7.12). However, indications for the current year suggest a better performance by the cement industry.

Table 7.12 : Production of cement

Year	Production (in lakh tonnes)	Growth rate
1999-2000	982	11.72
2000-01	976	(-) 0.61
2001-02	1,069	9.52
2002-03	1,164	8.88
2003-04	1,235	6.09

Source: Department of Industrial Policy and Promotion.

7.34 Given the enormous need for infrastructure and housing, which require large quantities of cement as a basic building block, the prospects of the industry are bright. This has been endorsed by market developments such as mergers and acquisitions by both domestic and international players. Keeping in view the trend of growth of the industry in previous years, a production target of 1330 lakh tonnes has been fixed for the year 2004-05. During April-December, 2004-05 the production of cement has been 962.95 lakh tonnes, which is 6.81 per cent higher than the production in the corresponding period of last year.

7.35 The Working Group on Cement Industry for the formulation of Tenth Five Year Plan and other studies on global competitiveness of the Indian cement industry highlight constraints such as high cost of power, high freight cost, inadequate

infrastructure and poor quality of coal. As per the 10th Plan, additional capacity creation is being hampered by the lack of long-term coal linkages. In order to utilize the excess production capacity available with the cement industry, the Government has identified the following thrust areas for increasing demand:

– further push to housing development programmes;

– promotion of concrete highways and roads;

– use of ready-mix concrete in large infrastructure projects; and

– construction of concrete roads in rural areas under Prime Minister's Gram Sadak Yojana.

7.36 During the Tenth Five Year Plan, the industry is expected to add capacity of 40-52 million tonnes, mainly through expansion of existing plants and use of more fly ash in the production of cement.

Oil & Gas

7.37 With the hike in international petroleum prices, the oil and gas sector, including the retail price of refined petroleum products has been a matter of public attention. While the country imports 70 per cent of its requirement of crude petroleum, it is not only self-sufficient in refined petroleum products but also has an exportable surplus of such products. The imports of petroleum products were 8.00 million metric ton (MMT) in 2003-04 and 5.61 MMT in April-December, 2004-05. Against this, exports of petroleum products were 14.62 MMT in 2003-04 and 13.03 MMT in April-December 2004-05. Rapid increase in exports contributed to buoyant growth in the output of petroleum products (Table 7.13). With 18 refineries in the country (17 in the public sector and one in the private), the refining capacity during the last two years, since April 1, 2002, has increased from 114.67 MMT per annum (MMTPA) to 127.37 MMTPA as on October 1, 2004. By the end of the Tenth Plan, it is expected to reach 141.7 MMTPA.

7.38 The lack of a well-functioning market-determined pricing system, partly because of the lack of vibrant competition among companies with diversified ownership, continues to constrain the industry's performance. Despite the surge in international prices of petroleum (with West Texas International (WTI) touching a record level of US$ 56 per barrel in the last week of October 2004) moral suasion resulted in the first domestic retail selling price-revision for motor spirit and high speed diesel (HSD) in 2004 being postponed to June 16. Some excise duties were also reduced. There were no price revisions after June 16 until July 31, 2004. Effective August 1, 2004, Government put in a revised methodology allowing oil companies limited freedom to revise the prices of motor spirit and HSD. The methodology consists of allowing oil marketing companies to decide the retail prices of motor spirit and HSD based on the previous fortnight's average international price, provided the exchange rate adjusted Cost and Freight (C&F) inclusive product price was within a band of ± 10 per cent around the mean of (a) preceding three months' rolling average prices, and (b) preceding one year's average prices. Oil companies have to observe the band, and in case of the required adjustment breaching the band, approach the Government for moderation of excise duties.

Table 7.13 : Production of petroleum products

Year	Production (MMT)	Growth rate (per cent)
2001-02	104.3	4.8
2002-03	108.7	4.2
2003-04	117.6	8.2
2004-05 (Apr-Dec.)	91.3	6.4

Source : Ministry of Petroleum & Natural Gas.

7.39 Total balance recoverable reserves of the country as on April 1, 2004 was about 1.6 billion tonnes of oil (0.7 billion tonnes) and oil equivalent gas (0.9 billion tonnes). The dependence on imported crude has led to focused attention on energy security (Box 7.4). The New Exploration Licencing

Box 7.4 : Strategies for achieving energy security

- Increasing exploration efforts through the New Exploration Licensing Policy (NELP). Under the four rounds of NELP, Production Sharing Contracts (PSCs) have been signed for 90 blocks.
- Exploring in new areas, especially in deep water and difficult frontier areas; and also exploring in the deeper layers of the producing fields.
- Developing faster the newly discovered fields and stepping up the use of new technologies for seismic surveys, work over, stimulation operations, drilling of wells etc. in producing areas.
- Improving the recovery factor from existing major fields by implementing Enhanced Oil Recovery (EOR)/Improved Oil Recovery (IOR) schemes.
- Acquiring acreages abroad.
- Tapping alternative sources of energy such as Coal Bed Methane (CBM), Underground Coal gasification (UCG) and gas hydrates.
- Substituting fossil fuels in part by blending with hydrogen and bio-fuels like ethanol and bio-diesel.

Policy (NELP), which was approved in 1997 and became effective in February 1999, appears to be bearing good dividends. In the first four rounds of NELP, production sharing contracts (PSCs) for 90 exploration blocks have been signed, and 19 discoveries have already been made so far in Cambay onshore, North East Coast and Krishna-Godavari (KG) deepwater areas. Of these, North Surat (NS) and Bhima fields in Cambay onshore block have been under production since May, 2004 and November, 2004 respectively. Significantly, the reserves of gas, which is an environment friendly fuel, have gone up over 50 per cent in last 2-3 years due to substantial gas finds in KG deepwater as well as in Cambay offshore. The fifth round of NELP was launched in New Delhi on January 4, 2005.

7.40 For enhanced/improved oil recovery schemes, the work programme to increase ultimate recovery on an average by about 4 to 5 per cent in the first stage has been drawn up by Oil and Natural Gas Corporation (ONGC) for its 15 largest fields accounting for 80 per cent of ONGC's reserves and production. The incremental crude oil anticipated is about 120 MMT up to 2030, half of which would be from Mumbai High. The incremental production over the base case is expected to increase significantly from about 5 MMT in 2002-03 to 10 MMT in 2006-07.

7.41 ONGC's exploration activities have extended beyond India's shores. The ONGC Videsh Limited (OVL) has acquired 25 per cent interest in the Greater Nile Oil Project (GNOP) in Sudan. With the recent acquisition of one Exploration block in Cote d' Ivoire, now OVL has presence in 10 countries, namely, Russia, Sudan, Vietnam, Iran, Libya, Syria, Myanmar, Iraq, Australia and Cote 'd' Ivoire.

7.42 Petronet LNG Limited (PLL), a joint venture formed for the import of Liquefied Natural Gas (LNG) to meet the growing demand of natural gas, has constructed an LNG terminal at Dahej in Gujarat for 5 MMPTA capacity and has planned to construct another at Kochi (Kerala) for 2.5 MMPTA capacity. Further, PLL is considering expansion of the capacity of Dahej Terminal to 10 MMPTA and that of the Kochi Terminal to 5 MMPTA, to cater to the future demand of re–gasified LNG (R-LNG). In addition, Shell India Private Limited is setting up a 2.5 MMPTA LNG terminal at Hazira in Gujarat. Indian Oil Corporation has signed a MoU with Petropars Ltd. of Iran for the joint development of an integrated project consisting of 'upstream facilities' for production of sufficient feed-gas for related 'downstream facilities' for liquefication of the gas to produce LNG.

7.43 An agreement has been signed on package of LNG imports from Iran and Indian participation in Iranian Oilfields. Indian oil public sector units (PSUs) signed an agreement on January 7, 2005 with M/s. National Iranian Gas Export Corporation (NIGEC), to import 7.5 MMPTA of LNG for a period of 25 years commencing from 2009. A memorandum of understanding (MoU) has also been entered into by OVL with National Iranian Oil Company (NIOC) for Indian oil PSUs, led by OVL, to participate in Yadavaran field (20 per cent participation equivalent to 60,000 barrels per day) and Jufeyr field, (around 30,000 barrels per day) in Iran through service contracts.

7.44 In a tripartite ministerial meeting among the Energy Minister of Myanmar, Minister for Energy and Mineral Resources of Bangladesh and Minister for Petroleum and Natural Gas of India on January 12-13, 2005, it has been agreed that the Government of Myanmar would export natural gas to India through the territory of Bangladesh based upon technical and commercial feasibility. A techno-commercial working committee has been set up for the purpose.

7.45 In a major decision towards deregulation of the oil sector and to attract investment in the petroleum products pipelines, in November 2002, Government had laid down a new Petroleum Product Pipeline Policy for laying pipelines in the country on the common carrier principle. Guidelines for laying petroleum product pipelines were notified on November 20, 2002. Supplementary guidelines in this regard have also been notified on October 26, 2004.

Tourism

7.46 Tourism, which is important for economic development and employment generation, particularly in remote and backward areas, has become the world's largest export industry. According to the World Tourism Organisation, about 694 million tourists travelled internationally in 2003 and spent about US$ 514 billion. It is estimated that tourism accounts for 13 per cent of total world export and 8.2 per cent of global employment.

7.47 Tourism is one among India's important export industries. Even with comparatively low levels of international tourist traffic, tourism has already emerged as an important segment of the Indian economy and as an instrument for generating employment opportunities. Apart from its direct contribution to the economy, tourism has significant linkages with several other sectors like agriculture, horticulture, poultry, handicrafts, and construction. The foreign exchange earnings from tourism during 2003 was Rs 16,429 crore (US$ 3,533 million). As per the estimates of the Department of Tourism, total direct employment in the tourism sector in India was about 20 million during 2003-04, while the indirect employment multiplier in tourism is fairly high and is estimated at 1.36.

7.48 During the year 2003-04, the tourism industry registered a growth of 17.3 per cent in foreign tourist arrivals (Table 7.14) compared to the modest growth of 1.0 per cent registered in 2002-03. Foreign exchange earnings, however, grew at an even higher rate of 30.2 per cent during the year 2003-04 compared to 4.1 per cent during the corresponding period of 2002-03, indicating a step up in the average tourist spending.

Efficiency and productivity

7.49 To provide a continuing forum for policy dialogue to energise and sustain the growth of the manufacturing industry, Government has set up the National Manufacturing Competitiveness Council (NMCC) to identify the manufacturing sectors having potential for

Table 7.14 : Foreign tourist arrivals and foreign exchange earnings

Y ear	Foreign tourists		Estimated foreign exchange earnings	
	Number in lakh	Growth rate	million US$	Growth rate
1996-97	23.34	6.6	2,878	6.1
1997-98	23.71	1.6	2,914	1.3
1998-99	23.97	1.1	2,993	2.7
1999-00	25.05	4.5	3,036	1.4
2000-01	26.99	7.7	3,168	4.3
2001-02	24.28	-10.0	2,910	-8.1
2002-03	24.54	1.0	3,029	4.1
2003-04	28.79	17.3	3,945	30.2

Source: Ministry of Tourism.

global competitiveness, and to identify problems and constraints in such sectors.

7.50 NMCC is an apex body, which will provide inputs for policymaking as well as suggest measures for enhancing the competitiveness of Indian industry. It has been assigned the following role: (i) identification of manufacturing sectors, which have potential for global competitiveness, problems and constraints in such sectors with respect to structure and size of industry, technology gaps, modernization needs, etc; (ii) evolving sector-specific strategies for enhancing competitiveness of the manufacturing sector; (iii) recommending measures to create common infrastructure and facilities such as testing, quality, design, HRD, skills, training institutes, etc; and (iv) providing a forum for dialogue between the public and private sectors, labour and academia. NMCC will also advise the Government on industrial and sector specific initiatives that may be required for enhancing competitiveness of industries.

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).

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.

Table 7.15 : Industrial investment intentions in terms of IEMs, LOIs and DILs #

Year	Industrial Entrepreneurs' Memorandum (IEMs)			Letters of Intent (LOIs)/ Direct Industrial Licences (DILs)		
	Number	Proposed investment (Rs. crore)	Proposed employment (000's)	Number	Proposed investment (Rs. crore)	Proposed employment (000's)
1991$	3,084	76,310	769	195	2,071	34
1992	4,860	1,15,872	923	620	13,994	97
1993	4,456	63,976	703	528	12,845	100
1994	4,664	88,771	829	546	17,937	130
1995	6,502	1,25,509	1,114	355	14,265	91
1996	4,825	73,278	696	522	29,932	181
1997	3,873	52,379	522	321	9,528	96
1998	2,889	57,389	521	145	3,274	27
1999	2,948	1,28,892	477	132	827	17
2000	3,058	72,332	411	203	1,042	31
2001	2,981	91,234	809	117	1,318	14
2002	3,172	91,291	380	89	649	8
2003	3,875	1,18,612	833	116	1,395	14
2003*	3,140	65,206	397	91	799	8
2004*	4,148	2,19,307	1,726	77	2,764	20
Total	**55,335**	**13,75,152**	**10,713**	**3,966**	**1,11,841**	**860**

Note: $ August to December
*** January to October**
 # The Department of IP&P has been issuing Direct Industrial Licences since November, 2003 against all applications except for the items reserved for exclusive production in the SSI Sector for which LOI is issued initially.

Source : Ministry of Commerce and Industry (Department of Industrial Policy & Promotion).

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.

Foreign Direct Investment

7.54 Developing countries, emerging economies and countries in transition increasingly see foreign direct investment (FDI) as a source of economic development, modernization and employment generation, and have liberalised their FDI regimes to attract investment. The overall benefits of FDI for developing economies are well documented. Given the appropriate host-country policies and a basic level of development, a preponderance of studies show that FDI triggers technology spillovers, assists human

capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All these contribute to higher economic growth. Beyond the initial macro-economic stimulus for actual investment, FDI influences growth by increasing total factor productivity and, more generally, the efficiency of resource use in the recipient economy. Technology transfers through FDI generate positive externalities in the host country.

7.55 The benefits from FDI do not accrue automatically and evenly across countries and sectors. In order to reap the maximum benefits from FDI, there is a need to establish a transparent, broad and effective enabling policy environment for investment and to put in place appropriate framework for their implementation. Such an environment must provide incentives for innovations and improvement of skills and contribute towards improved competitiveness.

7.56 Government has put in place a liberal, transparent and investor friendly FDI policy, wherein FDI up to 100 per cent is allowed under automatic route for most of the sectors/ activities, where the investor does not require any prior approval (Box 7.6). Only notification

Box 7.6 : Major initiatives to attract Foreign Direct Investment (FDI)

- In pursuance of Government's commitment to further facilitate Indian industry, Government has permitted access to FDI through automatic route, except for a small negative list. Latest revision to further liberalise the FDI regime are as under:
- Increase in the FDI limits in "Air Transport Services (Domestic Airlines)" up to 49 per cent through automatic route and up to 100 per cent by non-resident Indians (NRIs) through automatic routes. (No direct or indirect equity participation by foreign airlines is allowed).
- Further, reviewing the guidelines pertaining to foreign/technical collaborations under automatic route for foreign financial/technical collaborations with previous ventures/tie- ups in India as per Press Note No. 18 (1998), it has been decided that new proposals for foreign investment/technical collaborations would henceforth be allowed under the automatic route, subject to sectoral policies as per the following guidelines:
  - ☐ Prior approval of the Government would be required only in cases where the foreign investor has an existing joint venture for technology transfer/trade mark agreement in the 'same' field.
  - ☐ Even in the above mentioned cases, the approval of the Government would not be required in respect of the following:
    - i) Investments to be made by venture capital funds registered with SEBI;or
    - ii) Where the existing joint venture investments by either of the parties is less than 3 per cent; or
    - iii) Where the existing venture/collaboration is defunct or sick.
  - ☐ In so far as joint ventures to be entered after the date of Press Note dated January 12, 2005 are concerned, the joint venture agreement may embody a 'conflict of interest' clause to safeguard the interest of joint venture partners in the event of one of the partners desiring to set up another joint venture or a wholly owned subsidiary in the 'same' field of economic activity.
- Foreign investment in the banking sector has been further liberalised by raising FDI limit in private sector banks to 74 per cent under the automatic route including investment by FIIs. The aggregate foreign investment in a private bank from all sources will be a maximum of 74 per cent of the paid up capital of the bank and at all times, at least 26 per cent of the paid up capital held by residents except in regard to a wholly owned subsidiary of a private bank. Further, the foreign banks will be permitted to either have branches or subsidiaries, not both. Foreign banks regulated by a banking supervisory authority in the home country and meeting Reserve Bank's licence criteria will be allowed to hold 100 per cent paid up capital to enable them to set up wholly-owned subsidiary in India.
- FDI ceiling in telecom sector in certain services (such as basic, public mobile radio trunked services (PMRTS), global mobile personal communication service (GMPCS) and other value added services), has been increased from 49 per cent to 74 percent, in February 2005. The total composite foreign holding

Contd.....

including but not limited to investment by FIIs, NRI/OCB, FCCB, ADRs, GDRs, convertible preference shares, proportionate foreign investment in Indian promoters/investment companies including their holding companies etc., will not exceed 74 per cent.

- In January 2004, guidelines on equity cap on FDI, including investment by NRIs and Overseas Corporate Bodies (OCBs) were revised as under:
  - FDI up to 100 per cent is permitted in printing scientific and technical magazines, periodicals and journals subject to compliance with legal framework and with the prior approval of the Government.
  - FDI up to 100 per cent is permitted through automatic route for petroleum product marketing, subject to existing sectoral policy and regulatory framework.
  - FDI up to 100 per cent is permitted through automatic route in oil exploration in both small and medium sized fields subject to and under the policy of the Government on private participation in exploration of oil fields and the discovered fields of national oil companies.
  - FDI up to 100 per cent is permitted through automatic route for petroleum products pipelines subject to and under the Government policy and regulations thereof.
  - FDI up to 100 per cent is permitted for Natural Gas/LNG pipelines with prior Government approval.

to the Reserve Bank of India within 30 days of inward remittance or issue of shares to non-residents is required. Cases requiring prior Government approval are considered by the Foreign Investment Promotion Board (FIPB) in a time-bound and transparent manner. The FDI policy in India is considered as one of the most liberal, with very few barriers. The Global Competitiveness Report 2003-04 by the World Economic Forum ranks India at 41st place on barriers to foreign ownership, against 67th for Malaysia, 75th for Thailand and 81st for China.

7.57 Investors are showing their growing confidence in the immediate and medium term prospects of the Indian economy. A recent confidence survey by global consultancy AT Kearney rated India as the third most favoured FDI destination, next only to China and United States. Moreover, for the first time, manufacturing investors surveyed by AT Kearney considered India as a superior manufacturing location than even the US.

7.58 According to the World Investment Report, 2004 of United Nations Conference on Trade and Development (UNCTAD), Global FDI Inflows have declined significantly from the peak of US$ 1.4 trillion in 2000 to US$ 560 billion in 2003. FDI inflow to India, on the contrary, has shown a rise, particularly in 2003, to reach US$ 4.27 billion (Table 7.16).

Table 7.16 : Foreign direct investment in selected asian developing countries

(billions of US$)

Country	Foreign Direct Investment Inflows		
	2001	2002	2003
China	46.88	52.74	53.51
	(5.7)	(7.8)	(9.6)
Hong Kong	23.78	9.68	13.56
	(2.9)	(1.4)	(2.4)
India	3.40	3.45	4.27
	(0.4)	(0.5)	(0.8)
Indonesia	-2.98	0.15	-0.60
	-(0.4)	(0.0)	-(0.1)
Korea	3.68	2.94	3.75
	(0.5)	(0.4)	(0.7)
Malaysia	0.55	3.20	2.47
	(0.1)	(0.5)	(0.4)
Philippines	0.98	1.79	0.32
	(0.1)	(0.3)	(0.1)
Singapore	15.04	5.73	11.41
	(1.8)	(0.8)	(2.0)
Sri lanka	0.08	0.20	0.23
	(0.0)	(0.0)	(0.0)
Thailand	3.81	1.07	1.80
	(0.5)	(0.2)	(0.3)
Developing economies	219.72	157.61	172.03
	(26.9)	(23.2)	(30.7)
World	817.57	678.75	559.58

Source : World Investment Report 2004, UNCTAD

Note : Figures in bracket are percent share to world total.

7.59 FDI inflows have increased in the first eight months of the current year reaching US$ 2.5 billion, which is more than double, compared to the corresponding period last year and is very near to the total FDI inflows in 2003-04 (Table 7.17). Sector-wise FDI inflows from August 1991 until November, 2004, indicates that the highest shares of FDI inflows have gone to the data-processing software and consultancy services, followed by pharmaceuticals and automobile industry (Table 7.18).

7.60 Country-wise, FDI inflows to India (Table 7.19) are dominated by Mauritius (34.49 percent), followed by the United States (17.08 percent) and Japan (7.33 percent).

7.61 Five States/Union Territory – Maharashtra, Delhi, Tamil Nadu, Karnataka, and Gujarat – which were the top recipients of FDI approvals, secured more than 48 per cent of such approvals in the country (Table 7.20).

Table 7.17 : Foreign direct investment approval and inflows

Sl. No.	Financial Year	Amount in rupees in crore		Amount in US$ in million	
		Approvals	Inflows	Approvals	Inflows
1	1991-1992 #	1,345	408	527	165
2	1992-1993	5,546	1,094	1,976	393
3	1993-1994	7,469	2,018	2,428	654
4	1994-1995	9,971	4,312	3,178	1,374
5	1995-1996	36,608	6,916	11,439	2,141
6	1996-1997	40,206	9,654	11,484	2,770
7	1997-1998	40,033	13,548	10,984	3,682
8	1998-1999	30,324	12,343	7,532	3,083
9	1999-2000	17,976	10,311	4,266	2,439
10	2000-2001	25,207	12,645	5,754	2,908
11	2001-2002	14,465	19,361	3,160	4,222
12	2002-2003	7,904	14,932	1,654	3,134
13	2003-2004	6,224	12,117	1,353	2,776
14	2004-2005 *	6,784	11,726	1,475	2,549
	Total	**250,062**	**131,385**	**67,210**	**32,290**

Notes: 1. # Aug.-March; * Up to November 2004

2. As most of the sectors /activities have been placed under automatic route in recent years, which do not require any approval, the FDI approvals statistics are not a true reflection of the FDI approved.

Table 7.18 : Sector-wise FDI approvals and inflows

(Cumulative from August 1991 to November 2004)

Amount rupees in crore (US $ in million)

Rank	Sector	No. of approvals	Amount approved	percentage approved Amount in rupee terms	Amount Inflows	Percentage of total Inflows in rupees terms*
1.	Fuels					
	➢ Power	371	43,687 (11,888)	17.47	-	-
	➢ Oil Refinery	338	26,079 (7,185)	10.43		
	TOTAL (power + oil refinery)	709	69,766 (19,073)	27.90	10,433 (2,459)	9.78
2.	Telecommunications (radio paging, cellular mobile, basic telephone services)	805	41,371 (11,441)	16.54	11,231 (2,674)	10.53
3.	Transportation industry	1,105	21,110 (5,427)	8.44	12,123 (2,909)	11.36
4.	Electrical equipments (including computer software & electronics)	4,746	18,947 (4,888)	7.58	16,093 (3,793)	15.09
5.	Metallurgical industries	428	15,412 (4,212)	6.16	2,043 (481)	1.92
6.	Services sector (financial, non-financial & others)	1,332	16,917 (4,417)	6.77	8,752 (2,174)	8.20
7.	Chemicals (other than fertilizers)	1,074	12,618 (3,492)	5.05	6,405 (1,653)	6.00
8.	Food-processing industries	784	9,562 (2,746)	3.82	4,481 (1,128)	4.20
9.	Hotel and tourism	537	4,909 (1,353)	1.96	981 (232)	0.92
10.	Paper and pulp (including paper products)	137	3,116 (832)	1.25	1,282 (336)	1.20
11.	Other sectors (total of remaining sector excluding above)	7,078	36,334 (9,330)	14.53	57,561 (14,451)	30.80
	Total for all sectors (August 1991 to November 2004)	**19,444**	**2,50,062 (67,211)**	**100.00**	**1,31,385 (32,290)**	**100.00**

Note: 1. As most sectors/activities have been placed under automatic route in recent years, which do not require any approval, the FDI approval statistics are not a true reflection of the FDI approved.

2.* Percentage figures do not take into account the amount of FDI Inflows for RBI's-NRI Schemes, acquisition of existing shares (upto 1999), stock swapped & advance pending for allotment of shares, as these are not categorized, Sector-wise.

Table 7.19 : Share of top investing countries in FDI inflows

(from August 1991 to November 2004)

Amount in rupees crore (millions of US$)

Rank	Country	August 1991 to March 2000	2000-01	2001-02	2002-03	2003-04	2004-05 (up to Nov.)	Total inflows	percentage of total inflows
1	Mauritius	13,272 (3,608)	4,111 (942)	10,063 (2,182)	3,766 (788)	2,609 (567)	3,730 (811)	37,551 (8,898)	34.49
2	USA	8,956 (2.450)	1,544 (356)	1,748 (382)	1,504 (319)	1,658 (360)	2,401 (522)	17,811 (4,389)	17.08
3	Japan	3,314 (898)	977 (224)	809 (178)	1,971 (412)	360 (78)	466 (101)	7,897 (1,891)	7.33
4	Netherlands	2,260 (628)	706 (162)	890 (196)	836 (176)	2,247 (489)	906 (197)	7,845 (1,847)	7.16
5	UK	2,286 (670)	303 (70)	1,673 (366)	1,617 (340)	769 (167)	361 (78)	7,009 (1,692)	6.56
6	Germany	2,396 (672)	540 (123)	519 (113)	684 (144)	373 (81)	553 (120)	5,066 (1,254)	4.86
7	France	1,002 (280)	455 (104)	499 (108)	534 (112)	176 (38)	165 (36)	2,822 (679)	2.63
8	South Korea	2,094 (572)	90 (21)	5 (1)	188 (39)	110 (24)	115 (25)	2,601 (682)	2.64
9	Singapore	1.244 (344)	502 (117)	251 (54)	180 (38)	172 (37)	225 (49)	2,573 (639)	2.48
10	Switzerland	948 (269)	71 (16)	180 (40)	437 (93)	207 (45)	287 (62)	2,130 (525)	2.04
TOTAL FDI INFLOWS *		60,604 (16,701)	12,645 (2,908)	19,361 (4,222)	14,932 (3,134)	12,117 (2,634)	11,726 (2,549)	1,31,385 (32,290)	-

Source : SIA, FDI Data Cell, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion.
Note : * Includes inflows under NRI Schemes of RBI, stock swapped and advances pending issue of shares.

Table 7.20 : State-wise FDI approvals

(from August 1991 to November 2004)

Rank	State	Approvals			Amount of FDI approved		percentage of total FDI approved
		Total	Tech.	Financial	Rupees in crore	US$ in million	
1	Maharashtra	5,037	1,318	3,719	37,020	9,621	14.80
2	Delhi	2,810	307	2,503	30,519	8,445	12.20
3	Tamil Nadu	2,681	618	2,063	22,642	5,894	9.05
4	Karnataka	2,639	502	2,137	19,075	4,833	7.63
5	Gujarat	1,236	568	668	12,437	3,273	4.97

Note : RBI provides regional office wise information based on the intimation of investment received from investors under the automatic route. Consequently, the above table may not necessarily indicate state-wise investment intentions of investors.

Industrial sickness

7.62 Since its inception in May 1987 and till the end of August 2004, the Board for Industrial and Financial Reconstruction **(**BIFR) has received 6,457 references under the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) (Table 7.21). The gross disposal of cases by BIFR declined from 188 in 1997 to 141 in 1998. However, it rose to 385 in 2000. As on March 31, 2003, the gross disposal of cases was 2867. During the current year, as on August 31, 2004, the gross disposal of cases reached to 3318.

Disinvestment

7.63 The disinvestment process, which began in 1991-92 with the sale of minority stakes in some public sector undertakings (PSU's), shifted focus to strategic sales during 1999-2000 to 2003-04 (Table 7.22).

Table 7.22 : Disinvestment in public sector undertakings

Year	Target	Achievement
1993-94	3,500	-
1991-92	2,500	3038
1992-93	2,500	1913
1993-94	3,500	-
1994-95	4,000	4,843
1995-96	7,000	362
1996-97	5,000	380
1997-98	4,800	902
1998-99	5,000	5,371
1999-00	10,000	1,860
2000-01	10,000	1,871
2001-02	12,000	# 5,632
2002-03	12,000	3,348
2003-04	14,500	15,547
2004-05	4,000	@ 2,765

 # Figures inclusive of amount realised by way of control premium, dividend/dividend tax transfer of surplus cash reserves prior to disinvestment etc.
@ Up to December 2004.
Source : Department of Disinvestment, Ministry of Finance

Table 7.21 : Details of references received by Board for Industrial and Financial Reconstruction as on 31-08-04

	Sl. No.	Status	Pvt.	Central PSUs	State PSUs	Total PSUs	Total
	1	References received	6,171	103	183	286	6,457
	2	Registration declined	1,330	17	65	82	1,412
	3	Under scrutiny	15	01	00	01	16
A	**4.**	**References registered**	**4,826**	**85**	**118**	**203**	**5,029**
		DISPOSALS					
	5.	Dismissed as nonmaintainable	1,305	09	31	40	1,345
	6.	Rehabilitation schemes approved/ sanctioned byBIFR/AAIFR	592	23	20	43	635
	7.	Declared no longer sick out of Sl. No. 6	351	06	10	16	367
	8.	Winding up recommended to the concerned high courts PENDING	1,207	31	40	71	1,278
	9.	Net worth became positive during enquiry and hence dropped	56	03	01	04	60
B		**TOTAL(5+6+8+9)**	**3,160**	**66**	**92**	**158**	**3,318**
C		PENDING					
	10	Draft schemes circulated	49	03	00	03	52
	11	Winding up notices issued	116	03	03	06	122
	12	Under inquiry	1,397	10	16	26	1,423
	13	Schemes failed and reopened	28	01	02	03	31
	14	Pending cases remanded by AAIFR	42	02	03	05	47
	15	Stay ordered by courts	34	00	02	02	36
		A-B=C	**1,666**	**19**	**26**	**45**	**1,711**

Source : BIFR, Department of Economic Affairs, Ministry of Finance.

7.64 The new policy in this regard is that the Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. For this, there is a need for selectivity and strategic focus. The Government is committed to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment. Generally, profit-making companies will not be privatised.

7.65 As per the National Common Minimum Programme (NCMP), all privatisations will be considered on a transparent and consultative case-by-case basis. The Government will retain existing 'navaratna' companies in the public sector, while these companies would be encouraged to raise resources from the capital market. While every effort will be made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will be either sold-off or closed, after all workers get their legitimate dues and compensation. The Government will take the help of private industry to turn–around companies that have potential for revival.

7.66 The Government has decided to establish a Board for Reconstruction of Public Sector Enterprises (BRPSE) to advice the Government on ways and means for stengthening public sector enterprises (PSEs) in general and to make them more autonomous and professional. The Board would consider reconstructing – financial organisational and business – of central PSEs and suggests ways and means for funding such schemes. The Board would also advice the Government on disinvestment/closure/ sale in respect of chronically sick/loss making companies, which cannot be revived.

7.67 The Government has approved the constitution of a National Investment Fund comprising of proceeds from disinvestment of public sector units. The broad objective of the fund will be to make investments in social sector projects and capital investment in selected profitable or revivable PSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/ diversification. The fund will come into effect from April 1, 2005.

7.68 The Government has also given 'in principle' approval for listing of currently unlisted profitable PSEs each with a net worth in excess of Rs. 200 crore, through an initial public offer (IPO), either in conjunction with a fresh equity issue by the PSE concerned or independently by the Government on a case by case basis, subject to the residual equity of the Government remaining at least 51 per cent and the Government retaining management control of the PSE.

Industrial relations scenario

7.69 The number of strikes and lockouts taken together has declined by 4.7 per cent during 2003 as compared to the previous year. The reduction in strikes and lockouts has been more prominent in the central sphere during this period. However, while strikes alone declined from 295 to 255 in 2003, lockouts increased from 284 to 297 during the same period (Table 7.23). During 2004 (January to September), the States of West Bengal, Tamil Nadu and Gujarat experienced maximum instances of strikes and lockouts and the industries facing highest incidence of strikes and lockouts were textiles, engineering and chemicals. Indiscipline and violence, wages and personnel issues were the primary causes of strikes and lockouts during this period.

7.70 The total mandays lost on account of strikes and lockouts have shown a relative fall in the first nine months of 2004 compared to the full year of 2003, though they had increased by 3.67 million in 2003 compared to 2002. The mandays lost due to strikes show a rise in 2004 (January-September) compared to 2003, though a decline was witnessed in 2003. The mandays lost due to lockouts show a relative fall in 2004(January-September) though they registered an increase in 2003. During the year 2003, the mandays lost in the central sphere and the public sector increased by 5.89 million and 6.06 million respectively, over the previous year. In contrast, the state sphere and private sector recorded a decline of 2.22 million and 2.39 million respectively.

Table 7.23 : Strikes and lockouts

Year	Strikes		Lockouts		Total	
	Number	Mandays lost (in million)	Number	Mandays lost (in million)	Number	Mandays lost (in million)
1999	540	10.62	387	16.16	927	26.79
2000	426	11.96	345	16.80	771	28.76
2001	372	5.56	302	18.20	674	23.77
2002	295	9.66	284	16.92	579	26.58
2003(P)	255	3.20	297	27.04	552	30.25
2004(Jan-Sep.) (P)	189	3.40	215	10.13	404	13.53

(P) = Provisional; Total may not necessarily tally due to rounding off of figures.
Source : Labour Bureau, Shimla.

7.71 To keep pace with the ongoing process of economic reforms, some of the state governments have taken initiatives to rationalise labour laws (Box 7.7).

Small scale industries

7.72 Over the last five decades, the small-scale industries (SSI) sector has acquired a place of prominence in the economy of the country. It has contributed significantly to the growth of the Gross Domestic Product (GDP), employment generation and exports. The sector now includes not only SSI units but also small scale service and business enterprises (SSSBEs) and is thus referred to as the small enterprises sector.

7.73 During 2000-01 to 2004-05, the SSI sector registered continuous growth in the number of units, production, employment and even exports (till 2002-03). During this period, the average annual growth in the number of units was around 4.1 per cent, while

Box 7.7 : Initiatives proposed by the State Governments to rationalise labour laws

- The State Governments of Andhra Pradesh, Madhya Pradesh and Maharashtra have proposed to seek relaxation in some provisions of the Central Laws through State enactments so as to facilitate setting up of Special Economic Zones and Special Enclaves in their respective States. These proposals broadly relate to regulating the working hours, wages etc. of a contract worker, establishment of a dispute resolution machinery to hear and decide the industrial disputes and minimum wages claims, to empower the development commissioner to fix minimum wages, to make provision for allowing the women workers to work in night shift etc.
- The views of the Central Government on these bills are generally based on the following principles:
  - a) The provisions framed for ensuring safety and health aspects of the workmen need not be relaxed.
  - b) The provisions of the Central Acts, which are mostly implemented by the Central machinery, need not be relaxed by the State amendments.
  - c) The provisions in the State Bill should not be in contravention of the provisions in the Central Bill, presently under consideration, on the same subject, such as, provision for employment of women in night shift under the Factories Act.
  - d) The principles enshrined in the National Common Minimum Programme (NCMP) with regard to hire and fire and the amendment of labour laws through consensus should be scrupulously observed.
  - e) The powers and functions of the State Government, where there is no provision to further delegate such powers and functions, should not be allowed to be delegated further.

employment grew by 4.4 per cent annually. Further, the average annual growth in production, at current and constant prices, was 10.6 per cent and 7.6 per cent respectively (Table 7.24).

7.74 The small enterprises sector, however, faces several problems, which hamper it in achieving its full growth potential. Some of the major problems faced by the sector are access to timely and adequate credit, technological obsolescence, infrastructural bottlenecks, marketing constraints and a plethora of rules and regulations. Some policy initiatives taken during the year may help promote and develop the SSI sector (Box 7.8).

Table 7.24 : Performance of small scale sector

Year	No. of units (lakh)			Production (Rs. crore)		Employment	Exports
	Regd.	Unregd.	Total	(at current prices)	(at constant prices)*	in lakh	(Rs. crore)
2000-01	13.10	88.00	101.10	2,61,289	1,84,428	239.09	69,797
			(4.1)	(11.5)	(8.0)	(4.4)	(28.8)
2001-02	13.75	91.46	105.21	2,82,270	1,95,613	249.09	71,244
			(4.1)	(8.0)	(6.1)	(4.2)	(2.1)
2002-03	14.68	94.81	109.49	3,11,993	2,10,636	260.13	86,013
			(4.1)	(10.5)	(7.7)	(4.9)	(20.7)
2003-04	15.54	98.41	113.95	3,57,733	2,28,730	271,36	N.A.
			(4.1)	(11.6)	(8.6)	(4.3)	
2004-05	16.38	102.15	118.53	3,99,020	2,45,747 **	282.82	N.A.
			(4.0)	(11.5)	(7.4)	(4.2)	

*** 1993-94 prices**

**** Based on growth rate of 7.44 percent which is the average growth rate of the last years**

Note : Figures in parenthesis indicate percentage growth over previous years

Source : Development Commissioner SSI

Box 7.8 : Policy initiatives in SSI sector during 2004-05

- The National Commission on Enterprises in the Unorganized/Informal Sector was set up in September 2004. The Commission will, inter-alia, recommend measures considered necessary for improvement in the productivity of these enterprises, generation of large scale employment opportunities on a sustainable basis, linkage of the sector to institutional framework in areas like credit, raw material supply, infrastructure, technology upgradation, marketing facilities and skill development
- 85 items reserved for exclusive manufacture in the SSI sector were dereserved in October 2004. The total number of reserved items now stands at 605
- To facilitate technology upgradation and enhancing competitiveness, the investment limit (in plant and machinery) has been raised in October 2004, from Rs. 1 crore to Rs. 5 crore, in respect of 7 items of sports goods, reserved for manufacture in the small scale sector
- The Small and Medium Enterprises (SME) Fund of Rs. 10,000 crore was operationalised by the SIDBI since April 2004. Eighty per cent of the lending from this fund will be for SSI units, at interest rate of 2 per cent below the prevailing PLR of the SIDBI.
- The Reserve Bank of India enhanced the composite loan limit for the SSI sector to Rs. 1 crore from Rs. 50 lakh.
- With a view to integrate small and medium enterprises, facilitating their growth and enhancing their competitiveness (including measure for freeing the sector from “Inspector Raj”), a suitable legislation is being finalised.
- A new “Promotional Package for small enterprises" is being formulated. This would include measures to provide adequate credit, incentives for technology upgradation, infrastructural and marketing facilities, etc.

Outlook

7.75 The industrial recovery in 2002-03, which consolidated during 2003-04, has gathered momentum during the current year. The dramatic decline in interest rates and the significant turnaround in public investment through the infrastructure development programme have been two critical drivers of the recovery. Low interest rates fuelled the housing, automobiles and consumer durable booms, which were instrumental in the acceleration of industrial growth. Although the momentum in these sectors has slowed down, they still continue to provide the necessary support to the process of industrial growth.

7.76 The present trend indicates a positive outlook for industrial growth due to improved capacity utilization, improved industrial climate, expanding external and domestic demand and ease in availability of credit. The strong performance of the capital goods sector coupled with increased imports of capital goods also augur well for domestic capacity expansion in a large number of industries.

7.77 The double-digit growth since 2003-04 in capital goods sector indicates the capital formation taking place in the industrial sector, which can help in strengthening the upswing. Industrial buoyancy is expected to continue during the remaining period of 2004-05 with the strong growth of machinery and equipment sub-sector (21.9 per cent during April-December) and the major components of non-oil imports like machinery and other inputs needed for exports and industrial activity. This is also reflected in the resurgence of exports of manufactured goods with double digit growth during April-October, 2004-05. The ongoing growth process, which is investment-led and fairly evenly spread within manufacturing sector, reflects the medium and long-term optimism on the part of investors.

7.78 The strength and robustness of industrial growth during the current financial year are particularly striking in the light of the shocks like Tsunami, a deficient monsoon and a third oil shock. Such resilience in the midst of resurgence is not just a matter of good fortune; but also a response to the reforms and manifestation of the sound fundamentals of the economy. The strong and positive outlook of both foreign and domestic investors indicates that India is ready for the big push as the growing interest of foreign investors is coinciding with the rising confidence of domestic private investors. The increasing efficiency and competitiveness of domestic producers, liberalised trade, and deregulated interest rate regime are critical contributors to both growth acceleration and macro-economic stability.

7.79 The outlook for the industrial sector will further brighten if constraints like infrastructure bottlenecks and shortages, labour market rigidities, entry and exit barriers and land acquisition, and multiple stages and levels of approvals/clearances are removed. Further, there is also a need for improved Centre-State interface for better coordination between the Centre and State Governments.