CHALLENGES AND OUTLOOK

8.83 The industrial sector recorded a robust rate of growth in excess of 8 per cent during 2004-05 and 2005-06 and scaled an appreciable 11.6 per cent growth during 2006-07. The current fiscal till November 2007 sustained the momentum, albeit with a slight moderation in certain sectors. While industrial groups like food products, jute textiles, wood products, leather products, chemicals and chemical products and "other manufacturing" have grown at an accelerated pace, compared to 2006-07, industries like non-metallic mineral products, cotton textiles and textile products, automobiles, paper products and metal products have suffered from a significant slackening in growth. It is the visible downslide in the production of consumer durables that has been subjected to anxious commentaries from different quarters. If the consumer goods sector had grown at the pace at which it had grown during 2006-07, the overall industrial growth till November in the current year would have closed in on that of the previous year.

8.84 The growth of textiles, with very low import intensity, may have been affected adversely by the recent appreciation of the rupee against US dollar. The Government has promptly taken measures to mitigate the incidence of the slowdown. The downslide in consumer durables can partly be attributed to the constrained demand conditions arising from adjustments in policy variables like interest rates. Yet, it needs to be appreciated that the automobile segments including passenger cars, jeeps, scooters and mopeds have buoyed during the current fiscal. Besides, the current series of the Index of Industrial Production based on the product baskets and weights assigned in 1993-94 has serious limitations in fully capturing the post-reform dynamics of the consumer durables sector. This IIP series is under revision. In short, the slowdown, shown by the available data on consumer durables, may not in itself be a cause of serious concern in the long run, provided the overall buoyancy in growth and income is maintained.

8.85 There are a number of positive developments that brighten the industrial outlook in the medium term. First, there has been a commendable growth in the capital goods sector, especially in industrial machinery, which, along with strong imports of capital goods, augurs well for the much required industrial capacity addition. Secondly, the inherent strength of industrial corporates, manifested in the increase in profits and profitability and strong investment plans, confirms the strength of the growth prospects in the medium term. Thirdly, the high investment plans made for infrastructure during the Eleventh Five Year Plan are expected to gradually alleviate the infrastructural constraints to industrial development. Moreover, the bourgeoning direct investment inflows in the liberalized investment regime supplements the domestic investment to a great extent.

8.86 The real challenge lies in strengthening the foundations for sustained industrial growth. One of the biggest challenges to sustaining and stepping up industrial growth lies in removing the infrastructural impediments in road — both rural and urban — rail, air and sea transport and power. Growth in infrastructure not only alleviates the supply side constraints in industrial production, but also stimulates additional domestic demand required for industrial growth. Another issue in industrial growth is the swiftness and efficacy with which the skill deficit felt in many areas of manufacturing is bridged. This will facilitate research and development and technological innovations, which are urgently called for in important industries like chemicals, automotives and pharmaceuticals.

8.87 Further, there is an imperative need to facilitate the growth of labour intensive industries, especially by reviewing labour laws and labour market regulations. This is particularly important in reversing the current, not-so-encouraging manufacturing employment trends. Besides, the growth in many industries is constrained by the acute scarcity/depleting reserves of important raw materials like coal, iron ore, natural gas and forest resources. The Eleventh Five Year Plan has placed its focus on these challenges. While the strategies for industrial development set out by the Eleventh Five Year Plan document are broadly tailored to address these issues, sectorally differentiated initiatives may be required for skill upgradation, supply augmentation of inputs and promotion of research and development.