

CHALLENGES AND OUTLOOK

8.108 The industrial sector recorded a robust rate of growth in excess of 8 per cent during 2004-05 to 2006-07. Even in 2007-08 the growth rate remained relatively high, albeit with some moderation. The year 2008-09 has, however, been marked by a very strong downturn in growth due to a multitude of factors, the most important being the global financial shock that not only impacted the financing of industries but also their domestic and external demand. Needless to say, almost all commodity groups, barring a handful, have been affected by the downturn.

8.109 The current global and domestic scenario presents Indian industry with major challenges. At the same time, there are a number of positive factors that make the industrial outlook in the medium-term bright for India both in its own right as also in relation to most other countries.

8.110 First, on the global front, there are tendencies by some trading partners to indulge in what may possibly be termed as dumping into the Indian market. The response will have to be calibrated by balancing the need to achieve input cost advantages while protecting the legitimate interests of the Indian industry. Given the possible global restructuring of industry underway, it is critical for Indian industry to consciously build and maintain cost advantages.

8.111 Second, the size of the Indian market and the unmet demand for industrial products provide reasonable hope that demand would not be a constraining factor by itself. There is an increasing realization that the industry should make conscious efforts to reach out to the bottom of the pyramid. To be able to do so, the industry will need to deliver products that give value for money in a cost effective way.

8.112 The large pool of scientific manpower and research labs, especially in the public domain, provide a potential for innovation that could create such products which can open up new market segments. However, for innovation to become a key driver of growth, the industry and the research fraternity need to actively collaborate in a time-bound and result-oriented fashion.

8.113 Third, the inherent strength of Indian industrial corporate sector with strong entrepreneurial abilities provides a hope that they will continue to display the dynamism by adjusting to the current changes. This dynamism needs to be tempered with good corporate governance that adheres to the best standards of ethics in business and industry.

8.114 Fourth, the large investment plans made for infrastructure during the Eleventh Five Year Plan and beyond are expected to ameliorate the infrastructural constraints that bind the industry. The challenge rests

in ensuring that such investments in infrastructure projects fructify quickly, for, growth in infrastructure not only alleviates supply side constraints, but also stimulates additional domestic demand required for industrial growth.

8.115 Fifth, the continuing inflow of foreign direct investment reinforces the positive view that the Indian market has the capacity to absorb investment and generate a return based on productive growth. At the same time, a balance needs to be struck between the immediate priorities for the Indian economy and the long-term concerns that include environmental and security concerns.

8.116 Sixth, India is seen as a vast pool of talent with great diversity and with a demographic advantage. However, the industrial sector faces acute shortage of skills. The swiftness with which this skill deficit is bridged will be critical in determining whether India can move up the value chain in manufacturing.

8.117 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 forestry resources.

8.118 There are positive signs that the Indian industry may have weathered the most severe part of the shock and is now moving towards a recovery. Some of the positive signs are the recent upturn in the generation of electricity, the improvement of cement despatches and rise in the offtake of bank credit. The sustained inflow of FDI also points to foreign investor confidence in the Indian economy, especially the Indian industry. The decline in crude prices, input prices and interest rates should help the industry to improve their profit margins that have been under pressure. Lead indicators and other soft information collected by various research analysts like the Purchasing Managers Index and investment intentions also point to an upward movement in terms of demand and supply.

8.119 There is also reasonable consensus that given the market situation, the Indian industry is unlikely to face a price deflation. The fact that India has a large domestic market with immense absorptive capacity for industrial goods as also inputs for the development of the infrastructure implies that the demand side provides scope for expansion. At this juncture, when the prospects for industrial output and prices in most industrial economies seem to be grim, the configuration of prices, output and market size makes the Indian industry one of the few attractive destinations for investment.