7

INDUSTRIAL POLICY AND DEVELOPMENT

After the relatively modest performance in 1998-99, the Indian industry is experiencing a turnaround. Several macro-economic and business indicators are showing signs of a broad-based industrial recovery. The cumulative growth of industrial production, as measured by the Index of Industrial Production (IIP), is 6.2 per cent for April-December 1999, significantly higher than the 3.7 per cent of April-December 1998. The higher growth in the current year has been largely contributed by the 6.7 per cent growth in manufacturing and the 7.7 per cent growth in electricity. (Table 7.1 and Figures 7.1 and 7.2 respectively).

TABLE 7.1

Annual growth rates in major sectors of industry

(Base: 1993-94 = 100) *(per cent)*

Period (Weight)	Mining (10.47)	Manufacturing (79.36)	Electricity (10.17)	General (100)
1994-95	7.6	8.5	8.5	8.4
1995-96	9.6	13.8	8.1	12.8
1996-97	-2.0	6.7	4.0	5.6
1997-98	5.9	6.7	6.6	6.6
1998-99	-1.7	4.3	6.5	4.0
Apr-Dec.				
1995-96	10.3	13.7	8.9	12.8
1996-97	-1.2	8.3	3.8	6.9
1997-98	5.5	7.0	6.0	6.8
1998-99	-0.8	3.9	6.8	3.7
1999-00	0.0	6.7	7.7	6.2

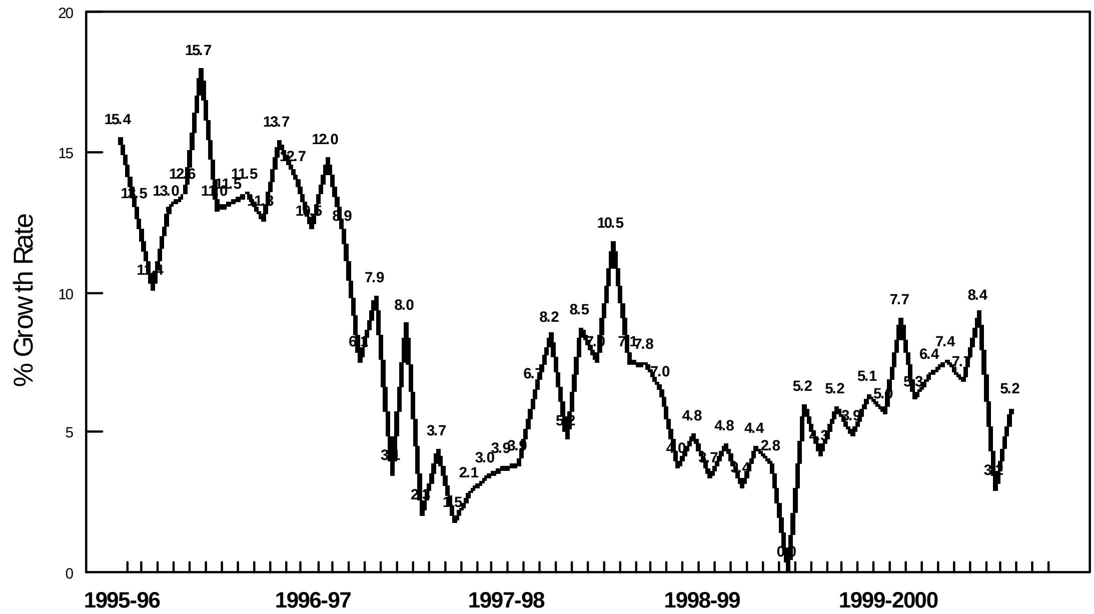
7.2 Among the use-based categories, there is higher growth of basic goods, intermediate goods and consumer durables in the current year. Capital goods also, continue to perform well. The industrial buoyancy can be traced to the good agricultural output of the previous year. Further, various policy measures of the Union Budget (1999-2000), including those aimed at specific sectors like housing, information technology and infrastructure, have bolstered the revival. Better performance by infrastructure industries is likely to reinforce the positive trends in industrial production. Industrial recovery is also helped by the improved perceptions of international credit rating agencies and investors, rise in Business Confidence Index (BCI), better corporate performance and the bullish sentiments in stock markets.

7.3 A summary assessment of the perceived industrial recovery is presented in Box 7.1.

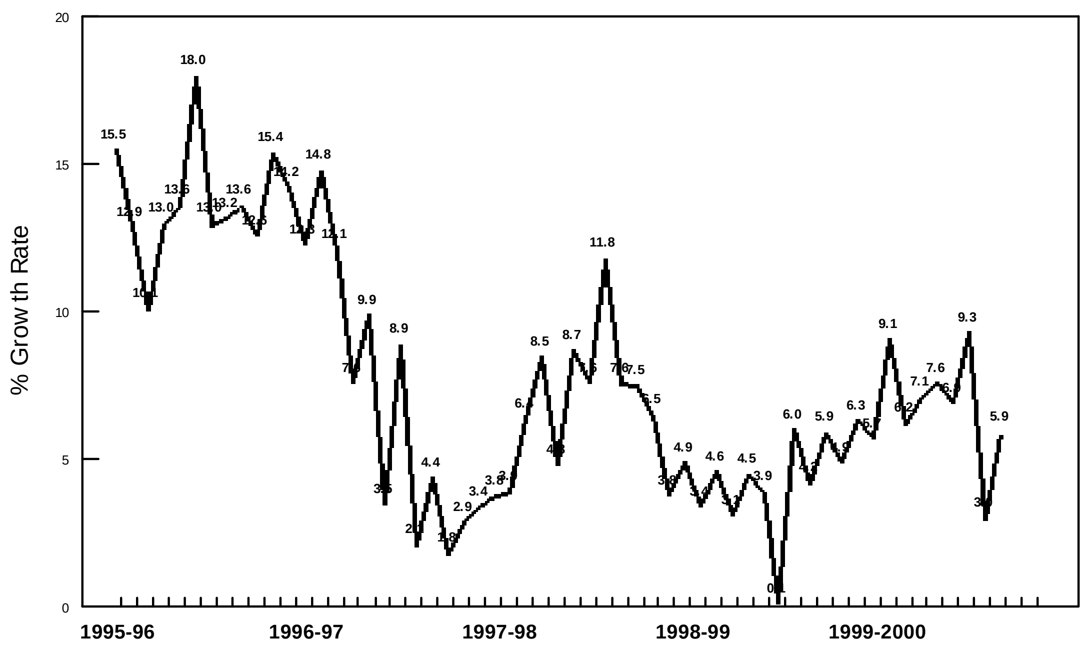
Fig. 7.2

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

GENERAL INDEX



MANUFACTURING SECTOR



BOX 7.1

Signs of sustained industrial recovery

The Economic Survey of 1996-97 had pointed out that slowdown of industrial growth rates, in some sectors, is not indicative of an industrial recession. Cyclical fluctuations of industrial output and profits are parts of normal business cycles and dynamism of the development process. The acceleration of growth rates, in various sectors of the economy, underline significant industrial recovery in the current year and end of cyclical downturn, which began from 1996-97.

Major indicators of recovery

- Overall industrial output grew by 6.2 per cent in April-December 1999, compared to only 3.7 per cent in April-December 1998.
- Manufacturing has grown by 6.7 per cent in April-December 1999, as against only 3.9 per cent in April-December 1998.
- Electricity generation is performing much better in 1999-2000.
- As per use-based classification, basic goods, intermediate goods and consumer goods, are having higher growths in the current year. Capital goods are also doing reasonably.
- Non-metallic mineral products, machinery & equipment, wool, leather, paper, and basic chemicals, are some of the industries growing at more than 10 per cent in the current year.
- Six key, core and infrastructure industries (i.e. electricity, crude oil, refinery, coal, steel, and cement), having a weight of 26.7 per cent in overall IIP, grew at 8.2 per cent in April-December 1999, compared to 2.8 per cent in April-December 1998.
- The collective evidence from various surveys point to a much better corporate performance in 1999-2000, compared to the previous year.

The emerging pattern and composition of industrial growth can set in motion mutually reinforcing impulses for a broad-based and sustainable industrial recovery.

Major factors behind industrial recovery

Domestic

- A good harvest and record production of foodgrains in 1998-99, resulted in consumer rebound through higher rural incomes and consequent greater demand for industrial products.
- Strong revival of capital markets as reflected by the bullish trends in the stock exchanges, higher growth of non-food credit and higher volumes of disbursements in the current year, have injected greater investment in industry.
- Low inflation and increased demand, resulting in improved capacity utilisation and larger industrial output.
- Enabling policies, announced in the Union Budget (1999-2000), shoring up demand in key sectors and improving investment. These include: fiscal package for the housing sector, rationalisation of excise and customs duty structures, removal of customs duty anomaly on steel, extension of the scope of tax holiday awarded to infrastructure industries, amendments in the Income Tax Act for facilitating mergers and amalgamations, a new programme for rural industrialisation, specific measures for the small scale sector etc.

External

- Enhanced overseas demand for industrial products due to strong pick-up by exports, assisted by a revival in East Asian economies and more bouyant global economic conditions.