

Outlook

7.64 A broad-based industrial recovery is underway in the current year from the cyclical downturn of industrial growth, which started in 1996-97 and was prolonged due to the twin effects of the East Asian crisis and post-Pokhran sanctions. Industrial growth is moving on a rising trajectory, and the broad-based nature of recovery is apparent from the use-based classification. Basic goods, intermediate goods and consumer goods have all recorded accelerated growth. Capital goods are also doing well. The emerging pattern and composition of industrial growth can set in motion mutually supportive forces for a sustained industrial recovery.

7.65 Various macro-economic parameters also indicate a strong industrial recovery. There are clear "feel good" factors as a result of high economic growth, low inflation, bullish stock market, buoyant exports, stable exchange rate and record level of foreign exchange reserves. Corporate results show improvement over last year and various surveys indicate a rise in business confidence. The improved industrial performance is also reflected in accelerated growth in major core and infrastructure sectors, such as electricity generation, production of steel, cement and petroleum products, revenue earning goods traffic on railways, cargo handled

at major ports and new telephone connections.

7.66 Broad-based industrial recovery has been supported by continued reforms in industry, trade and financial sectors, which have helped industry to improve its efficiency, productivity and international competitiveness. Recent liberalisation of foreign investment policy would encourage further industrial investment, output and employment. However, further reforms are necessary in the financial system and labour markets to impart dynamism to the overall growth process and promote industrial employment. There is an urgent need to carry out legislative reforms to facilitate rapid redeployment of investment from unproductive to productive lines of activity. This is especially necessary in today's fast-changing international and domestic economic environment. The support to the SSI sector needs to emphasise increasingly promotional policies, rather than protection. Additional areas where reforms would promote greater efficiency include restructuring of public enterprises and improvement in corporate governance. Infrastructural constraints in roads, power and telecom need to be removed by creating higher capacities for sustained industrial growth. Although Y2K problems have been tackled efficiently, India will have to face and surmount the challenges posed by new technologies and market places, such as Internet and e-commerce.