Industrial Policy

7.4 Industrial policy reforms were pushed further in the Union Budget (1999-2000).The major policy initiatives announced in the Budget include: (i) far-reaching rationalisation of the excise duty structure by reducing the existing eleven rates to only three (ii) restoration of 100 per cent MODVAT credit (iii) tax incentives for facilitating industrial restructuring through mergers and amalgamations (iv) removal of customs duty anomaly on steel (v) extension of Technology Upgradation Fund(TUF) scheme for textile industry to spinning industry (vi) support to domestic industry by imposing minimum 5 per cent customs duty on the majority of previously zero-duty imports and extending countervailing duty to capital project sectors (vii) extending infrastructure sector tax holiday to power transmission (viii) giving a strong thrust to road construction by imposing surcharge on diesel. The Budget declared a set of measures for the small scale sector including enhancement of eligibility limit for excise exemption, a new credit insurance scheme, extension of the scope of priority lending for the SSI sector etc. The Budget also announced review of Industries (Development and Regulations) Act, 1951, for shifting the focus of the legislation to development, instead of regulation.

7.5 Several measures have been taken for facilitating the inflow of foreign investment in the economy. The scope of the automatic approval scheme of the RBI has been significantly expanded. The Government has decided to place all items under the automatic route for Foreign Direct Investment/ NRI and OCB investment except for a small negative list. The negative list includes all proposals requiring industrial license under the Industries (Development and Regulation) Act, 1951; cases having foreign investment more than 24 per cent in the equity capital of units manufacturing items reserved for the SSI sector; and for all items requiring industrial license in terms of the locational policy notified under the New Industrial Policy, 1991. The negative list also includes proposals where the foreign collaborator has an existing venture / tie-up in India, proposals relating to acquisition of shares in an existing Indian company in favour of a foreign /NRI / OCB investor and all proposals falling outside the notified sectoral policy/caps or under sectors in which FDI is not permitted and/ or whenever any investor chooses to make an application to the FIPB and not to avail of the automatic route. The automatic approvals, however, would be subject to sector-specific ceilings on foreign investment. The Government has decided to set up a Group of Ministers for reviewing the existing sectoral policies and caps. Henceforth, subject to sectoral policies and caps, the automatic route will be available to all foreign and NRI investors with the facility to bring in 100 per cent FDI/NRI/OCB investment. All proposals for investment in public sector units, EOUs, EPZs, EHTPs (Electronic Hardware Technology Parks) and STPs (Software Technology Parks), would be eligible for automatic approval subject to the above parameters.

7.6 The Union Budget (1999-2000) permitted FDI upto 74 per cent, under the automatic route, in bulk drugs and pharmaceuticals. Foreign owned Indian companies have been allowed to make downstream investments within permissible equity limits under the automatic approval scheme. A Foreign Investment Implementation Authority (FIIA) has been set up for providing single point interface between foreign investors and the Government machinery. The FIIA, will be duly empowered to give composite/comprehensive approvals. A project monitoring unit has also been set up for facilitating implementation of projects having foreign equity of Rs.100 crore and above.

7.7 The Union Budget announced fiscal incentives and other measures for strengthening the capital markets and the banking system. These include: restructuring the US 64 scheme of UTI, a favourable tax treatment of incomes earned through mutual funds, abolition of stamp duty on transfer of debt instruments and taking up major programmes for reduction of NPAs in banks. Special thrust was given in the Budget to the housing sector, by announcing measures like raising tax deduction limit on interest on house loans for self-occupied houses, changes in foreclosure laws, increased depreciation to businesses for building houses for employees etc. Reforms, intending to restructure the public sector, were also carried forward in the Budget, by declaring the intention of the Government to encourage raising of market loans for VRS programmes, supported by interest subsidies or counter guarantees.