7

Industry

Overview

Growth in the industrial sector in 2003-04 continued to be healthy. The Index of Industrial Production (IIP) grew by 6.9 per cent (Table 7.1). The major element of the buoyancy in industrial growth was the manufacturing sector with 80 per cent weight in IIP. Manufacturing witnessed growth of 7.2 per cent, while mining and electricity grew by 5.1 per cent, and 5.0 per cent, respectively.

Table 7.1 : Annual growth rate of industrial production in major sectors of industry

(Based on the index of industrial production)

Base: 1993-94=100

(per cent)

Period	Mining & Quarrying	Manufa- cturing	Electricity	Overall
Weight	**10.47**	**79.36**	**10.17**	**100.00**
1994-95	9.8	9.1	8.5	9.1
1995-96	9.7	14.1	8.1	13.0
1996-97	-1.9	7.3	4.0	6.1
1997-98	6.9	6.7	6.6	6.7
1998-99	-0.8	4.4	6.5	4.1
1999-00	1.0	7.1	7.3	6.7
2000-01	2.8	5.3	4.0	5.0
2001-02	1.2	2.9	3.1	2.7
2002-03	5.8	6.0	3.2	5.7
2003-04	5.1	7.2	5.0	6.9

Source : Central Statistical Organisation

7.2 The consumer durables sector (refrigerators, electric fans, television, motor cycles and cars) witnessed a complete turnaround. It grew by 11.6 per cent (Table 7.2) during 2003-04 compared with a decline of 6.3 per cent during the previous year. Lower interest rates, the availability of retail finance, and the strong monsoon are among the explanations for this sharp growth in the consumer durables sector.

7.3 Growth in the capital goods sector was healthy. Production in the sector increased by 12.7 per cent. In this use-based category, both components - transport equipment & parts and machinery and equipment other than transport equipment - witnessed high growth. The former grew at 17.0 per cent, while the latter grew at 15.2 per cent in 2003-04.

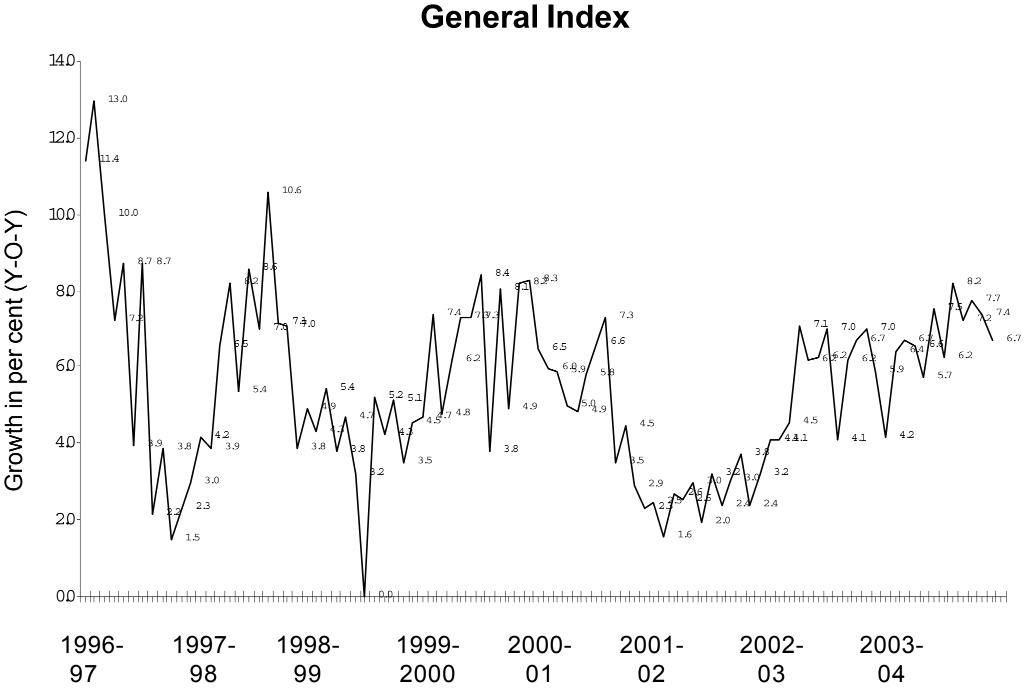
7.4 The growth in consumer non-durables fell sharply in 2003-04 to 5.7 per cent whereas, in 2002-03 the sector grew at 12.0 per cent. Fast Moving Consumer Goods (FMCG) companies did not perform well as price wars cut into profit margins. Competition from local brands and inadequate coverage of IIP may be part of the explanation for the poor performance of consumer non-durables

7.5 Basic goods and intermediate goods industries grew faster in 2003-04 at 5.4 per cent and 6.2 per cent, respectively. These constitute raw materials and inputs such as metals and chemicals and usually perform well in a year of high GDP growth.

7.6 At a two digit level classification, as many as 12 out of 17 industry groups have showed positive growth during 2003-04 (Table 7.3). A disaggregation of the manufacturing sector showed that growth recovery observed in 2002-03 has been sustained in the current year also for a number of sub-sectors. Transport equipment and parts grew at 17.0 per cent, followed by paper and paper products, printing publishing and

Fig. 7.1

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



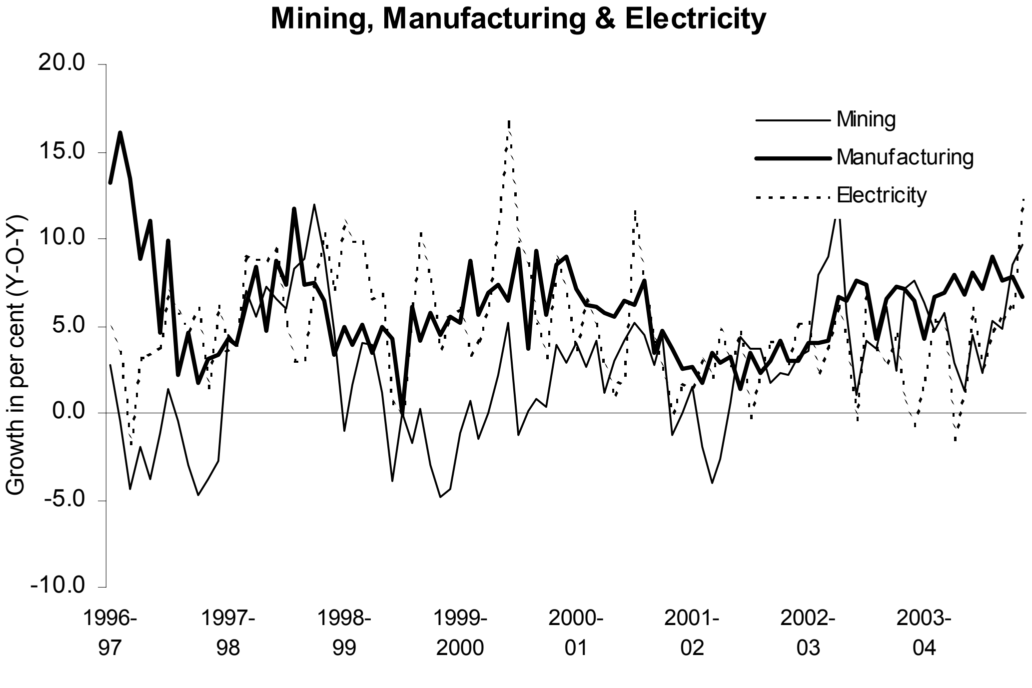


Table 7.2 : Growth rates of industrial production by use-based classification

(Base : 1993-94 = 100)

(per cent)

Sectors	Weight	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Basic Goods	35.5	3.0	6.9	1.6	5.5	3.7	2.6	4.9	5.4
Captial Goods	9.3	11.5	5.8	12.6	6.9	1.8	-3.4	10.5	12.7
Intermediate Goods	26.5	8.1	8.0	6.1	8.8	4.7	1.5	3.9	6.2
Consumer Goods of which	28.7	6.2	5.5	2.2	5.7	8.0	6.0	7.1	7.1
Consumer Durable	5.4	4.6	7.8	5.6	14.1	14.5	11.5	-6.3	11.6
Consumer Non-Durables	23.3	6.6	4.8	1.2	3.2	5.8	4.1	12.0	5.7
IIP (Index of Indl. Prodn.)	100	6.1	6.7	4.1	6.7	5.0	2.7	5.7	6.9

Source : Central Statistical Organisation

allied industries (15.9 per cent), Machinery and equipment other than transport equipments (15.2 per cent), beverages, tobacco and related products (9.4 per cent), basic metals and alloy industries (9.1 per cent), basic chemicals and chemical products except products of petroleum & coal products (8.2 per cent), wood & wood products; and furniture and fixtures (6.8 per cent). The industry groups that witnessed negative growth are leather and leather & fur products (-4.3 per cent), jute and other vegetable fiber textiles (except cotton) (-4.2 per cent), followed by textile products including wearing apparel (-3.8 per cent) and cotton textiles (-3.3 per cent). However, the key industries of construction sector- both steel and cement registered a positive growth of 6.9 per cent and 6.1 per cent, respectively during 2003-04.

Table 7.3 : Growth rates of industrial production by broad groups of manufacturing

(Base : 1993-94=100)

(per cent)

Code	Industry group	Weight-	2002-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	2003-04
20-21	Food Products	90.83	11.0	18.9	19.4	3.2	3.0	3.4	1.9	1.9	4.2	-2.1	-2.5	-13.7	-17.9	-0.2
22	Beverage, tobacco & Products	23.82	27.9	27.0	14.9	10.2	9.9	24.0	0.5	13.8	-7.4	8.4	4.7	3.1	11.8	9.4
23	Cotton Textiles	55.18	-2.7	-8.8	-4.6	-7.0	-6.2	-8.4	-7.2	-10.8	0.2	1.5	3.7	5.6	3.8	-3.3
24	Wool, Silk and Man made fibre textiles	22.58	3.0	-37.7	1.3	32.4	22.4	5.3	6.1	1.3	2.8	4.2	6.3	15.7	20.5	6.2
25	Jute,and other vegetable fibre textiles (except cotton)	5.90	8.3	13.6	9.1	13.1	10.6	-14.9	-10.7	-8.9	-6.6	-7.4	-36.8	0.7	-0.2	-4.2
26	Textile Products (including Wearing Apparel)	25.37	14.4	-19.3	12.8	-0.5	6.0	-0.9	12.7	-10.7	-9.0	-13.7	-7.0	-11.3	-0.8	-3.8
27	Wood & wood Pdts.& furniture and Fixtures	27.01	-17.6	5.8	9.6	17.2	1.1	13.1	24.4	26.5	7.3	-8.7	5.8	-10.6	3.0	6.8
28	Paper & Paper Products and Printing, Publishing & Allied Industries	26.52	6.8	8.2	7.5	16.8	31.2	33.6	26.8	26.2	21.7	16.7	6.6	-13.1	15.1	15.9
29	Leather & Leather & fur Products	11.39	-3.2	-19.8	-15.1	-5.3	-9.3	-9.6	13.1	19.5	9.6	14.9	-9.5	-14.6	-14.2	-4.3
30	Basic Chemicals & chemical product (except products of Petroleum & coal)	140.02	3.7	-4.9	-5.5	0.5	3.6	8.5	6.9	11.6	13.4	12.0	15.2	19.3	17.7	8.2
31	Rubber, Plastic, Petroleum and Coal Products	57.28	5.5	18.1	2.8	12.8	5.8	2.5	-0.8	-1.5	7.9	12.9	2.4	-0.9	-4.0	4.5
32	Non-Metallic Mineral Products	43.97	5.1	1.2	7.7	6.1	8.8	-1.1	3.0	6.1	5.9	5.7	1.1	4.6	-3.7	3.7
33	Basic Metals & Alloy industries	74.53	9.2	12.0	12.5	11.9	15.0	7.1	8.6	12.4	9.7	6.3	7.3	6.4	1.2	9.1
34	Metal Products and Parts except Machinery and Equipment	28.10	6.4	0.9	0.3	-1.2	-0.8	-1.3	5.6	6.9	3.8	0.8	9.7	10.4	6.1	3.4
35-36	Machinery and Equipment other than Transport equipment	95.65	1.6	0.3	6.5	2.4	7.3	8.9	21.2	9.8	18.0	20.5	22.0	34.0	28.6	15.2
37	Transport Equipment and parts	39.84	14.6	23.6	27.9	24.4	22.4	17.0	18.9	8.3	19.0	13.2	15.3	12.0	7.6	17.0
38	Other Manufacturing Industries	25.59	0.1	22.8	15.4	14.8	6.2	1.3	-7.5	0.6	2.8	2.4	8.0	6.4	9.9	6.5
1	Mining & Quarrying	104.73	5.8	6.3	4.7	5.7	2.9	1.3	4.5	2.4	5.2	5.6	8.5	10.6	3.8	5.1
2-3	Manufacturing	793.58	6.0	4.3	6.7	6.9	8.0	6.7	8.0	7.1	8.9	7.8	7.8	7.2	6.7	7.2
4	Electricity	101.69	3.2	1.9	5.2	5.4	-1.4	1.2	6.0	2.6	4.8	5.4	6.1	12.9	10.1	5.0
	General Overall Index	**1000.00**	**5.7**	**4.2**	**6.4**	**6.7**	**6.6**	**5.7**	**7.5**	**6.2**	**8.2**	**7.4**	**7.7**	**7.9**	**6.7**	**6.9**

Growth rates are estimated over the corresponding period of the previous year.

Source: Central Statistical Organisation

Highlights of some Industries

Automobiles

7.7 During 2003-04, automobile production grew by 15.1 per cent (Table 7.4). This was on top of a growth of 18.6 per cent during the previous year. Commercial vehicles witnessed a sharp growth of 35.1 per cent, while passenger cars grew at 38.3 per cent. A major development in Indian manufacturing has been the success in exports of automobile components and finished vehicles. The export of vehicles grew by 56 per cent in 2003-04.

7.8 The growth of commercial vehicles and passengers cars segments was assisted by the reduction in excise duty on passenger cars from 32 per cent to 24 per cent, reductions in tariffs, and improvements in the availability of retail credit. The liberalisation of the norms for foreign investment and import of technology for manufacturing of vehicles, permission of 100 per cent foreign direct investment under automatic route in this sector have helped it to restructure, absorb new technologies, and get integrated into global production chains.

7.9 Automobile exports have increased to 4.8 lakh units and registered a robust growth of 55.9 per cent during 2003-04 (Table 7.5). Over the last four years, the exports of automobiles (of all kinds) has grown by roughly three and a half times. Alongside the hectic growth in export of finished automobiles, there has also been a major upswing in the export of automobile components which grew by 26 per cent from Rs. 2,775 crore in 2001-02 to Rs. 3,496 crore in 2002-03 and further grew by 30.1 per cent in the year 2003-04 to Rs. 4,550 crore. A host of major international automobile companies are increasingly harnessing India as a production base, either

Table 7.4 : Automobile Production in Numbers

Category	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Passenger Cars	3,90,709	5,77,243	5,13,415	5,64,052	6,08,851	8,42,437
Multi Utility Vehicles	1,13,328	1,24,307	1,27,519	1,05,667	1,14,479	1,46,103
Commercial Vehicles	1,35,891	1,73,521	1,56,706	1,62,508	2,03,697	2,75,224
Two Wheelers	33,74,508	37,78,011	37,58,518	42,71,327	50,76,221	56,24,950
Three Wheelers	2,09,033	2,05,543	2,03,234	2,12,748	2,76,719	3,40,729
Total	**42,23,469**	**48,58,625**	**47,59,392**	**53,16,302**	**62,79,967**	**72,29,443**
Percentage Growth	**5.40**	**15.00**	**-2**	**11.70**	**18.60**	**15.12**

Source : Ministry of Heavy Industry & Public Enterprises (Department of Heavy Industry)

Table 7.5 : Automobile Export in Numbers

Category	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Passenger Cars	25,468	23,271	22,990	50,088	70,828	1,26,249
Multi Utility Vehicles	2,654	5,148	4,122	3,077	1,177	3,067
Commercial Vehicles	10,108	9,912	13,770	11,870	12,255	17,227
Two Wheelers	1,00,002	83,237	1,11,138	1,04,183	1,79,682	2,64,669
Three Wheelers	21,138	18,388	16,263	15,462	43,366	68,138
Total	**1,59,370**	**1,39,956**	**1,68,283**	**1,84,680**	**3,07,308**	**4,79,350**
Percentage Growth	**-16.63**	**-12.18**	**20.2**	**9.74**	**65.35**	**55.98**

Source: Ministry of Heavy Industry and Public Enterprises (Department of Heavy Industry).

directly through FDI, or indirectly by contracting with firms operating in India.

Gems and Jewellery

7.10 The exports of gems and jewellery registered a buoyant growth of 19.1 per cent (Table 7.6) during 2003-04. At US$10.5 billion, the share of gems and jewellery in total exports rose to 17.0 per cent. This is a particularly interesting industry from an Indian standpoint, since it involves imported raw materials, domestic value added, and global markets. Indian gems firms are tightly integrated into global production chains.

Table 7. 6 : Export of Gems and Jewellery

Years	Billion US Dollar	Percentage increase	% share in total exports
1997-98	5.3	-	-
1998-99	5.9	10.9	17.8
1999-00	7.5	26.5	20.4
2000-01	7.4	-1.5	16.6
2001-02	7.3	-1.1	16.7
2002-03	8.8	21.1	16.9
2003-04*	10.5	19.1	17.0

Source : Ministry of Commerce and Industry (Department of Commerce)

*** Based on provisional data by DGCI&S**

7.11 In order to give a boost to exports of gems and jewellery, Government of India took major policy initiatives during 2003-04, focused on reducing the barriers to imported raw materials.

Textiles

7.12 During 2001-02 the textile industry performed well, and the production of fabrics touched the peak of 42 billion square meters. Though production declined to 41.9 billion square meters in 2002-03, in 2003-04 despite an initial sharp decline attributed to strikes by powerloom units and truck operators, rise in cotton prices and poorer demand for textiles, it picked up again and touched 42.2 billion square meters by the close of the year (Table 7.7). The share of the powerloom

Table : 7.7 Production of Fabrics

(million sq. mtrs.)

Sector	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Mills	1,948	1,785	1,714	1,670	1,546	1,496	1,425
Powerlooms (incl. Hosiery)	27,345	26,966	29,561	30,499	32,259	33,835	34,586
Handlooms	7,603	6,792	7,352	7,506	7,585	5,980	5,536
Others	545	584	581	558	644	662	662
Total	**37,441**	**36,127**	**39,208**	**40,233**	**42,034**	**41973**	**42209**

Share in output (per cent)

Sector	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Mills	5.2	4.9	4.4	4.2	3.7	3.6	3.3
Powerlooms (incl. Hosiery)	73.0	74.7	75.3	75.7	76.8	80.6	82.0
Handlooms	20.3	18.8	18.8	18.7	18.0	14.2	13.1
Others	1.5	1.6	1.5	1.4	1.5	1.6	1.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : Office of Textile Commissioner, Mumbai.

sector in the total production of fabrics increased to 82 per cent compared to 80.6 per cent during the previous year.

7.13 Textile exports performed well during the year. Upto April-February 2003-04 (latest available) textile exports was valued at US$ 10.1 billion, as against US$ 9.6 billion during corresponding period of 2002-03 (Table 7.8). All sectors performed well except cotton textiles which fell marginally by 0.54 per cent. The increase in silk exports is noteworthy, as falling prices has pushed down unit value realisation.

7.14 Major reforms took place on the indirect tax treatment of the textile sector in 2003-04, seeking to remove tax-induced distortions. A key theme was the completion of the CENVAT chain to improve compliance, reduce the extent to which taxation influences the decisions of firms on choice of technology, and encourage modernisation and global competitiveness. The excise exemption for power looms was removed, except for the first annual clearance of Rs.25 lakhs for tiny power loom units. Exemption benefits on readymade garments were limited to the first annual clearance of Rs.30 lakhs. Duty on polyester filament yarn was brought down to 24 per cent and that on blended yarns to 12 per cent. The general rate duty on fabrics and garments was reduced to 10 per cent. Weavers/readymade garment manufacturers undertaking job work were relieved from excise formalities and duty payments. These were shifted to traders who get these goods manufactured. For exempted power loom units, a facility was provided to pass on the credit of yarn duty to the processors by endorsement on the duty paying document. In addition to these steps, the customs tariff on specified textile machinery, apparel grade raw wool and paraxylene was cut to 5 per cent.

7.15 These developments have helped set the stage for large-scale investments in the Indian textile industry and improvements in export competitiveness.

7.16 Indian textile exporters face stiff competition from low cost suppliers like Bangladesh, China and Pakistan. In addition, Indian textile exports have also faced anti-dumping and other non-tariff barriers from importing countries. Presently, the exports of cotton and bed-linen and polyester staple fiber to the European Union, polyester texturised filament yarn to Turkey and acrylic blankets to South Africa are subject to anti-dumping duties imposed by importing countries. Similarly, changes introduced by the USA in

Table : 7.8 Export of Textiles

(in US$ million)

Sl.No.	Item	2001-02	2002-03	2002-03 (April-February)	2003-04 (April-February) (Provisional)	Percent Variation 2003-04 (April-Feb)
1.	Textiles(i-v)	9515.2	10367.8	9621.75	10100.87	4.98
	(i) Ready made Garment	4618.7	5031.5	4702.34	4759.21	1.21
	(ii) Cotton Textiles	3081.9	3281.0	3005.38	2989.1	-0.54
	(iii) Wool& WollenTextiles	289.1	266.4	248.32	316.26	27.36
	(iv) Manmade Textiles	1088.5	1360.1	1257.89	1571.83	24.96
	(v) Silk	437.0	428.8	407.82	464.46	13.89
2.	Others@	1249.6	1474.4	1417.02	1154.15	-18.55
	Total (1+2)	**10764.8**	**11842.2**	**11038.71**	**11255.03**	**1.96**

@ : Includes Handicrafts, Coir & Coir Manufactures and Jute Goods

Source : DGCIS

the "Rules of Origin" criteria affect the exports to third countries like Sri Lanka and members of European Union.

7.17 Two major plan schemes of the government, namely; the Apparel Parks for Exports and the Textiles Centres Infrastructure Development Scheme (TCIDS) have made considerable progress during the year. Up to March, 2004, eleven projects were cleared under the Apparel Parks Scheme: two in Uttar Pradesh (Tronica city, Kanpur) two in Tamil Nadu (Kancheepuram, Tirupur), one each in Kerala (Trivanandhapuram), Andhra Pradesh (Vishakapatnam), Karnataka (Bangalore), Gujarat (Surat), Punjab (Ludhiana), Madhya Pradesh (SEZ, Indore), and Rajasthasn (Mahal-Jaipur). Under the TCIDS Scheme, a total 13 projects were cleared : three in Andhra Pradesh (Warangal, Pashmylarlam and Sircilla), two each in Gujarat (Narol-Shahwadi, Pandesara-Surat), Maharastra (Bhiwandi, Solapur), and Tamil Nadu (Kancheepuram, Tirupur) and one each in Kerala (Kannur), Hayrana (Panipat), Madhya Pradesh (Indore) and in Rajasthan (Jassol Balotra Bithuja). Work has already been initiated on many of these projects.

7.18 As part of a Rehabilitation Scheme, 61 unviable NTC mills have been closed after giving VRS to nearly 36,544 workers upto April, 2004 at a cost of Rs. 1,226 crores. Resources of Rs.1,250 crore were obtained for this VRS program by floating NTC bonds guaranteed by the government. In addition, government guarantee has also been extended to NTC for mobilisation of an additional Rs. 330 crores. NTC has sold surplus assets worth Rs. 390 crores, which has also helped fund the rehabilitation schemes.

Steel

7.19 The steel industry continued to remain buoyant due to strong growth in demand, propelled by the demand for steel in China and a strong domestic market. Both production and exports continued to rise. During 2003-04, the total finished steel production increased to 36.19 million tonnes and recorded a growth of 7.5 per cent (Table 7.9). Domestic consumption increased to 30.27 million tonnes and grew by 4.7 per cent during 2003-04. The exports of finished steel increased to 5.3 million tonnes and grew by 17.6 per cent during 2003-04.

Table 7.9 : Output of Iron and Steel

(million tonnes)

Item	2000-01	2001-02	2002-03	2003-04 (prov.)
Finished steel				
Main Producers	12.49 (10.8)	13.05 (4.5)	14.38 (10.19)	15.193 (5.6)
Secondary Producers	16.78 (5.5)	17.58 (4.8)	19.28 (5.6)	21.000 (8.9)
Total	**29.27** (7.7)	**30.63** (4.7)	**33.67** (9.9)	**36.193** (7.5)
Pig Iron				
Main Producers	0.96 (-21.3)	1.02 (5.4)	1.107 (7.8)	0.971 (-12.3)
Secondary Producers	2.43 (24.5)	3.06 (25.5)	4.17 (36.2)	4.250 (1.7)
Total	**3.39** (6.8)	**4.08** (19.8)	**5.28** (29.4)	**5.221** (-1.2)
Exports				
Finished steel	2.664 (0.22)	2.704 (1.50)	4.506 (66.6)	5.3 (17.6)
Pig Iron	0.232 (-20)	0.312 (34.48)	0.629 (101.60)	0.552 (-12.2)
Apparent Consumption				
Finished Steel	26.52 (5.6)	27.43 (3.43)	28.89 (5.32)	30.265 (4.7)
Pig Iron	3.24 (7.2)	3.79 (16.97)	4.64 (22.42)	4.687 (0.9)

Note : Figures in brackets indicate percentage change over the previous period/year.

7.20 World steel prices rose from December, 2001 onward. In the case of hot rolled (HR) coils, the price increase in January, 2002-November, 2003 was from US$199 to US$300 (ex-Europe). Domestic steel demand rose due to greater construction activity such as road construction under the NHAI. There was considerable increase in domestic steel prices as well.

7.21 The government actively responded to these market developments, and came out with a stream of "industrial policy" actions which would affect the prices of steel. In the 'interim budget' of January, 2004, three changes were announced: (a) reduction in the peak rate of customs duty from 25 per cent to 20 per cent, (b) abolition of SAD of 4 per cent, (c) reduction in customs duty on non-coking coal and nickel from 25 per cent to 15 per cent, and from 10 per cent to 5 per cent, respectively. On February 24, 2004, customs tariffs were cut as follows: (a) on met coke from 10 per cent to 5 per cent, (b) on all carbon steel items from 20 per cent to 15 per cent, and (c) on pig iron from 20 per cent to 10 per cent. On February 28, 2004, excise duty on steel was reduced from 16 per cent to 8 per cent, and the following changes were made to customs duties: the tariff on pig iron was reduced from 10 per cent to 5 per cent, the duty on coking coal from 5 per cent to 0 and on non-coking coal from 15 per cent to 5 per cent. The DEPB scheme was suspended for iron and steel items.

Tourism

7.22 During 2003-04, the tourism industry has registered a robust growth of 18.5 per cent (estimated) in foreign tourist arrivals (Table 7.10) compared with the modest growth of 1.7 per cent registered in 2002-03. In absolute terms, the estimated foreign tourist arrivals during 2003-04 increased to 2.9 million compared with 2.5 million during the corresponding period of the previous year. The estimated foreign exchange earnings also increased by 26.5 per cent compared with 4.1 per cent during the corresponding period of the previous year. In absolute terms, estimated foreign exchange earnings increased to US$ 3.8 billion during 2003-04 from US$ 3.0 billion in 2002-03.

Table 7.10 : Foreign Tourist Arrrivals and Foreign Exchange Earnings

Year	Foreign tourist arrivals (in lakhs)	Growth (Percent)	Estimated foreign exchange earnings (in million US$)	Percent change
1996-97	23.34	6.6	2878	6.1
1997-98	23.71	1.6	2914	1.3
1998-99	23.97	1.1	2993	2.7
1999-00	25.05	4.5	3036	1.4
2000-01	26.99	7.7	3168	4.3
2001-02	24.28	-10.2	2910	-8.1
2002-03	24.70	1.7	3029	4.1
2003-04	29.25*	18.5*	3833*	26.5*

* Estimated

Source : Ministry of Tourism

Oil and Gas

7.23 Turbulence in the international crude oil market has brought back to prominence the questions of dependence on oil, progress in exploration in India, better utilisation of natural gas, and improvements in energy efficiency.

7.24 Natural gas production was 31.40 billion cubic metres (BCM) during 2002-03, up by 5.7 per cent from 2001-02. In 2003-04, production went up by 1.8 per cent to 31.96 BCM (Table 7.11).

7.25 To explore a new source of natural gas from coal bearing areas, Government of India signed 16 contracts for exploration and production of CBM. Exploration activities in these blocks are in progress. Preparatory activities for the Third Round of CBM are under way.

7.26 Petronet LNG Ltd. (PLL), a joint venture was formed for import of Liquefied Natural Gas (LNG) to meet the growing demand of natural gas. PLL has constructed an LNG terminal at Dahej in Gujrat for 5 MTA capacity and plans to construct another at Kochi (Kerala) for 2.5 MMTPA capacity. An LNG sale and purchase agreement between Rasgas of Qatar and PLL was signed on July 31, 1999 for supply of 7.5 MMTPA of LNG for the Dahej and Kochi projects. The Dahej terminal was dedicated to the nation in February, 2004 and commercial supply of re-gasified LNG (R-LNG) commenced from April, 2004. The R-LNG is being supplied to consumers in Gujarat, Maharashtra, Madhya Pradesh, Rajasthan, Haryana, Delhi and Uttar Pradesh. At Kochi LNG terminal, all pre-project activities have been completed, but the progress of the project is conditional on the marketing tie-up. In addition, Shell India Pvt. Ltd. is setting up a 2.5 MMTPA LNG terminal at Hazira in Gujarat, to be completed by end-2004 to supply gas to Gujarat and Maharashtra.

7.27 For enforcing pollution control for automobiles, the Ministry of Petroleum and Natural Gas had set up an expert committee headed by Dr. R. A. Mashelkar, in August 2001 to formulate a National Auto Fuel Policy. Based on its recommendations, the Auto Fuel Policy was finalised by the Government. The Policy,

Table 7.11 : Trends in the Petroleum Sector							
Item					**percent change over previous year**		
	2000-01	**2001-02**	**2002-03**	**2003-04***	**2001-02**	**2002-03**	**2003-04**
			(million tonnes)				
1 Crude oil production	32.43	32.03	33.04	33.38	-1.2	3.2	1.0
i) On-shore	11.79	11.89	17.47	11.46	0.8	-3.9	-0.1
a) ONGC	8.43	8.64	8.45	8.39	2.5	-2.2	-0.7
b) OIL	3.28	3.18	2.95	3.00	-3.0	-7.2	1.7
c) JVC	0.08	0.07	0.07	0.07	-12.5	0.0	0.0
ii) Off-shore	20.64	20.14	21.57	21.92	-2.4	7.1	1.6
a) ONGC	16.63	16.07	17.56	17.68	-3.4	9.3	0.7
b) JVC	4.01	4.07	4.01	4.24	1.5	-1.5	5.7
2 Refinery crude throughput	103.44	107.27	112.56	121.84	3.7	4.9	8.2
3 Production of POL products *Of which*	95.61	100.00	104.14	113.46	4.6	4.1	8.9
Production from fractionator	2.05	2.21	2.37	2.32			
4 Natural gas production (Billion cubic metres)	29.48	29.71	31.40	31.96	0.8	5.7	1.8

Source : Ministry of Petroleum & Natural Gas.

inter-alia lays a road map for changes in fuel quality and vehicular technology to attain a given level of emission.

(i) Bharat Stage-II emission norms implemented in Agra, Ahmedabad, Bangalore, Hyderabad, Kanpur, Pune and Surat with effect from April 1, 2003, and to be implemented throughout the country by April 1, 2005.

(ii) Euro-III equivalent emission norms in the four metros and the seven cities mentioned above to be implemented with effect from April 1, 2005, and in all other areas of the country by April 1, 2010.

7.28 In the fourth round of New Exploration Licensing Policy (NELP-IV) to accelerate the pace of exploration of oil and gas in the country, Government signed contracts for 20 blocks in February, 2004. With these blocks, in the first four rounds of NELP, contracts for 90 blocks covering 9.1 lakh square kilometers have been signed and the area under exploration has gone up by over 250 per cent from 0.35 million square kilometers to 1.24 million square kilometer. Today, as much as 74 per cent of the area under Exploration and Production belongs to the NELP blocks. With the implementation of NELP, 9 discoveries have been made. Of these, the gas discovery in the Krishna Godavari basin, announced in October, 2002 is the most significant with an initial estimated availability of 7 trillion cubic feet (198 BCM of gas).

7.29 ONGC Videsh Limited (OVL) has acquired 25 per cent interest in the Greater Nile Oil Project (GNOP) in Sudan as part of the process of acquisition of equity oil and gas abroad. The field is already producing, and OVL's share in production works out to about 3 million metric tonne per annum. In addition, OVL has acquired interest in 2 exploration blocks in Sudan, 2 exploration blocks in Libya and 1 block in Syria.

7.30 Government introduced the Petroleum Regulatory Board Bill, 2002 in Lok Sabha on May 6, 2002. The Bill was referred to the Department related Parliamentary Standing Committee for examination. The Committee presented its report to Lok Sabha on May 8, 2003 and recommended that the Bill may be passed subject to its recommendations and observations. The Ministry has examined the recommendations and accepted them with minor modifications.

Electronics & Computer Technology

7.31 The information technology (IT) industry has shaped up as a major success story in India's economy. Exports of computer software and IT-enabled services have become a large component of the exports of the country. This is also an area where the government's role has been very different from that in some other industries. The important contribution of the government in the growth of this industry consists of telecom policies, which enabled low cost computer networking in the country, and investments in human capital such as through the IITs.

7.32 The Indian IT and electronics industry recorded a robust growth of 21.6 per cent during 2003-04. In absolute terms, production has increased to Rs. 97,000 crore and 1,14,650 crore during the year 2002-03 and 2003-04, respectively, as compared with Rs. 80,124 crore during 2000-01 (Table 7.12). Inspite of global difficulties in the information, communication, and technology (ICT) sector, the export of Indian software and services is estimated to have increased to Rs. 55,500 crores in 2003-04, a growth rate of about 20.4 per cent in rupee terms and 28 per cent in dollar terms (Table 7.13).

Table 7.12 : Electronics production

(Rs. crore)

	Item	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04*
1.	Consumer Electronics	9,200	11,200	11,950	12,700	13,800	15,200
2.	Industrial Electronics	3,300	3,750	4,000	4,500	5,550	6,100
3.	Computers	2,300	2,500	3,400	3,550	4,250	6,800
4.	Comm. & Broad. Equip.	4,400	4,000	4,500	4,500	4,800	5,350
5.	Strategic Electronics	1,300	1,450	1,750	1,800	2,500	2,750
6.	Components	4,750	5,200	5,500	5,700	6,600	7,600
	Sub-Total	**25,250**	**28,100**	**31,100**	**32,750**	**37,500**	**43,800**
7.	Software for Exports	10,940	17,150	28,350	36,500	46,100	55,500
8.	Domestic Software	4,950	7,200	9,400	10,874	13,400	15,350
	Total	**41,140**	**52,450**	**68,850**	**80,124**	**97,000**	**1,14,650**

***Estimated**
Source : Ministry of Communication & Information Technology (Department of Information Technology).

Table 7.13 : Electronics Exports

(Rs. Crore)

		1998-99	1999-00	2000-01	2001-02	2002-03	2003-04*
1.	Consumer Electronics	400	300	64	700	750	-
2.	Industrial Electronics	160	200	50	950	1,400	-
3.	Computers	400	240	1,250	1,800	550	-
4.	Comm. & Broad. Equip.	70	50	55	150	500	-
5.	Strategic Electronics	10	10	-	-	-	-
6.	Components	760	600	1,840	2,200	2,400	-
	Sub-Total	1,800	1,400	4,788	5,800	5,600	6,000
7.	Computer Software	10,940	17,150	28,350	36,500	46,100	55,500
	Total	**12,740**	**18,550**	**33,138**	**42,300**	**51,700**	**61,500**

*** Estimated - Not available**
Source : Ministry of Communication & Information Technology (Department of Information Technology).

Policies for Efficiency and Productivity

7.33 Efficiency and productivity in Indian manufacturing has long been inhibited by a few major policy problems. These include (a) reservation of items for the small scale sector; (b) high customs tariffs, distorting resource allocation and inhibiting the ability of Indian firms to participate in global production chains; (c) some rigidities in labour law acting as an impediment to efficiently building large firms; (d) some frictions faced in the creation and closure of firms in response to normal competitive market dynamics; and (e) distortions in the structure of domestic trade taxes and excise duties.

7.34 One of the most important developments in the world economy in the last 20 years has been the rise of Chinese manufacturing. China appears to differ from India to a considerable extent on these five issues, which has helped high growth in GDP and employment, and hence poverty reduction in China. As discussed above, India achieved significant progress in 2003-04 in the area of external liberalisation by reducing "peak" custom tariffs on non-agricultural goods to 20 per cent and eliminating the special additional duty of customs (SAD) of 4 per cent. The liberalization also included reduction in customs duty on power transmission & distribution projects and projects imports with investment of at least Rs. 5 crore from 25 per cent to 10 per cent; on specified raw material/ inputs used for manufacture of electrical components or optical fibre cables from 15 per cent/5 per cent to 5 per cent/nil; and reduction in duty on iron and steel.

Industrial Investment Activities

7.35 Table 7.14 shows data on industrial investment intentions filed by entrepreneurs with the Government of India for licensable and delicensed sectors. The proposed investment, after peaking at Rs. 1,28,892 core in 1999 declined in the next few years. However, the

Table 7.14 : Industrial investment intentions filed through IEMs and LOIs#

Year	IEMs (Industrial Entrepreneur Memorandum)			LOIs (Letters of Intent)		
	Number	Proposed investment (in Rs. crore)	Proposed employment* (000's)	Number	Proposed investment (in Rs. crore)	Proposed employment* (000's)
1991	3,084	76,310	769	195	2071	34
1992	4,860	1,15,872	923	620	13,994	97
1993	4,456	63,976	703	528	12,845	100
1994	4,664	88,771	829	546	17,937	130
1995	6,502	1,25,509	1,114	355	14,265	91
1996	4,825	73,278	696	522	29,932	181
1997	3,873	52,379	522	321	9,528	96
1998	2,889	57,389	521	145	3,274	27
1999	2,948	1,28,892	477	132	827	17
2000	3,058	72,332	411	203	1,042	31
2001	2,981	91,257	809	117	1,318	14
2002	3,172	91,291	380	89	649	8
2003	3,875	1,18,612	833	116	1,395	14
2004*	1,516	57,806	1,297	37	2,116	7
2003*	1,141	15,931	112	44	400	4
Total	**52,703**	**12,13,651**	**10,284**	**3,926**	**1,11,193**	**847**

* January to April

\# The Department of IP&P has been issuing Direct Industrial Licences since November 2003 against all applications except for the items reserved for exclusive production in the SSI sector for which LOI is issued initially.

Source : Ministry of Commerce & Industry (Department of Industrial Policy & Promotion).

investment intentions increased to Rs. 57,806 crore during January-April, 2004 compared to Rs. 15,931 crore during the corresponding period of 2003.

Foreign Direct Investment

7.36 Foreign direct investment (FDI) gives opportunities to Indian industry for technological upgradation, gaining access to global managerial skills and practices, optimizing utilisation of human and natural resources, and competing internationally with higher efficiency. Most importantly, FDI is central for India's integration into global production chains, which involve production by multinational corporations spread across locations all over the world.

Table 7.15 : Foreign Direct Investment Inflows and Exports in Selected Asian Developing Countries in the years 2001 and 2002

(Billion US $)

	2001		2002	
	FDI	Exports	FDI	Exports
China	46.84	266.09	52.70	325.59
	(5.7)	(4.3)	(8.1)	(5.1)
Hong Kong	23.77	189.89	13.72	200.09
	(2.9)	(3.1)	(2.1)	(3.1)
India	3.4	43.34	3.45	49.31
	(0.4)	(0.7)	(0.5)	(0.8)
Indonesia	-3.27	56.44	-1.52	58.12
	(-0.4)	(0.9)	(-0.2)	(0.9)
Korea	3.52	150.43	1.97	162.47
	(0.4)	(2.5)	(0.3)	(2.5)
Malaysia	0.55	88.00	3.20	93.27
	(0.1)	(1.4)	(0.5)	(1.5)
Philippines	0.98	32.66	1.11	36.50
	(0.1)	(0.5)	(0.2)	(0.0)
Singapore	10.94	121.75	7.66	125.18
	(1.2)	(2.0)	(1.2)	(2.0)
Srilanka	0.08	4.81	0.24	4.70
	(0.0)	(0.1)	(0.0)	(0.1)
Thailand	3.81	65.11	1.07	68.77
	(0.5)	(1.1)	(0.2)	(1.1)
Developing economies	209.43	2254.78	162.15	2428.44
	(25.4)	(36.8)	(24.9)	(37.8)
World	823.82	6128.90	651.19	6417.20

Notes : Figures in brackets are percent share to world total.

Source:

1. **World Investment Report- 2003, UNCTAD.**
2. **International Financial Statistics, May, 2004**.

7.37 India has one of the most liberal policy frameworks for FDI and foreign technology transfer. FDI up to 100 per cent is permitted under the automatic route in the most sectors. Entry under automatic route only requires post-entry notification and no prior approval.

7.38 One outstanding issue which has come to prominence in recent years has been the problem of non-comparability of Indian FDI statistics. A committee was constituted in May, 2002 by DIPP in order to bring the reporting system of FDI data in India into alignment with international best practices. This Committee submitted its report in October, 2002 and recommended that the FDI statistics should include, besides equity capital, 'reinvested earnings' (retained earnings of FDI companies) and other 'direct capital' (inter-corporate debt transactions between related entities).

7.39. The results of such a reclassification are shown in Box 6.4 of Chapter 6 of the Economic Survey 2003-04. On an average, the revised estimates are 70 per cent larger.

7.40 Table 7.15 shows the receipts of FDI inflows in the top ten developing countries. In 2002, FDI into China was US$52.70 billion compared with US$3.45 billion in India. This table also highlights the competition that India faces in seeking to attract FDI.

7.41 World FDI inflows declined significantly in the previous three years from US$1.4 trillion in 2000 to US$824 billion in 2001 and US$651 billion in 2002, the lowest, since 1998 (World Investment Report 2003, of UNCTAD). As against this, FDI inflow in India had largely remained unaffected by the global decline in FDI inflows over the same period. Similarly, in China, the FDI inflows increased from US$40.77 billion in 2000 to US$46.84 billion in 2001 and US$ 52.70 billion in 2002. India and China have some significant differences in the FDI performance (Box 7.1).

Box 7.1 : Differences in FDI performance between China and India

- FDI inflows to China grew from US$3.5 billion in 1990 to US$52.7 billion in 2002; excluding round-tripping, China's FDI inflows could fall to US$40 billion. Those to India rose from US$0.4 billion to US$3.45 billion during the same time period. Even with these adjustments, China attracted about fifteen times more FDI than India in 2002.
- FDI has contributed to the rapid growth of China's merchandise exports, at an annual rate of 15 per cent from 1989 to 2001. In 1989, foreign affiliates accounted for less than 9 per cent of Chinese exports; by 2002 they provided half. In some high-tech industries in 2000, the share of foreign affiliates in exports was over 90 per cent, for example, electronics circuits (91 per cent) and mobile phones (96 per cent).
- In India, by contrast, FDI has been much less important in driving export growth, except in information technology. FDI in Indian manufacturing has been and remains domestic market-seeking. FDI accounted for only 3 per cent of India's exports in the early 1990s (World Investment Report 2002, pp.154-163). Even today, FDI is estimated to account for less than 10 per cent of India's manufacturing exports.
- On the basic economic determinants of inward FDI, China does better than India. China's total and per capita GDP are higher than India's, making it more attractive for market seeking FDI. China has higher literacy and education rates making it more attractive to efficiency-seeking investors. China has large natural resource endowments. In addition, China's physical infrastructure is more competitive, particularly in the coastal areas (CUTS 2003, Marubeni Corporation Economic Research Institute 2002). But, India may have an advantage in technical manpower, particularly in information technology. It also has better English language skills.
- Some of the differences in competitive advantages of the two countries are illustrated by the composition of their inward FDI flows. In ICT, China has become a key centre for hardware design and manufacturing by such companies as Acer, Ericsson, General Electric, Hitachi Semiconductors, Hyundai, Electronics, Intel, LG Electronics, Microsoft, Mitac International Corporation, Motorola, NEC, Nokia, Philips, Samsung Electronics, Sony, Taiwan Semiconductor Manufacturing, Toshiba and other major electronics Trans-National Corporations (TNCs). India, on the other hand, specializes in IT services, call centers, business back-office operations and R&D.
- Rapid growth in China has increased the local demand for consumer durables and non durables, such as home appliances, electronics equipment, automobiles, housing and leisure. This rapid growth in local demand, as well as competitive business environment and infrastructure, have attracted many market-seeking investors. It has also encouraged the growth of many local indigenous firms that support manufacturing.
- Other determinants related to FDI attitudes, policies and procedures also explain why China does better in attracting FDI. China has "more business-oriented" and more FDI-friendly policies than India (AT Kearney 2001). China's FDI procedures are easier, and decisions can be taken rapidly. China has more flexible labour laws, a better labour climate and better entry and exit procedures for business.
- A recent business environment survey indicated that China is more attractive than India in the macroeconomic environment, market opportunities and policy towards FDI. India scored better on the political environment, taxes and financing (EIU 2003a). A confidence tracking survey in 2002 indicated that China was the top FDI destination, displacing the United States for the first time in the investment plans of the TNCs surveyed; India came 15th (A T Kearney 2002).

Source : World Investment Report, 2003, UNCTAD

7.42 Table 7.16 shows the total amount approved and the inflows of FDI in India. It indicates that the FDI inflows in India have increased over the years, peaked at US$4.74 billion in 2000-01, and declined thereafter to US$3.73 billion in 2002-03 and further to US$3.57 billion in 2003-04. The amount of FDI approved also showed a declining trend from its peak of US$9.89 billion in 2000-01.

7.43 Table 7.17 shows the share of top ten countries in India's FDI inflows (in US$ terms) during January, 1991 to March, 2004. The biggest contributing countries are Mauritius (34.48 per cent) followed by USA (16.56 per cent), Japan (7.63 per cent), Netherlands (7.04 per cent) and U.K. (6.88 per cent).

Table 7.16 : FDI approvals and inflows

(Amount Rs. in crore/US$ in billion)

Year (April-March)	No. of Approvals Total	Technical	Financial	Amount of FDI Approved	Percentage change over Previous Year	Amount of FDI Inflows	Percentage change over Previous
1997-98	2,157	629	1,528	Rs. 42,992.02 (US $ 11.78)	-	Rs. 16,142,94 (US $ 4.41)	-
1998-99	1,831	564	1,267	Rs. 33,920.59 (US $ 8.42)	- 21.10	Rs. 14,279.80 (US $ 3.54)	- 11.54
1999-00	2,287	484	1,803	Rs. 21,654.32 (US $ 5.13)	- 36.16	Rs. 15,209.57 (US $ 3.60)	+ 6.51
2000-01	2,156	411	1,745	Rs. 43,038.71 (US $ 9.89)	+ 98.75	Rs. 20,590.64 (US $ 4.74)	+ 35.38
2001-02	2,347	281	2,066	Rs. 20,312.45 (US $ 4.46)	- 52.80	Rs. 21,497.67 (US $ 4.69)	+ 7.66
2002-03	2,051	293	1,758	Rs. 7,928.26 (US $ 1.66)	- 60.97	Rs. 17,768.28 (US $ 3.73)	- 17.35
2003-04	1,929	299	1,630	Rs. 6,833.31 (US $ 1.49)	- 13.81	Rs. 16,409.28 (US $ 3.57)	- 7.65

Source : Ministry of Commerce & Industry (Department of Industrial Policy & Promotion).

Table 7.17 : Share of top investing countries in FDI inflows
(January, 1991 to March, 2004)

Amount in Rs crore (US $ in Billion)

Country	Jan.-1991 to Dec. 1999	2000 (Calender Year)	2001 (Calender Year)	2002 (Calender Year)	2003 (Calender Year)	2004 (Jan.-Mar.)	Amount of FDI Inflows in Rupees (In US $)	Percent-age to total in rupee terms (In US $ terms)
1 Mauritius	12,465.90 (3.42)	3,568.65 (0.83)	7,503.61 (1.67)	7,284.46 (1.52)	2,585.93 (0.56)	412.18 (0.09)	33,820.73 (8.09)	35.21 (34.48)
2 USA	8,354.23 (2.31)	1,799.31 (0.42)	1,654.13 (0.37)	1,357.20 (0.28)	1,904.00 (0.41)	341.05 (0.07)	15,409.92 (3.89)	16.05 (16.56)
3 Japan	2,969.37 (0.82)	985.69 (0.23)	996.54 (0.22)	1,980.46 (0.41)	434.39 (0.09)	64.19 (0.01)	7,430.64 (1.79)	7.74 (7.63)
4 UK	2,227.90 (0.66)	281.48 (0.07)	1,284.02 (0.29)	1,698.81 (0.35)	862.90 (0.19)	293.45 (0.06)	6,648.56 (1.61)	6.92 (6.88)
5 Netherlands	2,174.33 (0.61)	546.80 (0.13)	1,031.55 (0.23)	747.56 (0.16)	1,161.88 (0.25)	1,277.31 (0.28)	5,969.43 (1.65)	6.22 (7.04)
6 Germany	2,351.08 (0.66)	371.47 (0.09)	598.13 (0.13)	662.93 (0.14)	362.50 (0.08)	165.99 (0.04)	4,512.30 (1.13)	4.70 (4.83)
7 France	963.81 (0.27)	341.58 (0.08)	595.13 (0.13)	530.15 (0.11)	164.25 (0.04)	61.65 (0.01)	2,656.57 (0.64)	2.77 (2.74)
8 Korea (South)	2,092.09 (0.57)	76.17 (0.12)	20.30 (0.01)	181.44 (0.04)	112.86 (0.02)	3.40 (0.00)	2,489.66 (0.66)	2.59 (2.80)
9 Singapore	1,239.32 (0.34)	501.52 (0.12)	160.66 (0.04)	226.23 (0.05)	168.05 (0.04)	52.26 (0.01)	2,348.04 (0.59)	2.44 (2.52)
10 Switzerland	795.12 (0.23)	187.22 (0.04)	178.02 (0.04)	251.69 (0.05)	428.96 (0.09)	1.72 (0.00)	1,842.79 (0.46)	1.92 (1.97)
Total of all Countries (excluding ADRs/GDR etc.)	41,380.64 (11.49)	10,092.38 (2.35)	15,841.80 (3.52)	16,123.36 (3.36)	9,564.04 (2.08)	3,034.11 (0.66)	96,036.33 (23.45)	N.A. N.A.

Note : 1. Total amount includes FDI inflows received through FIPB+SIA+RBI routes. acquisition of shares, RBI's NRI schemes, stock swapped, amount on account of ADRs/GDRs & advance pending for issue of shares.

2. Ranking of above countries is worked out on the basis of cumulative FDI inflows during January 1991 to March 2004.

3. Percentage figures do not take into account the amount of FDI Inflows for ADRs/GDRs/FCCBs, RBI's-NRI Schemes, acquisition of existing shares (for the period 1996-1999 only), stock swapped & advance pending for allotment of shares, as these are not categorised country-wise during the year 1991-2004 (upto March).

4. Country-wise FDI inflows figures during the year 2000-2003 (upto March) includes FDI inflows received through FIPB/SIA route, RIB's automatic routes and acquisition of existing shares only.

7.44 Table 7.18 shows the breakup of inward FDI in terms of industries.

Table: 7.18 : Sectors attracting highest FDI approvals with inflows (January 1991 to March 2004)

Amount Rupees in crore (US $ in billion)

Rank	Sector	No. of FDI approval	FDI approved	Percentage of total FDI approved	FDI Inflows	Percentage of total FDI Inflows* (in rupees terms)	Percentage of inflows over approval (in terms of rupees
1.	Energy	701	77,828 (20.99)	26.62	9,802 (2.32)	10.21	12.59
	Of which						
	Power	362	43,703 (11.90)	14.95	-	-	-
	Oil Refining	339	34,125 (9.09)	11.67			
2.	Telecommunications	803	57,328 (15.43)	19.61	10,725 (2.56)	11.17	18.71
3.	Electrical Equipment (including computer software & electronics)	4,495	28,072 (7.29)	9.94	13,930 (3.32)	14.50	47.92
4.	Transportation	1,069	21,966 (5.73)	7.51	11,517 (2.78)	11.99	52.43
5.	Services sector	1,102	19,261 (5.12)	6.59	8,134 (2.04)	8.47	42.23
6.	Metallurgical industries	407	15,534 (4.27)	5.31	1,254 (0.31)	1.31	8.07
7.	Chemicals (other than fertilizers)	1,053	13,090 (3.73)	4.48	5,692 (1.49)	5.93	43.48
8.	Food & food processing	771	9,620 (2.77)	3.29	4,346 (1.09)	4.53	45.18
9.	Hotels & Tourism	504	5,215 (1.45)	1.78	899 (2.14)	0.87	17.24
10.	Textiles	641	3,517 (1.02)	1.20	1,163 (0.31)	1.21	33.07

Note: * Percentage figures do not take into account the amount of FDI Inflows for ADRs/GDRs/FCCBs, RBI's-NRI Schemes, acquisition of existing shares (upto 1999), stock swapped & advance pending for allotment of shares, as these are not categorised sector-wise.

7.45 Table 7.19 shows that the five top states attracting major shares of FDI approvals were Maharashtra (17.48 per cent), Delhi (12.06 per cent), Tamil Nadu (8.58 per cent), Karnataka (8.26 per cent) and Gujarat (6.44 per cent).

Table: 7.19 : Share of top five states attracting FDI approvals (January 1991 to March 2004)

Rank	Name of State	No. of FDI approvals			Amount of FDI		Percentage with total FDI approved
		Total	Tech.	Financial	Rupees in crore	US $ in billion	
1	Maharashtra	4,816	1,308	3,508	51,114.68	13.18	17.48
2	Delhi	2,638	304	2,334	35,250.74	9.78	12.06
3	Tamil Nadu	2,607	613	1,994	25,071.77	6.52	8.58
4	Karnataka	2,467	494	1,973	24,138.44	6.15	8.26
5	Gujarat	1,204	556	648	18,837.30	4.81	6.44

Resolution of Failure

7.46 One factor impeding the credit flow into industry has been the mechanisms used when a borrowing firm fails. The likelihood of poor credit recovery, in such an event, has led to symptoms like high interest rates and “credit rationing”. This has adversely affected entrepreneurship and investment.

7.47 As per RBI data, at the end of March, 2002, there were 1,77,336 SSI units identified by banks as “sick’’ having outstanding dues of Rs. 4,818.95 crore. Of these, 1,67,574 were non-viable units with outstanding bank credit of Rs. 4,146.74 crores which accounted for 94.5 per cent and 86.1 per cent of the total sick SSI units and their outstanding bank credit, respectively.

7.48 According to the Department of Public Enterprises (DPE), as on March 31, 2004, there were 227 Central Public Sector Undertakings (CPSUs), operating in the country, out of which, 68 sick industrial CPSUs have been registered with the BIFR.

7.49 In recent years, there has been a sustained effort on evolving better institutional mechanisms and legal framework, to improve credit recoveries, and thus spur the credit flow into industry. These efforts include the Debt Recovery Tribunals (DRT), the Corporate Debt Restructuring (CDR) and the Securitisation, Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI), Act, 2002.

7.50 With globalization of trade and opening up of the economy, the Central Government had decided to re-model the laws relating to winding up of companies in tune with the international practices in this field.

7.51 The winding up process is slow and the experience with BIFR for speedy revival of company has not been encouraging. Hence the Government has enacted the Companies (Second Amendment) Act 2002, which provides for the establishment of a National Company Law Tribunal (NCLT) with benches in several states to decide the question of rehabilitation and winding up of sick companies. It places in position a modern, efficient and time bound insolvency law to provide for both rehabilitation and winding up of sick companies, within a period of two to three years, at the maximum.

7.52 National Company Law Tribunal (NCLT), as and when set up, will be vested with the powers currently exercised by the (a) Company Law Board (CLB); (b) High courts regarding winding up of companies and amalgamation scheme and (c) BIFR/AAIFR under the Sick Industrial Companies (Special Provisions) Act,1985.

7.53 Since its inception in May, 1987 and till the end of March, 2004, the Board for Industrial and Financial Reconstruction has received 6,349 references under the Sick Industrial Companies (Special Provisions) Act,1985 (SICA). The status of the cases referred to BIFR as on March 31, 2004 are given in the Table 7.20.

Competition Policy

7.54 The Government has enacted a new law, the Competition Act, 2002, for upholding competition in the Indian market. The main objectives of the Act are to provide for the establishment of a Commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets in India, to protect the interests of consumers, and to ensure freedom of trade carried on by participants in market in India and for related matters. The Competition Act provides for the establishment of a Competition Commission of India, which was established on October 14, 2003.

Privatisation

7.55 The privatisation process began in 1991-92 with the sale of minority stakes in some PSUs. From 1999-2000 onwards, the focus shifted to strategic sales. In the year 2003-04, disinvestment through public sale of

Table 7.20 : Board for Industrial and Financial Reconstruction

Details of references received as on 31.3.2004

S. No.			Total	Pvt.	Central	State	Total
	1	References Received	6349	6064	102	183	285
	2	Registration Declined	1400	1319	17	64	81
	3	Under Scrutiny	25	24	0	1	1
A	4	**References Registered**	**4924**	**4721**	**85**	**118**	**203**
	DISPOSALS						
	5	Dismissed as N.M.	1336	1296	9	31	40
	6	Rehabilitation Schemes approved/sanctioned*					
		(i) By BIFR	606	561	24	21	45
		(ii) By AAIFR/SC	21	20	1	0	1
	7	Declared no longer sick out of S.No.6.	359	343	6	10	16
	8	Winding up Recommended to the concerned H.C.	1246	1180	27	39	66
	9	Dropped NW+	58	54	3	1	4
B	TOTAL (5+6+8+9)		**3267**	**3111**	**64**	**92**	**156**
C	PENDING						
	10	Draft Schemes Circulated	65	63	2	0	2
	11	Winding Up Notice Issued	125	117	5	3	8
	12	Under Inquiry	1356	1330	10	16	26
	13	Schemes failed and reopened	32	29	1	2	3
	14	Pending Cases Remanded by AAIFR	44	38	3	3	6
	15	Stayed ordered by Courts	35	33	0	2	2
		A-B=C	**1657**	**1610**	**21**	**26**	**47**

***91 Merger cases (87 Private Sector + 3 Central PSUs + 1 State PSU).** **Source : BIFR, DEA, Ministry of Finance**

shares was predominant. Table 7.21 compares the actual disinvestments proceeds with the annual target.

Table 7.21 : Disinvestment in public sector undertakings

Year	Target (Rs. crore)	Proceeds (Rs. crore)
1991-92	2,500	3038
1992-93	2,500	1913
1993-94	3,500	-
1994-95	4,000	4843
1995-96	7,000	362
1996-97	5,000	380
1997-98	4,800	902
1998-99	5,000	5371
1999-00	10,000	1860
2000-01	10,000	1871
2001-02	12,000	5632#
2002-03	12,000	3348
2003-04	14,500	15,547

 # Figures inclusive of amount realized by way of control premium, dividend/dividend tax and transfer of surplus cash reserves prior to disinvestment etc.

Source : Ministry of Disinvestment.

7.56 Table 7.22 summarizes the transactions in 2003-04, when realization from disinvestments was Rs. 15,547 crore, exceeding the revised budget estimate of Rs.14,500 crore for the year. The major portion of receipts in the year was through “Offers for Sale.” The overwhelming response from institutional and retail investors witnessed in July, 2003 in the case of Maruti Udyog Ltd. continued in the subsequent six public Sale of shares. Over 16 lakh retail investors were allotted shares in the last six offerings and the level of over subscription ranged from 2.8 times in the case of IBP Ltd. to 18.11 times in the case of DCIL. Even large issues like IPCL and GAIL were subscribed 4.8 and 9.1 times, respectively. ONGC, which was the largest issue, was subscribed 5.88 times. Government realized Rs. 10,542 crore, making it the biggest offering so far in the Indian capital market. About Rs. 14,135 crore was realised through these six public sale of shares in a short period during the last quarter of the financial year, demonstrating the depth of the Indian capital market.

Table 7.22 : Disinvestment proceeds during 2003-04

(Rs. crore)

Sl. No.	Name	Type of Sale	Percentage of equity disinvested	Proceeds Realisation/to be realised
1	Maruti Udyog Ltd.	Offer for sale	27.5	993.34
2	Jessop & Co. Ltd.*	Strategic Sale	72.0	18.18
3	HZL**	Call option	18.9	323.88
4.	ICIL	Limited Auction	9.2	77.10
5.	IBP	Offer for Sale	26.0	350.66
6.	IPCL	Offer for Sale	28.9	1202.85
7.	CMC	Offer for Sale	26.3	190.44
8.	DCIL	Offer for Sale	20.0	221.20
9.	GAIL	Offer for Sale	10.0	1627.36
10.	ONGC	Offer for Sale	9.9	10542.40
	Total			**15547.42**

* Amount has been received by Bharat Bhari Udyog Nigam Ltd., the holding company of Jessop & Co. Ltd.

** Excise of Call Option by the Strategic Partner.

Source : Ministry of Disinvestment

7.57 The Supreme Court, in its judgement dated September 16, 2003, in the case of disinvestment in Hindustan Petroleum Corporation Ltd. (HPCL) and Bharat Petroleum Corporation Ltd. (BPCL) restrained the Central Government from proceeding with disinvestment that would have resulted in HPCL and BPCL ceasing to be Government companies without appropriately amending the statutes concerned. Several cases were subsequently filed challenging strategic sale in other PSUs in various high courts. Government has petitioned the Supreme Court to transfer all these cases to itself for a definitive verdict on the common issues.

7.58 As per the Common Minimum Programme (CMP), the United Progressive Alliance (UPA) Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. But for this, there is need for selectivity and a strategic focus. The UPA is pledged to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment. Generally profit-making companies will not be privatized.

7.59 All privatizations will be considered on a transparent and consultative case-by-case basis. The UPA will retain existing “navaratna” companies in the public sector while these companies raise resources from the capital market. While every effort will be made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The UPA will induct private industry to turn-around companies that have potential for revival.

Industrial Relations

7.60 There was a sharp decline in the number of strikes and lockouts during 2003 as compared to the previous year. Strikes declined from 295 in 2002 to 244 in 2003 and lockouts came down from 284 in 2002 to 245 in 2003 (Table 7.23) The reduction in strikes and lockouts was more prominent in the public sector. The states of West Bengal, Tamil Nadu, Kerala and Gujarat experienced the most instances of strikes and lockouts in 2003.

7.61 The total mandays lost on account of strikes and lockouts have declined by 4.80 million in 2003. The mandays lost due to strikes

Table 7.23 : Strikes and Lockouts						
	Strikes		Lockouts		Total	
Year	Number	Mandays lost (in million)	Number	Mandays lost (In million)	Number	Mandays lost (in million)
1998	665	9.35	432	12.71	1,097	22.06
1999	540	10.62	387	16.16	927	26.79
2000	426	11.96	345	16.80	771	28.76
2001	372	5.56	302	18.20	674	23.77
2002	295	9.66	284	16.92	579	26.58
2003 (Provisional)	244	2.00	245	20.00	489	22.00

Source : Labour Bureau, Shimla.

declined by 7.66 million to 2 million, where as those due to lockouts increased by 3.08 million to 20 million between 2002 and 2003.

7.62 Box 7.2 summarises some recent legal developments on the subject of labour law.

Box 7.2 : Initiatives proposed to be taken by State Governments to modernize labour law

The State Governments of Gujarat and Karnataka have proposed to seek relaxation in some provisions of the Central Laws through State Enactments so as to facilitate setting up of Special Economic Zones in their respective states. The salient features of the proposed laws are given below :

(i) The Gujarat Special Economic Zone Ordinance, 2003 containing:

(a) delegation of powers of the Labour Commissioner to the Development Commissioner of SEZ under certain specified labour laws;

(b) certain amendments in Factories Act, 1948, Industrial Disputes Act, 1947, the Contract Labour (Regulation and Abolition) Act, 1970 and the Trade Unions Act, 1926;

(c) consolidated return under certain specified labour laws; and

(d) application of Chapter V-D of the Industrial Disputes (Gujarat Amendment) Ordinance, 2003.

(ii) The Karnataka Special Economic Zones Development Bill, 2003, proposes:

(a) constitution of a State High Level Committee/Single Window Clearance Committee and District Level Single Window Committee to grant approval, clearance, permissions and licences for the establishment and operation of units in the Special Economic Zones; and

(b) specified single return for reporting under certain labour laws.

The special intention is to provide certain facilities in creation of infrastructure and to make a flexible labour policy applicable to the units in such zones.

Source: Ministry of Labour

Small Scale Industries

7.63 The small scale industry (SSI) sector continues to remain an important sector of the economy with a noteworthy contribution to GDP, industrial production, employment generation and exports. The performance of the small scale sector based on the final results of the Third All India Census of SSIs, 2004 is given in Table 7.24. As per the Census of Registered and Unregistered units held for the year 2001-02, there were 105.21 lakh SSI units in the country, out of which 13.75 lakh were registered working units and 91.46 lakh unregistered units. Their contribution to production was Rs.2,82,270 crore and to employment 249.09 lakh persons. It is estimated that during 2003-04, the number of SSI units has increased to 115.22 lakh from 110.10 lakh in the previous year registering a growth of 4.7 per cent. The value of production at current prices by the SSI units also increased by 11.6 per cent to Rs.3,48,059 crore from Rs.3,11,993 crore during 2002-03. The sector is estimated to have grown at the

Table 7.24 : Performance of small scale sector

Year	No. of units (lakh)			Production (Rs.Crore)		Employment	Exports
	Regd.	Unregd.	Total	(at current prices)	(at constant prices)*	in lakh	(Rs. crore)
1994-95	19.44	6.27	25.71	2,98,886	2,66,054	146.56	29,068
			(7.66)	(23.69)	(10.10)	(5.15)	(14.86)
1994-95	11.61	67.99	79.60	1,22,210	1,09,116	191.40	29,068
			(4.1)	(23.7)	(10.4)	(4.8)	(14.9)
1995-96	11.57	71.27	82.84	1,48,290	1,21,649	197.93	36,470
			(4.1)	(21.3)	(11.5)	(3.4)	(25.5)
1996-97	11.99	74.22	86.21	1,68,413	1,35,380	205.86	39,248
			(4.1)	(13.6)	(11.3)	(4.0)	(7.6)
1997-98	12.04	77.67	89.71	1,89,178	1,47,824	213.16	44,442
			(4.1)	(12.3)	(9.2)	(3.5)	(13.2)
1998-99	12.00	81.36	93.36	2,12,901	1,59,407	220.55	48,979
			(4.1)	(12.5)	(7.8)	(3.5)	(10.2)
1999-2000	12.32	84.83	97.15	2,34,255	1,70,709	229.10	54,200
			(4.1)	(10.0)	(7.1)	(3.9)	(10.7)
2000-01	13.10	88.00	101.10	2,61,289	1,84,428	239.09	69,797
			(4.1)	(11.5)	(8.0)	(4.4)	(28.8)
2001-02	13.75	91.46	105.21	2,82,270	1,95,613	249.09	71,244
			(4.1)	(8.0)	(6.1)	(4.2)	(2.1)
2002-03	14.68	95.42	110.10	3,11,993	2,10,636	261.38	86,013
			(4.6)	(10.5)	(7.7)	(4.9)	(20.7)
2003-04	15.54	99.68	115.22	3,48,059	2,26,392**	273.97	N.A.
(Projected)			(4.7)	(11.6)	(7.5)	(4.8)	

*** : 1993-94 prices.**

**** : Based on growth rate of 7.48% achieved in first 9 months of 2003-04 i.e. April-December, 2003.**

Note : Figures in brackets indicate percentage growth over previous years.

Source : Ministry of Small Scale Industries.

rate of 7.5 per cent at constant prices over the previous year. Employment is estimated to have increased to 273.97 lakh persons from 261.38 lakh persons in the previous year.

7.64 The policy of reservation of items for manufacturing in Small Scale Industries (SSI) was introduced in 1967, which received a proper statutory backing in 1984 through amendment in Industries (Development and Regulation) Act, 1951. Initially only 47 items were reserved in 1967, which went up to 873 in 1984. The total number of items on the reserved list has been coming down year after year, and at present, there are 675 items reserved for SSI units. Even at present, the policy of reservation for SSI does not bar large industries from entering into production of items reserved, provided agree to export 50 per cent of their production. As many as 75 items of laboratory chemicals & reagents, leather & leather products, plastic products, chemicals & chemicals products and paper products were dereserved on June 3, 2003. In addition, SSI investment limits (in plant & machinery) of hosiery, hand tools, stationery and drugs & pharmaceuticals industries were enhanced from Rs.1 crore to Rs.5 crore to enable technology upgradation, modernization and to meet the present day global requirements. Recent policy initiatives taken by the Government are given in Box 7.3.

Box 7.3 : Policy initiatives on SSI Sector in 2003-04

- 75 items reserved for exclusive manufacture in the SSI Sector consisting of chemicals and their products, leather and leather products, laboratory reagents etc. were dereserved in June, 2003.
- Selective enhancement of investment in plant and machinery from Rs.1 crore to Rs.5 crore carried out in respect of 13 items in stationery sector and 10 items of drugs and pharmaceutical sector from June 5, 2003.
- The Union Budget 2003-04 announced that banks would provide credit to SSI sector within an interest rate band of 2 per cent above and below their Prime Lending Rates (PLR). All public sector banks have adopted this norm.
- The composite loan limit for SSI units was enhanced from Rs.25 lakhs to Rs.50 lakhs
- In its Mid-term Review of Monetary and Credit Policy 2003-04, the RBI announced that banks may enhance the limit of dispensation of collateral requirement for loans from the existing Rs.15 lakh to Rs.25 lakh on the basis of good track record and financial position of the units.
- The lower limit of Rs.5 lakh on loans covered under the Credit Guarantee Scheme has been removed. All loans up to Rs.25 lakh made eligible for guarantee cover under the Credit Guarantee Scheme.
- 417 SSI specialized bank branches made operational throughout the country.
- The Final Results of Third All India Census of Small Scale Industries were released on January 17, 2004.
- 60 clusters identified in the First Phase (July, 2003) for focused development, by including their credit requirements in the respective State Credit Plans.
- Setting up of a Small and Medium Enterprise (SME) Fund of Rs. 10,000 crore under SIDBI, to, inter-alia, address the problem of inadequacy of financial resources at highly competitive rates for small scale sector.
- Laghu Udyami Credit Card scheme liberalized with enhanced credit limit of Rs.10 lakh (up from Rs.2 lakh) for borrowers with satisfactory track records.

Source : Ministry of Small Scale Industries

Environmental Issues

7.65 Pollution control has assumed a significant role, and commensurate with industrial expansion, a strong regulatory mechanism is required to ensure minimum environment standards to achieve this objective. A total number of 2,155 pre- and post-1991 units of 17 categories of highly polluting industries have been identified for this purpose by Central Pollution Control Board The state-wise summary status of these 2,155 units is in Table 7.25. Of these units, 1,877 units have provided adequate facilities to comply with the standards, 225 units have closed down and the remaining 53 units do not have adequate facilities to comply with the standards. Legal actions have been initiated against all the defaulting units.

7.66 In order to strengthen the environmental management capacity at national, state and local levels, the Ministry of Environment and Forest had launched an Environmental Management Capacity Building Technical Assistance Project in 1997 with assistance

Table 7.25 : Statewise summary status in 17 categories of highly polluting industries					
	State/UTs	Total No. of Units	Status (No. of Units)		
			Closed	Comp-liant	Defaul-ters
1.	Andhra Pr.	269	29	240	0
2.	Arunachal Pr.	0	0	0	0
3.	Assam	16	3	12	1
4.	Bihar	40	19	27	0
5.	Chhattisgarh	25	2	21	2
6.	Goa	8	0	8	0
7.	Gujarat	283	10	272	1
8.	Haryana	107	24	69	14
9.	Himachal Pr.	11	0	11	0
10.	Jammu& Kashmir	10	3	7	0
11.	Jharkhand	21	3	16	2
12.	Karnataka	116	17	99	0
13.	Kerala	43	6	37	0
14.	Madhya Pr.	78	15	61	2
15.	Maharashtra	392	26	356	10
16.	Manipur	0	0	0	0
17.	Meghalaya	1	0	1	0
18.	Mizoram	0	0	0	0
19.	Nagaland	0	0	0	0
20.	Orissa	29	3	21	5
21.	Punjab	72	9	60	3
22.	Rajasthan	108	8	96	4
23.	Sikkim	1	0	1	0
24.	Tamil Nadu	156	2	154	0
25.	Tripura	0	0	0	0
26.	Andeman & Nicobar	0	0	0	0
27.	Chandigarh	1	0	1	0
28.	Daman & Diu, Dedra & Nagar	0	0	0	0
29.	Delhi	5	1	4	0
30.	Lakshadeep	0	0	0	0
31.	Pondicherry	8	1	7	0
32.	Uttaranchal	20	0	20	0
33.	Uttar Pr.	263	27	232	4
34.	West Bengal	66	17	44	5
	Total	**2155**	**225**	**1877**	**53**

Sources : Ministry of Environment and Forests.

from the International Development Agency. This project has an outlay of Rs. 140.62 crores. The areas identified for capacity building were environmental policy planning, environmental administration, decentralisation of environmental management, implementation of environmental laws, and monitoring compliance in specific priority areas.

Outlook

7.67 India has experienced a steadily deepening globalisation, and Indian firms are getting integrated into global production chains. Belying the considerable gloom that was there about the outlook for Indian manufacturing in a globalised era, the best firms of India have succeeded in realizing rapid growth rates of exports.

7.68 At the same time, industrial growth has been at below 10 per cent for several years now. One of the most important challenges in Indian economic policy consists of devising strategies for obtaining industrial growth in excess of 10 per cent.

7.69 The five major constraints which appear to play a prominent role in influencing industrial growth today are (a) reservation for small scale sector, (b) high customs tariffs, (c) rigidities in labour law acting as an impediment to building large firms and reaping the economies of scale and scope, (d) frictions faced in the creation and closure of firms in response to normal competitive market dynamics, and (e) distortions in the structure of indirect taxes, which affect resource allocation. The outlook for Indian industry appears bright if these impediments are removed.