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Industrialisation in India

Policy framework:

Before independence

- Before Industrial Revolution, India accounted for quarter of world's industrial output. Exports included – cotton, silk fabrics, calicoes, artistic ware, silk and woolen cloth.
- Decay of industries due to British rule
- 1923 – discriminating protection to selected industries, MFN clause for British goods.
- Some progress in cotton, textiles, sugar, paper, matches – no dev of capital goods industries.

At the time of independence

- Preponderance of consumer goods
- Weak infrastructure
- Lack of government interest in developing industries
- Export orientation against country's interests
- Short supply of technical and managerial skills

Five year plans

- First FYP - Focus on industries, public sector enterprises – 'commanding heights of the economy'
- Second FYP – conceptual basis of Indian planning.

Industrial Control Regime

- Industrial Policy Resolution, 1948 – Contemplated mixed economy, reserving a sphere for both private and public sector.
    - Industries divided into four categories – (a) certain identified industries like railways, arms and ammunition production were under **exclusive monopoly** of the Government, (b) **State Monopoly for New Units**-This category included coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraphs and wireless and mineral oils. New undertakings in this category could henceforth be undertaken only by the State. (c) **State Regulation**-This category included industries of such basic importance like machine tools, chemicals, fertilizers, non-ferrous metals, rubber manufactures, cement, paper, newsprint, automobiles, electric engineering etc. which the Central Government would feel necessary to plan and regulate. (d) **Unregulated private enterprise**-the industries in this category were left open to the private sector, individual as well as cooperative.
- Industrial Policy Resolution, 1956 – New classification of industries:
    - Schedule A – 17, exclusive responsibility of state
    - Schedule B – 12, progressively state-owned, supplemented by private sector

- Schedule C – all remaining, pvt sector
    - Emphasis on both private and public sector to work closely
    - Fair treatment to private sector by encouraging development of industries by ensuring transport, power and other services through appropriate fiscal measures
    - Active encouragement to village and small-scale enterprises by restricting volume of production in large scale sector and subsidies
    - Removing regional disparities
    - Need for foreign capital recognized but govt. insisted on effective control to be in the hands of Indians.
- Growth of industrial output was limited to 3-4%, increase in unemployment, wide urban-rural disparities.
- Industrial Policy Statement, 1977 – Gandhian model, encouraged small scale and cottage industries as against the large scale industries dominated by big industrial houses. The stated policy was that whatever can be produced by small and cottage industries must only be so produced with large sector enterprises investment in basic and capital goods industries and the high technology industries which were related to agriculture and small scale industries as a source of input. Large industrial houses were asked to rely on their internal resources. Before the policy could be put into practice by making necessary changes in industrial licensing the Janata Government fell.
- Industrial Policy of 1980 – Revive efficiency of PSUs to gain faith in public sector, balanced growth between small and large scale industry, redefined small units by increasing the limit of investment, <u>regularization of unauthorized excess capacity installed in private sector</u>, allowing automatic expansion of industries and closing down of sick PSUs – followed pragmatic approach.
    - 1980 IP followed principles of 1956 IP. Big business houses welcomed the policy
    - It blurred the difference between the small and large scale industry and by doing so, promoted the latter over the former – promoted capital intensive path of development.
    - Task of raising economic infrastructure with public sector since it had high gestation period and reqd high investment

Industrial Licensing Policy

- Industries (Development and Regulation) Act, 1951 – license necessary for establishment of plants, and extension of existing ones. Act empowered government to prescribe prices, methods and volume of production and channels of distribution.
- In addition to industrial licensing, control over industries through five year plans, import and export controls, control of capital issues, control of foreign exchanges, transport controls including allocations of raw materials, price controls and allocation of credit – multidimensional
- Original intention of licensing was to use the power selectively, but eventually used in all industries – regulation than development became more important.
- Performance of industrial licensing system:

- Number of committees appointed to examine ILS – all pointed out that licensing was not serving its purpose, number of licences were cornered by big houses and some were not even utilized which prevented entry of new players, four industrially advanced states Maharashtra, WB, Gujarat and TN had acquired 62% of the total licenses issued[1] (further details on page 208, D&S) – no action by the govt.
- Stagnation of industrial production between mid 1960s, till late 1970s
- 1980s – committees set up – Abid Hussain Committee on trade policy, Narasimham Committee on the shift from physical to discal controls and Sengupta Committee on public sector – all recommended easing up of trade policy, shifting to fiscal controls, promotion of autonomy in PSEs – enhancing their productivity.
- Liberalisation of Industrial Licensing after 1980: automatic increase was granted to units wanting to achieve economies of scale, introduction of 'broad branding' of similar products, relaxation of industries requiring licenses from 56 to 26.
- 1980s – decade of experimentation

* Gulf war of 1990, high fiscal deficit due to increasing govt. schemes – crisis

New economic policy

* Crisis converted into opportunity
    - Stabilisation policy – to correct weaknesses due to fiscal and BoP crisis
    - Structural reforms – removing rigidities in Indian economy.
* NEP included:
    - Changes in licensing – by end of 10th FYP – only 5 required license
    - Foreign trade - reducing tariff rates and dismantling quantitative controls over imports
    - Foreign investment - foreign investors allowed to hold majority shareholding in no of industries
        - Approval for FDI upto 51% foreign equity in high priority industries.
        - To provide access to international markets, majority foreign equity holding upto 51% equity would be allowed for trading companies primarily engaged in export activities.
        - Setting up for Foreign Investment Promotion Board
    - Certain industries dereserved from small scale sector – by 2011, only 21 items reserved
    - Automatic approval for technology agreements related to high priority industries within specified parameters.
    - Public Sector reforms

[1] Licenses were being cornered by big industrial houses and the industrially advanced states - Hazari Committee and Subimal Dutt Committee

        - Better performing PSUs given freedom to access capital markets on the strength of their performance - more autonomy.
        - Selective disinvestments of public sector equity to finance fiscal deficits
        - 1997 – Disinvestment Commission was set up. Later changed to Department of Privatisation
        - Some reservations for public sector will be retained, some will be opened up to the private sector
        - Sick PSUs to be turned around and referred to Board for Financial Reconstruction for revival/ rehabilitation schemes.
        - Greater thrust on performance improvement and management through MoUs with the government – will ensure accountability
    - MRTP Act was amended to allow for companies to achieve economies of scale and emphasis moved to controlling and regulating monopolistic and unfair trade practices. Clearance from MRTP commission was no longer required.

Micro and Small Enterprises

- The Economic Survey, 2011-12 has stated ' MSME is a dynamic and vibrant sector that nurtures entrepreneurial talent besides meeting social objectives including that of providing employment to millions of people across the country.'
- 45% of total industrial ouput
- 7.3 cr employed - largest employer after agri –
    - Instrument of inclusive growth,
    - Check rural urban migration - 45.2 per cent of the enterprises are located in rural areas, thus offering a great potential for rural development and for reducing the strain on urban infrastructure
    - Often provide industry with raw materials
    - Entrepreneurial development
- 95% of total industrial units
- 40% of the exports
- Manufacture over 6000 products
- In 2008-09 – contribution to GDP was 8.7%
- Evolution of MSE sector –
    - 2010-11 – 3.1 cr units (95% micro and rest small and medium), 7.3 crore employed
    - More than 90% MSEs unregistered
    - 0.72 lakh required for creating one employment in MSME sector as against 5.56 lakh in the large organized sector
    - Food products sector most important (13.7% emplyt)
- The Government of India and the Reserve Bank to enable the growth of MSMEs, in recognition of their role in the overall development of the economy, took several initiatives over the years. I would classify these measures into three broad categories - <u>institutional measures, policy support measures and measures enabling monitoring of the performance</u>. Creation of institutions such as Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD), Export Import Bank of India (EXIM Bank), State Finance Corporation (SFC)s, State Industrial Development Corporation (SIDC)s, National Small Industries Corporation (NSIC), etc. has enabled necessary institutional support to MSMEs for meeting their credit needs. Inclusion of credit to MSMEs as part of the priority sector lending, policy package for stepping up credit flow to the SME sector in 2005, revised Credit Guarantee Scheme for the Micro and Small enterprises (MSEs), Performance and Credit Rating Scheme for the manufacturing MSEs, MSE Cluster Development Programme and financial inclusion policies in the more recent past, have created the enabling policies for growth of MSMEs. Monitoring of credit flow to MSMEs from banks through off-site returns, onsite inspections and in fora such as SLBC etc. has put in place a strong monitoring mechanism to ensure increased flow of credit to MSMEs.
- During 2011-12, the Government of India has taken a number of measures to revitalize the MSME sector such as (i) approval of the public

procurement policy that envisages procurement of a minimum of 20per cent of annual purchases of goods and services from Micro and Small enterprises by the Central Ministries/Departments/PSUs, which includes 4 per cent (20 per cent of 20 per cent) procurement from Micro and Small Enterprises owned by scheduled caste/scheduled tribe (SC/ST) entrepreneurs (ii) permission to set up stock exchange/ trading platform for SMEs by recognized stock exchanges (iii) conducting skill development programmes for 4.78 lakh persons in 2011-12 (with a target of increasing it to 5.72 lakh persons for 2012-13) for development of self employment opportunities as well as wage employment opportunities in the country and (iv) adoption of cluster approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of MSEs in the country.

- Issues ailing MSME sector
    - According to a survey conducted some time back which ranked the constraints in this order – Finance, Marketing, Technology, Infrastructure, Government policies
    - Non-finance issues plaguing MSMEs include: difficulties in procurement of raw materials at competitive prices; low production capacity; lack of skilled manpower; inadequate infrastructure facilities; lack of access to modern technology; constraints on modernization and expansion and lack of access to global markets.
    - Often find it difficult to achieve economies of scale and fail to capture market opportunities which require large production facilities. Further, their small size hinders the internalization of functions such as market research, technology innovation and market intelligence which impedes their productivity.
    - The Fourth Census of MSME sector revealed that only 5.18 per cent of the units (both registered and unregistered) had availed of finance through institutional sources. While 2.05 per cent had finance from non-institutional sources, the majority of units i.e. 92.77 per cent, had no finance or depended on self finance.
        - Lack of credit information of small firms, absence of collateral, risk assessment difficult task
    - Acc to RBI, only 5-6% of MSMEs get institutional funding – speech by Anand Sinha
- Way forward
    - Of the three generic strategies formulated by Michael Porter, arguably the world's best strategy thinker, Cost Leadership is generally pursued by the firms that enjoy the benefits of economies of scale. MSMEs, on the other hand, can adopt Focusing and/or Differentiation strategies to develop competitive advantage.
    - Equity should be made available through venture capital funds - In the Union Budget 2012-13 the Finance Minister has announced to set up a `50 billion India Opportunities Venture Fund with SIDBI to enhance the availability of equity to the MSME sector.
    - Developing corporate bond model for debt financing

- Providing factoring services to ensure that the small entities are able to raise liquidity against their receivables (as of now, there is considerable delay by customers in paying the MSE for the product, impacting their finances)
    - Introduce innovative credit schemes to ease working capital requirements
    - Access to technology
    - Skilled manpower and training - the human capital issues for MSMEs include enhancing the managerial qualities of the MSME promoters and building skilled workforce for enhanced productivity. Several institutions such as National Institute of Micro, Small and Medium Enterprises (NIMSME) provide the training and capacity building support that is very crucial to MSMEs.
    - Thus, develop the 'bottom of the pyramid'
    - RBI had asked banks to achieve 20% growth in credit availability to MSMEs.
    - Use B2B solutions – govt. should prepare a MSME business portal, as in Uttar Pradesh to enable this
- Government initiatives:
    - The government has recently approved the public procurement policy for goods produced and services rendered by MSEs by the central ministries/departments/public-sector undertakings (PSUs). The policy envisages that every central ministry/PSU shall set an annual goal for procurement from the MSE sector
    - The Securities and Exchange Board of India (SEBI) has permitted setting up of a stock exchange / trading platform for SMEs by a recognized stock exchange having nationwide trading terminals and also issued guidelines and necessary amendments to the SEBI Regulations.
    - In line with the overall target set by the Prime Minister's National Council on Skill Development, the Ministry of MSME and the agencies under it will conduct skill development programmes for 4.78 lakh persons during 2011-12
    - The government has adopted the cluster approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of MSEs and their collectives in the country.

    Source: here

YEAR END REVIEW 2012

Micro, Small and Medium Enterprises has proved to be an engine of growth in the economic development of the country. For their promotion and development, The Ministry of Micro, Small and Medium Enterprises (MSME) has been implementing various programmes and schemes.

Procurement Policy

The Government has notified a Public Procurement Policy for goods produced and services rendered by Micro & Small Enterprises (MSEs) order, 2012 effective from 1st April, 2012.
The policy mandates that all the Central Ministries / Departments / CPSUs shall procure minimum of 20% of their annual value of goods / services required by them from Micro and Small Enterprises. Further, policy has earmarked a sub-target of 4% procurement out of this 20% from MSEs owned by SC / ST Entrepreneurs.
A concept paper on the policy has been prepared and requisite information for developing data bank for match making between suppliers and buyer are being compiled. For developing MSEs vendors, all the Ministries / Departments / CPSUs have been requested to organize vendor development programmes and buyer-seller meets between MSEs suppliers and government procuring agencies.
The Ministry through the field offices i.e. Micro, Small and Medium Enterprises – Development Institutes has planned for the year 2012-13 to organize 50 national vendor development programmes and 350 state vendor development programmes throughout the country in order to develop MSE vendors.

MSE- Cluster Development Programme
The Ministry of MSME has adopted the cluster approach for holistic development of micro and small enterprises in a cost effective manner. Soft Interventions are undertaken in the existing clusters/new industrial areas/ estates or existing industrial areas/estates.
To ensure the transparency and speedy implementation of MSE-CDP this office has started online application system from 1st April 2012.

National Manufacturing Competitiveness Programme
The National Manufacturing Competitiveness Programme (NMCP) for the MSMEs, aims at enhancing the competitiveness of enterprise in this sector. There are 10 components of the NMCP, which have been approved and are available for MSMEs.

Prime Minister's Employment Generation Programme(PMEGP)
A national level credit linked subsidy scheme, namely, 'Prime Minister's Employment Generation Programme (PMEGP)'was introduced in August 2008 by merging erstwhile PMRY and REGP schemes of this Ministry with a total plan outlay of Rs.4485 crore towards margin money subsidy for generating an estimated 37.38 lakh additional employment opportunities during the four terminal years of XI plan (2008-09 to 2011-12). An amount of Rs.250 crore has also been kept towards backward – forward linkages. Under this programme, financial assistance is provided for setting up of micro enterprises each costing upto Rs.10 lakh in service sector and Rs.25 lakh in manufacturing sector. The assistance is provided in the form of subsidy upto 25 per cent (35 per cent for Special category including weaker sections) of the project cost in rural areas while it is 15 per cent (25 per cent for Special category including weaker sections) for urban areas.
During 2012-13 (upto 31.10.12), Out of allocations of Rs.12.38 crore as margin money under PMEGP, Rs.7.24 crore have been released which have benefited 13,868 units.

Skill Development

Skill Development has been taken up as a high priority area by Ministry of MSME through various measures like enhancing the training capabilities of the Tool Rooms, MSME Development Institutes and other organizations under the Ministry of MSME. The agencies under the Ministry of MSME conducted programmes for skill development for nearly 4.29 lakh trainees during 2011-12 and the targets set for 2012-13 is 4.94 lakh persons. The Ministry of MSME provides all such trainings for SCs/STs free of cost. Special programmes are organized through MSME-DIs for weaker sections of the society viz., SC/STs, women and physically handicapped free of cost besides providing a monthly stipend of Rs. 125/- per week per candidate during the entire period of training.

Credit Guarantee Scheme

The Government is implementing the Credit Guarantee Fund Scheme for Micro and Small Enterprises with the objective of facilitating flow of credit to the MSEs, particularly to micro enterprises by providing guarantee cover for loans upto Rs.100 lakh without collateral / third party guarantees. For making the scheme more attractive to both lenders as well as borrowers, several modifications have been undertaken which, inter alia, include: (a) enhancement in the loan limit to Rs.100 lakh; (b) enhancement of guarantee cover from 75% to 85% for loans upto Rs. 5 lakh; (c) enhancement of guarantee cover from 75% to 80% for MSEs owned/operated by women and for loans in North Eastern Region (NER); (d) reduction in one-time guarantee fee from 1.5% to 1% and annual service charges from 0.75% to 0.5% for loans upto Rs. 5 lakh and (e) reduction in one-time guarantee fee for NER 1.5% to 0.75% etc.

As on 30th November, 2012, cumulatively, 9,56,447 proposals have been approved for guarantee cover for a total sanctioned loan amount of Rs. 46388.72 crore.

FDI

- Objective behind allowing FDI – to complement and supplement domestic investment, for achieving a higher level of economic development and providing opportunities for technological upgradation, as well as access to global managerial skills and practices
- Mauritius – 44% of FDI, US – 9.37%, followed by UK – 8%, Netherlands – 5.8%
- 2001-02: US$4000m, 2011-12: US$33,000m.
- FDI policy:
    - The current phase of FDI policy is characterized by negative listing, permitting FDI freely except in a few sectors indicated through a negative list. Under the current policy regime, there are three broad entry options for foreign direct investors. In a few sectors, FDI is not permitted (negative list); in another small category of sectors, foreign investment is permitted only till a specified level of foreign equity participation; and the third category, comprising all the other sectors, is where foreign investment up to 100 per cent of equity participation is allowed. The third category has two subsets – one consisting of sectors where automatic approval is granted for FDI (often foreign equity participation less than 100 per cent) and the other consisting of sectors where prior approval from the Foreign Investment Approval Board (FIPB) is required. FDI policy changes increasingly reflect the requirements of industry and are based on stakeholders' consultation. Upfront listing of negative sectors has helped focus on reform areas, which are reflected in buoyant FDI inflows
    - FDI upto 100% allowed under automatic route for most sectors – only notification to RBI within 30 days of inward remittance required
    - FIPB – some require prior permission from Foreign Investment Promotion Board
    - In 2006 – automatic routes expanded, increasing equity caps, removing restrictions, simplifying procedures and extending horizons of FDI to single brand product retailing and agriculture
    - Equity cap in civil aviation increased, activating Foreign Investment Implementation Authority towards speedy resolution of investment related problems, setting up of National Manufacturing Competitiveness Council to provide forum for policy dialogue, DIPP website more user friendly.
- Highest FDI in Chemicals, followed by Machinery and Equipment and telecommunications
- According to RBI, reasons for slow down in FDI in 2012:
    - Using Kauffmann's Index, the Reserve Bank of India conducted an empirical exercise to analyse the factors behind such moderation.
    - The study suggested that institutional factors, such as, policy uncertainty, are causing the slowdown in FDI inflows to India despite robustness of macroeconomic variables.

- A panel exercise for 10 major EMEs showed that FDI was significantly influenced by openness, growth prospects, macroeconomic sustainability, labour costs and uncertainty in government policy.
- A comparison of actual FDI flows to India *vis-à-vis* the potential level worked out on the basis of underlying macroeconomic fundamentals showed that actual FDI which generally tracked the potential level till 2009-10, fell short of its potential during 2010-11.
- Further, counter-factual scenario attempted to segregate economic and non-economic factors seemed to suggest that the divergence between actual and potential during 2010-11 could partly be on account of policy uncertainty.

Public Sector Enterprises

- Declared social objective of Indian dev strategy since Independence is growth with social justice – adopted mixed economy.
- Objective:
    - Through PSE, uncontrolled operation of market forces and resulting concentration of economic power can be controlled
    - Pvt. investors may demand higher risk premium
    - Scale of investment efforts required in heavy industries cannot be met by pvt sector
    - Pricing policy of PSEs can generate investible surpluses for further investment in the economy
    - Control of natural resources for socially desirable direction
    - PSEs can be model employer through its welfare policies for workers.
- Acc to National Accounts Statistics, public sector contribute to about a quarter of India's GDP, increasing from less than one-tenth in 1960-61. Around 12-13% of GDP- PSEs.
- Over 2001-2006, no. of profit making CPSEs has increased from 120 to 157 and loss incurring CPSEs decreased from 109 to 58. Total profit – 76k cr, total loss – 5952cr in 2005-06
- Privatisation
    - 1991-92:Govt took policy decision to disinvest up to 20% of the equity in selected PSUs
    - Rangarajan Committee in April 1993 – emphasized on need for substantial disinvestment and recommended that percentage of equity to be divested could go up to 49% for industries reserved for public sector. 26% for industries which require govt ownership due to strategic reasons and 100% for all others
    - Disinvestment Commission, 1996 – aim to formulate procedures for disinvestment. Aim was that revenues generated from disinvestment would be allocated for education and heath and for creating fund to strenghthen PSEs. By 1999, recommended disinvestment of 58 PSEs

- By 2000-01, govt policy – restructure and revive potentially viable PSEs, close down sick PSEs, bring down govt equity in all strategic PSEs to 20%.
- Post 2004 – Disinvestment programme stalled since it has to be in conformity with National Common Minimum Proramme. Navratnas were to be retained.
- 2005 – Govt. constituted National Investment Fund to strengthen profitable PSEs from disinvestment and also invest in social sector.
- 1991-2006 – Rs 49,214 cr from disinvestments

- Policy developments for CPSEs mainly relate to increased delegation of financial and operational powers and revival of CPSEs. With a view to delegating enhanced financial and operational powers to CPSEs, the government introduced the Navratna Scheme in July 1997.
- In December 2004, the government established a Board for Reconstruction of Public Sector Enterprises (BRPSE) to advise on revival / restructuring of sick and loss-making CPSEs. The BRPSE has made recommendations in respect of 62 CPSEs until 31 October 2011. The government, in turn, has approved proposals for revival of 43 CPSEs and closure of two.
- Govt should not rush to divest PSUs. It should do so at an opportune moment when markets are in good shape, the timing may differ amongst

Table 9.20 : Performance of CPSEs during 2010-11

(₹ crore)

Sl. No.	Particulars	2010-11	2009-10	% change over previous year
1.	Investment	666848	580784	14.82
2.	Capital employed	950449	909285	4.53
3.	Total turnover	1473319	1244805	18.36
4.	Profit of profit-making CPSEs	113770	108434	4.92
5.	Loss of loss-making CPSEs	21693	16231	33.65
6.	Net worth	723128	659437	9.66
7.	Dividend declared	35681	33223	7.40
8.	Corporate tax	43369	38133	13.73
9.	Interest paid	38998	36060	8.15
10.	Contribution to central exchequer	156124	139918	11.58
11.	Foreign exchange earnings	97004	84224	15.17
12.	Foreign exchange outgo	522577	424207	23.19

Source : Department of Public Enterprises.

various types of organization involved in different commodities/ services.

The Prime Minister met the CMDs of twenty five major Maharatna and Navaratna CPSEs. These enterprises account for a large proportion of the India`s market capitalization, organized sector employment and are a major contributor to India’s economic growth.
The PM spoke of the contributions of the CPSEs to our economy today. They contribute over 6% of our GDP and their profits are at a record levels of almost Rs 1,00,000 crore. They have helped in transforming hitherto backward regions into modern hubs of industry and prosperity. The Prime Minister told the gathering: "Even if the international demand is not there, domestic demand should drive the investment and our endeavours".
The need of the times, the PM emphasized, is to be ready for the challenges of the future. Today, CPSEs face competition from not just domestic private enterprise but also from global corporations. As one of the biggest emerging global economies, India is an important destination for all Multi-National Corporations and competition will intensify in future. The PM therefore strongly urged them to focus on increasing the efficiency of operations, aim for achieving world-class competencies. He spoke of the need to commit to innovations in technology, human resources and create a culture of optimism.
Drawing attention to the large cash surpluses of CPSEs, the PM asked the CPSEs to use that surplus for their own benefit and the benefit of the economy. They should use it for driving investment, growth and jobs. Investing such cash surplus would help in re-igniting the growth impulses that are present in the economy. The Prime Minister noted that the investment rate in the country had declined due to recent slowdown, which should be increased to 36% to 37% to achieve 8 percent growth.
The Prime Minister said that he had noted the need for improving coordination in expediting project clearances and for generating an appropriate long term vision. He asked the Minister of Heavy Industry & Public Enterprises and the Department of Public Enterprises to work with the Finance Ministry, Planning Commission and the National Manufacturing Competitiveness Council towards addressing these issues. “We are a government determined to overcome difficulties in the spirit of national enterprise", the Prime Minister concluded

Economic Survey, 2012

- The share of industry, including construction, in GDP remained generally stable at around 28 per cent in the post-reform period. Standard deviation of the average share was very small and the coefficient of variation under 5 per cent validates this stability. The share of manufacturing, which is the most dominant sector within industry, also remained in the 14-16 per cent range during this period. The share is modest when compared to that of China (above 40 per cent) and some of the East Asian countries (above 30 per cent).
- Industrial performance: Recent industrial growth, measured in terms of IIP, shows fluctuating trends. Growth had reached 15.5 per cent in 2007-8 and then started decelerating. After recovering to a growth of 9.2 per cent in 2009-10 and 2010-11, growth of value added in industrial sector, comprising manufacturing, mining, electricity and construction sectors, slowed to 3.5 per cent in 2011-12 and to 3.1 percent in the current year. The manufacturing sector, the most dominant sector within industry, also witnessed a decline in growth to 2.7 per cent in 2011-12 and 1.9 per cent in 2012-13 compared to 11.3 per cent and 9.7 per cent in 2009-10 and 2010-11, respectively. The growth in electricity sector in 2012-13 has also moderated. The growth of the mining sector in 2012-13 is estimated at 0.4 per cent, though it showed an improvement over a negative growth of 0.63 per cent recorded in 2011-12. With improved business sentiments and investor perception and a partial rebound in industrial activity in other developing countries, industrial growth is expected to improve in the next financial year.
- Industrial investment: National accounts data clearly indicate a moderation in the growth of GCF in industry. The share of GCF in industry as per cent to the overall GCF, after peaking to a level of 54.9 per cent in 2007-8, moderated to 44 per cent in 2011-12
- Moderation in investment was largely because of two factors: decline in profitability and deceleration in the rate of growth of credit to the industrial sector.
- Employment and labour relations:
    - There has been significant increase in employment opportunities in the industrial sector, though most of these additional opportunities have been created in the construction sector. In 2009-10, the construction sector employed 9.6 per cent of the workforce as against a 7.9 per cent share in GDP. There has also been an increase in employment opportunities in the mining sector. However, in the manufacturing sector, overall employment opportunities have declined in 2009-10 compared to 2004-5

Table 9.11 : Employment in the Industrial Sector									
	Persons employed (million)			Share in employment (%)			Share in GDP (%)		
	1999-2000	2004-2005	2009-2010	1999-2000	2004-2005	2009-2010	1999-2000	2004-2005	2009-2010
Mining	2.3	2.6	2.9	0.6	0.6	0.6	3.0	2.9	2.3
Manufacturing	43.8	56.1	52.4	11.0	12.2	11.4	15.1	15.3	16.0
Electricity	1.0	1.2	1.3	0.3	0.3	0.3	2.3	2.1	2.0
Construction	17.5	26.1	44.2	4.4	5.7	9.6	6.5	7.7	7.9
Industry	64.6	85.9	100.7	16.2	18.7	21.9	26.9	27.9	28.1

Source : The numbers have been derived applying NSSO segment-wise workers population ratios and Labour force participation rates to the population.

Note : Employment as per usual principal and subsidiary status (UPSS) basis.

- National Manufacturing Policy – report submitted in 2008
  - objectives to (i) increase manufacturing- sector growth to 12-14 per cent over the medium term; (ii) enable manufacturing to contribute at least 25 per cent of GDP by 2022 (from current 16%); (iii) create 100 million additional jobs in the manufacturing sector by 2022; (iv) create appropriate skill sets among the rural migrant and urban poor for their easy absorption in manufacturing; (v) increase domestic value addition and technological depth in manufacturing; and (vi) enhance global competitiveness of Indian manufacturing.
  - National Investment and Manufacturing Zones envisaged: to be developed as greenfield industrial townships and benchmarked against the best manufacturing hubs in the world. These zones will have at least 5,000 hectares each. Units in these zones will enjoy single-window clearance, a liberal exit policy, incentives including exemptions from capital gains tax, and incentives for green manufacturing and technology acquisitions.
- Draft National Policy on Electronics 2011
  - The draft National Policy on Electronics, which was released on 3rd October 2011, provides a roadmap for the development of the sector in the country. The draft policy envisions creating a globally competitive electronics system design and manufacturing (ESDM) industry including nano- electronics to meet the country's needs and serve the international market
- **DMIC Project**
  Industrial development initiatives under DMIC project presently cover eight industrial cities that are proposed to be developed along the railway corridor. The Master Planning for the investment regions and industrial areas taken up initially to be developed as new cities in Gujarat, Madhya Pradesh, Haryana, Rajasthan and Maharashtra have been completed and master planning in Uttar Pradesh has started. The State governments have initiated the process of obtaining land for the new industrial regions/areas as well as for the Early Bird Projects. Environmental impact assessment (EIA) studies have been initiated for

five industrial cities. Details of the overall DMIC project have been discussed in Chapter 2.

- **FDI Policy initiatives**
  As a part of policy reform process, the FDI policy is being progressively liberalized on an ongoing basis in order to allow FDI in more industries under the automatic route. Some recent changes in FDI policy, besides consolidation of the policy into a single document include FDI in multi-brand retail trading up to 51 per cent subject to specified conditions; increasing FDI limit to 100 per cent in single-brand retail trading; FDI up to 49 percent in civil aviation and power exchanges; FDI up to 49 percent in broadcasting sector under the automatic route and FDI above 49 percent and up to 74 percent under the Government route both for teleports and mobile TV.
- **Setting up of the e-Biz Project to promote ease of doing business**
  The government has announced the setting up of -'Invest India'-, a joint-venture company between the Department of Industrial Policy and Promotion and FICCI, as a not-for-profit, single window facilitator, for prospective overseas investors and to act as a structured mechanism to attract investment. In addition, the Government has initiated implementation of the e-Biz Project, a mission mode project under the National e-Governance Plan (NeGP) for promoting an online single window at the national level for business users. The objectives of setting up of the e-Biz portal are to provide a number of services to business users, covering the entire life cycle of their operation. The project aims at enhancing India's business competitiveness through a service oriented, event-driven G2B interaction.

Challenges

- For the NMP to successfully meet the objective of 25 per cent share for the manufacturing sector in GDP certain specific measures are required, some of which form part of India’s overall development priorities and strategies. There are several policy measures, briefly discussed here, that would have to be pursued simultaneously.
  - First, there is need to resolve the issue of availability of land for industrial and infrastructure use.
  - Second, both forward and backward linkages of the manufacturing sector will need to be strengthened for making progress on the objectives laid out in the NMP. The growth of the services sector (as distinct from the real sectors) depends considerably on the growth of manufacturing. Likewise, the growth of the services sector with quality benchmarking could contribute to productivity improvements in the manufacturing sector. Banking, insurance, trade, transport, communication, and skill development are some of the sectors where growth will be driven by a competitive and vibrant manufacturing sector. Unlike this strong forward linkage with the services sector, the backward linkage is of the weak nature with the agriculture sector due to the inadequate pace of development of agro- based industries. And as a result, the

employment-generation potential of the manufacturing sector has not been fully harnessed in India.
    - Third, within manufacturing, there is a need to shift structurally in favour of high value- addition industries. Specific policy thrust is required in high-precision machinery, pharmaceuticals, biotechnology, shipbuilding, defence production, and the aero-space industry, which are some of the areas that provide scope for diversification. Considerable and growing domestic demand in many of these sectors has to be leveraged for locating production facilities in the country by bringing in suitable foreign collaborators. It can provide depth to Indian manufacturing while increasing value addition from this sector. Acquiring depth in manufacturing is important not only for improving the competitiveness of manufacturing but for diversifying the industrial base.
    - Fourth, investment requirements in India will continue to exceed the availability of resources from domestic savings. The investment-savings gap during 2005-11 was 1.7 per cent of GDP. The best way of covering this gap is through FDI. Though our FDI policy regime is now more open and transparent and has an institutional review mechanism, there are several sectoral issues that need to be addressed and continuously fine tuned.
    - Fifth, with the implementation of the direct tax code (DTC), it would become difficult to incentivize industry through tax exemptions. In exports, the duty entitlement pass book (DEPB) scheme will get phased out. The new incentive mechanism will need to rely on providing non-tradable infrastructure services at global prices and in keeping with global standards. These would be more supply-centric and would considerably reduce the relative cost disadvantages of the domestic manufacturing sector, thereby giving a fillip to its growth.
    - Sixth, the new manufacturing sector will need to be environment-friendly. Environment issues encompass exploration, excavation, and use of resources and their pricing. The resource needs of manufacturing would require a certain balancing, consistent with sustainable protection of the environment. A more transparent policy framework for pricing and allocation of natural resources would be a natural starting point in this regard.
- Lack of consolidated information and absence of a unified online service delivery platform in the current system of approvals for starting a business has made this process laborious, time-consuming, and expensive. In order to enable businesses and investors to save time and costs and in order to improve the business environment, an online single window has been conceptualized in the form of the eBiz Mission Mode Project under the National e- Governance Plan.
- Industrial establishments have a variety of statutory obligations to discharge. The Employees Provident Fund Act; Employees State Insurance Act; Payment of Gratuity Act; Personal Injuries (Compensation Insurance) Act; Workmen's Compensation Act; etc. are some of the major

laws that require not only the regular payouts by industrial units but also involve filing of periodic returns and maintenance of registers and records. This not only adds to the transaction cost of industry, it in many ways puts off a potential investor.