Industry

The resurgent industrial sector has propelled the Indian economy to grow at 9 per cent during 2005-06. The Manufacturing sector has grown impressively by 9.3 per cent. Investment and capacity addition have steadily grown. In January this year, 87 items were notified for de-reservation from the Small Scale Industries Reserved List. Another lot of 125 are set to be de-reserved, leaving only 114 items for exclusive production by the small-scale sector. Progressive de-reservation would attract higher investment and technological upgradation. Further, the continued efforts to liberalise the Foreign Direct Investment (FDI) policy and simplify procedures are contributing to the Manufacturing sector's enhanced attractiveness to overseas investors. During 2005-06, manufactured products accounted for about three-fourths of India's merchandise exports.

The performance of the industrial sector has been recovering since 2003-04 after its slow growth during the late 1990s. In 2005-06, inclusive of construction, industry accounted for about a full quarter of the total GDP. The Manufacturing sector, being the dominant sub-sector, is the key driver of industrial growth. Accelerated industrial growth is essential for the sustained expansion of the Indian economy. The Approach Paper to the Eleventh Five Year Plan notes that constraints hindering the performance of the industrial sector include poor infrastructure, inadequate skilled manpower and lack of labour flexibility.

The Index of Industrial Production (IIP), which shows the general level of industrial activity, rose at a faster pace of 8.4 per cent in 2004-05 up from 6 per cent in 2002-03 (Table I.1). The growth in IIP during 2005-06 was 8.2 per cent, indicating slight deceleration in industrial production. However, the growth in the index of Manufacturing output showed an increasing trend since 2002-03. The Manufacturing Index surged from 6 per cent in 2002-03 to 7.4 per cent in 2003-04 and then to 9.2 per cent in 2005-06. The impressive performance of the Manufacturing sector is also evident from the growth rate of 11.2 per cent during April-

Table I.1: Group-wise Index of Industrial Production (% growth, y-o-y)

Industry	Manufacturing	Mining	Electricity	General
Weight	**79.36**	**10.47**	**10.17**	**100.00**
2002-03	6.01	5.79	3.22	5.78
2003-04	7.38	5.28	5.04	6.98
2004-05	9.13	4.38	5.15	8.37
2005-06	9.15	1.01	5.16	8.16
		April-January		
2005-06	9.03	0.61	4.97	8.02
2006-07	11.93	4.52	7.61	11.00

Source: Central Statistical Organisation

January 2006-07 compared to 9 per cent in the corresponding period of the previous year. The higher growth in the Manufacturing sector, combined with similar improvement in Mining and Electricity, supported the overall growth of the general index to 11 per cent. In fact, the resurgence of Mining and Electricity was highly notable during April-January 2006-07 if one recalls their lacklustre performances during the corresponding period of 2005-06.

As per the use-based industrial group, the Index of Capital Goods Production registered its highest growth rate (15.7 per cent) in 2005-06, followed by Consumer Goods at 12 per cent (Table I.2). Within Consumer Goods, the Durables segment grew significantly since 2003-04 and registered 15.3 per cent growth in 2005-06. But, the growth in Consumer Durables decelerated to 10.9 per cent during April-January 2006-07, compared to 14.2 per cent growth in the corresponding period of 2006-07. The Consumer Non-Durable sector also performed poorly, growing by only 9.4 per cent during April-January 2006-07. Basic and Intermediate Goods were the slow-growing sectors between 2002-03 and 2005-06. But, their respective growth rates surged to 10 per cent and 11.3 per cent during the last 10-months of 2006-07. The growth in capital goods production decelerated slightly during April-January 2006-07 over the corresponding period of the previous year.

There was strong growth in some of the infrastructure industries like coal, cement and steel during 2005-06 (Table I.3). However, there has been perceptible decline in the growth of production of crude oil, petro-products and electricity. With new investments, the production of electricity has increased by 7.5 per cent during in the April-December period of 2006-07 in contrast to 4.8 per cent during the corresponding period of the previous year. Similarly, there has been an increase in the growth of crude oil production, by 6 per cent and petro-products by 12.6 per cent during April-December 2006-07. However, coal, steel and cement registered deceleration in growth rates during the last nine months.

The output performance of 17

Table I.2: Index Number of Industrial Production - Use Based Classification (% growth, y-o-y)

Use based group	Basic goods	Intermediates	Capital goods	Consumer goods	Consumer Durables	Consumer Non Durables
Weight	**35.6**	**26.5**	**9.3**	**28.7**	**5.4**	**23.3**
2002-03	4.8	3.9	10.5	7.1	-6.3	12.0
2003-04	5.5	6.4	13.6	7.2	11.6	5.8
2004-05	5.5	6.1	13.9	11.7	14.3	10.8
2005-06	6.7	2.5	15.7	12.0	15.3	10.9
			April-January			
2005-06	6.2	2.5	16.9	11.9	14.2	11.2
2006-07	10.0	11.3	16.8	9.8	10.9	9.4

Source: Central Statisitcal Organisation

Table I.3: Index of Industrial Production for Infrastructure Industries (% growth, y-o-y)

Infrastructure Industry	Coal	Electricity	Steel	Cement	Crude Oil	Petro Products
Weights	**3.22**	**10.17**	**5.13**	**1.99**	**4.17**	**2.00**
2002-03	4.56	3.17	7.33	8.84	3.44	4.93
2003-04	5.13	5.06	9.76	6.10	0.72	8.24
2004-05	6.20	5.18	8.38	6.58	1.82	4.33
2005-06	6.98	5.12	11.21	12.35	-5.24	2.14
			April-December			
2005-06	6.17	4.76	10.74	10.93	-5.92	0.46
2006-07	4.70	7.53	9.72	9.86	5.98	12.62

Note: The weights of six infrastructure industries add up to 26.68 which represents the composite infrastructure index
Source: Ministry of Commerce and Industry, Government of India

Table I.4: Industrial output growth: Two-digit level (%, y-o-y)

Year	2004-05	2005-06	April-January 2005-06	April-January 2006-07
Food products	-0.4	2.0	-1.3	6.1
Beverages, tobacco and related products	10.8	15.7	16.6	10.8
Cotton textiles	7.5	8.5	9.3	14.7
Wool,silk and man-made fibre textiles	3.5	0.0	-0.6	8.0
Jute and other vegetable fibre textiles (except cotton)	3.7	0.5	1.9	-7.8
Textile products (including wearing apparel)	19.2	16.4	19.2	10.9
Wood and wood products, furniture & fixtures	-8.5	-5.7	-3.7	12.9
Paper & Paper Products and Printing, Publishing & Allied Industries	10.5	-0.9	1.2	8.8
Leather and leather & fur products	6.8	-4.8	-4.0	-0.1
Basic Chemicals & Chemical Products (except products of Petroleum & Coal)	14.5	8.3	9.2	9.1
Rubber, plastic, petroleum and coal products	2.4	4.3	4.4	12.2
Non-metallic mineral products	1.5	11.0	9.7	13.4
Basic metal and alloy industries	5.4	15.8	14.9	22.3
Metal products and parts (except machinery and equipment)	5.8	-1.2	-2.0	8.5
Machinery and equipment other than transport equipment	19.8	11.9	11.9	13.4
Transport equipment and parts	4.1	12.7	12.4	15.5
Other manufacturing industries	18.6	25.2	24.7	10.5

Source: Central Statisitcal Organisation industries is presented in Table I.4. Only eight industries showed acceleration in growth rates of IIP during 2005-06. Among them, "Other Manufacturing Industries" recorded the highest growth rate (25.2 per cent), followed by basic metal and alloy industries (15.8 per cent) and beverages, tobacco and related products (15.7 per cent). Besides, the industries that accelerated their growth rates in the 2004-05 to 2005-06 period included transport equipment and parts, non-metallic mineral products, cotton textiles, rubber, plastic, petroleum and coal products and food products. Production growth of 11 industries accelerated during April-January 2006-07 over the corresponding period of the previous year. Of these high performing industries, the growth in production of basic metal and alloy industries was the highest (22.2 per cent) followed by cotton textiles (14.5 per cent).

Investment Activity

Investment flow to Indian industries is on the rise. As of March 2006, India's foreign exchange reserves stood at $ 151.6 billion. In February 2007, it was seen to have increased to $ 193.1 billion. The continued inflow of foreign capital largely accounted for the surge in foreign exchange reserves. Net foreign investment, which continued to increase over time, constituted about 70 per cent of total capital flows during 2005-06. As a proportion of GDP, the net foreign investment remained at 2 per cent during the last three years. However, the net foreign investment declined to $ 5.8 billion in the first half of 2006-07, compared to $ 7.5 billion in the same period of the previous year.

As of February 2007, cumulative FII inflows in terms of net investment in equity and debt investment touched $ 52 billion. The inflows also continued to show an encouraging trend. FDI equity inflows increased to $ 9.3 billion during April-December 2006-07 compared with $ 3.6 billion in the corresponding period of the previous year. This represented a phenomenal increase of 151 per cent, reflecting the growing confidence of foreign investors in the Indian economy. Of the total cumulative FDI inflows from August 1991 to December 2006, the electrical equipment industry and the service sector received the highest (17 per cent each) proportion, followed by telecommunications (9.3 per cent) and transportation (8.4 per cent). Simultaneously, the outward flow of FDI also showed positive signs, with Indian companies making inroads into acquisitions abroad. The FDI outward investment reached $ 3.2 billion 2005-06.

Special Economic Zones (SEZs) also attracted substantial amount of investment. As per the CMIE CapEx service, there are 432 outstanding SEZ projects. Investments for just 167 of them, according to available details, amounted to Rs 4,80,891 crore. However, the continuing changes in the policy have blocked further capital investment.

Non-food credit grew at the rate of 17.7 per cent during past 10 months of the current financial year. This was less than the growth rate of 19 per cent registered during the corresponding period of the previous year. The depressed growth in non-food credit might have been due to a rise in interest rates. However, the growing economy needs more working capital for rising levels of production necessitating expansion of credit supply.

Focus: Industrial Sector and Union Budget 2007-08

In Budget 2007-08, specific proposals were made to continue with support for sectors like textiles, handloom and coir. For textiles, the budgetary allocation for the Scheme for Integrated Textile Parks (SITP) was enhanced from Rs 189 crore in 2006-07 to Rs 425 crore. Further, it was announced that the Technology Upgradation Fund would be continued with during the Eleventh Plan with an enhanced provision of Rs 911 crore. In the handlooms sector, the Health Insurance Scheme for weavers was extended to cover more weavers and include even ancillary workers.

The budgetary allocation for the handloom sector was increased to Rs 320 crore in 2007-08, up from Rs 241 crore in 2006-07. To modernise and technologically upgrade the coir industry, a new, Rs 22.5 crore scheme covering the major coir-producing states like Kerala, Karnataka, Tamil Nadu, Andhra Pradesh and Orissa was announced.

Proposals were also made to accelerate power production through Ultra Mega Power Projects and the Accelerated Power Development and Reforms Project. The provision for the National Highways Development Programme (NHDP) was enhanced to Rs 10, 667 crore for developing road infrastructure. To align with ASEAN rates, the peak Customs duty on non-agricultural products was proposed to be reduced from 12.5 per cent to 10 per cent. However, it has been proposed to reduce the Excise duty on retail cement from Rs 400 per tonne Rs 350 per tonne for those sellers who succeed in holding the price line at Rs 190 per kg. For cement with a higher MRP, the excise duty will be Rs 600 per tonne.

Focus: Industrial Sector and Eleventh Five Year Plan (2007-2012)

The Eleventh Five Year Plan (FYP) aims at raising the annual growth rate of the Industrial sector to 10 per cent and Manufacturing to 12 per cent. To accelerate the industrial growth rate, the 11th FYP proposes to operationalise the strategy recommended by the National Manufacturing Competitive Council. These include rationalisation of tax systems, promotion of infrastructure development in SEZs and Special Economic Regions (SERs), technological modernisation, creation of investor-friendly climate by state governments, amendments in the labour laws and other legislations to expand employment in the industrial sector, progressive de-reservation of industrial items for small scale production, elimination of existing residual restrictions and controls through licensing, reviewing of existing incentive programmes for special areas like the North-East, Jammu and Kashmir, Himachal Pradesh and Uttranchal and the promotion of micro, small and medium enterprises.

The micro and small enterprises (MSEs) encompass wide-ranging sectors including small-scale khadi and village, coir, handlooms, handicrafts, sericulture, wool, power looms, food processing and other agro and rural industries. These industries account for about 32 per cent of the workforce, mostly women, minorities and marginalised sections. To policy makers, the development of MSEs poses a far greater challenge. However, it is necessary to facilitate the graduation of these enterprises to higher levels, particularly micro and small enterprises to medium and large units through well-framed fiscal and non-fiscal measures. The 11th FYP also emphasises promotion of competition in the industrial sector in order to protect the consumers' interest, particularly illiterate and marginalised sections of society in rural areas.