Chapter 4

Industrial Policy – Pre and Post – Year 1991

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Chapter 4
Industrial Policy - Pre And Post - Year 1991

4.01 Historical Background

Soon after India attained independence in August, 1947, enunciation of principles for industrial development were made by the Government in its Industrial Policy Resolution in 1948. This resolution envisaged a progressively dominant role for the State in the country's industrial development, within the context of planned development of the Indian economy.

At independence in 1947, India was importing even its basic requirements, including food. Today India produces a large variety of products varying from consumer goods to sophisticated electronic and electrical equipment, industrial machinery, machine tools, ships, aircraft, etc. India's achievements in the field of nuclear energy and space have won international recognition. India has set up joint ventures in a number of countries and undertaken successfully several projects and contracts in Third World markets independently or in co-operation with developed economies. Indian consultancy firms offer a complete range of services. With the radical improvement in the industrial climate, there are now even better prospects for industrial expansion.

These policies sought to accelerate the rate of economic growth, develop basic industries and lay down a sound economic foundation thereby increasing employment opportunities and improving the standard of living and the working conditions of the masses. The policy also sought to reduce the disparities in income and prevent the concentration of economic power.

India has broad industrial base. After independence, the country chose the path of industrialisation. It also chose to follow a model of a mixed economy, with a heavy dose of state enterprise and close regulation. Whilst the protective regime resulted in unbridled distortion, the development of a parallel economy, and inefficiency, the gains have also been note-worthy. Some positive features, have
been the build up capabilities in basic industries, the extension of facilities for scientific and technical education, the geographic dispersal of industry, and a policy for encouragement to small enterprise which has spawned the foundations of a strong entrepreneurial base.

India's economy is in a process of fast development. It is now ranked as the tenth largest industrial nation. India has a mixed economy in which both the State and the Private Sector have specific roles to play. India's "Five Year Plans" have been formulated to set an order of priorities among public and private entities. The Eighth Five Year Plan for 1990-95 envisages rapid industrial development with an emphasis on technological dynamism and international competitiveness in selected sectors (e.g. steel, electronics, machine, building). The emphasis is more on strategic and non-discretionary instruments of regulations.

Historically, the Indian economy was characterised as agricultural with a few organised industries. India is now a leading industrial nation. Relying on its own resources it has recorded phenomenal industrial progress and is now engaged in aiding the industrially less developed countries. Large investments continue to be made, enabling India to obtain the technology and know-how necessary in becoming a leading industrial power.

Foreign units have so far been accounting for about a tenth of the value added in industry, the rest being taken up equally by the Indian owned private sector, and the government sector. In the Indian private sector, about half is accounted by large Indian houses, the rest from others including small units. Government's role is fast getting eroded, since most fresh investment is in the private sector, including foreign owned enterprise, with government moves to gradually disinvest holdings in state owned enterprises.

Though import of consumer goods have been discouraged by the government, foreign firms have a long-standing presence in India. For example, the Indian operations of companies such as Unilever, Proctor and Gamble and Colgate Palmolive enjoy significant market share, both in the urban and rural markets. Manufacturers of consumer durables such as television sets, two wheelers and
cassette tape recorders have also built up brand visibility. Availability of products made under Japanese license has spurred demand, aided by buying power and the impact of brand advertising on television media. Branded goods are gaining recognition, even for products such as rice and salt.

In the private sector too, a process of restructuring has been initiated and with competition, more such moves are expected. Many existing multinationals have taken advantage of the new dispensation which permits equity holding up to 51%, to increase their stakes which were typically hitherto at 40% or less. Parent companies will now treat these firms in India as subsidiaries. New alliances are forming between Indian firms. TOMCO, the third largest player in the soaps and detergents market, is merging with the industry leader, Hindustan Lever, following a tie-up announced between Godrej Soaps and Procter and Gamble. Shell group has disinvested from its existing joint-venture, and is participating in a fresh joint-venture with another partner.

Apart from industry, government has thrown upon new areas in infrastructure and energy for private sector involvement. These include oil exploration, refining and marketing. Power generation has attracted the interest of companies like ABB, Enron, Siemens and GE Alsthom. Indian subsidiaries of Siemens and Asea Brown Boveri are already well entrenched in the market.

With the availability of entrepreneurial skills, managerial and technical manpower, India offers an excellent market for selling technology. India's ever increasing huge market of 875 million people and its capabilities to absorb new products and technology will make India buy technology on a competitive basis.

The experience of foreign investors in India in industrial collaborations has been encouraging. The rate of return on investment in India is as high as that of any other country.
4.02 Industrial Policy, 1956

The Government have established regulatory frameworks with the aim of protecting and developing their economies, increasing their shares of benefits associated with the activities of transnational corporations. This policies influence the flow of capital and technology. The Govt. are constantly evolving their policies to suit and adopt to such changes for better prospects.

After independence of India, India has structurally planned the industrial developments by adopting the best of both economic developments model. India has adopted mixed economy where market, state and planning co-exist as part of the Nehruvian model of development. Industrial sector has been classified in five sectors such as Core sectors, Infrastructure, Capital goods, Consumers and Services.

After adopting the mixed economic model, India has progress in planned manner in various sectors. For structural industrial growth, Governments had formed various policies as follows:

• Reservation of products for manufacturing by Small Scale Industrial Unit.

• License and Quota system for basic and core industry.

• Core and infrastructure industry were owned and managed by Govt. undertaking & PSU.

• Higher Import duty and cess for non-priority products.

• Planned developments and allocation of resources.

• Introduction of MRTP, FERA, Five years plans and Governing Policies.

The Industrial policies pursued till 1990 enabled India to develop a vast and diversified industrial structure. India has attained self-sufficiency in wide range of technology & infrastructural developments. But the industrial growth was not rapid enough to generate sufficient employment, to reduce regional disparities and alleviate poverty. It was felt that governments controls and regulation had put shakles on the growth of different segments of Indian
industry. This leads to controlled economy. Hence it has increase fiscal deficit as percentage of GDP, slowdown \ negative growth of in certain industry, export & trade.

In controlled economy, Indian Industry were protected by Industrial policy, FERA and MRTP. This policies has been framed with the following objects:

- To develop industrial, commercial and service sector.
- To provide the necessary infrastructure at concessional \ subsides rates.
- To have direction of growth of core Hi tech & capital goods industry and developments of backwards areas for optimum utilisation of available resources.
- To sustain and make competitive position in international market and improve exports.
- To control trade balance and improve GDP.

4.03 Industrial Policy, 1991

Since July 1991, Indian industry has undergone a several changes in terms of the basic parameters governing its structure and functioning. The major reforms includes followings:

- Wide-scale reduction in the scope of industrial licensing, quota & permit,
- Simplification of procedural rules and regulations for setting up of industrial unit,
- Reduction of areas reserved exclusively for the public sector,
- Disinvestment of equity of selected public sector undertakings,
- Enhancing the limits of foreign equity participation in domestic industrial undertakings,
• Liberalisation of trade and exchange rate policies,
• Rationalisation and reduction of customs and excise duties and personal and corporate income-tax and
• Extension of the scope of modvat etc.

Separate policy measures have been announced in the form of specific packages aimed at upliftment of the small scale, tiny and cottage industries as well as 100 per cent EOU's (Export Oriented Units) and units located in the EPZs (Export Processing Zone) and Technology Parks.

Industrial reforms have been to a large extent aided and supported by the liberal investment policies undertaken by the State Governments. The States have been encouraging private investment for development of basic infrastructure and management of industrial houses by awarding various fiscal concessions and other facilities. The incentive package generally includes an investment subsidy, exemption from payment of excise duty by new undertakings, tax concessions to units in small scale and tiny sectors, supply of industrial land under easy conditions, waivers or concessional rates for electricity duty, subsidies on purchase of machinery and other fixed assets, special incentives to industries involved in modernisation, technological upgradation and quality control, upgrading the facilities available at the District Industries Centres (DICs), opening of single window type information dissemination centres and several other measures.

The Industrial policy, 1991, announced by the Government of India on July 25th, 1991, liberalised the laws regulating domestic industry and took measures to promote foreign investment. Highlights of the Industrial Policy, 1991 include raising the permitted percentage of foreign equity investment in high priority industries up to 51% automatic clearance of capital goods import provided the foreign equity covers the foreign exchange requirement, and delicensing all industries except for a list of sixteen. This was followed by radical changes in the MRTP (Monopolies and Restrictive Trade Practices Act) and simplified procedures involved in various aspects of a foreign collaboration. Industrial
Policy 1991 cover policy and guidelines for economic developments by introduction of new policy regime in following sectors:

- Industrial
- Infrastructure
- Trade
- Fiscal
- Monetary

### SECTOR

#### PRE REFORM

**Industry**
- a) Capacity Regulation
- b) Restriction on technology
- c) Policy of self sufficiency

**Infrastructure**
- a) Mainly Govt. owned
- b) Regulated pricing

**Trade**
- a) Import licensing
- b) High import tariffs

**Fiscal**
- a) High fiscal deficit
- b) High Tariffs

**Monetary**
- a) Low forex reserves
- b) Administered forex rate

#### POST REFORM

**Industry**
- a) Complete deregulation
- b) Policy of competitiveness

**Infrastructure**
- a) Private participation
- b) Deregulated pricing
- c) Institutional frame

**Trade**
- a) Free Trade except a small list
- b) Mean Tariffs 22%

**Fiscal**
- a) Lower fiscal deficit
- b) Lower tariffs

**Monetary**
- a) Convertibility of rupee
- b) Better forex reserve

### Features of industrial policy 1991

The concentration has shifted towards Market-orientation policy, globalisation of economic policy, industrial & infrastructure developments. The features of Industrial policy of 1991 and related govt. amendments in certain acts & rules as follows:

- **Automatic approval for EOU**s

The government has a liberalised policy framework for the 100% export oriented units (EOUs). This policy grants automatic approvals to new units if they fulfill the conditions in regard to import of capital goods, value addition, locational policy and bonding requirement.
• Deemed conversion of letters of intent issued under the scheme of 100% EOU into letters of permission

All valid letters of intent issued prior to 25 July, 1991 for industries which are now delicensed under the industrial policy will automatically be deemed to be converted into letters of permission as per date 19 May, 1992.

• Revised policy and procedure for investments in India by NRIs and overseas corporate bodies

Government has raised the limits of NRIs and overseas corporate bodies (OCB) investments in industrial ventures in India and modified approval procedures. NRIs and OCBs predominately owned by them are permitted to invest upto 100% foreign equity in high priority industries with full benefits of repatriation of capital invested and income accruing thereon provided certain conditions are fulfilled. NRIs and OCBs will also be allowed to invest upto 100% equity with full repatriation benefits in industries requiring compulsory licensing.

• New classification system

The description of articles to be manufactured is classified & stated according to the Indian Trade Classification (Based on harmonised systems and coding system) published by the Ministry of Commerce, Directorate General of Commercial Intelligence and Statistics, Calcutta, India which may be obtained on payment from Controller of Publications, 1 Civil Lines, Delhi-54 India.

• Policy on small industries

Small scale industries receive special treatment under Indian law. This began with the Industrial Policy Resolution of 1956, which emphasized the need for developing small and village industries to the maximum extent possible. The Small Industries Development Organization has been given the task of
implementing the Government's policies. Many incentives have been created in the form of financial assistance, purchases, marketing facilities, assistance for exporting and tax exemptions. Small scale industries need not be registered with the Director General of Technical Development to avail these concessions.

A list of items have been reserved for the exclusive manufacture by small scale industries. These include specified in various areas, including the areas of food, textiles, chemicals, tools and automobile parts.

The investment limit for small scale undertakings is Rs. 1.0 crore and in the case of ancillary undertaking is Rs. 75 lacs in plant and machinery excluding the value of moulds, jigs, tools, etc.; value of factory building and furniture is also excluded. Exemption from licensing provisions is also provided, subject to the condition that such an undertaking shall not be a subsidiary of or owned or controlled by any other undertaking. Small scale units which undertake to export at least 30 per cent of annual production by the third year are permitted to step up their investment in plant and machinery to Rs. 3 crore.

Large houses are restricted to an equity holding of 26 per cent in small scale industries. At the end of the Seventh Plan, small scale industries accounted for nearly 35 per cent of the gross value of output in the manufacturing sector and over 40 per cent of total exports from the country. Small scale industries employed approx. 12 million people.

- **Policy for removal of regional disparities**

To encourage industrialization of backward areas of the country, Government has provided several incentives to enable investors to establish undertakings in these areas. These include financial concessions extended by the All-India term lending institutions, outright subsidies on fixed capital investment, sales tax benefits, rebate in power bill, octroi concessions, income tax benefits and holidays and preferential treatment in the grant of permission. In addition the Government has decided to develop growth centres in backward areas. These centres are provided
with funds in order to develop infrastructural facilities, particularly in respect to power, water, telecommunications and banking. The government plans to develop at least 100 of these centres over the next 5 years. The government has classified the industrial development centre in zone wise considering the developments of area of unit located.

- **Changes in the MRTP**

Perhaps the most significant statutory change following the Industrial Policy, 1991 was the abolishment of threshold limits of assets in the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP). MRTP companies were required to acquire Government approval for establishment of new undertakings, expansions, mergers, amalgamations, take-overs and appointment of directors. As the threshold limit for companies has been abolished, this approval is no longer needed. Now Companies is no longer required to register under the Act. The emphasis of the MRTP has been shifted to controlling restrictive and unfair trade practices.

- **Delicensing**

The Industrial Policy has abolished the license requirement for all industries except for a list of sixteen ("Annexure II" Industries See Appendix A), which still require a licence. This exception is due to security concerns, social reasons, environmental or safety concerns, or involves articles of elitist consumption. This compulsory list, however, does not apply to small scale units if the items otherwise covered by the list have been reserved exclusively for the small sector. In addition, industries that propose to manufacture items reserved for the small scale / ancillary sector or that propose to be located within 25 kilometres from the periphery of the urban limit of a city having a population greater than one million, still require a licence, with certain exceptions such as the electronics and computer software industries.
While acquiring a license once took approximately 60 days for a non-MRTP company and 90 days for a MRTP company, now companies not requiring a license need only be registered with the Secretariat of Industrial Approvals of the Ministry of Industry.

Prior to 1991, Industrial Licensing required for following 26 industrial unit:


After 1991, industrial license required only for 6 items which are as follows :

Defence Equipment, Automic energy, Explosives, Hazardous Chemicals, Cigarettes & Select Drugs

- Delicensing of Industrial alcohol:
  Government has deleted industrial alcohol from the list of compulsory licensing.

- Foreign investment policy
  Changes have been made in Indian laws to create a more favourable environment for foreign collaborations and investment and facilitate their establishment. The red tape and delays that once stood in the way of foreign collaborations are rapidly disappearing.

Section 24 of the Industrial Policy, 1991, States:

"While freeing Indian Industry from official controls, opportunities for promoting foreign investments in India should also be fully exploited. In view of the significant development of India's industrial economy in the last 40 years, the
general resilience, size and level of sophistication achieved and the significant changes that have also taken place in the world industrial economy, the relationship between domestic and foreign industry needs to be much more dynamic than it has been in the past in terms of both technology and investment. Foreign Investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. This is particularly necessary in the changing global scenario of industrial and economic co-operation marked by mobility of capital. The government will therefore welcome foreign investment which is in the interest of the country's industrial development."

- **Foreign Investment Promotion Board**

The Foreign Investment Promotion Board (FIPB) has been constituted by the Government with a view to promoting and attracting foreign investment in India. The FIPB is a high powered committee comprising of the Principal Secretary to the Prime Minister-Chairman, Finance Secretary and Commerce Secretary, and is located at the Prime Ministers office.

The Indian government is interested in attracting foreign investment in the areas of transport, communications, electronics, energy (including oil and gas exploration), chemicals, fertilizers, biotechnology and industrial, agricultural and electrical machinery.

- **Privatization - disinvestment of PSU**

In the Industrial Policy, 1991, the Government announced its intention to divest itself of a percentage of its equity in the public sector. Section 39D (iii) states, "In order to raise resources and encourage wider participation, a part of the Government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers." This percentage was later set at 20 percent. In November 1991, the Government identified 40 public sector undertakings (PSUs) for disinvestment upto 20 per cent. Further the Government
has privatized banking, tele communication, power, insurance and air transportation.

The list of public sector undertaking where the government presence is there as follows:

Table 4.01

Number of PSU in various sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td></td>
</tr>
<tr>
<td>Petroleum</td>
<td>11</td>
</tr>
<tr>
<td>Fertilisers</td>
<td>8</td>
</tr>
<tr>
<td>Chemicals &amp; Pharma</td>
<td>21</td>
</tr>
<tr>
<td>Metals &amp; Minerals</td>
<td>10</td>
</tr>
<tr>
<td>Coal &amp; Lignite</td>
<td>9</td>
</tr>
<tr>
<td>Steel</td>
<td>7</td>
</tr>
<tr>
<td>Engineering</td>
<td>37</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>12</td>
</tr>
<tr>
<td>Others</td>
<td>37</td>
</tr>
<tr>
<td>Services</td>
<td></td>
</tr>
<tr>
<td>Trade &amp; Marketing</td>
<td>18</td>
</tr>
<tr>
<td>Industrial &amp; Tech. Service</td>
<td>13</td>
</tr>
<tr>
<td>Construction</td>
<td>9</td>
</tr>
<tr>
<td>Financial services</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: ETIG ET 500 Date March, 2002.

The central public sector enterprises in India has large presence in various sectors. Bulk of the public sector is concentrated in the heavy industrial segments, where the investments is tremendous and gestation & payback period is longer.

Among the various policies enunciated for restructuring of the PSUs, a major step involved the disinvestment of a part of Government equities in selected public undertakings for improving their performance as well as to increase their public accountability by broad basing their management and ownership. In the process of disinvestment, a major step taken by the government has been to set up the Disinvestment Commission for working out the terms and conditions as well as modalities pertaining to disinvestment of public equities. At present the government contemplates restructuring of equity in 40 major PSUs, including
• Stress on technology upgradation by setting up a technology Development Cell and strengthening the facilities available with SIDO, and enforcement of quality control.

• Promotion of exports by setting up Export Development Centre.

• Change in definition of women's enterprises and support to women entrepreneurs

• Significant expansion in programmes for entrepreneurship.

• RBI to advise banks to accord SSI units with good track record, the benefit of lower spreads over prime lending rate

• Banks to modify their credit appraisal systems

• Delinking of SIDBI from IDBI and IDBI shareholding in SFCs to be transferred to SIDBI

• RBI to strengthen existing mechanism available to SSI for discounting of Bills

• RBI to modify its guideline to Commercial banks on credit appraisal to give greater weight to the amount of overdue outstanding that the large units have in respect of SSI supplier

• Ministry of Industry to bring about amendments in the Interest on Delayed Payments to Small Scale and Ancillary Industry Undertaking Act 1993 to make the existing legislation more effective.

• Increase in Central Excise exemption limit from Rs30 lakhs to Rs 50 lakhs
• Units having value of clearances between 50-100 lakhs, to pay 5% flat rate of duty

• Restrict availability of Modvat credit by 5% of duty paid in case of inputs used in the manufacture of excisable goods. No restriction is placed on Modvat credit in respect of capital goods.

• Changes in the Administration of Central Excise to curtail Inspector Raj

• States to review their existing laws & regulations. Carry inspection in the least burdensome manner

• Introduction of Single one page tax payer friendly Return Form to all non-corporate tax payers called "SARAL"

• Deresorvation of farm implements from small scale production on the grounds that farmers should have access to cheaper, better quality implements.

• Stress on Credit to Micro enterprises by SIDBI & NABARD.

• Rural Industrialisation by formation of 100 Rural Clusters spread evenly across the country.

• Marketing of their products through joint efforts of SIDO, Laghu Udyog Boards etc.

• Relaxation of the Labour laws through the review of the Industrial Development Regulation Act.

• Easing the flow of Credit by enhancing the limit of the Composite loan (Rs 2 lacs to Rs 5 lacs) scheme of SIDBI and other Commercial Banks.
• Enhancing the Computation limit for Working capital requirements on basis of the Nayak Committee recommendations from Rs 4 crore to Rs 5 crore.

• Introduction of the Credit Insurance Scheme to facilitate credit specifically to the Export Oriented Units.

• Increase in the number of the Specialised SSI bank branches and their restructuring in terms of more powers to the branch managers as well as simplification of procedures for credit appraisal.

• Establishment of 8 Debt Recovery Tribunals (DRTs) and the formation of Settlement Advisory Committee.

• Restoration of the 100% Modvat credit.

• Reduction in the Multiplicity of the existing rate structure to three Advalorem rates i.e. 8%, 16%, & 24%.

• Sectoral Extension of the Excise exemption to specific industries e.g. Cotton Yarn & Refrigeration etc.

• Extension of the Excise Duty concessions to the units producing goods to be marketed under different Brand names.

• Payment of Excise Duty on a monthly basis to improve the liquidity position.

• Doing away with the maintenance of specific Excise records in cases of the Small units paying excise duty above Rs 5 crore.

• Widening of Priority sector Lending

• Inclusion of Food and Agro-processing industries.
Several new measures have been adopted for improving the efficiency and performance of the small scale units. These include provision of infrastructural support in integrated manner through Integrated Infrastructure Development (IID) scheme, enhanced technology support for modernisation and quality upgradation.

Investment limits on plant and machinery for the small scale industries have been raised from Rs. 60 lakh / 75 lakh to Rs. 1 crore and that for tiny units has been raised from Rs. 5 lakh to Rs. 25 lakh. Export obligation on non-SSI units manufacturing reserved items has been reduced from 75 per cent to 50 per cent.

Registered SSI units was 16,000 in 1950 which has increased to 36,000 in 1961 and further to 33 lacs in 98-99. (Source: Business Week Jan. 2000).

4.05 Industrial Policy – Electronics

The electronics industry as a whole, with the exception of aerospace and defense electronics, has been fully delicensed. Fiscal, investment and trade policies for the electronics sector have also been liberalised.

Considering the need of the economy and focus on industrial development, Government has set-up a separate Ministry of Information Technology and Ministry of Communication and frame guidelines for investments and growth. The Govt. has given more freedom and power to Dept. of Electronic for promotion of consumer electronics, medical and research equipments and upgradation of technology and knowhow. This will provide better products and export potentials to Indian companies.

With delicensing of the entire consumer electronics industry, liberalization in foreign investment and Export - Import policies; the country is witnessing new investments, restructuring of existing activities, diversification of the product range and an intensely competitive environment. All the renowned global brands have either established production facilities in the country or are present in the
market through technical / financial collaborations, thus giving consumer a wider choice in terms of product features, technology quality and competitive prices.

Realising the importance of electronics for the improvement of productivity and efficiency in various sections of economy and industry and to enable India to catch up with the world development in the electronics sector, the Government of India recognizes and promulgates liberalised measures for the electronics industry.

One such measure is the "broad band" licencing which enables existing units to manufacture any new article without prior approval if additional investment is not needed and the item to be manufactured is not covered under the compulsory license. Broad banding applies to the following areas:

- Entertainment electronics, covering radio receivers, tape recorders, two-in-one, three-in-one, amplifiers, record players, record changers, TV sets both black & white and colour, CCTV systems excluding those reserved for small scale sectors;
- Electronic toys, including radio controlled ones and games;
- Computer peripherals;
- Electronic test and measuring instruments excluding those reserved for small scale sector;
- Discrete semiconductor devices. The Government of India permits acquisition of technology on a centralised basis for (i) Telephone instruments (ii) Electronic PABX systems (iii) Rural automatic exchanges.

Further, in order to streamline the procedure for setting up projects concerning computers, electronic instrumentation and data communication equipment, a special section called the Computer Communication and Instrumentation (CCI) Wing in the Department of Electronics, Government of India, operates. All Indian companies (including those with foreign equity upto 51 percent) are eligible to manufacture computer systems.
In order to achieve the Nation's commitment to achieve the target of Health for all by 2000 AD, the Government has also turned its interest towards manufacturing Medical Electronic equipment used for diagnosis, therapy and patient monitoring and care wherever indigenous technology is not available. Import of technology is made available for upgradation & modernisation. A large number of life saving equipments can be imported under Open General Licence by all persons.

Medical Electronic Equipment industry is eligible for all the concessions applicable to Electronics Industry such as concessional rate of import duty on capital goods, higher rate of depreciation allowance and concessional rate of duty on special electronic components used for the manufacture of medical equipments. With the advent of these liberalised measures the difficulties which this particular industry has been facing (namely low volume high cost production, inadequate infrastructure) the scope of development and investment is promising.

Non-resident Indians and persons of Indian origin returning home for settlement and setting up or investing in electronics industry or investing in India including modernisation, expansion, diversification of an existing electronics industry are allowed import of machinery for such purpose. There is no upper limit of capital goods that can be imported under this scheme. Some of the industries to which this concession is available are electronic components (other than LSI, VLSI) instrument, tape recorder, two in one, Hi-fi equipment, electronic teaching aids, industrial and process control system, major sub-systems of radars, navigational aids, communication equipment and electronic equipment.

Being a high priority industry, Electronics Industry receives favourable consideration from financial institutions for financing electronics projects. The rate of depreciation allowed in this industry is also higher as compared to other industries ranging from 20 percent to 40 percent depending on the number of shifts.

Raw materials and piece-parts required for manufacture of electronic components are covered under concessional rate of import duties, some attract no duty, some 15 percent and some others 40 percent. For importing machinery for setting up
new electronics project under "Project Import" or for effecting substantial expansion, the rate of duty applicable for Electronics Industry. Import duty on parts (Other than those containing electronic components) of computer peripherals has been reduced. The import duty on certain types of peripherals such as line printers, card readers, card punchers, plotters, digitizers etc. has been reduced. Computer software, imported in source code, will be charged with no import duty. Import duty on colour/black & white television sets has been lowered. Excise duty on certain electronic component has been waived off.

Electronics Industry will normally be allowed to set up in any of the permissible locations i.e. outside standard urban area of a city having a population of 1 million or above and outside the municipal limits of a city having population of half a million or more. However, as per a recent notification issued by Government of India, Computer Software Industry has been exempted from all locational constraints. Significant performances were recorded by consumer electronics and electronic component sectors.

The Software Technology Park (STP) scheme, initiated for inviting higher investment from entrepreneurs involved in software development and exports, continued to discharge its functions with a high degree of success. The Electronic Hardware Technology Park (EHTP) scheme has also introduced.

The electronics industry has received a further boost by the recently announced removal of consumer electronics from the category of items subject to compulsory licensing. The industry is experiencing widespread diversification through extensive applications in new areas viz. process control, industrial electronics, information technology, security and telecom. Several foreign collaborations have been established in the sector with prominent multi-national corporations (MNCs) setting up production/design base in the country for exploiting the advantages of cost-effective human resources and other inputs. There has been significant growth in investments in computers, consumer electronics and telecom sectors. Besides, a wide base for R&D and design and development in electronics has been built up as well.
4.06 Industries which require prior regulatory clearance

Indian firms can set up all types of industries except for some which are reserved areas for government, and some others which require prior licensing approval is given in table 4.03. In addition there are several items reserved for manufacture by the small-scale industrial units, not open for large industry unless these have export orientation.

Table 4.03

List of industries reserved for public sector and licence compulsory

Reserved for public sector

- Arms and ammunition and allied items of defense equipment, defense aircraft and warships
- Atomic energy
- Coal and Lignite
- Mineral oils
- Minerals specified in the Schedule to the Atomic Energy (Control of production and use) Order, 1953
- Railway transport

List of industries for which industrial licensing is compulsory:

- Petroleum (other than crude) and its distillation products
- Distillation and brewing of alcoholic drinks
- Sugar
- Animal fats and oils
- Cigars and cigarettes of tobacco and manufactured tobacco substitutes
- Asbestos and asbestos-based products
- Plywood, decorative veneers and other wood based products such as particle board, medium density fiber board, block board
- Chamois leather
- Tanned or dressed furskins
- Paper and newsprint except bagasse-based units
- Electronic aerospace and defense equipments all types
- Industrial explosives including detonating fuse, safety fuse, gunpowder, nitro-cellulose and matches
- Hazardous chemicals
- Drugs and pharmaceuticals(according to Drug Policy)
4.07 Industrial policy in Maharashtra

Maharashtra has been the leader on industrial front of India. It has always been the endeavour to develop sustaining industrial growth, facilitate speedier flow of investment by creating conducive industrial climate in the State. Maharashtra has developed a solid base of industrial infrastructure, strong Human Resources, and sustaining and diverse industrial base. This was possible because Maharashtra pioneered several policy initiatives, since inception, in diverse fields.

The Industrial Policy of Maharashtra 1993 mainly aimed at simplification of procedures and rationalization of rules and the Industry, Trade & Commerce Policy 1995 aimed at empowering people at all levels with special focus on infrastructure development with private sector participation. A comprehensive Information Technology Policy was announced in 1998, keeping in view the importance of the IT sector for employment generation, and its implications for industry and trade, the financial sector, media and entertainment, and health, education and research.

In the phase of second generation economic reforms, the objective of Maharashtra Industrial Policy 2001 is to further accelerate the flow of investment in industry and infrastructure, promoting IT, high-tech, knowledge based and biotech industries, augmenting exports from the industrial units in the State and creating large scale employment opportunities duly ensuring environmental planning.

The approach of the policy is to ensure sustainable industrial growth by introducing structural changes in the wake of national consensus to discontinuing sales tax based incentives, for development of high-tech and other industries, creating conducive industrial climate in the State, besides fiscal incentives, thereby giving sharp competitive edge to the State's industry.

Existing Promotional Scheme:

Maharashtra pioneered a package of incentives for the dispersal of industries and the development of backward areas, along with an Industrial Location Policy which sought to restrict industrialization in the Mumbai Metropolitan Region to
non-polluting and high-technology sectors as a measure of industrial, urban and environmental planning. The main component of successive Package Schemes of Incentives was the grant of Sales Tax benefits to industries in developing and backward regions of the State. The revised Package Scheme of Incentives announced in 1993 was last extended up to 31st March, 2001, excluding the erstwhile Sales Tax benefits in pursuance of a national consensus.

New Package Scheme of Incentives:

The State has entered into the phase of second generation economic reforms, with emphasis on structural changes in addition to fiscal incentives for the promotion of industry and balanced regional growth. This has coincided with increasing international competition and rapid technological changes, which pose new challenges for industry. The Industrial Policy 2001 set out below has been formulated in this context, keeping in view the objectives of sustained growth and employment, and an expansion in livelihood opportunities. The components of the new Package Scheme of Incentives contained in this Policy will be operative from 1st April, 2001 upto 31st March, 2006:

New package scheme of incentives includes are as follows:

- **Exemption from Electricity Duty**: New industries establishing in C, D, and D+ areas and No-Industry District(s) will be exempted from payment of Electricity Duty for a period of 15 years. In other parts of the State, 100% Export Oriented Units (EOUs), Information Technology (IT) and Bio-Technology (BT) units, and industries setting up in Special Economic Zones (SEZs), and Electronic Hardware Technology Parks will be exempted from payment of Electricity Duty for a period of 10 years.

- **Waiver of Stamp Duty and Registration Fees**: At present, IT units in public IT Parks are exempted from Stamp Duty and Registration fees upto 31st March, 2006. Now all new industrial units (including IT and BT units) and expansions, will be exempted from payment of Stamp Duty and Registration fees up to 31st March, 2006 in C, D and D+ areas and No-Industry District(s). However, 50% of the Stamp Duty and Registration
fees will be waived for IT units set up in other IT Parks in talukas/areas in the State in "A" and "B" categories.

- **Octroi Refund:** The scheme of refund of octroi provided under the Package Scheme of Incentives, 1993 will be included in the new Scheme up to 31-3-2006 on the same pattern. Where account-based cess or other levy is charged instead of or in lieu of octroi, such charge will also be eligible for refund as in the case of octroi.

- **Incentives to SSI units:**

  1. **Special Capital Incentives for SSI units:** New small-scale industries (including IT and BT units) setting up in different parts of the State will be eligible for Capital Subsidy as follows:

     | Taluka/Area Classification | Ceiling as percentage of fixed capital investment | Monetary ceiling (Rupees in lakhs) |
     |---------------------------|-------------------------------------------------|----------------------------------|
     | A                        | -                                               | -                                |
     | B                        | -                                               | -                                |
     | C                        | 20                                              | 10                               |
     | D                        | 30                                              | 20                               |
     | D+                       | 35                                              | 25                               |
     | No Industry District     | 40                                              | 35                               |

     The subsidy will be disbursed in equal annual installments over 5 years. Existing SSI and small-scale IT and BT units will be eligible for 75% of the subsidy admissible as above for expansion, diversification or modernization involving additional investment to the extent of 25% or more.

  2. **Interest Subsidy to new textile, hosiery and knitwear SSI units:**

     New textile, hosiery and knitwear small-scale industries setting up in different parts of the State will also be eligible for Interest Subsidy on the interest actually paid to the financial institution/bank on the term loan for creating fixed capital assets, equal to the interest payable at 5% per annum as stated in the
The table below. The monetary ceiling will be applicable for the complete period of eligibility.

<table>
<thead>
<tr>
<th>Taluka/Area Classification</th>
<th>Monetary ceiling limit (Rs. in lakhs)</th>
<th>Maximum period in years</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>B</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>D</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>D+</td>
<td>25</td>
<td>6</td>
</tr>
<tr>
<td>No Industry District</td>
<td>35</td>
<td>7</td>
</tr>
</tbody>
</table>

- **Development of non-conventional energy**: In order to give an impetus to the development of non-conventional energy, such projects will be eligible for benefits under the new Package Scheme of Incentives.

- **Exemption from Sales Tax for Khadi & Village Industries**: 24 khadi and village industries are exempt from Sales Tax up to certain limits on annual turnover. Considering the potential of this sector for employment generation and rural industrialization, Sales Tax will also be waived in respect of the 72 remaining industries for their annual turnover up to Rs.20.00 lakhs. This concession would be available to khadi and village industry units registered with and assisted by the Maharashtra State Khadi and Village Industries Board.

- **Sales Tax on IT products**: Up to 31st March, 2006, the Sales Tax rates on IT products would be maintained at the level of the minimum floor rates, wherever applicable. No turnover tax, additional Sales Tax, surcharge or any other additional levy related to Sales Tax shall be applied to IT products.

- **Sick SSI units**: Issues relating to the rehabilitation of sick SSI units are reviewed in the State-Level Inter Institutional Committee and Sub Committee of the Reserve Bank of India, and in the District Level Committees which have been set up as an adjunct of the Zilla Udyog Mitras. Sick SSI units taken up for nursing by the banks and financial institutions are at present eligible for re-schedulement of arrears of Government and electricity dues, to be repaid in 36 monthly installments at 13% interest. The interest rate on the rescheduled arrears will now
be reduced to 10%, in all except 'A' areas of the State. The repayment of such arrears would be allowed in 60 monthly installments.

- **Stamp Duty on Corporate Restructuring**: The stamp duty for demerger of companies as defined under section 2(19-AA) of Income Tax Act, 1961 will be made applicable on lines of the stamp duty structure applicable for amalgamation of companies under every order made by the High Court under section 394 of the Companies Act, 1956.

- **Establishment of IT/BT units on textile mill lands in Greater Mumbai**: While granting permission for the sale of textile mill lands in Greater Mumbai, the lands becoming available to the Maharashtra Housing and Area Development Authority (MHADA) for residential use would also be permitted to be used for the development of IT and BT industries by MHADA itself, or by MIDC.

- **FSI for IT Units**: Twice the admissible Floor Space Index (FSI) is allowed for certain types of IT units setting up in IT Parks promoted by public bodies. Such units are also permitted in No-Development Zones of cities up to FSI of 0.2. Such IT units will now be permitted to establish in No-Development Zones with an enhanced FSI of 1.0.

- **New Industrial Townships**: Maharashtra pioneered the establishment of institutions of democratic decentralization and local self-governance several decades ago. More recently, these concepts were extended through statutory amendments to enable the establishment of independent Industrial Townships. In the first phase, self-governing Industrial Townships with the power to raise resources and determine their application will be established in industrial areas being developed by MIDC at twelve locations across the State, i.e. at Vile-Bhagad (Raigad), Airoli (Thane), Talegaon (Pune), Hinjewadi - Man (Pune), Shendre (Aurangabad), Additional Latur (Latur), Nandgaon Peth (Amravati), Additional Yavatmal (Yavatmal), Tadali (Chandrapur), Butibori (Nagpur), Additional Sinnar (Nashik) and Nardhana (Dhule). The industrial townships so set up will pay 25% of their revenue to the concerned Gram Panchayat (s) or local bodies for the initial period of 5 years.
• **Special Economic Zones:** The establishment of Special Economic Zones has been allowed under the recent policy of Government of India. India's most successful Export Processing Zone (SEEPZ), which was promoted by the State Government at Mumbai nearly three decades ago, has been converted into one of the country's first Special Economic Zones. Another Special Economic Zone is being developed by the City and Industrial Development Corporation (CIDCO) at Dronagiri, near the Jawaharlal Nehru Port. All the concessions, benefits and facilities extended to such Special Economic Zones promoted by public bodies will also be extended to Special Economic Zones set up by other parties. The establishment of Special Economic Zones at Aurangabad and Nagpur will also be proposed to the Government of India.

• **Specialized Industrial Areas:** In the last few years, specialized industrial infrastructure has been developed by State agencies for various sectors, including Information Technology, leather, chemicals, etc. More recently, the establishment of textiles and food processing zones have been taken up. Taking into account the potential and requirements of agro-industry in different parts of the State, MIDC will set up new complexes for this sector, including 'Grape Wine Parks' at Nashik and Sangli, 'Orange City Park' for orange processing, Floriculture Complexes and Biotechnology Parks at suitable locations.

• **Promotion of Education and Research Institutions:** Educational and research institutions of international or national standards, including world-class business education institutions, would be provided land in industrial areas/estates at nominal or concessional rates.

• **Captive Power Generation:** Captive power generation is permitted for industries throughout the State in respect of IT units, and in the case of co-generation, hydro-electric power and non-conventional energy. Other types of captive power generation are at present permitted in respect of new industries in D+ and tribal areas.

• **Gas Cooperation Agreement:** Gas is an important fuel and raw material for industry. To facilitate the planned development of gas supply infrastructure in the State, the Gas Authority of India Limited (GAIL), MIDC and the Maharashtra
Petrochemicals Corporation Limited (MPCL) have recently entered into a Gas Cooperation Agreement.

- **Labour Laws and Procedures:** The State Government has initiated a review of labour laws and procedures, including Central statutes, to enable industry and labour to meet the new economic challenges.

- **Film Industry:** The film industry has an important position in the economic and social life of Maharashtra, and Mumbai is the entertainment capital of the country. The Central Government has accorded industry status to the film sector. Keeping in view the potential for further development and employment generation in this sector, Minister (Industries) will have deliberations with representatives of the film industry for possible assistance from the State Govt.

**Single-Window Clearance**

The state government has realised the need for a single window clearance and elimination of multiple points in the approval process for investment.

In a stated policy objective, at selected locations the government has, on a pilot basis, created an administrative nucleus of officers from different departments involved in setting up industrial units. This core group will be vested with necessary powers and be physically present at one place at the same time while processing investment proposals, to ensure synchronisation of the approval process with the implementation process.

The core group will include representatives from the Industries Department, State Electricity Board, Sales Tax Department, Factory Inspector, Labour Department and Pollution Control Board, in order to ensure time-bound clearances are made available under a single window.

**4.08 Industrial policy in Gujarat**

The main objective of Gujarat Industrial Policy – 2000 is to achieve sustainable industrial development. The policy includes objectives like making the State more attractive to improve flow of investment in industrial sector, promoting IT,
Hitech and knowledge based industries; improving exports from industrial units of the State; encouraging development of small scale industries and service sector industries; environment protection and promoting industries in backward areas

In the new industrial policy announced by the Government of Gujarat, emphasis is laid on requirements of creating more employment opportunities in industrial, commercial and service sectors to accelerate the flow of industrial investment. The state Government intends to develop infrastructure and social amenities on a large scale to make the state a center of attraction for industrialists and entrepreneurs. When the sale tax incentive schemes have come to an end, the industries will get adequate investment opportunities, if adequate and qualitative facilities are made available at one place. The Industrial Development Corporation of the state Government is already establishing such estates.

**Industrial park incentive scheme**

This is to encourage private sector for investment in industrial park sector. In view of these, Government has introduced a specific scheme for establishment of Industrial Parks by private sector.

Keeping this in view, Government has decided to implement an incentive scheme for setting up of Industrial parks by private sector and creating employment opportunities, apart from the industrial estates being set up by Gujarat Industrial Development Corporation. With this approach, the Government has decided to implement a scheme of giving incentives as mentioned below for setting up employment-oriented industrial parks, high-tech parks, investment-oriented parks and trade centers.

**Medium and Large Industries – Subsidy Scheme 2000**

The state government in the new industrial policy has considered giving subsidy on the expenditure incurred for developing infrastructure required for setting up medium and large scale industrial projects. This scheme will come into force from 15/11/2000

Large and medium industries are generally set up in industrial estates or rural areas. Infrastructure facilities developed in rural areas are still limited. A scheme
to provide subsidy on expenditure made in developing infrastructure has been introduced so that medium and large industries are set up in the rural areas. The scheme will include Cost of land, Expenditure of transmission line for electric connection, Approach road connecting the project, etc.

The subsidy will be given on the basis of 25% of the total expenditure required for above mentioned infrastructure facilities up to a maximum limit of Rs. 100 lakhs. However if the expenditure incurred on infrastructure facilities forms a part of rural linkage project, the limit of subsidy on the basis of 25% of the cost will be up to a maximum of Rs. 250 lakhs.

Salient features of Industrial Policy

The approach in the industrial policy is to make industries globally competitive and make Gujarat attractive for both internal as well as foreign investment. The industrial policy of the State covers following strategies and provides incentives.

The industrial policy of the State covers following strategies and provides incentives:

• Interest Subsidy to Small Scale Industry

The State Government has accorded priority for development of small scale industries. A new scheme has been introduced to provide interest subsidy at the rate of 5% per annum for 5 years period up to a maximum of Rs. 25 lakhs to all industrial units coming up in the State. Existing units carrying out expansion, diversification will be offered interest subsidy at a rate of 3% per annum up to a maximum of Rs. 15 lakhs. Alternatively, self financed new units will be offered subsidy at a rate of 10% of fixed capital investment up to a maximum of Rs. 10 lakhs.

• Cluster Approach

The State Government intends to strengthen the industrial clusters developed at different locations with the involvement of Industries Associations of the area and R&D institutions. Assistance will be provided for establishing common facilities covering quality improvement, technology upgradation, market promotion and technical skill. Financial assistance up to Rs. 5 crore will be considered per cluster.
• **Assistance for Quality Certification**

The State Government accords high priority for quality improvement. Assistance will be provided to industrial units obtaining quality Certification from approved institutions/research laboratories, at the rate of 50% of the expenditure upto a maximum of Rs. 2 lakhs.

• **Market Promotion**

Market promotion activities like Buyer Seller Meets, Trade Fair etc. will be encouraged. Common purchase policy will be introduced for purchase of items manufactured by small scale units of the State. A booklet incorporating items required by State Government Corporations/Boards and large companies will be published for the benefit of small scale industries.

• **Consultancy Assistance**

Consultancy Cells will be established by CED in coordination with Management Institutions in cities covering Ahmedabad, Vadodara, Bhavnagar, Rajkot and Surat, with a view to providing guidance and assistance to small scale industrial units for expansion, modernisation, diversification, marketing of products etc.

• **Step-up Projects – Self employed**

CED has introduced a programme to upgrade cottage and tiny industrial units into small scale through expansion/ diversification.

• **Interest Subsidy to Educated Unemployed in Service Sector**

The service sector industries will be encouraged as part of industrial activities. An elaborate list will be published covering activities like technical consultancy, port-related activities, IT related activities, tourism activities and similar other activities. Assistance will be provided by way of interest subsidy at the rate of 5% for first 3 years upto a maximum limit of Rs. 5 lakhs to educated unemployed youths for establishing service industry.
• **Infrastructure Assistance to Medium and Large Industries**

A scheme will be introduced to provide assistance to meet partly the cost of infrastructure like land, power connection, water facilities, environment protection, construction of approach road etc. to medium and large industrial projects coming up in the state in rural areas. The assistance will be considered at the rate of 25% of the infrastructure cost up to a maximum of Rs. 100 lakhs. The financial assistance will be enhanced up to Rs. 250 lakhs, in case of linkage facilities extending to rural areas. The medium and large industries will also be offered incentives for obtaining quality certification.

• **Sales Tax Incentives to existing industrial units for diversification/modernisation**

The State will consider extending sales-tax benefits to existing eligible industrial units enjoying incentives approved in earlier schemes, for new products because of diversification or modernisation in their existing plant.

• **Technology Upgradation**

The State Government has accorded high priority for upgradation of technology and modernisation by industrial units. The Research and Development Institutions set up in the State will be strengthened and will be encouraged for taking up technology upgradation programme in specific industrial clusters. Encouragement will be given to get accreditation with International Quality Testing Agencies in order to make them internationally repute. Innovations from small enterprises and individuals will be encouraged. The institutions set up in this regard will be supported. The Technology Cell (TBIIP) set up in iNDEXTb with the help of UNIDO will be strengthened.

• **Assistance for Patent Registration**

A Facilitation Cell will be opened to assist entrepreneurs for Patent and Intellectual Property Right (IPR) provisions. The industries as well as R&D institutions will be encouraged for filing patent on their research. Assistance will be provided at the rate of 50% of expenses in this regard up to a maximum of Rs. 5 lakhs.
• **Promotion of Specific Industrial Sectors**

The State Government will encourage development of specific industrial sectors like agro and food processing industries, mineral based industries, electronics and information technology, engineering ancillary industries, textile including garments, gems and jewellery, pharmaceuticals and petrochemical downstream and plastic processing industries. Assistance will be provided for creating necessary infrastructure facilities as well as research and development activities.

• **Rehabilitation of Sick Industrial Units**

The State Government has introduced Gujarat Board for Industrial Finance and Reconstruction (GBIFR) in 1998 to rehabilitate potentially viable small scale industrial units. The State Govt. has liberalised the existing provisions in order to make the scheme more effective and provide timely assistance for rehabilitation of viable small scale units. Assistance for medium and large units will be considered in consultation with financial institutions to prevent them becoming sick.

• **Entrepreneurship Development**

So far the first generation entrepreneurs including category of women, scheduled castes, scheduled tribes and other backward classes and unemployed youths were offered entrepreneurship training by CED. The training programmes will be reoriented to upgrade entrepreneurial skill of first generation entrepreneurs to face new developments. New schemes will be introduced to impart entrepreneurship training to management graduates, women taking training of specialised skill in professional institutions and workers possessing traditional skills.

• **Infrastructure Development**

Vision 2010 enlists 389 infrastructure projects for implementation with private sector participation. An Action Plan is prepared for timely completion of these projects. An Asset Management Fund has been introduced in GIIC covering Debt Fund and Equity Fund to provide financial assistance for implementing these projects.
• Priority allocation of land

The State Government has accorded priority for allocation of required land to industrial units. The "Deemed NA" concept will be made effective.

• Upgradation of GIDC Estates

The industrial estates set up by Gujarat Industrial Development Corporation (GIDC) will be upgraded. Land will be made available at affordable prices to industrial units. GIDC Notified Areas will be given more autonomy and empowerment. Assistance will be provided for development of infrastructure facilities in industrial areas developed in the periphery of cities and Industrial Parks coming up near port locations.

• Assistance for setting up Industrial Parks

The State Government will encourage setting up of Industrial Parks, high tech, technology park through private sector investment. Assistance will be offered as subsidy for capital investments.

• Assistance for desalination plants

A new scheme will be introduced for providing assistance to desalination plants set up by industrial units and as common facilities.

• Training Institutes in Hi-tech areas

The State will promote training institutions of international repute to be set up by large industrial houses in the areas like Information Technology, biotechnology, marine engineering etc.

• Critical Infrastructure Fund

The State Government has introduced Critical Infrastructure Fund in order to provide assistance to specific infrastructure requirements of large industrial estates/ large industrial projects. Financial assistance will be offered on case to case infrastructure requirement in industrial area. The proposals will be approved by High Level Committee headed by Hon’ble Minister of Industry for quick start.
and expeditious implementation. The project may be provided assistance upto 50% of investment on case to case basis.

- **Environment Protection**

Pollution control and environment protection has been accorded priority. A scheme has been introduced for assistance in the form of cash subsidy to Common Effluent Treatment Plant, disposal of treated effluents, development of sites for solid waste disposal, clean production center, etc. at the rate 25% of the investment made. A new scheme of interest subsidy is introduced for providing assistance to industrial units undertaking environment protection measures. Procedures for environment clearances will be simplified.

- **Backward Area Development**

The State Government intends to introduce new strategy for backward area development. Detailed studies will be carried out on each of the identified industrially backward talukas. A specific industrial development programme will be planned. Besides, industrial units coming up in identified backward talukas will get additional incentives at the rate of 25% under all the schemes.

- **Export Promotion**

The State will encourage export of products manufactured by industrial units in the State. Setting up of Export Park, 100% EOU’s, Inspection Agencies for export products etc. will be encouraged. Air Cargo Complex at Ahmedabad will be strengthened and new such Complexes will be opened. Setting up of Common Facilities Center or World Trade Centres will be encouraged.

- **Trade and Market Development**

Trade and Market Development will be given specific importance as it helps industrial growth. Setting up of Trade Centres will be encouraged as part of industries promotion policy.
• **Industrial Finance**

Availability of industrial finance is important for growth of industries in the State. The financial assistance schemes introduced by GSFC and GIIC will be reoriented as per the requirement. New Venture Fund Scheme will be introduced by GSFC. A new approach of providing financial guarantee from consortia will be encouraged. One such scheme has been introduced by SIDBI. Concerted efforts will be made to pursue commercial banks, cooperative banks and SIDBI to further activise their lending operations.

• **Responsive Administration**

Gujarat is known for better response mechanism and monitoring of projects under implementation. These efforts will be further strengthened. The computerisation programme introduced in District Industries Centres (DICs) and Industries Commission will be further accelerated. A coordination mechanism will be introduced between State and Central Government to address any adverse impact of Central policies in industrial growth.

### 4.09 Indicators of industrial growth in India

Industrial growth in India after the liberalisation of industrial policy in 1991 will be studied while considering the industrial contribution to GDP, Industrial entrepreneur memoranda filed to set up industrial unit, terms of trade ratios (agriculture & industry), index of industrial production and sectorwise industrial growth.

#### 4.9.01 Industrial Enterprenuer Memoranda filed & implemented

Table 4.04 given below indicate the Industrial Entrepreneur Memoranda (IEM) filed with Ministry of Industry for setting of industrial unit and implemented between August, 1991 and June 2001.
### Table 4.04

**Industrial Entrepreneur Memoranda filed & implemented**

(Amount in crore)

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>I E M FILED</th>
<th>I E M IMPLEMENTED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NO.</td>
<td>AMOUNT</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>8587</td>
<td>200720</td>
</tr>
<tr>
<td>Gujarat</td>
<td>5609</td>
<td>151313</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>3747</td>
<td>55675</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>3832</td>
<td>65118</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>2774</td>
<td>103974</td>
</tr>
<tr>
<td>Other states</td>
<td>18078</td>
<td>344288</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>42627</td>
<td>921088</td>
</tr>
</tbody>
</table>


The above table indicates that the IEM application filed with the Ministry of Industry for the period from Aug, 91 to June 01 was 42627 applications and Rs.921088 crore in value terms. IEM filed for investment in Maharashtra was highest in number and value terms and followed by Gujarat. IEM filed for Maharashtra was 8587 application with the investment plan Rs. 200720 crore and for Gujarat was 5609 IEM filed with investment plan Rs. 151313 crore during the same period. IEM filed for investment in Andra Pradesh was 2774 application with investment plan Rs. 103974 crore.

Out of total IEM investment plan application in value terms, Maharashtra has contributed 21.8 %, Gujarat 16.4 %, Andra Pradesh 11.3 %, Uttar Pradesh 7.1% and Tamil Nadu 6 %. This indicates that this five state has garnered the application for investment to the extent of 62.6%.

However the IEM implemented during the same period was only 17.9% in value terms ie Rs. 164907 crore and 9.8 % in number of application ie 4197 number of application. Implementation percentage of IEM in value term was highest in Jammu & Kashmir 99 % followed by West bangal 83 %, Chandigarh 57 %,
Figure 4.01

Shows Industrial Entrepreneur Memoranda Filed - Statewise
Period Aug. 1991 to June 2001 - % age of total
Daman 53 % and Hariyana 32 %. Where as in Maharashtra and Andra pradesh IEM implemented was 11.3 % and 12.3 % respectively during the same period.

4.9.02 Terms of Trade ratio

The term of trade between the agriculture and industry over the years is important indicator of the nature of growth process in the economy. In simple terms, term of trade measures the ratio of agricultural prices to industrial prices. A movement in favour of agriculture means the farmer is getting better price for his produce relative to the industrial goods he can buy. Table 4.05 indicates the term of trade index and corporate saving as % of GDP.

Table 4.05

Terms of Trade Index & Corporate saving as % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Terms of trade Index</th>
<th>Corporate saving as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>97.2</td>
<td>2.7</td>
</tr>
<tr>
<td>1991-92</td>
<td>104.3</td>
<td>3.1</td>
</tr>
<tr>
<td>1992-93</td>
<td>101.3</td>
<td>2.7</td>
</tr>
<tr>
<td>1993-94</td>
<td>100</td>
<td>3.5</td>
</tr>
<tr>
<td>1994-95</td>
<td>103.4</td>
<td>3.5</td>
</tr>
<tr>
<td>1995-96</td>
<td>103.3</td>
<td>4.9</td>
</tr>
<tr>
<td>1996-97</td>
<td>109.7</td>
<td>4.5</td>
</tr>
<tr>
<td>1997-98</td>
<td>109.6</td>
<td>4.2</td>
</tr>
<tr>
<td>1998-99</td>
<td>117.7</td>
<td>3.7</td>
</tr>
<tr>
<td>1999-2000</td>
<td>115.9</td>
<td>3.7</td>
</tr>
</tbody>
</table>


Adjusting for the base year of 93-94, the term of trade in India during nineties moved in favour of the industry for couple of years before 1993-94 but thereafter the index turned in favour of agriculture. By 98-99 the index had increased by 17 percent over the base 93-94 level. The index has shown improving trend in favour of agriculture after 1993-94. It has increased to 103.4 in 94-95 and further to 109.7 in 96-97 and 117.7 in 98-99. It has marginally decreased to 115.9 in 99-00.
This has improved in favour of agriculture due to continuous rise in procurement price or minimum support price of agricultural crops set by the government. However, public distribution system sell the products at subsidy through ration shop will lead to increase food subsidy bill and budget deficit. This is also indicated by increase in corporate saving as % of GDP during 1995-96 to 1997-98.

Government policy should increase the purchasing power of rural people not by increase procurement price than cut the industrial price by reduction of import tariff and increase the domestic competition.

4.9.03 Five years plan wise industrial growth

Average annual growth of industry during the five years plan period follows:

Table 4.06

Planwise average annual growth of industry in percentage.

( figure in percentage )

<table>
<thead>
<tr>
<th>Years</th>
<th>5 year plan</th>
<th>Percent – growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-66</td>
<td>III</td>
<td>8.2</td>
</tr>
<tr>
<td>1969-74</td>
<td>IV</td>
<td>4.4</td>
</tr>
<tr>
<td>1974-79</td>
<td>V</td>
<td>6.2</td>
</tr>
<tr>
<td>1978-85</td>
<td>VI</td>
<td>5.9</td>
</tr>
<tr>
<td>1985-90</td>
<td>VII</td>
<td>8.5</td>
</tr>
<tr>
<td>1992-97</td>
<td>VIII</td>
<td>7.0</td>
</tr>
</tbody>
</table>


It has been observed from the above table that average annual growth of industry was 8.2 % during the third five year plan period which has sharply decelerated to 4.4 % during fourth five year plan period. It has accelerated to 6.2 % during fifth plan and marginally decreased to 5.9 % during sixth plan period. It has improved to 8.5 % in seventh plan. Again decreased to 7 % during eighth plan period.
Index of industrial production indicates the growth of industrial output in particular period over the base year production. Table 4.7 indicates the growth of Index of industrial production in percentage.

Table 4.07

<table>
<thead>
<tr>
<th>YEAR</th>
<th>% GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-1992</td>
<td>0.6</td>
</tr>
<tr>
<td>1992-1993</td>
<td>2.3</td>
</tr>
<tr>
<td>1993-1994</td>
<td>6.0</td>
</tr>
<tr>
<td>1994-1995</td>
<td>8.4</td>
</tr>
<tr>
<td>1995-1996</td>
<td>12.8</td>
</tr>
<tr>
<td>1996-1997</td>
<td>5.6</td>
</tr>
<tr>
<td>1997-1998</td>
<td>6.6</td>
</tr>
<tr>
<td>1998-1999</td>
<td>4.0</td>
</tr>
<tr>
<td>1999-2000</td>
<td>6.0 e</td>
</tr>
</tbody>
</table>

Growth rate of industrial production from 1994-95 has been estimated on the basis of the revised IIP base (1993-94 = 100) and those of earlier years IIP base (1980-81 = 100).

Source: Dalal Street Journal, Dec. 1999

According to the above table on IIP, industrial growth exhibited increasing trend from 1991-92 till 1995-96. IIP growth has accelerated from just 0.6 % in 1991-92 to 2.3 % in 1992-93, 6.0 % in 1993-94, 8.4 % in 1994-95 and peak level double digit growth of 12.8 % in 1995-96. This has followed by deceleration to 5.6 in 1996-97 and marginally better 6.6 % in 1997-98. It has further decelerated to 4.0 % in 1998-99. It has improved the growth of 6.0 % in 1999-2000.

The growth in the year 1995-96 may be attributed to ‘pay package effect’ after the acceptance of the fifth pay commission recommendation. Industrial performance of the country has been a matter of great concern after the double digit growth in 1995-96. Lack of optimism in current business environment and present fall in
business confidence along with a global recession had not allowed the Indian industries to increase the productivity and its capacity.

Table 4.08
Index of Industrial Production (IIP) - % of growth
(Figure in % growth)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>% age of IIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2000</td>
<td>6.5</td>
</tr>
<tr>
<td>July 2000</td>
<td>5.0</td>
</tr>
<tr>
<td>Oct. 2000</td>
<td>6.8</td>
</tr>
<tr>
<td>Jan. 2001</td>
<td>4.5</td>
</tr>
<tr>
<td>April 2001</td>
<td>2.6</td>
</tr>
<tr>
<td>July 2001</td>
<td>2.6</td>
</tr>
<tr>
<td>Oct. 2001</td>
<td>2.6</td>
</tr>
<tr>
<td>Dec. 2001</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: CMIE – ETIT ET 500 – March, 2002

The IIP has decreased due to slow down in manufacturing sector such as automobile and its components, cement, steel, fibres, edible oils, paper products etc. The index of Industrial Production (IIP) has recorded a growth of only 2.3% during the April – Dec. 2001 and at the current rate IIP is the lowest growth in 2001-02 since 92-93. The above table shows southward bound direction of IIP growth during Oct. 01 – Dec. 01.

4.9.05 Sectorwise growth rate of industrial production (IIP)

The growth of industrial production – sectorwise in percentage as follows:

Table 4.09
Growth rate (% ) of industrial production - sectorwise
(Figure in % age)

<table>
<thead>
<tr>
<th></th>
<th>94-95</th>
<th>95-96</th>
<th>96-97</th>
<th>97-98</th>
<th>98-99</th>
<th>99-00 e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>8.5</td>
<td>13.8</td>
<td>6.7</td>
<td>6.7</td>
<td>4.4</td>
<td>6.7</td>
</tr>
<tr>
<td>Electricity</td>
<td>8.5</td>
<td>8.1</td>
<td>4.0</td>
<td>6.6</td>
<td>6.5</td>
<td>6.1</td>
</tr>
<tr>
<td>Mining</td>
<td>7.6</td>
<td>9.6</td>
<td>-1.0</td>
<td>5.9</td>
<td>-1.8</td>
<td>-0.3</td>
</tr>
<tr>
<td>Overall</td>
<td>8.4</td>
<td>12.8</td>
<td>5.6</td>
<td>6.6</td>
<td>4.0</td>
<td>6.0</td>
</tr>
</tbody>
</table>

E estimates Source: DSJ Journal, Dec, 1999
Figure 4.02

Shows Growth Rate of Index Industrial Production – Sector wise

In percentage
Figure 4.03

Shows Growth Rate of Index Industrial Production

Quarterly - In percentage
It can be observed that growth rate of industrial production was balanced in 1994-95 as manufacturing, electricity and mining has grown more or less at same rate. In 1995-96 when IIP has increased to 12.8 and growth driver was manufacturing sector and electricity growth had decreased to 8.1%. In 1996-97, IIP was badly effected due to poor performance for electricity and negative growth in mining. Manufacturing sector has also recorded decreased growth during the same year.

IIP has marginally increased in 1997-98 by improvement in growth of mining and electricity. However the manufacturing sector was grown at same level of previous year ie 6.7%.

**Slowdown in IIP**

Weakness in the economy is also reflected in low prices and low interest rates. Inflation rate recorded two decades lows and interest rates touched also low level. While the significant part of explanation for these lows lies in the structural changes in the economy, which pushed down the long term inflation and interest rates structures, they partly reflect the short term phenomenon of lack of economic activities.

The factors that characterise the recent slow down and these are not isolated but reinforced each other.

The first factor came through the typical cyclical process – over enthusiastic investors has created the huge capacity in mid 1990s, leading to lower capacity utilisation levels. The FDI has made investment in manufacturing, engineering, electronic, power and service sector in last 10 years. MNC has increased the capacity in India on anticipation of demand potential in future.

The second factor came through simultanous occurance of some exogenous demand shock as agricultural sector saw two consecutive year (1999-2000) of stagnation and the global economy recession.
The third factors relates to long term phenomenon that is India's confidence in competitive advantage in more open economy situation and about the India's strength to push second generation reforms.

The recovery would be gradual and improvement in external demand & agricultural price will provide better prospect for Indian economy.

4.9.06 Performance of Export zones

Special Economic Zones liberalisation was the core of the EXIM policy for 2002-03. Over the last three years, SEZ has contributed 4% of the total exports and generated net foreign exchange of Rs. 11,984.9 crore during a period.

Table 4.10

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Exports</th>
<th>Imports</th>
<th>Net Forex Earned</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Special Economic Zones</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kandla</td>
<td>1463</td>
<td>408</td>
<td>1415</td>
</tr>
<tr>
<td>Surut</td>
<td>63</td>
<td>46</td>
<td>17</td>
</tr>
<tr>
<td>Seepz</td>
<td>12622</td>
<td>3188</td>
<td>9434</td>
</tr>
<tr>
<td>Kochi</td>
<td>745</td>
<td>471</td>
<td>275</td>
</tr>
<tr>
<td><strong>Export Processing Zone</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noida</td>
<td>2632</td>
<td>1180</td>
<td>1451</td>
</tr>
<tr>
<td>Chennai</td>
<td>1772</td>
<td>317</td>
<td>1455</td>
</tr>
<tr>
<td>Falta</td>
<td>859</td>
<td>223</td>
<td>637</td>
</tr>
<tr>
<td>Vizag</td>
<td>356</td>
<td>347</td>
<td>9</td>
</tr>
</tbody>
</table>


In actual terms between 1998 and 2001, exports from the SEZ were to the order of Rs. 19,968.1 crore as against total exports worth Rs. 5,00,987.2 crore during the same period. SEZ imports during this period were around Rs. 7,983.2 crore resulting the net forex inflow of Rs. 11,984.9 crore.