CHAPTER - II

AN UPDATE ON ECONOMIC REFORM

INDEX OF INDUSTRIAL PRODUCTION (IIP)

2.1 The current index of industrial production (IIP) is based on the year 1993-94=100 (previous series 1980-81=100) and covers 538 items, which is compiled by Central Statistical Organization (CSO). Sector-wise weights and number of items in the IIP (1993-94) are as follows:

Table 2.1 Sector-wise weight and number of items

Sector	Weight (%)	No. of items
Mining	10.47	64 (11.90)
Manufacturing	79.36	473 (87.92)
Electricity	10.17	1 (0.18)
Total	**100.0**	**538 (100.0)**

(Figures in bracket are percentages to total)

2.2 The above 538 items are categorized into 283 Item Groups as per use-based classification, which along with the weights under IIP (1993-94=100) are as follows:

Table 2.2 Number of Item Groups and Weight

Sector	No. of item groups	Weight (%)
Basic Goods	63 (22.26)	35.56
Capital Goods	48 (16.96)	9.26
Intermediate Goods	89 (31.45)	26.51
Consumer Goods	83 (29.33)	28.66
I. Consumer durables	25	5.36
II. Consumer non-durables	58	23.30
Total	**283 (100.00)**	**100.00**

(Figures in bracket are percentages to total)

2.3 Item Group (283) above is a sub-set of total number of 538 items comprising of 281 manufacturing items groups, one mining item group, and one electricity item group. The CSO receives monthly production data from 15 agencies. Data in respect of 209 items, inclusive of 18 SSI items, are directly supplied by DIPP to CSO for the IIP (Table 2.3).

INDEX OF INDUSTRIAL PRODUCTION (IIP)

Table 2.3 Source of Data

Sl. No.	Source Agency	Weight (%)
1.	Deptt. of Industrial Policy & Promotion	51.96
2.	Indian Bureau of Mines	10.47
3.	Textile Commission	12.33
4.	Development Commissioner, Iron & Steel	5.91
5.	DC, SSI	0.65
6.	M/o Petroleum	2.39
7.	Directorate of Vanaspati	1.70
8.	Jute Commissioner	0.59
9.	Railway Board	0.56
10.	Coal Controller	0.012
11.	Central Electricity Authority	10.17
12.	Directorate of Sugar	2.24
13.	Salt Commissioner	0.052
14.	Tea Board	0.076
15.	Coffee Board	0.01

2.4 The IPP is a simple weighted arithmetic mean of production relatives calculated by using Laspeyre's formula:

$$I = \{ \ (WiRi)/ \ Wi$$

Where I is the Index, Ri is the production relative of the ith item for the month in question and Wi is the weight allotted to it.

2.5 Provisional index for a given month is compiled and released by CSO. This index is subsequently revised twice i.e., with the Quick Estimates of IIP for next month and following third month.

2.6 IIP data are available at http://www.mospi.nic.in

Source : Compiled by Office of the Economic Adviser, Ministry of Commerce & Industry, Ministry of Commerce & Industry .

REFORMS IN MINING POLICY

2.7 Minerals are valuable natural resources being finite and non-renewable. They constitute the vital raw materials for many basic industries and are a major resource for development. Management of mineral resources has, therefore, to be closely integrated with the overall strategy of development; and exploitation of minerals is to be guided by long-term national goals and perspectives. In this context the need has been felt to spell out in a statement the different elements of the policy, which has evolved over the years, relating to development of our mineral resources and in regard to areas of concern which have emerged in recent years.

2.8 The country is not endowed with all the requisite mineral resources. It is, therefore, imperative to achieve the best use of available mineral resources through scientific methods of mining, beneficiation and economic utilisation. Simultaneously, it is essential to keep in view the present and future needs of defence and development of the country and strive to ensure indigenous availability of basic and strategic minerals to avoid disruption of core industrial production in times of international strife.

2.9 These aspects constitute the essentials of National Mineral Policy, which has evolved over the years. The policy also emphasises certain new aspects and elements like mineral exploration in the sea-bed, development of proper inventory, proper linkage between exploitation of minerals and development of mineral industry, preference to members of the Scheduled Tribes for development of small deposits in Scheduled Areas, protection of forest, environment and ecology from the adverse effects of mining, enforcement of mining plan for adoption of proper mining methods and optimum utilisation of minerals, export of minerals in value added form and recycling of metallic scrap and mineral waste.

2.10 Management of mineral resources is the responsibility of the Central Government and the State Governments in terms of Entry 54 of the Union List (List I) and Entry 23 of the State List (List II) of the Seventh Schedule of the Constitution of India. The Mines and Minerals (Regulation and Development) Act, 1957 lays down the legal frame-work for the regulation of mines and development of all minerals other than petroleum and natural gas. The Central Government have framed the Mineral Concession Rules 1960 for regulating grant of prospecting licences and mining leases in respect of all minerals other than atomic minerals and minor minerals. The State Governments have framed the rules in regard to minor minerals. The Central Government has also framed the Mineral Conservation and Development Rules, 1988 for conservation and systematic development of minerals. These are applicable to all minerals except coal, atomic minerals and minor minerals.

2.11 The Central Government in consultation with the State Governments, shall continue to formulate the legal measures for the regulation of mines and the development of mineral resources to ensure basic uniformity in mineral administration and to ensure that the development of mineral resources keeps pace, and is in consonance with the national policy goals. The regulation of mines and development of mineral resources in accordance with the national goals and priorities shall be the responsibility of the Central and State Governments. The basic objectives of the mineral policy in respect of minerals shall be as follows:

- to explore for identification of mineral wealth in the land and in off-shore areas;
- to develop mineral resources taking into account the national and strategic considerations and to ensure their adequate supply and best use keeping in view the present needs and future requirements;
- to promote necessary linkages for smooth and uninterrupted development of the mineral industry to meet the needs of the country;
- to promote research and development in minerals;
- to ensure establishment of appropriate educational and training facilities for human resources development to meet the manpower requirements of the mineral industry;
- to minimise adverse effects of mineral development on the forest, environment and ecology through appropriate protective measures; and
- to ensure conduct of mining operations with due regard to safety and health of all concerned.

Source: Ministry of Mines/Web site.

HIGHLIGHTS OF UNION BUDGET 2008-2009

2.12 Excise Duty elimination/reduction on specified labour intensive products:

It is proposed that central excise duty may be completely eliminated on the following items: Leather Footwear and Garments and Plastic Footwear.

It is also proposed that central excise duty may be reduced to 4% on the following items: Safety Matches, Casting and Forgings, Utensils made of Metals, Wooden Furniture and Fixtures, Steel Furniture, Doors, Windows, Ventilators, Rolling Shutters-Metallic, Watches of all types, Locks of All types, Auto Components, Builders' Hardware, Sanitary Fittings and Ceramic Products including Tiles.

Sector wise proposals are as follows:

2.13 Leather:

i. Complete exemption for all kinds of footwear.

ii. Nil central excise duty/CVD on Shoe lasts.

iii. Exemption from excise duty on the specified raw materials/inputs required for manufacturing footwear components.

iv. Excise duty exemption on specified machinery and equipments used in the leather and leather products sector.

v. Excise Duty and Customs Duty Exemption on Spare parts of boot and shoe manufacturing machinery.

vi. Excise duty Exemption on Specified footwear components falling under H. Nos. 640620000.

2.14 Tyres and Tubes:

Excise duty on radial truck tyres should be reduced from 16 to 8%.
Complete exemption from customs duty on specified raw materials for Tyre Industry.

2.15 Cement

Uniform advalorem excise duty of 12% on cement with abatement of 35% on MRP.
Elimination of customs duty on pet coke and coal.

2.16 Paper:

Customs Duties exemption on specified raw materials: Wood, pulp, wood chips and bamboo.

Customs duty exemption on Waste Paper under actual user licence.

Excise Duty exemption on Recovered Waste and Scrap Paper.

Excise duty reduction from the existing 12% to 4% on paper manufactured from agro-residues and waste paper. Thismay be done uniformly irrespective of the capacity.

Customs Duty exemption on State of the art printing and allied machinery and equipment that are not manufactured in India.

HIGHLIGHTS OF UNION BUDGET 2008-2009

2.17 Food & Articles of Wood:

Concessional excise duty of 4% on all items falling under Chapter 44.
Exemption from import duty on timber.

2.18 Consumer Electronics:

Customs duty on glass parts used for manufacture of colour picture tubes may be reduced to 5% from 10%.

2.19 IT/Computer Hardware Industry:

Elimination of excise duty on components of computers and also elimination of excise duty on computers.

2.20 Foundry Industry:

Eliminate customs duty on ferrous scrap and pig iron.

Source : Compiled by Office of Economic Adviser, Department of Industrial Policy and Promotion, Ministry of Commerce & Industry.

FOREIGN DIRECT INVESTMENT

2.21 The role of Foreign Direct Investment (FDI) in the upgradation of technology, skills and managerial capabilities is now well accepted. Additional investments, over and above the available domestic resources help in providing much needed employment opportunities.

FDI Policy

- Government has put in place a liberal and investor-friendly policy for FDI under which FDI upto 100% is permitted on the automatic route in all sectors/activities except the following:

  (i) Where more than 24% foreign equity is proposed to be inducted for manufacture of items reserved for small-scale sector;

  (ii) Proposals where the foreign investor has an existing joint venture/ technical collaboration/ trademark agreement in the 'same' field of activity and attracts the provision of Press Note 1 (2005 Series).

- FDI is prohibited only in 4 activities viz. Retail trading (except Single Brand product retailing); Gambling & Betting; Lottery; and Atomic Energy.

2.22 Major Policy Initiatives (during 2007)

a. Changes Made in 2007

- A comprehensive review of the FDI policy undertaken, for the first time in the last 15 years, with a view to consolidate the liberalization already effected and to further rationalize the FDI policy governing various activities.

- As a result of this exercise, the following major policy changes have been notified vide Press Note: 4 (2006 Series):

i. **Change of route -** FDI has been allowed up to 100% under the automatic route for distillation and brewing of potable alcohol; manufacture of industrial explosives; manufacture of hazardous chemicals; manufacturing activities located within 25 km of the Standard Urban Area limits requiring Industrial license under the IDR (Act), 1951; setting up of Greenfield airport projects; laying of Natural Gas/LNG pipelines, market study & formulation and Investment financing in the Petroleum sector; and cash & carry wholesale trading and export trading.

ii. **Increase in equity caps –** FDI caps have been increased to 100% and automatic route extended to coal & lignite mining for captive consumption; setting up of infrastructure relating to marketing in Petroleum & Natural Gas sector and exploration and mining of diamonds and precious stones.

iii. **FDI in new activities -** FDI has been allowed up to 100% on the automatic route in Power trading and processing and warehousing of coffee and rubber.

iv. **FDI in new activities -** FDI has been allowed up to 51% for 'single brand' product retailing which requires prior Government approval. Specific guidelines have been issued for governing FDI for 'single brand' product retailing.

v. **Removal of restrictive conditions –** Mandatory divestment condition for B2B e-commerce has been dispensed with.

vi. **Procedural simplification –** The transfer of shares by resident to non-resident including acquisition of shares in an existing company has been placed on the automatic route subject to sectoral policy on FDI.

FOREIGN DIRECT INVESTMENT

- **Equity caps on FDI are presently only in limited sectors viz.**

i. **Upto 20% -** FM Radio Broadcasting.

ii. **Upto 26% -** Insurance, Defence production, Petroleum refining in the PSUs; Print and Electronic media covering News & current affairs.

iii. **Upto 49% -** Air Transport Services; Asset Reconstruction Companies; Cable network; DTH; Hardware for uplinking, HUB etc

iv. **Upto 51% -** Single Brand Retailing of products.

v. **Upto 74% -** Atomic Minerals; Private Sector Banking; Telecom services; Establishment & operation of Satellites.

b. FDI Policy in the Agriculture & Plantation Sector:

- Vide Press Note: 4 (2006), Agriculture & Plantations was removed from the list of prohibited sectors for FDI and the activities permitted within these sectors were included in the sector-specific policy.
- As per the present policy, FDI up to 100% is permitted under the automatic route in the under-mentioned activities viz. Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aqua-culture and Cultivation of Vegetables & Mushrooms, under controlled conditions and services related to agro and allied sectors.
- FDI up to 100% with prior Government approval is permitted in Tea plantation subject to the conditions of divestment of 26% equity of the company in favour of an Indian partner/ Indian public within a period of five years; and prior approval of the State Government concerned in case of any future land use change.
- Besides those mentioned in the above two, FDI is not allowed in any other agricultural sector/ activity.

2.23 NRI Investment

The general policy and facilities for FDI are applicable to NRIs as well. In addition, Government has extended some additional facilities to NRIs, which include investment in the real estate and civil aviation sectors up to 100% besides a liberal investment regime on non-repatriation basis.

2.24 FDI Equity Performance During the Year 2007-2008 (up to December 2007)

I. FDI equity inflows of Rs. 51,244 crore (US$ 12.70 billion) were received, during the financial year 2007-2008 (April- December). Only equity component of FDI has been covered in the inflows data and this does not include the reinvested earnings and other components of FDI, which are compiled at the end of the financial year. RBI has released the provisional figure US$ 13.78 billion for financial year 2007-08 (up to November 2007) including the reinvested earnings and other components of FDI.

Under the extant FDI policy, FDI up to 100% is allowed under the automatic route in most sectors/activities, except few where sectoral equity/entry route restrictions have been retained. FDI under the automatic route does not require any approval and only involves intimation to the Reserve Bank of India within 30 days of inward remittances and/or issue of shares to non-residents. As a result, FDI approval statistics do not reflect the investment intentions.

FOREIGN DIRECT INVESTMENT

II. Sector-wise distribution of FDI inflows:

Services sector (financial & non financial) constitute 20.13% of the total FDI inflows followed by housing & real estates (11.66%), computer software hardware (8.86%), Telecommunications (8.26%), construction activities (8.22%), electrical equipments (4.78%), trading activities (4.21%), metallurgical Industries (3.73%), mining industry (3.33%) automobile industry (2.59%). The balance of inflows (24.34%) was accounted for by other sectors.

III. Country-wise distribution of FDI inflows:

FDI from Mauritius accounted for 43.78% of total inflows into the country, followed by Singapore with 10.99%, Japan with 5.13%, U.S.A. with 4.96% & Cyprus with 4.28%

IV. Cumulative Inflows from August 1991 to December 2007:

The cumulative equity FDI inflows since 1991 have been Rs. 2,83,285 crore (US$ 67.33 billion).

V. Financial year-wise FDI inflows:

Table – 2.4 Financial Year-wise FDI inflows

Year (April-March)	Amount of FDI Inflows (Rs. Crore)
1991-92(Aug.-March)	409
1992-93	1094
1993-94	2018
1994-95	4312
1995-96	6916
1996-97	9654
1997-98	13548
1998-99	12343
1999-2000	10311
2000-01	12645
2001-02	19361
2002-03	14932
2003-04	12117
2004-05	17138
2005-06	24613
2006-07	70630
2007-08 (up to December, 2007	51244
Grand Total	**283285**

2.25 Prospects

The advantage of India as an investment destination rest on strong fundamentals, which include a large and growing market; world-class scientific, technical and managerial manpower; cost effective and highly skilled labour; abundant natural resources; a large English speaking population; independent judiciary, etc. This is now recognised by a number of global investors who have either already established a base in India or are in the process of doing so. On going initiatives, such as further simplification of rules & regulations and improvement in infrastructure are expected to provide necessary impetus to increase FDI Inflows in future.

The inflows of FDI would depend on domestic economic conditions, world economic trends, and strategies of global investors. The Government, on its part is fully committed to creating strong economic fundamentals and an increasingly proactive FDI policy regime.

Source: Department of Industrial Policy and Promotion, Ministry of Commerce & Industry.

HIGHLIGHTS OF THE FOREIGN TRADE POLICY (2004-09)

Strategy:

2.26 It is for the first time that a comprehensive Foreign Trade Policy is being notified. The Foreign Trade Policy takes an integrated view of the overall development of India's foreign trade. The objectives of the Foreign Trade Policy are to (i) double India's percentage share of global merchandise trade by 2009; and (ii) act as an effective instrument of economic growth by giving a thrust to employment generation, especially in semi-urban and rural areas.

2.27 e key strategies are (i) Unshackling of controls (ii) Creating an atmosphere of trust and transparency, (iii) Simplifying procedures and bringing down transaction costs, (iv) Adopting the fundamental principle that duties and levies should not be exported, (v) Identifying and nurturing different special focus areas to facilitate development of India as a global hub for manufacturing, trading and services.

2.28 Special Focus Initiatives:

- Sectors with significant export prospects coupled with potential for employment generation in semi urban and rural areas have been identified as thrust sectors, and **specific sectoral strategies** have been prepared.
- Further sectoral initiatives in other sectors will be announced from time to time. For the present, **Special Focus Initiatives** have been prepared for Agriculture, Handicrafts, Handlooms, Gems & Jewellery and **Leather & Footwear sectors.**
- The threshold limit of designated **'Towns of Export Excellence'** is reduced from Rs.1000 crores to Rs.250 crores in these thrust sectors.

2.29 Package for Agriculture:

The Special Focus Initiative for Agriculture includes:

- A new scheme called *Vishesh Krishi Upaj Yojana* has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products.
- Duty free import of capital goods under EPCG scheme.
- Capital goods imported under EPCG for agriculture permitted to be installed anywhere in the Agri Export Zone.
- ASIDE funds to be utilized for development for Agri Export Zones also.
- Import of seeds, bulbs, tubers and planting material has been liberalized.
- Export of plant portions, derivatives and extracts has been liberalized with a view to promote export of medicinal plants and herbal products.

2.30 Gems & Jewellery:

- Duty free import of consumables for metals other than gold and platinum allowed up to 2% of FOB value of exports.
- Duty free re-import entitlement for rejected jewellery allowed up to 2% of FOB value of exports.
- Duty free import of commercial samples of jewellery increased to Rs.1 lakh.
- Import of gold of 18 carat and above shall be allowed under the replenishment scheme.

2.31 Handlooms & Handicrafts:

- Duty free import of trimmings and embellishments for Handlooms & Handicrafts sectors increased to 5% of FOB value of exports.
- Import of trimmings and embellishments and samples shall be exempt from CVD.
- Handicraft Export Promotion Council authorised to import trimmings, embellishments and samples for small manufacturers.

HIGHLIGHTS OF THE FOREIGN TRADE POLICY (2004-09)

- A new Handicraft Special Economic Zone shall be established.

2.32 Leather & Footwear:

- **Duty free** entitlements of import trimmings, embellishments and footwear components for leather industry increased to 3% of FOB value of exports.
- **Duty free** import of specified items for leather sector increased to 5% of FOB value of exports.
- Machinery and equipment for Effluent Treatment Plants for leather industry shall be **exempt from Customs Duty.**

2.33 Export Promotion Schemes:

(a) ***Target Plus***: A new scheme to accelerate growth of exports called '*Target Plus*' has been introduced. Exporters who have achieved a quantum growth in exports would be entitled to duty free credit based on incremental exports substantially higher than the general actual export target fixed. (Since the target fixed for 2004-05 is 16%, the lower limit of performance for qualifying for rewards is pegged at 20% for the current year).

Rewards will be granted based on a tiered approach. For incremental growth of over 20%, 25% and 100%, the duty free credits would be 5%, 10% and 15% of FOB value of incremental exports.

(b) ***Vishesh Krishi Upaj Yojana:*** Another new scheme called *Vishesh Krishi Upaj Yojana* (Special Agricultural Produce Scheme) has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products. Export of these products shall qualify for duty free credit entitlement equivalent to 5% of FOB value of exports. The entitlement is freely transferable and can be used for import of a variety of inputs and goods.

(c) ***'Served from India' Scheme***: To accelerate growth in export of services so as to create a powerful and unique '*Served from India*' brand instantly recognized and respected the world over, the earlier DFEC scheme for services has been revamped and re-cast into the '*Served from India*' scheme.

2.34 Individual service providers who earn foreign exchange of at least Rs.5 lakhs, and other service providers who earn foreign exchange of at least Rs.10 lakhs will be eligible for a duty credit entitlement of 10% of total foreign exchange earned by them. In the case of stand-alone restaurants, the entitlement shall be 20%, whereas in the case of hotels, it shall be 5%. Hotels and Restaurants can use their duty credit entitlement for import of food items and alcoholic beverages.

(d) ***EPCG:***

- Additional flexibility for fulfillment of export obligation under EPCG scheme in order to reduce difficulties of exporters of goods and services.
- Technological upgradation under EPCG scheme has been facilitated and incentivised.
- Transfer of capital goods to group companies and managed hotels now permitted under EPCG.
- In case of movable capital goods in the service sector, the requirement of installation certificate from Central Excise has been done away with.
- Export obligation for specified projects shall be calculated based on concessional duty permitted to them. This would improve the viability of such projects.