

**GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA**

STARRED QUESTION NO:370
ANSWERED ON:17.08.2001
INDUSTRIAL GROWTH
IQBAL AHMED SARADGI;VSM (RETD.) COL. CHOUDHARY

Will the Minister of COMMERCE AND INDUSTRY be pleased to state:

- (a) whether industrial growth during the first quarter of the current fiscal year has posted a very low growth as compared to the corresponding period of last year;
- (b) if so, the month-wise details in this regard;
- (c) the main reasons for the declining trend of industrial growth;
- (d) the steps taken or being taken by the Government to arrest the decline; and
- (e) the extent to which these steps would help to improve the industrial growth during 2001-2002?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF COMMERCE AND INDUSTRY (DR. RAMAN SINGH)

(a) to (e): A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION. NO. 370 FOR 17.08. 2001.

(a) & (b): The industrial growth during the first quarter of the current fiscal year has been 2.1% as compared to 6.1% registered during the corresponding period of the last year. The month-wise details of growth rates of industrial production during the current fiscal year are as under:

Month	2000-01	2001-02
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April	6.5	3.3
May	6.0	1.9
June	5.9	1.5
Apr-June	6.1	2.1

(c): The main reasons for the declining industrial production are as below:

- Slow down in general investment climate.
- Economic slowdown in U.S and other economies of the world.
- Comparatively lower agricultural production in the past two years resulting in lower aggregate demand.
- Poor stock market performance, which has weakened consumer and business confidence.
- Persistence of infrastructure bottlenecks and failure to attract private sector investment in infrastructure projects.

(d)&(e) The Government has taken several policy initiatives to boost industrial production in the country. These measures have been targeted to improve competitiveness of Indian industry in general and to boost aggregate demand, improve infrastructure base, upgrade technology, introduce labour flexibility and encourage FDI flows in particular. Some of the initiatives taken recently are briefly mentioned below:

- Basic custom duty in case of raw materials and intermediate goods has been reduced.
- Excise duty has been rationalized, with one rate of Cenvat and one rate of Special

Excise duty (SED).

- Budgetary provisions under Technology Upgradation Fund Scheme (TUFS) have been raised to speed up the modernization of textile industry.
- Interest rate on small savings has been reduced.
- Public spending out of the current budgetary allocations has been stepped up.
- Proposals have also been made for suitable legislative changes to improve the operating environment for industry.
- RBI has reduced Cash Reserve Ratio and Bank Rate to increase liquidity and reduce the lending cost.
- To remove infrastructure bottlenecks several incentives have been announced for improvement in power, roads, telecommunications and ports.
- In the new EXIM policy care has been taken to ensure level playing field to domestic producers vis-à-vis imports.

All these measures will have positive impact in improving the industrial production provided the agriculture production registers a positive growth rate during the current fiscal year and the global economic situation improves.

SYNOPSIS FOR THE LOK SABHA STARRED QUESTION NO.370 ON INDUSTRIAL GROWTH

(To be answered on Friday, 17th AUGUST 2001)

- Main thrust of the question

Hon`ble Members of Parliament have sought information on whether the industrial growth during the first Quarter of the current fiscal year has posted a very low growth as compared to the corresponding period of the last year; month-wise details in this regard; main reasons for the declining trend in industrial growth; measures taken by the Government to arrest this declining trend; and the extent to which these steps would help improve industrial growth during 2001-02.

The industrial growth during the first Quarter of the current fiscal year 2001-02 has been 2.1% as compared to 6.1% registered during the corresponding period of the last year. The month-wise details of growth rates of industrial production during the current fiscal year are as under:

MONTH 2000-01 2001-02

April	6.5	3.3
May	6.0	1.4
June	5.9	1.5
Apr-June	6.1	2.1

The main reasons attributed for this declining trend in industrial production are as below:

- Slow down in general investment climate.
- Economic slowdown in U.S and other economies of the world.
- Comparatively lower agricultural production in past two years resulting in lower aggregate demand.
- Poor stock market performance has weakened consumer and business confidence.
- Persistence of Infrastructure bottlenecks and failure to attract private sector investment in infrastructure projects.

The government has taken several policy initiatives to boost industrial production in the country. These measures have been targeted to improve competitiveness of Indian industry in general and to boost aggregate demand, improve infrastructure base, upgrade technology, introduce labour flexibility and encourage FDI flows in particular. Some of the initiatives taken recently are briefly mentioned below:

- Basic custom duty in case of raw materials and intermediate goods has been reduced.
- Excise duty has been rationalized, with one rate of Cenvat and one rate of Special Excise duty (SED).
- Budgetary provisions under Technology Upgradation Fund Scheme (TUFS) have been raised

- to speed up the modernization of textile industry.
- Interest rate on small savings has been reduced.
- RBI has reduced Cash Reserve Ratio and Bank Rate to increase liquidity and reduce the lending cost.
- Public spending out of the current budgetary allocations has been stepped up.
- Proposals have also been made for suitable legislative changes to improve the operating environment for industry.
- To remove infrastructure bottlenecks several incentives have been announced for improvement in power, roads, telecommunications and ports.
- To improve the road network in the country, the National Highway Development Project (NHDP) consisting of -the Golden Quadrilaterals and the North-South-East-West Corridor has been launched.
- In the new EXIM policy care has been taken to ensure level playing field to domestic producers vis-à-vis imports

The extent to which these measures will help overcome industrial slowdown will depend upon the improvement in global economic slowdown and the domestic demand.

NOTE FOR PAD

Industrial Scenario

The industrial production has shown a decline during 2001-02 (April-June) as compared to the corresponding period of the previous year. The month-wise growth rates of industrial production are given below: -

MONTH 1999-00 2000-01 2001-02

APR	4.7	6.5	3.3
MAY	7.4	6.0	1.4
JUN	4.8	5.9	1.5
JUL	6.2	5.0	
AUG	7.3	5.0	
SEP	7.3	5.9	
OCT	8.4	6.8	
NOV	3.8	7.4	
DEC	8.1	3.6	
JAN	4.9	4.5	
FEB	8.2	3.0	
MAR	8.3	2.3	
APR-MAR	6.7	5.0	
APR-JUNE	5.6	6.1	2.1

Sectoral growth rates: Manufacturing and Electricity sectors have registered a positive growth rate during June 2001, while Mining sector has registered a negative growth. However, all these sectors have registered a lower growth rate in comparison to the corresponding period of the last year. The comparative growth rates for June 2001 and the corresponding period of last year are given below:

2000-01 June 2000 June 2001 Apr-June `00 Apr-June`01

Mining	3.7	4.4	-3.0	3.6	0.2
Manufacturing	5.3	6.1	1.9	6.4	2.3
Electricity	4.0	5.0	1.4	5.1	2.0
General	5.0	5.9	1.5	6.1	2.1

Use-based classification: Basic goods and Capital goods sectors have registered a negative growth rate during June 2001. The other sectors, namely, Intermediate goods and Consumer goods, have registered positive, but lower growth rates in comparison to the corresponding month of the last fiscal year.

i) Basic goods 3.9 5.1 -0.1 5.4 1.4
ii) Capital goods 1.8 2.9 -7.6 5.2 -4.2
iii) Intermediate goods 4.7 5.0 3.0 4.6 2.7
iv) Consumer goods 8.0 8.9 4.9 8.6 4.3

a) Durables 14.5 24.0 8.8 22.7 7.5
b) Non -durables 5.8 4.1 3.4 4.3 3.2

Two digit classification:

Nine out of seventeen two digit industry groups which have shown positive growth during the month of June 2001 as compared to the corresponding month of the previous year are as below:

- Beverages, Tobacco, and related products (11.3%),
- Wool, Silk and manmade fibre Textiles, except cotton (4.0%)
- Leather and Leather & Fur Products (1.4%)
- Basic chemicals & chemical products (4.1%)
- Non-metallic mineral products (9.9%),
- Basic metals and alloys (1.6%),
- Transport equipments and parts (4.7%) and
- Rubber, plastic, petroleum & coal products (12.1%),
- Other manufacturing products (5.3%)

Eight out of seventeen two digit industry groups, which have shown negative growth during the month of June 2001 as compared to the corresponding month of the previous year, are as below:

- Food products (-1.7%)
- Cotton textiles (-3.2%)
- Jute & other vegetable fibre Textile, except cotton (-23.7%),
- Textile products, including wearing apparel (-1.9 %),
- Wood and wood products; Furniture & fixtures (-13.5%),
- Paper and paper products (-1.7%)
- Metal products & parts, except machinery & equipments (-10.4%),
- Machinery & Equipment other than transport equipment (-1.8%)

? Reasons for slowdown:

The slowdown in the industrial production has been mainly on account of the following reasons:

- Low aggregate demand:

The low agricultural production during the previous two years has reduced rural demand. The growth rate of agriculture production during previous two years is as under:

Year Growth rate (%)

1999-00 -0.7
2000-01 -3.5

- Slowdown in the U.S and other economies of the world:

The global economic slowdown particularly in the U.S has adversely affected Indian exports .The U.S is a major trading partner of India as the share of exports to U.S constitutes 22.8% of the total exports of India. The growth rate of exports during April-June 2001-02 has been merely 1.76% as compared to 28% during the corresponding period of previous year.

- Slowdown in Investment

Depressed demand have resulted in unutilized capacities, lower price realization & profit margins, weakened internal fund generation and which, in turn, have adversely affected investments.

- Poor stock market performance has weakened consumer and business confidence

The substantial wealth erosion caused by the fall in the equities and real estate markets has adversely affected overall consumer and business confidence.

- Persistence of Infrastructure bottlenecks and failure to attract private sector investment in infrastructure projects.

To remove existing infrastructure bottlenecks, huge investments are required from public and private sector, however; so far adequate private sector investment could not be attracted.

? Steps taken by the Government to bring an upturn in the industrial production growth rate

The government has taken several policy initiatives to boost industrial production in the country. These measures have been targeted to improve competitiveness of Indian industry in general and to boost aggregate demand, improve infrastructure base, upgrade technology, introduce labour flexibility and encourage FDI flows in particular. Some of the initiatives taken recently are briefly mentioned below:

- Basic custom duty in case of raw materials and intermediate goods has been reduced. Custom duty in case of cement, clinker, soda ash, cut & polished gems stones, raw material for production of man made fibers & yarns have been reduced.

- Budgetary provisions under Technology Upgradation Fund Scheme (TUFS) have been raised to speed up the modernization of textile sector. The budget provision under TUFS has been raised to Rs 200 crores for the current fiscal year as compared to Rs 50 crores for the previous fiscal year. Under the scheme, modernization of 2.5 lakh plain looms to automatic looms and addition of 50,000 new shuttles is planned.

- Interest rates on savings have been reduced by one and a half percent.

- Further reforms in financial and capital markets have been proposed to introduce greater transparency as well as automaticity in the equity market. Main measures include setting up of Clearing corporations and an Electronic Negotiated Dealing System by RBI. Further seven more Debt Recovery Tribunals are to be set up during 2001. Also, Indian companies investing abroad have been given more freedom to invest and mobilize resources through ADRs/GDRs.

- Repeal of SICA and amendment of Companies Act announced.

- To improve efficiency and competitiveness of Indian industry it is proposed to bring in labour flexibility by amendment of Industrial Disputes Act and Contract Labour Act. With the proposed changes in I.D Act, industrial establishments employing not less than 1000 workers instead of 100 will have flexibility for effecting lay-off, retrenchment and closure. At the same time compensation package has been enhanced. Like wise proposed changes in Contract Labour Act will remove rigidities regarding contract labour and encourage out sourcing of activities. The Government has introduced Competition Bill 2000 to replace MRTPC with the Competition Commission.

- To increase liquidity RBI has announced reduction in Bank rate & Cash Reserve Ratio (CRR). Commercial banks have also been allowed to lend below Prime Lending Rate (PLR) to viable corporate bodies.

- To remove infrastructure bottlenecks several incentives have been announced for improvement in power, roads, telecommunications and ports.

- In the new EXIM policy care has been taken to ensure level playing field to domestic producers vis-à-vis imports. A plan scheme has been evolved to assist the industry under Market Access Initiatives (MAI); agricultural imports have been placed under the State Trading; Non-Tariff barriers have been put in place to assure a level playing field.

- To improve the road network in the country, the National Highway Development Project (NHDP) consisting of -the Golden Quadrilaterals and the North-South-East-West Corridor has been launched. The scheme will cover 13,252 kms and involves Rs 54,000 crores of investment.

- Pradhan Mantri Gram Sadak Yojna (PMGSY) to provide connectivity of every village with a population of over 1000 persons through good all weather roads by the year 2003 and those with a population of upto 500 persons by the year 2007 has been launched.

Possible Supplementary Questions and Answers.

Question 1: what are the sector-wise industrial growth rates during the current fiscal year?

Answer: Growth rates (Apr.-June 2001-02) for mining, manufacturing and electricity are given below:

2000-01 June 00 June 01 Apr-June `00 Apr-June`01

Mining	3.7	4.4	-3.0	3.6	0.2
Manufacturing	5.3	6.1	1.9	6.4	2.3
Electricity	4.0	5.0	1.4	5.1	2.0
General	5.0	5.9	1.5	6.1	2.1

Question 2: Based on Use-based classification, which sectors have shown comparatively poor growth during the first Quarter of the current fiscal year 2001-02?

Answer : Capital goods sector has registered a negative growth rate .Although all the sectors have registered a lower growth rate, the decline has been substantial in the case of basic goods and consumer durable goods sectors.

2000-01 June 00 June 01 Apr-June`00 Apr-June`01

i) Basic goods	3.9	5.1	-0.1	5.4	1.4
ii) Capital goods	1.8	2.9	-7.6	5.2	-4.2
iii) Intermediate goods	4.7	5.0	3.0	4.6	2.7
iv) Consumer goods	8.0	8.9	4.9	8.6	4.3
a) Durables	14.5	24.0	8.8	22.7	7.5
b) Non -durables	5.8	4.1	3.4	4.3	3.2

Question 3: What have been the target growth rates and achievements for industry during the last three Five Year Plans and the Ninth Plan so far?

Answer: The Plan targets vis-a-via achievements are given below: -

Plan	Target	Achievement
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Sixth Plan (1980-85)	7.0	5.5
Seventh Plan (1985-90)	8.7	8.5
Eighth Plan (1992-97)	7.4	7.3
Ninth Plan (1997-02)	8.2	5.6+

+ Average for last four fiscal years.

Question.4: Which are the main industries having negative growth rate during the first Quarter of the current fiscal year?

Answer: The main industries having registered negative growth rate during the current financial year (April-June 2001-02) are given below: -

Item groups	Growth Rate (%)
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Paper and Paper Board	-3.73
Stamping and Forgings	-15.17
Air and Gas Compressors	-14.63
Commercial Vehicles	-16.16
Scooter and Mopeds	-25.85
Bicycles (all kinds)	-19.33
Glazed tiles/ceramic tiles	-32.14
Sealed compressors	-16.43

Boilers	-5.26
Insulated cables and wires of all kinds	-16.93
Material handling equipments	-43.51
Industrial Machinery	-11.72
Typewriters	-43.21
Machine tools	-21.94
Laboratory and scientific instruments	-37.86
Electric fans	-6.54
Diesel engines (stationary)	-99.81
Agricultural implements	-32.77
Washing/laundry machines	-20.27
Leather goods	-37.35

Question 5: What are the main reasons for industrial slowdown?

Answer: The main reasons for the declining industrial production are as below:

- Slow down in general investment climate.
- Economic slowdown in U.S and other economies of the world.
- Comparatively lower agricultural production in past two years resulting in lower aggregate demand.
- Poor stock market performance, which has weakened consumer and business confidence.
- Persistence of Infrastructure bottlenecks and failure to attract private sector investment in infrastructure projects

Question 6: What are the steps taken by the Government to boost industrial production?

Answer: The following initiatives have been taken:

- Basic custom duty in case of raw materials and intermediate goods has been reduced.
- Excise duty has been rationalized, with one rate of Cenvat and one rate of Special Excise duty (SED).
- Budgetary provisions under Technology Upgradation Fund Scheme (TUFS) have been raised to speed up the modernization of textile industry.
- Interest rate on small savings has been reduced.
- RBI has reduced Cash Reserve Ratio and Bank Rate to increase liquidity and reduce the lending cost.
- Public spending out of the current budgetary allocations has been stepped up.
- Proposals have also been made for suitable legislative changes to improve the operating environment for industry.
- To remove infrastructure bottlenecks several incentives have been announced for improvement in power, roads, telecommunications and ports.
- In the new EXIM policy care has been taken to ensure level playing field to domestic producers vis-à-vis imports

Question 7. Which infrastructure sectors have registered a negative growth rate during the first Quarter of the current fiscal year?

Answer. The following infrastructure sectors have registered a negative growth rate during April-June 2001-02:

Sector	April-June 00-01	April-June 01-02
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Crude Petroleum	-2.6	-4.5
Coal	11.3	-0.8
Finished Steel	12.2	-0.2

Question 8. What are the steps taken by the government to improve the infrastructure?

Answer. The following measures have been initiated to improve the infrastructure sector.

- Rural Electrification Corporation (REC) has been allowed to float capital gains tax exemption bonds.
- The budgetary provisions under Accelerated Power Development Programme (APDP) have been enhanced to Rs 1500 crores for the year 2001-02 from Rs 1000 crores in 2000-01 for: a) renovation and modernization/life extension/up rating of old power plants; b) Upgradation of transmission and distribution network including energy accounting and metering.
- The Government has signed MOU with sixteen states, to reform SEBs and initiated steps which include time bound Programme for installation of 100% metering by December 2001, energy audit at all levels, specific programmes for reduction and eventual elimination of power theft.
- Government is providing infrastructure support to cement industry to maximize cement production. Rail wagons are provided to cement plants on priority basis to supply cement to deficit areas.
- Custom duty on cement and clinker reduced from 35% to 25%.
- Tax holiday for infrastructure development. In case of ports, airports, inland ports and waterways, industrial parks, generation and distribution of power, tax holiday of ten years has been announced in the Union Budget 2001-02. Five-year tax holiday for the telecommunication sector has been extended till March 2003.
- To improve the road network in the country, the National Highway Development Project (NHDP) consisting of -the Golden Quadrilaterals and the North-South-East-West Corridor has been launched. The scheme will cover 13,252 kms and involves Rs 54,000 crores of investment.
- Pradhan Mantri Gram Sadak Yojna (PMGSY) to provide connectivity of every village with a population of over 1000 persons through good all weather roads by the year 2003 and those with a population of upto 500 persons by the year 2007 has been launched.

Question 9: Whether the industrial organisations have also suggested measures to overcome the crisis?

Answer: Industrial organisations like FICCI, ASSOCHAM, and CII have stressed upon to initiate the following steps:

- Stepping up the pace of second-generation reforms.
- Expeditious implementation of the policy announcements made in the budget (2001-02).
- Specific actions to accelerate the process of the resurgence of the rural sector.
- Speedy utilization of funds allocated under the budget for Ministries/Departments.

Question 10: Whether Indian industry is experiencing a recession?

Answer: No sir. The recession is defined as negative growth in GDP for two consecutive quarters. The quarterly GDP and industrial growth rates of are given below:

Oct-Dec 2000-01 (Q3) Jan-Mar 2000-01 (Q4)

GDP	5.0	3.8
Industry	5.9	3.3