GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA

STARRED QUESTION NO:424
ANSWERED ON:22.08.2003
INVESTMENT IN INDUSTRIAL SECTOR
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Will the Minister of COMMERCE AND INDUSTRY be pleased to state:

(a) the total investment made in the industrial sector in each State during each of the last three years as compared to other sectors;

(b) whether the investments in the industrial sector are on the decline;

(c) if so, the reasons therefor; and

(d) the efforts made by the Government to increase investment in domestic industries?

Answer

THE UNION MINISTER FOR COMMERCE AND INDUSTRY (SHRI ARUN JAITLEY)

(a) to (d): A statement is laid on the table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO. 424 FOR ANSWER ON FRIDAY, AUGUST, 2003

Investment in industrial sector

(a) to (c): Sector-wise total investment as compiled by the Central Statistical Organization (CSO) at all-India level and measured in terms of Gross Capital Formation by industry of use (at 1993-94 prices) in respect of Agriculture & allied activities, Industry, and Service sectors during the years 1999-00 to 2001-02 (latest available) is given in Annexure -1.

Statewise investment, during last three financial years, in terms of implementation of industrial investment intentions through Letters of Intent (LoIs) and Industrial Entrepreneurs` Memoranda (IEMs), as per data compiled by the Department of Industrial Policy & Promotion (DIPP) is given in Annexure - 2. Likewise, Statewise investment in terms of inflow of Foreign Direct Investment (FDI) for the last three calendar years is given in Annexure - 3.

The figures of industrial investment are given in Annexure-1. Implementation status of investment intentions in terms of IEM & LOI (Annexure-2) has shown fluctuations. Inflow of Foreign Direct Investment has, however, increased during the years 2000 to 2003 (Annexure-3).

Studies have shown lack of aggregate demand as the primary cause for industrial decline and the trend of fall in investment both in public and private sectors. The other causal factors, structural and cyclical, are:

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(i)  Operation of investment and business cycles,

(ii)   Adjustment lags of corporate restructuring,

(iii)  Insufficient consumer and investment demand,

(iv)  High real interest rate,

(v)  Infrastructure constraints, particularly, in power,

(vi)  Institutional Rigidities in markets for land and labour,

(vii)  Economic recession in countries and their slow recovery that are major trading partners
 of India viz, USA, Japan and European Union,

(viii)  Dumping, international competitiveness,
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(ix) High domestic taxation and lack of uniform taxes across the States.

(d): The Government has taken several policy initiatives to accelerate investment in domestic industries and create conducive atmosphere for investment. These steps have been targeted to improve competitiveness of Indian industry in general and to boost aggregate demand, improve infrastructure base, upgrade technology, encourage Foreign Direct Investment (FDI) flows, rationalize tax structure, improve sentiments in stock market, encouragement to maximize exports, and boosting liquidity through lowering of interest rates.

Under the present liberalized industrial policy regime, investment decisions and choice of location are made by the entrepreneurs on the basis of their own commercial judgment. This, in turn, depends on the investment climate of the States, availability of infrastrucutral facilities, resources and market. The Central Government supplements their efforts through various schemes and incentives.Tenth Five Year Plan (2002-07) indicates that in order to achieve the target of 8 per cent growth in Gross Domestic Product (GDP), the industrial sector will have to grow at over 10 percent in real terms. Accordingly, the plan outlay for industry and minerals has been raised to Rs. 58,939 crore (at 2001-02 prices), registering a growth of 31.9 percent over the Ninth Plan Outlay (realization). Total plan outlay for Energy sector has been raised to Rs. 403,927 crore (at 2001-02 prices), registering a growth of 84.2 percent over the Ninth Plan outlay (realization). Tenth Plan target for investment rate (as percentage of Gross Domestic Product at market price) is 28.41 percent compared to 24.23 percent in the Ninth Plan. Gross Capital Formation (GCF) for the Tenth Plan has been fixed at Rs. 40,81,670 crore (at 2001-02 prices) against Rs. 2,506,658 crore in the Ninth Plan, registering a growth of 62.8 percent. Important steps taken are indicated at Annexure-4.

Annexure-1

GROSS FIXED CAPITAL FORMATION BY INDUSTRY OF USE (AT 1993-94 PRICES)

(Rs. crore)

Broad Sectors	1998-99	1999-00	2000-01@	2001-02#
Agriculture & Allied+	16516	18082	18364	19880
Industry++	137197	127230	122406	113705
Service+++	91357	96398	104555	101868
Total	245070	241710	245325	235453

\+ Agriculture & Allied includes agriculture, forestry, logging and fishing

++ Industry includes mining & quarrying, manufacturing (registered and unregistered), electricity, gas & water supply and construction.

+++ Service includes trade, hotels & restaurants, transport, storage & communication, financing, insurance, real estate & business services, community, social & personal services.

@ imply provisional estimates
\# imply quick estimates.

Source: CSO.

ANNEXURE-2

IMPLEMENTATION STATUS of INVESTMENT INTENTIONS (IEMs +LOIs) STATEWISE AND FINANCIAL YEARWISE

NAME OF THE STATE 2000-2001 2001-2002 2002-2003

	Nos	Inv(Rs.Cr)	Nos	Inv(Rs.Cr)	Nos	Inv(Rs.Cr)
A & N Islands	0	0	0	0	0	0
Andhra Pradesh	47	470	71	1753	69	638
Arunachal Pradesh	0	0	0	0	0	0
Assam	4	6	18	1000	11	61
Bihar	0	0	2	14	0	0
Chandigarh	0	0	0	0	0	0
Chhatisgarh	0	0	5	127	6	42
Dadra & N Haveli	5	125	11	80	14	170
Daman & Diu	7	16	6	43	3	4
Delhi	2	0	0	0	0	0
Goa	11	68	24	309	6	32
Gujarat	54	1715	98	4377	49	1938
Haryana	26	278	44	1000	20	559
Himachal Pradesh	1	25	11	121	2	2
J & K	1	130	0	0	1	3
Jharkhand	4	13	5	119	0	0
Karnataka	14	413	21	193	8	45
Kerala	3	13	6	35	1	0
Lakshadweep	0	0	0	0	0	0
Madhya Pradesh	10	199	22	248	7	32
Maharashtra	32	604	124	2200	44	586
Manipur	0	0	0	0	0	0
Meghalaya	0	0	5	10	5	25
Mizoram	0	0	0	0	0	0
Nagaland	0	0	0	0	0	0
Orissa	0	0	9	86	6	28
Pondicherry	3	14	6	47	10	43
Punjab	24	719	38	965	15	294
Rajasthan	19	97	53	1336	23	172
Sikkim	0	0	0	0	0	0
Tamil Nadu	45	384	82	1300	21	111
Tripura	0	0	0	0	2	0
Uttar Pradesh	39	525	76	845	19	253
Uttaranchal	2	6	2	8	1	5
West Bengal	34	1003	78	714	52	1422
Location in More than One State	2	0	0	0	3	67
Total	389	6823	817	16930	398	6532

Note: Investment in terms of IEMs implemented and those LOIs converted into Industrial Licences

ANNEXURE-3

State wise INFLOWS of FDI for calender years 2000, 2001, 2002

(Rs. crores)

Sl.No.	States/UTs	2000	2001	2002
1	Andhra Pradesh	251.65	339.80	288.81
2.	Assam	0.71	0.00	5.58
3.	Bihar	1.60	0.00	0.00

4. Gujarat	29.10	109.41	288.42
5. Haryana	0.00	0.00	0.00
6. Karnataka	582.57	1310.36	892.90
7 Kerala	53.76	69.89	54.86
8. Madhya Pradesh	3.30	9.73	9.17
9. Maharashtra	3578.89	2991.73	4865.73
10. Rajasthan	0.99	6.67	1.06
11 Tamil Nadu	551.87	742.70	1341.22
12 West Bengal	33.07	66.84	132.21
13 Chandigarh	163.22	4.01	842.55
14 Dadra & Nagar Haveli	0.20	0.00	0.00
15 Delhi	2457.56	6918.31	2994.28
16 Goa	34.19	10.92	146.79
17 Pondicherry	0.00	299.26	0.00
18 States not Indicated	2349.63	2962.27	4259.77
Total	10092.31	15841.89	16123.35

NB : The above inflow includes SIA+FIPB+RBI+ Acquisition of Shares
Source : DIPP

Annexure-4.

Important steps taken to increase investment in domestic industries

- To assess the competitiveness of the cement, capital goods and paper industries vis-Ã -vis international competitors and to devise strategies to ensure long-term sustainability of growth in these industries, the Department of Industrial Policy & Promotion (DIPP) has entrusted studies to organisations of international repute.

- Study on impact on Indian industry and restructuring required to adjust to Tariff proposals being considered by `The Negotiating Group on Market Access (NGMA) at WTO` was entrusted to Indian Council for Research on International Economic Relations (ICRIER).

- Medium Term Export Strategy for 2002-07 was announced emphasizing the importance of maintaining appropriate real effective exchange rate coupled with lower duties for inputs needed for exports. These include transparent and comprehensive schemes of tax reimbursement, rebating service tax besides lower customs and excise duties for major inputs needed for exports, which can minimize the need for duty drawback.

- Sector-wise strategies to boost production for exports in key sectors, which include engineering/electronic/electrical and allied, textiles, gems & jewellery, chemicals & allied sector.

- Enforcement of the Electricity Act. 2003 for facilitating comprehensive power sector reforms and to attract investment.

- Enhancement of the investment limit in 2003 from Rs.1 crore to Rs.5 crore has been notified in respect of 13 items of the Stationery Sector and 10 items of the drugs and pharmaceutical sector, which figure in the list of items reserved for manufacture in the small scale industries sector. This will enable them to improve quality and compete more efficiently in a liberalizing economy.

- De-reservation of 75 items from SSI list i.e. laboratory chemicals and reagents (54), leather and leather products (9), plastic products (6), chemicals and chemicals products (3), and paper products (3) is to help further investment in them.

Some of the investment related measures announced in the Union Budget 2003-04, which are also steps towards accelerating the pace of investment and creating conducive atmosphere for investment, are given below:

- Proposal to reduce customs duty from 25 per cent to 5 per cent on specific equipment for high voltage transmission projects.

- Allocation of Rs.20 crore to the CSIR for launching incentive-driven research in solar energy, wind turbines and hydrogen fuel cells these three fields.

- The Budget has proposed fresh initiative aimed at expediting infrastructure development and making it globally comparable. Estimated to cost about Rs.60, 000 crore, the comprehensive initiative includes new road projects of a total length of over 10,000 km, Rail Vikas Yojana for modernization of Golden Quadrilateral and upgrading of Delhi & Mumbai Airports as well as sea ports at Navi Mumbai and Cochin to international level. These projects are being taken up through new innovative modes of funding based on private -public partnership.

- During the course of the last four years, interest rates on Government securities have gone down from 12% to 7%. This soft interest rates policy has set the stage for growth of investment.

- To promote investment in the industrial sector and improve the equity market, it was announced that dividends would be tax free in the hands of the shareholders. Correspondingly, there will be a 12.5% dividend distribution tax on domestic companies.

- Exemption from the incidence of capital gains tax of all listed equities that are required on or after March 1, 2003, and sold after the lapse of a year, or more.

- To establish an `India Development Initiative` in order to promote India as both a production centre and an investment destination.

- Announcement of raising the FDI limit to at least 74 per cent from existing 49% for facilitating the setting up of subsidiaries by foreign banks, as well as for inviting investment in private banks,

- Administered rates of interest on public provident fund and other small saving schemes to be adjusted in line with market rates.

- Other measures:

- To improve operating environment of industry, the Government has enacted several laws, which include the Competition Act and amendments to SEBI Act.

- EXIM policy 2003-04 seeks to consolidate and accelerate India`s export growth by capitalizing on the areas of its core competence.

- It lays special focus on potential high growth sectors - textiles, auto components, gems & jewellery, drugs & pharmaceuticals and electronics hardware.

- The Export Promotion Capital Goods (EPCG) Scheme has been made more attractive and flexible by reducing the export obligatior for manufacturers and lowering their costs of modernizing and expansion.

- Facilitating investments in Special Economic Zones (SEZs) and procedural simplifications aimed at drastic reduction of transaction costs in order to make India globally competitive.

- The RBI has continued low interest rate policy. It has cut Bank rate to 6% from 6.5% earlier, Cash Reserve Ratio (CRR) to 4.75 per cent from 5.0 percent, a move that will ease the liquidity position further.

- DIPP has proposed a new scheme for upgradation of Industrial infrastructures for implementation in the 10th Plan.

- Announcement of special packages for promoting industrialization in the states of Jammu & Kashmir, Sikkim on 14.06.2002, 23.12.2002 respectively, and Uttaranchal and Himachal Pradesh on 7.01.2003 (for both). The economic incentives envisaged therein, inter-alia, include 100% excise duty exemption for a period of 10 years; Capital Investment Subsidy @ 15% for investment in plant & machinery subject to a maximum of Rs. 30 lakhs. It is felt that these structured strategies will attract industrial investment and enhance the growth potential of indigenous industries in these States.

- Govindarajan Committee was constituted to examine the extant procedures for investment approvals and implementation of projects and suggest measures to simplify and expedite the process for both public and private investment. The Commerce and Industry Minister has written to all State Chief Ministers urging them to review the progress of implementation of the Govindarajan Committee recommendations. There is a need for simultaneous simplification in the procedures at the State and Central levels for creating an investor friendly climate to facilitate investments.

- In pursuance of its commitment to progressively liberalize the Foreign Direct Investment (FDI) regime, the Government has decided that all companies, which have entered into foreign technology collaboration agreements irrespective of the extent of foreign equity in the shareholding, may henceforth be permitted to make royalty payments up to 8% on exports and 5% on domestic sales without any restriction on the duration of the royalty payments.