Table 4.13

Annual Rate of Growth of Manufacturing

(Per cent).

Year	Index of Industrial Production (manufacturing)	Gross Value Added of NAS Manufacturing at Constant Prices
1990-91	9	6.1
1991-92	-0.8	-3.7
1992-93	2.2	4.2
1993-94	6.1	8.4
1994-95	9.1	10.7
1995-96	14.1	14.9
1996-97	7.3	7.9
1997-98	6.7	4.0
1998-99	4.4	3.6
1999-2000	6.7	-
2000-01	5.0	-
2001-02 (April-Dec.)	2.3	-

4.223 The following table gives value added growth in the registered manufacturing sector from 1951-52 to 1998-99:

Table 4.14
Annual Rate of Growth of the Registered Manufacturing Sector

Year	Gross Value Added of Registered Manufacturing Sector at Constant Prices (%)	Year	Gross Value Added of Registered Manufacturing Sector at Constant Prices (%)
1952-53	0.5	1976-77	12.5
1953-54	4.4	1977-78	6.7
1954-55	11.1	1978-79	10.9
1955-56	12.3	1979-80	-2.1
1956-57	11.1	1980-81	-1.6
1957-58	4.7	1981-82	7.7
1958-59	2.9	1982-83	9.6
1959-60	10.1	1983-84	14.7
1960-61	12.4	1984-85	8.4
1961-62	9.1	1985-86	2.3
1962-63	9.7	1986-87	5.8
1963-64	11.3	1987-88	7.1
1964-65	8.3	1988-89	10.6
1965-66	3.3	1989-90	13.9
1966-67	0.1	1990-91	5.0
1967-68	-3.3	1991-92	-2.3
1968-69	6.8	1992-93	3.1
1969-70	17.4	1993-94	11.5
1970-71	2.4	1994-95	13.2
1971-72	1.8	1995-96	15.5
1972-73	3.2	1996-97	8.1
1973-74	4.9	1997-98	3.4
1974-75	1	1998-99	3.9
1975-76	1		

Source: CSO, National Accounts Statistics (various issues)

4.224 From this table, it is obvious that the value added growth after 1991 has not been substantially better than that achieved during the first 15 years of Indian planning. During the Second and Third Five Year Plans, effort was made for the development of basic and heavy industries. The table also shows that the growth record during the reforms period (1991-2000) has not been significantly different from that seen in the eighties. Table 4.15 gives compound annual rate of growth of manufacturing for the earlier decades i.e. 1950-51 to 1965-66, and thereafter. It can be found that the rate of growth of manufacturing was much better during the earlier decades than that during the decade after 1991. However, one should bear in mind that the choice of terminal years often affects the growth picture.

Table 4.15
Compound Annual Rate of Growth of Manufacturing

Year	CARG of Gross Value Added of Registered Manufacturing Sector At Constant Prices (%)
1950-51 to 1965-66	7.03
1955-56 to 1965-66	7.47
1980-81 to 1990-91	7.66
1990-91 to 1998-99	5.91

Source: CSO, National Accounts Statistics (various issues)

4.225 If we analyse sectoral growth, we find that during nineties, more than half of the growth has been accounted for by consumer goods. The contribution of consumer durables alone is 16.09%. The basic intermediate goods have accounted for only 16.34% and capital goods for 11.81%. This change over the years can be seen from the following table:

Table 4.16

Sectoral shares of Growth of the Registered Manufacturing Sector (percentages)

Group	1960-61 to 1965-66	1980-81 to 1988-89	1990-91 to 1997-98
Capital Goods	25.63	13.28	11.81
Intermediate Goods	43.00	23.87	35.65
(a) Basic	29.93	18.89	16.34
(b) Others	13.06	4.98	19.31
Consumer Goods	31.38	62.84	52.54
(a) Durable	4.77	15.62	16.09
(b) Non-durable	26.60	47.22	36.45
Total	100.00	100.00	100.00

Source: CSO, National Accounts Statistics (various issues)

Performance of individual industries

4.226 If we look at the various individual sectors of industry, we do not get an encouraging picture. The textile industry is in great difficulties. The total number of mills closed was 123 in 1992-93, and this number has increased to 349 in 1999-2000. There were 421 cases of textile mills registered with the Bureau of Industrial and Financial Reconstruction (BIFR) as sick units. Not only textile mills in the organised sector, but also small power looms as well as handlooms have been affected. We have read reports about many small weavers in handloom industry committing to suicide.

4.227 Indian textile firms lack economies of scale. While the average investment in machines by each unit in India is a mere $ 27,690, the figure is $ 2 million in China and an even higher at $ 2.5 million in Hong Kong.

Not surprisingly, while Indian firms have an average of 119 machines each, the figure is distressingly low compared to China's 605 and Hong Kong's 698. What is worse is that Indian firms have a higher proportion of manual machines and their power machines are less sophisticated than the ones in countries like China, Taiwan, South Korea and Hong Kong. India's wage costs are also 50% higher at 60 cents than the rates in China. Therefore, it is no wonder that we are not competitive in international markets and once the textile quota system is withdrawn by WTO in 2005, Indian textile industry is likely to lose its international markets.

4.228 The iron and steel industry is affected because of global trends. The Asian crisis, collapse of the USSR, and financial problems of Japan have transformed importers of steel into exporters. There is a glut in the global steel market. This along with 30% imposition of anti-dumping duties by the United States and the European Union in a war against each other is likely to affect our exports to Europe and U.S. So far, India as a developing country has not received any special treatment. This, coupled with recession in Indian engineering industry, has affected, and is likely to affect production of iron and steel in India very adversely. Moreover, because of import liberalisation, Indian industry has to face global competition in terms of product range, quality and price. As a result, there is a cut back in production and reduction in employment in the iron and steel industry in India.

4.229 The plantation industry is perhaps the worst affected industry. Prices of rubber, tea, coffee, etc., have come down drastically during recent years and production in the plantation industry is no longer economic. It is estimated that the total losses of tea industry in South India were of the order of Rs.350 core in 1999-2000. Because of our commitments to the WTO, large imports of rubber, coconuts, tea and coffee from Malaysia, Indonesia, Sri Lanka, Kenya, and Vietnam etc. are coming to India. The Indian industry is not in a position to compete with them. Workers in plantation industry are deeply concerned with this trend of globalisation and increased mechanisation in the industry to reduce the costs.

4.230 In the chemicals industry, large-scale imports of petrochemicals, dyestuffs, intermediates and speciality chemicals are being made at a cheaper price from China. China has invested in building huge capacities in petro-chemicals, pharmaceuticals, and agro-chemicals, and is emerging as the largest producer of synthetic fibres. Import of cheap chemicals from China are hurting Indian industries and many small industries had to close down as a result. Our exports of chemicals are also affected, as cheap Chinese chemicals of equivalent quality are available in international markets.

4.231 Indian mining industry is also affected because of globalisation. Indian coal is of poor quality. Low ash coking coal for making steel is not available in the country, and therefore the steel industry is importing coal. The coal produced in the country is used by thermal plants. But for many coastal states like Gujarat, Tamil Nadu, Karnataka, Kerala, the cost of transportation of this coal is very high. Therefore some of those States are importing coal from Australia and other countries. It is cheaper for them to do so. Moreover, the cost of production of coal is very high in India. As regards other mineral products, there is now no demand for mica because cheaper substitutes are available. Because of reduction in tariff and other factors, imported copper is much cheaper than indigenously produced copper. Therefore, Hindustan Copper Ltd. which owns the copper mines, is incurring heavy losses. Over manning of operations is also adding significantly to the losses.

4.232 The list of industries affected by globalisation is much longer. Because of duty free product imports, industrial units like Bharat Heavy Electricals are affected, as their products are costlier compared to imported ones. The machine tool industry in India is affected because of cheap imports and imports of second hand machine tools. The Indian toy industry is affected because of import of cheap Chinese toys. In fact, cheap Chinese imports have affected a wide range of industries like electrical accessories, bulbs, batteries, locks, lamps and fixtures, silk yarn and so on. These goods have entered Indian markets in a big way. The Indian anti-dumping authority has been investigating into such cheap imports and they levy anti-dumping duties in order to protect Indian industries. But this process is very lengthy. By the time one investigates, completes the procedures and levies anti-dumping duties much of the damage is already done and it becomes extremely difficult to recover thereafter. The only industries, which are prospering, now are the Information Technology, Telecommunications and entertainment industry. The other potential sunrise sector industries are pharmaceuticals and biotechnology industries.

4.233 Small-scale industries are more vulnerable to the new trends of globalisation. Because a parent unit does not have enough orders, ancillary units do not get adequate orders for parts and components. They have also to face the perennial problem of delayed payments. Earlier, SSI units were manufacturing import substitute items. But those days are over. Now one can import from any country and the imported goods are much cheaper and probably better in quality. As a result, SSI units have lost much of their markets for such products. Because of free imports, SSI reservation has ceased to have meaning and as a result they have lost all protection from the competition of large units. Now they have to compete in the market with imported products as well as products from large units in India. As a result of all these factors, a large number of small enterprises all over India are facing serious problems. Their very survival seems to be at stake.

Need for public sector reforms

4.234 One of the characteristics of the new economic policy of liberalisation is that the policy has concentrated on the private sector and particularly in attracting foreign investment and trade liberalisation. The reform process has practically bypassed the public sector enterprises. In July 1991, when the new economic policy was announced, there were about 240 central public sector enterprises working in India, capital employed in them was Rs. 1,17,991 crore, their annual turnover was Rs.1, 33,906 crore, they had about 21.70 lakh employees, they had made a profit (before interest, depreciation and tax) of Rs. 22, 224 crore. The Net profit earned by all public enterprises after providing for depreciation, interest, and tax was Rs. 2,356 crores in that year. These public enterprises were operating in such diverse fields as production of steel, minerals and metals, coal and lignite, power, petroleum, fertiliser, chemicals and pharmaceuticals, heavy engineering, transportation equipment, textiles, and agro-based industries. A large number of public sector enterprises were also engaged in providing a number of trading, marketing, transportation, consultancy and tourist services, etc. The total investment in all public sector enterprises added up to more than 50% of the total corporate investment in the country. Quite a few of them were operating in strategic sectors and this sector was once described as the commanding heights of the economy. They provided a strong industrial base for Indian industrial development.

4.235 But the new policy of economic liberalisation neither specified any role to the public sector nor did it say anything about restructuring this sector so as to be made more useful and efficient. The Government appears to be more concerned with privatisation of public enterprises and a policy of disinvestments. The disinvestment process has been linked to financial targets, and the government itself often talks of its relation to closing the budgetary gap. In many other countries like the U.K. that pioneered a programme of privatisation the objectives were to promote efficiency in public enterprises, disperse ownership widely, provide equity to the employees and benefit the consumer. The Government of India did not put forward any proposal to public undertakings free them from bureaucratic control, and professionalise them to improve performance and profitability. No role was assigned to them in the economic restructuring of the country.

4.236 This is somewhat surprising when one observes that during the previous turbulent decade, the nineties, the central public enterprises generated Rs. 1,19,000 crores through internal accruals alone. They also mobilised Rs.1,21,000 crores from the market during the same period. These together gave an aggregate of Rs. 2,40,000 crores which was more than double the total government investment at the end of 1999-2000, both in equity and by way of loans, aggregating Rs.96, 000 crores. There is hardly any evidence to show that the Government thinks that a reformed public sector can play an effective role in economic recovery.

Globalisation of financial markets

4.237 The Indian stock market is one of the oldest and is operating since 1875. But the stock exchange operations were largely outside the global integration process until 1980s. In 1988, the Securities and Exchange Board of India (SEBI) was set up and the reform process got momentum only when the external payment crisis occurred in 1991 followed by the securities scam of 1992.

4.238 The global integration of the financial markets was brought when

a) Portfolio investments were permitted for foreign institutional investors and for overseas corporate bodies. Non-resident Indians were already permitted to invest.

Table 4.17 gives the details of the FII portfolio investments so far. A total amount of Rs.49, 881.7 crores has been invested by FIIs in Indian companies.

Table 4.17

Annual Trend in FII Portfolio investment

(Rs. Crore)

Year	Purchase	Sale	Net investment	Cumulative Net invest.
1992-93	17.4	4.0	13.4	13.4
1993-94	5592.5	466.3	5126.2	5139.6
1994-95	7631.0	2834.8	4796.3	9935.9
1995-96	9693.5	2751.6	6942.0	16877.9
1996-97	15553.9	6979.4	8574.5	25452.4
1997-98	18694.7	12737.2	5957.4	31409.8
1998-99	16115.0	17699.4	-1584.4	29825.4
1999-00	56855.5	46733.5	10121.9	39947.3
2000-01	74050.6	64116.3	9934.4	49881.7

Source: SEBI Annual Report various issues

b) Indian corporates were allowed to go global with the issue of GDR/ADR/FCCB from Nov. 1993. Prior permission from the Government of India was necessary. The First Indian GDR listing was of Reliance Industries with $ 150 million. Then came VSNL with $ 527 million, MTNL with $ 418 million and Ashok Leyland with $ 137.7 million. Since 1993, 60 Indian companies have raised $ 6.2 billion in these markets.

c) In 1997, a Committee on Capital Accounts Convertibility was appointed under the chairmanship of Mr. S.S. Tarapore. Though the Committee recommended for full convertibility, the Government did not think it would be proper to do so and a decision is still pending.

d) A few Indian companies were allowed to list on foreign stock exchanges such as the New York Stock Exchange, NASDAQ etc. Satyam Infoway (SIFY) became the first Indian company to be listed on the NASDAQ. This was followed by many other companies.

Table 4.18 gives quantum and number of euro issues by Indian corporates. These funds can be raised at very low interest rates. But one has to provide for exchange rate fluctuations and the liability becomes uncertain. Even then a large number of leading Indian companies have raised resources in Euro markets at low interest rates. One must say that because of globalisation a new avenue of raising funds is now open for Indian companies.

Table 4.18
Quantum and Number of Euro Issues by Indian Corporates

(Rs. Crore)

Month	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
April	279.98	4.49	612.50	1,842.94	1200.65	-	-
	(1)	(1)	(2)	(1)			(2)
May	221.48	-	52.50*	385.00	-	7.28	649.35
	(2)			(2)		(1)	(2)
June	625.54	277.20	125.60	-	-	-	-
	(3)	(1)	(2)				
July	1,113.64	-	402.50	-	63.10	-	774.86
	(4)		(1)		(1)		(2)
August	936.42	-	700.00	-	-	-	348.08
	(5)		(1)				(1)
Sept.	-	-	455.00	40.18	-	1,373,28	52.40
			(2)	(1)		(1)	(1)
Oct.	529.79	-	945.39	-	-	375.2	80.03
	(2)		(2)			4(1)	(1)
Nov.	958.82	-	1,425.99	-	-	-	-
	(6)		(2)				
Dec.	1,636.72	-	150.25	1,614.04	-	130.47	-
	(7)		(2)	(2)		(1)	
Jan.	2.35*	105.00	112.04	127.30	-	-	13.46
		(1)	(1)	(1)			(1)
Feb.	6.30*	-	-	-	-	948.84	462.84
						(1)	(1)
March	432.19	910.00	612.50	-	1084.68	652.10	615.40
	(1)	(2)	(1)		(2)	(1)	(2)
Total@	6,743.23	1,296.69	5,594.27	4,009.46	1,147.78	3,487.21	4197.07
	(31)	(5)	(16)	(7)	(3)	(6)	(13)

Notes: '-' None; * represents warrants exercised by the investor attached to earlier issue of GDR.

@ It stood at Rs.702.32 crore and Rs. 7,897.82 crore with number of issues at two and 27 in 1992-93 and 1993-94 respectively.

Figures in brackets indicate number of issues.

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, 2000.

e) Now, Indian companies are also allowed to invest abroad up to a limit of $ 25 million in SAARC countries and up to US $ 100 million or 10 times of their exports in other countries. Thus, takeover and merger of companies from other countries is also allowed.

f) Along with these changes on the external front, changes were also introduced in terms of technology and market practices. New institutions such as National Stock Exchange (1994), National Securities Clearing Corporation (1996), National Securities Depository (1996) were established.

4.239 With this huge investment and the decision of FIIs on daily basis to sell or buy equities, they wield considerable influence on the market behaviour of stock exchanges. The Government has recently announced a decision to allow FIIs to buy 100% equities in Indian companies. This is likely to affect the ownership of many Indian companies.

4.240 Apart from raising funds in the international markets, their entry and participation in Euro market has introduced a qualitative change in the Indian stock exchange as well. The technology of stock exchange operations has changed as also the market practices with the introduction of on-line operations. Some consequences of global participation can be seen in the use of new technologies, on line operations and quick settlements.

Farm Sector

4.241 The Government policy during the 1990s was aimed at attracting foreign investment of all varieties, not only by removing a range of restrictions on inward capital flows of both long term and short term nature, but also through a number of fiscal and interest rate concessions. But in this process, and in the wave of globalisation and the pressures from international bodies like the IMF, World Bank, WTO etc., it seems that some of the vital sectors of the economy did not receive adequate attention. Take, for instance, agriculture and small-scale industries which provide largest employment and also contribute substantially to the growth of the GDP.

Reduction in Allocation

4.242 During the decade after economic liberalisation, most of the state governments in their budget have reduced the share of investment and allocation to the rural sector. The share of agriculture and allied activities in the aggregate budgetary expenditure of 12 major Indian states has declined by 0.5% point from an already low 5.5% to 5%. The share of rural development and irrigation and flood control in the aggregate expenditure of the states, during the period from 1995 to 2000 declined from 3.9% and 7.3% to 3.7% and 6.00% respectively. In the case of some states like Maharashtra, the share of agriculture in its total budgetary expenditure has declined from 8.8% in 1996-97 to 6.6% in 1999-2000. Barring a few exceptions like that of Punjab, Andhra Pradesh, Haryana and Uttar Pradesh, this decline is seen in all other States.

4.243 This can be seen from the Table 4.19.

TABLE 4.19

PERCENTAGE OF ALLOCATION BY DIFFERENT STATES IN THEIR BUDGETS ON AGRICULTURE, IRRIGATION AND RURAL DEVELOPMENT

	Expenditure on Agriculture		Expenditure on Rural Development		Expenditure on Irrigation and flood control	
	1996-1997	2000-2001	1996-1997	2000-2001	1996-1997	2000-2001
Andhra Pradesh	3.5	2.9	4.5	6.4	9.6	9.1
Bihar	4.0	3.0	7.0	8.1	5.7	6.9
Gujarat	4.3	4.1	2.9	3.4	15.7	13.6
Haryana	3.6	4.1	0.7	0.7	6.2	9.0
Karnataka	7.1	6.3	3.0	3.6	11.9	10.1
Kerala	7.7	6.8	3.5	7.8	3.8	2.7
Madhya Pradesh	7.8	7.6	6.8	4.1	5.1	4.1
Maharashtra	8.8	6.6	4.9	1.6	11.0	5.9
Punjab	-3.8	3.5	0.3	1.0	4.4	5.0
Tamil Nadu	7.7	5.4	2.6	2.6	1.8	2.9
Uttar Pradesh	4.1	4.7	4.5	5.1	8.4	4.3
West Bengal	4.1	4.3	5.5	3.3	3.8	3.8

Source: Ministry of Food and Agriculture, Government of India.

4.244 Since insufficient investment is made in agriculture and rural areas, agricultural production has been affected adversely. Table 4.20 gives details of rise in agricultural production from 1996-97 to 2000-01. Except rice and sugar there is a fall in annual production figures for wheat, pulses, oil seeds, coarse cereals, jute, cotton etc. The share of agriculture in the GDP has also come down 26.6% in 1998-99 to 24% in 2000-01. GDP growth rate of agriculture has come down from 7.1% in 1998-99 to 0.2% in 2000-01. The average growth rate of agricultural GDP was 3.2% from 1994-95 to 1999-2000. Thus, agriculture which is still the mainstay of the Indian economy and which provides employment to almost 60% of our population does not appear to have got the thrust it deserves.

TABLE 4.20

AGRICULTURAL PRODUCTION

(In Million Tonnes)

	1996-97	1997-1998	1998-1999	1999-2000	2000-2001
Rice	81.7	82.5	86.1	89.5	86.3
Wheat	69.4	66.3	71.3	75.6	68.5
Course Cereals	34.1	30.4	31.3	30.5	30.2
Pulses	14.3	13.0	14.9	13.4	11.1
Total Food grains	199.4	192.3	203.6	208.9	196.1
Oilseeds	24.4	21.3	24.8	20.9	18.2
Cotton	14.2	10.9	12.3	11.6	9.4
Sugar	277.6	279.5	288.7	299.2	300.3
Jute	11.1	11.0	9.8	10.5	10.4

Source: Economic Survey, Government of India 2001-02.

4.245 This also indicates clear erosion in the spending capacity of rural areas, due to a modest 0.7 and 0.2% rise in agricultural incomes during the last two years i.e. 1999-2000 and 2000-01. This is accompanied by higher growth of rural population at 1.9% annually in the same period.

4.246 Agriculture and allied activities still contribute about 25% of GDP and an increase of even 5% in its output would make an incremental contribution of 1.3% to real GDP. This means that during the last two years, because of the fall in production in agriculture, the country has lost almost around Rs. 50,000 crores. This is bound to have one impact on generating rural demand for industrial products.

4.247 Fortunately after near stagnation in 1999-2000 and negative growth of 0.2% in 2000-01, the agriculture sector is likely to attain a growth rate of nearly 6% in 2001-02. This is projected in the Economic Survey 2001-02 and the survey gives credit to good monsoons for this growth rate.

Low Capital Formation

4.248 Another area of concern is the declining level of capital formation in Indian agriculture. The rate of gross capital formation in agriculture in relation to GDP originating in agriculture has declined to 7.4% in 1999-2000 from 8.9% in 1980-81. The share of capital formation in agriculture and allied activities in gross capital formation (GCF) in the country has also declined substantially from 20.4% in 1951-52 to 6.2% in 1995-96, before recovering to 8.0% in 1999-2000. The inadequacy of new capital formation has slowed down the pace and pattern of technological change in agriculture with adverse effect on productivity.

4.249 Investment in agriculture as percentage of GDP has come down from 1.6% in 1993-94 to 1.4% in 1999-2000. During the same period, investment in agriculture as percentage of current expenditure has come down from 3.4% in 1993-94 to 1.4% in 1999-2000.

4. 250 The details of all these are elucidated Table 4.21

TABLE 4.21

GROSS CAPITAL FORMATION IN AGRICULTURE (AT 1993-94 PRICES)

(Rs. Crore)

Year	Total	Public	Private	Per cent share		Investment in agriculture as	
				Public	Private	Percent of GDP	Percent current Exp.
1993-94	13523	4467	9056	33.0	67.0	1.6	3.4
1994-95	14969	4947	10022	33.0	67.0	1.6	3.3
1995-96	15690	4848	10842	30.9	69.1	1.6	2.8
1996-97	16176	4668	11508	28.9	71.1	1.5	2.3
1997-98	15953	3979	11974	24.9	75.1	1.4	1.7
1998-99	14895	3869	11026	26.0	74.0	1.4	1.4
1999-2000	16582	4112	12470	24.8	75.2	1.5	1.4
2000-01*	16545	4007	12538	24.2	75.8	1.3	

* Quick Estimates

(Source: Economic Survey 2000-2001)

Increasing Food Stocks

4.251 At the end of the first quarter of 2000-01, the total foodgrain stocks including course grains were 61.96 million tonnes. Procurement prices offered to farmers by the Government are higher than what could be obtained in the open market, the issue prices of PDS ration shops for non-subsidised categories are sometimes higher than the open market prices of foodgrains and therefore PDS sales are falling. On top of it, considering the fall in agricultural production, there is diminished purchasing power with the rural population particularly below the poverty line (BPL) segment. Food Corporation of India, which arranges for food procurement and also maintains stocks, is thus in a great dilemma.

4.252 The slow growth in agriculture and this paradox of plenty is shown in Table 4.22.

TABLE 4.22:

PROCUREMENT, OFF-TAKE AND STOCKS OF FOODGRAINS

(Million tonnes)

Fiscal Year	Procurement			Off-take			Stocks*		
	Rice	Wheat	Total @	Rice	Wheat	Total @	Rice	Wheat	Total @
1	2	3	4	5	6	7	8	9	10
1995-96	9.91	12.33	22.24	11.63	12.72	24.35	13.06	7.76	20.82
1996-97	11.86	8.16	20.03	12.31	13.32	25.63	13.17	3.24	16.41
1997-98	14.52	9.30	23.82	11.20	7.76	18.96	13.05	5.08	18.12
1998-99	11.56	12.65	24.22	11.83	8.90	20.73	12.16	9.66	21.82
1999-00	17.28	14.14	31.43	12.42	10.63	23.05	15.72	13.19	28.91
2000-01	20.10	16.35	36.46	10.22	7.73	17.95	23.19	21.50	44.98
First Quarter (April-June) 2000-01	1.90	16.15	18.06	2.57	1.38	3.95	14.49	27.76	42.25
2001-02$	2.68	20.47	23.15	2.34	2.72	5.07	22.75	38.92	61.96

* Stocks are as at end-March.

@ Includes coarse grains.

$ Procurement as on June 29, 2001.

Source: Reserve Bank of India Annual Report 2000-2001.

4.253 It will be interesting to note from the table taht:

1. While foodgrain production is stagnating, procurement operations are increasing.
2. While food procurement is rising, PDS sales are falling.
3. Supply demand mismatch is leading to build up of huge food stocks.
4. At current levels of annual PDS sales, food stocks can as well last for the next four years.

4.254 There is another aspect to this question. It is not that there is no demand for grain under PDS. But rural poor do not have enough purchasing power to buy foodgrains.

4.255 Therefore, starvation deaths occur, and at the same time the Government does not know what to do with the bulging food stocks. The Government has initiated schemes such as food for work. But they are not effectively implemented because of lack of resources at the state level, problems in coordination etc.

4.256 These large food stocks are posing a great problem for the Government as well as the FCI. 33% of world wheat stocks and 25% in rice are now with India. Till March 2001, Rs.39, 991 crores were locked up in incremental food credit, and there has already been an increase of Rs.14, 300 crores over the year. Secondly, the rising food subsidy amounted to Rs.12, 125 crores in 2000-01 and for 2001-02 the estimated food subsidy is Rs.13, 670 crores. The buffer carrying costs are also increasing. It is a big burden on the Budget.

Small industries sector ignored

4.257 As has been stated earlier, in the new economic policy announced in July 1991, a good number of changes were introduced in policies relating to industrial licensing, foreign investment, import of foreign technology, public sector, MRTP Act and the like. Some policy decisions were announced along with this policy, and in certain cases, several consequential decisions were taken subsequently, and notifications issued by Department of Industrial Development, Ministry of Finance, Reserve Bank of India, Company Law Board, MRTP, etc.

4.258 The procedure of registering with only an MOU was also started almost immediately. The industrial licensing system was scrapped, the office of the Controller of capital issues was abolished, the Monopolies Act was withdrawn, the investment limit on foreign companies was raised, banks were given more freedom, interest rates were freed, SLR and CRR were reduced and so on. Even sub-sequently, a number of Committees were appointed and their recommendations were accepted and implemented.

4.259 Small entrepreneurs had hope that the Government would come out with specific measures of a package of assistance to SSI units immediately. But after almost a decade, and despite various promises given by the Government on the floor of the Parliament, and elsewhere, no concrete steps seem to have been taken to implement these assurances.

4.260 In this policy, the Central Government had promised that it would introduce a limited partnership Act, encourage equity participation by large scale units, simplify rules and procedures, introduce special packages for tiny industries, make special efforts to upgrade technology, provide financial support and so on. All that has come is a piece of legislation on delayed payments. Nothing else has been implemented. This Delayed Payments Act also came into force because of the criticism and tremendous pressure brought on the then Prime Minister by the members of the Small Scale Industries Board to do something for this sector. Serious limitations and inadequacies have been pointed out in this Act by many experts. As a result of these shortcomings the Act has not helped the SSI sector.

4.261 It was only on 30 August, 2000, after almost ten years, that the Prime Minister announced a comprehensive package for small-scale industries and the tiny sector. The intention of this package was to support this sector in areas of policy, taxation, credit, infrastructure, technology marketing etc.

Abid Hussain Committee and Dereservation

4.262 A Committee under the chairmanship of Dr. Abid Hussain was appointed to report on policies relating to the SSI sector.

4.263 The Government promptly implemented some recommendations of this Committee. These were related to the upward revision of the SSI definition and dereservation of industries for the SSI sector. Since then, even after five years, the other important and positive recommendations of the Committee, which would have helped the SSI sector to hold its own, and even progress, have not been implemented.

4.264 While recommending the dereservation of products from the SSI sector, the Abid Hussain Committee had recommended that the Government should provide annual resources of the order of Rs.500 crores over the next five years, thereby totalling Rs. 2500 crores. The Committee had recommended that the Government and industry should set up a joint mechanism that would help the SSI units whose products have been dereserved, to make a smooth transition. They had also recommended that for a period of 5 years, fiscal concessions should be given to such units.

4.265 But without providing the support system that was recommended, the Central Government, has been dereserving products that had been reserved for the SSI sector. This year (2002), the Finance Minister has announced dereservation of another 15 products.

Delays in taking decisions

4.266 After the recommendations of the Abid Hussain Committee, in February 1997, the definition of the SSI units was changed to raise capital investment in plant and machinery to Rs. 3 crores. But no notification has been issued for a long time.

4.267 Similarly in April 1998, the Prime Minister announced a revision in the definition of SSI units from investment in plant and machinery of Rs.3 crores to Rs. 1 crore. But it took two years for the notification to be issued.

4.268 We were told that these delays in taking decisions, have created a feeling that the Government does not give adequate importance to the SSI sector.

Finance for small scale industries

4.269 Adequate finance is one of the problems of the SSI sector. This sector accounts for nearly 40% of the gross turnover of the manufacturing sector, 45% of manufacturing exports, and 35% of total exports. It has demanded at least a share of 30% of the total credit. But its share in the total credit never rose to more than 14% to 15%. Quite a few Committees were appointed to discuss this subject such as Nayak Committee, S. L. Kapur Committee, and Khan Committee etc. But we were told that the provision of credit for this sector has not improved.

SSI Sector and the WTO Regime

4.270 With the entry into the WTO, it is doubtful whether there will be any encouragement to ancillary industries. As per the Trade Related Investment Measures (TRIMS) agreement, WTO prohibits conditions of performance requirements that are imposed on foreign enterprises. One cannot now impose conditions of indigenisation of parts and components and local content requirements. Some German, American and Japanese automobile manufacturers had gone to the WTO dispute settling authority against the Indian Automobile Policy which lays down progressive indigenisation of parts and components. The case was decided against India, and now India cannot impose any such conditions. This is a bad portent for ancillary and indigenous industries and technology development. We were told that there is an apprehension that this may close an important area of development for the SSI sector.

4.271 As regards the SSI units, which are producing independent products of their own, they are in deep difficulties because of the large-scale imports from other countries. All quantitative restrictions on imports have now been removed and one can import any product from anywhere in the world. Indian markets are flooded with cheap Chinese goods and small-scale units are finding it extremely difficult to compete with them. Everywhere the Commission went, the witnesses who appeared before us almost unanimously complained about the adverse effects of this situation. Some also told us that Indian establishments would be able to hold their own after initial setbacks.

4.272 On 30 August, 2000, the Prime Minister announced a comprehensive policy package giving fiscal, credit, infrastructural and technological support to small and tiny industries. In June 2001, the S.P. Gupta Committee which was appointed by the Planning Commission submitted a report on the development of small-scale enterprises. This report contains many valuable recommendations. We were told that implementation of these recommendations could help healthy growth of small enterprises in India.

4.273 A large number of small units are being closed. The industrial areas and centres in different parts of the country which once, were very prosperous, and boasted of new generations of entrepreneurs are no longer in a position to sustain SSIs. In all the states and cities we visited, our Commission was told about the closure or sickness of tens of thousands of small scale industries and the consequent loss of employment for many lakhs of workers, and the miseries to which their families had been reduced.

Trends in employment and unemployment

4.274 The subject of employment is dealt with in greater detail elsewhere in this report. Therefore, we do not consider it necessary to analyse once again the trends in employment, unemployment rates, industrial distribution of total workforce etc. We may refer to the trends in brief:

a) Overall employment is estimated to have grown at around 1.01% per annum in 1990s compared to 1.55% per annum in 1980s. There is deceleration in rate of growth in employment in all sectors particularly more so in organised sector.

b) The number of unemployed in 1997 (38 million job seekers) was more than the number employed in organised sector (31 million were employed).

c) About 7% to 8% of the workforce which is in the organised sector is protected while the remaining 92% to 93% is unprotected, unorganised and vulnerable.

d) There is a trend in growth of casual labour in the total workforce during all these years. From 27.2% in 1977-78, it has gone up to 33.2% in 1999-2000. The proportion of salaried workers is the same at 13.9% in 1977-78 and 1999-2000. The propor-tion of self employed has come down from 58.9% in 1977-78 to 52.9% in 1999-2000. But the number of casual workers has gone up substantially from 27.2% to 33.2%. Thus, casualisation of workers has been an inevitable result of the new economic trends.

(e) Employment is not growing in the organised sector.

(f) 44% of the labour force in 1999-2000 was illiterate and 33% had schooling up to secondary education and above. Only 5% of the workforce had necessary vocational skills.

(g) It is not enough to create employment opportunities. The quality of jobs is equally important. Regular wage employment is preferred to casual employment. There is also a strong preference for employment opportunities in the organised sector and particularly in the Government sector. This is particularly so for the educated unemployed.

4.275 As mentioned earlier, these are only indicative trends.

Downsizing of companies

4.276 Because of global competition most of the companies want to reduce costs and be competitive. The first casualty is the number of workers employed, and since 1992 many Indian companies have resorted to downsizing by introducing Voluntary Retirement Schemes (VRS). VRSs are spreading very fast, and has affected many enterprises in different sectors. ACC, ANZ Grindlays Banks Ltd., Asia Brown Bovery, Ashok Leyland, Air India, Avery India, Bajaj Auto Ltd., Bates Clarion, Bharat Heavy Electricals, Bharat Heavy Vessels, Blue Star, Nicholas Piramel, Crompton Greaves, Dharamji Morarji Chemical Co Ltd., Colour Chem, Glaxo (I) Ltd., Godrej Soaps Ltd., Goodlass Nerolac, Reliance Industries, Hindustan Machine Tools, Hindustan Organic, Hoechest, Indian Airlines, Indian Rayon, Kores (India) Ltd., Larsen & Tubro Ltd., Mukand Iron and Steel Ltd., Premier Auto Electric, Phillips, Telco, SKF (Pune), TISCO, Voltas, Escorts, Daewoo (I) Ltd., ITDC are some of the companies which have introduced voluntary retirement schemes and have reduced the number of workers. Nationalised banks have introduced VRS for their staff, and so far about 99,000 workers have taken advantage of such schemes. A large number of Hotels in the ITDC, Taj, Oberoi, and Welcome Group have downsized by introducing VRS for their workers. Indian Railways are also thinking of reducing their number of workers by 30,000 per year. This is by no means an exhaustive list. But it gives a glimpse of the grave situation that is developing. When we add to this the workers who have lost jobs as a result of the closure of lakhs of SSI units we get a very grim picture of the employment situation.

4.277 The size of the organised sector in our economy is relatively small and the scope for expansion is extremely limited. In 1999, the organised sector employment was only 28.11 million or about 7% of the total employment of over 397 million in the economy. This employment grew at the rate of 1.20% per annum in 1983-84 and it has come down to 0.98% in 1994-2000[6].

[6] Source: Report of the task force on employment opportunities p. 2.24

Report of Working Group of Planning Commission

4.278 The Planning Commission, appointed a Task Force on Employment Opportunities. Shri Montek Singh Ahluwalia, then member of the Planning Commission was the chairman of the Task Force. We list some of the main recommendations made by the Task Force.

- Accelerating the rate of growth of GDP, with particular emphasis on sectors likely to ensure the spread of income to the low-income segments of the labour force.

- Pursuing appropriate sectoral policies in individual sectors which are particularly important for employment generation. These sector level policies must be broadly consistent with the overall objective of accelerating GDP growth.

- Implementing focussed special programmes for creating additional employment and enhancing income generation from existing activities aimed at helping vulnerable groups that may not be sufficiently benefitted by the more general growth promoting policies.

- Pursuing suitable policies for education and skill development which would upgrade the quality of the labour force and make it capable of supporting a growth process which generates high quality jobs.

- Ensuring that the policy and legal environment governing the labour market encourages labour absorption, especially in the organised sector.

4.279 The report of the Task Force has evoked considerable criticism, particularly from the officials of the Khadi & Village Industries Board, the Swadeshi Jagran Manch and others. The Government itself is committed to create one crore new jobs every year and according to them the recommendations of the task force will not be able to achieve the target. Our Commission has dealt with these recommendations in some other sections.

Economic Reforms and impact on Labour

4.280 A review of industrial relations in the pre-reform decade (1981-90) reveals that as against 402.1 million mandays lost during the decade (1981-90) i.e. in the pre-reform period, the number of mandays lost declined to 210 million during 1991 to 2000 - i.e. the post-reform period. This may give one the feeling that this is an index of improvement of industrial relations. But if we break these figures down, we find that more mandays have been lost in lockouts than in strikes. A total number of 129 million mandays were lost in lockouts, and 80.2 million were lost due to strikes during this period. Conditions of employment have been uncertain, and many workers do not seem to be willing to go on strike or resort to action that may put their jobs in jeopardy. But employers seem to have acquired more confidence and are resorting to lockouts more often. The agreements that are arrived at too are more often in favour of the management. This reflects a changed situation.

4.281 A large number of workers have lost their jobs as a result of VRS, retrenchment and closures both in the organised and the unorganised sector. The exact number is not available. According to our information, no data on this subject has been compiled by any State Government.

4.282 Wherever we went to collect evidence, we were told, particularly by those running small - scale industries, and by leaders of workers' organisations, that many thousands of workers had lost their jobs in the last decade. Everywhere we asked for information on specific numbers of closures and loss of jobs. We also asked the representatives of the State Governments for specific information on closures and jobs losses. But we have not been able to collect information on exact, or even approximate numbers. We are surprised that the state Governments, Trade Unions and managements of industrial enterprises are not able to give us definite information.

4.283 We learn that about 8 lakh workers have been ushered out of jobs through VRS and retirement schemes.

4.284 Here, we must also refer to the large number of complaints that we have received on VR Schemes. We have been told that in many cases, it is a travesty to describe these schemes as voluntary. We are not asserting that all 'voluntary' retirement schemes have suffered from elements of duress. We realize that in many cases, acceptance of VRS has been bonafide, and by free choice. But we have also been told of elements of indirect compulsion, pressure tactics, innovative forms of mental harassment, compelling employees to resign by seeking to terminate them, and in some cases, physical torture and threats of violence against themselves or dependents. Responsible officers or workers associations particularly in the Banking industry, have deposed before us about such practices followed by employers particularly in foreign banks.

Industrial Relations Scenario

4.285 We will make a few other general observations on matters that have made before us about the industrial relations scenario.

1. It is increasingly noticed taht trade unions do not normally give a call for strike because they are afraid that a strike may

lead to the closure of the unit.

2. Service sector workers feel they have become outsiders and are becoming increasingly disinterested in trade union activities.

3. There is a trend to resolve major disputes through negotiations at bipartite level. The nature of disputes or demands is changing. Instead of demanding higher wages, allowances or facilities, trade unions now demand job security and some are even willing to accept wage cuts or wage freezes in return for job protection. Disputes relating to non-payment of wages or separation benefits are on the rise.

4. The attitude of the Government, especially of the Central Government, towards workers and employers seems to have undergone a change. Now, permissions for closure or retrenchment are more easily granted.

5. The Conciliation Machinery is more eager to consider problems of employers and today consider issues like increase in productivity, cost reduction, financial difficulties of the employer, competition, market fluctuations, etc. etc. They are also not too serious in implementing the awards of labour courts awarded long back after protracted litigation against employers wherein reinstatement or regularisation of workers was required.

6. Recovery proceedings against employers who could not pay heavy dues of workers are not being pursued seriously by the industrial relations machinery, if the financial position of the employer is very bad.

7. The labour adjudication machinery is more willing to entertain the concerns of industry.

Collective bargaining

4.286 Globalisation is affecting collective bargaining. Earlier in the public sector, the emphasis was on greater parity across sectors and reducing the gap between the lowest and the highest paid employees. Now the gap is widening. Over 100 out of about 240 public sector companies have not had pay revision since 1992. There is also a trend towards decentralisation of collective bargaining in key sectors, which tends to reduce the power of unions, but makes pay more aligned to enterprise performance. Extension of the period of collective agreements in central public sector has resulted in workers of Navaratna companies getting double the raise they were getting when the duration of the agreement was for a period of 4 to 5 years. The average cost of a worker to the company per month in a Navaratna company at Rs. 29,000 is equivalent to the annual salary of a temporary worker with similar skills working in the same company and in the same location. Over the years, the gap between workers of the same skill level has been widening.

4.287 Incidence of industrial conflict seems to be on the decline. Most long drawn strikes in the private sector do not seem to have borne results from the workers' point of view. Even resistance to privatisation from trade unions is not deterring the government any longer. Where the privatisation process is stalled it appears more the result of bad experiences with earlier privatisations on a smaller scale (electricity, road and air transport, for instance), inability to get the tenants vacated from the premises (in the case of Great Eastern Hotel) or resistance from within the government itself. Detailed statistics regarding numbers of strikes, lockouts, workers involved and man days lost, have already been given in Chapter II and therefore, we do not want to repeat them here.

Financial Regulation and Supervision

4.288 The Reserve Bank of India is entrusted with the supervision of the banking system. It also regulates select financial institutions and Non-Banking Finance Companies (NBFCs). The Security Exchange Board of India (SEBI) exercises control over the stock exchanges. The Ministry of Finance also exercises its control over many term lending institutions.

4.289 Since 1991, a number of reforms have been introduced in the financial sector and a good number of structural and organisational changes have taken place in the financial system.

4.290 But in spite of all the new regulations, scams take place at frequent intervals. They expose the inadequacy of the present institutional and regulatory systems.

Scams

4.291 In 1992, Harshad Mehta was instrumental for a securities scam under the very nose of the Reserve Bank of India. The Standard Chartered and ANZ Grindlays Bank lost huge amounts of money and the Bank of Karad, a private sector bank went into liquidation. In 1996, a large number of public limited companies that had raised crores of rupees from the capital markets just vanished. Neither the companies nor their promoters were traceable. In 1997, CRB Capital, a NBFC promoted by Dr. C.R.Bhansali raised huge amounts from the public and was not able to pay back to the investors. Small investors lost their hard earned money. C.R.B. Capital which was even granted a provisional banking license defrauded millions of investors of their investments in mutual funds and public deposits. It left the State Bank of India shaken. The pay order scam of Ketan Parekh came to light in 2001. He had operated through the little known Madhavpura Mercantile Cooperative Bank, and as a consequence of the gross misuse of bank funds, the Bank had to be liquidated. For over two years Ketan Parekh was given a free hand to manipulate share prices and take them to unrealistic levels. Despite a pro-market Budget, the BSE Index went into a nosedive, ostensibly engineered by a bear cartel. As a result, there was an erosion of almost Rs. 1.5 lakh crores in market capitalisation and a loss of 700 points in the Bombay Stock Exchange (BSE) sensex in eight days. The upheaval made a mockery of the BSE's avowed Mission 2001, a Technology Savvy, Investor friendly, Global Exchange and the like. The plantation companies that mushroomed in the first half of 1990s duped investors of almost Rs. 8,000 crores and vanished. They promised investors incredible returns of over 1000% in seven years and launched massive newspaper and TV advertisement campaigns. Surprisingly, all of them got away without any punishment, leaving one to wonder about the efficacy of the regulatory system or the will behind it. The culprits have not been tracked down and brought to book. The law or the law enforcement machinery or both have failed to secure expeditious and exemplary justice. The small share holder or trusting investor has been dumped and defrauded of his meagre savings – in some cases, the savings of a lifetime on which the old or the widowed depended for their daily meals.

4.292 The events that have happened in the past one year, are even more disturbing.

Bankrupt Banks

4.293 Quite a few banks in the Cooperative sector in Ahmedabad, Hyderbad, and Pune have gone into liquidation. An administrator was appointed in one Cooperative Bank in Pune, (which was the third largest Cooperative Bank in the country.) There was a run on 6 Cooperative Banks in Anand and Nadiad in Gujarat. Boards of two Cooperative Banks in Gujarat were superseded by the State Government. The Chairman of a Cooperative Bank in Hyderabad committed suicide because of frauds in his Bank. There was a report that the RBI was providing an amount of Rs. 8,000/- crores to help the Cooperative banks in distress. All does not seem to be well with Cooperative Banks.

4.294 There are quite a few public sector banks which are sick or on the verge of sickness. The Indian Bank, UCO and United Bank of India are officially recognised as weak banks. Three more have been identified as seriously impaired banks : The Allahabad, Dena and Punjab & Sind Banks. Each of these have high gross NPA ratios, impaired asset books, excess staffing, low computerization, high intermediation costs and spreads that will not be acceptable to any low risk borrower. Each of these banks may have to be recapitalised.

4.295 The Government injected a massive Rs. 20,446 crores towards recapitalisation of public sector banks till the end of March 1999 to help them fulfill the new capital adequacy norms. The Government has decided not to provide any further funds for this purpose. The question that arises in many minds is if banks themselves go bankrupt, who can help them?

4.296 The Industrial Finance Corporation of India (IFCI) has gone under, and Government has agreed to lend Rs. 1000 crores for a bail out.

Because of large NPAs and client industries not repaying in time the IFCI has gone in red.

4.297 News about the Industrial Development Bank of India (IDBI) is even more disturbing. It has declared that it is in trouble, and has asked the Central Government for Rs. 1000 crores as assistance. Given the bigger size of its balance sheet and its massive exposure in sectors such as steel and textiles, its Non-Performing Assets (NPAs) may be much larger than those of Industrial Finance Corporation of India (IFCI), and it will probably require more funds for recapitalisation. It has asked the RBI to extend Rs. 1440 crores in loan payable in 50 years.

4.298 Most of the state financial corporations are also in trouble, and have large NPAs. The Government or the Reserve Bank will have to formulate plans to bail them out.

UTI muddle

4.299 The Unit Trust of India is the largest and oldest asset management company in India. On 28 February 2001, the funds under UTI management were of the magnitude of Rs. 64,250 crores. All other mutual funds together, manage a total fund corpus of under Rs. 38,000 crores. This throws light on the size of operation of the UTI. Let us look at the present status of the UTI: the gross NPAs of the UTI amount to Rs. 5693.34 crores; it invested in ICE stocks, it sold holdings in blue chip companies, it invested in over 1000 unlisted companies. It has been alleged that its Chairman was pliable and allowed political interference to influence investment decisions etc. Its ex-Chairman was in jail and the CBI is conducting investigations against him. The Tarapore Committee has found gross irregularities in the functioning of the Unit Trust of India. The Government of India has had to come to the rescue of UTI to bail it out, and the effect that all this has had on the credibility of the UTI and other financial institutions is anybody's guess.

Problems with ICICI

4.300 During the last five years, the asset quality of the ICICI has turned extremely suspect. It is said that many of the non-performing assets of ICICI will have to be written off. The 20 subsidiaries of the ICICI collectively earned about 3.9% return in the year 2001. Many were running into losses. Large non-performing assets are one problem and huge contingent liabilities are another problem. Now, to cover up the financial mess, it is being proposed that Industrial Credit & Investment Corporation of India (ICICI) should merge with ICICI Bank and convert itself into a universal bank.

4.301 Thus, all the major term lending financial institutions and banks are in deep trouble. During the last year, Net Asset Values of most mutual funds have gone down considerably because of the collapse of equity markets. Thus, small investors seems to have lost faith in all these institutions and they do not seem to know where to put their hard earned money.

4.302 If such scams occur frequently, and if leading financial institutions like the UTI, IFCI, IDBI and ICICI land themselves in situations from which they have to be bailed out, it raises serious questions about the effectiveness of the regulatory system which we are operating.

India Joins the WTO

4.303 On April 15, 1994, the Uruguay Round, the eighth in a series of trade negotiations, came to a close, and the agreement on the World Trade Organisation was signed. On 1 January 1995, the WTO (World Trade Organisation) came into existence. India was a signatory to the Agreement, and as a result we became a member of the WTO from its inception.

4.304 The WTO has been set up to ensure a freer trade regime in the world, and there are certain obligations cast on India as a member of the WTO.

4.305 According to the WTO, one cannot impose quantitative restrictions on goods imported from abroad. We were maintaining such restrictions on the import of about 2700 agricultural, textile and industrial products. Some countries approached the dispute settling body of the WTO complaining against India, and as a result we have had to remove all quantitative restrictions on imports from April 1, 2001. The rate of tariff has also been reduced. As a result, Indian industries are facing problems of indiscriminate imports of all types of goods and have to compete with these products in Indian markets. It is now cheaper to import parts and components required than to manufacture them in the country. As we have stated elsewhere, cheap Chinese goods of all types are in the Indian market and are effectively competing with Indian products. Even bottles of rose milk imported from China and sold in Delhi were produced before our Commission. Though it is said that non-oil imports have not come in a big way, in some industries like chemicals, plantation, household goods, toys, etc. products have been imported in a big way and are out-pricing Indian products. More and more of such goods are likely to come into India and if Indian manufacturers are not able to compete with them on price and quality, they will have to pull their shutters down. This is a real threat to Indian industry, and therefore to employment. Already a large number of industries are badly affected as a result of such free and unrestricted imports. A mention about them has already been made earlier in this Chapter.

4.306 Many countries are dumping their goods in Indian markets at a cheap price. The Government of India can impose anti-dumping duties on them to prevent unhealthy competition. Because this is a process involving a complicated procedure, such action often comes after a long time by which time the domestic industries are significantly dislocated. There is urgent need to revamp the set-up responsible for this purpose, including augmentation of manpower and capabilities to enable prompt action for the benefit of domestic industries.

4.307 As we have stated elsewhere, the Indian plantation industry is in great difficulty as a result of import of coffee from Vietnam, tea from Kenya and Sri Lanka, rubber from Malaysia, coconuts from Indonesia and so on. Several organisations of plantation employers in Kerala, Karnataka and Tamil Nadu told us that they were on the verge of closure because the prices of imported tea, coffee, etc. are much below the cost of production in Indian plantations.

4.308 In the new regime, we have to encourage foreign investment and give them treatment on par with local investors. A large number of multi-nationals have entered the field of low technology, high volume products such as mineral water, ice cream, processed foods etc., and this will close an area of opportunity to small entrepreneurs. Small units will not be able to compete with them and their aggressive advertising and modern marketing methods.

4.309 We have already pointed out that as a result of the Agreement on WTO, the Government will not be able to put any conditions on foreign investors regarding indigenisation of their products, criteria of local contents, ancillarisation, dividend balancing, export performance etc.

4.310 A large number of small enterprises have developed during the past decades as manufacturers of import substitution items. Now the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement will not allow us to copy the designs of products. Moreover, since imports are freely available, one may not be interested in manufacturing such products inside the country. Thus, one avenue for SSI units will be permanently closed.

Mobility of Labour

4.311 The migration of workers across international boundaries is one of the most striking aspects of the globalisation of the world economy, with a major impact on well over 100 countries. It is currently estimated that at least 130 million people live outside their countries of origin. This large-scale migration from one country to another, either permanently or for short durations, is essentially the manifestation of the urge to search for better incomes and better working conditions. Political factors have also influenced people to leave their ancestral homes and seek refuge in other countries.

4.312 Increased internationalisation of production, trade and finance is expected to exert additional pressure in the countries of origin and destinations for larger flow of skilled or unskilled labour in the immediate decades to come. In addition, the revival of economic growth in most of the Middle-East states – the centre stage for contract labour migration in the last two decades – seems to have wide-ranging implications on future international migration flows, particularly for labour exporting countries in South and South East Asia.

4.313 In such a context, it is imperative that attempts are made, especially in a leading labour exporting country like India, to examine the implications of the contemporary migration flows so as to evolve a more purposeful migration policy framework aimed at the maximisation of benefits from migration in the wider context of economic development.

4.314 Since Independence, two distinct types of labour migration have been taking place from India. The first is characterised by a movement of persons with technical skills and professional expertise to industrialised countries like the United States, Britain and Canada, which began to proliferate in the early 1950s. The second type of migration is the flow of labour to the oil exporting countries of the Middle East, which acquired substantial dimensions after the dramatic oil price increases of 1973-74 and 1979. The nature of this recent wave of migration is strikingly different, as an overwhelming proportion of these migrants are in the category of unskilled workers and semi-skilled workers skilled in manual or clerical occupations.

Migration to the Industrialised Countries

4.315 At the outset, it is important to highlight the basic characteristics of the labour flows from India to the industrialised countries in the period since Independence:

- Such outflows are made up almost entirely of permanent migration in so far as the proportion of emigrants, who return to India, after a definite period, is almost negligible.
- A large proportion of these migrants are persons with professional expertise, technical qualifications or other skills.
- For an overwhelming proportion of these migrants, the destinations have been the United States, Canada, and the United Kingdom, and in recent times some countries in Europe.

4.316 Available evidence indicates that the United States is the major recipient of Indian migrants. In terms of numbers, nearly 30,000 Indians on an average have been migrating to the United States during 1986-1995 (Table 4.23) every year. The significance of these flows becomes more evident when we examine India's share in total immigration to the United States during 1951-1996. It shows that Indian immigration in the United States which constituted less than 1% of total immigration from all countries during 1950s and 1960s, registered a rapid increase during the 1970s, reaching a peak of 3.8%. It slowed down in the 1980s till 1991, but went on the upswing again in 1992 at 3.8% and further touching almost 5% in 1996.

Table 4.23

India's Share in Total Immigration to the US: 1951-1996

Immi-gration	1951-60	1961-70	1971-80	1981-90	1991	1992	1993	1994	1995	1996
From India	2,120	31,214	172,080	261,841	45,064	36,755	40,121	34,921	34,748	44,859
From all countries	2,515,000	3,322,000	4,493,000	7,338,000	1,827,167	973,977	904,292	804,416	720,461	915,900
India's Share (%)	(0.1)	(0.9)	(3.8)	(3.6)	(2.5)	(3.8)	(4.4)	(4.3)	(4.8)	(4.9)

Source: Khadria, 1999

4.317 The presence of a substantial and growing number of educated Indian nationals in the West, mainly the U.S. makes "brain drain" an issue of significance for public policy.

Migration to the Middle East

4.318 The oil price increases of 1973-74 and 1979 saw an enormous growth in the demand for foreign labour in the oil exporting states of the Gulf. The scale of labour movements into the Gulf was intimately linked to the escalation in oil revenues and the unprecedented rate of investment in domestic industry and infrastructure in the oil states. The indigenous labour force was totally inadequate in these countries. They, therefore, had to turn to labour from elsewhere to meet the demands of the accelerated economic growth. This sudden spurt in the demand for labour was met by drawing labour from labour surplus economies like India. The period between 1974 and 1982 witnessed a large outflow of Indian labour to the Middle East labour markets.

4.319 The oil glut in the early 1980s resulted in a reduction of development expenditure in most Middle East States. This had an adverse impact on the demand for labour, and slowed down the flow of migrant labour into the region. Besides, most of the construction activities, which were taken up in the Middle East in the 1970s, and which employed large numbers of migrant workers had been completed by the 1980s resulting in large-scale displacement of the guest workers. This labour market situation forced the migrant labour to lapse back to their native countries in large numbers. Viewing this trend, apprehensions were expressed in many quarters as to whether Indian labour migration to the Middle East would be sustained in a significant manner in the next couple of decades. These apprehensions were further aggravated by the events of the Gulf crisis of 1990 which forced nearly 1,60,000 Indians to return home from the war-zones in distressed conditions.

4.320 Contrary to such threats of declining out-migration, available evidence indicates that labour migration from India to the Middle East has picked up substantial momentum since the initial set-back in the early years of the last present decade. The revival of economic growth in most Middle East states and the large - scale reconstruction of war-torn areas seem to have considerably boosted the migrant labour requirements in the Middle East again. The trends in the annual labour outflow from India to the Middle East in the 90s are depicted in the following Table: 4.25.

4.321 It is also important to note that there has been a clear shift in the pattern of labour demand in the Middle East – a shift away from several categories of unskilled and semi-skilled labour towards service, operations, and maintenance workers requiring higher skills – thus, generating new opportunities for labour exporting countries.

4.322 Apart from providing a 'safety valve' for the massive unemployment problems at home, migration to the Middle East would continue to be an important source of foreign exchange for a country like India, which faces severe balance of payments problems, at least for a couple of decades more.

4.323 The number of Indian workers who have migrated for employment is shown in the following table:

Table 4.24
Emigration for Employment over the years

(In Lakhs)

S. No.	Year	No. of workers
1	1987	1.25
2	1988	1.70
3	1989	1.26
4	1990	1.44
5	1991	2.02
6	1992	4.17
7	1993	4.38
8	1994	4.25
9	1995	4.15
10	1996	4.14
11	1997	4.16
12	1998	3.55
13	1999	1.99
14	2000	2.43

Source: Ministry of Labour, Government of India Annual Report 2000–01

4.324 These workers have mainly gone to countries in the Middle East. The following table gives the distribution of the labour outflow to these countries over a period of years.

Table 4.25

THE DISTRIBUTION OF ANNUAL LABOUR OUTFLOWS FROM INDIA BY DESTINATION 1991 – 2000

COUNTRY	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
BAHRAIN	8630	16458	15622	13806	11235	16647	17944	16997	14905	15909
KUWAIT	7044	19782	26981	24324	14439	14580	13170	22462	19149	31082
OMAN	22333	40900	29056	25142	22338	30113	29994	20774	16101	25155
S.ARABIA	30928	265180	269639	265875	256782	214068	214420	105239	27160	59722
U.A.E	15446	60493	77066	75762	79674	112644	110945	134740	79269	55099
SINGAPORE	—	—	—	—	-	—	—	21298	19468	18399
MALAYSIA	—	—	—	—	-	—	—	—	62	4615
LIBYA	—	—	—	—	-	—	—	—	1129	1198
OTHERS	7121	13971	19974	20476	28866	26162	29951	33654	22309	32003
TOTAL	197889	416784	438338	425385	415334	414214	416424	355164	199552	243182

Source: Ministry of Labour, Government of India, Annual Report 2000– 01

4.325 As we have pointed out earlier, the employment of Indian workers helps to earn foreign exchange and leads to augmentation of the foreign exchange reserves of the country. The following table shows such remittances into India from 1981-82 to 1999-2000.

Table 4.26

PRIVATE TRANSFERS (RECEIPT)

S. No.	YEAR	REMITTANCES IN	
		US $ MILLION	RS. CRORE
1	1981-82	2333	2082.8
2	1982-83	2525	2431.0
3	1983-84	2568	2648.3
4	1984-85	2509	2981.9
5	1985-86	2219	2715.5
6	1986-87	2339	2990.6
7	1987-88	2724	3532.7
8	1988-89	2670	3865.4
9	1989-90	2295	3823.9
10	1990-91	2069	3711.0
11	1991-92	3587	9418.9
12	1992-93	2651	8124.0
13	1993-94	5265	16513.0
14	1994-95	6200	25416.0
15	1995-96	8506	
16	1996-97	12367	
17	1997-98	11830	
18	1998-99	10341	
19	1999-2000	12290	

source: Ministry of Labour, Government of India Annual Report 2000-01

Industrial Sickness

4.326 The closure of industrial units and bankruptcy are a normal feature in the developed economies all over the world. The incidence of closures tends to be high in economies characterised by fierce competition and in industries with a high degree of obsolescence. Developed economies with their well-established social security systems, easily take care of workers displaced by such closures. So even when labour is displaced, the social safety net ensures that basic needs are taken care of. Developing economies, with their limited investible resources and relatively limited alternative employment opportunities, however, cannot, easily afford their productive assets and labour force turning non-operational. The resultant loss of jobs, production and revenue are not easily absorbed and, depending upon the number of persons involved, this situation may lead to serious social consequences. Industrial sickness and its resultant consequences have, therefore, to be handled carefully to see that its adverse impacts fall least on workers and on society. With globalisation, the incidence of sickness, bankruptcies and closure of industrial units appears to be on the increase.

4.327 As of March 1999, industrial sickness was widespread, afflicting 3,09,013 units in almost all industry groups spread all over the states and the union territories in India. This excluded 1.26 lakh non-existent and non-traceable SSI units with an outstanding bank credit of Rs. 240 crore (GOI 1996-97). These 3.09 lakh sick units might have been employing about 70-80 lakh persons (Mehta 1992). The losses of 117 out of 240 central government undertakings, most of them terminally sick, are estimated to be Rs. 5,287 crore in 1993-94, employing 7-8 lakh persons. Forty-nine public sector units under the Department of Heavy Industry, Government of India, employing 2.03 lakh persons incurred an aggregate loss of Rs. 1,111.59 crore during 1994-95 compared to an aggregate of Rs. 239.6 crore in 1990-91. Out of these 49 public sector enterprises 34 are loss making. Two hundred twenty-eight public sector enterprises of the Government of India, employing 20.5 lakh persons included 57 chronically sick units, which were registered with the Board of Industrial and Financial Reconstruction (BIFR). The losses of the departmental commercial undertakings of the 25 States and 7 Union Territories were Rs. 1,780 crore in 1995-96. In addition, the losses of the state electricity boards and states' road transport corporations were over Rs. 5,000 crore. About 875 state level public enterprises incurred losses of Rs. 863 crore in 1991-92 (Sankar et al 1994). According to the report of the Comptroller and Auditor General, there are around 500 enterprises owned and operated by the State Governments, which have a cumulative loss of over Rs. 2,000 crore, against a paid up capital of Rs. 2,300 crore (Bajaj Committee of 1992).

4.328 The aggregate scene of industrial sickness in public and private sector in India amounts to a magnitude of around 3 lakh units, a very large number of them terminally sick, with a total loss of about Rs.31, 000 crore and employing about 7-8 million people. Thus, industrial sickness in India is of massive proportions, and is eating into the vitals of the economy.

4.329 The major issue that emerges is how the industrial units, which are sick or closed or under liquidation, need to be dealt with in India, particularly the displaced workers and locked assets of these units. This issue assumes added importance because of the likely increase in the number of such units due to globalisation. The resources of the country are limited, and therefore, these resources cannot be written off. They need to be recycled for productive activities, without delay.

Trends in Wages and Productivity.

4.330 There is evidence to indicate that both real wages and productivity of labour have registered an increase during the 90s. This growth is visible in all segments of the workforce, even among casual workers.

4.331 According to the estimates made by Sundaram[5] based on the 50th and 55th rounds of NSSO, the average daily earnings of adult casual labourers in the rural areas increased by 3.59% p.a. for males and 3.19% for females between 1993-94 and 1999-2000. The average real wage earnings per day received by adult casual wage labourers in urban areas increased by 2.94% for males, and 3.91% for females during the same period.

4.332 Along with the growth of real wages, there appears to have been an

[5] Sundaram, K. (2001), 'Employment and Poverty in India in the 1990's. Further Results from NSS 55th Round Employment-Unemployment Survey 1999-2000', Economic and Political Weekly, August 11.

overall growth in the productivity of workers. According to Sundaram's estimates, labour productivity increased, in all the sectors and the aggregate level, at the rate of 6% p.a. In agriculture and allied sectors, it increased a little over by 3.3% p.a. in real terms. In manufacturing, trade, hotels and restaurants and community, social and personal services the average labour productivity measured by gross value added per worker increased at an annual compound rate of 6.1, 2.8 and 10.1% respectively. In the construction and transport, storage communication sectors the gross value added per worker virtually stagnated.

4.333 In spite of this impressive increase in labour productivity in 90s, India's labour productivity is lowest amongst 47 countries covered by the World Competitive Year Book 2000.

Poverty in India

4.334 The consumer expenditure data of the 55th round on a 30 day recall basis yields a poverty ratio of 29.09% in rural areas, 23.62% in urban areas and 26.10% for the country as a whole in 1999-2000. The corresponding percentages from the 7 days recall period are 24.02% in the rural areas, 21.59% in urban areas and 23.33% for the country as a whole. The poverty estimates for the years 1973-74, 1977-78, 1983, 1987-88, 1993-94 and 1999-2000 indicate a definite decline in poverty ratios. The estimate of poverty of 1999-2000 is not strictly comparable with the earlier estimates of poverty, on account of difference in methodology for collecting data, but the decline of more than 10% points in the poverty ratio gives some reason to believe that the general living standard of the workers has improved with the rest of the population.

4.335 The Market Information Survey Of Households (MISH) of the National Council of Applied Economic Research (NCAER) further corroborates these trends. An independent estimate of poverty, made by Deepak Lal, Rakesh Mohan and Natarajan on the basis of MISH, indicates a more rapid reduction in poverty ratio compared to the official estimates made by the Planning Commission.

4.336 According to these estimates, the poverty ratio at the all India level declined from 38.86% in 1987-88 to 16.52% in 1997-98. It is claimed that the estimates of decline in poverty ratio made on the basis of MISH are more compatible with available data on growth of consumption of consumer durables such as TV, tape recorder, electric fans, bi-cycle, two-wheeler as well as non-durable items, such as textiles, edible oils, footwear, etc.

4.337 The Economic Survey 2001-02 claims that poverty reached an all time low of 26% in 1999-2000. According to the latest estimates in the Economic Survey, the number of poor people in the country stands at 260 million.

Growth in Inequality

4.338 In spite of these macro improvements, at a more disaggregate level, there is an uneven impact of growth on different sections of the population reflecting income inequalities.

4.339 The employment elasticity of output has declined over time, which reflects the capital-intensive nature of the growth process. This decline is more pronounced in the secondary and tertiary sectors. According to the study made by Nagarajan,[6] the rural (nominal) per capita income as a proportion of the urban per capita income has also declined. A similar comparison of the nominal per capita income in the organised and unorganised sectors shows that the per capita net domestic product (NDP) in the unorganised sector as a proportion of NDP in the organised sector has also gone down (National Accounts Statistics, 1999, Statement 76.1, 1993-94, 1994-95, 1995-96 and 1996-97, Page 166-168). The income distribution across states shows that the inequality measured by the coefficient of variation in per capita state domestic product has nearly doubled since 1970-71. The disparity in per capita income between the top three and bottom states has also widened sharply since mid 80s. The distribution of value added between wages and profits in the private corporate sector also shows growing disparities in distribution between workers and entrepreneurs. Hence, there is some evidence from these studies to show that growth has favoured urban India, the organised sector, the richer states and property

[6] National Accounts Statistics, 1999, Statement S-5, Net Domestic Product in Rural and Urban Areas, 1970-71, 1980-81 and 1993-94, Page 184-185

owners as against rural India, the unorganised sector, the poorer states and the wage earners. The period of growth during 80s and 90s has also been the period of growing inequalities. Domestic investments are concentrated largely in the developed states of the country, mainly Maharashtra, Gujarat, Punjab and Haryana, compared to poor states like Bihar, Orissa, Madhya Pradesh and U.P. A similar trend is also seen in the concentration of Foreign Direct Investment (FDI).

Capital Market

4.340 During the last three years, the capital market is static. Very few new issues have come to the market. The following table shows the total number of new issues of equity, debentures, preference shares, right shares which were floated in the market and the total funds raised from the capital market. It appears that in 1994-95 a maximum amount of Rs.26, 369.68 crores were raised from the market through a total number of 1648 issues. Thereafter, since 1997-98 very few new issues or right issues came into the market. From a peak of 1663 new and right issues in the year in 1995-96, the total number of such issues has now come down to a meagre 142. In 1998-99, only 42 issues were launched. The total amount raised from the market in 1994-95 was Rs.26, 369 crores, and in the year 2001-02, only Rs.142 crores were raised from the market. 1991-92 was the worst year of the economic crisis. Even in that year, there were 514 issues, and an amount of Rs.6193 crores was raised from the market. Even this amount has not been raised during the last three years. In 1997-98, only around Rs.3000 crores were raised, and thereafter, the average amount raised per year has been around Rs.5000 crores.

4.341 The Capital market is an important indicator of the economy. The present state of the market only indicates the uncertainty and loss of confidence of the entrepreneurs about the future prospects of Indian economy. As has been said earlier, very few entrepreneurs are thinking of new projects, diversification and expansion, and this is amply reflected in the present status of the market. It is difficult to be optimistic about the situation.

Table 30

New Capital Issues raised by companies in private sector

Year	Amount in Rs. Crores	Total No. of public issues
1990-91	5335.88	536
1991-92	6193.07	514
1992-93	19803.49	1040
1993-94	19330.37	1075
1994-95	26369.68	1648
1995-96	16002.51	1663
1996-97	10409.60	838
1997-98	3137.74	102
1998-99	5013.00	48
1999-00	5153.34	79
2000-01	4923.97	142

Source: Handbook of Statistics on Indian Economy – RBI - 2001

No improvement in Administration

4.342 Though a number of changes have taken place in the Indian economy, bereaucratic procedures and systems seem to retain their role. Very often, we hear about simplifying of procedures, doing away with unwanted laws and having a single window clearance. Many changes have taken place in the industrial sector. But other sectors are untouched. A number of efforts have been made, but without any success. Still, even after a decade of economic reforms, the Government's control over of our economic life has not weakened.

International Labour Standards

4.343 During the course of the evidence tendered before us, we were sometimes told of the "Social clauses" or clauses on labour standards which were being used by developed countries to prohibit or restrict the import of goods manufactured in India to other developed countries. We were informed that practices like the employment of child labour, not abiding by environment standards etc. were identified as departure from the labour standards that developing countries were expected to maintain. However, no one told us that the failure to pay an adequately high minimum wage, provide for a minimum social welfare and social security, adequate housing, medical aid, drinking water etc. were also regarded as failure to abide by prescribed labour standards. We did not ask anyone to explain why the developed countries regarded some "Labour Standards" as essential and some others as unessential, and whether it had anything to do with the advantages that could be derived from the use of cheap labour in the developing countries. A number of complaints are often made about multinationals engaging workers in countries like Indonesia, Mexico, Ghana etc. and paying very low wages without any restrictions on working hours, and without basic facilities at places of work.

India's readiness to face competition

4.344 India was the second largest economic power, next only to China, in the entire Asia-Pacific region, at the time of its independence. The position continued till the end of the 1970s. Thereafter, first Japan, and then the other tigers in the region – be it in East or South-East Asia – have overtaken India. During the past two decades China has made such impressive strides that the gap between the two countries in terms of global competitiveness has widened to an extent that it will not be easy for India to overtake China. The policies of self-reliance became insular at a time when other countries in the region availed the opportunity of adjustment pressures in the Organisation of Economic Corporation & Development (OECD) countries consequent upon oil price shocks, and opened up their economies. The ascendancy of the Asian NICs, which was characterized as Asian economic miracle corresponded with the period of the meltdown of the Indian economy.

4.345 India's share in both foreign direct investment and foreign trade are well below one per cent of the world's total. In this sense, India is a marginal player in the globalisation process. But India is reputed to have a middle class whose size is equal to that of the whole of Europe. Foreign debt accounts for over a quarter of our gross domestic product (GDP) and a major portion of our import being petroleum and petro products, is non-discretionary. Thus, the world needs access to India's vast and growing market and India needs the world not only because of huge debt and petroleum imports, but also to meet its need for investment and access to advanced technologies.

4.346 As the Asian Development Bank (1998) remarked, South Asian countries, including India, continue to fare badly in terms of productivity and competitiveness because of the underdevelopment of infrastructure. The arguments for liberalisation and privatisation should be seen in this context. The Government can probably release its energies from routine commercial activities and focus more on education, health, transport and telecommunications, and other key concerns of the infrastructure.

4.347 Even so, in terms of Purchasing Power Parity (PPP), Indian economy with US $2.23 trillion in national income is the fourth largest in the world in 1999 (*Economic Times*, 30 April 2001), next only to the USA, Japan and China. The size of the Chinese economy is nearly twice that of India and that of the USA sixteen times bigger in terms of PPP per person.

Global Recession

4.348 The events of September 11, 2001 and its aftermath have resulted in a sharp deterioration in confidence across the globe, which has contributed to a downward revision in the IMF's projection of world growth to 2.4% from 3.5% a few months ago. Growth in both the advanced and developing countries is expected to slow down sharply in 2002 – projections have been revised downward by 1.3% and 0.9%, respectively since the October 2001.

4.349 The $ 10 trillion US economy has been an important determinant in the growth of other economies throughout the past decade. The Japanese economy – the second largest economy in the world – is also a major factor influencing the world economy. Both these economies are in difficulties.

4.350 The airline industry, which is a major industry in the U.S with almost 24000 flights operating daily, has been very badly affected because of the enormous fall in passenger traffic.

4.351 This has affected a whole chain of other industries like the airline meal and catering industry, tourism, hotel and hospitality industry, and many other related industries. US airlines laid off 70,000 workers within 24 hours. British Airways has followed with a cut of many thousand jobs. They have already asked 36,000 non-management staff to accept pay cuts. Major air carriers have scaled back their schedules by 20-30% and International Air Transport Agency (IATA) estimates the number of job losses in the global airline industry at about 2 lakhs. Boeing has plans to lay off 30,000 workers as a result of unexpected slowdown in orders. Jet engine maker Rolls Royce Plc. has announced that change in production plans were inevitable. Lufthansa is likely to follow the US and European peers who have slashed jobs and have revised their plans.

4.352 Sabena and Swissair have filed for bankruptcy, with immediate retrenchment or retirement of thousands of workers. Quite a few airlines have asked for financial support and loans from the Governments of their countries.

U.S Economy

4.353 The US airlines industry has asked for a federal aid package. US Congress has agreed to give a $ 15 billion bail out which could include $ 2.5 billion as immediate grants and $ 12.5 billion in loans and credits. The other affected businesses may also ask for similar aid packages. It appears that even titans in industry are realising that the State or Governments have a role to play in the survival and viability of industry and the protection of employment.

4.354 Even before September 11, there had been a slow down in the US economy. The US economy suffered from increasing unemployment, lower consumer spending, lower quarterly corporate earnings and lack of will for long term investments to create additional capacities and infrastructure.

4.355 The latest trends indicate that the US has ended the year 2001 with a whimper, with capacity utilisation and industrial production reaching the lowest for two decades, in December 2001. The following Table depicts the trends in the key economic indicators of the US:

Table 4.31

US Economy – Latest Trends

Indicators	% Change Latest
GDP	-1.1
Industrial Production	-5.8
Unemployment Rate (%)	5.8
Consumer Prices	1.6
Producer Prices	-1.8
3-Month Interest Rate (%)	1.6
Trade Balance ($Billion.)	-4.39
Budget Balance (% of GDP)	0.6

Source: Economist, 19-25 January 2002.

Other Industrial Economies

4.356 The following Table captures the latest trends in select industrial economies in terms of key macro-economic parameters.

Table 4.32

Economic Performance (% Change, Latest)

Country	GDP	Industrial Production	Unemployment Rate (%)	Consumer Prices
Britain	1.7	(-) 4.8	5.1	0.7
Canada	(-) 0.8	(-) 6.0	8.0	0.7
France	1.9	(-) 0.9	9.0	1.4
Germany	(-) 0.6	(-) 4.8	9.5	1.7
Italy	0.6	0.9	9.3	2.4
Japan	(-) 2.2	(-) 13.1	5.5	(-) 1.0

Source: Economist, 19-25 January 2002.

4.357 The industrial production of major industrial countries like Britain, Canada, France, Germany and Japan has gone down. Unemployment is increasing.

4.358 Japan is already staggering under a long financial crisis that has lasted more than a decade. There are no signs of recovery, its stock markets are depressed, and production and exports are not growing. If the economy shrinks further in 2002, there can be serious problems to the Japanese banking industry. There is no shortage of indications on the horizon.

4.359 French business confidence has hit a five year low. Polls show that British economic optimism has slipped to its weakest since 1980.

4.360 As a result of these events, the growth of G7 countries is expected to slide down from 3.2% last year. This would be the lowest growth rate since 1992-93.

Asian Economies

4.361 The trends in key economic parameters in select Asian economies indicate a very mixed picture, with output (GDP) levels rising in China and India, and output as well as prices falling in – Malaysia, Singapore and Taiwan. The following Table gives more details:

Table 4.33

Trends in Select Asian Economies

Annual Percentages Change on Year Earlier			
Country	**GDP**	**Ind. Production**	**Cons. Prices**
China	+7.0	+8.7	-0.3
India	+5.3	+0.9	+4.9
Indonesia	+3.5	+3.2	+12.6
Malaysia	-1.3	-4.4	+1.2
Singapore	-7.0	-13.6	-0.2
S. Korea	+1.8	+4.9	+3.2
Taiwan	-4.2	-6.8	-1.7
Thailand	+1.5	+0.1	+0.8

Source: Economist, 19-25 January 2002

4.362 It is evident from the Table that whereas China's industrial production-growth has been forging ahead, India's growth - rate of manufacturing is stagnating. Curiously, China is experiencing deflation, with falling consumer prices. In India too, with decelerating inflation, the Reserve Bank of India has been talking about the likely adverse effect of low inflation on the economic growth.[7]

Effects on India

4.363 The IMF, in its World Economic Outlook has said that India, Russia and China are reasonably insulated from world turmoil as they are relying more on their huge domestic demand.

[7] Report on Currency & Finance 2001-02 – RBI.

4.364 India is predominantly a domestic economy and its export dependency in 9% of GDP. But its exposure to the US is as much as 20% in terms of goods exported and 60% in software exports. Likewise, India's exposure to European Union countries is fairly high at 25% and 20% respectively in terms of goods and software exports. Global slowdown and particularly slowdown in the United States and European countries is bound to affect India.

Consequences of the new policy

4.365 As a result of the new economic policy, inflation is under control; we have been able to accumulate enough foreign exchange reserves, Indian companies have access to global financial markets, India's external debt position has improved. Some industries like Information Technology (IT) have made impressive progress, taking advantage of global economic integration; foreign investment is coming to India both in portfolio investment as well as in industrial projects, Indian consumers who can afford to pay, have increased access to all types and a large variety of international brands of goods in the market.

4.366 At the same time globalisation has also had negative impacts on a variety of sectors of the Indian economy.

a) Except the IT, telecommunications and entertainment industry, all other traditional industries in India are facing problems. There is no demand for their products and they have had to face tough competition from imported products or products manufactured by MNCs in India.

b) As a result, a large number of such industries are downsizing and some have closed. This has resulted in VRS, retrenchment and closure of many units. A very large number of workers have lost their jobs.

c) Because of global competition and increasing number of Mergers and Acquisitions (M&A), Indian entrepreneurs have lost controlling interest in their enterprises and because of the general recessionary trends, no one seems to be planning new projects, diversions and expansion. There seems to be some degree of pessimism about future prospects of the Indian economy.

d) While internal demand is affected, exports too have been affected. They seem to have stagnated during the last few years. Thus imports are growing, without simultaneous increase in exports.

e) There is a general slow down of industrial activities, and Indian manufacturers have not performed well. The capital goods industry has been affected very badly and has registered a negative growth.

f) There is a general feeling that India does not enjoy any competitive advantage in manufacturing.

g) Small-scale industries are the worst affected. A large number of them are closed. No new investments are taking place in a big way in this sector.

h) The Capital market is almost dead during the last three years and very few new issues have been launched.

i) Service industry is the only industry that is progressing, and manufacturing and agriculture have taken back seats.

j) Though India has received foreign investments, the amount is too low as compared to the funds received by China. This is in spite of opening many economic activities for foreign investors. Much of these funds have come for portfolio investment and M&A activities. Proportionately very small amounts have reached India for greenfield or brownfield investment.

k) A greater number of MNCs are delisting from stock exchanges, and converting into private companies.

l) The new economic policy has neglected the farm and small-scale sectors with adverse consequences on the employment situation.

m) Employment is not growing and as a result unemployment is increasing in the country.

n) Participation in and the benefits of globalisation have so far been limited to a small segment of the educated and skilled population and some private sector entrepreneurs. However, the poverty level seems to have come down though income disparities have widened.

o) Even among the educated middle class, a very small section of persons engaged in IT, telecommunication and entertainment industry are well placed while all others in the traditional industry are working under considerably uncertain circumstances.

p) Thus, jobs are being created only in very narrow fields such as information, communication, and in certain informal sectors using low technology. Other areas of economic activities, like traditional manufacturing, agricultural and non-farm activities are not experiencing any increase in jobs. Globalisation led growth cannot be described as a job led growth.

q) Markets are now free, more goods are available, and prices are stable. But the poor are hurt because there is no opportunity for them to earn more income, and therefore they have no means to benefit from the availability of goods.

r) The burden of structural adjustments has fallen mostly on the poor. Whenever either central or state Governments balance their budgets, social expenditures are the first victims. Primary education, primary health care and food subsidies to the poor are the worst hit.

Appendix

A Note on the Decade of Economic Reforms

The year of 1991 is a landmark in the economic history of India. So far, Indian economy was insulated by protective policies and a complicated system of licenses and permits. This was given up and a policy of economic liberalisation was introduced. Lot of basic changes were introduced in all policies pertaining to industries, capital markets, foreign investment, imports, exports, banking and finance etc.

What were the basic changes?

I. **Industrial Policy:**

Abolition of Industrial Licensing except 15 industries

Dilution of MRTP Act – only unfair practices

Opening of several basic and core sector industries to private sector (only 8 in public sector)

ONGC open for foreign investment

No investment limit for foreign companies

Automatic Approval foreign colla-boration and technical agreement

II. **Capital Markets Reforms**

Controller of Capital issues abolished More powers given to SEBI

Free pricing of shares was allowed

National Stock Exchange and OTCEI was established

III. **Foreign Investment Policy**

FERA Amendment Ordinance 1993 – Act was amended

FERA companies can acquire any Indian company except those engaged in agriculture and plantation

They can raise deposits and borrow funds in India

Only trade in Gold and Silver will be regulated under FERA

Foreign companies can hold immovable property in India

IV. **Policy regarding NRIs**

100% equity in priority industries

Investment in real estate housing permitted

Can import 5 Kg – now 10 Kg of Gold every 6 months

No income and wealth tax on NRI deposits

V. **Foreign Investment Policy**

Automatic clearance of foreign equity

Participation up to 51% in a wide range of industries

Now a list of industries where foreign companies can invest up to 74%

Foreign equity participation allowed with or without technology

A special empowered Board was constituted to clear large investment proposals

24% foreign equity participation in SSI units allowed

Foreign investment up to 51% in trading companies engaged in export

Foreign pension fund companies allowed to invest in Indian companies

Automatic approval of foreign technology agreement in high priority industries

No permission required for hiring of foreign technicians

No restriction on repatriation of dividends

VI. **Import – Export Policy**

Import Licensing Abolished expect a few products:

OGL list widened

Tariff reduction from 300% to 110% to 80% - 50 to 60% – Now only 25% to 30% - under WTO regime it will be around 10 to 20%

Some Capital Goods and project imports are allowed even without paying any duty.

15% duty on components required for exportable products

Convertibility of rupee on current account

Export profit exempted from taxation

VII. **Taxation policy**

Simplification of tax policy was announced

Maximum tax was brought down from 40% to 30%

Corporate tax was also brought down

Reduction of tariff rates of customs as well as excise

VIII. **Financial sector reforms**

SLR was reduced from 38.5% to 25%

CR was reduced from 25% to 10% and then to 8%

Complete freedom given for charging interest rates to Banks

Banks could charge interest rates

"depending upon the perception of credit worthiness of customers"

Banks in private sector were permitted with different norms

Indusind

HDFC

Industrial Development Bank

ICICI Bank got licence as a private sector bank

Banks were given freedom to charge interest rates on deposits

Concept of Prime Lending rates was introduced

All this package can be called a policy of economic liberalisation

A decade of reforms – Policy of Economic Liberalisation continued

CONTINUATION OF REFORMS

This policy of economic liberalisation continued and during the subsequent years, from 1991 to 2001, a good number of policy reforms were introduced. The following are some of the important ones.

I. **Services and Industry**

1992-93	PSUs allowed to access capital markets, ONGC corporatised
1993-94	Car and white goods manufacturing delicensed
	Large-scale ready-made garments opened for foreign equity
	13 minerals, formerly reserved for public sector were opened for private investments
1994-95	All bulk drugs delicensed
	Automatic 51 % foreign equity allowed in bulk drugs
1995-96	Daewoo car manu-facturing allowed in India
1996-97	Licensed industries list comes down to only 14. Investment ceiling for SSI raised from Rs.75 lakhs to Rs. 3 crores
	FIPB revamped
1997-98	Licensed industries brought down to 9
	Disinvestment Commi-ssion recommends sell of 50 PSUs
1998-99	Coal, lignite, sugar, mineral oils delicensed
	Hyundai launches Santro in India in October 1998
	Corporates allowed to buy back up to 25 % of their total network
1999-00	IT Bill introduced in Parliament
	Tax provisions for housing liberalised
2000-2001	Banks were allowed to enter insurance sector
	IRDA finalises entry norms for private insurers
	Maruti to be privatised
2001-02	▪ Interest rates on small savings reduced
	▪ Government equity disinvested in select public sector undertakings like VSNL, IBP, CMC, HTI, PPI, BALCO and certain ITDC Hotels

- VRS introduced for Government employees in the surplus pool
- Full decontrol of sugar announced during 2002-03 (conditional on commencement of futures trading)
- Items covered under the Essential Commodities Act reduced from 29 to 17
- Licensing requirements and restrictions on storage and movement of wheat, rice, sugar, edible oil seeds and edible oils removed
- New Pharmaceuticals Policy announced reducing the span of price control rigours on several bulk drugs and formulations
- Fourteen items dereserved from the list of items reserved for exclusive manufacture by the small scale sector
- Bill for abolition of the Sick Industrial Companies (Special Provision) Act introduced in Parliament
- Bill for setting up of a National Companies Law Tribunal by amending Companies Act introduced in Parliament
- The Union Budget (2001-02) proposed amendments in the Industrial Disputes Act and Contract Labour Act for removing the existing structural rigidities in the labour market.

Infrastructure

1992-93	Oil exploration and refining opened up to foreign investment
	Lubricants taken out of administered price mechanism
	Plan for equity in BOT road projects finalised
	Value-added telecom services such as cellular, paging and radio trunking opened up for private players
1993-94	5 year tax holiday for power projects and manufacturing units in backward areas
1994-95	Private players allowed in telecom services
	Telecom licence auction takes place
	National Highways Act is amended to provide for road tolls

	Enron signs power purchase agreement with Government of Maharashtra
	Private sector was allowed in civil aviation. Thereafter, Jet Airways, Sahara, Damania, East West entered.
1995-96	Telecom Regulatory Authority set up
	First set of cellular licenses issued
1996-97	Guidelines for BOT highways project announced
	Private sector allowed into BOT operations
1997-98	IDFC established to fund infrastructure projects
	Holding COS allowed to raise $ 50m as ECBs for infrastructure projects
	Central and State Electricity Regulatory Commissions were established by an ordinance.
	Aviation policy allowed 100% NRI holdings and 40% foreign equity
1998-99	Indian Electricity Act, 1910 and Electricity Supply Act were amended to allow private sector in transmission
	Urban Land Ceiling Act was repealed
	Private sector allowed for operating terminals at existing ports
1999-2000	About 350 companies were registered as internet service providers
	Maharashtra Govern-ment refuses to pay Enron dues. Dispute sets in.
	Australian Port Company Peninsular and Oriental starts operating private berths at J.N. Ports Bids invited for terminals at Kochi, Kandla
2000-01	Indian Airlines, Air India listed as privatisation candidates
2001-02	▪ Initial period for availing of ten-year tax-holidays for infrastructure projects rationalized and extended to 15 to 20 years
	▪ The five-year tax holiday and 30 % deduction of profits for the next five years for telecommunications extended to internet service providers and broadband networks

- Electricity Bill 2001 and Communications Convergence Bill 2001 introduced in Parliament.
- Accelerated Power Develo-pment Programme started for incentivising power sector reforms in states
- Budgetary allocation enhanced for the Pradhan Mantri Gram Sadak Yojana (PMGSY) for speeding up connectivity of rural roads, PMGY scheme extended to cover rural electrification
- Special Railways Safety Fund created which is to be funded by surcharge on passenger fares and budgetary support
- National Highway Development Project launched

II. External Sector

Following are the important changes that have occurred during the last ten years:

1992-93 Import curbs lifted

Import licensing of capital goods, raw materials, intermediates and components diluted

Customs duties cut

Peak tariffs cut to 110 %

1993-94 Baggage rules relaxed

Dual exchange rates relaxed

1994-95 Two categories of NRI deposit scheme, FCNRA and FCONR terminated

1996-97 FIPB issues first guidelines for approving FDI not under the automatic approval list

48 industries become eligible for 51 % foreign equity under automatic approval

1997-98 NRIs allowed to invest 100 % in priority sector

ECB guidelines released

	The Tarapore Com-mittee recommended India should open up its convertibility on capital account
1998-99	340 items moved from licensed to OGL category
	QR on 2300 imports from SAARC removed from August 1998
	India – Sri Lanka trade agreement was signed – zero tariffs on most of the items by 2007
	100 % automatic FDI for power generation, T&D roads, bridges, and ports allowed
1999-2000	FEMA 1999 enacted, replacing FERA
	QR removed on 1300 items
	FDI in most sector allowed under RBI's automatic system only a small negative list
2000-01	India loses trade disputes with US, agrees to remove QRs on the remaining 1,429 items by April 01. In April 00 QRs on 714 items are removed and in April 01 QRs on remaining items removed.
2001-02	▪ Quantitative Restrictions (QRs) on BOP grounds removed by dismantling restrictions on the remaining 715 items
	▪ Partial back loading of the withdrawal of tax benefits offered to exporters under Section 80-HHC of the Income Tax Act.
	▪ Agri-Economic Zones set up for promoting agricultural exports on the basis of specific products and geographical areas.
	▪ Market Access Initiative (MAI) scheme introduced to boost exports
	▪ Interest rates on export credit rationalized by indicating interest rates on exports credits as PLR linked ceiling rates
	▪ Special financial package introduced for large value exports (annual exports of over Rs.100 crore) of selected products
	▪ Duty drawback rates for more than 300 export products and value caps abolished under DEPB on about 400 export items from October 2001

- Medium term export strategy formulated to achieve a quantum jump in the next five years

Banking & Finance

1992-93	Narsimhan Committee on Bank Reforms submits report
	SLR, CRR cut to reduce state pre-emption of loanable funds
	Number of lending rates reduced from 6 to 4
	Capital adequacy norms laid down
1993-94	SBI Act was amended to allow the bank to access the capital market
	Debt Recovery Tribunals set up
	Prudential norms laying down
	Maximum NPAs laid out
	Malhotra Committee report recommends private sector entry into the insurance sector
1994-95	Banks free to determine PLRs
	No minimum lending rate for loans above Rs. 2 lakhs
	Ad-hoc treasury bills limited by agreement between RBI and Government
1995-96	IDBI Act amended. IDBI raises Rs.1200 crore through its initial public offering.
1996-97	CRR cut from 13% to 10%
	Government allowed to set up private local area banks
1997-98	RBI Act amended after CRB scam
	RBI gets powers to regulate NBFCs
	Fixed interest regime relaxed
1998-99	NBFC regulations tightened
	Insurance Regulation and Development Bill introduced in Parliament
1999-2000	IRDA Act passed in Parliament, allows private equity in insurance; foreign equity capped to 26%

	Insurance Regulation Development Authority to be set up
	Times Bank merged with HDFC Bank
2000-01	Amendments to Banking Act to allow Banks to enter insurance field
	Government decides to keep its stake to 33 % in nationalised banks.
	Nationalised banks announce VRS for their staff.
	IRDA issues licenses to 11 licenses to private insurers.
	RBI announces cut in bank rate and CRR to combat slow down
	Bank of Madura merged with ICICI Bank.
	Global Trust Bank merged with UTI Bank
	Film financing was allowed to IDBI by amending the Act
2001-02	▪ Foreign Investment was permitted in Banks up to 49%

Capital Market

1991-92	SEBI was given more powers
	Harshad Mehta boom reigns
1992-93	SEBI announces guide-lines on equity market disclosure
	FIIs allowed to hold up to 24 % of local companies
1993-94	Controller of Capital Issues abolished, issue pricing to be market determined
	SEBI empowered as market regulator
	OTCEI set up
	Indian firms allowed to access European markets via Euro equities
	Private Mutual Funds allowed
1994-95	SEBI Regulations 1994
	India's take over code passed

1995-96	IPO norms tightened to boost quality of Issues
	Public Sector Banks allowed to access capital markets
	Stock Exchanges asked to set up clearing houses
1997-98	Entry barriers for unlisted companies lowered
	Disclosure norms made more stringent
1998-99	Infrastructure com-panies get easier public issue norms
1999-2000	Securities Laws Amend-ment Bill 1999 passed in Parliament incorporating derivatives and units of investment schemes as securities
	Rediff and Satyam came out with ADR issues
2000-01	Internet Trading permitted
	Dot.com boom bursts
	Hostile bids start taking place
	Old economy stocks regain their charm
2001-02	▪ Clearing Corporation of India Ltd. (CCIL) set up. The Negotiated Dealing System (NDS) is being introduced
	▪ Floating rate Government bonds reintroduced
	▪ Badla banned and rolling settlement introduced
	▪ FDI up to 49% from all sources permitted in the private banking sector
	▪ 100% FDI permitted for B to B e-commerce, courier services, oil refining, hotel and tourism sector, drugs and pharma-ceuticals, Mass Rapid Transport System including associated commercial development of real estate
	▪ Non - Banking Financial Companies (NBFCs) permitted to hold foreign equity up to 100% in holding companies

- Foreign investors permitted to set up 100% operating subsidiaries without the condition of disinvesting a minimum of 25% equity to Indian entities
- Joint venture NBFCs having 75% or less than 75% foreign investment permitted to set up subsidiaries for undertaking other NBFC activities
- Dividend balancing conditions withdrawn from 22 consumer items
- Offshore Venture Capital Funds/Companies allowed to invest in domestic venture capital undertakings
- FDI up to 100% permitted with prior approval of the Government for development of integrated township
- The defence industry opened up to 100 % private sector participation by Indian companies with FDI permitted up to 26 %, both subject to licensing
- International Financial Insti-tutions like ADB, IFC, CDC, DEG, etc. allowed to invest in domestic companies through the automatic route, subject to SEBI/RBI guidelines and sector specific caps on FDI
- Corporatisation of stock exchange proposal involving segregation of ownership, management and trading membership from each other
- Trading in index options, options on individual securities and stock future introduced
- Aggregate limit for FII portfolio investment enhanced to 49% and subsequently up to sector ceiling

FISCAL Reforms

During all these years the Central Government has tried to keep fiscal deficit in check, tax rates have been reduced, excise duties have been simplified, gifts are exempted from gift tax, five year tax holiday has been announced in respect of many industries and so on. The Chelliah Committee was appointed to introduce fiscal reforms and many of its recommendations were accepted and implemented by the Government

The following fiscal reforms were introduced in the year 2001-02:

- Various economy measures introduced including down-sizing some of the departments
- Excise duty structure was rationalised to a single rate of 16% CENVAT (Central Value Added Tax) in 2000-01. The Budget for 2001-02 replaced earlier three special rates of 8%, 16% and 24% by a single rate of 16%
- Ther Peak level of customs duty reduced from 38.5% to 35% with abolition of surcharge on customs duty. Customs duty reduced on specified textile machines, information technology, telecommunications and entertainment industry
- Goods imported by 100% EOUs and units in FTZs and SEZs exempted from anti-dumping and safeguard duties
- All surcharges abolished on personal and corporate income tax rates except the Gujarat earthquake surcharge of 2% leviable on all non-corporate and corporate assesses except foreign companies
- Weighted deduction of 150% of expenditure on in-house R&D extended to biotechnology
- Five-year Tax holiday and 30% deduction of profits for the next five years extended to enterprises engaged in integrated handling, trans-portation and storage of foodgrains
- Incentive Fund created for incentivising fiscal reforms in states.

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