(source: Nomura Securities Corp.)

Despite the fact that China has these problems, investments to China were increasing sharply, and are expected to further augment when these problems are solved. Features of China's foreign investment policy observed are the designations of four special economic zones, and 14 open coastal cities to which the government gives special treatments to foreign investments. Foreign investors between 1979 and 1986, were from Hong Kong and Macaw-based companies; comprising 56 per cent of total foreign investment to China, with the remaining 44 per cent shared between Japan, Europe, and the United States. The southern part of China also is establishing a new economic zone where Hong Kong is located in the center.

* Vietnam

Vietnam liberalized foreign investment and announced a New Socio-economic Policy in 1987 (DOI-MOI). Investment to Vietnam began with the restoration of social foundations destroyed during the war. In 1987, the Foreign Investment Law was enacted, and investment regulations for foreign joint ventures and collaborations were established. Consequently, foreign investments have increased each year, and rapid improvement of the foreign investment climate is expected within the coming years. Investment flows from abroad have been identified as originating from Taiwan and Hong Kong, and rapidly increasing from Korea and other ASEAN countries, strengthening closer economic relationships among the Asian NIE's and ASEAN countries. Industrialized countries also are planning to shift productive operations to Vietnam from ASEAN countries where shortages of skilled labour are being observed as well as increased labour costs.

4.3.3 Investment Climate Circumstances

The circumstances associated with the investment climates in countries and a comparison with India, are introduced as follows:

(1) Liberalization policies

India's restricted industrial fields have eight industries reserved for the public sectors, which are national strategic industries such as arms and ammunition, atomic energy, mining, telecommunications, etc., and not included in the industries in which foreign investors demonstrate an interest. Malaysia, China, and Vietnam are not described particularly, but are restrictive in practice. Other countries clearly designated as India having restrictive industrial fields.

(2) Approval System for Investments

In India, investment in 36 high priority industries are automatically approved when foreign equity share is below 51 per cent, and of 16 industries, are obligatory for obtaining an industrial license as introduced in Table 4-8 and 4-9.

In Pakistan and Sri Lanka, investments for almost all industries are automatically approved. And, in Bangladesh and the Philippines, no application procedures are needed for investments. Thailand has an industrial license for 14 industries. These countries do adopt more open policies compared to India.

(3) Foreign Equity Share

Bangladesh, Sri Lanka, the Philippines, China, and Vietnam have not established limitations for foreign equity shares, and other countries have some limitations according to, for example, the export ratio of their products. Indonesia and Malaysia require a phased domestication of joint ventures with foreign capital. And, 100 per cent of foreign investment equity in India, is to be approved through filing of applications.

(4) Taxation

Custom duties in developing countries are assessed mainly for the purpose of protection of domestic industries, and for national revenues. Accordingly, each country assesses comparatively low rates for machinery imports. India's customs duties are still high compared to other countries although custom duties were reduced in 1993 to 85 per cent from 110 per cent. India's corporate income tax rate is 51.75 per cent for public corporations and 57.5 per cent for private corporations. Pakistan has rates of 55 per cent, and 46.75 per cent in Bangladesh. These three countries are high tax rate countries compared to other countries, where for example, the corporate income tax rates are between 15 to 35 per cent.

(5) Tax incentives

Each country provides tax incentives divided into the following two categories:

(a) Territorial incentives: Industrially backward areas, designated industry zones, EPZ (s) etc.

(b) Sectoral incentives: Pioneer Industries, Export-Oriented Industries.

The countries are providing some tax incentives, except for Indonesia, Sri Lanka and Malaysia as showed in Table 4-6.

Table 4-6 Incentives for Corporate Income Tax

Country	Developed Area	Less/undeveloped Area	Other designated Area	EPZ/EOU	Specific Industry
India	No	Yes (5 Yrs)	No	Yes (5 Yrs)	Yes
Pakistan	Yes (3 Yrs)	Yes (5 Yrs)	Yes (8 Yrs)	Yes (5 Yrs)	Yes
Sri Lanka	No	No	No	Yes (5-15Yrs)	Yes
Bangladesh	Yes (5 Yrs)	Yes (7-9 Yrs)	Yes(12 Yrs)	Yes (10 yrs)	No
Thailand	No	Yes (3-6 Yrs)	No	Yes (3 Yrs)	No
Malaysia	No	No	No	No	Yes
Indonesia	No	No	No	No	No
Philippines	No	Yes (4-8 Yrs)	No	YES (4-8Yrs)	Yes
China	No	No	Yes (Rate Reduction)	-	Yes
Vietnam	No	Yes (4 Yrs)	No	-	Yes

(6) Remittances Abroad

Remittances abroad of invested funds such as dividends and royalties, are the most foreign investors' essential issue. Thus, a country's guarantee of free remittances abroad is important. However, Bangladesh, Malaysia, and the Philippines, require an application procedure for remittances abroad while China and Vietnam provide incentives on remittances.

(7) Domestic Procurement Ratio

To assess obligations to increase the domestic procurement ratio, does effect the development of domestic industries and the transfer of foreign technology into a country. But, severe application of the same stifles management of joint ventures. Pakistan was the only country among the countries studied that imposes an obligation in writing to regulate the domestic procurement ratio. Other countries provide administrative guidance to increase the domestic procurement ratio.

4.3.4 General Observations Regarding International Comparisons for Investment Conditions

As for foreign investment regulations into a country, India provides equal level conditions compared to other Asian countries, except for high rates of import duties and high corporate income tax rates. However, at the same time, it can be said that India does not provide any special incentives to foreign investors.

In conclusion, the international comparisons of investment conditions has shown that India's specific circumstance are as follows.

(a) Foreign investors' psychology.

Many foreign investors continue to have an image that foreign investment policy in India, are relatively closed due previous policies and the short duration of time that has passed since the introduction of the liberalization of foreign investment in July 1991. As for approval systems for foreign investment, India needs to adopt automatic approval procedures for foreign investment, with an increase from present level of per cent equity shares. And, to amend foreign investors' inaccurate impressions about India, positive and repeated public information campaigns about India's investment liberalization abroad would prove most effective.

(b) The domestic market

As described in Chapter 7 (the demand survey for foreign investment), two purposes of foreign investors are to secure inexpensive labour and to compete in domestic markets. India will be considered by foreign investors as "an attractive country holding a large domestic market", and finally as "the most important country to be invested for a company's global business strategy", when India provides to foreign investors no restrictions for India's large domestic market.

(c) India's Attributes

Geographical situations, the natural and human resources, are essential to distinguish India's specific ability to attract foreign investors. India should adopt an investment policy utilizing these specific attributes.

4.4 Foreign Investment Concerns

Investment returns are essential to foreign investors. Therefore, India should provide a well-organized investment climate that foreign investors can obtain sufficient investment returns. In fact, recent investments from abroad into India have significantly increased primarily in large scale investments for power supply and petroleum-related industries. As a result of liberalization with the announcement of "NIP-91", however, several points still remain and are needed as amendments. These points are described in this section and were pointed out by foreign investors during interview surveys performed by the Study Team.

4.4.1 Psychological Issues of Foreign Investors

As previously described, India's investment climate is almost the same compared to neighboring countries. The following psychological perceptions of foreign investors, especially Japanese investors, obstructed foreign investments increasing to India.

(1) The Political Situation

In India, the assassination of two prime ministers, religious disorder, and bombings in Bombay, are unfortunate incidents that affect foreign investors' impressions about India's political situation. Political stability is indeed the most important factor for foreign investors.

(2) Public Relations of Recent Investment Liberalization

The liberalization measures enacted after "NIP-91", were not well publicized to foreign investors. India's investment seminars were often held in Japan, but the attendants in these seminars were limited to member companies of the "India-

Japan Economic Committee", and information about recent liberalization toward investments did not reach to potential Japanese investors.

(3) Foreign Investors' Impressions

Foreign investors are to visit India to investigate investments after collecting various kinds of information from possible sources. The attitude of the National Airline and related activities at the international air terminal are very important for giving the best first impressions about India.

4.4.2 Foreign Investment Policies Concerns

(1) Concerns Related to Regulations

(a) Dividend Remittances

The dividend balancing system which regulates dividend remittances abroad for maximizing the extent of exported amounts, was abolished except for the following consumer goods industries. (refer to Table 4-7)

India's large domestic market attracts foreign investors and consumer goods industries are expected to increase foreign investments, therefore, reconsideration of the dividend balancing system as applied to the consumer durables industries is needed.

Table 4-7 **Reconsideration of the Conditions of "Dividend Balancing" Applies**

1 Manufacture of goods and food products
2 Manufacture of dairy products
3 Grain mill products
4 Manufacture of bakery products
5 Manufacture and refining for sugar (vacuum pan sugar factories)
6 Production of common salt
7 Manufacture of hydrogenated oil (Vanaspati)
8 Tea processing
9 Coffee
10 Manufacture of beverages, tobacco and tobacco products
11 Distilling, rectifying and blending of spirits, wine industries, malt liquors and malt, production of country liquors and toddy.
12 Soft drinks and carbonated water industry
13 Manufacture of cigars, cigarettes, cheroot & cigarette tobacco
14 Manufacture of wood and wood products, furniture and fixtures
15 Manufacture of leather and leather and fur products
16 Tanning, curing, finishing, embossing & Tanning of leather
17 Manufacture of footwear (excluding repair) except vulcanized or molded rubber or plastic footwear
18 Manufacture of footwear made primarily of vulcanized or molded products
19 Prophylactics (rubber contraceptive)
20 Motor cars
21 Entertainment Electronics (VCRs, Colour TVs, CD players, Tape Recorders)
22 White Goods (Domestic Refrigerators, Domestic Dish washing Machines, Programmable Domestic Washing Machines, Microwave ovens, Air-conditioners)

(b) Sales Tax

Sales taxes, which are very important sources of state government revenues, includes the following areas of concern. (It was reported that the central government recognized the following and currently is studying possible amendments.)

i) Duplication of Sales Tax

In that case that an industry procures components from an ancillary industry, sales tax on final products is to be levied on prices including procured component prices already having been levied sales taxes. This implies that sales taxes on components are taxed twice. When these components are procured from other ancillary industries, sales taxes are levied three times. Industries, therefore, are not intending to procure components from ancillary industries, or to processing works of ancillary industries. This works against developing ancillary industries.

ii) States differ in amount of sales taxes.

The significant variation of sales tax rates between states, leads industries to seek sales offices in the lowest tax-rate states.

(c) Technology Collaboration Contracts

Technology collaboration contracts are automatically approved when a royalty is less than RS. 10 million. This amount is impractical due to the fluctuations in the foreign exchange market at present. Although technology collaboration contracts with royalties of more than Rs. 10 million may be approved on application to SIA, there is a case reported, that the technology collaboration contract failed at an initial stage due to this limitation. Thus, India missed an opportunity for a transfer of foreign technology into the country.

(d) Phased Manufacturing Programme (PMP)

In "NIP-91", the announcement was made that "the system of PMP will not be applicable to new projects; existing projects with PMP will continue to be governed accordingly". This announcement was misunderstood by foreign investors as existing industries are still under this obligation to help keep existing programmes to increase the domestic production ratio, even though the actual intention of this announcement was to continue the rights that allow concessional import duties that are provided at 10 per cent less than the ordinary rate to industries with PMP certificates. This could inhibit new foreign investors that may judge it better to postpone investment to India as latecomers as they may receive favorable treatment over former investors. Announcements should provide enough explanation and clarification of obligations as well as incentives offered for new projects.

(e) Mandatory Convertibility Clause

Similar the PMP system, an announcement was made that "The Mandatory Convertibility Clause will no longer be applicable for term loans from financial institutions for new projects" that a governmental financial institute was able to convert a part of the finance to equity in a company. The same consideration should be given for the PMP system.

(2) Procedures for Various Applications

Foreign investors in India complain about application procedures and are summarized in three categories as follows:

i) Different interpretations by the government staff cause inconveniences and problems.

ii) Uninformed decisions due to a lack of knowledge on the part of governmental staff regarding central government changes and/or amendments.

iii) Too-detailed divisions of governmental authorities which are not well-defined for applicants.

For example, important applications such as procedures for investment applications, withholding taxes related to royalties, import licenses, and for custom clearances, are described in the Appendix.

(a) The Interpretation Differences by Government Staff

There was a case reported that one government staff worker interpreted a particular commodity as not requiring an import license. However, Customs officials insisted that an import license was compulsory on the same commodity. This confusion was caused due to incomplete descriptions regarding the negative list of imports, Part II A,. Consumer Goods.

In this list, 11 items are clearly mentioned as included in consumer goods, and 21 items are described as items that shall not be regarded as consumer goods. Other items than 11 and 21 mentioned above, are not clear as to whether an import license is necessary.

(b) Inadequate communication between central government and implementation authorities

For the remittance of royalties, the rate of withholding taxes was reduced from 30 per cent to 20 per cent based on a double taxation avoidance agreement signed between the Government of India and Japan. Nevertheless, 30 per cent was levied. Also, after there was recognition of over-payments, refunds were delayed.

(c) Too Detailed Division of Government Authorities

Although India's government is trying to simplify government procedures, detailed and many government divisions still remain. The state governments are also endeavoring to simplify procedures by instituting "Single Window Service". Procedures for industrial approvals or licenses, exports, imports, and customs clearances are simplified substantially, but complicated procedures for factory construction, electricity, telephone connections, etc., still remain.

4.4.3 Issues from Foreign Investors in India

Through an interview survey conducted by the study team, the following issues were reported:

(1) Issues resolved or in the process of resolution by the Indian Government

(a) Investment approval took too much time in duration. (Presently, maximum duration for final decision is six weeks through SIA.)

(b) Restrictions for capital goods imports, and for spare parts imports by after-service companies (not final consumers), should be liberalized. (Presently, imports of these items are liberalized.)

(c) Import duties and excise duties were too high compared to other Asian countries. (Currently, the government announced a reduction of imports and excise duties in April 1993.)

(d) Applications for work permits/Visas for foreign engineers took too much time. (Currently, the procedures are simplified.)

(e) PMP obligations were still imposed on old units. (Foreign investors misunderstood, the facts remained the advantages of concessional import duties.)

(f) Sample exports for testing and quality examination to Japan were not approved. (Two companies reported failure to obtain approval; it was ascertained that this was due to the negative list of export items, which were already liberalized.)

(2) Issues to be Amended

(a) Foreign investments exceeding 51 per cent of equity should be liberalized. The government does approve applications, but there is not an automatic approval system in place as yet.

(b) The following two restrictions for royalties should be eased.

i) Royalties on new models of the same specification as previous ones were not approved.

ii) Royalties with minimum guarantees were not approved. These restrictions have not been eased as yet.

(3) Issues to be Improved

(a) Withholding taxes on royalties and dividends were levied incorrectly.

Improvement of communication systems between the central government and implementation authorities, are earnestly expected.

(b) The Board of Industrial and Financial Reconstruction (BIFR) obstructs the smooth exit of foreign investments.

The clearance of a company intending exit from India due to recent unfavorable economic situations, was not allowed according to the final decision of the BIFR.

(c) The customs clearance procedures

Customs clearance procedures are too complicated and very limited clearance by only an agent can proceed through clearance.

(d) Office maintenance

The import of electronic equipment for office use and automobiles for business purposes should be eased.

Other issues on financial structure, human resources, infrastructures and etc. are summarized in Appendix IV-II.

Table 4-8 The Comparison Table of Investment Circumstances (Industrial Policy)

(1/6)

Country	1. Basic Attitude
1) India	Since the independence of 1948, in view point of "Construction of the socio-democratic nation", the government had been adopted the policy that the important industries should be operated by the governmental industries. However, after the gradual open policy in 1980, recognizing the necessity of the industrial development, the revolutional "The New Industrial Policy - 91" was announced in July, 1991, and the investments are to be free thereafter.
2) Pakistan	Positive policies for the industrialization have been adopted since 1989, and the special incentives are to be given to the newly established industries at "Industrial Backward Area", and also the designated industries.
3) Sri Lanka	In 1977, governmental controlled economy was changed to open liberal economy based on market mechanisms. The new foreign investment promotion policy was announced in 1991, and export oriented industries are mostly welcomed.
4) Bangladesh	Recognizing the necessity of the promotion of foreign investment, the development of domestic small and medium scale of industries and the development of private sectors, the government announced the new industrial policy in 1991 with the following contents: (1) Abolishment of prior approval system for foreign investment by Board of Investment (BOI) (2) Abolishment of restriction for foreign investment ratio (3) Liberalization of investment to all fields of industries other than designated industries to be operated by the governmental institutes.
5)Thailand	Realizing the foreign investment was the one the most important elements for the Thailand economical developments, the basic policy to promote the investment has been still maintained. However, this high growth of economy brought the some problems such as great deal of differences in individual earnings, and the inclination to centralize the economics to the metropolitan zone of Bangkok. The existing economic program, therefore, has adopted policies such as investment should be diversified to locate to local districts, and to invite the technology-intensive industries, saying "from quantity to quality" and "balanced and constant growth".

Table 4-8 The Comparison Table of Investment Circumstances (Industrial Policy)

(2/6)

Country	1. Basic Attitude
6) Malaysia	Rapid growth in manufacturing fields accelerated the economical growth, however, the various difficulties as follows are appeared: (1) Export-oriented industries have been also importing their capital goods, materials and components, and the trade balance has not been improved. (2) The development of small and medium scale of industries, the education for personals, and development of the technology, have been insufficient. (3) Consequently, the economics of Malaysia has been deeply depending on the abroad, and being affected substantially by the foreign market situations. Government is planning to promote the domestic small and medium scale industries, and to proceed the selective invitation of the foreign investment, for example, electronics or high-technology industries, etc.
7) Indonesia	The fifth 5-year plan started in 1989, adopts the policy to promote industrial development mainly on the private sectors and focuses on investment in export-oriented industry and labor-intensive industries. The overheating investment boom brought the inflation since around 1990. The government, therefore, decided to reconsider the execution of the large scale governmental projects, and re-started to restrict the borrowing of foreign exchange. Thus, the government shows the some reforms of the economic policies, but basically, are keeping the strong intention to promote the investments and enforcing the gradual liberalization for the foreign investment.
8) Philippines	On the announcement of the foreign investment act in 1991, the government maintain the fundamental policy to promote the both of domestic and foreign investment targeting the promotion of the employments, the development of the productivity and rural developments. The investment promotion board(BOI) the policies to place the utmost incentives to designated industries, as well as the rural industries avoiding the centralization of the industries to Mania metropolitan area.
9) China	The eighth 5-years plan started in 1991 showed progressive policies to promote the investments in succession to the seventh 5-years plan. The investment promotion policy has been enforcing throughout the China designating "Special Economic Zone" and "Economic and Technology Development Zone" naming "Three Along's" such as "Along the Sea", "Along the Rural" and "Along the River".

Table 4-8 The Comparison Table of Investment Circumstances (Industrial Policy)

(3/6)

Country	1. Basic Attitude
10)Vietnam	The government announced the "Doi-Moi Policy" (innovation) in Dec., 1986 with the following targets: (1) Coexistence of socialistic nation and capitalistic economy. (2) The priority on the production of consumers goods. (3) The promotion of the private and individual management. (4) The independent profit system on governmental enterprises. (5) The participation in international economic corporation system.

Table 4-8 The Comparison Table of Investment Circumstances (Industrial Policy)

(4/6)

Country	2. Restriction/Promotion of Investment
1) India	(1) The industries restricted for Investment a) The industries designated for public sector only(8 industries) Arms and ammunition and allied items of defense, Atomic energy, Mining of oil and mineral ores, Railway transportation, Telecommunication and others b) The industries required the industrial license(18 industries) Coal and lignite, Petroleum products, Alcoholic drinks, Sugar, Animal fats and oils, furs, Tobacco, Asbestos and asbestos-based products, Plywood, Leathers, Motor cars, Paper and Newsprint, Aviation equipments, Aviation and defense equipments, Industrial explosives, Hazardous chemicals, Entertainment electronics(VCRs, tape recorder, etc.), White goods(refrigerators, washing machines, etc.) (2) Other restrictions a) MRTP Act Restriction about the share of capital to the MRTP enterprises nominated by the government for the purpose of the protection of small and medium scale of domestic enterprises. b) Restrictions for the environment problems All industries should not locate within 25 km apart from big cities except the designated industries such as computer soft industries.
2) Pakistan	(1) Investment control a) The industries required the prior approval Weapon and ammunitions, Mintage, Explosives, Radioactive substances, Alcohol except industrial application b) The industries prohibited to the foreign investment Agricultural land, Forests, Irrigation, Real estates, Radioactive substances, Insurance and Medical services (2) The special pricrity's industry a) Key industry Bio-technology, Electronic industry, Fertilizer industry, Optical fiber, Solar energy related b) Engineering products; Machinery products not produced within Pakistan c) Cement d) Diary Products e) Equipments for mining industry f) Electric industry g) Fertilizer production
3) Sri Lanka	(See foreign investment priority industries/prohibited industries) 1 economy based on market mechanisms.

Table 4-8 The Comparison Table of Investment Circumstances (Industrial Policy)

(5/6)

Country	2. Restriction/Promotion of Investment
4) Bangladesh	(1) The industries reserved only to public sector Weapon and ammunition, Atomic energy, Mintage, Forestry, Aviation, Railroad, Power generation, Power transmission, Power distribution, Telecommunication (2) The industries would be approved on joint-venture basis with the government Jute, Cotton fabrics, Sugar, Paper, Steel, Shipbuilding, Electrical heavy industries, Mining, Petroleum gas, Cement, Petro chemicals, Chemical products and Fundamental Pharmaceuticals, Sea transportation, Telecommunication equipments, etc.
5) Thailand	(1) The industries for investment promotion Agricultural products, Mining, Metals and ceramic industries, Chemicals, General and electrical machineries, Other manufacturing industries and Other services
6) Malaysia	(1) The industries for investment promotion Manufacturing industries, Agriculture and agricultural industries and Tourism
7) Indonesia	(1) The industries completely prohibited for new investment(both for domestic and foreign investment) Forestation, Harvest and utilization of sponge, marijuana and its similar, veneer board manufacturing, Casino (2) The industries permissible only for the joint-venture with the public sector Printing of securities, explosives, aviation industries such as jet air-craft
8) Philippines	(1) The industries restricted by the Philippine constitution and/or the low for nationalization etc. Mass-medium, Advertising business, School, General retail business, Local banks, Shippings, Pawnbroker etc. (37 fields) (2) The industries restricted by the regulations Weapons and ammunitions, Hazardous products, gambling, Sexual industries, and Other small investment below US$ 500,000 (3) Other industries designated by NEDA The service industries such as imports and wholesales, life and non-life insurance etc.

Table 4-8 The Comparison Table of Investment Circumstances (Industrial Policy)

(6/6)

Country	2. Restriction/Promotion of Investment
9) China	The industries for investment promotion (1) Agricultural development and new technology (2) Infrastructure such as energy and transportation etc. (3) Technology oriented industries such as advanced technology, product quality and productivity improvement technology, environment assessments, and also the improvement of economic efficiency (4) The export oriented industries (5) The innovation industries for new products (6) The industries for resources-related (7) The export processing industries
10) Vietnam	See foreign investment policy/basic attitude

Table 4-9 The Comparison Table of Investment Circumstances (Foreign Investment Policy)

(1/6)

Country	1. Basic Attitude
1) India	The government announced "The New Industrial Policy - 91" on July, 1991, and adopted the free policy in principle instead the restricted as previous.
2) Pakistan	Since 1989, the government is endeavoring to attract the foreign investment, and, to be remarkable, the foreign investment promotion on the participation to the existing government owned industries.
3) Sri Lanka	Recognizing Foreign Investment and Technology Transfer are most essential for the economic development, Government launched the positive policy for the invitation of foreign investment, formulating the single installation of GCEC, under the New law called Greater Colombo Commission Law.
4) Bangladesh	On 1991, the government announced the New Industrial Policy, and showed the positive policy for the foreign investment. Emphasizing the low labor cost, the following fields of industries are preferred. (a) The export oriented industries (b) The import substitution and high-technology industries (c) The industries utilizing mainly the domestic materials (d) The industries located in EPZ (e) The industries utilizing the natural resources (f) The investment upgrading of the quality and productivity on the existing industries
5) Thailand	The foreign investment promotion policy has been alternating to "Selective from "Positive", formulating the various limits of foreign capital share. However, the basic attitude to promote the foreign investment for the export oriented industries, the transportation industries, environment assessment industries and technology development industries are remained unchanged.
6) Malaysia	Since 1986, the government has been promoting the foreign investment targeting the development of the export oriented manufacturing industries, and no alternation of the policy has been seen in the announcement of new foreign investment policy of Nov. 1991. However, due to the shortage of the labor, the selective promotion for the foreign investment such as the high technology and huge capital of industries are preferred, and the tax incentives for the new industries are being curtailed.

Table 4-9 The Comparison Table of Investment Circumstances (Foreign Investment Policy)

(2/6)

Country	1. Basic Attitude
7) Indonesia	In accordance with the recommendation of World Bank, the restriction for the foreign investment has been liberalized positively every year. In 1992, the following liberalization were announced. (a) Time limit of conversion to the Indonesian capital majority is prolonged to 20 years from 15 years (b) The minimum foreign investment amount is reduced to US$ 250,000 from US$ 1,000,000. (c) The industries prohibited to the foreign investment are designated to 51 industries from 60, and as a most remarkable liberalization, the 100 percent of the foreign investment is to be allowed for the
8) Philippine	Basically, the government is promoting the export oriented industries. However, in 1991, the 100 percent of the foreign investment has been released with the limit of the three years from the announcement instead the maximum foreign investment share of 40 percent. In 1992, the government acoustic the more relaxation of the restriction to the foreign investment to allow the foreign exchange deposit in the Philippine domestic banks. The terrible shortage of electricity had been embodied since 1992, and the government decided to introduce the new concept of BOT(Build, Operate and Transfer) system that the private enterprises including the foreign concern would build the new power station and operate for 50 years with their own management and then transfer to the government with free of charge. While, the government recognized the importance to promote the domestic supporting industries for the core industries which are regularly importing their component from abroad.
9) China	In 1992, the government announced loudly the liberalization policy for the foreign investment with the following three main amendments: (a) The service industries such as retails, transportations, traffics, external trades, management consultants, and insurances would be granted for the foreign investment. (b) The restrictions for the domestic sales from the foreign concerns would be softened. (c) According to the "Three Along's" policy, the liberalization to the foreign investment would be prevailed in every aspects. The government is still keeping the restrictive policy in principle for the foreign investment, however, they are now spreading out the limitation of the approval to domestic market oriented industries from only to the export oriented industries, and to the all over the China setting the new "The Special Economic Zone". Moreover, it appears the case of the no limitation for the duration of foreign equity. Thus, the positive foreign investment might be accelerated hereafter.

Table 4-9 The Comparison Table of Investment Circumstances (Foreign Investment Policy)

(3/6)

Country	1. Basic Attitude
10) Vietnam	Targeting the coexistence of "The socialist nation" and "Capitalistic economy", the government is promoting the foreign investment positively. The foreign investment act is not regulating the restricted industries of foreign investment, however, the government is keeping the policy not to allow the automobile industries for domestic market, restaurant and jewel mining etc. The priority industries are: (a) Export oriented and import substitution industries (b) High technology industries needed the skilled labor (c) New investment for upgrading of the productivity (d) Labor intensive industries utilizing the domestic natural resources (e) Construction of infrastructure (f) Service industries which earn directly the foreign exchange such as tourism, repairing of vessels, air and sea port services, and etc. The duration of the foreign equity is decided unto 50 years.

Table 4-9 The Comparison Table of Investment Circumstances (Foreign Investment Policy)

(4/6)

Country	2. The priority industries/restricted industries
1) India	(1) Automatic approval industries unto 51 percent of foreign equity(35 industries) Metallurgical industries, Boiler and steam generating plants, Prime movers(other than electrical generators), Electrical equipment, Transportations, Industrial machinery, Agricultural machinery, Earth moving machinery, Industrial instruments, Scientific and electron instruments and laboratory equipment, Nitrogenous and phosphoric fertilizers, Chemicals(Other than fertilizers), Drugs and pharmaceuticals, Paper and pulps, Rubber products including automobile tires, Plates glass, ceramics, Cement products, High technology reproduced multiplication equipment, Carbon and carbon products, High pressure RCC pipes, Rubber machinery, Printing machinery, Welding electrodes other than those for welding mild steel, Industrial synthetic diamonds, Insecticides, Extraction and upgrading of minor oils, Prefabricated building material, Soya products, Hybrid seeds, Food processing industries, Hotels and tourism-relate industry, Computer soft industries (2) The participation of over 51 percent of foreign equity on above 35 industries, and of 18 industries needed for the industrial license (in case of domestic investment), would be required to apply for approval. Window : SIA(Secretariat for Industrial Approvals), Ministry of Industry Judgment: FIPB(Foreign Investment Promotion Board) Member Chairman : Secretary to the Prime Minister Constant Member : Secretary general(Ministry of Finance), Secretary general(Ministry of Commerce) and Secretary general(Department of Industrial Development) Temporary Member: Secretary general, Related Ministry
2) Pakistan	(1) The government has been conducting to make an approval the foreign equity of below to percent. (2) Priority industries are pharmaceuticals, chemicals, engineering, agro-industries, electric and electronics industries. (3) Governmental institutions: Ministry of Finance, Ministry of Industry, and Central Bank of Pakistan. All investment for other than designated industries(see above) are able to formulate the new company under the registration to the Ministry of Industry.

Table 4-9 The Comparison Table of Investment Circumstances (Foreign Investment Policy)

(5/6)

Country	2. The priority industries/restricted industries
3) Sri-Lanka	(1) The prohibited industries for the foreign investment: Financing institution, Pawnbroker, Small scale retailer(the capital less than U$ 1,000,000), Employment agency(to the enterprises other than exporting and tourism) and Coastal fishing (2) The industries required the governmental license other than GCEC: Banks, Insurance, Security, Aerial transportation, Coastal transportation, weapon and ammunition, Explosives, Military aircraft, Hazardous goods, Drugs, liquor, Violent Poison and like, Mintages, Power generating and distribution, Mining of jewels, Branch office and representative office (3) The industries required the special approvals from GCEC in case the over the 40 percent of the foreign equity: Production and/or the processing industries for tea, crude rubber, coconuts, cocoa, rice, sugar and peppers, Domestic timber related industries, Fishing, Building construction for residence, Water supply, Transportations, Tele-communications, mass medium, educations, Lawyer, Accountant, Stevedore, and Traveling and cargo agent
4) Bangladesh	(See basic policy)
5) Thailand	(1) The prohibited industries for the foreign investment: Rice, Salt, Domestic dealing of agriculture products, Real estate, Accounting, Lawyer, Architecture, Advertisement and etc.(12 industries) (2) The industries prohibited in principle for foreign investment: Horticulture, Stock farming, Forestry, Rice related industries, Sugar refining, Pharmacy, Cold chain, Wood processing, Gold and silver works, Matches, Cement, Stone-cracking, Plywood, Garment, Printing, News-paper, Silks, Retail business, Antique business, Travel agency, Hotels, Photographs, Cleanings, Transportations and etc.(35 industries) (3) The industries needed the special license of Ministry of Commerce: Wholesales, Exports, Feed stuffs, Oil squeezing, Textiles, Glass wares and etc.(14 industries)
6) Malaysia	No regulations to restrict the foreign investment, however, Industrial Development Authority (MIDA) has a policy not to allow the foreign investment unless otherwise the export of over 80 percent of their products would be promised on following 11 industries: Condensed milk, Flower, Refined sugar, Cement, Clinker, Lumber, Passenger car(1,300 to 1,600 cc), iron and steel products, Tin, Oil refining, Power and communication cables

Table 4-9 The Comparison Table of Investment Circumstances (Foreign Investment Policy)

(6/6)

Country	2. The priority industries/restricted industries
7) Indonesia	(1) The industries prohibited for the foreign investment: Taxi service of inter cities, Coastal transportation, Aero-transportation, Grand services for airplanes, Retails, Advertisement, Broadcasting, of TV and radio, Cinema, Forestry (2) The industries approved for foreign investment under the condition of export obligations(65, 100 %): Poultry, Synthetic sweets, Fruits wine, Beer, Gas-lighter, Three-wheel automobile, Vaccines for animals, Flour, Tobacco, Matches, Low carbon steel, Tin plate, Passenger car, Medicines
8) Philippine	The government has been announcing the IPP(Investment Priorities Plan) every year in which the priority industries as pioneer industries are to be designated. The pioneer industries in 1992 are fertilizer, stock farming, agro-industries, fishing(other than prawn and shrimp), forestry, mining industries, textile industries, chemical and petrochemical industries, cement, metal processing, automobile components, semi-conductor, communication equipment, shipbuilding, energy related projects etc.
9) China	(See Investment Regulation/Investment Promotion)
10) Vietnam	(See Foreign Investment Policy/Basic Attitude)

Table 4-10 Investment Circumstances Comparative Table (Trade Policy)

(1/4)

Country	1. Export and Import Basic Policy
1) India	Basic attitude: Free in principle on both of export and import. Export : Free in principle except the items of negative list designated in consideration of political point of view(animals and plants). Import : Free in principle except the items of negative list (final consumer goods such as personal computer, telecommunication equipments, etc.)
2) Pakistan	Basic attitude: Government control based on export-import regulations. Export : Almost all items are to be approved without any condition except the designated prohibited items(animals and plants, and their products). Import : Import license is required. All items are divided in following 4 groups. (1) Import prohibited items(drugs etc.) (2) Negative listed items(in special case, permissible for the import) (3) Regulated items(permissible only for the appointed importer or permissible with some conditions such as limitation of quantities) (4) Other than (1), (2), (3) items(permissible on application)
3) Sri-Lanka	Basic attitude: Government control based on Export-Import regulation (issued on 1969). Export : (1) Export controlled items(minerals, lumber, feed stock, etc.) (2) Items through the approved exporters(Tea, Rubber, Garments, etc.) (3) Items without restrictions(except items (1) and (2)) Import : Various regulations are prevailing such as temporal approvals(Automobile, Precious metals, oil products, etc.), strict license(machineries, computers, communication equipments and chemicals, etc.
4) Bangladesh	Basic attitude: Government control based on export-import regulations(issued on 1950). Export : 25 items are controlled by the government, and some items are promoted with the incentives. Import : About 400 items of import are regulated, and some items are granted only through the nominal importers. As for the capital goods for the industries, the government are going to de-regulate.

Table 4-10 Investment Circumstances Comparative Table (Trade Policy)

Country	1. Export and Import Basic Policy
5) Thailand	Basic attitude: Free in principle Export : 20 items(Rice-bran, Copper, Coal, Cement, etc.) are prohibited to export. Import : 70 items(Gold, Tea, Sugar, Silk textile, Used car, etc.) are needed for the import license
6) Malaysia	Basic attitude: Strengthening the regulations Export : Promoting the export in principle, but some of the items(tiles, minerals, rice, textoles, etc.) are needed the export licence. Import : Automobile is included in the items needed to obtain the import license for the protection of domestic production.
7) Indonesia	Basic attitude: Government is controlling severely the external trade, however, forwarding gradually to the deregulations. Export : Items prohibited to export and system setting the export standard price are remain as regulation, however, almost items are free in principle. Import : Deregulated announcing in 1991, the reduction of both of import duties and extra duties for 877 items.
8) Philippine	Basic attitude: Free on export and restriction on import Export : Free in principle Import : All items are divided in 4 categories such as (1) Import prohibited items, (2) Import governing items, (3) Import restricted items and (4) Import free items.
9) China	Basic attitude: Strictly regulated for the external trade with the exception of "Economic Special Zone". Export/Import : All items are needed in principle to obtain the export/import license from the Ministry of Economy and Foreign Trade.
10) Vietnam	Basic attitude: Completely controlled by the government. Export : Needed to obtain the export license from the Ministry of Commerce. Import : No items listed as prohibited, all imports are controlled through the foreign exchange quota system.

Table 4-10 Investment Circumstances Comparative Table (Trade Policy)

(3/4)

Country	2. Import Duty / Foreign Exchange Regulation
1) India	Import duty : Maximum 85% (computer: 80%, general machinery: 25%, general plant project: 35%) Foreign exchange regulation : Free convertibility on market rate (trade account)
2) Pakistan	Import duty : Maximum 60% Foreign exchange regulation : Remittance of capital and dividend, equity participation of non-resident, borrowing of foreign exchange, and foreign exchange deposit of resident in abroad, these are all free.
3) Sri-Lanka	Import duty : Comparatively low rates on capital goods, high rates on non basic goods and luxury goods Foreign exchange regulation : Registered on IMF-14(endeavoring country for the abolishment of foreign exchange restrictions), exchange rates for floating every day.
4) Bangladesh	Import duty : 2.5 to 30% Foreign exchange regulation : Based on Foreign Exchange Act(1947), registered on IMF-14, exchange rates are decided with the basket system of several currencies.
5) Thailand	Import duty : 20 to 60% (automobile: 60%, machinery component: reduced by 10% flat from 1990) Foreign exchange regulation : Registered on IMF-8(foreign exchange free), adopting central controlling system for the foreign exchange rates are floating every day.
6) Malaysia	Import duty : Industrial products: 15 to 20%, Raw materials for industry: 2 to 3% Foreign exchange regulation : Registered on IMF-8, foreign exchange banks are entrusted the operation from Central Bank, exchange rates are decided with the basket system of 8 currencies(mainly based on US dollar).
7) Indonesia	Import duty : Industrial goods: 10 to 20%, Automobile: 100% Foreign exchange regulation : registered on IMF-8, foreign exchanges are floating, central bank is allowed to intervene freely every day in the market.

Table 4-10 Investment Circumstances Comparative Table (Trade Policy)

(4/4)

Country	2. Import Duty / Foreign Exchange Regulation
8) Philippine	Import duty : Maximum 50%, with the inclined policies for protection of domestic products Foreign exchange regulation : Registered on IMF-14, proceeding toward gradual liberalization
9) China	Import duty : 0 to 150%, high rates for liquor, tobacco, passenger car, etc., low rates for machineries Foreign exchange regulation : registered on IMF-14, exchange rates are fixed.
10) Vietnam	Import duty : 0 to 100%(construction materials: 0%, machineries: 20 to 30%, liquor and tobacco: 100%) Foreign exchange regulation : registered on IMF-14, exchange rates are floating.

Table 4-11 Investment Circumstances Comparative Table (Incentives)

Country	1. Taxation and Tax Incentives
1) India	(1) Taxes and Rates - Corporate income tax: 51.75% for public company, 57.5% for private company: 57.5% - Excise duty : 7.5 to 40% (automobile: 40%) - Withholding tax : 30% for royalty, 25% for dividend, 25% for interest - Sales tax : different by the states - Octroi : different by the municipal - Real-estate tax : different by the municipal - Import duty : maximum 85% - Other taxes : agricultural tax, interest tax, expenditure tax(hotel & restaurant), luxury tax(high-grade hotel) (2) Incentives(central government) a) 30% deduction from taxable income for 10 years to 36 priority industries. b) In addition to the above, 20% deduction for 5 years to the new industries located in industrial backward territories, and newly established hotels. c) 100% depreciation for energy-save equipments d) Income tax exemption for 5 years to EOU/EPZ. e) Import duty exemption (capital goods, raw and medium materials, components, etc..) to EOU/EPZ. (3) Incentives(States - different by the states) a) Sales tax reduction or exemption b) Subsidies for environment treatment equipments, research and development expenses, capitals, etc.
2) Pakistan	(1) Taxes and Rates Corporate income tax: 55%, Sales tax: 12.5 to 20%, Expenditure tax: 0 to 80%, Withholding tax: 10% Road tax, Electricity tax and Octroi are different by the states and municipal. (2) Incentives a) Tax holiday for 3 years to the industries incorporated since Dec., 1990. b) Duration of tax holiday would be prolonged for 5 to 8 years according to the territories. c) Duration of tax holiday would be prolonged for 4 years for designated industries. d) Import duty and sales tax are exempted to the designated industries.

Table 4-11 Investment Circumstances Comparative Table (Incentives)

Country	1. Taxation and Tax Incentives
3) Sri-Lanka	(1) Taxes and Rates Corporate income tax: 46.75% (public company), Sales tax: 5 to 15%, Withholding tax: 10 to 15%, Import duty: 5 to 20% (low rates for capital goods) (2) Incentives a) Income tax exemption for 5 to 15 years to the designated industries. b) All import duties are exempted to EOU/EPZ.
4) Bangladesh	(1) Taxes and Rates Corporate income tax: 46.75% (public company), Sales tax: 2%, Withholding tax: 10% (to Japan), Value added tax: 15%, Additional tax for development: 4%, Import duty: 2.5 to 30% (2) Incentives a) Tax holiday for 5 to 12 years to designated industries and designated territories. b) Additional tax refund (30 to 100%) after the duration of tax holiday especially to EOU/EPZ. c) Reduction of import duty to 2.5 to 20% for capital goods imported by newly installed industries. d) Import duty exemption to EOU/EPZ.
5) Thailand	(1) Taxes and Rates Corporate income tax: 30%, Excise duty: 5 to 100% (petroleum and products, soft-drinks, cement, tobacco, lighter, play cards), Value added tax: 7%, Withholding tax: 15%, Import duty: 5%(machinery) (2) Incentives a) Income tax exemption for 0 year/ 3 years / 6 years designating the No.1 / No.2 / No.3 territories respectively. b) 3 years income tax exemption and all import duty exemption to EPZ. c) Import duty exemption for No.3 territory (industrial backward territory). d) Withholding tax on royalty exemption for 5 years.
6) Malaysia	(1) Taxes and Rates Corporate income tax: 35%, Sales tax: 5 to 10%, Withholding tax: 20%, Service tax: 5 to 10%, Import duty: 15 to 20% (2) Incentives a) Corporate income tax reduction for 5 years (70% reduction) b) Income tax reduction (5% of exported amount) from taxable income c) Import duty exemption to capital goods, raw-materials and components for export

Table 4-11 Investment Circumstances Comparative Table (Incentives)

Country	1. Taxation and Tax Incentives
7) Indonesia	(1) Taxes and Rates Corporate income tax: 15 to 35%, Value added tax: 10%, Sales tax for luxury goods: 10 to 35%, Withholding tax: 10%, Import tax: 10 to 100%(10 to 20% for machinery), Real estate tax: 0.1% (2) Incentives a) No tax incentives b) Import duty exemption for capital goods, and 50% reduction for ancillary equipments. c) Import duty exemption to bonded area.
8) Philippine	(1) Taxes and Rates Corporate income tax: 35%, Value added tax: 10%, Excise duty: only for liquor, tobacco, automobile and etc., Withholding tax: 10-25%, District tax: different by the states, municipal, Real estate tax: 0.5 to 2%, Import tax: maximum 60%. (2) Incentives a) Income tax exemption for 4 to 6 years on designated industries. b) District tax and import duty exemption to the designated industries.
9) China	(1) Taxes and Rates Corporate income tax: 30%, Industry-commercial uniform tax (Sales tax): 1.5 to 69%, Withholding tax: 10%, District income tax: 3%, Real estate tax: 0.5 to 2%, Import duty: 3 to 150%, (2) Incentives a) Income tax reduction to 15% for "Economic Special Zone", b) Income tax exemption for 2 years to designated industries. c) Import duty exemption for "Economic Special Zone".
10)Vietnam	(1) Taxes and Rates Corporate income tax: 15 to 20%, Enterprises tax: 2 to 10%(Service Industries), Sales tax: 1 to 10%, Special sales tax: 20 to 40% (tobacco, liquor, play cards) (2) Incentives a) Income tax reduction to 10 to 20% for investment promoted industries. b) Income tax exemption for 4 years and then reduction to 10% to EPZ and import duty exemption to EPZ.

Table 4-11 Investment Circumstances Comparative Table (Incentives)

Country	2. Other Action
1) India	(1) Equity share Automatic approval for below 51% of foreign equity on 36 priority industries, the case of over 51% also approved on consideration of FIPB. (2) Industrial property Adopting the prior utilization system based on "The Trade and Merchandise Marks Act, 1958" and "The Indian Patents and Designs Act, 1970". Not joined yet to the international agreement for industrial property protection. (3) Capitals and funds Available to obtain the funds through opening the stocks in public market. 2-3% lower interest available from governmental financing institutes.
2) Pakistan	(1) Equity Share No official regulations, but the administrative guidance is below 49% of foreign equity share. (2) Industrial property Executing under the Indian Patents and Designs Act, 1911, and The India Trade Marks Acts, 1940. Effective 16 years - patents, 7 years - trade marks. Not joined yet to the international agreement for industrial property protection. (3) Capitals and Funds Available to obtain the funds through opening the stocks in public market. Governmental financing institutes are financing on attractive interest rates.
3) Sri Lanka	(1) Equity Share No restriction for the equity share to the designated industries. (2) Industrial property Joined to The International Industrial Property Agreement in 1952. Effective 15 years - patent, 10 years - trade marks. (3) Capitals and Funds Available to obtain the funds through opening the stocks in public market. Low interest rates from governmental financing institute of domestic currency, and commercial interest rate from commercial foreign banks of foreign currencies, are permissible.

Table 4-11 Investment Circumstances Comparative Table (Incentives)

Country	2. Other Action
4) Bangladesh	(1) Equity share No restriction on equity share. (2) Capitals and Funds Available to obtain the funds through opening the stocks to public market. Low interest of finance from governmental financing institute. restricted to borrow foreign currencies. property protection.
5) Thailand	(1) Equity Share Upper limit of 49% of foreign equity for the domestic market oriented industries, 51% for the promised the more than 50% of exports, 100% for the industries of more that 80% of exports. (2) Industrial Property Protected under The Trade Market Act - 1961 (amended on 1992). Effective for 20 years for the patents under The Patents Act - 1979 (amended on 1992). (3) Capitals and Funds Available to open the stocks in public market. No restrictions about foreign exchanges, free for the foreign currency borrowings.
6) Malaysia	(1) Equity Share Governmental guide-line 100% of foreign equity to the industries promised over 51% of exports, 30-51% to 20-50% of exports, below 30% to less than 20% of exports, and 51% of foreign equity to the designated technology oriented industries. (2) Industrial Property Effective for 15 years under the Patent Act (1983). protected trade marks under the Trade Marks Act (1976), but not mentioned about the effective duration. (3) Capitals and Funds Available to open the equity stock in public market. The commercial interest is comparatively low. needed obtain the permission for the borrowing of foreign currencies from the Central Bank.

Table 4-11 Investment Circumstances Comparative Table (Incentives)

Country	2. Other Action
7) Indonesia	(1) Equity share 100% of foreign share is granted for the designated industries, with the condition to transfer the major equity to domestic within 20 years. (2) Industrial property Protected 14 years for the patent under the Patent Act-1989 (amended 1991), and trade marks under the Trade Marks Act-1961 (amended 1993). (3) Capitals and Funds Available to open the stocks in public market, rush the establishment of foreign commercial banks on the announcement of the liberalization of financing, however, the interest rates are upward tendency due to the new restrictions for borrowing of foreign currency.
8) Philippine	(1) Equity Share 100% of foreign equity are permissible in principle with the condition to minimize below 40% of foreign share within 30 years. Some of the industries are restricted to 25 to 40% of foreign equity from beginnings. (2) Capitals and Funds Available to open the stocks in public market, relatively tight for domestic financing owing to the shortage of funds in domestic financing institutes, and high interest rates. needed to obtain the permission of the Central Bank for the foreign currency borrowings.
9) China	(1) Equity Share No upper limitation with the flooring limitation of 25%. (2) Industrial property Joined to The International Agreement for Industrial Property Protection. (3) Funds Export oriented and high technology industries are obtainable the domestic finance from the Bank of China, however, generally, the foreign industries are bringing their funds from abroad. governmental financing institute of domestic currency, and commercial interest rate from commercial

Table 4-11 Investment Circumstances Comparative Table (Incentives)

Country	2. Other Action
10)Vietnam	(1) Equity share No upper limitation of foreign equity with the flooring limit of 30% (2) Industrial Property Government promised the protection for the industrial property of technology transferred from abroad. (3) Funds Proceeding the liberalization of finance after the amendment of The Bank Act in 1990. The borrowing of foreign currency is prohibited in principle.

CHAPTER 5 INDUSTRIALISATION & INDUSTRIAL INFRASTRUCTURE

CHAPTER 5 INDUSTRIALISATION AND INDUSTRIAL INFRASTRUCTURE

5.1 Indian Industries: Characteristics

5.1.1 Industrialisation in India: Comparison Study

To better comprehend India's industrialisation, comparisons were made with selected ASEAN member countries (refer to Table 5-1).

Observations of the degree of industrial growth (ratio of industrial production in GDP) for each country were investigated. The data indicate that India's ratio of industrial production is smaller than the ASEAN countries used in the comparison. India's manufacturing comprised the same share as Thailand's industry, but in terms of GDP, Thailand's economic activity was stronger. Essentially, the data indicated that industrialisation in India is relatively less developed than the ASEAN countries surveyed. (Note: India's industrial sector has three sub sectors, such as manufacturing, mining, and electricity.)

Table 5-1 Comparison of Industrialisation with Selected ASEAN Countries

ASEAN Countries	GDP in 1990 (million U.S. dollars)	Distribution of GDP (%)		b/a (%)
		a) Industries	b)Manufacturing	
Singapore	34,600	37	29	78
Thailand	80,170	39	26	67
Indonesia	107,290	40	20	50
Philippines	43,860	35	25	71
India	254,540	29	19	66

Source: Based on data provided in the World Development Report. 1992 The International Bank. Oxford University Press.

5.1.2 Industrial Development Trends

(1) Past Trends

Development trends for a 10 year period were investigated. The findings appear to demonstrate that manufacturing occupies about 77 per cent, but the growth rate is less than the performance of the mining and electric power generation industries. (Refer to Figure 5-1, and 5-2.)

India's industrial classifications for basic industry, capital goods industry, intermediate goods industry, and the consumer goods industry trends were studied. The capital goods industry demonstrated the largest growth, and has expanded about 2.5 times for the decade studied. Intermediate and consumer goods industries posted a growth of 1.7 times for the decade. However, the durable goods (consumer goods) industry revealed a higher growth at about 2.9 times, which portends a change in consumers' purchasing behaviors. (Refer to Table 5-2 for descriptions of industry and product classifications.)

Products by industrial classification are described below.

(a) Basic Industries

Electricity, coal including lignite, finished steel, fertilizers, pipes and tubes, aluminum ingots, et cetera.

(b) Capital Goods Industries

Commercial vehicles, electric motors (DGTD), railway locomotives, machine tools, shipbuilding and repairing, diesel engines, and boilers, et cetera.

(c) Intermediate Goods Industries

All yarn, petroleum refineries and products of petroleum, jute and mesa textiles, tin metal containers, bolts and nuts, et cetera.

(d) Consumer Goods Industries

Cotton textiles, paper and paper boards, all cloth, sugar, tea, cigarettes, beer, soaps, telephone instruments, wrist watches, et cetera.

(2) Manufacturing: Population demographics and number of persons at work.

The number of employees in the public and private sectors is estimated to be about 260 million, which corresponds to about one third of the country's population. The number employed in the public sector is about 185 million persons, and the private sector has about 75 million employed persons (about 30 per cent of all employed persons). (Refer to Figure 5-3)

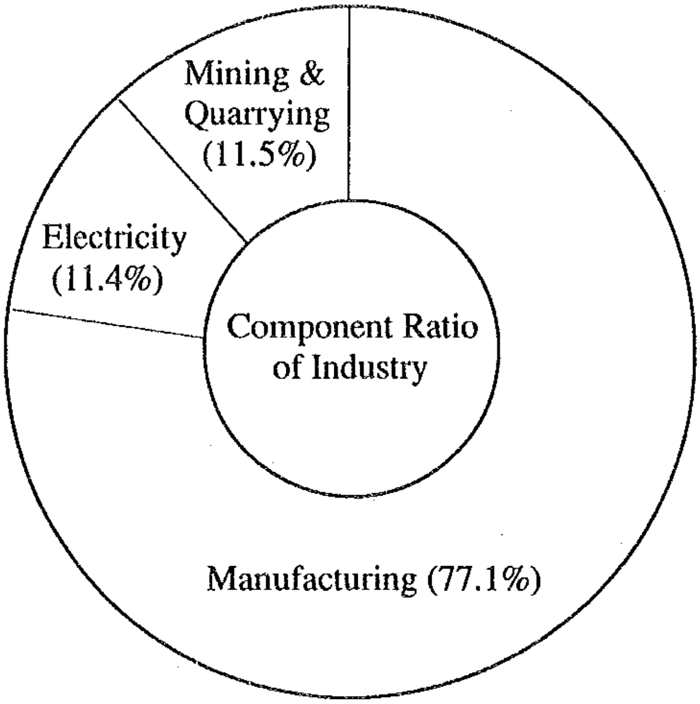
In the public sector, 68.9 million persons (26.51 per cent of total employees) are engaged in state government organisations, and 44 million are engaged in manufacturing (about 60 per cent of the number of persons engaged in the private sector). The data demonstrate a strong domestic manufacturing industry.

The number of persons at work by industry classification are given in Table 5-3.

About 90 per cent of the public sector's employees are found in the mining, electricity, gas, water supply, construction, transport, and communications industries. Especially, transportation and telecommunications sectors such as railways, roads and harbours depend on the public sector, thus the private sector's ratio is below in this sector.

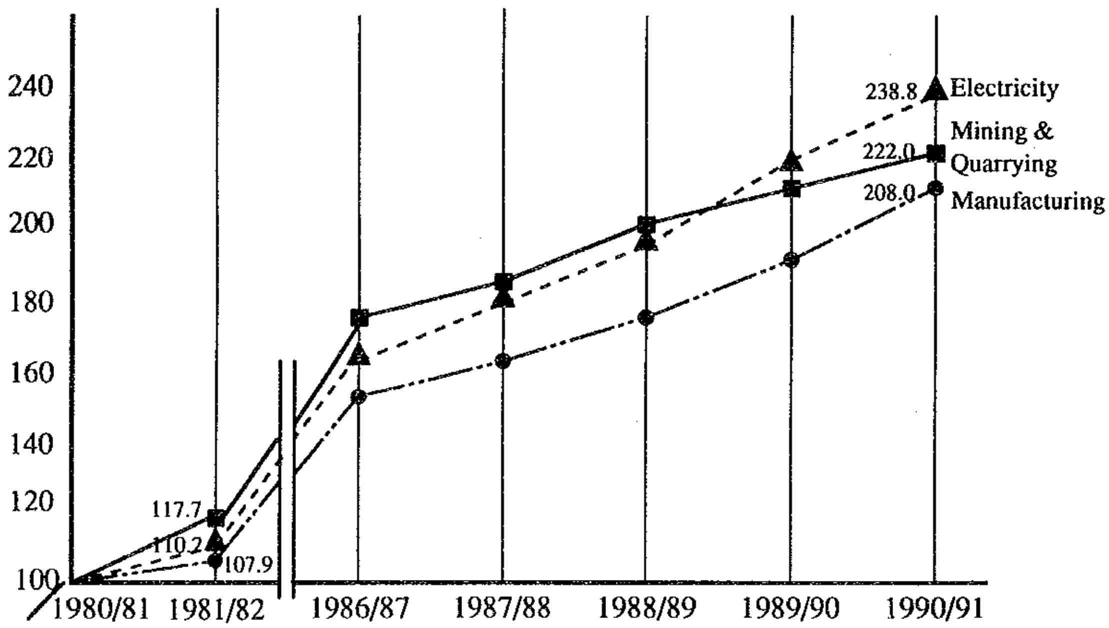
Private sector manufacturing companies are found in commerce and agriculture. Because the sector makes up about 25 per cent of the total work force (public and private), private sector manufacturing is important to the domestic industrial base. Moreover, the number of persons joining the public and private sector enterprises for the ten year period investigated demonstrated a strong positive trend in the public sector, but has declined for some industries in the private sector.

The number of persons employed in manufacturing appears to have remained at the same levels, but employment did decrease in the mining, construction, transport, and communication industries.



Note: Refer to Table 5-2

Figure 5-1 Component Ratio of Industry



Note: Refer to Table 5-2

Figure 5-2 Annual Index of Industrial Product (1980/1981=100)

Table 5-2 Index of Industrial Product and Product Classifiation (1980/81=100)

Year	General Index (Crude)	Mining and Quarrying	Manufacturing	Electricity	Use-Based Classification					
					Basic Industries	Capital Goods Industries	Intermediate Goods Industries	Consumers Goods Industries		
								Total	Consumer Durables	Consumer Non-durables
Weight	100.00	11.46	77.11	11.43	39.42	16.43	20.51	23.65	2.55	21.10
81-82	109.3	117.7	107.9	110.2	110.9	106.7	103.7	113.8	110.9	114.1
86-87	155.1	177.9	149.7	168.1	163.0	166.3	141.5	147.1	241.2	135.7
87-88	166.4	184.6	161.5	181.0	172.2	192.8	148.3	156.6	260.1	144.1
88-89	180.9	199.1	175.6	198.2	189.2	206.2	165.4	163.2	291.2	147.7
89-90	196.4	211.6	190.7	219.7	199.4	252.3	172.5	173.5	296.1	158.7
90-91	213.1	222.0	208.0	238.8	--	..	..	..	--	..

Notes: Annual Index represents the average of monthly indices from April to March. General index may not always be derivable from the constituent group indices as the former takes into account the latest revisions advised by the CSO.
* denotes provisional
Source: Central Statistics Organisation.

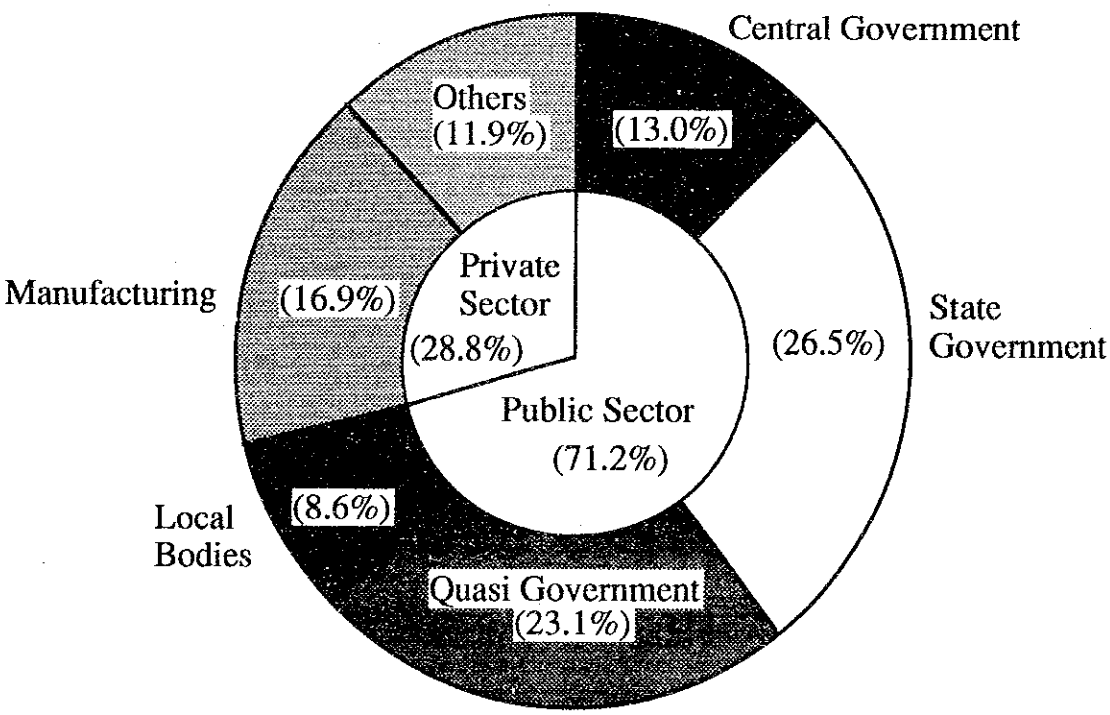


Figure 5-3 Component Ratio of Employee

Table 5-3 Employment in the Public and Private Sector Industries: 1978 to 1989*

(units = millions)

TYPE	1979	1980	1981	1983	1984	1985	1986	1987	1988	1989	decade % growth 1979 / 1989	sector share of total employed
Central Government	31.34	31.78	31.95	32.66	33.11	33.29	33.46	33.50	33.81	33.89	8.14	18.30 %
State Government	53.09	54.78	56.76	60.38	61.54	62.80	64.73	66.66	67.81	68.90	29.78	37.21 %
Quasi Government	41.70	43.43	45.76	50.40	52.74	54.96	56.74	57.95	59.48	59.99	43.86	32.40 %
Local Bodies	20.63	20.80	20.37	21.11	21.30	21.64	21.90	22.14	22.11	22.38	8.48	12.09 %
Public Total (A)	146.76	150.78	154.84	164.56	168.69	172.69	176.83	180.25	183.20	185.16	26.17	--
Agriculture	4.08 (8.41)	4.31 (8.60)	4.63 (8.58)	4.76 (8.47)	4.89 (8.19)	4.98 (8.07)	5.26 (8.22)	5.57 (8.48)	5.54 (8.44)	5.85 (8.70)	Total 14.55	5.60 %
Mining & Quarry	7.71 (1.24)	7.97 (1.25)	8.18 (1.30)	8.84 (1.20)	9.27 (1.13)	9.74 (1.13)	9.66 (1.11)	9.42 (0.91)	9.56 (0.93)	9.57 (0.97)	10.54	4.06 %
Manufacturing	14.16 (44.33)	14.46 (44.17)	15.02 (45.45)	16.34 (46.56)	17.17 (44.73)	17.61 (44.21)	18.15 (44.48)	18.62 (44.10)	18.67 (43.95)	18.48 (43.89)	62.37	24.01 %
Electricity, Gas, water	6.34 (0.34)	6.61 (0.34)	6.83 (0.35)	7.21 (0.37)	7.33 (0.39)	7.60 (0.39)	7.85 (0.40)	7.89 (0.40)	8.49 (0.41)	8.66 (0.41)	9.07	3.49 %
Construction	10.32 (0.83)	10.68 (0.73)	10.89 (0.72)	11.20 (0.68)	11.20 (0.66)	11.46 (0.70)	11.81 (0.69)	10.85 (0.58)	12.14 (0.50)	11.80 (0.64)	12.44	4.79 %
Wholesale/retail	0.99 (2.81)	1.10 (2.74)	1.17 (2.77)	1.18 (2.75)	1.24 (2.76)	1.31 (2.77)	1.31 (2.77)	1.34 (2.77)	1.39 (2.83)	1.44 (2.86)	4.30	1.65 %
Transport/Storage /Communications,	25.97 (0.71)	26.51 (0.71)	27.09 (0.60)	28.26 (0.59)	28.64 (0.57)	28.94 (0.54)	29.29 (0.54)	29.70 (0.52)	30.11 (0.51)	30.26 (0.51)	30.77	11.85 %
Finance/insurance / real estate	6.47 (2.01)	6.91 (2.06)	7.48 (1.96)	8.72 (2.07)	9.14 (2.14)	9.83 (2.19)	10.30 (2.21)	10.56 (2.29)	10.95 (2.38)	11.16 (2.43)	13.59	5.23 %
Social/public services	70.71 (11.40)	72.24 (11.67)	73.55 (11.67)	78.06 (12.22)	79.81 (12.83)	81.23 (12.89)	83.21 (13.09)	85.29 (13.32)	86.35 (13.59)	88.13 (13.97)	102.10	39.31 %
Total Private (B)	(72.08)	(72.27)	(73.95)	(75.52)	(73.45)	(73.09)	(73.73)	(73.64)	(73.91)	(74.38)		
Total (A + B)	218.84	223.06	228.79	240.08	242.14	245.78	250.56	253.89	257.11	259.54		

Source: Handbook of Industrial Statistics, 1991. page 270-271. Office of the Economic Adviser, Ministry of Industry. Government of India. New Delhi. Note:* Figures in parenthesis are for Private Employment.

(3) Value Added Trends by Industry Classification

The value added trends by industry classification are given in Table 5-4 on the following page.

The data indicate that industrial types having a higher rate of value added output are among the chemicals (about 10 per cent), repair services (8.0 per cent), basic metals (7.5 per cent), transport equipment (7.3 per cent), and non-electrical machinery, tools and parts (7.0 per cent) manufacturing industries.

Table 5-5, Component Ratio by Industry for Added Value demonstrates changes during the past 10 years.

Chemical industries demonstrated a 10 per cent increase, but remained at nearly the same level. Textiles (NIC Code 23, 24, 25, 26) had a higher rate (15.6 per cent ten years ago), but at present has decreased to about 8.2 per cent. Machinery and electrical-allied industries (NIC code 35, 36, 37) had a higher rate and increased from 18 to 21 per cent for the period surveyed. Also, the machinery-allied industries have expanded production of durable consumer goods to meet a growing demand generated by middle income persons who comprise approximately 20-30 per cent of India's population.

Electricity-allied industries have also expanded the production of generating equipment, transformers, and switches which are necessary for meeting infrastructure projects.

The changes in value added production across industries differ from year-to-year, consequently the estimated average yearly increases were examined utilising the least-squares regression method.

Of the industries surveyed, the chemicals industry demonstrated the largest yearly increase (Rs. 5.3 billion), followed by the repair service industry (Rs. 4.3 billion). The non-electrical machinery, tools and parts, electrical machinery and transport equipment industry trends were satisfactory, with annual averages of Rs. 3.5 - 3.9 billion. Lower annual average increases in value addition were the jute, textiles, textile products, wood furniture, and leather/ fur industries.

Table 5-4 Value Added from Registered and Unregistered Manufacturing: 1980 to 1989.

(Rs. Crore at current prices)

NIC Code	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	****Average yearly growth (Rs Crore)
20-21 Food Products	1366	1659	1864	2600	2696	2977	3295	3729	4181	345.15
22 Beverages, tobacco, etc.	578	647	665	982	946	983	1273	1252	1487	111.14
23 Cotton Textile*	1567	1409	1366	1776	1752	2066	2260	2151	2232	116.07
24 Wool, Silk	1361	1655	1650	2004	1979	2286	2218	2269	2710	144.27
25 Jute Textiles*	324	258	271	257	412	335	445	443	640	37.42
26 Textile Product*	132	165	188	207	301	282	323	431	635	52.58
27 Wood, furniture,etc	989	1155	1101	1326	1185	1348	1298	1227	1364	35.53
28 Paper/printing	740	1228	857	1084	1405	1467	1797	1860	2038	155.85
29 Leather/fur	310	329	333	388	453	495	522	618	710	49.2
30 Rubber, petroleum, etc	714	864	1250	1411	1692	1872	2699	3161	3529	358.5
31 Chemicals, etc	2032	2655	2773	3522	3820	4267	4629	5484	6768	531.47
32 Non-metallic	767	938	1305	1565	1933	2122	2113	2371	2867	247.87
33 Basic metals	1687	2184	2296	2652	2854	3543	3296	3901	4849	344.83
34 Metal Products	1141	1355	1638	1862	1985	2144	2295	3037	3743	284.17
35 Non-electrical machinery, tools and parts	1424	1721	1916	2273	2764	3116	3193	3604	4501	355.90
36 Electrical machinery	1116	1216	1590	1788	2307	2311	2739	3642	4462	391.38
37 Transport Equipment	1533	1939	2194	2397	2754	2963	3561	3676	4713	353.85
38 Other Manufacturing	942	1302	1483	1427	1782	2321	2992	3441	3963	373.55
39 Repairing Services	1494	1757	1932	2240	2336	3128	3497	4169	5107	428.43
Gross value added	22143	25952	28904	34001	38334	43113	47756	54744	64688	n.a
**Less	499	692	831	956	1091	1338	1590	1893	2233	n.a.
***Less	2946	3517	3973	4492	5084	5971	6719	7567	8896	n.a.
Net Value added	18698	21743	24100	28553	32159	35804	39447	45284	53559	n.a.

Source: Handbook of Industrial Statistics, 1991. Office of the Economic Adviser. Ministry of Industry. Government of India. page 196.

Note: * unregistered figures unavailable.

Note: ** less imputed bank charges.

Note: *** less consumption of fixed capital. Note: ****figures are based on the least squares regression method and approximate yearly average for the period investigated (slope of the line).

Table 5-5 Component Ratio (%) Value Added from Registered and Unregistered Manufacturing: 1980, 1985, 1988.

NIC Code	1980	Ranking	1985	Ranking	1988	Ranking
20-21/22 Food Products, tobacco	9.0	3	9.0	4	9.0	3
23, 24, 25,26 All Textiles	15.6	2	11.4	2	8.2	4
27 Wood, furniture,etc	5.0	5	3.0	n.a.	2.0	n.a.
28 Paper/printing	3.0	9	3.0	10	3.0	10
29 Leather product	1.0	n.a.	1.0	n.a.	1.0	n.a.
30 Rubber, petroleum, etc	3.0	9	4.0	9	5.0	8
31 Chemicals, etc	9.0	3	10.0	3	10.0	2
32 Non-metallic	4.0	7	5.0	6	4.0	9
33 Basic metals	8.0	4	8.0	5	8.0	5
34 Metal Products	5.0	5	5.0	6	6.0	6
35 ,36, 37 machinery (non-electrical) (Electrical) (Transport)	18.0 (6.0) (5.0) (7.0)	1	19.0 (7.0) (5.0) (7.0)	1	21.0 (7.0) (7.0) (7.0)	1
38 Other Manufacturing	4.0	7	5.0	6	6.0	6
39 Repairing Services	7.0	n.a.	7.0	n.a.	n.a.	n.a.

Source: Calculations are based on data obtained in the Handbook of Industrial Statistics, 1991. Office of the Economic Adviser. Ministry of Industry. Government of India. page 196.
Note: n.a. = not applicable.

(4) The Seventh Plan Performance

The average annual growth rate of the industrial sector during the Seventh Plan period was 8.5 per cent. Though this is marginally lower than the industrial development target of 8.7 per cent, the gains are significant compared to the 3.5 per cent growth achieved during the Sixth Plan.

Within the manufacturing sub sector, the electrical machinery, miscellaneous manufacturing, chemicals and chemical products, and textile products industries achieved growth rates of 25.8 per cent, 23.1 per cent, 11.7 per cent, and 11.8 per cent, respectively (higher growth rates than the 8.5 per cent achieved during the Seventh Plan); other industries demonstrated annual growth rates less than the average.

Significant growth in production during the Seventh Plan was attributed to a number of factors, the most important was the improvement in the performance of infrastructure viz., power, coal, et cetera. Other contributory factors mentioned are: (a) changes in the area of licensing and procedures; (b) import of technology; (c) higher import of capital goods; (d) better utilisation of installed capacities; and (e) allowing broad banding of products in a number of industries.

As described in Chapter 2, section 2.2.1, the development target of manufacturing in the Eighth Five Year Plan was set at a higher rate (from 21.5 per cent of GDP to 23.3 per cent) followed by electricity, gas, and water supplies. Further, the four industries that demonstrated higher annual growth rates during the Seventh Plan were also given relatively high growth rate targets in the Eighth Plan.

Table 5-6 Growth Rates of Index of Industrial Production (Base: 1980-81 = 100)

Code Group	Industry Group	Weight	Seventh Plan Average	1990-1991 % Growth Rate
20-21	Food Products	5.327	5.0	12.5
22	Beverage, Tobacco, Tobacco products	1.571	-1.1	1.3
23	Cotton Textiles	12.309	1.8	14.7
24	Jute, Hemp, Mesta Textiles	1.999	-0.3	4.4
25	Textile Products (incl. wearing apparel)	0.817	11.8	-32.0
26	Wood/wood products, furniture/fixtures	0.448	-2.5	12.7
27	Paper & Paper Products	3.235	6.7	9.0
28	Manufacture of Leather & Fur products	0.489	6.4	3.1
29	Manufacture Rubber, Plastic, Petroleum, Coal Products	4.000	3.6	-0.1
30	Manufacture Chemical/Chemical Products	12.513	11.7	2.7
31	Manufacture Non-metallic Minerals	2.299	6.7	1.7
32	Basic Metals & Alloy Industries	9.802	6.1	10.8
33	Metal Products & Parts	2.888	6.3	0.4
34	Machinery, Machine Tools & Parts	6.240	6.0	8.4
35	Manufacture Electrical Machinery	5.779	25.8	22.4
36	Manufacture Transport Equipment/parts	6.386	6.5	6.3
37	Miscellaneous Manufacturing Industries	0.905	23.1	-2.9
2-3	Manufacturing	77.107	8.9	9.1
1	Mining & Quarrying	11.464	5.6	4.9
4	Electricity	11.429	9.3	8.7
	Overall Index	100.000	8.5	8.5

Source: Eighth Five Year Plan: 1992-97. Government of India, Planning Commission. New Delhi.

(5) Industry Characteristics by Region

Indices of industry characteristics by regions are presented in Table 5-7.

(a) Gross Output

Gross output for the three regions described in Table 5-7 accounted for 80 per cent of the country's total gross output.

Table 5-7 Indices of Industry Characteristics for Regional Industrial Activity

Regions/States	Factories	Invested Capital	Employees	Gross Output	Net Value-Added
North					
Punjab	5.6	4.2	4.2	4.3	3.2
Delhi	3.1	1.0	1.8	2.2	1.6
Haryana	3.0	3.3	3.2	3.4	2.9
Total	12.6	10.2	10.2	10.5	8.8
Central North					
Rajasthan	2.9	4.1	2.9	3.0	2.7
Uttar Pradesh	7.5	9.6	9.1	7.3	5.9
Bihar	4.9	7.8	4.6	5.4	5.4
Total	15.3	21.5	16.6	15.7	14.0
Western Region					
Gujarat	10.2	9.4	8.9	11.2	9.2
Maharashtra	14.8	16.7	16.0	22.5	25.8
Madhya Pradesh	4.0	7.9	4.6	4.8	5.8
Total	29.2	34.2	29.7	38.9	41.2
Southern Region					
Karnataka	5.4	5.4	5.0	4.0	5.0
Andhra Pradesh	12.6	6.2	8.8	6.1	5.4
Tamil Nadu	12.3	.4	11.4	10.8	10.3
Total	33.5	22.4	28.3	23.5	23.6
Eastern Region					
Orissa	1.4	2.6	2.0	1.7	1.5
West Bengal	5.5	7.9	10.8	7.6	8.4
Assam	1.9	1.0	1.6	1.4	1.9
Total	9.0	11.5	14.4	10.7	11.8
Total Figures (All India)	101,016 factories	Rs 881.1 billion	7,742,000 employees	Rs 1.202 billion	Rs 233 billion

Source: Centre for Industrial and Economic Research (CEI). Industrial Databook. 1991-92.
Note: States were selected for geographic and population characteristics.

The data indicate that in terms of total gross output (Rs. 1.202 billion), the western region comprises the largest share (40 per cent), followed by the southern (23 per cent), and central regions (15 per cent). This ranking was compared for number of factories. The southern region has more factories (34 per cent) than the western region (29 per cent). This implies more small scale industries exist in the southern region than western region from comparisons of gross output and net value added.

(b) Net Value Added

In terms of productivity, the western region posted higher rates (41 per cent) for net value added. Examining productivity as a function of the employment ratio, the western region garnered the high value added industries as the southern region demonstrated a 24 per cent net value added ratio, and an employment ratio of 28 per cent.

The consolidated activities for each region's states were compared, the results indicate that the western region appears relatively more productive than the other regions in terms of net value added. Consequently, other regions accumulated labour intensive industries.

By state, Maharashtra (Bombay) in the western region ranked first with Tamil Nadu (Madras) in the southern region, second. Each state is located along a coastline.

5.1.3 Industrial Development Issues

Consolidating public sector enterprises and fostering India's small scale industries are significant issues the country's industrial policies must address. Descriptions of the country's central public sector enterprises (PSEs), state-level public sector enterprises (SLPEs), and sick industrial units in the small scale industries (SSI) and large and medium scale industries, are provided.

(1) Public Sector Enterprises

The scale of public sector enterprises is about 75 per cent of all industries according to the structure of persons-at-work as described in section 5.1.2. The industries reserved for the public sector were reduced to eight (Table 5-8) from 17 based on the NIP-91. However, a growing number of public sector enterprises are operating at a loss and are in danger of becoming economically unviable (termed sick industries by the Ministry of Industry), and face difficult reconstruction if the enterprises are to continue operations.

Table 5-8 Proposed List of Industries to be Reserved for the Public Sector

1. Arms and ammunition and allied items of defense equipment, aircraft, and warships
2. Atomic (Nuclear) Energy
3. Coal and Lignite
4. Mineral Oils
5. Mining of iron ore, manganese ore, chrome ore, gypsum, sulfur, gold and diamonds.
6. Mining of copper, lead, zinc, tin, molybdenum, and wolfram.
7. Minerals specified in the schedule to the atomic energy (control of production and use) order, 1953
8. Railway transport.

Source: Statement on Industrial Policy, 1991.

(a) Industrial Sickness

The objectives of nationalization were to secure employment and vitalize sick industries, and thus, the central government assumed responsibility for the operations of poor performing enterprises. Consequently, the number of sick industries in the public sector continues to increase (The number of units identified as sick industries was about 2 million in 1990, with total outstanding bank loans of Rs. 93.5 billion.). Table 5-10 summarizes the trend of enterprises that comprise the sick industries category.

Table 5-9 Incidence of Industrial Sickness: All Industries. 1980 to 1990

End of Calendar year	Total Units	Outstanding Bank Loans (Rs 10 million)	Per Cent increase over previous year	
			No. of Units	Outstanding Bank Loans
1980	24,550	1,809	--	--
1981	26,758	2,026	8.98	12.00
1982	60,173	2,585	124.87	27.59
1983	80,110	3,101	33.13	19.96
1984	93,282	3,638	16.44	17.32
1985	1,19,606	4,271	28.22	17.40
1986	1,047,740	4,874	23.52	14.11
1987	2,006,098	6,256	39.50	28.35
1988	2,042,584	7,705	17.70	23.16
1990	2,021,097	9,352	-8.80	21.40

Source: India Economic Information Yearbook: 1992-93. page 153.
Note: * Figures exclude 1,025,571 sick SSI units not traceable/or no longer in existence.

A majority of sick industries were found to be in the SSI, but large and medium scale industries were also documented. By industrial activity, textiles (276 units) ranked first, followed by engineering (271 units), chemicals (140 units), paper (113 units), and iron and steel industries (91 units). These accounted for about 65 per cent of the total sick units found in the large and medium scale industries.

It should be noted that the largest number of these units were located in the State of Maharashtra, followed by West Bengal, Gujarat, Tamil Nadu, Andhra Pradesh, Uttar Pradesh, and Karnataka states. These seven industrially advanced states accounted for 75.2 per cent of the total number of sick units.

Table 5-10 Large and Medium Scale Sick Units by Industry Classification and Outstanding Debt

Industry	No. of Units	Amount of outstanding bank loans (Rs. 10 million)
Engineering	271	873.77
Electrical	28	100.16
Textiles	276	1,274.46
Jute	35	156.95
Paper	113	244.13
Rubber	15	61.08
Cement	22	138.14
Iron and Steel	91	241.06
Sugar	20	58.69
Chemicals	140	215.98
Miscellaneous	408	893.41
Total	1,419	4,257.83

Source: Report on Currency and Finance, 1990-91.

(b) Central Public Sector Enterprises (PSEs)

As of March 31, 1991, there were 246 central public sector enterprises (PSEs) owned by the Government of India with a total investment of Rs. 1,132.34 billion. Of these, 236 were operational enterprises with employed capital of Rs. 1,017.02 billion, and 2.3 million employees. Of these, 131 enterprises earned a net profit of Rs. 57.31 billion during 1990-91, and 109 suffered a net loss of Rs. 30.64 billion.

The performance of the PSEs has been the subject of debate, and a number of committees/working groups have studied related issues.

(c) State-level Public Sector Enterprises (SLPEs)

There are about 1,100 SLPEs with an estimated investment of about Rs. 500 billion. However, the central government reports that a large proportion of the SLPEs are not operating satisfactorily, and has decided to disinvest from some of the poor performing SLPEs.

To address this problem, the Eighth Plan proposed a major public sector reform initiative. The initiative will consist of the following integrated strategies:

i) Restructuring that involves modernisation, rationalisation of capacity, product-mix changes, selective exit and privatisation.
ii) Increase in autonomy and performance accountability of public enterprises.
iii) Changes in management practices at specific enterprise level to promote efficiency, resourcefulness, and innovation.
iv) State Level Public Enterprises have serious problems due to interference and lack of professionalism.
v) In a changing economic environment, technology will become a major tool to improve competitiveness and efficiency of public enterprises.
vi) Presently, many regulations (pricing, distribution, investment, and import controls) are to be dismantled.

(2) Small Scale Industry

The village and small industries sector in India consists of two broad sub-sectors, viz, modern small industries and traditional industries, and are an important industrial sector that accounts for about 30 per cent of the country's total exports. The former covers small scale industries and powerlooms, and the latter covers the khadi, village industries, handlooms, sericulture, handicrafts, and the coir industry.

Small scale industries are defined as businesses which the investment in fixed assets in plant and machinery whether held on ownership terms, lease, or by hire purchase, does not exceed Rupees 60 lakhs (Rs 6 million). However, in the case of an industrial undertaking, the limit of investment in fixed assets in plant and machinery shall be Rs. 75

lakhs provided the unit undertakes to export at least 30 per cent of the annual production by the end of the third year from the date of commencement of production.[1]

Also, small scale industries (and ancillary industries) are provided credit on liberalised terms, allotments of factory sheds/plots in industrial estates/industrial areas, supply of machinery on hire purchase terms through the National Small Industries Corporation (NSIC), and participation in Government Store Purchase Programme. In addition to the previously mentioned, small scale industries are allocated indigenous raw materials from the quota allocated to state level agencies and the central government has reserved many items for exclusive manufacture in the small scale sector.[2]

A policy package for the small, tiny, and village industries was announced in August 1991, with the primary objective of imparting more vitality and growth impetus to this sector. The ceiling of investment in the case of Tiny enterprises was raised to Rs. 5 lakhs, location restrictions on setting of these enterprises were removed and the scope was enlarged to include all industry-related enterprises. Equity participation not exceeding 24 per cent by other industrial undertakings, including that of foreign collaborations, is encouraged to promote modernisation and technological improvements.

(a) Small Scale Industries: Statistical Summary

The performance of the small-scale sector experienced a decelerated growth rate during 1990-91. The number of small-scale units increased by 6.2 per cent to 19.40 lakh in 1990-91 from 18.26 lakh in 1989-90. The estimated value of production of goods and services is Rs. 1,57,550 crore (at current prices) in 1990-91; a 19.1 per cent increase over the previous year. The level of employment in this sector increased by 5.5 per cent to 12.6 million persons in 1990-91 (refer to Table 5-11).

Exports increased during 1990-91 to Rs. 9,100; a 19.7 increase over the previous year. The data for 1989-90 indicate the share of total exports was 27.55 per cent in 1989-90, compared to 27.05 per cent in 1988-89. Non-traditional items such as leather products, marine products, ready-made garments, etc., accounted for 95.2 per cent of the total exports from the small-

[1]Technical Consultancy Services Organisation of Karnataka. A Guide to Entrepreneurs. 1992. page 53-54. Directorate of Industries and Commerce. The Government of Karnataka.

[2]Note: There are at least 838 items reserved for the small scale sector and can be found listed in Annexure-1 of the A Guide to Entrepreneurs, page 179. Technical Consultancy Services Organisation of Karnataka. 1992

scale sector (about Rs. 7,258.4 crore in 1989-90). However, traditional products exports dropped from 5.7 per cent in 1988-89, to 4.8 per cent in 1989-90, as a share of the SSI sector's total exports.

Table 5-11 Small-Scale Sector

Item	1987-88	1988-89	1989-90	1990-91
Number of Units (100,000)	15.83	17.12 (+8.1)	18.26 (+6.7)	19.40 (+6.2)
Production (Rs Crore 1984-85 prices) Target Achievement	 66,630 72,880	 73,125 82,400 (+13.1)	 80,220 92,080(P) (+11.7)	 N.A. N.A.
Production (Rs. Crore at current prices)	87,300	1,06,400 (+21.9)	1,32,320 (+24.4)	1,57,550 (+19.1)
Exports (Rs Crore)	4,372.96 (R)	5,489.63 (R) (+25.5)	7,625.74 (P) (+38.9)	9,100.00 (E) (+19.3)
Employment (in Lakhs)	107	113 (+5.6)	119.60 (+5.8)	126.20 (+5.5)

R = revised; P = provisional; E = estimate; N.A. = Not available.
Note: 1. Figures in brackets indicate percentage change over preceding year.
Note: 2. Data pertain to modern SSI sector only; i.e., exclusive of tiny units such as Coir, Khadi, etc.
Source: Office of the Commissioner, Small-Scale Industries, Ministry of Industry. Table is from the Report on Currency and Finance: 19090-91, Volume I, Economic Review, Page 67. Division of Reports, Reviews, and Publications, Department of Economic Analysis and Policy for the Reserve Bank of India. Bombay.

(b) The Eighth Plan's SSI Sector Goals

The Eighth Plan's stated goal is to achieve a national growth rate of 5.6 per cent. The Plan also calls for the manufacturing sector and exports to be set at 7.3 per cent and 13.6 per cent, respectively. While there was not a specific growth rate stated for small scale industries, it is generally believed the growth rate is higher than for the manufacturing sector, but remains below the Seventh Plan's stated goals.

The central government states that the public sector will become more selective in the future with regard to making investments in the small enterprises and village industries, and rely instead on private initiatives and entrepreneurship.[3]

[3]Government of India. Planning Commission. The Eight Five Year Plan. 1992-97. Volume II. page 132-133.

(c) Eighth Plan's Observations and Recommendations for the SSI Sector

The Planning Commission has observed that the SSI sector has financial problems that can only be resolved through the establishment and expansion of credit resources. In 1991, commercial banks provided about 18 per cent of the financial resources going to the SSI sector. However, deregulation of the banking industry is expected to have an adverse effect on the availability of loans to small scale companies.

To remedy the funding shortages, the Eighth Plan calls for increased participation by lending institutions, strengthening the Small Industries Development Bank of India (SIDBI), and the National Bank for Agriculture and Rural Development (NABARD). It is believed that recent initiatives in the form of sanctions of composite loans under a Single Window concept, concessional loans to State Corporations for infrastructure development, and the provision of factoring services will help to provide stimulus to the small scale enterprises.[4]

The Plan recognizes that the SSI sector lacks adequate technology, raw materials, marketing assistance, inequitable competition between states for investment in the form of tax concessions and other financial incentives, adverse labour laws, and the need to simplify regulations and laws governing the sector's industries.

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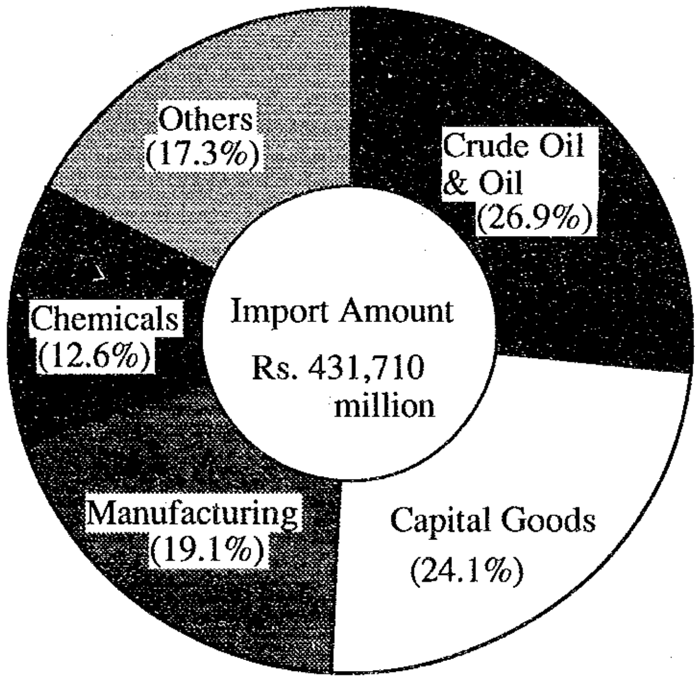
[4]Department of Economic Analysis and Policy for the Reserve Bank of India. Division of Reports, Reviews, and Publications. <u>Report on Currency and Finance: 19090-91. Volume I. Economic Review.</u> Page 67-68. Bombay, India.

5.2 Exports and Imports Performance

5.2.1 Import Trends

The composition of India's primary imports is illustrated in Figure 5-4. Petroleum crude oil and oil products occupy about 25 per cent of total imports, followed by capital goods (24 per cent), manufactured goods (19 per cent), and chemicals (13 per cent). Subsequently, the industrial products comprise about 60 per cent of all imports to the country.



Source: Handbook of Industrial Statistics 1992

Figure 5-4 Composition of India's Primary Imports (1990/91)

The import trends for primary goods (top 10 items except mineral fuels and petroleum oils) are illustrated in Figure 5-5. The import amounts were examined for a 10 year period and indicated that "machinery other than electrical", made up about 10 per cent, pearls, precious and semi-precious stones comprised 8.6 per cent, capital goods at 5.4 per cent, and others at less than 5 per cent of total imports.

For the period discussed, nominal growth rates and prominent imports are:

Precious and semi-precious stones	:	increased 8.9 times
organic and inorganic chemicals	:	increased 6.9 times
electrical machinery, appliances	:	increased 6.1 times
scientific, professional equipment	:	increased 6.1 times
machinery other than electrical	:	increased 4.1 times

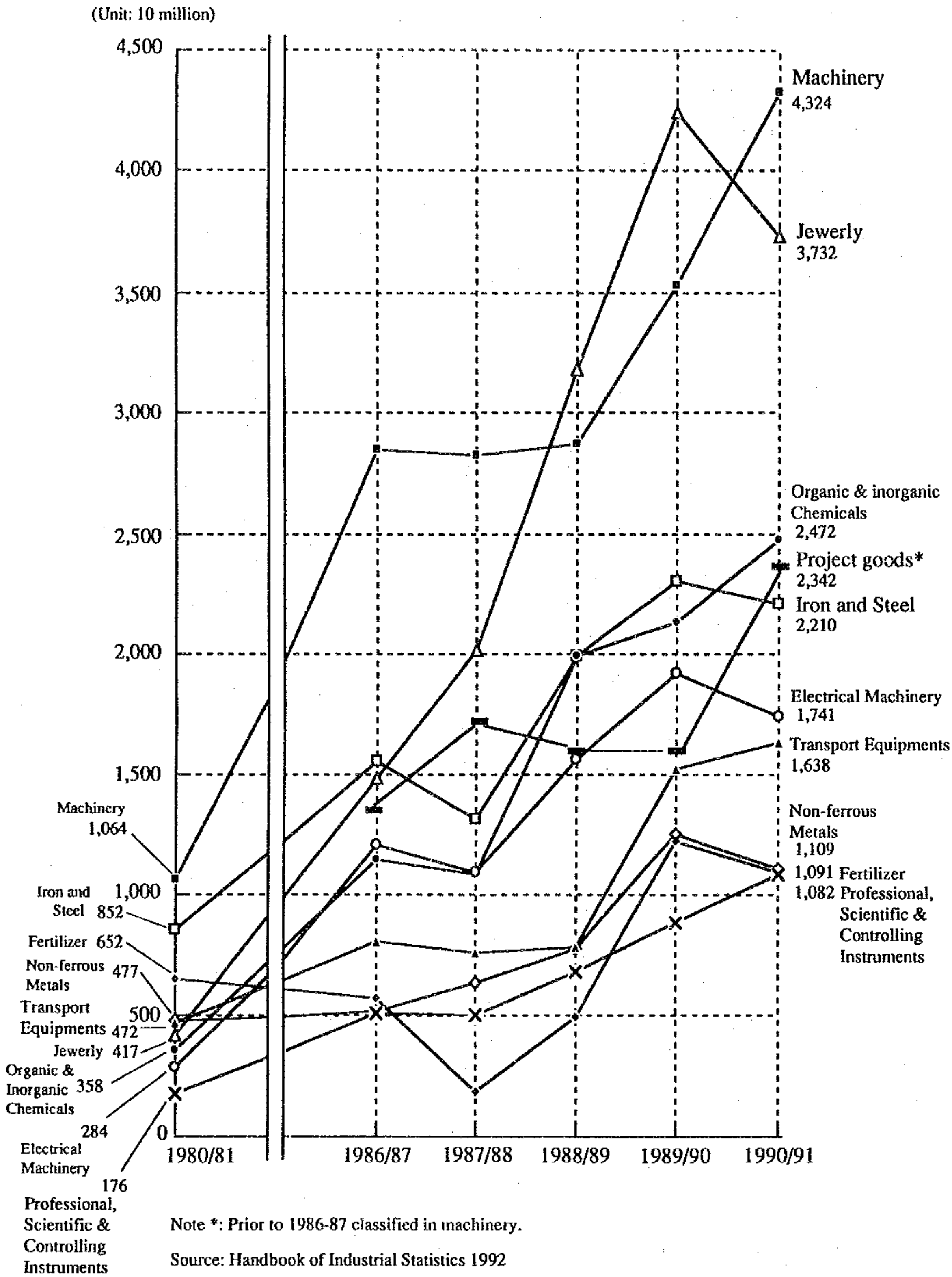


Figure 5-5 Trends of Primary Import (1980/81~ 1990/91)

Table 5-12 India's Import of Principal Commodities

(Rs.10 million)

Commodities/Year (April-March)	1980-81	1984-85	1985-86	1986-87	1987-88	1988-89	1989-99 (P)	1990-91 (P)
1	2	3	4	5	6	7	8	9
Food and Live animals chiefly for food of which	380	734	878	750	865	1493	-	-
Cereals and cereal preparations of which	100	242	110	87	66	774	378	151
(i) Wheat	77	130	61	44	9	434	21	24
(ii) Rice	4	90	14	2	2	231	283	39
pulses	30	101	189	234	275	385	228	473
Cashew nuts, raw	9	39	24	71	64	61	77	132
Spices	13	30	24	33	12	45	-	-
Beverages and tobacco	1	2	4	3	6	9	-	-
Crude materials, inedible, except fuels of which	565	1123	1502	1625	1861	2313	-	-
Crude rubber(including cutting and waste)	32	87	101	107	120	173	172	226
Cotton	neg.	13	neg.	27	128	-	-	-
Jute raw (includint cutting and waste)	2	36	6	3	4	7	-	-
Wool raw and other animal hair	.51	82	103	88	147	176	172	180
Man-made fibers and waste of man-made fibers	67	33	21	6	7	8	-	-
Synthetic fibers suitable for spinning	29	27	48	53	33	29	69	59
Pulp and waste paper	18	176	245	244	239	260	304	454
Metaliferrous ores and metal scrap	116	185	363	472	442	690	883	1209
Crude fertilizers and crude minerals	208	414	466	421	223	315	702	788
Mineral fuels, lubricants and related materials of which	5,293	5,464	5,213	3,029	4,285	4,810	6,835	1,1600
Petroleum oils, crude oil obtained from bituminous minerals	3,349	3,430	3,687	2,120	3,036	1,808	6,274	1,0820
Petroleum products refined	1,914	1,979	1,302	691	1,007	1,549	-	-
Coal, coke and briquettes	27	49	224	218	219	420	561	780
Animal and Vegetable Oils, Fats and Waxes of which	709	1,008	770	656	970	750	-	-
Vegetable oils fixed (edible oils)	683	950	749	634	969	730	211	322
Chemicals and Related Products n.e.s. of which	1,325	2,431	2,873	2,637	2,334	3,744	4,999	5,431
Organic and inorganic chemicals	358	857	1,089	1,145	1,082	1,996	2,135	2,472
Dyeing, tanning and coloring materials	21	41	56	66	89	92	146	168
Medicinal and pharmaceutical products	85	137	177	214	168	236	272	325
Fertilizers manufactured	652	1,007	1,053	576	188	493	1,228	1,091
Manufactured Good Classified Chiefly by Material of which	2,153	2,829	3,580	4,148	4,642	7,131	-	-
Pearls, precious and semi-precious stones	417	1,032	1,100	1,489	2,018	3,176	4,242	3,732
Paper, paperboard and articles of paper pulp of paper or of paper board	187	195	226	217	270	303	358	463
(i) News print	181	141	130	121	185	208	224	283
Textile yarn and thread	50	72	106	86	112	176	349	449
Iron and steel	852	941	1,395	1,556	1,320	1,933	2,305	2,210
non-ferrous metals	477	412	542	517	639	776	1,253	1109
Capital Goods of which	1,910	3,168	4,285	6,488	6,566	6,956	8,831	10,416
Metal manufactures, n.e.s.	89	141	201	209	161	193	271	371
machinery other than electrical	1,064	1,995	2,705	2,849	2,826	2,872	3,532	4,324
Electrical machinery, apparatus and appliances	284	663	811	1,212	1,093	1,563	1,922	1,741
Project goods @@				1,414	1,726	1,575	1,580	2,342
Transport equipment	472	369	569	804	760	753	1,526	1,638
(i) Railway vehicles	46	32	34	42	79	100	-	-
Miscellaneous Manufactured Articles of which	212	367	501	672	715	1029	-	-
Professional, scientific and controlling instruments, photographic and optical goods	176	287	379	512	500	679	886	1082
Total Imports	12,549	17,134	19,658	20,096	22,244	28,235	35,416	43,171

P: Provisional
@: Include commodities and transaction not classified elsewhere and hence commodity-wise data do no add up to the total.
@@: Prior to 1986-87 classified in machinery
Source: D.G.C.I & S.

The source of imports was investigated. The Asia/Pacific region countries, (e.g., Japan and Singapore) represented about 44 per cent of total imports to India. European countries (e.g., Germany and the U.K.) comprised about 38 per cent. Import amounts examined from individual countries revealed that the United States made up the largest share (about 10 per cent of all imports originating from the U.S.), as well as relatively high imports originating in Saudi Arabia and the United Arab Emirate.

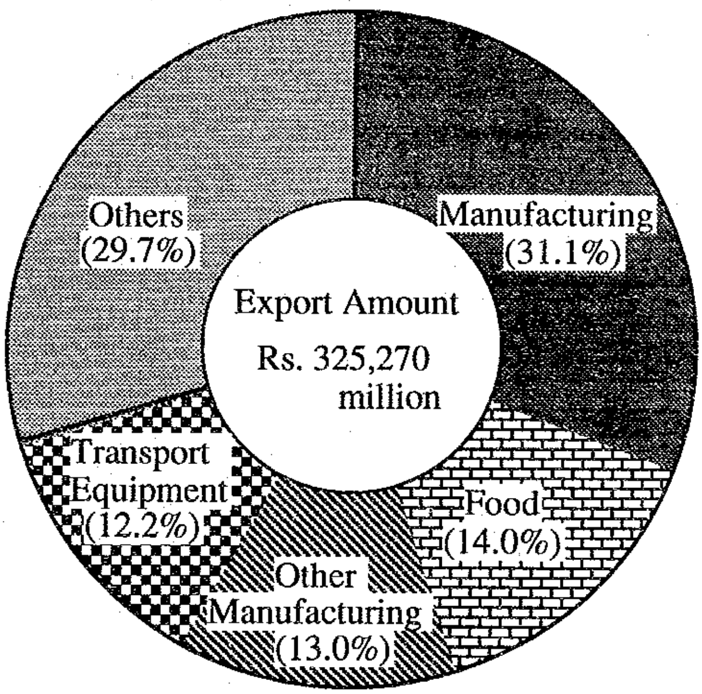
5.2.2 Export Trends

The composition of primary exports from India is illustrated in Figure 5-6, and an examination of export items and amounts for 10 year period is shown in Figure 5-7. Figure 5-6, the Composition of Export Goods, suggests that manufactured goods comprise about 30 per cent of all exports from the country, followed by food items (14 per cent), other manufactured goods (13 per cent), and transportation equipment (12.2 per cent). Industrial products as a group have a 56 per cent share of all exports.

A closer examination of export products reveals that industrial product exports are essentially made up of precious and semi-precious stones (16 per cent), leather and leather manufacturing (08 per cent), cotton yarn and fabric (06 per cent), and all others (03 per cent). (refer to Figure 5-7).

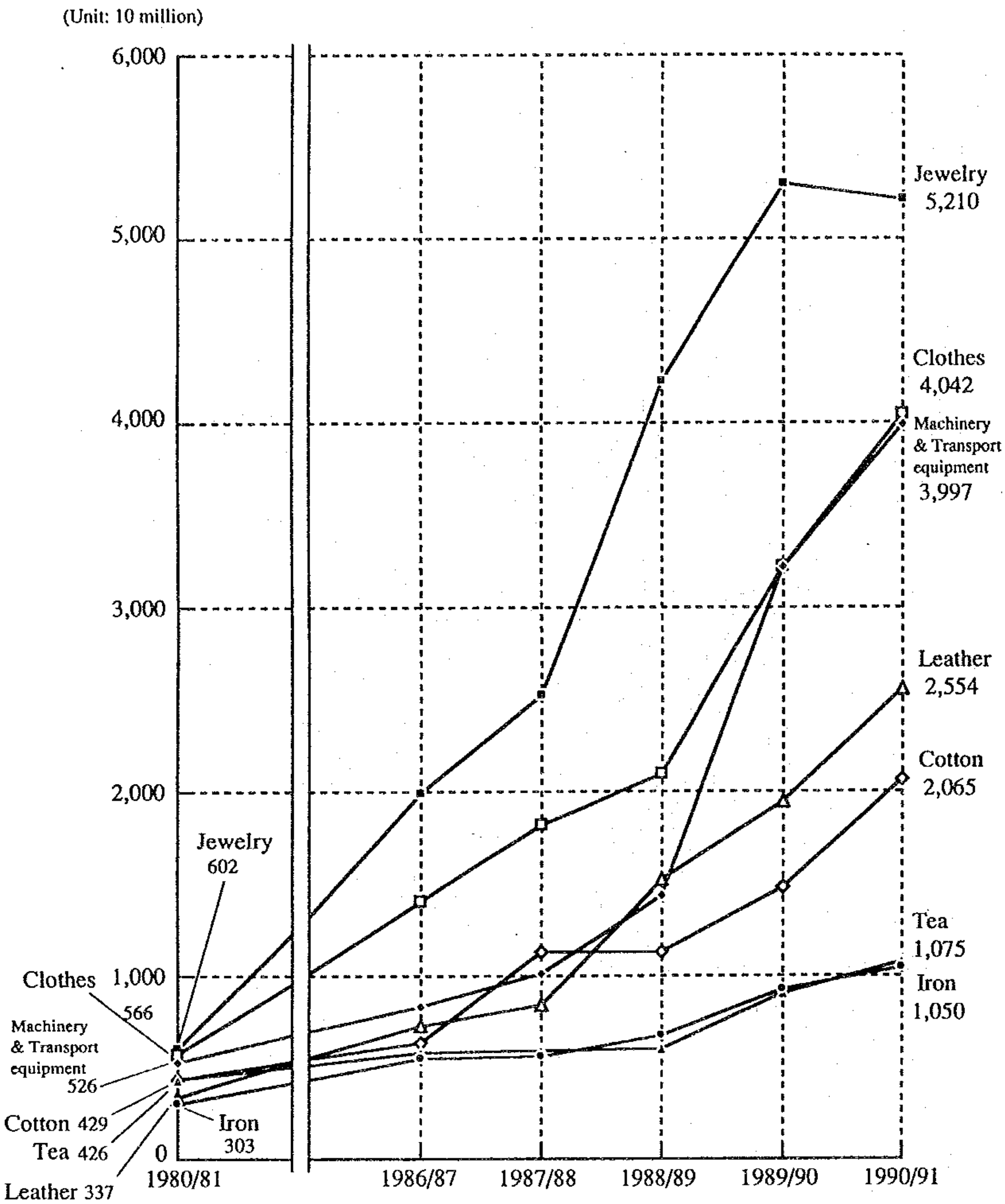
As a share of the world market's exports, India makes up about 21 per cent of the tea export market, 12 per cent of the leather and leather goods manufacturing export market, and 9.6 per cent of the precious and semi-precious stones export market (although precious and semi-precious stones ranks first as an export item).

Export destinations by region for 1991-92 were examined and revealed that about 40 per cent of India's total exports are to Europe, 26 per cent to Asian countries, and 17 per cent to the North American continent. By country, the former Soviet Republics in the past were the primary purchasers of India's export products. Currently, the United States ranks first as the purchaser of Indian exports followed by Japan.



Source: Handbook of Industrial Statistics 1992

Figure 5-6 Composition of India's Primary Exports (1990/91)



Source: Handbook of Industrial Statistics 1992

Figure 5-7 Trend of Export Items (1980/81 - 1990/91)

Table 5-13 India's Exports of Principal Commodities

(Rs.10 million)

Commodities/Year (April-March)	1980-81	1984-85	1985-86	1986-87	1987-88	1988-89	1989-99(P)	1990-91(p)
1	2	3	4	5	6	7	8	9
Food and Live animals chiefly for food of which:	1,705	2,443	2,509	2,782	2,909	3,105	3,912	4,511
(a) Marine products	217	396	420	539	533	629	687	960
(b) Vegetables and fruits	220	363	403	525	445	453	576	664
(i) Cashew Kernels (incl.cncl)	140	180	225	328	313	276	368	447
(ii) Others	80	183	178	197	132	177	208	217
(c) Coffee & coffee substitutes	214	210	265	297	251	279	343	253
(d) Tea & mate	426	767	626	577	549	603	905	1,075
(e) Spices	111	207	278	279	313	250	247	233
(i) Pepper (black)	38	59	181	199	251	161	-	-
(f) Oil cakes	125	137	134	190	182	374	546	625
(g) Sugar, Sugar preparations and honey	41	36	17	2	12	10	32	37
Beverages and tobacco of which:	141	179	171	187	137	134	175	263
(a) Tobacco, unmanufactured; tobacco refuse	124	151	137	145	108	100	143	263
Crude materials, inedible, except fuels of which:	814	1,002	1,119	1,186	1,199	1,294	-	1940
(a) Cotton	177	63	70	209	110	21	128	855
(b)Mica	19	24	26	24	23	29	30	35
(c) Iron ore and concentrate	303	459	579	547	554	673	928	1,050
(d) Manganese ore and concentrate	13	24	20	9	8	15	-	-
Minerals fuels, lubricants and related materials of which:	28	1,823	655	418	657	518	713	938
(a) petroleum oils, curried	-	1,563	135	-	-	-	-	-
(b) Petroleum products, refined	25	255	510	411	649	505	697	938
Animal and vegetable oils, fats and waxes of which:	19	59	49	32	21	14	-	-
(a) Fixed vegetable oils and fats	15	55	47	30	20	11	-	-
Chemicals and related products, n.e.s of which:	235	483	394	486	839	1,259	(a)1,997	(a)2,330
(a) Dying, tanning and coloring materials	51	80	75	121	193	251	-	350
(b) Medicinal and pharmaceutical products	67	234	158	161	305	508	-	829
(c) Essential oils and perfume materials; toilet, polishing and cleansing preparations	74	73	67	78	98	169	-	-
Manufactured foods classified chiefly by material of which:	2,320	3,609	3,711	4,531	6,181	9,242	-	10,129
(a) Leather, leather manufactures, n.e.s and dressed foreskins	337	627	647	731	847	1,522	(b)1,951	(b)2,554
(b) Cotton yarn, fabric, made-ups, etc.	429	620	574	637	1,131	1,134	1,480	2,065
(c) Jute manufactures (incl. twist and yarn)	330	341	262	244	241	235	298	300
(d) Pearls, precious and semi-precious stones: unworked or worked	602	1,153	1,412	1,995	2,526	4,223	(c)5,296	(c)5,210
(e) Manufactures of metal, n.e.s	186	199	152	165	301	510	-	-
(f) Iron and steel	70	76	56	56	75	206	-	-
Machinery and transport equipment of which:	526	663	704	836	1,014	1,437	(b)3,222	(d)3,977
(a) Machinery other than electrical	215	335	358	426	479	710	-	-
(b) Electrical machinery, apparatus and appliances	114	138	159	208	276	362	-	-
(c) Transport equipment	196	190	187	201	259	365	-	-
Miscellaneous manufactured articles of which:	871	1,455	1,566	1,955	2,696	3,190	-	4,479
(a) Articles of apparel and clothing accessories	566	985	1,108	1,406	1,820	2,102	3,224	4,042
(b) works of art, collectors' pieces and antiques	119	165	147	188	250	323	(e)403	(e)429
Commodities and transactions not classified elsewhere	52	28	17	39	21	39	-	-
Total Exports	6,711	11,74	10,895	12,452	15,674	20,232	27,681	32,527

Note: In columns 8 & 9, (a) relates to basic chemicals and allied products (b) relates to leather and leather manufactures 9c0 relates to gems jeweled (d0 relates to engineering goods and (e) relates to handicrafts.

P: Provisional. also see 'Notes on the Statements'

Source: D.G.C.I. & S

5.3 Industrial Development Assistance Organisations

There are many national and state level organisations and associations that assist industrial development in India A summary of business organisations and associations that primarily assist entrepreneurs (domestic and foreign) is provided in Appendix IV.

5.3.1 Investment Promotion Organisations and Associations: National and Regional Bodies

The central government provides investment assistance and guidance to foreign investors through the Indian Investment Centre (IIC), under the guidance and funding of the Ministry of Finance. Utilising the country's overseas diplomatic missions, IIC designated officers act as investment promoters for foreign collaborators seeking financial and technical joint venture partners. State governments provide similar services through industrial development organisations and state corporations.

(1) The Indian Investment Centre

The IIC acts as a nodal agency for promoting investment in India by Non Resident Indians (NRIs), Persons of Indian Origin, and Overseas Corporate Bodies with NRI holdings as well as providing liaison/escort services. The IIC is represented on the State Level Review Committees which monitor the implementation of projects and again acts as liaison between state and central government officials.

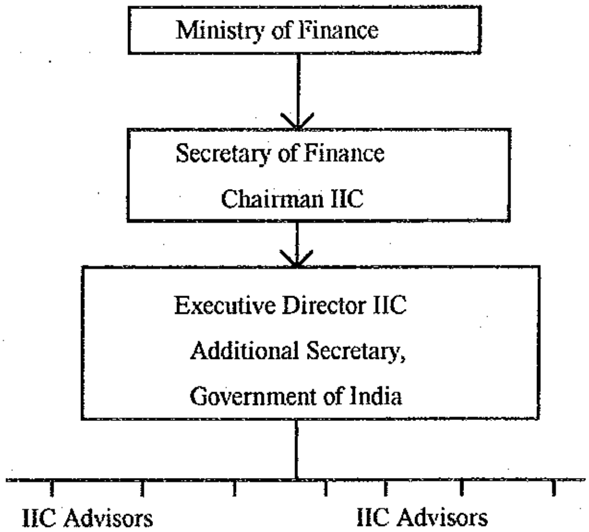
(a) The governing body of IIC is comprised as follows:

Chairman:	Secretary, Department of Economic Affairs
Members:	Secretary External Affairs
	Secretary Industrial Development
	Secretary Commerce
	Secretary-cum-Director General Technical Development
	Chairman, Central Board of Direct Taxes
	Executive Director, IIC
	Joint Secretary (Investments), Ministry of Finance
	Controller, Exchange Control Department, Reserve Bank of India
	Chairman, State Bank of India
	President, Federation of Indian Chambers of Commerce and Industry
	President, Associated Chambers of Commerce and Industry of India

(b) Further Details

According to the IIC Delhi office, when foreign companies seek joint venture partners, the IIC will contact regional or state-level support organisations/associations and solicit applications from domestic companies. After having received details regarding a company's financial status, number of employees, etc., the IIC will provide a preliminary screening to ensure the company is able to meet the financial requirements (obtain the necessary loans) of the prospective foreign collaborator.

IIC's organisational flowchart.



(2) The Confederation of Indian Industry

The Confederation of Indian Industry (CII) is considered an apex organisation that provides services on a national and regional level for domestic manufacturers and foreign collaborations. CII operates through a federal structure: the National Council, Regional Councils, States and Zoned Councils.

(a) CII has approximately 2,600 member companies that represent small, medium, and large manufacturers in the public and private sectors. CII members represent a total capital investment of US. $ 21,000 million and employs more than 2 million people.

(b) Primary funding for CII's operations are generated from the Trade Fair Department which promotes industrial sector trade fairs and the Indian Engineering Trade Fair. Other funding is derived from membership fees.

(c) CII provides the following guidance services

* Consumer affairs	* International Affairs	* Trade Fairs
* Customs/Excise	* Energy	*Economic Policy
* Electronics/Software	* Export-Import	* Infrastructure
* Government Policies and Procedures		* Industrial Policy
* Quality Control	* Raw Materials	* Taxation
* R&D Development	* Finance	* Trade Fairs
* Transportation	* Telecommunications	* Technology

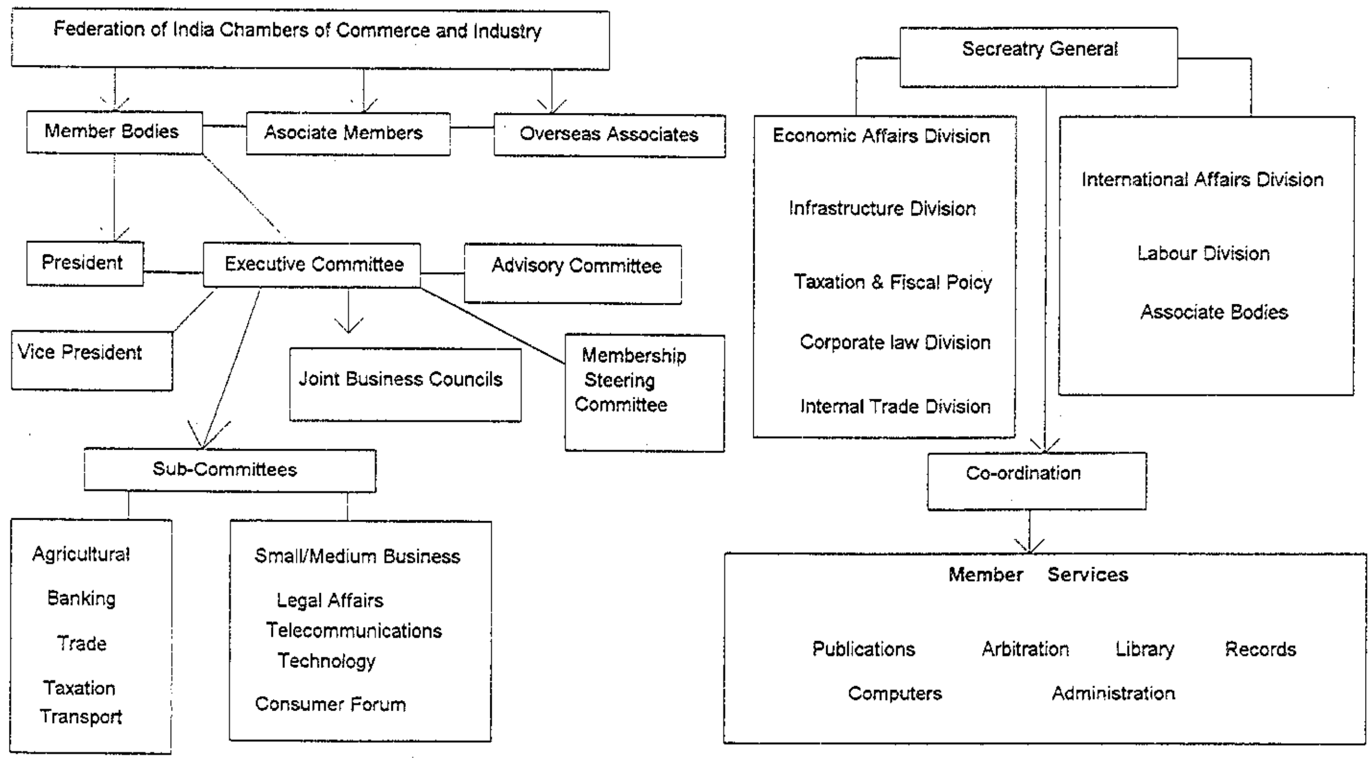
(d) Additional Observations

Based on interviews with CII personnel, the organisation has state-level chairmen for investigating member complaints/problems related to state government policies, central government policies, and vendors. Following an investigation, the chairman reports to the central office in Delhi. Although CII has no authority to bring about punitive action, the organisation will schedule meetings between concerned parties and act as an arbiter of those meetings.

(3) The Federation of Indian Chambers of Commerce and Industry (FICCI)

A voluntary organisation registered under the Companies Act as a non-profit organisation, FICCI participates on at least 100 central government and private business advisory bodies. The association provides workshops, conferences, and seminars with the business community to build consensus regarding central and state government industrial policies.

FICCI publishes various pamphlets, news letters, economic journals and public relations materials to keep members informed of developing business-related issues and regulations. Trade delegations, joint business councils, and networking with international business organisations are key benefits offered to the members. Also, FICCI was a founding member of the Confederation of Asia-Pacific Chambers of Commerce and Industry. Through its associate, the All India Organisation of Employers, FICCI participates in activities related to international labour and international employers' needs.



Source:Federation of Indian Chambers of Commerce and Industry Pamphlet, 1992

Figure 5-8 FICCI Organisational Flowchart

(4) The PHD Chamber of Commerce and Industry

The PHD Chamber of Commerce and Industry (PHDCCI) is responsible for six northern states and two union territories: Punjab, Haryana, Uttar Pradesh, Himachal Pradesh, Rajasthan, Jammu and Kashmir, Delhi, and Chandigarh. The organisation represents 20 secretarial affiliates including four bi-national Chambers of Commerce and Industry (Indo-American, Indo-French, Indo-Italian, Indo-Polish), and is represented on at last 140 advisory/consultative bodies of the central and state governments.

(a) PHDCCI provides the following services to domestic members and foreign collaborations: Advisory, legislative updates, industrial relations, counseling, export documentation (authorised by the central government to issue certificates of origin certify commercial invoices, and recommend issuance of business visas to business people), energy audits, investment guides, commercial training programs, and computer consultancy for conducting feasibility studies.

(b) Additional Observations

PHDCCI receives funding through membership dues. Regarding control of association members, a PHDCCI employee occupies the role of senior executive of association members and a PHDCCI auditor annually reviews the association's activities as well as the actions of PHDCCI employees in the role of senior executive.

5.3.2 Industrial Finance Organisations

National and state-level industrial finance organisations are available to promote and further industrial development in India. The Reserve Bank of India (RBI) is the country's apex financial body responsible for supervising all financial organisations. The Industrial Development Bank of India (IDBI) and the Industrial Credit and Investment Credit Corporation of India Ltd., (ICICI) are the two national level financial bodies that provide funds for about 45 per cent of all approved loans (the IDBI has a 30 per cent share of those loans; the ICIC has a 15 per cent share of the total).

The financing of business undertakings in India, generally takes the form of a consortium. Thus, a consortium allows financial bodies to distribute the risk and purports to prevent any one financial enterprise from receiving discriminatory profits. Financial arrangements generally require that national-level financial organisations are responsible for about 85 per cent of a business's needs, with state-level organisations funding about 15 per cent of the total loan amount. Business loans increased about 23 per cent in 1990-91 from loans made in preceding years. (Refer to Table 5-14.)

(1) National level Financial Organisations

(a) Industrial Development Organisations

i) Industrial Development Bank of India (IDBI)

ii) Industrial Finance Corp. of India (IFCI)

iii) Industrial Credit and Investment Corp. of India Ltd. (ICICI)

iv) Small Industries Development Bank of India (SIDBI)

v) Shipping Credit and Investment Company of India Ltd. (SCICI)

vi) Tourism Finance Corporation of India Ltd. (TFCI)

(b) Investment Organisations

i) Unit Trust of India (UTI)

ii) Life Insurance Corp. of India (LIC)

iii) General Insurance Corp. of India (GIC)

(c) Others

i) Industrial Reconstruction Bank of India (IRBI)

(2) State level Financial Organisations

(a) State Financial Corporations (SFCs)

(b) State Industrial Development Corporations (SIDCs)

Table 5-14 Assistance by All Financial Institutions

(in Rs 10 million)

Institutions	1990 -- 1991		Percentage Change in 1990-91 over 1989-90	
	Sanctions	Disbursements	Sanctions	Disbursements
@ All India Development Banks	**16,191.6**	**9,603,2**	**+24.5**	**+29.5**
@@	(14,035.3)	(8,329.8)	(+25.6)	(+29.4)
@ IDBI	6,450.0	4,016.0	+21.0	+28.3
@@	(5,569.9)	(3,483.8)	(+19.4)	(+23.4)
IFCI	2,965.1	1,574.9	+29.2	+40.4
ICICI	3,861.1	1,967.6	+35.4	+45.0
SIDBI	2,408.8	1,838.5	+15.5	+17.0
@@	(1,222.6)	(1,097.3)	(+23.9)	(+22.4)
TFCI	85.0	39.2	+61.0	+206.3
SCICI	331.6	167.0	+3.2	-26.0
Investment Institutions	**3,078.2**	**2,106.5**	**+46.8**	**+22.8**
UTI	2,077.2	1,532.7	+58.9	+41.8
LIC	688.1	427.4	+19.0	-6.1
GIC and its subsidiaries	312.9	146.4	+48.2	-18.5
Other Institutions	**234.7**	**153.9**	**+60.1**	**+9.1**
IRBI	234.7	153.9	+60.1	+9.1
@ Total Assistance by All-India Financial Institutions	**19,414.5**	**11,863.6**	+27.9	+27.9
State Level Financial Institutions	**2,568.9**	**1,778.9**	**+15.0**	**+2.3**
SFCs	1,870.1	1,260.1	+21.2	+5.9
SIDCs	698.8	518.8	+1.2	-5.6
Total All Assistance	**19,917.1**	**12,369.1**	**+27.3**	**+23.3**

Notes: @ denotes data are net of inter-institutional (all-India) flows.
@@ denotes data are net of inter-institutional (all-India and State-level) flows.
Source: Report on Currency and Finance: 1990-1991.

5.3.3 Special Trade Corporations

The primary trading corporations designated by the import canalization system were described in Chapter 3, section 3.2.1 A brief description of these organisations follows.

(1) The State Trading Corporation of India (STC)

Responsible for canalized and non-canalized items; export turnover for 1990-91 was approximately Rs. 3.69 billion. Canalized items are processed primary products such as sugar, oil, alcohol, jute, et cetera. Non-canalized items are coffee, tobacco, pharmaceuticals, leather goods, garments, et cetera.

The import turnover for 1990-91 was approximately Rs. 13.32 billion, the majority of which are canalized items such as vegetable oils, sugar, natural rubber, news print, and pharmaceuticals.

(2) The Minerals and Metals Trading Corporation (MMTC)

Export turnover in 1990-91 was approximately Rs. 13.25 billion, of which canalized items were iron ore, manganese ore and coal. Non-canalized items were diamonds, gems, jewelry, and project equipment.

Import turnover in 1990-91 was approximately Rs. 42.66 billion, with canalized items such as non-ferrous metals, iron and steel, fertilizers, et cetera. Imports handled by STC and MMTC comprise 10 per cent of all imports to India.

(3) The Cashew Corporation of India (CCI)

The CCI was established in 1970 for the importing of cashews promotion of export oriented industry of cashews industry in India, and is a 100 per cent subsidiary of STC. Presently, the CCI primarily exports cashews.

(4) The Tea Trading Corporation of India, Ltd. (TTCI)

Established in 1971, the TTCI promotes tea exports and is a subsidiary of the STC.

(5) The Mica Trading Corporation of India, Ltd. (MITCO)

MITCO was established in 1974 to promote exports of processed mica and mica scrap. However, exports of processed mica were decanalised at present, and those of mica scrap were canalised through MITCO.

5.4 Industrial Infrastructure

Industrial infrastructure include all necessary infrastructure for production activities such as transportation, telecommunications, power supply, industrial water supply, et cetera. However, such conditions are different among the states and regions as India is a vast country. Therefore, India's industrial estates, export processing zones, and export oriented units will be reviewed in this section.

5.4.1 Export Processing Zones (EPZ)

(1) Objectives and Background

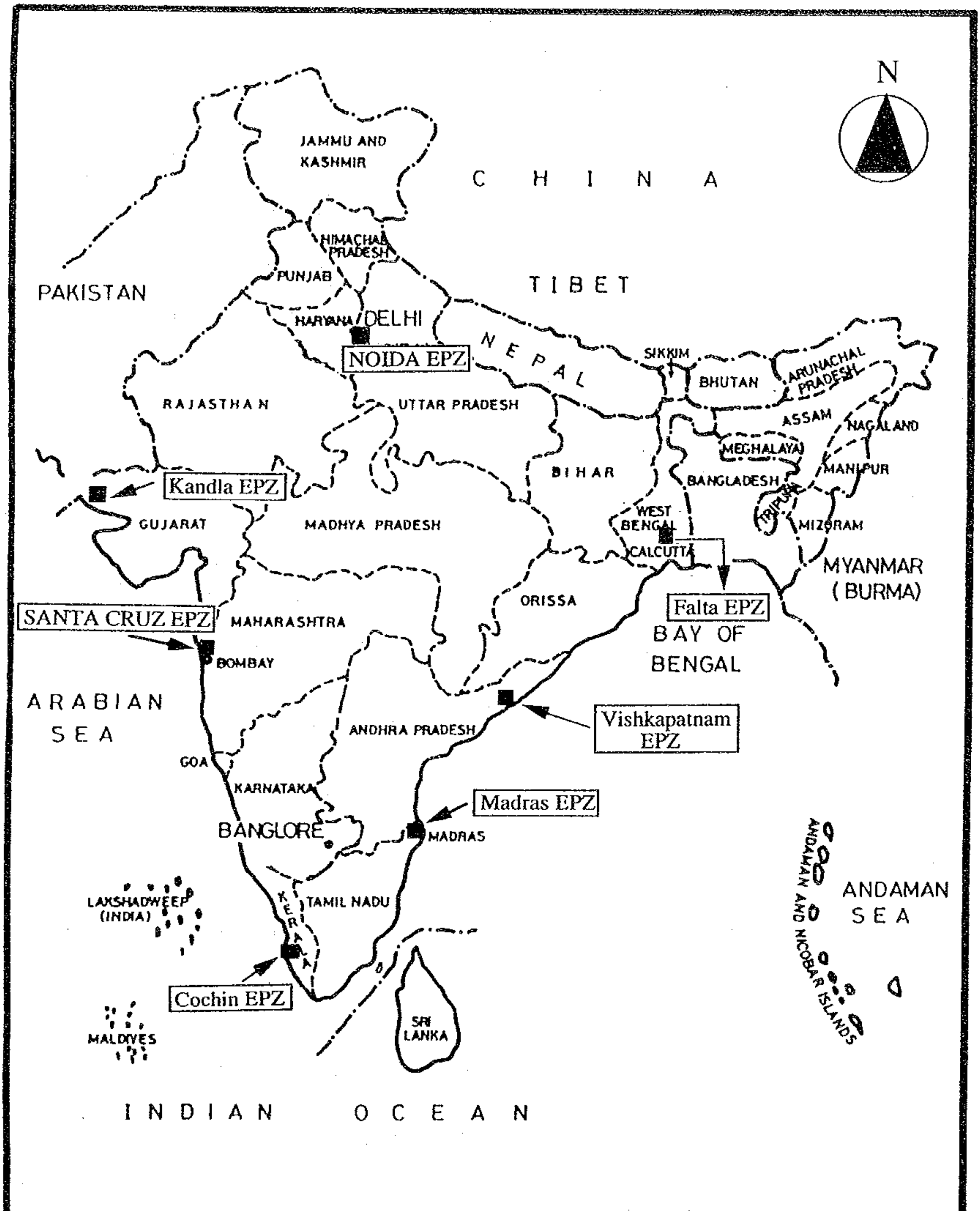
(a) Export Processing Zone

General

Export Processing Zones (EPZ) have emerged as effective instruments to boost exports of manufactured products, especially in developing countries. The Zones, set up as enclaves separated from the Domestic Tariff Area by physical barriers, are intended to provide an internationally competitive duty free environment for export production at low costs. This enables the products to be internationally competitive in terms of quality and pricing.

The first EPZ was established at Kandla in 1965, followed by the Santa Cruz Electronics Export Processing Zone in 1973. Four others are at FALTA , Noida, Madras, and Cochin. All these except SEEPZ, are multi-product zones where a variety of export products can be manufactured and exported. SEEPZ is the Electronics Export Processing Zone (SEEPZ) at Santacruz, Bombay.

In 1989, the government decided to set up an EPZ in Visakhpatam and began construction. Currently, the project is nearing completion. (Refer to Table 5-15). Also, the EPZ(s) in India are shown in Figure 5-9.



THE MASTER PLAN STUDY ON THE INDUSTRIAL MODEL TOWN

EPZ in INDIA

No. Fig. 5-9

0 500km 1,000km

JAPAN INTERNATIONAL COOPERATION AGENCY

Table 5-15 EPZ in India

	Name of EPZ	Establishment Year	Total Land Area (ha)	Transport or Location
1.	Kandla	1965	284	10 km from Kandla port
2.	Santacruz	1975	41	6 km from Bombay air port 30 km from Bombay port
3.	Cochin	1984	41	20 km from Cochin air port 20 km from Cochin port
4.	Madras	1984	40	8 km from Madras air port 24 km from Madras port
5.	Falta	1984	113	80 km from Calcutta air port 55 km from Calcutta port
6.	Noida	1984	36	30 km from Delhi air port
7.	Vishkapatnam	1989	148	7 km from Vishkapatnam air port

(b) EPZ Export Performance

Considering the deterioration in the performance of exports during 1990-91, the six EPZs demonstrated a lower rate of increase than in 1989-90. During 1990-91, exports from the six EPZs increased by 33.1 per cent (Rs. 9.82 billion) compared with a growth rate of 43.0 per cent in 1989-90, and 55.6 per cent in 1988-89 (refer to Table 5-16). The share of exports from the EPZs in India's total exports improved marginally (2.7 per cent in 1989-90, to 3.0 per cent in 1990-91) due to a larger drop in total export growth.

Exports from the four newest zones, Madras, Falta, NOIDA, and Cochin (established in 1984), increased by 25.3 per cent to Rs. 13.64 billion compared to Rs. 10.89 billion in 1989-90, and accounted for 11.3 per cent of the total incremental exports from all the EPZs, indicating slow progress for the new zones. A new zone was sanctioned in Vishakhapatnam in March 1989, and is under implementation. The number of units operating in the zones declined from 369 in 1989-90, to 339 in 1990-91. (Refer to Table 5-16).

Table 5-16 Performance of Free Trade Zones
(Rs. Crore)

ZONE	EXPORTS			No, of Units (3/31/91)
	1988-89	1989-90	1990-91	
Kandla FTZ	271.0 (52.5)	338.3 (45.9)	456.6 (46.5)	101 (29.8)
SEEPZ	185.2 (35.9)	290.4 (39.4)	389.0 (39.6)	101 (29.8)
Madras EPZ	24.0 (4.7)	29.6 (4.0)	61.3 (6.2)	50 (14.7)
NOIDA EPZ	21.3 (4.1)	51.9 (7.0)	44.7 (4.6)	55 (16.2)
Falta EPZ	8.1 (1.6)	16.4 (2.2)	25.0 (2.6)	9 (2.7)
Cochin EPZ	6.2 (1.2)	1.0 (1.5)	5.4 (0.5)	23 (6.8)
Total	515.8 (100)	737.6 (100)	982.0 (100)	339 (100)
Percentage Variation over previous year	+55.6	+43.0	33.1	-8.1

Note: Figures in brackets represent percentage share of total.
Source: Office of the respective Development Commissioner.

(2) Current Observations of Selected EPZ(s) Surveyed by the Study Team

(a) NOIDA EPZ

The Noida Export Processing Zone (NEPZ) was established in 1984. Infrastructure facilities that were envisaged in Phase-I were completed, and the Zone became operational in 1986-87. In view of the encouraging entrepreneurial response evoked by the Zone, Phase-II has began for development. The NEPZ is spurring development in Uttar Pradesh, and in nearby states as exports of a wide variety of items like software, garments, woolen knitwear, shoe uppers, fasteners, jewelry, video cassettes, and apple juice, are involved.

NOIDA is the only inland export processing zone. In the first phase, acquisition and development of an area of nearly 33 ha. was envisaged. It was indicated that exports worth Rs. 500 million a year would take place when it became fully operational.

A company may lease one or more plots according to its requirements. The plot sizes vary between 1,500 sq.m. to 4,000 sq.m. and can be leased for a period of 30 years.

The built-up space offered in the standard area ranges from 500 sq.m. to 830 sq. m. Priorities for supply of cement and steel and other construction materials are easily available through efforts of the Zone administration.

Based on data for December 3, 1992, provided by the NEPZ, 273 projects were approved from a total of 409 applications and 202 projects are under appraisal. However, 71 projects had withdrawn or were canceled. Presently, 90 units are operating, and 37 units are under construction (refer to Table 5-17).

The number of foreign collaborations associated with technical projects is 48, financial collaboration projects are 70, and 132 projects are in the area of marketing. Total investment amount for approved projects is Rs. 3,092.10 million. Annual export amounts for approved projects is estimated at Rs. 9,500 million.

Table 5-17 NOIDA Export Processing Zone: Application Distribution

SL No.	Products	No. Recd.	Approved	Withdrawn / Canceled	Balance Approved	Units in Production
1	Textile/Garments	70	45	12	33	16
2	Electronics (Hardware)	72	37	11	26	11
3	Electronics (Software)	39	25	5	20	12
4	Engineering	57	40	15	25	13
5	Pharmaceutical/Chemical/Drugs	11	10	5	5	7
6	Leather Products	23	15	6	9	3
7	Gem/Jewelry	71	63	6	57	22
8	Agro Products	8	1	0	1	-
9	Plastic/Rubber/Synthetics	22	16	5	11	-
10	Miscellaneous	36	21	6	15	6
	Total	409	273	71	202	90

Source: NEPZ.

(b) Santacruz Electronics EPZ (SEEPZ)

The Santacruz Electronics Export Processing Zone was established in September 1974, with about 41 ha. of land from the State Government of

Maharashtra in the Marol Industrial Area, Bombay. The Zone was initially planned exclusively for 100 per cent export production of electronics and during 1986-87, the government decided to create in the SEEPZ a Gem and Jewelry complex.

The Zone offers plots to entrepreneurs to construct factory buildings according to individual designs and offers ready-built space in the standard design factory buildings constructed by the Government.

In the beginning of operations, SEEPZ had five factories. Currently, that number has grown to 99 electronics and 26 jewelry factories, employing 12,000 workers. Export amounts in 1992-93 (upto February 15, 1993) were Rs. 6,257.50 million. As a percentage of total exports from SEEPZ, electronics and jewelry items made up 47.1 per cent and 52.9 per cent, respectively (Refer to Table 5-18).

As a share of the total export amounts for all of India, SEEPZ electronics exports totaled 25 per cent, and jewelry amounted to 22 per cent. Of the 125 on-going projects at SEEPZ, 61 are foreign collaboration enterprises.

Table 5-18 Details of Production in SEEPZ

Category	Per cent During				
	87-88	88-89	89-90	90-91	91-92
Electronics:					
a) Computer, computer sub-assemblies & peripherals, etc.	61	57	62	58	58
b) Other electronics components	18	12	13	15	11
c) Consumer electronics components	9	20	10	12	9
d) Computer software	11	10	14	14	21
e) Instruments & communication equipment	1	1	1	1	1
Gem & Jewelry:					
Diamonds	-	57	41	38	23
Jewelry	-	43	59	62	77

Source: SEEPZ.

(c) Madras EPZ

The Madras EPZ is one of the four zones established in 1984.
Total land area is 106 hectare.
Phase-I : 40 ha was developed, and in
Phase-II : 66 ha is being developed in two stages.

The MEPZ factory area is 64 ha (approximately 60% of total allocated land). There are 78 working units, and another 10 are under construction.

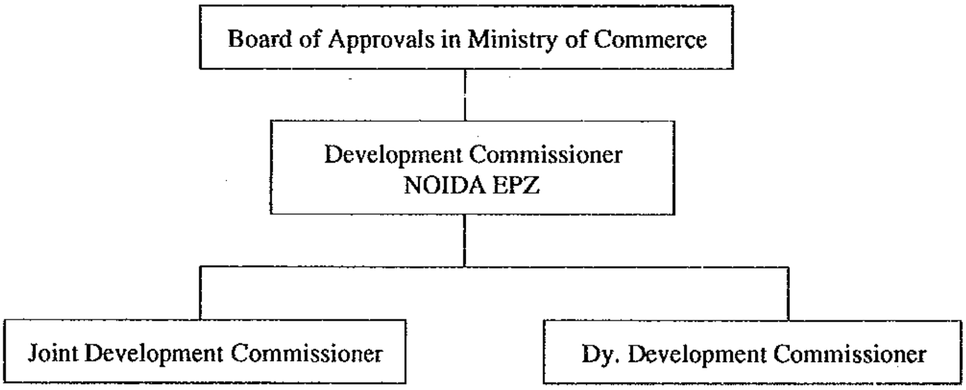
(d) Vishakhapatnam EPZ

The government has decided to set up an export processing zone in Vishakhapatnam. The basic internal infrastructure of the first phase of the Zone's development is likely to be completed in the current fiscal year, subject to availability of funds. In 1993, this project is nearing completion.

(3) Management and Operation Characteristics for Export Processing Zones

EPZs are managed by the development commissioner and operational divisions under the Ministry of Commerce.

(a) Organisation Chart of NOIDA EPZ



Board of Approvals consists of:

1.	Additional SECRETARY, Ministry of Commerce, Government of India	Chairman
2.	All Development Commissioners, Export Processing Zones	Members
3.	Nominees of Ministry of Finance	Members
4.	Nominees of Dept. of Electronics	Members
5.	Nominees of Ministry of Textiles, Government of India	Members
6.	Nominees of Director General, Trade and Development	Members
7.	Nominees of Ministry of Industry, Government of India	Members

Source: NOIDA EPZ.
Note: Information obtained from returned questionnaire submitted to EPZ(s), dated 1/31/93.

Figure 5-10 Organisation Chart of Noida EPZ

5.4.2 Export Oriented Units (EOU)

(1) Objectives and Background

The Scheme for 100 per cent EOUs was introduced in 1980 with the objective of generating production capacity for exports by providing an appropriate policy framework, flexibility of operations, and incentives. In order to operate successfully in the international market, such units are allowed to import machinery, raw materials, components, and consumables free of customs duties, and if procured indigenously, a complete refund of excise duty is available. The units must operate under customs bond and achieve the level of the value addition fixed by the Board of Approval.

(2) Current Conditions

At present, 193 units have reported commencement of production and the cumulative exports from the 100 per cent EOUs by the end of March 1991, amounted to about Rs. 3,230 million. Export performance during the last five years is shown in Table 5-19.

Table 5-19 Production Trend by EOUs

Year	Rs. 10 million
1986-87	291
1987-88	245
1988-89	460
1989-90	605
1990-91	640 (P)
1991-92	563 (P)

(upto Dec. 1991)
(P): provisional
Source: Manual for 100% Export Units Free Trade and Export Processing Zones.

(3) Incentives

According to the industrial policy and export-import control scheme, EPZs and EOUs have special incentive and concessions as listed below:

(a) Proposals fulfilling certain conditions are granted automatic approvals within 15 days. In other cases, approvals are granted by the Board of Approvals within 45 days.

(b) No import license is required for import of capital goods, raw materials, consumables, et cetera.

(c) Exemption from custom duty on capital goods, raw materials, consumable, et cetera.

(d) Exemption from payment of central excise duty on capital goods, raw materials, etc., brought from the domestic tariff area.

(e) (EPZ) 25/(EOU) 15 per cent of production depending on the indigenous inputs used in the products is also permitted clearance for domestic sale at confessional duty.

(f) Foreign equity participation upto 100 per cent is permissible for EOU/EPZs.

(g) Central sales tax paid on purchases from outside the state is reimbursed.

(h) Exemption from restrictions, if any, under export control order on products manufactured and exported from EPZ/EOUs.

(i) Working capital management for packing credit facility for a period of 180 days in some cases, without production of firm export orders, or letters of credit.

(j) Remittance of profit and dividends earned by foreign investors are allowed freely after payment of tax.

(k) Facility to convert entire export earnings at market rates.

(l) Priority release of telephone/telex connections.

(m) The units in the EPZ/EOUs are eligible for the international price reimbursement scheme for iron and steel items.

(n) Export from the EPZ/EOUs are exempt from the purview of compulsory export inspection.

(o) Units in the EPZs are offered a concessional lease rent on plots/sheds for a maximum of three years linked to the commencement of production.

(p) The EPZ/EOUs are exempted from payment of corporate income tax for a block of five years in the first eight years of operation.

5.4.3 Industrial Estates

Promotion of Industrial Estates was provided a stimulus by the Government of India towards the end of the first five-year plan period (1952-1957).

The objectives of the programme were:

(a) to provide well-planned accommodations to small industries at suitable sites with water, electricity, transport, banks, canteen, medical offices, and communication facilities;

(b) to bring a number of units together and thereby facilitate establishment of common service centres, introduction of modern technology, collective purchase of raw materials and sale of finished goods, and joint publicity, thus enabling small entrepreneurs to avail of external services and counteracting to some extent the disadvantages resulting from the smallness of business sizes; and

(c) to enable the entrepreneurs the availability of goods and services, so as to develop complementary and inter-dependent relations.

According to Kothari's Industrial Directory, 1990, there are 867 industrial estates developed and additional industrial estates planned for development. For construction, management, and operation of industrial estates, the central and state governments have separate functions.

The central government is primarily responsible to prepare several guidelines, to study and adjust the development of industrial estates.

The state government is responsible for site selections, development of regions, factory sheds construction, and the development of infrastructure. To accomplish this, the state government established the state industrial development corporation as the executing agency.

The statewide distribution of industrial estates presented in Table 5-20 reveals that the number of industrial estates is more in the states of Andhra Pradesh, Bihar, Gujarat, Madhya Pradesh, Rajasthan, Uttar Pradesh and Maharashtra.

Table 5-20 Distribution of Industrial Estates

Name of State/Union Territories	Number
Andhra Pradesh	103
Assam	8
Bihar	52
Chandigarh	1
Dadra & Nagar Haveli	2
Daman & Diu	2
Delhi	7
Goa	8
Gujarat	140
Haryana	12
Himachal Pradesh	8
Jammu & Kashmir	20
Karnataka	67
Kerala	30
Madhya Pradesh	78
Maharashtra	69
Manipur	1
Meghalaya	3
Mizoram	2
Nagaland	2
Orissa	18
Pondicherry	4
Punjab	30
Rajasthan	54
Tamil Nadu	47
Tripura	5
Uttar Pradesh	86
West Bengal	8
Total	867

Source: Kothari's Industrial Directory of India, 1990.

5.4.4 Industrial Infrastructures: Issues and Constraints

EPZs were established in India to provide export stimulus to the export-oriented producers. In order to do this, EPZs provided entrepreneurs with relatively well-developed infrastructure and support services, especially tax incentives, road works, telecommunications, et cetera. Although, EPZs became identified with better infrastructure, and could offer export-oriented manufacturers benefits, EPZs did not adequately develop infrastructure to meet producers' needs and were unable to directly develop and nurture domestic industries.

Observing EPZs in India has revealed current problems that could discourage investors, as well as discourage the central government's attempts to revitalize the country's domestic industries.

(1) EPZs: Effects and Consequences

EPZs contribute to the domestic economy in the form of lease payments for infrastructure requirements (gas, water, sewerage, etc.), as well as in the form of direct employment creation and salaries to workers. However, in terms of total revenues generated, these payments have minimal impact on the country's domestic economy as foreign exchange flows out of the country in terms of import purchases and repatriation of profits.

(2) Domestic Industry Linkages

EPZ-based companies depend heavily on the importing of capital goods, raw materials, parts and other business equipment needs. EPZ companies find that a disproportionate amount of capital expenditures are linked to a company's export products. Data indicate that about 80 per cent of a product's manufacturing sales are derived from the costs associated with the import materials needed for the production process. This indicates that EPZ enterprises are not able to develop sufficient support industries relationships within the domestic marketplace.

(3) Support Services for Companies

EPZs offer beneficial incentives, but imported equipment indirectly linked to processing equipment is taxed. Sample goods and/or destroyed equipment are not allowed removal from the country without normal export procedures. Procedures such as these are complicated and time consuming activities for entrepreneurs. Essentially, EPZs are not established to offer entrepreneurs timely, beneficial incentives.

(4) Unimproved Infrastructure

Although EPZ representatives have stated that infrastructure conditions are acceptable and that power generating and water supplies are adequate, companies operating within EPZs responded that electric power shortages and water shortages are problems that companies face and must expend additional funds to provide private, independent sources to guarantee the continuity of production schedules.

Given the current conditions described above, EPZs are problematic due to India's economic conditions, geographical conditions, infrastructure conditions, etc.; new measures are required to establish industrial infrastructure that are better than currently found in EPZs.

CHAPTER 6 THE IMT CONCEPT

CHAPTER 6 THE IMT CONCEPT

6.1 Background and Objectives

6.1.1 The Background of the Basic Conditions Necessary to Promote Introducing Foreign Investors with Technical Transfer

(1) Macro Economy

(a) Comparison with ASEAN member Countries

A comparison with selected ASEAN member countries was accomplished to clarify the country's economic trends (refer to Table 6-1). As the table demonstrates, India's population is fifteen times larger than Thailand, and five times larger than Indonesia. In terms of total GDP (in U.S. dollars), India's economic performance is three times greater than Thailand, and about 2.5 times greater than Indonesia (in 1990). In terms of GDP, India's economic activity appears strong.

However, a comparison of India's economic growth rate for a 25 year period from 1965 to 1990, demonstrated India's GDP growth rate was only five times the country's 1965 level. Comparisons indicated that GDP growth rate of the ASEAN member countries became 10 to 35 times the countries 1965 levels. Further, the country's GDP ranges from one-seventh to one-second of the growth rate observed for ASEAN member countries for the same period, and demonstrates slow economic growth.

For the period investigated, India's GNP per capita (U.S.$350) was 60 per cent of Indonesia's, which is not high in ASEAN country, and one-fourths of Thailand's, and one-seventh of GNP per capita recorded for Malaysia. India's economic growth rate for the past 25 years (1965 to 1990) was 1.9 per cent; less than half the growth rates of Thailand, Malaysia, and Indonesia.

The data and comparisons reveal that India is a large-scale economy, but has demonstrated small economic growth compared with ASEAN member countries.

(b) International Balance of Payments Deficit

The international balance of payments and related macro economic trends for the last 10 years were presented in Chapter 2, and further details are given in Figure 6-1.

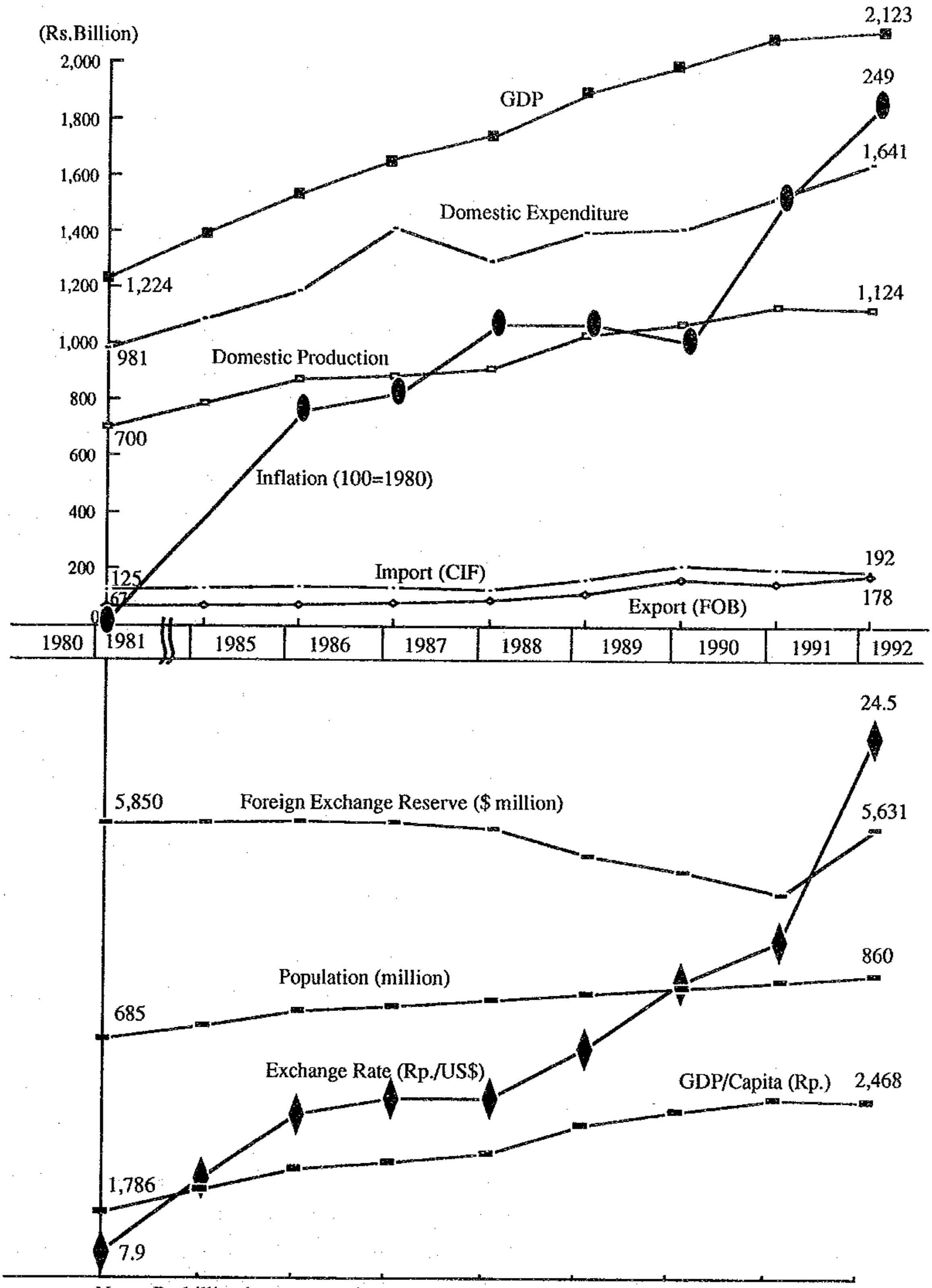
According to the data given in Figure 6-1, GDP was 2,123 Rs. billion in 1991, compared to 1,224 Rs billion in 1980; posting an average GDP growth rate increase of 5.7 per cent. The annual population growth rate for the same period was 2.3 per cent, climbing from 685 million to 860 million persons. For the period studied, the annual growth rate of GDP per capita rose from 1,786 Rupees to 2,468 Rupees; approximately a 3.3 per cent annual growth rate in GDP per capita.

Table 6-1 Economic Index for India and ASEAN Member Countries

ASEAN	Population (millions)	GDP (US$ Million)			GNP/capita (US$)			
		1965 (a)	1990 (b)	Growth rate (b/a)	1980	1990	Annual Growth rate 1965-1990	Annual Avg. Inflation rate (1980-1990)
Singapore	3.0	970	34,600	35.7	4,680	11,160	6.5%	1.7%
Thailand	55.8	4,390	80,170	18.3	683	1,420	4.4%	3.4%
Malaysia	17.9	3,130	42,400	13.5	1,716	2,320	4.0%	1.6%
Indonesia	178.2	5,980	107,290	17.9	470	570	4.5%	8.4%
Philippines	61.5	6,010	43,860	7.3	729	730	1.3%	14.9%
India	849.5	50,530	254,540	5.0	233	350	1.9%	7.9%

Source: The World Bank. "World Development Report. 1992"

India has posted yearly international trade balance deficits for more than 10 years. The trade deficit posted imports that surpassed export amounts by as much as 30 to 80 per cent for the same period. This chronic trade deficit was criticized in 1990 as the country posted foreign reserves of only U.S. $ 2.236 million. The small amount of foreign reserves was attributed to increased oil imports, recent price increases for oil, and a loss of repatriation funds from NRIs working in the Middle East during the 1990 Gulf War. This has led the central government to seek economic reforms and further liberalise the country's economy.



Note: Rp billion is constant price at 1980/81
refer to Table 2-1

Figure 6-1 Trends of Macro-Economy in India

(2) Primary Subjects of the National Development Plans

The primary subjects of the Eighth Five Year national development plan essentially address (i) the creation of employment, and (ii) the improvement of the country's international balance of payments.

As India's middle-class grew, so did demand for quality goods that have garnered international consumer recognition. This demand increased durable goods imports at substantial costs to consumers, and the country's foreign exchange reserves. To alleviate the expenditure of foreign currency exchange and improve the country's international balance of payments, methods must be derived that lessen the country's dependence on imports from industrial countries.

In order to reduce imported goods, it is required to establish production system to produce quality products to compete with imported goods by means of effective production and strengthening of the domestic enterprises in India.

(a) Expansion of Employment Opportunities: Development of Private Sector Manufacturing

As per "Chapter 2, section 2.2.1, Sectoral Investment Plan", the private sector's investment accounts for approximately 55 per cent of the gross domestic investment amount in the Eighth Five Year Plan which is larger than public sector investment, and the manufacturing sector is approximately one-third of the private sector investment.

It appears that the central government intends to expand and create employment opportunities by further providing economic liberalisation policies beneficial to the private manufacturing sector.

(b) Improving India's International Balance of Payments

Based on the current account deficit (CAD) given in "Chapter 2, section 2.2.2", the Eighth Five Year Development Plan projects a deficit of Rs. 550 billion; approximately 50 per cent (RS 287 billion) of the CAD is projected to be paid from external assistance funding, and 40 per cent (Rs. 213 billion) will be obtained by direct foreign investment (Refer to Table 2-21).

Given the above data, it appears the central government will develop the private manufacturing sector by the introduction of foreign investment, and lessen the current account deficit.

(3) The New Industrial Policy

The New Industrial Policy announced in July 1991, demonstrates the central government's shift away from prior centrally planned economic policies to a decidedly liberal, mixed market economy. This portends that industrial restructuring will be stimulated and provide improvements across industrial groups and further invigorate free market forces.

The following key topics best illustrate the government's commitment to liberalisation of the Indian economy.

(i) Promote and encourage privatization efforts instead of dependence on a centrally-planned public sector.

(ii) Promote and encourage foreign investment through the deregulation of key industrial sectors and provide substantial incentive programs to investors.

(a) Improving Quality of Products

Centrally planned economies tend to place restrictions on a country's production and supply system (for example, restrictions effecting the establishment of industries, facilities expansion and modernisation, and the monopolistic control of manufactured goods). This economic policy has provided vested interests to producers creating the conditions of short supply to demand. Therefore, this circumstance failed to improve the quality of products, and left many limitations to consumers.

Recognising this phenomenon, the government of India strongly attempted to improve quality products. According to "Export and Import Policy: 1992-97", the government is under plan to establish the National Quality Council (NQC) in 1993 to improve the quality of products.

(b) Foreign Investment Expansion upto 51 Per Cent.

New industrial policy, new trade policy, and other related policies were issued to ease restrictions associated with capital and intermediate goods imports. Further liberalisation of regulations effecting imports of capital and intermediate goods that could be utilised for export promotion were enacted which increased foreign investment amounts to 51 per cent shares in an undertaking and were discussed in detail in "Chapter 4. Foreign Investment Strategy".

6.1.2 Measures for Introducing Foreign Investment and Technology Transfers

The objectives of foreign investors will be studied, and as an example, Japanese manufacturers, are described. Figure 6-2 indicates that "scale of local market", the "a large number of labour force", and "government incentives" are primary factors effecting overseas investment decisions. From the viewpoint of the above, India is an attractive country for investors with her large economic scale of GDP, i.e., several times of five selected ASEAN member countries mentioned before and her large population as labour force. However, a cursory review reveals that Japanese investments to India are relatively small compared to other countries in Asia. Total foreign investment from Japan to Asian countries is shown in Figure 6-3.

In order to find out what factors affect small investment to India, Japanese investors cited difficulties of Japanese investors' experiences in other Asian countries are analyzed and illustrated in Figure 6-4.

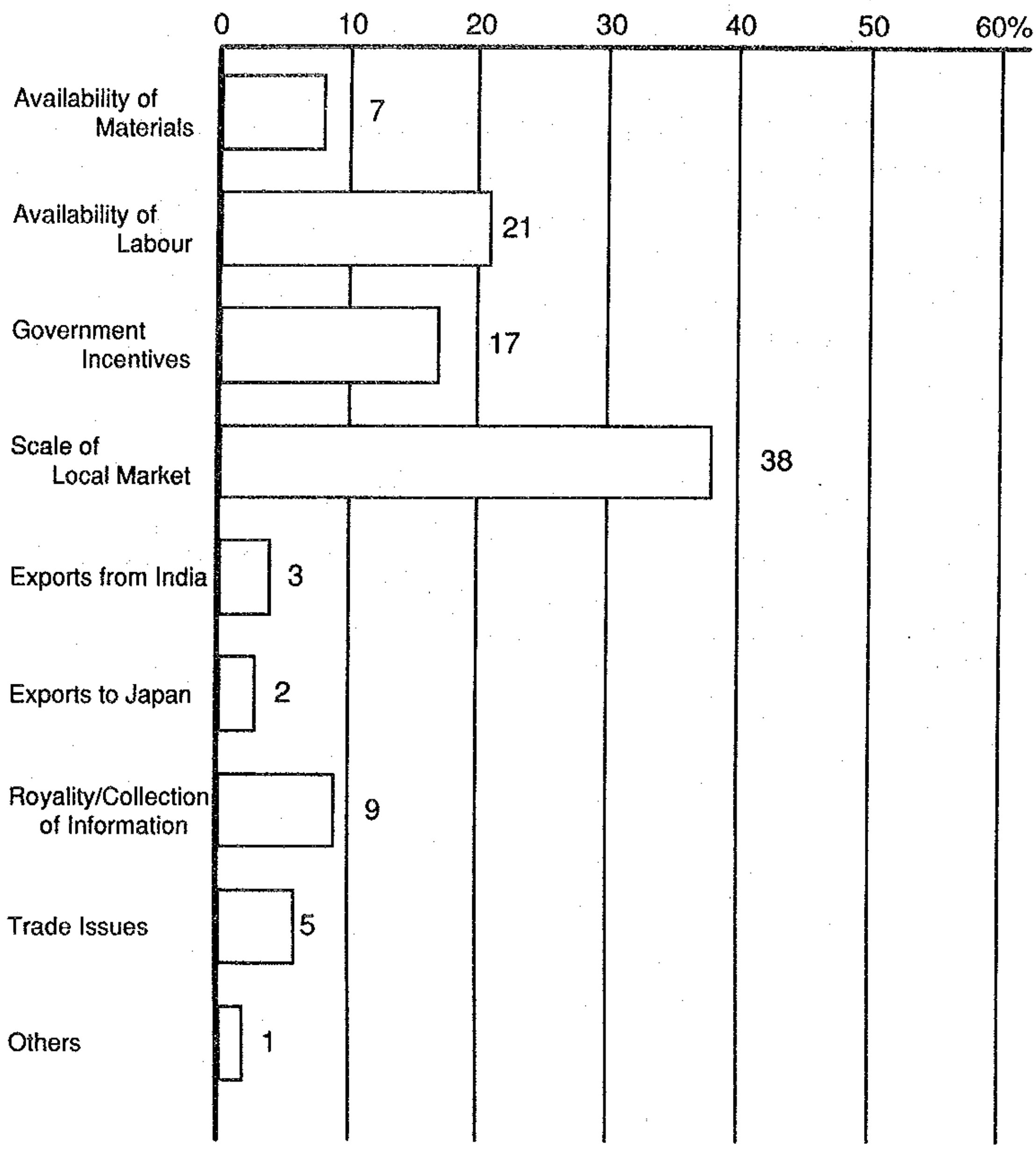
It should be noted that Japanese investors cited different problems effected investment decisions when considering ASEAN member countries or NIE countries. For example, the "rapid increase in labour costs", "labour-related problems", and "competition with other countries" were reported as significant issues effecting investments in the NIEs. "Infrastructure conditions", "foreign capital import policies", and a "shortage of support industries" were cited as problems particular to investment strategies in ASEAN member countries. From the above facts, in order to introduce foreign investment and technology transfers, "Soft Factors" and "Hard Factors" should be improved.

(1) Improvement of Soft Factors

In order to introduce foreign investors to India, soft factors, i.e., government policies and regulations, should be improved. For example, it was observed that after the New Industrial Policy was announced, foreign investment amounts increased approximately seven times, and the number of foreign enterprises increased by 2.4 times the number of enterprises before the new policy announcement (described in detail in Chapter 4, "Foreign Investment Strategy"). This implies improvement of Soft Factors has a substantial impact to foreign investors.

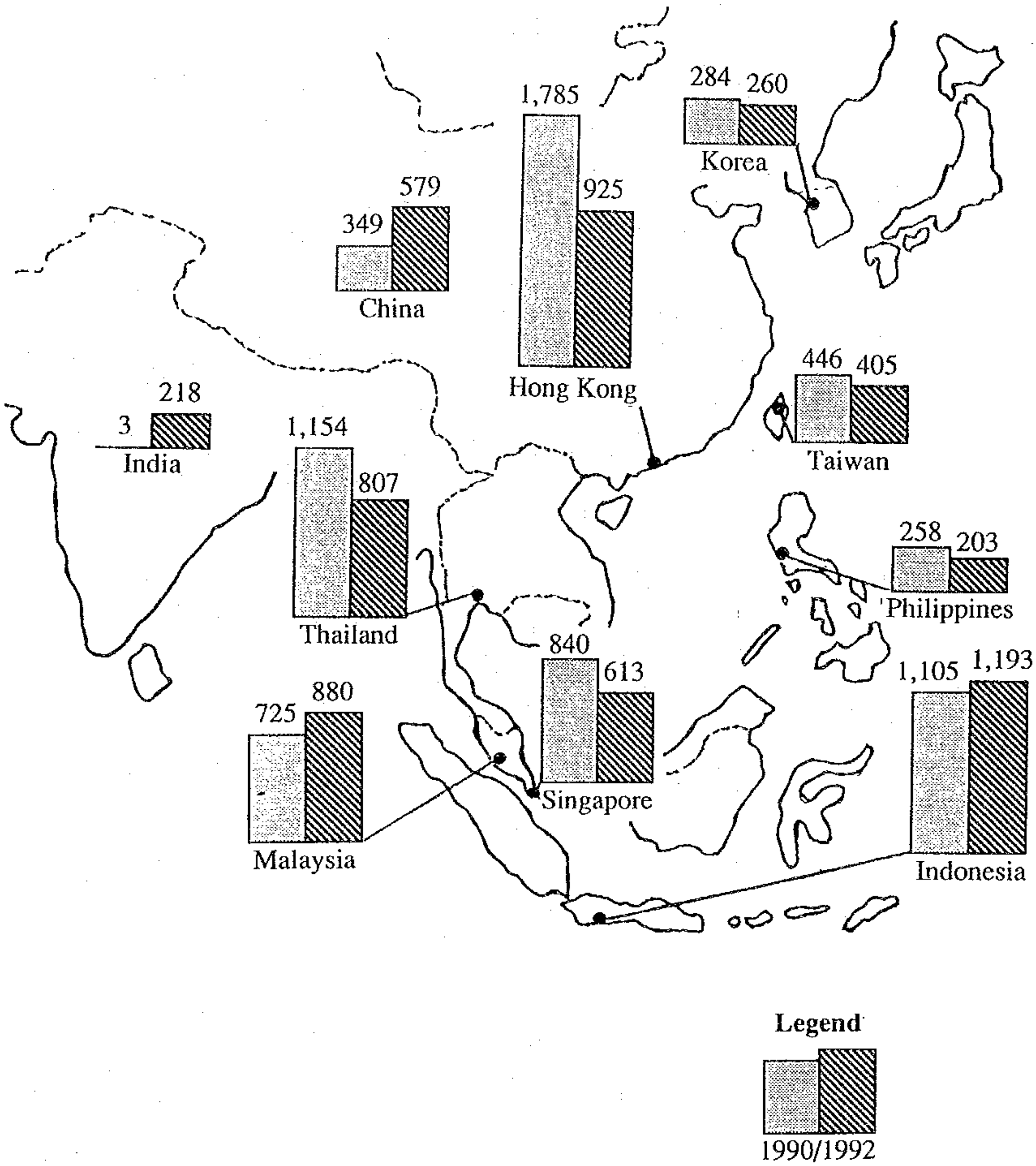
(2) Improvement of Hard Factors

Improvements in social and industrial infrastructure would require an international standard of acceptance to introduce foreign investors to India. It was observed that Japanese investors reported "unadjusted infrastructure" as a significant problem in ASEAN countries.



Note: Questionnaire survey results regarding Japanese Investor's Foreign Investment objectives.
Source: "List of Touyou-Keizai Foreign Investment Enterprises 1991-92".

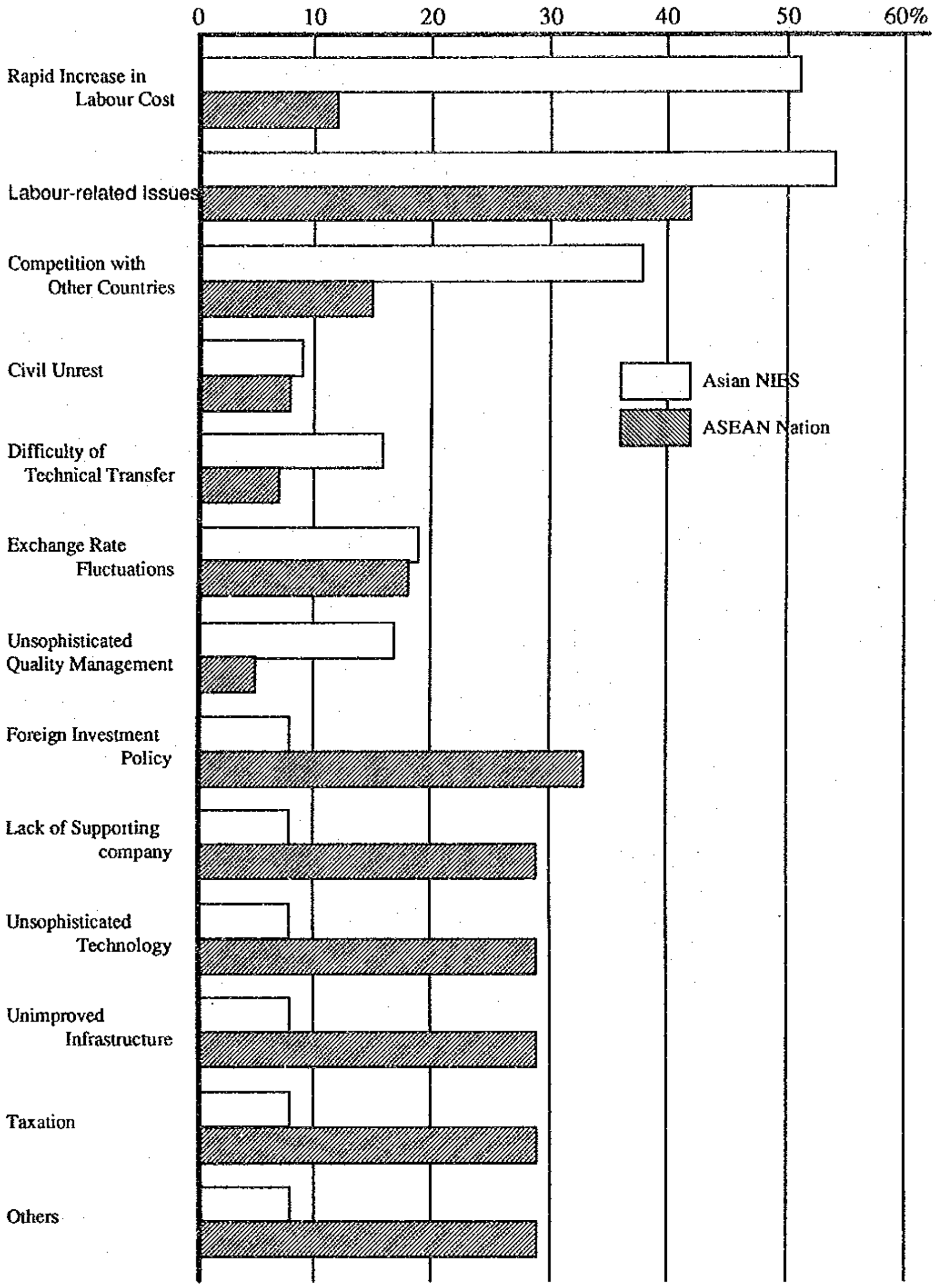
Figure 6-2 Japanese Investor's Foreign Investiment Objectives



(Unit : Million $)

(Source : Ministry of Finance)

Figure 6-3 Foreign Investment from Japan to Asian Countries



Source: White Paper on International Trade: Japan 1992.
The Ministry of International Trade and Industry.
JETRO publishers. 1992:145. Japan.

Figure 6-4 Japanese Investors Experience: Reported Difficulties