No. 41

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

MINISTRY OF INDUSTRY
INDIA

THE FEASIBILITY STUDY
ON
THE INDUSTRIAL MODEL TOWN
IN
INDIA

FINAL REPORT

JUNE 1995

YACHIYO ENGINEERING CO., LTD.
in Association with
TECHNO CONSULTANTS, INC.

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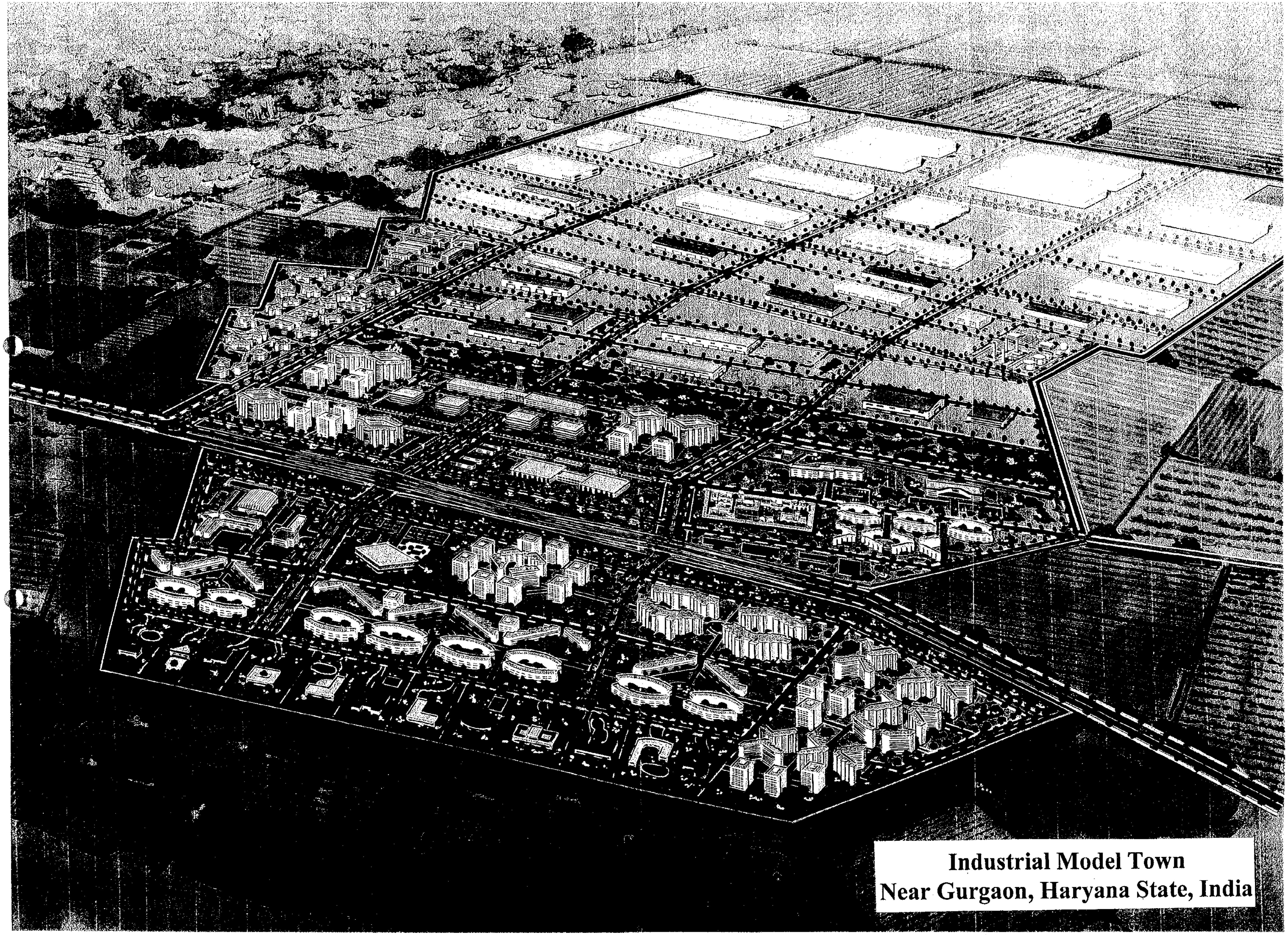

Industrial Model Town
Near Gurgaon, Haryana State, India

Preface

In response to a request from the Government of India, the Government of Japan decided to conduct the Feasibility Study on the Industrial Model Town in India and entrusted the study to Japan International Cooperation Agency (JICA).

JICA sent a study team led by Mr. Hisashi Kurokouchi of Yachiyo Engineering Co., LTD (YEC) and organized by YEC and Techno Consultants, INC. to India three times between August 1994 and May 1995.

The team held discussions with the officials concerned of the Government of India, and conducted related field surveys. After returning to Japan, the team conducted further studies and compiled the final results in this report.

I hope this report will contribute to the promotion of the plan and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation to the officials concerned of the Government of India for their close cooperation throughout the study.

June 1995

Kimio Fujita

Kimio Fujita
President
Japan International Cooperation Agency

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LIST OF ABBREVIATION

CDOT	:	Central Department of Telecommunication
CII	:	Confederation of Indian Industry
CPCB	:	Central Pollution Control Board
CPHEEO	:	Central Public Health Environmental Engineering Organization
CTCP	:	Chief Town and Country Planner
DI	:	Directorate of Industries
DID	:	Department of Industrial Development
DMA	:	Delhi Metropolitan Area
DOE	:	Department of Electronics
DOT	:	Department of Telecommunications
DUT	:	Delhi Urban Territory
DTA	:	Domestic Tariff Area
EIS	:	Environment Impact Statement
EOU	:	Export Oriented Unit
EPCG	:	Export Promotion Capital Goods
EPZs	:	Export Processing Zones
FERA	:	Foreign Exchange Regulations Act
FIPB	:	Foreign Investment Promotion Board
F/S	:	Feasibility Study
GAIL	:	Gas Authority of India Limited
GDE	:	Gross Domestic Expenditure
GDP	:	Gross Domestic Production
GVA	:	Gross Value Added at Factor Cost
HSEB	:	Haryana State Electricity Board
HSIDC	:	Haryana State Industrial Development Authority
HSPCB	:	Haryana State Pollution Control Board
HUDA	:	Haryana Urban Development Authority
IAG	:	Industrial Assistance Group
I & C	:	Industrial & Commerce
IDBI	:	Industrial Development Bank of India
IDR	:	Industries' Development and Regulations Act 1951
IETF	:	Indian Engineering Trade Fair
IFCI	:	Industrial Finance Corporation of India
IIC	:	Indian Investment Center
IMT	:	Industrial Model Town
JICA	:	Japan International Cooperation Agency
L/I	:	Letter of Intent
LUT	:	Legal Undertaking
MOC	:	Ministry of Communication
MOST	:	Ministry of Surface Transport

MRTP	:	Monopolies and Restrictive Trade Practices Act, 1969
M/S	:	Master Plan Study
MUSS	:	Master Unit Substation
NCR	:	National Capital Region
NEXIM 91	:	The Exim Policy 1991
NFE	:	Net Foreign Exchange Earnings
NH	:	National Highway
NIP 91	:	New Industrial Policy
NOIDA	:	The New Okhla Industrial Development Authority
NRI	:	Non Resident Indian
NTPC	:	National Thermal Power Corporation Ltd.
PAB	:	Project Approval Board
PHED	:	Public Health Engineering Department
PMP	:	Phased Manufacturing Programmes
PWD	:	Public Works Department
RABMN	:	Remote Area Business Message Network
RBI	:	Reserve Bank of India
RLU	:	Remote Line Unit
Rs	:	Rupee
SDP	:	State Domestic Product
SEB	:	Special Empowered Board
SFC	:	State Financial Corporation
SIA	:	Secretariat For Industrial Approval
SPA	:	School of Planning and Agriculture
SSI	:	Small-Scale Industry
SWA	:	Single Window Agency

Unit and Measure

Crore	:	10 Million Rupee
Lakh	:	0.1 Million Rupee
KLD	:	Kilolitre per day
MLD	:	Million Litre per day

Chapter 1

Objective and Scope of Study

Chapter 1 Objective and Scope of Study

1.1 Background of Study

(1) The Government of India has actively promoted economic liberalization through the enactment in 1991 of new economic policies. Urgent considerations since that time have been given to a shift from the country's present conservative industry to an internationally more competitive industry.

The government's programmes are proving effective and have encouraged further efforts toward economic and industrial growth. However, foreign investment in the form of joint ventures and other capitalization projects requires that the country's present investment climate be improved to meet the future demands of industrial growth.

The country's industrial technology level must be upgraded, competitiveness restored, and outdated manufacturing equipment must be replaced with highly efficient and economical equipment. Also, to strengthen foreign investment, further the introduction of new technology, and promote the growth of domestic industries, the Government of India must continue to pursue economic liberalization policy efforts.

(2) During the 18th India and Japan Study Committee Meeting, hosted by India in March 1989, the Japanese members recommended that establishing industrial zones that meet international standards would encourage foreign investment in the country. In August 1991, the Government of India responded positively and requested through proper diplomatic channels that the Government of Japan assist the country with a development study of an Industrial Model Town (IMT).

(3) In response to this request by the Government of India, the Japan International Cooperation Agency (JICA) conducted a project identification study in October 1991, followed by a project formation study in March 1992. Accordingly, India's Ministry of Industry, Department of Industrial Development (DID) and JICA agreed upon the *Scope-of-Work* for the Master Plan Study on August 7, 1992.

(4) As per the above mentioned *Scope-of-Work*, the Master Plan Study was carried out to recommend the most appropriate site among the four candidate sites for the establishment of the IMT, and to prepare an IMT Conceptual Plan for the recommended site. The four candidate sites were Gurgaon and Noida (both near Delhi) and Bidadi and Sathnur (both near Bangalore). The Master Plan Study commenced in October 1992 and was completed in December 1993.

(5) As a result of the Master Plan Study, Gurgaon was recommended as the most appropriate site for the establishment of an IMT. Thereafter, the *Scope-of-Work* for the present Feasibility Study were signed in February 21, 1994. This Feasibility Study is being carried out as per the *Scope-of-Work*.

1.2 Objective of Study

The main objective of this study is to establish an Industrial Model Town (IMT) of international standards near Gurgaon city in Haryana state, in order to attract foreign investment and technology and upgrade the competitiveness of Indian companies and increase employment opportunities through collaboration and technology transfers from foreign companies. The present study will formulate the conceptual design for the IMT and examine the economic and financial feasibility of establishing such an IMT.

1.3 Location of Study Area

The study will be focussed at the area in and around the candidate site at Gurgaon and the Haryana state (refer Fig. 1.3.1). The Investment Demand Survey to assess the potential investment demand will cover companies located in India, Japan, U.S., U.K., Germany and Singapore.

1.4 Scope of Study

The scope of this study is as follows.

(1) Review of Master Plan Study

1-1 Trends in Indian Economy : Broad Overview
1-2 Investment Climate : Broad Overview
1-3 Present Performance of Foreign Investment /Joint Ventures
1-4 Results of Investment Demand Survey
1-5 Present condition in and around the IMT candidate site in Gurgaon
1-6 Recommendations
1-7 Conceptual Design for the IMT

(2) Investment Demand Survey

2-1 Potential foreign investors to India
2-2 Potential foreign investors to the candidate site in Gurgaon
2-3 The investors perception toward India

(3) Study on Foreign Investment Promotion

3-1 Organizational strategy for IMT promotion
3-2 Public Relation Efforts
3-3 Improvement in Industrial Licensing System
3-4 Development of Practical Procedures for implementing industrial policies
3-5 Other Measures Available for IMT

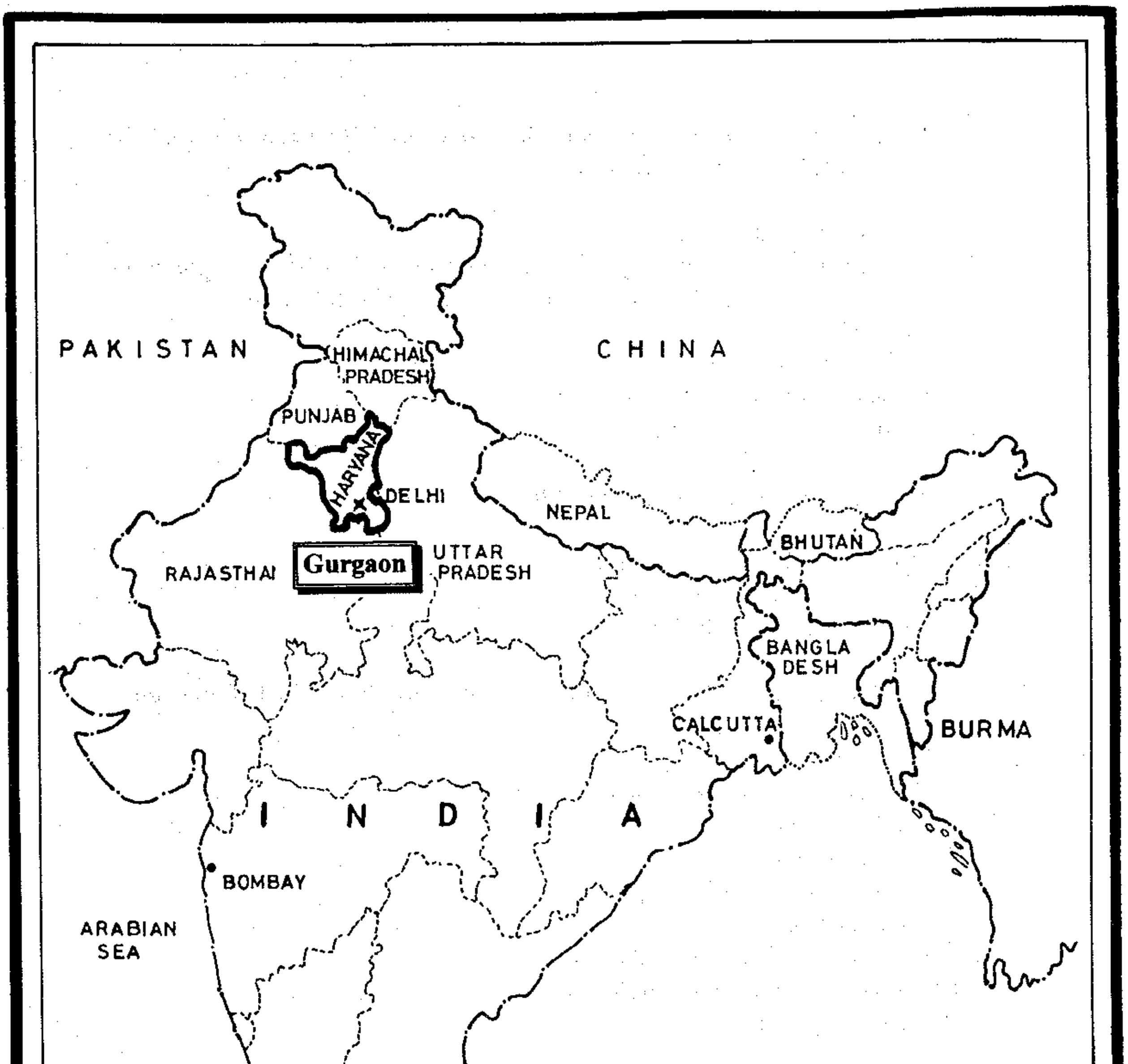


Fig 1.3.1: Map of India Showing the Location of the Candidate Site (Gurgaon)

(4) Field Study on the Present Conditions in and around Haryana state and the IMT Candidate Site in Gurgaon.

4-1 Topography and land use
4-2 Infrastructure (water supply, electricity, telecommunications, transportation, waste water and sewage treatment, industrial solid waste)
4-3 Accessibility
4-4 Industrial Sub-sectors
4-5 Industrial Products
4-6 Existing Industrial Estates
4-7 Labour Force
4-8 Training/Education/Research Facilities
4-9 Housing Conditions
4-10 Medical and Hygiene Facilities
4-11 Urban Amenities
4-12 Social and Environmental Situations

(5) Formulation of Conceptual Design for the IMT candidate site in Gurgaon

5-1 Potential Industries
5-2 Development Scale (Zoning and Layout)
5-3 Land Utilization
5-4 Traffic Planning
5-5 Land Reclamation Planning
5-6 Infrastructure
5-7 Operation and Management System
5-8 Construction Schedule and Procedure
5-9 Cost Estimation

(6) Social Environmental Assessment

6-1 Land Acquisition
6-2 Employment Related Issues
6-3 Slums
6-4 Water Rights
6-5 Access Roads
6-6 Traffic Conditions and Forecasts
6-7 Protection of Soils from Effluents

(7) Evaluation

7-1 Economic and Financial Evaluation
7-2 Social and Environmental Impact

(8) Conclusion and Recommendations

1.5 Implementation Schedule for the Study

This study consisting of Work in Japan and Field Work in India was carried out as per the following implementation schedule.

(1) Preparatory work in Japan : Beg. July, 1994 to End. July, 1994

Preparation and submission of the Inception Report.

(2) Field Work in India (1st stage) : Aug. 2, 1994 to Aug. 31, 1994

Preparation and submission of the Progress Report (I).

(3) Work in Japan (1st stage) : Beg. Sep., 1994 to End. Dec., 1994

Preparation and submission of the Interim Report.

(4) Field Work in India (2nd stage) : Jan. 4, 1994 to Feb. 2, 1994

Preparation and submission of the Progress Report (II).

(5) Work in Japan (2nd stage) : Beg. Feb., 1995 to End. March, 1995

Preparation and submission of the Draft Final Report.

(6) Explanation of the Report : May 11, 1995 to May 25, 1995

Presentation and discussion on the Draft Final Report.

(7) Preparation of Final Report : End of May 1995 to End of June 1995

Modifications and additions to the Draft Final report.

The above mentioned implementation schedule for the study is shown in fig. 1.5.1.

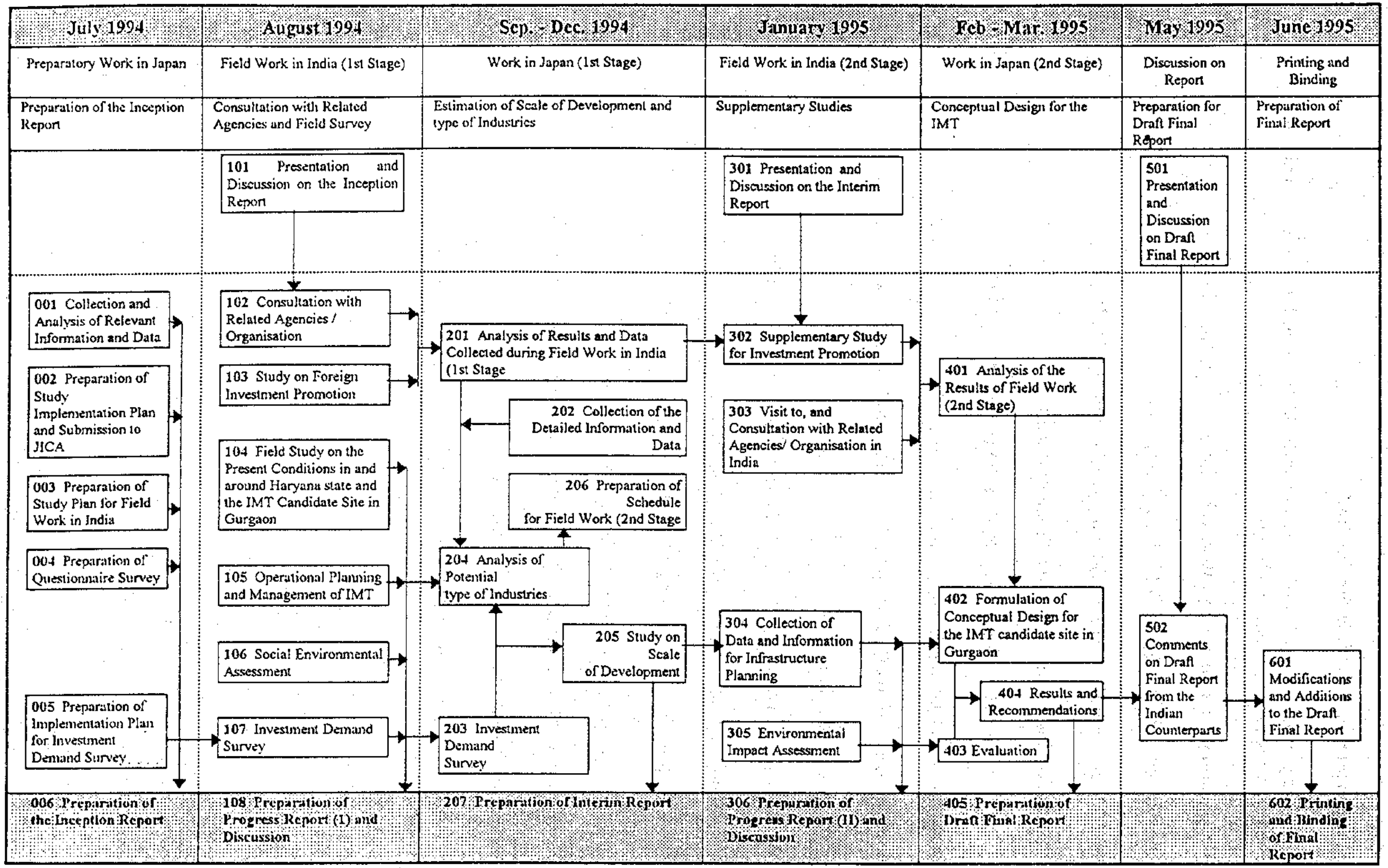


Fig 1.5.1 : Study Implementation Flowchart

1.6 Results of the Study

The final results of the study are described in this report.

1.6.1 Compilation of the Report

This report consists of 13 chapters, which are broadly divided into 2 parts. The first part consists of Chapter 1 to Chapter 6, and describes the review of the Master Plan Study and Chapter 7 describes the results of the basic concept for the development of the IMT, which forms the basis for the conceptual design for the IMT. The second part consist of Chapter 8 and onwards, and describe the conceptual design for the IMT. Although a conceptual design for the IMT was prepared in the Master Plan Study, some modifications have been made in this Feasibility Study based on a re-analysis of the development conditions for the IMT.

1.6.2 Conclusions of the Study

(1) Scale of Development

In this Feasibility Study (F/S), the land-use plan of the IMT and the IMT facilities which were planned in the Master Plan Study (M/P) were reviewed. The results of this study are quite similar to those of the Master Plan Study. The area required for the development of the IMT is 600 ha of which 400 ha will be used for industrial purpose and 200 ha for residential and urban purposes.

The comparative land-use for M/P and F/S is shown below in Table 1.6.1.

Table 1.6.1 : Land Use Plan for the IMT

(in hectares)

		(M/P)		(F/S)	
		Industrial Zone	Residential Zone	Industrial Zone	Residential Zone
Industrial area		288		267	
Housing area	Low density		28		20
	Medium density		30		39
	High density		42	14	39
	(Total)		(100)	(14)	(98)
School area					7
Center area*		10	30		37
Recreation area			8		
Traffic facility area				1	1
Utility area		10	7	10	4
Park / Green belt		28	23	47	22
Road space		64	32	62	31
(Total)		400	200	400	200

Note : * In the F/S, the community facilities (Community center, Health care center etc.) were also included in the Center area.

(a) Final Results of Investment Demand Survey

From the Investment Demand Survey except India, it is estimatd that 329 ha will be required for the 99 potential industries in the IMT, as shown below.

	Surveyed Countries	Other Countries	Total
Number of Potential Companies	52	47	99
Potential Area Required (ha)	173	156	329

Note 1 : Japan, USA, UK, Germany and Singapore
Note 2 : Manufacturing industry only

(b) Recommended Scale of the IMT

Based on the results mentioned above and the analysis of suitable industries for the IMT, the scale of the industrial zone including the non-manufacturing sector is recommended as follows :

	Manufacturing	Non-Manufacturing	Total
Number of Potential Companies	64	48	112
Potential Area Required (ha)	220	47	267

(2) Effects of Development

The following development effects will be derived from the implementation of the IMT project.

(a) Economic Analysis

Economic Internal Rate of Return (EIRR)	29.6%
Added Value of Increased Industrial Production	Rs. 28,360 million/year
Increase in Employment Opportunity	29,890 people will be employed. This is equivalent to 1.3 times of the number of factory workers of Gurgaon (22,847) or 10% of that of Haryana State. Overall payment of wages will be Rs. 2.773 million per year
Effect on the Regional Economy	Development cost of the IMT; Rs. 18.08 billion Construction cost of factories; Rs. 21.06 billion Total investment amount is equivalent to 25% of the GDP of the Haryana State.

(b) Financial Analysis

The calculated Return on Investment (ROI) at the price of US$ 50/m2 is as follows :

	Sales Completion	
	10 Years	5 Years
ROI (before tax)	8.0%	12.8%
ROI (after tax)	4.6%	7.4%

(3) Development Methodology

The IMT facilities consist of profitable and non-profitable facilities. For each type of IMT facility, the implementing agency, the funding source and the method of investment recovery is shown in Table 1.6.2

Table 1.6.2 : Development Methodology for the IMT facilities

Component	Estimated Cost (Rs. Million)	Implementation Agency			Financing Source (Rs. Million)				Cost Recovery
		State Govt.	Third Sector	Private Sector	State Govt. (A)	Indian Private (B)	Foreign Official (C)	Foreign Private (D)	
1. Land Acquisition	1,500	○ (A)			1,500				Land Sales
2. Basic Infrastructure	1,867		○ (D)					1,867	Land Sales
3. National Highway No. 8	269	○ (C)					269		Land Sales
4. Power Supply	4,113	○ (C)					4,113		Service Charge
5. Telecommunications	221	○ (C)					221		Service Charge
6. Water Supply	747	○ (C)					747		Service Charge + Subsidy
7. Sewage Treatment	585	○ (C)					585		Service Charge + Subsidy
8. Solid Waste Management	63		○ (C)				63		Service Charge
9. Housing Facilities									
High Density (4F) 5,000 rooms Housing for EWS 1,000 rooms	790	○ (C)					790		Rental Fee
High Density (10F) 6,000 rooms Middle Density 1,500 rooms	6,339			○ (B)		6,339			Sales
10. Town Facility									
Promotion Center	448		○ (C)				448		Land Sales
Public Facility (Town Center, etc)	647	○ (C)					647		Service Charge (partially)
Commercial Facility (Shopping Center etc)	2,167			○ (B)		2,167			Sales
Sub-Total and Total	19,756	8,872	2,378	8,506	1,500	8,506	7,883	1,867	

Chapter 2

Current Situation of Indian Economy and Industrial Policy

Chapter 2 Current Situation of Indian Economy and Industrial Policy

2.1 Macro Economic Situation

In the Master Plan Study, the macro-economic trends of India were analysed for the last 10 years starting from 1980-81 to 1990-91. In this study the macro-economic trends after 1990 are analysed.

The Indian economy has successfully recovered from the crisis of 1991 when the foreign currency reserves had fallen to about US $1 billion, inflation soared to an annual rate of 17% and the overall economic growth had declined to 1.1%. The economic reforms started during 1991-92 has helped restore the foreign currency reserves to US $6.4 billion, brought down the rate of inflation to 7% and the economic growth to 4% in 1992-93.

As per the Economic Survey 1993-94, the Government of India will continue the economic reforms and further (a) introduce policy reforms for transforming the structure and competitiveness of the economy, (b) accelerate the growth of labor-intensive industries for employment generation and, (c) pursue the fiscal reforms to achieve better macro-economic stability and balance-of-payments position.

The recent macro-economic situation of India is discussed as follows.

2.1.1 Economic Growth

(1) Gross Domestic Product (GDP)

As per the estimates of the Central Statistical Organisation (CSO), the GDP (at factor cost) is expected to grow by 3.8%, with agriculture at 2.3%, manufacturing at 2.5% and utility and other service sectors ranging from 3.8% to 8.1% in 1993-94. While these estimates of overall economic growth are more than three times higher than the growth in 1991-92, it is below the 5.6% rate projected in the Eighth Five Year Plan. Table 2.1.1 shows the trends in the economic growth in recent years.

(2) Industrial and Agricultural Production

As per the Economic Survey, 1993-94, the industrial growth was about 1.6% during the first seven months of 1993-94 compared to 1.8% during 1992-93. This growth rate resulted from a negative growth of 1.6% in the mining and quarrying sectors and a growth of 1% in the manufacturing sector. Electricity generation performed well with a growth rate of 7.6% during the first seven months of 1993-94. The basic infrastructure industries have recorded a growth of 5.1% during April-December 1993. The growth of value added in the agriculture and allied sectors is estimated to be 2.3% in 1993-94.

Table 2.1.1 : Trends in Economic Growth

Items	1980-81	1990-91	1991-92	1992-93
GDP (in Rs. 10 million)				
at current prices	122,427	475,604	551,552	627,913
at 1980-81 prices	122,427	211,260	213,590	222,089
Annual growth rate (%) at 1980-81 prices	7.2	4.9	1.1	4.0
GNP (in Rs. 10 million)				
at current prices	122,772	468,059	540,143	616,504
at 1980-81 prices	122,772	207,488	208,651	217,597
Annual growth rate (%) at 1980-81 prices	7.3	4.7	0.6	4.3
Population and Growth rate				
Population (Million)	683	846	862*	879*
Average annual growth rate (%)	2.22	2.38	1.89	1.97
GDP per capita at 1980-81 prices (in Rupees)	1,792	2,497	2,478	2,527
Annual growth rate (%) at 1980-81 prices	--	3.93	0.0	1.98

Note : * As on 1st March 1992 and 1993 respectively, based on population projections
Source : Compiled from Economic Survey 1993-94, Government of India.

(3) Inflation

The Wholesale Price Index (WPI) quantifies inflation at the wholesale level and the Consumer Price Index (CPI) measures changes in the retail prices. The annual inflation rate (WPI) entered double digits (10.5%) in November 1990 and reached a peak of 16.3% in September 1991. Thereafter, it started falling and reached to 7.1% in March 1993. The declining trend was however reversed in August 1993 when inflation again increased and reached at 8%. The inflation in terms of (CPI) moved almost parallel with the WPI during the past three years. The annual inflation rate stood at 8.2% on January 29, 1994. Table 2.1.2 shows the trends in the WPI and CPI from 1990-91 to 1993-94.

Table 2.1.2 : Trends in Inflation (WPI and CPI)

Year	WPI	CPI	% change over previous year	
			WPI	CPI
1990-91	191.8	201.0	12.1	13.6
1991-92	217.8	229.0	13.6	13.9
1992-93	233.1	243.0	7.0	6.1
1993-94	251.1*	264.0**	8.2*	8.6**

Note : * As on January 29, 1994 ** As on December, 1993
CPI refers to industrial workers
Source : Compiled from Economic Survey 1993-94, Government of India.

2.1.2 Balance of Payments (BOP)

The Balance-of-Payments position has remarkably improved during 1993-94. The trade deficit at US $732 million during April-December 1993, is less than a fifth of the level in 1992. By the end of the year, the trade deficit is expected to be about US $1 billion and a small surplus is expected on the invisible account. The current account deficit in 1993-94 is likely to be less than 0.5% of the GDP, the lowest since 1977-78. Foreign currency reserves stood at US $10.9 billion on February 4, 1994.

(1) Trade Balance

There has been a significant improvement in the foreign trade in the past two years. Exports are expected to increase by 20% in dollar terms during 1993-94. Import growth will be limited to 4% despite large scale liberalization of import policy over the last two years. The trade deficit in the first nine months of 1993-94 was only US $732 million which was less than one-fourth of the level in the corresponding period of 1992-93.

Table 2.1.3 : India's Foreign Trade

(in US$ million)

Year	Exports	Imports	Trade Balance
1980-81	8,486	15,869	-7,383
1990-91	18,143	24,075	-5,932
1991-92	17,865	19,411	-1,546
1992-93	18,537	21,882	-3,345
1993-94*	15,682	16,414	-732

Note : * From April to Dec., 1993 (First 9 months)
Source : Compiled from Economic Survey 1993-94, Government of India.

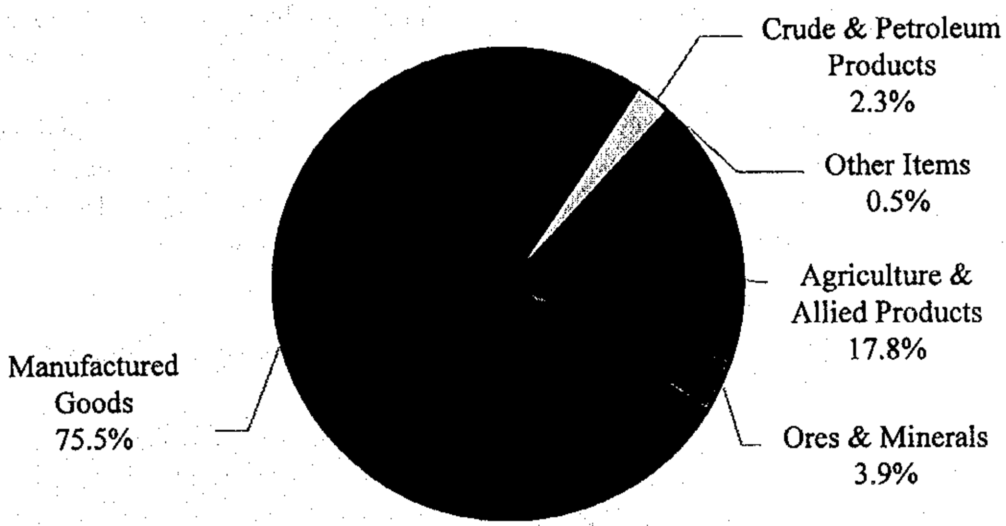
(2) Exports

Slight growth in exports has occurred during the current year 1993-94. The current year started with export growth of 27.8% in dollar terms during the first quarter. This has provided the basis for a significant improvement in the external sector. Exports has to continue to increase at more than 15% in dollar terms in coming years to absorb the higher growth in imports which may be expected. The exports growth of 19.9% in dollar terms in the first nine months is markedly higher than that of 3.4% during the same period in 1992-93 and 9.2% in 1990-91. Agricultural exports grew by 38% while manufactured exports grew by 19% during the first half of 1993-94. Within the manufacturers, the highest growth was recorded by plastic and linoleum products (119%), followed by gems and jewelry (37%) and metal manufacturers (30%).

(3) Imports

The year 1993-94 is expected to have an import growth of less than 4% compared with the growth of 12.7% during 1992-93. Imports during April-December 1993 were US $16.6 billion. The imports related to POL (Petroleum, Oil and Lubricants) were US $4291 million during the first nine months of 1993-94, representing a decline of 10.1% over the corresponding period of the previous year. During the first half of 1993-94, POL imports at US $3045 million accounted for 28.2% of total imports. During the same period (i.e. first half of 1993-94), non-POL imports have declined by 3.6% compared to the previous year. The composition of non-POL imports has remained virtually unchanged over the years. Capital goods, pearls, precious and semi-precious stones, chemicals, fertilizers and iron & steel account for more than two-third of the non-POL imports.

(a) Exports



(b) Imports

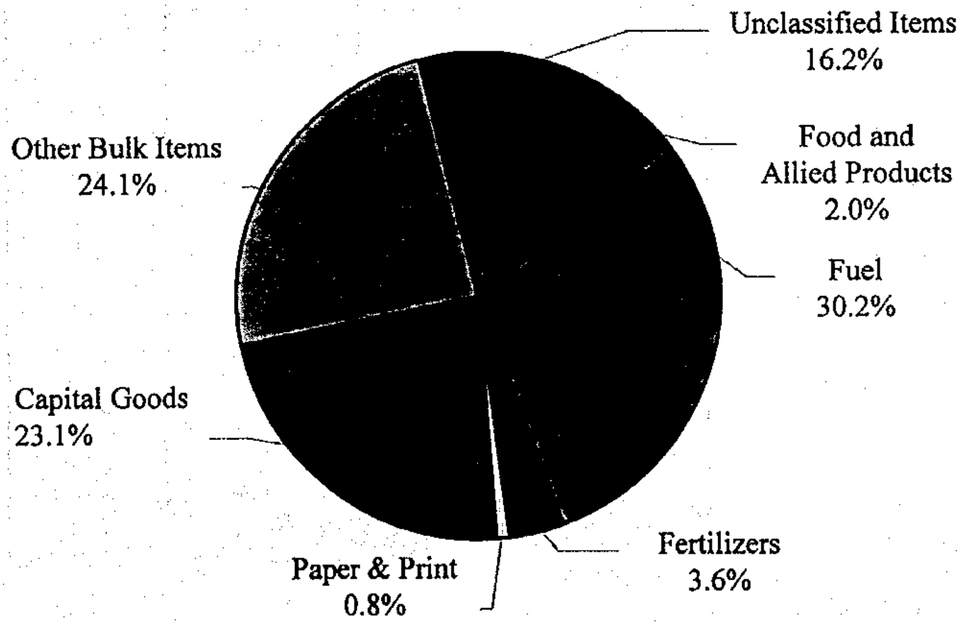


Fig 2.1.1 : Composition of Exports and Imports (April 1993 to Sept. 1994)

(4) Direction of foreign trade

Direction of India's foreign trade has undergone a significant change in 1992-93 with the collapse of Russian and some of the East European trading arrangements. As per the Economic Survey 1993-94, the exports to Russia (former Soviet Union), which accounted for as much as 16.1% of India's total exports in 1990-91 and 9.2% in 1991-92, has come down to 3.2% in 1992-93. By country, USA is the largest trade partner and alone accounted for about 18.8% of the country's total exports and 9.7% of the total imports in 1992-93. The share of major trading partners in country's total exports and imports is shown in Table 2.1.4.

Table 2.1.4 : Share (%) of Major Trading Partners in Exports and Imports

(Percentage share)

Country	Exports		Imports	
	1991-92	1992-93	1991-92	1992-93
U.K.	6.4	6.5	6.2	6.3
Germany	7.1	7.7	8.0	7.5
Other EC Countries	13.5	14.0	15.0	16.1
U.S.A.	16.4	18.8	10.3	9.7
Japan	9.2	7.7	7.1	6.4
Russia*	9.2	3.2	3.8	1.2
Other East Europe	1.8	1.1	1.4	1.4
OPEC	8.7	9.6	19.9	21.7
Other LDC's	17.5	20.3	17.1	15.1
Others	10.2	11.0	11.4	14.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

Note : * Former Soviet Union for 1991-92.
Source : DGCI&S, Calcutta

Table 2.1.5 : Growth of Exports by Commodity Groups

(in US$ million)

	Commodity Group	1991-92	1992-93
I	**Agriculture & allied, of which**	3,193.5	3,035.3
1	Tea	491.5	335.8
2	Tobacco manufactured	25.5	40.6
3	Oil meals	373.8	531.2
4	Sugar & molasses	63.8	37.1
5	Processed fruits & juices	33.8	42.9
6	Cotton raw including. waste	124.1	67.5
II	**Ores and minerals, of which**	929.7	740.9
7	Coal	6.1	17.6
III	**Manufactured goods, of which**	13,325.5	14,151.1
8	Leather & manufactures	804.9	867.2
9	Footwear of leather	463.8	390.5
10	Gems & jewelry	2,738.2	3,051.9
11	Plastic & linoleum products	112.1	148.1
12	Manufactures of metals	484.2	585.5
13	Transport equipment	496.4	524.3
14	Iron and steel bar/ rod etc.	62.0	140.2
15	Primary & semi-finished iron & steel	1,299.3	1,356.4
16	Ready made garments	2,199.2	2,388.7
17	Handicrafts	835.9	848.9
IV	**Crude & petroleum products**	414.7	476.2
V	**Others & unclassified items**	2.0	17.1
	Grand Total	17,865.4	18,537.1

Source : DGCI&S, Calcutta

Table 2.1.6 : Growth of Imports by Commodity Groups

(in US$ million)

	Commodity Group	1991-92	1992-93
I	**Food & allied products, of which**	430.7	702.9
1	Cereals	70.3	320.1
2	Pulses	103.6	109.1
3	Edible oils	100.5	59.5
II	**Fuel, of which**	5784.4	6576.2
4	Coal	420.4	476.2
5	POL	5364.0	6100.0
III	**Fertilizers**	954.2	976.1
IV	**Paper board, manufacturers & news print**	197.9	166.6
V	**Capital goods, of which**	4231.8	4463.1
6	Transport equipment	371.1	461.2
7	Project goods	1470.5	1194.7
VI	**Others, of which**	4585.6	5274.9
8	Chemicals	1515.1	1619.8
9	Pearls, precious & semiprecious stones	1957.1	2420.6
10	Iron & steel	706.4	722.3
11	Precision instruments, optical goods etc.	407.1	512.3
VII	**Unclassified items**	3225.9	3722.2
	Grand Total	**19410.5**	**21882.0**

Source : DGCI&S, Calcutta

2.1.3 Recent Trends in Union Budget

Several efforts were made in the 1993-94 Union Budget to stimulate the industrial revival. High priority was accorded to exports in order to further strengthen the balance-of-payments position. The reform programme introduced in 1991-92 for the restoration of fiscal balance was continued in 1992-93. The primary deficit during 1992-93 was Rs. 91.38 billion (about 0.6% of GDP), the lowest in the last 15 years, suggesting a very successful macro-economic adjustment.

As per the Union Budget 1994-95, which was presented by Dr. Manmohan Singh, Minister of Finance, on 28th February, 1994, the revenue receipts are expected to increase by 13% from Rs. 761 billion in 1993-94 to Rs. 860 billion in 1994-95. Also during the same period, the budgetary deficit is expected to decrease from Rs. 90.6 billion to Rs. 60 billion. Also, although the Plan Expenditure will remain at relatively same levels as 1993-94 at Rs. 460 billion, the Non-Plan Expenditure is expected to increase by 7.4% from Rs. 978.5 billion in 1993-94 to Rs. 1051.1 billion in 1994-95.

The Union Budget for the last three years is shown in Table 2.1.7.

Table 2.1.7 : Recent Trends in the Union Budget (1992 to 1994)

(Rs. 10 million)

Items	1992-93	1993-94*	1994-95**	% Change
Revenue Receipts	74,128	76,166	86,084	13.0
Capital Receipts	36,178	58,646	59,615	1.7
Total Receipts	110,030	134,812	145,699	8.1
Non-Plan Expenditure	85,958	97,846	105,117	7.4
Plan Expenditure	36,660	46,026	46,582	1.2
Total Expenditure	122,618	143,872	151,699	5.4
Revenue Deficit	18,574	34,058	32,727	
Budgetary Deficit	12,312	9,060	6,000	
Fiscal deficit	40,173	58,551	54,915	
Primary Deficit	9,138	21,051	8,915	

Note : * Revised estimates; ** Budget estimates
Source : Bank of Tokyo, New Delhi office.

2.2 Current Situation of Industrial Policy

In the Master Plan Study, the Industrial Policy of India since independence (1947) was discussed Special reference was made to the New Industrial Policy (NIP-91), which was introduced in June 1991 and, recommendations were made for promoting foreign investment in India.

In this report, the changes and modifications made in the industrial policy after the NIP-91 are discussed as a supplementary to the Master Plan Study for providing the latest information and outline of the industrial policy.

2.2.1 Recent Changes in the Industrial Policy

(1) New Industrial Policy "NIP-91"

The New Industrial Policy (NIP-91) introduced in June 1991 was a major shift from the previous industrial policy with reference to the following five main points.

(a) Industrial Licensing Policy

- Six areas (Refer to Appendix-II, Annex I) where security and strategic concerns predominate will continue to be reserved for the public sector.
- For all industries, except 15 industries (Refer to Appendix-II, Annex II), licensing was abolished.

(b) Foreign Investments

- Automatic approval for foreign equity participation up to 51% is granted in high priority industries (Refer to Appendix-II, Annex III).
- The Foreign Investment Promotion Board (FIPB), a specifically empowered Board has been set up in the office of the Prime Minister to speed up the approval process.

(c) Foreign Technology Agreement

- Automatic permission for payment of royalty will be given for foreign technology agreements in high priority industries.

(d) Public Sector

- Six industries related to security and strategic concerns (Refer to Appendix-II, Annex I) will be operated in the public sector.

(e) The Monopolies and Restrictive Trade Practices (MRTP) Act

- The MRTP Act was amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings.
- Functions for the fair trade practices commission were consolidated.

(2) Outline of Recent Changes in the Industrial Policy

The changes made in the industrial policy after the NIP-91 are listed below in the chronological order.

- March 1992 Foreign Exchange Regulation Act (announced by Finance Minister)
- March 1992 New EXIM Policy (announced by Minister of Commerce)
- June 1992 Abolition of Dividend Remittance Regulation (Press Note No. 10)
- January 1993 Foreign Exchange Regulation Act (announced by President of India)
- March 1993 Foreign Exchange Regulation Act (announced by Finance Minister)
- March 1993 Modification in Tax System (announced by Finance Minister)
- March 1993* New National Mineral Policy (Ministry of Industry, Press Note No. 3)
- April 1993 Controlled Investment Goods (announced by Investment Special Committee)
- August 1993* Procedure for Opening of Liaison Office (RBI, Circular No. 24)
- February 1994* Modification in Taxation System (announced by Finance Minister)
- March 1994* Modifications in EXIM Policy (announced by Minister of Commerce)
- March 1994* Liberalisation of Exchange Control Norms (RBI [ECD] Circular No.4)
- April 1994* Abolition of PMP (Ministry of Industry, Press Note No. 1)
- May 1994* EPZ's in Private/Joint Sector Permitted (Press Note No. 42)
- May 1994* New Telecom Policy, 1994

Items with an * mark are discussed below; for others refer to the Master Plan Study.

(a) The New National Mineral Policy

Under the Industrial Policy of July, 1991, the following minerals and mineral bearing areas have been reserved for the public sector:

(i) Mining of iron ore, manganese ore, chrome ore, gypsum, sulfur, gold and diamond.

(ii) Mining of copper, lead, zinc, tin, molybdenum and wolfram.

The National Mineral Policy of 1990 has been reviewed by the Ministry of Mines in the light of the New Industrial Policy of July, 1991. Under the National Mineral Policy of 1993, the Government has deleted all the 13 minerals which had earlier been reserved under the National Mineral Policy for exclusive exploitation by the public sector and has opened them to the private sector.

[Source: Ministry of Industry (Department of Industrial Development) Press Note No. 3 (1993 Series) dated the 26th March, 1993.]

(b) Simplified Procedure for Opening of Liaison Office

With a view to simplify the procedure, the Reserve Bank of India (RBI) has now decided that while the work relating to the grant of permission for the opening of liaison offices/posting of representatives for carrying out liaison work by foreign companies will continue to be attended to in the Central Office of Exchange Control Department of the Reserve Bank, the applications for opening of project/site office (contracts and terms of payments for which are approved by Government of India) of the foreign companies will be dealt with by the Regional Offices of Reserve Bank in whose jurisdiction these offices are/will be situated. The authorized dealers will also approach the respective Regional Offices for necessary approvals relating to extensions of validity period, submission of accounts, etc.

[Source: Reserve Bank of India, (Exchange Control Department) Central Office. Bombay A.D. (M.A.Series) Circular No. 24 dated the 20th August, 1993.]

(c) Liberalization of Exchange Control Norms

With a view to moving towards convertibility on current accounts, the Reserve Bank of India (RBI) has decided to liberalize further the Exchange Control Regulations in certain areas as indicated below:

- Private Visits Abroad
- Gift Remittance
- Remittance of Donation
- Exchange for Studies Abroad
- Remittance for Services
- EEFC Accounts

[Source : RBI (ECD) Bombay A.D. (M.A. Series) Circular No. 4 dated 1st March, 1994]

(d) Changes in Taxation

Minister of Finance, Dr. Manmohan Singh, announced the Budget for 1994-95 on 28th Feb. 1994. The details of the Budget are described in section 2.2.2.

(e) Changes in the EXIM Policy

The Commerce Minister, Mr. Pranab Mukherjee announced the amendment of New EXIM Policy (1992-97) on 30th March, 1994. Details are described in section 2.2.3.

(f) Abolition of PMP for Existing Units

In the New Industrial Policy (NIP), 1991, Phased Manufacturing Programme (PMP) was abolished for new projects. However, projects approved before the NIP continued to carry the PMP condition where stipulated. Instructions in this regard were issued through Press Note No. 9 (1991 Series) dated 2nd August, 1991.

The question of the continuation of the scheme of Phased Manufacturing Programme for the existing units has been reviewed and it has been decided to withdraw, with immediate effect, the conditions of Phased Manufacturing Programme for the existing units also.

[Source: Ministry of Industry, (Department of Industrial Development) Press Note No. 1 (1994 Series) dated 28th April, 1994.]

(g) EPZs in Private/Joint Sector Permitted

With a view to augmenting infrastructure facilities for export production, the Government has decided to permit the setting up of Export Processing Zones (EPZs) in the Private/Joint Sector.

[Source: Ministry of Commerce, Notification No. 42(PN)/92-97 dated 31st May 1994].

(h) Road Building Opened to NRIs, Foreign Investors and Private Sector

The private sector including Non-Resident Indians (NRI) and foreign investors will be permitted to finance, construct, maintain and operate identified highway and bridge projects from their own resources. Entrepreneurs, in turn will be allowed to collect fee for a specified period from the users. The rates of toll will be decided by the entrepreneurs in consultations with the Government.

(i) The National Telecom Policy 1994

The new economic policy adopted by the Government aims at improving India's competitiveness in the global market and rapid growth of exports. Another element of the new economic policy is attracting foreign direct investment and stimulating domestic investment. Telecommunication services of world class quality are necessary for the success of this policy. It is therefore, necessary to give the highest priority to the development of telecom services in the country.

2.2.2 Changes in Tax System

The industrial policy is amended and executed at the time of the announcement of the Union Budget every year. The amendments of the New Economic policy and taxation in the Union Budget 1994-95 are summarised as follows.

(1) Union Budget for 1994-95

(a) the Rupee made fully convertible on the current account. This will substantially liberalize the access to foreign exchange for all current business transactions and also liberalize foreign exchange access for travel, education, medical expenses, etc.

(b) On the account of the improved payments situation and comfortable foreign exchange reserves, estimated at $13 billion, the Government proposes to repay the IMF loan somewhat ahead of schedule. The entire amount of the loan (Principal plus interest), amounting to $1.4 billion due to the Fund in 1994-95 shall be pre paid at the beginning of the 1994-95.

(c) Foreign exchange earners permitted to retain 25% instead of 15% of their earnings in an account designated in foreign currency. The foreign exchange retention of 50% is allowed for 100% Export Oriented Units and units in export processing zones as well as units in Electronics Hardware Technology Parks and Software Technology Parks.

(d) Interest rate cut by 1% on term loans extended by All India Financial Institutions. The Commercial Banks' minimum lending rate on term loans of three years and above is also being reduced from 15% to 14%.

(e) Government to consider the R.N.Malhotra Committee's recommendations of progressive deregulation of the insurance sector.

(f) Existing scheme of the filing of a price list in advance by the assessee for determination of the value of goods for charging excise duty has now been dispensed with. Henceforth, assessee will be allowed to pay duty on the basis of value arrived at from the invoice.

(g) Non-Resident Indians continue to enjoy Non-Resident status, if their stay does not exceed 181 days.

(2) Concessions in Customs and Excise Duty

(a) Peak rate of customs duty lowered from 85% to 65%.

(b) Budget introduces a special package for Capital Goods Industry. The following concessions are offered :

- Basic customs duty on project imports and general capital goods reduced from 35% to 25%.
- Import duty on parts and spares reduced to 25% from the existing rates varying from 25% to 85%.
- Import duty on fertilizer projects to continue at nil.
- Power projects to attract 25% duty without any countervailing duty.
- To protect the domestic capital goods industry from competition from imported goods, countervailing duty (CD) on import of capital goods is imposed. The CD would be equivalent to the excise duty on domestic capital goods.
- Extension of Modvat to capital goods.
- Customs duty on machine tools levied at varying rates of 40%, 60% and 80%, is simplified and restructured by charging the duty at 35% or 45% only.
- Customs duty on steel brought down to 50% from a range of 75% to 85%.
- Unified import duty at 50% is proposed on non-ferrous metals like copper, zinc and lead.
- Import duties on all ores and concentrates unified at 10%.
- Import duty on melting, scraps, reduced from 12.5% to 10% and on iron ore pellets from 15% to 10%.

(3) Special Concessions for Electronic and Telecommunications Industry

(a) Import duty on computer parts brought down from 80% to 50%.

(b) On specified components, import duty reduced from 50% to 40% and on specified piece parts from 35% to 30%.

(c) Import duty on application software reduced drastically from a level of 85% to 20%.

(d) Import duty on non electronic parts used in the telecommunication sector reduced from 50% to 40%.

(e) Duty on optical fiber brought down from 85% to 40% to encourage manufacture of optical fiber cables.

(4) Special Concession for Coal and Petroleum Industry

(a) Crude petroleum to attract import duty of 35% as against Rs. 1500 per metric tonne.

(b) Import duty on coal reduced from 85% to 25%.

(c) Duty on coke reduced from 85% to 25%.

(d) LPG and other petroleum gases to attract import duty @ 15%.

(e) Naphtha and Kerosene exempted from basic customs duty.

(f) Other petroleum products to attract an import duty of 30%.

(5) Other Special Concessions

(a) Import duty on a large number of items of machinery and raw material used in the leather industry brought down to a unified level of 20% without the addition of countervailing duty, as against the present rates varying from 25% to 50%.

(b) Import duty on items of machinery used in the Watch Industry brought down from 50% to 25%. Duty on certain components and raw materials used in the industry is also brought down from 70% and 50% at present to 25% and 20% respectively.

(c) Import of specified medical equipment permitted at 15% without any countervailing duty. Medical equipment's attracting import duty at 85% at present would now attract duty at 40%.

(d) Peak rate of customs duty on finished chemicals reduced from 85% to 65%. In addition, duties on DMT, PTA and MEG brought down from 70% to 60% and on intermediates like Xylenes and Tolene, the duty reduced from 40% to 30%.

(e) Import duty on a large number of raw materials used in the pharmaceutical sector is lowered to two rates of 50% or 25% as against the present rates which vary from 50% to 85%.

(6) Excise Tax Restructured Programme

(a) Simplification of tax rates and procedures; Modified Value Added Tax (MODVAT) scheme extended to more sectors namely, capital goods and petroleum products.

(b) A uniform advalorem rate of 10% imposed on all petroleum products (excluding motor spirit which attracts duty at 20%), replacing the existing specific excise duty rates.

(c) Budget proposes to switch over to advalorem rates of 5%, 10% and 20% for cotton and manmade fabrics, replacing the numerous specific and advalorem rates prevailing at present.

(d) Excise duty structure on fibers and yarns simplified. A uniform excise duty of 20% is imposed on all fibers and blended or spun yarns. On cotton yarn, excise duty proposed is only 5%, instead of the present complex and varying specific rates depending upon the count of the yarn.

(e) For industrial yarns, lower rates of 30%, 20% and 10% have been proposed.

(f) Excise duty lowered to 10% on pig iron and certain other products of iron.

(g) Uniform duty of 15% on all metals except aluminum for which duty is lowered to 20% as against 25%.

(h) Full exemption from excise duty to drugs listed in Schedule I, which are for the National Health Programme. Single formulations of Schedule II drugs to attract excise duty of 10% and other branded drugs to pay excise duty of 15%.

(i) Unbranded drugs continue to be exempted from excise duty.

(j) Simplified duty structure proposed for chemicals and chemical based products like dyes, paints, tanning preparations, etc. A unified duty of 20% is proposed on such products in place of present rates varying from 5% to 25%.

(k) For major bulk plastics, synthetic paints and detergents, duty lowered from 35% to 30%.

(l) Excise duty structure simplified greatly for paper and paper products.

(m) On cosmetics and similar personal care products, duty brought down from 70% to 50%.

(n) Excise duty on filter cigarettes increased by 12%.

(7) Taxation

(a) Service sector brought under tax net. Tax @ 5% will now be charged on the amount of telephone bills, the net premium charged by the insurance companies (non-life insurance) and the brokerage or commission charged by the stock brokers in relation to their services.

(b) Personal income tax exemption limit raised from Rs. 30,000 to Rs. 35,000.

(c) The tax slabs have been revised. Henceforth, tax will be charged @ 20% on income from Rs. 35,000 to Rs. 60,000, @ 30% on income from Rs. 60,001 to Rs. 120,000 and @ 40% on income above Rs. 120,000.

(d) Surcharge of 12% on non-corporate income withdrawn.

(e) Widely-held companies and other domestic companies to pay tax @ 40% as against existing 45% and 50% respectively.

(f) Surcharge @ 15% on all domestic companies having income exceeding Rs. 750,000 to continue.

(g) Tax on companies incorporated abroad but earning income in India is reduced from 65% to 55%.

(h) Rate of long term capital gains tax on domestic companies reduced from 40% to 30%.

(i) Units of UTI and notified mutual funds to be treated as long term capital assets if held for more than 12 months as against 36 months at present.

(j) For senior citizens having income upto Rs. One Lakh, tax rebate increased from 20% to 40%.

(k) Deduction allowed on account of interest on borrowed capital for house construction raised from Rs. 5000 to Rs. 10,000 for the purpose of income tax.

(l) Option given to contractors and truck owners to have their net profits estimated at 8% of the gross receipt and Rs. 24,000 and Rs. 30,000 per truck per year for light commercial vehicles and for heavy transport motor vehicles, respectively.

(m) Five-year tax holiday, presently available to new industrial undertakings commencing production in states specified in the Eighth Schedule of the Income-tax Act, now extended to all such districts which are backward according to certain guidelines, that shall be prescribed.

(n) Tax holidays for exports of computer software extended for one more year.

(o) Expenditure tax reduced from 20% to 10% in order to attract larger number of tourists to India.