K. Eleventh Meeting of the NMCC held on 18th March 2008.

Dr. V. Krishnamurthy, Chairman, NMCC welcomed the participants for the 11th meeting of the NMCC. He stated that the NMCC has been making all efforts for nearly 3 years to promote growth in manufacturing sector. He shared his happiness with the Members that in spite of constraints it has been possible to maintain reasonably high growth albeit with periodic setback. He requested the Members to come up with their suggestions for ensuring a growth of around 14% for the manufacturing sector for next 10 to 15 years.

Chairman, NMCC said that the work of the NMCC has been personally appreciated by the Hon'ble Prime Minister and he thanked the members for their individual contribution in the work of the NMCC. He further said that in the context of current problems faced by manufacturing industries a Committee under his chairmanship has been set up to prepare action plan addressing the long-term and short-term issues impacting growth of the manufacturing sector. In this regard, Chairman, stated that discussions have been held with Secretaries of DIPP, Commerce, Textiles, Revenue and Finance who are members of the Group and also other concerned Ministries. The Group has already sent various recommendations for short-term action plan and those which had relevance for the Budget 2008. Now, the Group is discussing various long-term issues and will be able to send recommendations about various steps required to be taken in this regard in the next 3 to 4 weeks.

Chairman, NMCC has expressed concern on the increasing imports from China. He has requested the members to suggest ways and means to tackle the issue. The Chairman said that the policies to support manufacturing in India has to address the problem of increasing onslaught of Chinese imports. Various measures and approaches in this regard are to be deliberated by the Council. Another area where members could give some thoughts is connected to our national security aspect where the Offset Policy in Public-Private Partnership model could be an effective instrument to meet the needs of our armed forces while helping domestic manufacturing. He said that in the course of the discussions, we need to deliberate on these issues learning from the Chinese experience which is our competitor in almost all areas of manufacturing activities.

Shri. V. Govindarajan Member Secretary, NMCC briefly highlighted the issues in the Agenda Items and said that the entire Agenda has been divided into three groups, i.e., the discussions of the Prime Minister's Group for finding measures needed for sustained growth, the issue of

Chinese imports and thirdly role of private sector in Defence production and in that context the use of the Offset Policy.

Member Secretary, NMCC said that in the PM's Group meetings, the group was given four ToRs of which two, related to short term issues on which the Group has finalized their recommendations. These recommendations are in five broad policy directions i.e. the monetary policy including interest rate and exchange rate, fiscal policy issues of customs and excise duties, correction of inverted duty structure, policy for outward investment and orienting Government subsidies and assistance for investment towards value addition. On broad macro economic front, it was given to understand by the Finance Ministry that they are watchful of the situation. Keeping in view the broader aspect of the issue in mind, appropriate actions have been promised to be taken by the Finance Ministry and the Reserve Bank of India in a measured way. On other issues, specific recommendations have been made to the Government. Though all of them did not find mention in the budget, the broad direction of various suggestions are finding reflection in the Budget in terms of maintaining the import duty, at current levels without any further decrease for 2008-09, reduction of general excise duty and specific relief to various sectors including Auto and Pharma sector to boost demand.

Member Secretary, NMCC informed that on the long-term issues the Group is currently discussing the possible approach to create a strong policy framework in this regard. He said that India does not have a manufacturing policy to give a long-term direction to its development. He said that there was a need to ensure that we utilize our raw material base for value addition and encourage value added exports. In that context he said China has recently taken steps for promoting domestic value addition and the recent example is by way of imposition of export duty to the extent of 25% on coking coal to augment domestic availability and reduce price in the domestic market. We need to deliberate as to what we need to do so that domestic manufacturing is encouraged.

The 11th Council meeting discussed the following 6 Agenda items.

The First agenda item: <u>Progress of the work done since the last meeting of the NMCC held on 23rd November, 2007</u>.

The following are the highlights of the agenda item:

The 10th Meeting of the NMCC was held on 23rd November, 2008. Since then, a number of Meetings and discussions have been held in the NMCC on various issues including measures for ensuring sustained growth of manufacturing sector. Summary of the Minutes of the Meetings of the Sub-groups/Record of Discussion of the Sub-group meetings/discussions are given below:

(I). Group set up by the Prime Minister to Look into measures for ensuring sustained growth of Manufacturing Sector:

Prime Minister has constituted a High Powered Group under the Chairmanship of Dr. V. Krishnamurthy for suggesting various measures to ensure the continuing growth of the manufacturing sector in the country which of late is showing signs of deceleration. The Secretaries to the Government Finance, Revenue, Commerce, Textiles and Industrial Policy & Promotion as well as the Member Secretary of the NMCC are the other Members of the Committee.

2. The Group is expected to look into various issues and suggest Policy measures and recommendations focusing on steps to boost export of Indian manufacturing goods in the present scenario of appreciating rupee and high domestic interest rate affecting very adversely the exports of some of our most labour intensive manufacturing sectors like Textiles, Leather, Handicrafts etc. The Group is also expected to analyse and recommend various Policy measures to leverage Foreign Direct Investment to modernize manufacturing in India to help in creating a strong technological base that will provide the required momentum to sustain the growth of the Indian manufacturing industries over the next 10 to 15 years.

3. The following are the terms of reference of the Group:

a) to suggest policy measures and a continuing mechanism to ensure sustained growth of the Indian manufacturing industries for the next 10-15 years;
b) to suggest policy measures and immediate steps to reverse the recent deceleration in the growth of the manufacturing industries;

c) to suggest policy measures and immediate steps to boost exports of Indian manufactured goods in the face of appreciation of the rupee and high interest rates, particularly with respect to labour intensive sectors like textiles, leather and handicrafts;

d) to suggest policy measures to leverage FDI to modernize manufacturing in India and create a strong technological base.

4. The Group is required to submit its report and final recommendations within 3 months. Since its constitution the Group has had several rounds of discussions. The first meeting of the Group was held on 11th January. As per terms of reference of the Group, interim recommendations which require early action were sent to the Government on different aspects in the 1st week of February, 2008.

5. A briefing on the deliberations of the Group is separately placed for perusal of the Members of the Council as **Agenda Item No. 5** of this Meeting.

(II). Sub-Group Meetings

(a). Discussion with the Council of Leather Exports on the prospects and issues of Leather & Footwear Sector:

A Presentation made by Indian Leather Industry on 27.11.2007 before the Chairman, NMCC on '**Hardening Rupee & its adverse implication on Indian Leather Exports'.** The highlights were as follows:

- The rupee appreciation has resulted in reduction in exports realization during 2007-08. It is severe for the industry due to the following reasons:
  - (a) The import intensity of the sector is only 17%, denying the sector the benefit of appreciating rupee in terms of higher imports neutralizing the effect.
  - (b) More than 94% of the manufacturing units serving the export markets are either small or medium sized ones. These units operate on thin margins and depend heavily on own funds for working capital, as access to institutional finance is cumbersome or need collaterals.
  - (c) More than 65% of the invoices are made in US Dollars and Rupee appreciation has adverse impact on realization.
  - (d) The manufacturing units in the leather sector are more or less compartmentalized, as those serving the global markets

do not have much presence in the domestic markets where unorganized sector holds the sway.

(e) The finances of the export units have further worsened with non-refunding or delayed refunding of several state duties already paid creating liquidity problem with additional cost.

(f) Reluctance on the part of overseas buyers to increase the price.

- **The following suggestions were made:**

  (i) Increase the import intensity of the sector by increasing the entitlement under Duty Free Import Scheme from 3% exported value to 5%. With this increase, the total financial liability to Government in terms of loss of potential revenue is estimated to be Rs.206.36 crores. On this item, Ministry of Commerce is to issue a notification, which has been agreed to in principle and pending.

  (ii) Removing the excise duty on leather and leather products. Though the potential loss could be Rs.312 corers, actual amount would be less than Rs.50 crore, as many unorganized units do not pay any excise duty.

  (iii) Refund of service tax on commission paid to overseas agents for services hired by exporters will be to the tune of Rs.33.35 crores only. Though this has been agreed to in principle, notification is still to be issued.

  (iv) Institute a mechanism for an effective refunding of State duties to off set the effect of CST, VAT, Electricity duty, Sales Tax on petroleum products, Entry, Tax, Octroi, Turn over Tax, Mandi tax etc. Though these duties ought to be refunded, seldom does the refund take place in time. The Average time delay for getting the VAT refund is about 6 to 8 months. To take care of this problem, the Indian Leather Industry seeks the intervention of Government of India by introducing a "EXIMSCRIP" equivalent to 6% of the FOB value of exported goods for every consignment. This "Eximscrip" would help the exporters to get some off setting compensation.

Chairman, NMCC said that the issues raised by the Leather Industry require detailed presentation in terms of long-term growth strategy for the industry. Accordingly the leather industry and the Department of Industrial Policy & Promotion were requested to send a background paper giving more details on the long-term measures so that the issues could be taken up with higher authorities.

(b) Meeting with ASSOCHAM:

Chairman, NMCC took a meeting with Senior Vice President, ASSOCHAM, Mr. Sajjan Jindal and other representatives on 27.11.2007. Senior Vice President, ASSOCHAM agreed that with active interaction with the NMCC in future, many of the issues facing the manufacturing sector can be sorted out.

2. Commenting on the present problem facing the industry, Mr. Jindal mentioned the shortage of power as the main obstacle in the growth of manufacturing industries for a host of industries. Many manufacturing industries like Leather and Textiles have good international market and are capable of creating huge employment in the country. It was suggested by him that if mega power benefits are extended, power capacity can be increased considerably which will then help the productivity and competitiveness gain across the manufacturing industries with positive impact on employment generating. Therefore, he expressed that only solution for improving power shortage in the country is by way of implementation of mega power policy removing all minor conditions so that projects of capacity 1000 MW or more supplying power to industries can come up under the dispensation. He mentioned about the success of industrial sector in Korea where surplus power is the engine of industrial growth. He said that for industrial growth in Korea, the primary focus of government policy was on power generation. He further stated that ASSOCHAM is committed to Corporate Social Responsibility (CSR) along with Manufacturing.

3. He requested NMCC on behalf of ASSOCHAM to take appropriate initiatives in this regard which will help in reversing the worsening condition of manufacturing sector.

4. Shri Irshad Mirza, CMD, Mirza International Ltd., suggested that in our country also, policy of import concession should be linked to the export, as is done in USA, so that loss of dollar due to import will be compensated by earning of dollar on export. He said that for the leather industry if fuel like furnace oil is allowed to be imported at nil import duty they will reduce power cost and improve supply to help enhanced production.

5. Member Secretary, NMCC, observed that for faster growth of industries, not only the surplus power generation is required but also a healthy banking sector to play an active role. Both Banking sector and Infrastructure provision will act as engine of industrial growth. It was

agreed to pursue the various issues raised by ASSOCHAM in different forums for manufacturing growth.

(c) Discussion with Automotive Tyre Manufacturer's Association:

A Presentation made by ATMA on 11.12.2007 before the Member Secretary, NMCC on **'Indian Tyre Industry - Redefining the competitive edge'.** During the discussion, issues were raised on the following lines:

- The details of savings of Rs. 20 thousand crores expected through radialization as mentioned in the presentation have to be quantified.
- The duty structure prevalent in the competing countries to be gathered by ATMA and sent to the NMCC for further analysis and action.

In response to the above observations of the NMCC, ATMA has sent following details:

- Raw Material Intensity : The estimated raw-material intensity of Indian Tyre Industry is 21% on the following basis:
  - o Total cost of imported Raw-Materials: Rs. 3,400 crores
  - o Net Turnover of Tyre Industry : Rs.16,000 crores (Gross Turnover Rs. 19,000 crores 'less' Excise Duty Rs. 3,000 crores (Est.))

- Comparison of custom duty structure of India with Association of South East Asian Nations (ASEAN) (i.e. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam) in respect of Automotive Tyres of 8 products (i.e. Truck/ Bus-Redial, Truck/ Bus-Others, P-Car-Redial, P-Car-Others, Aircraft, Motorcycle/Scooter, Tractor, Industrial).

- Saving in fuel cost on account of increased radialization.
  a) With present rate of Diesel i.e. Rs. 33 per litre.
  b) With expected rate of diesel, estimated @ Rs. 40 per Litre, in the next five years.

The resultant saving in fuel cost on account of increase in radialization in the commercial vehicle segment has been estimated as Rs. 16,250 crores and Rs. 19,700 crores respectively. The NMCC in discussion with ATMA has to examine what policy intervention is required for realizing the savings.

A letter has been sent to ATMA by JS(MS) on 6th February, 2008 to clarify as to why is there such a low level of radialization in commercial vehicles when fuel saving due to radialization is estimated to be 7%. Also what possible measures are required to be taken by various stakeholders for improving the radialization in commercial vehicles. The reply from ATMA is awaited.

(d) Meeting of the Apex Committee of the Visionary Leaders for Manufacturing (VLFM) Programme:

The Apex Committee of the Visionary Leaders for Manufacturing (VLFM) Programme met on 24.12.2007 under the Chairmanship of Chairman, NMCC. The VLFM Programme which is being implemented with the technical assistance of JICA is one of the initiatives of Indo-Japanese cooperation in the field of Human Resource Development for the Indian Manufacturing Industry. It consists of the following 4 opportunities:

(i) **Opportunity 'A' - Programme for Visionary Corporate Leaders in Manufacturing:** The objective of this Programme is to develop senior managers to practice contemporary manufacturing practices through skill based training methodology for immediate implementation. It targets senior managers from middle/small size companies having a minimum 5 to 10 years work experience in manufacturing. A facility has been set up (at CII Naoroji Godrej Centre of Excellence in Mumbai) for Concept Engineering Lab and conducting classes. The programme started on 30.09.2007 and Prof. Shoji Shiba of Japan is the mentor and coordinator of this programme.Other Japanese experts are visiting for interaction with participants to provide an opportunity to absorb the expertise relating to the manufacturing leadership in Japan and transfer best practices from Japanese manufacturing industry to Indian industry. Study visit of the participants of 1st batch to Japan is likely to be conducted in May, 2008. The CEOs of the companies who have sent their managers for the training are giving their assessment and feedback in terms of improved productivity and contribution by the trainees in their internal organization. On completion of the training programme for the 1st batch the training programme for the 2nd batch will start from July, 2008 for which the response from the industry has been very good.

(ii) **Opportunity 'B' - Programme for Visionary Executives in Manufacturing:** This is with the object of developing next generation manufacturing leaders through a structured one year full time residential academic course. It targets at junior and middle managers from large/medium size companies having a minimum 5 years experience in manufacturing. The curriculum of modalities of this Programme has been jointly designed by the IIM Calcutta, IIT Kanpur and IIT Madras in collaboration with CII and JICA. The Programme started in IIM Calcutta on 27.08.2007. The trainees are starting third leg of their training at IIT Madras on 6th March, 2008 after completing their training in IIM Calcutta and IIT Kanpur. Prof. Shoji Shiba and other experts from Japan have been visiting for interaction with the participants. Study visit of the faculty of IIM Calcutta to Japan is scheduled in May/June, 2008. Plan for 2nd batch is being forwarded to JICA for consideration. Efforts are being made by the NMCC for placement of the trainees to some of the best manufacturing industries for the present batch of participants. Several reputed companies have shown interest to pick up the candidates participating in this programme to enrich their organization.

(iii) **Opportunity 'C':** The Opportunity 'C' is 4 day programme to be designed for CEOs of manufacturing sector for creating innovative leaders. The detailed design of the programme is being worked out by the Indian industry with resource persons of Japan and Indian premier academic institutions like IITs and IIMs. Implementation will depend on the availabilities of the concerned Japanese experts which are being negotiated through JICA as decided in the Joint Coordination Committee (JCC) of VLFM meeting held on 5.2.2008.

(iv) **Opportunity 'D':** The Opportunity 'D' is focusing on creating locomotive SMEs with potential to reach global standards in 2-3 years with systematic inputs. As agreed in the meeting of the Joint Coordination Committee (JCC), further details including sequencing of activities and the draft terms of reference of the experts is being prepared and will be made available to JICA so that the programme could start in the September, 2008. Before start of the programme faculty and stakeholders visit to Japan is planned during 18-25 June, 2008. The objectives of the visit are:

a) Explore SME Experts in Japan: The exploration of SME experts will focus on field of expertise with focus on SMEs, Transformation Process of SMEs, Globalization Strategy, Marketing & Branding, Global Supply Chain, Human Resource, Valuation and Financing, Intellectual Property Rights, New Business Plan, Listing on stock markets.

b) Onsite Visit for Benchmarking & Learning: On site visit will focus on benchmarking and learning which will include case study of current experience of Global SMEs in Japan, Training of Trainers, Workers' Training Facilities, Enterprise Networking, Regional Development, Collaborative Model of SMEs by Unique competency.

c) Explore Key Success factors of Japanese SME Support Systems: The key success factors of Japanese support system will cover the above activities and will include SME training institute, SME support organization, SME Banks, Workers' Training Centres, Academic Study of SMEs within & outside Japan, Mentoring system SMEs, Collaborative activity of SMEs, Network Learning (Portal & Societies).

2. The progress of the VLFM project has been reviewed by the Joint Coordination Committee (JCC) along with the JICA team in February, 2008.

Based on discussions, MOU for implementing Opportunity 'D' is to be signed by end March, 2008.

3. On the whole programme has made excellent progress till now. It is expected that its outcome with fully meet the expectations of the project as conceived by the Govt. of Japan & India.

(e) The HLCM follow-up Meeting on T & G Sector:

(i) Fibre Policy

The Chairman, NMCC took a HLCM follow-up meeting on T & G Sector for Evolving a Comprehensive Fibre Policy and Formulate a Roadmap for Facilitating the Growth of Technical Textiles on 9.01. 2008. The HLCM in its earlier meeting has decided that an Expert Group to be constituted for preparation for a Long-term Comprehensive Fibre Policy including both natural and man-made. The group is to study availability of fibre to the domestic Textile & Garment industry sector which has an ambitious growth target to meet the demand of the domestic market as well the foreign export market where India has considerable potential to increase its share in the post Multi-Fibre regime.

The proposed Comprehensive Fibre Policy will be first of its kind as the country never had such a policy in the past. Therefore, whatever policy is to be made, it has to balance the interest of the stakeholders across the entire value chain while keeping the competitiveness of the entire sector as the objective of such a policy. It was informed that the Textile Commissioner has been tasked with this job and he has been discussing this matter with various industry members for creating a consensus in this regard.

Shri. Dalmia, Dy Chairman CITI said that cotton fibre is our main strength. With the government support on TMC, today the production of cotton is about 30 million bales out of which roughly 30% i.e. 9 million bales are being exported, mostly directed to China, one of India's main competitors in the textile sector. The present import duty on cotton is to be reduced from 10% to 5% and the 4% additional custom duty is removed as India has become a net exporter of cotton. Export duty on cotton can be considered to discourage the export of raw material without value addition. As prices of cotton have increased recently, which is 43% higher than the minimum support prices of cotton; it will not cause much problem to the farmers and cotton producers.

Dr. Rajaram Jaipuria, Ex-Chairman CITI said that the Fibre policy is to be formulated by keeping in view of the future needs of the sector and there should be a yardstick of how much of raw cotton should be allowed for exported from the country. A level-playing field in the fiscal front, parity in import duty for cotton as well as man-made fibre is necessary and withdrawal of 1% duty draw back on cotton. Considering the present higher prices of cotton, the government should think of introducing export duty for cotton.

Shri. V.K. Ladia, Chairman Indian Spinners Association said that the 4% ACD on all fibre is to be removed. The 8% excise duty on man-made fibre be reduced to 4% and similar reduction is to be followed on all the intermediate products in the value chain. The 16% duty on raw-material for polypropylene fibre used for making socks is to be reduced to 8%. The viscose fibre segment needs help as the price of pulp has gone up in the world market leading to price hike of viscose fibre. Viscose fibre capacity not growing due to paucity of raw material, for more capacity, a suitable incentive regime is required. Initiative like Bombay Futures is needed for determining the price of cotton similar to the New York Futures. The domestic industry is feeling the raw material shortage, could lead to slowing down of the additional spindleage creation.

Shri. Toshniwal from SRTEPC said that China is getting cheaper raw material compared to India, which is a major competitor for India in the world market. Therefore, in the present situation where China is emerging more competitive and efficient with better infrastructure and lower cost gets our raw material also it would stymie the growth of our textile industry by depriving the raw material advantage of ours. The solution to the problem he said could be to impose appropriate quantity of export tax, say 10% so that the disadvantage to the Indian manufacturing is taken care of.

Shri. Sunil Jain President, NITMA said that the lack of activity among the cotton mills in recent period is creating lot of employment loss. He pointed out that due to high exports of raw cotton; there is hardly any buffer stock of cotton available in the country. Efforts are to be made for maintaining a good quantity of buffer stocks.

Shri. C.S. Gokhale, President, ASFI said that the industry has responded positively against the affirmative policy changes by the Government and it is expected to achieve the vision targets of production set for the 11th Plan. The export growth performance of fibre and yarns in the man-made segment during April- August, 2007 was 32% and 52% respectively in rupee terms compared to the same period in the previous year. The excise duty on all synthetic fibres and yarns is to be reduced to 4%. The NCCD of 1% on PFY should be removed. The fiscal structure should be neutralized between different fibres so that the cost issues can be addressed, as converting raw materials into synthetic fabrics constitutes 25% of the conversion cost. Import duty on Catalysts & Chemicals, on spin finish on TIO2, on spare parts for maintenance of imported plant & machinery to be reduced to zero through suitable changes in HS code.

Shri. Vijay Kaul from AMFI pointed out that in the Rayon segment, the Indian Manufacturing cost is 9% higher due to higher cost of pulp. He said the major raw material for manufacture of Viscose Staple Fibre (VSF) and Viscose Filament Yarn (VFY) is Rayon Grade Wood Pulp (RGWP), which is nearly 35% short of the needs of the Indian Viscose Industry hiking the price steeply from US$ 825 per MT in Sept. 06 to US$ 1350 M.T. by Oct.07 in the domestic market. For enhancing the competitiveness of the domestic rayon industry the import duty on RGWP to be made zero (5% existing), it has nil duty in Bangladesh, China, Indonesia, Pakistan, Sri Lanka, Thailand etc. Abolish the import duty on sulphur and steam coal in the wake of higher domestic prices. Reconsider the reduction in import duty on VSF, VFY & Viscose Spun Yarn from 10% to 5%.

Rounding –up the discussion on Fibre policy, the Chairman, NMCC said that the Textiles and Garments have been given the highest priority which is evident from the various course correction measures taken on the policy front. He indicated that though this sector has come under certain business fluctuations due to problems like the appreciation of the rupee and the hike in interest rate etc., efforts are being made at the appropriate level to put the industry on a long-term growth path. He suggested that the industry involving various segments should work out a composite solution and present the same to the Government so that each and every issue can be looked into without creating negative effect. Accordingly, it was felt that a comprehensive fibre policy needs to be formulated by examining the inter-play between the demand and supply mechanisms both in the immediate future and also with a long-term view.

(ii) Technical Textiles

The HLCM has decided that the proposal of the Ministry of Textiles based on the Expert Committee Report on Technical textiles to be considered for approval on priority and its recommendations to be implemented within 6 months and reported to the HLCM. The Textile Ministry has been asked to take necessary initiatives in this matter.

This issue came up for discussion also in the meetings of the Chairman, NMCC on 9.1.2008 with the Dept. and the Industry leaders. It was explained by the Textile Commissioner that the 4 Mini-missions on Technical Textile have been formed since the Hon'ble Prime Minister announced on the Technology Mission on Technical Textiles. The first one focus on capacity building of raw material, machinery, infrastructure and manufacturing of technical textiles, the second on standardization, product development and common testing facilities with international accreditation, the third gives thrust on domestic and export market development of technical textiles and the fourth mission focus on the human resources development for technical textiles. He said in the TUFS also the Technical textile have been given due consideration by giving 10% capital subsidy for technical textiles processing machines. He said that there is a renewed interest in the investment of the technical textiles segment and concerted efforts are needed to maintain the growth and investment. He said that various steps are being initiated for this; firstly a base line survey will be carried out to understand the various aspects on the status of technical textiles including the market demand and export potential etc. Further, a series of workshops are being planned at identified locations like Surat, Coimbatore, Ahmedabad and Delhi to increase the awareness among the Indian entrepreneurs by joining with experts in this field from abroad. He said that the 4 areas have been identified for focused approach viz. Geotech, Agritech, Buildtech and Medtech. He said that efforts are being made to set up Centers of Excellence for technical textiles with the active involvement of PSUs and IITs. He said that a Development Council for technical textiles is formed in Bombay involving prominent members from the textile industry.

Dr. Rajaram Jaipuria, Ex-Chairman CITI said that now sub-standard article are being imported in the name of technical textiles, this need attention and specific duty is to be imposed to avoid under invoicing. Shri. V.K. Ladia, Chairman Indian Spinners Association said that in the case of technical textiles, since scale is an important aspect, the emphasis should be on creating an environment for investment for higher capacities at potential areas identified through studies. He said that availability of quality man-power in this segment is also to be addressed, especially at the middle and lower level categories, for which the Government can come out with some schemes. Shri. Toshniwal from SRTEPC suggested that all fibres for yarns required for technical textiles should be allowed to be imported free of duty. In order to help the domestic investment in technical textiles various imports of technical textiles need to be re-looked. Shri. C.S. Gokhale, President, ASFI said that for augmenting the growth of the technical textiles initiatives are being taken to constitute an ad-hoc task force involving apex chambers like FICCI and CII and Members from various related areas viz. Defence, NHAI, Hospital, Construction, BIS (for specifications) and SESMIRA (for research). He said that the tasks identified include assessing the current market and global, trends including current and future demand segment-wise, standards and norms to be adopted, setting up of Centre of Excellence etc. He pointed out that the investments required for setting up of labs for testing of technical textiles products are huge. Therefore, the PPP model would be a feasible option.

<u>The Member Secretary summing the discussions suggested that:</u>

- The Comprehensive Fibre Policy needs to be formulated by examining the inter-play between the demand and supply mechanisms both in the immediate future and also with a long-run view.

- To boost the consumption of Technical Textiles thrust needs to be given for awareness creation across the broad, especially in the government, first in the case of public department's viz. CPWD, and PWD etc. followed by the Private sector.

- The HLCM has decided that "the proposal of the Ministry of Textiles based on the Expert Committee Report on Technical textiles to be considered for approval on priority and its recommendations to be implemented within 6 months and reported to the HLCM, all concerned to ensure that the deadline is adhered to". The Textile Ministry has been entrusted to take necessary initiatives in this matter. As elaborated by the Textile Commissioner covering all the 4 mini-missions need further updation for reporting back to the HLCM by February 2008.

- On the Technology Transfer of Technical Textiles, apart from buying directly the technology, initiatives for reverse engineering are to be made with cooperation and support among the key players in the industry and the Department of Science &Technology, if necessary which will go a long way in developing indigenous R&D essential for this segment.

(iii) Textile Machinery

The HLCM follow-up Meeting on Textile Machinery was held on 27.02. 2008 at NMCC under the chairman ship of Dr. V. Krishnamurthy, Chairman, NMCC. The HLCM held under the Chairmanship of the Hon'ble Prime Minister on 21st June, 2007 has decided that a High Level Committee will be constituted to look into the problems of new investment and capacity building in Textile Machine manufacturing. The issue of mounting a High level delegation for attracting FDI could also be considered in this regard. The Chairman apprised that in respect of Textile Machinery, though we were self-sufficient 20 years back, today we are importing 90% of our requirement. The meeting was attended by most of the major textile machinery manufacturing units from India namely TMMA, ITEMA, Kirloskar Toyoda, ITAMMA. Concerns were raised on the weak support link of the Textile Machinery segment which could affect the goal of attaining an ambitious growth target envisaged in the long-term vision of the Textile sector.

The Chairman, NMCC said that the country was almost self-sufficient in this sector two decades ago. Now the situation is really concerning in terms of supply of adequate machinery and related equipment in tune with the growth in demand, especially as envisaged in the long-term growth plan of the T&G sector, which has been approved by the HLCM. The Chairman raising the concern over the investment impasse including the lack of FDI flow towards this sector said that to reverse the situation it is essential to understand the current status of the industry and the critical issues to be addressed for revamping the important segments viz. the machinery relating to the weaving, processing, and the garmenting.

The Secretary Textiles said that an ambitious investment target of 1,50,000 crore has been arrived at for achieving the vision growth of the T&G sector. The demand for the sector has been growing and the investment requirement has been promoted through adequately incentivising the TUF etc. As on 2006-07 about Rs.48,000 crore investments has so far been gone into the sector. He pointed out that the major issues confronting the textile machinery segment include non-availability of technologically advanced machines and machine tools for production of textile machinery, lack of R&D investment and other fiscal issues related to the textile machinery production. The Heavy Industries Ministry should give a special focus to the textile machinery industry, considering its benefits like growth, export potential and employment generation.

Shri. Sridhar Varadaraj,Chairman, TMMA, said that the Indian Textile Machinery sector is passing through a phase in which it lacks both capacity and technology competency. The R&D in this segment in India is about 20 to 30 years behind. He said the machinery segments supporting the weaving, processing, and garmenting segments are yet to develop to deliver to the growing needs of the segments. He said that there have not been adequate incentives for attracting investment in the sector neither from the Centre nor from the State. He said like China, the Indian textile machinery sector need to be supported and necessary fiscal and tariff barriers need to be put in place. Incentives like tax holiday including the textile machinery sector under the TUF Scheme especially those belonging to the processing, weaving, and garmenting segments.

<u>The Member Secretary, NMCC suggested</u> that it is important to examine and find out the reasons for the lack of investment and growth prospects for the machinery segment so that remedies can be sought for enhancing investment. He requested the Secretary Textiles to give a brief background of the issues to be taken up for discussion. The meeting discussed various issues pertaining to the Indian textile machinery sector and suggested that the following issues need to be addressed at the earliest for the Textile machinery industry to grow in the country:

- The lack of investment flow to the weaving processing and garmenting machinery segments.
- The increase in imports of the second-hand machinery.
- Fiscal incentives for encouraging major investment, including joint ventures in the Textile Machinery sector.
- The structural issues pertaining sector with large number of small and medium machinery manufacturing units.

(f). Meeting on Offset Policy

The Chairman, NMCC had a meeting with the Sub-group on Offset Policy on 11.01.2008 to discuss the various issues concerning evolving a Comprehensive Offset Policy. A process for evolving a comprehensive offset policy had been initiated by the NMCC, since the issue had discussed in the 10th Council meeting. Connected to this issue of Offset policy the Chairman, NMCC had a meeting with the Chairman of the DRDO Review Committee Dr. P. Rama Rao and its members along with Dr. M. Natarajan, Secretary, DRDO and Scientific Adviser to Defence Minister on 7.02.2008. The meeting discussed issues including that pertaining to the offset policy. The details of the discussion and the suggestions made in the meetings are given in **Agenda item No.6.**

(g). Meetings for the development Semi-Conductor Equipment

- **Meeting with Semi-conductor Equipment and Materials International (SEMI) Delegation**

A delegation of Semi-conductor Equipment and Materials International (SEMI) along with representative of India Semi-conductor Association (ISA) visited the NMCC on 12th February, 2008. The delegation was lead by Mr. Stainley Myers, President and CEO, SEMI. They appreciated the Government of India's initiative for attracting investment in the Semi-conductor field particularly referring to FAB policies. They informed that their members are the major players in this field, and are interested in putting up their manufacturing facilities in India due to various factors like cheap and talented manpower, huge market, growth potential etc. The need is to take measures for leapfrogging with efforts by all the stakeholders. He thanked the NMCC for taking initiative in this direction.

- **Visit of Taiwanese Delegation**

A five member Taiwanese delegation mostly from Academia, serving as Professors in Electrical Engineering Department with research interest in Semi-conductor/Chip design visited NMCC on 14th February, 2008. They briefly outlined the Taiwanese Semi-conductor industries and said that in the last three decades Taiwan's Semi-conductor industry has become a strong force in the world market. This industry has transformed the island nation by building a structure which is world class. He expressed that lower manufacturing cost in developing economies such as China and India have begun to erode Taiwan's dominance in this sector of late. This is a good opportunity for India to attract Taiwan's investment having natural advantages like very big market, talented pool of workers and industry friendly policies. They requested NMCC to take a lead in this direction.

(h) Meeting of the sub-Group on IT Hardware Industry

(i) Meeting of the Task Force

A meeting of Task Force Committee was held on 19.11.2007 under the chairmanship of the Principal Secretary to the Prime Minister to discuss the issues related to promoting growth of IT Hardware and Electronic Sector.

2. In the record of discussion of the meeting of Task Force following actionable points are to be taken up by NMCC along with other stakeholders.

Convergence - unification of manufacturing:

- DTA sales of ITA as well as non ITA products from EHTP/EOU/SEZ units should count towards fulfillment of positive net foreign exchange (NFE) condition, which is presently available only for ITA products.

- DTA sales of all electronic and IT hardware products from EHTP/EOU units should be permitted at 25% of the applicable custom duty and 50% of the applicable excise duty in order to compensate the manufacturer for disabilities inherent in Indian operations so as to provide a level playing field.

(i) To abolish Central Sales Tax of 3%
(ii) Value Added Tax (VAT) on Information Technology Agreement (ITA) items and non-ITA items be rationalized to 4%

3. Also, in the Task Force, it has been decided to drop the following two issues from further discussion with the Revenue Department (as per minutes).

i) Deduction of expenses on R&D under section 35 (2AB) from 150%-250% and
ii) Reinstate benefit under section 80 HHC of Income Tax

However, DIT informed that they have again taken up these two issues with Ministry of Finance.

4. A letter dated 24.12.2007 was sent to DIT requesting them to prepare background material for discussion to abolish CST and rationalization of VAT with the Secretariat of the Empowered Group. The NMCC has received communication from DIT on 28.02.2008 with the background material on the subject. The same is under process.

(ii) **Meeting to discuss the issues related to change in policy in China**

A Meeting was convened by the Member Secretary, NMCC on 26.02.2008 with Shri M.M. Nambiar, Special Secretary, Deptt of Information Technology, Ajai Choudhary,CEO, HCL Info Systems Ltd., Shri Vini Mehta from MAIT and Dr.R.C. Chopra of CII to discuss the issues relating to change in policies of Chinese Government regarding industries, in general and IT Hardware and Electronics industries, in particular.

2. Mr. Ajay Choudhary explained that the implementation of the new Labour Contract Law by People's Republic of China with effect from January 1, 2008 has resulted in an increase in the labour cost in China's manufacturing plants. Also the unified corporate income tax for domestic and foreign enterprise implemented with effect from January 1, 2008 has lead to withdrawal of certain benefits to the export oriented and ICTE enterprises. The VAT refund on exports has also been reduced thereby making the exports more expensive. It is estimated that the cost increase in China could be around 20%. Due to the change in Chinese policy investors are now considering moving out from China. The manufacturing industries suffer the most due to the change in Chinese policies particularly IT Hardware and Electronic sector, Telecommunication equipments, leather and shoe industries.

3. Dr. R.C. Chopra of CII expressed that earlier VAT was refunded @ 17% in China which has now been reduced to 12% especially for Cell phone Industries making exports more expensive. Also the unified corporate tax for domestic and foreign enterprise implemented with effect from January 01, 2008 has laid to withdrawal of certain benefits to the export oriented enterprises including ICT enterprises. We must make use of this opportunity to our advantage as the change in policy in China in terms of taxation, VAT refund, appreciation of Chinese currency vis-à-vis other currencies and labour laws have substantially eroded their cost advantage. Investment in Vietnam is for export purpose only whereas in India there is very large market available which gives competitive advantage for investment in available which gives competitive advantage for investment in India.

4. Shri Vinnie Mehta of MAIT said that in view of escalating cost in China and strategic focus by Government of Vietnam big companies particularly Taiwan are shifting from China to Vietnam. He said that we have very good link with Taiwan and can be leveraged.

5. Shri M.M. Nambier, Special Secretary, DIT said that we have to do something for demand generation also within the country to attract the investment. The investment sought must be targeted in a product as well as country specific manner. He requested NMCC to lead such a delegation instead of DIT or any other specific Ministry. Opportunity has now come for developing the entire eco-system like China in view of the emerging problem and cost pressures in China.

6. Taking note of the change in Chinese policies, it was expressed that India has very cost effective manpower resources for highly specialized semi skilled jobs, time is now opportune to leverage this advantage for encashing the opportunity created by the change in Chinese regime. The location of India being very strategic for exports to Africa, middle-east, Europe, Eastern USA and Brazil besides our big domestic market, it is a golden opportunity for positioning India as alternate investment location to China which otherwise may get diverted to Vietnam instead of coming to India.

7. Member Secretary, NMCC while summing up the discussions said that the NMCC is supportive of the idea. However, the problem is in its operationalisation and therefore, somebody must own it and be accountable for this initiative to be successful. If there is anything to be done from NMCC's part it shall be done to achieve objective. He said that Shri Nambiar may take the matter up with the PMO regarding mounting a mission to Taiwan specifically for this purpose. Since the investors from Taiwan have already started moving from China to Vietnam, the programme to seize the opportunity available needs to be implemented very quickly. DIT may take the initiative and the NMCC would be fully supportive of it.

(i) Meeting of the Sub-Group on Information and Communication Technology (ICT) adoption in Manufacturing sector:

A meeting of ICT in Indian Manufacturing sector under NMCP was convened under the chairmanship of Member Secretary, NMCC on 27.02.2008 as AS & DC (MSME) expressed that it is not progressing due to lack of robust idea about its outreach methodology including non availability of any schematic design. He said that the follow up action after the meeting taken on 13.11.2007 by the Member Secretary, NMCC with the various stakeholders has not yielded much result till now. He said that lack of proper feedback from industries/industrial associations is making it difficult to design the scheme. He particularly referred to the promise of leading IT companies in the last meeting to come back with worthwhile inputs in this regard which has not yet materialized. He said that in the absence of in-house talent in this particular field in the Govt., the original concept to spend about Rs.105 crore with equal contribution from private organizations on ICT intervention is making the roll out of the programme an uphill task.

2. He said the activities planned for implementation under ICT Intervention Programme include E-catalogue; SME Networking through face book model; enabling associations to have website; setting up of E-readiness Centre; design and development of 25 web portals; diagnostic study for E-readiness, ICT mapping up cluster; HRD training support & maintenance service; etc.

3. While the representative of CII was of the view that ICT intervention in SME must be consumed by manufacturing unit for improvement of their processes, the NASSCOM expressed the need for ICT Intervention at the firm level to enhance manufacturing process.

4. <u>Summing up the discussions, Member Secretary</u>, NMCC expressed the following:-

a) Micro level initiative started long back for ICT intervention in the manufacturing sector with cluster focus must be created under the programme.

b) To develop and suggest a PPP model for ICT intervention which should clearly highlight and identify the activity cost, mechanism to implement and the deliverables of the project.

c) AS & DC (MSME) would hold a detailed discussion with the Microsoft, CII and NASSCOM and other members next week and finalize the operational details.

The Second agenda item: **<u>Overview of recent developments in the manufacturing sector</u>**. The following are the highlights of the agenda item:

A. Recent Trends in Growth of Manufacturing Production and Exports

1. Manufacturing Sector has shown increasing trend in percentage growth rate over last 7 years (i.e for the year 2001-02 to 2007-08*) with highest growth rate in 2006 -07 (12.5%). However, this period of above average growth in the Indian manufacturing sector can be split to two phases. For the period 2001-02 to 2004-05, the manufacturing sector has shown accelerating growth rate. But for the period 2005-06 and 2007-08*, the manufacturing sector has shown decelerating movements in the growth rate.

2. The recent deceleration in the performance of the Indian Manufacturing sector is a matter of great concern, particularly in certain employment-oriented sectors like Textiles etc. The decline in growth rates of various Manufacturing sectors compared to the April- December period in the previous year is given in **Table 1**. The overall Manufacturing growth rate has also declined from 12.1% in earlier period to 9.6% during 2007-08*. Of the 17 sectors of Manufacturing monitored by IIP, almost 11 sectors have shown deceleration in growth rate for the period 2007-08*. The deceleration in growth rate for 11 sectors for the period 2007-08* as compared to same period in previous year is given at **Diagram 1**. The weights of these 11 sectors in the manufacturing index are 62.1%. The list of the sectors, which have indicated disturbing growth rates for the period 2007-08* as compared to the same period in previous year is given at next page:

For the period April to December-2007

1. Transport equipment from 15.8 % to 3.0%
2. Textile products (including wearing Apparel) from 11.6% to 3.9%
3. Cotton Textiles from 13.8% to 4.6%.
4. Wool, Silk and Man-made fibre Textiles from 7.4% to 3.3%

5. Paper and paper products from 8.8% to 1.9%
6. Non-Metallic Mineral products from 14.8% to 7%
7. Basic Metals & Alloys from 21.5% to 14.2%
8. Metal products from 9.1% to negative 7%.
9. Machinery & Equipments from 14.6% to 11.9%
10. Beverages, Tobaco, & related products from 12.3% to 11.4%.
11. Rubber, Plastics, Petroleum, and Coal products from 12.1 to 10.1%.

Diagram 1:
Sectors that Shows Deceleration (April - Dec Cumulative Growth Rate)

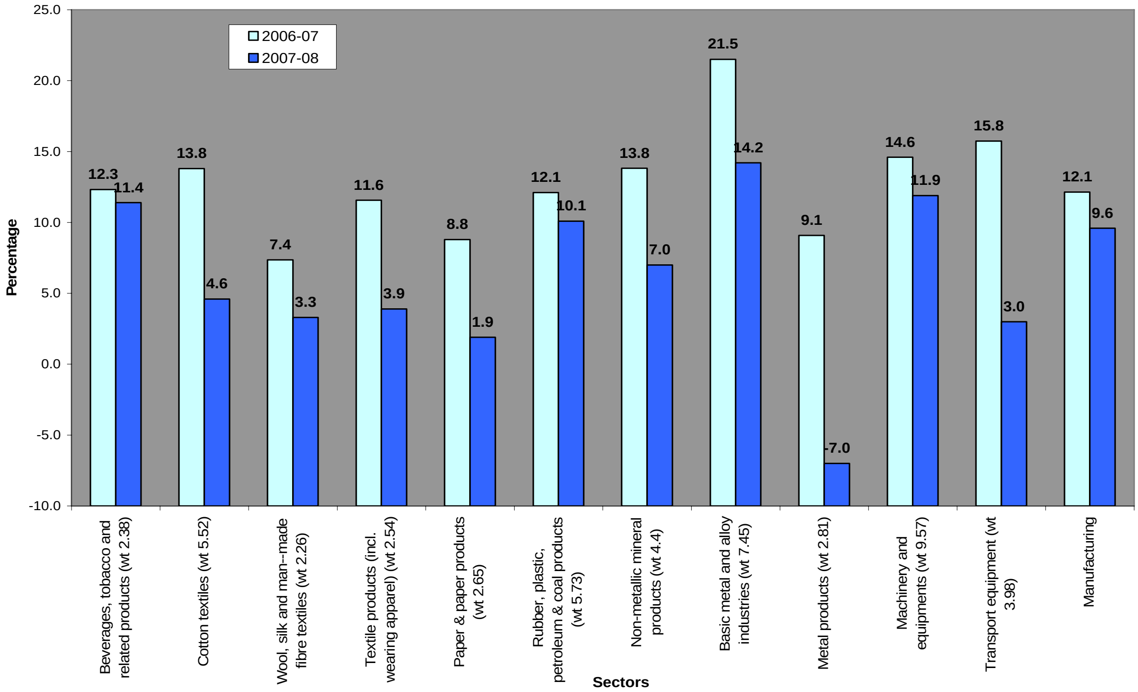

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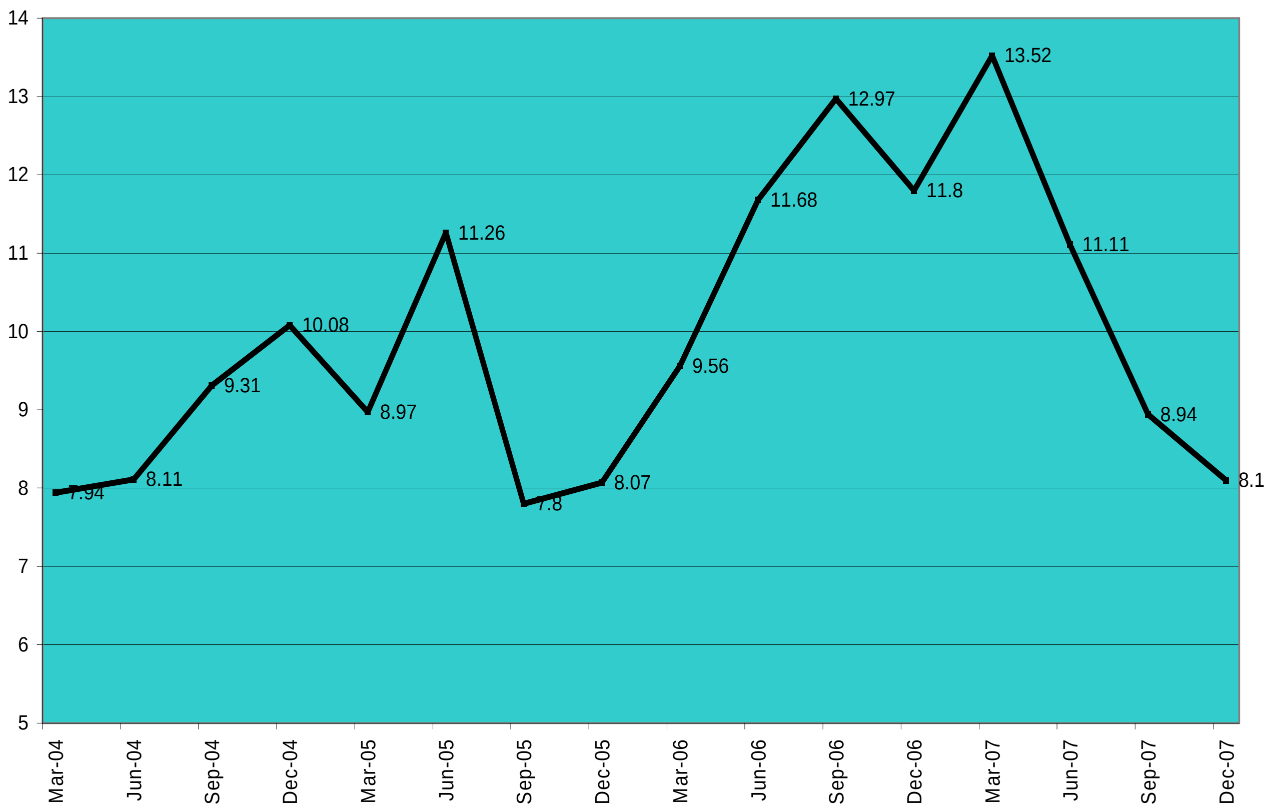
Table: 1 - Index of Industrial Production (BASE : 1993-94=100)
Two digit level indices (NIC-1987)
Growth over corresponding period of previous year

Indicator	Codes	April - Dec		Monthly	
		2006-07	2007-08	Dec-06	Dec-07
Food products (wt 9.08)	**20-21**	5.2	5.9	17.7	1.5
Beverages, tobacco and related products (wt 2.38)	**22**	12.3	11.4	7.2	15.7
Cotton textiles (wt 5.52)	**23**	13.8	4.6	19.8	1.3
Wool, silk and man--made fibre textiles (wt 2.26)	**24**	7.4	3.3	5.4	-2.0
Jute & jute textiles (wt 0.59)	**25**	2.1	11.6	1.3	0.2
Textile products (incl. wearing apparel) (wt 2.54)	**26**	11.6	3.9	7.0	1.0
Wood and wood products (wt 2.7)	**27**	5.6	66.7	29.9	31.3
Paper & paper products (wt 2.65)	**28**	8.8	1.9	8.3	3.6
Leather & leather products (wt 1.14)	**29**	-0.7	10.3	20.7	-0.8
Chemicals & chemical products (wt 14)	**30**	9.4	10.6	11.2	21.7
Rubber, plastic, petroleum & coal products (wt 5.73)	**31**	12.1	10.1	13.4	5.9
Non-metallic mineral products (wt 4.4)	**32**	13.8	7.0	15.6	-1.7
Basic metal and alloy industries (wt 7.45)	**33**	21.5	14.2	29.0	4.3
Metal products (wt 2.81)	**34**	9.1	-7.0	25.6	-23.6
Machinery and equipments (wt 9.57)	**35-36**	14.6	11.9	11.6	10.7
Transport equipment (wt 3.98)	**37**	15.8	3.0	11.2	5.8
Other manufacturing industries (wt 2.56)	**38**	11.6	20.6	16.8	30.6
Mining		4.5	4.9	6.1	3.0
Manufacturing		**12.1**	9.6	**14.5**	**8.4**
Electricity		7.5	6.6	9.1	3.8
General		11.2	9.0	13.4	7.6
Used - Based					
Basic goods (wt 35.565)	**355.1**	9.8	7.8	12.4	3.1
Capital goods (wt 9.257)	**96.87**	18.6	20.2	26.2	16.6
Intermediate goods (wt 26.514)	**264.4**	11.3	9.6	12.7	7.2
Consumer goods (wt 28.664)	**283.6**	9.9	5.8	10.7	8.7

Note: Highlighted sectors shows deceleration in growth rate

3. The quarterly manufacturing growth trends also gives a similar picture of declining trend from 11.11 % to 8.94% from June 07 to September 07 to and it has further declined to 8.1 % during the last three quarters during the current year, which is depicted in **Graph 1**. The latest IIP estimates for the month of December 2007 also continues to be depressed at 8.4 % compared to 14.5 % in the same period in the previous year. Sectors like Metal products (-23.6%), Non Metallic Mineral Products (-1.7) and Leather and Leather Products (-0.8) have witnessed negative growth rates for the month of December 2007.

Graph : 1 - Quarterly Growth in Manufacturing Index

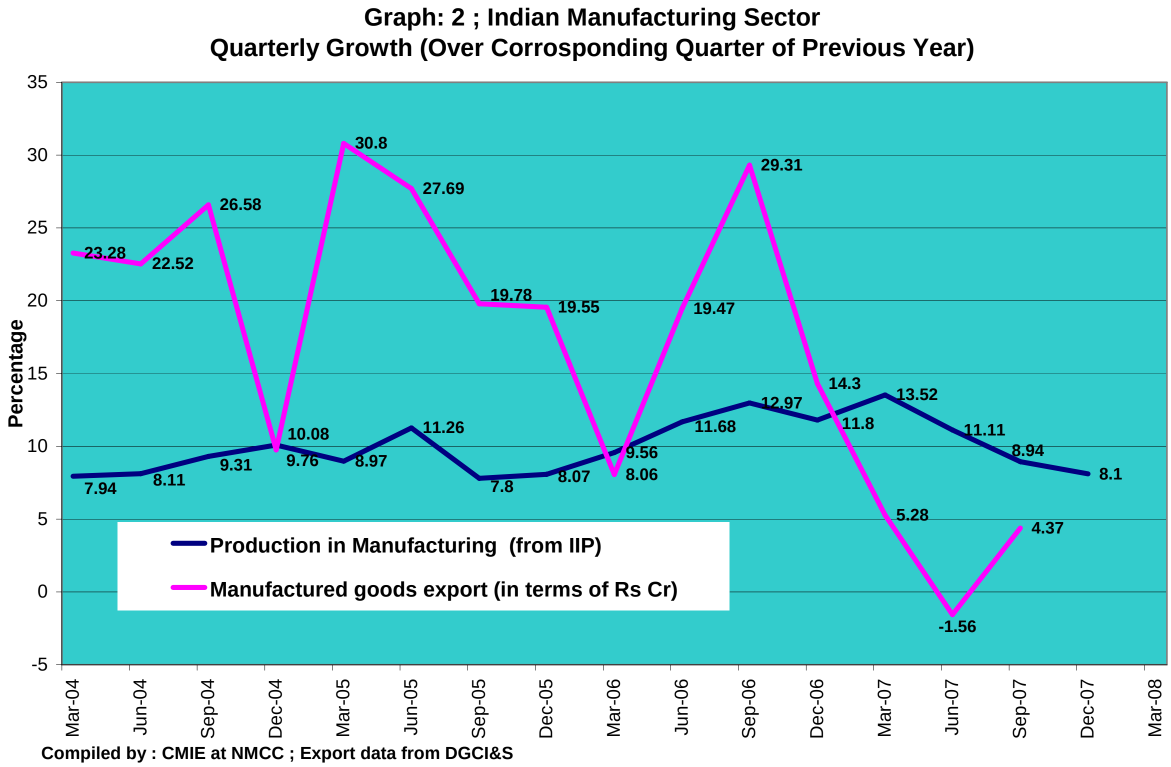


4. According to DGCI&S, the growth in export of the manufactured goods also shows a similar declining trend since the third quarter of the last financial year. However, the figures for the quarter ended Sept. 2007 the export growth has turned around to 4.37%. The manufacturing goods growth rate in September 2006 quarter was as high as 29% but it fell to

14.3% for December 06 quarter and further to 5.28% for March 07 quarter and for June 07 quarter, it has touched negative 1.56% and by Sept. 07 it has reached 4.37% as given in **Table 2.** A comparison between the trends in the growth rates in production of manufacturing sector vis-à-vis exports of manufactured goods is given in the **Graph-2.**

Table : 2 ; Indian Manufacturing Sector
Quarterly Growth (Over Corresponding Quarter of Previous Year)

Quarter	Production in Manufacturing (from IIP)	Manufactured goods export (in terms of Rs Cr)
Mar-04	7.94	23.28
Jun-04	8.11	22.52
Sep-04	9.31	26.58
Dec-04	10.08	9.76
Mar-05	8.97	30.8
Jun-05	11.26	27.69
Sep-05	7.8	19.78
Dec-05	8.07	19.55
Mar-06	9.56	8.06
Jun-06	11.68	19.47
Sep-06	12.97	29.31
Dec-06	11.8	14.3
Mar-07	13.52	5.28
Jun-07	11.11	-1.56
Sep-07	8.94	4.37
Dec-07	8.1	



B. Trends of prices in respect of Manufactured Goods:

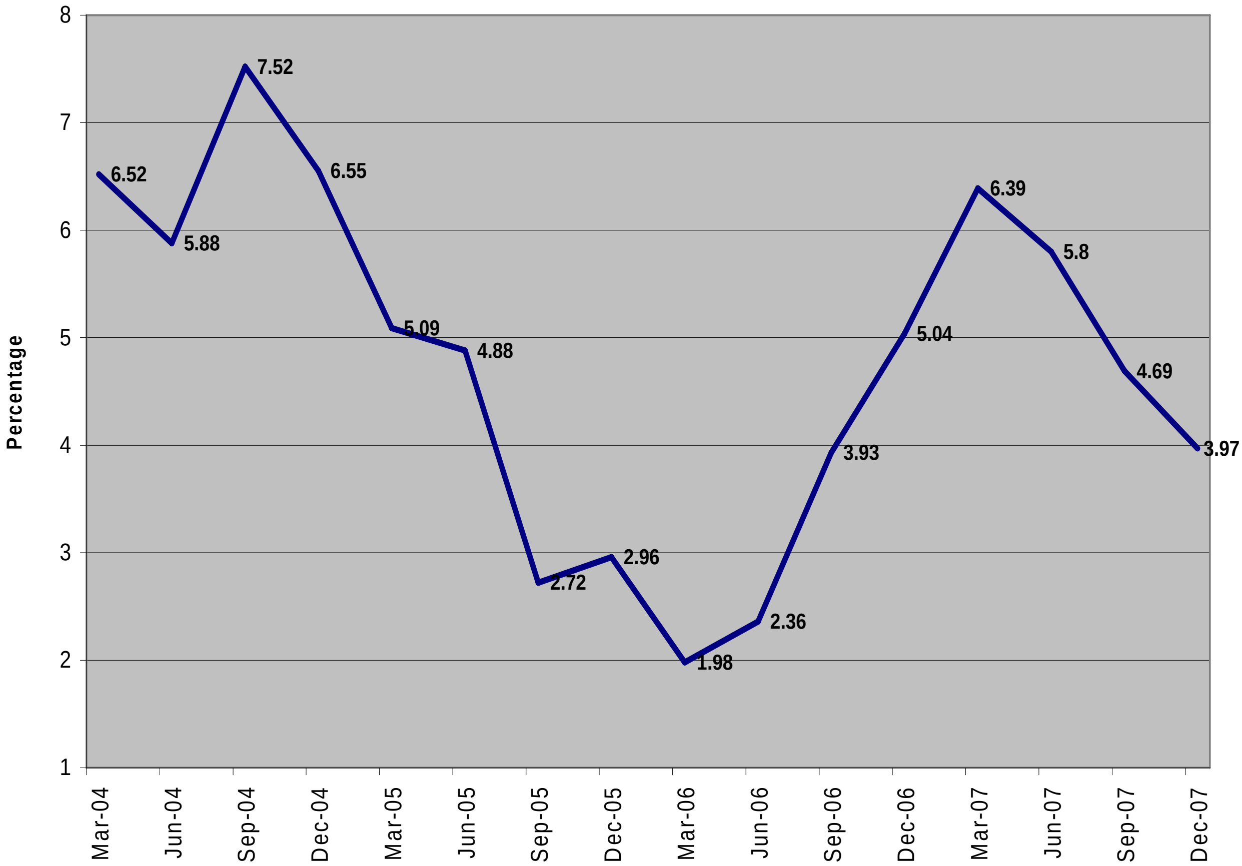
1. The policy challenge has been to attain a higher growth trajectory with moderate inflation, by containing inflation around 5.0 per cent in 2007-08. The headline inflation, based on movement in the wholesale price index (WPI), escalated to 4.89 per cent year on year as on week ended 16th Feb, 2008 from annual low of 3.07 as on week ended 13th Oct 2007. The annual average WPI inflation rate (average 47 weeks, starting from April 7, 2007) for the week ended Feb 2008 stood at 5.2%.

2. Manufactured goods averaged WPI inflation of 4.3% during 2006-07, but there was a major pick up in the inflation rate as the year progressed. During 2006-07, the average inflation in manufactured goods in the first half was 3.2%, while in the second half it recorded 5.5% averaging 5.7% for the year as a whole. Within the manufactured product category, non-ferrous metals, and grain-mill products and non-metallic minerals (mostly cement) showed the highest rates of inflation, averaging 32.0%, 16.6%, and 12.7% respectively. In fiscal 2007-08 the manufactured goods prices continued to rise, the average inflation rate in this sub-category has been recorded close to 6.0%. Manufactured products inflation, year on year increased to 4.62 on week ended February 16, 2008 from annual low of 3.53 % on November 24, 2007. Manufactured products inflation was led by Food products, increase of 6.51 % (highest in this fiscal) and Chemical and

chemical products 7.69% (highest in this fiscal). These commodities together contributed 36.8 of the overall WPI manufacturing index.

3. The quarterly growth rate of WPI of manufactured goods since March 2004 till Dec. 2007 is given in **Graph 3**. It is to be noted that the rising trend of the growth rate in WPI begun since March 2006 continued unabated till March 2007 peaking to rate of 6.39% but it has eased since then and reached 4.69% by the quarter ended Sept. 2007 and further down to 3.97% in quarter ended Dec. 2007.

Graph: 3 ; WPI of Manufactured products



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C. Impact of Recent Macro-Economic Developments

1. The decline in the growth of manufacturing in the recent months is generally attributed to the increase in interest rates and the appreciation of the Rupee with reference to the Dollar. In particular, the appreciation of rupee of over 10 percent which is much more than the appreciation of currencies of our competing economies appears to be affecting manufacturing across the board and most acutely in some of the important labour intensive export oriented sectors. The impact of rupee appreciation

alone is expected to bring down the exports from the targeted US $160 bn to US $ 147 bn this year.

2. The interest rates have also gone up during the year by almost 300 basis points. In many cases the Banks have increased PLR even more than 3 percent. This steep increase has hit, among others, all those industries whose products are purchased through consumer credit such as refrigerators, TVs, air conditioners, Cars, Trucks, motorcycles etc. Truck production in July this year went down by 9%, two wheelers by 11% and TVs by 24%. The Auto component sector has been affected adversely both in terms of domestic demand as well as external competition. With the Auto OEMs being in declining mode, its shadow is looming large on the component sector. Besides, with a strong rupee, imports are becoming cheaper increasing competition. On the export market the strong rupee is making the industry less competitive as well.

a. Trends in Rupee Appreciation

1. The Indian Rupee has shown sharp appreciation during the last one year especially with reference to US dollar and against other world currencies. The exchange rates and currency appreciation/depreciation of the competing nation is indicated below:

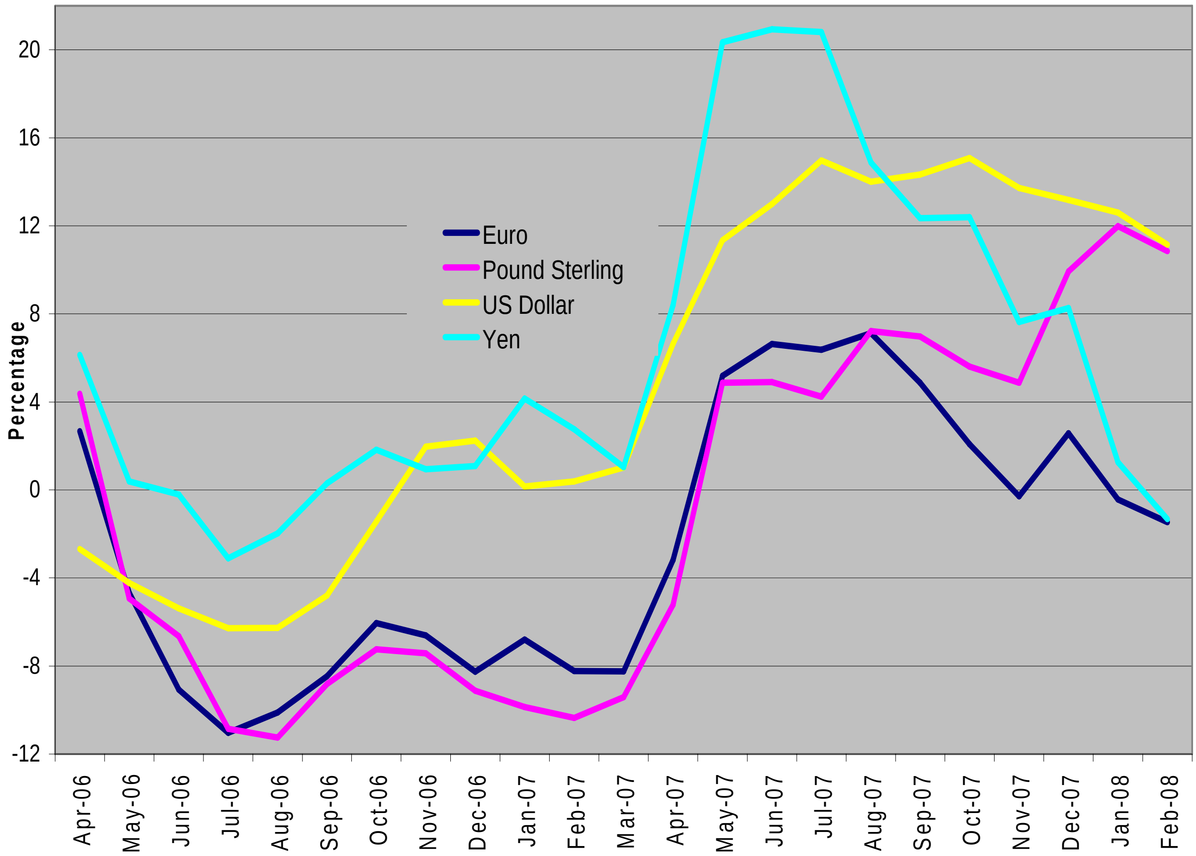
Exchange Rate Movements of Countries Against US$			
Country	**Jan. 2007**	**Jan. 2008**	**Currency Appreciation/ Depreciation Jan. 2008**
Bangladesh Takka	71.91	69.79	**2.9**
China Yuan	7.8	7.26	**6.9**
India Rupee	44.29	39.37	**11.1**
Indonesia Rupiah	9070.66	9418.8	**-3.8**
Mexico Peso	10.95	10.93	**0.2**
Pakistan Rupee	61.2	62.4	**-2.0**
South Korea Won	950.29	944.13	**0.6**

2. As could be seen from the table among the list of Asian currencies, Indian Rupee has recorded the highest appreciation against US dollar. The appreciation of INR vis-à-vis other major currencies since April 2006 till Dec. 2007 has been estimated and shown in **Table 3** and **graph.4**.

Table: 3 ; Exchange Rate of Indian Rupee								
Month	Rs. per	Dep.(-)/App. (YoY%) against	Rs. per	Dep.(-)/App. (YoY%) against	Rs. per	Dep.(-)/App. (YoY%) against	Rs. per	Dep.(-)/App. (YoY%) against

	Euro	Euro	Pound Sterling	Pound Sterling	US Dollar	US Dollar	Yen	Yen
Apr-06	55.15	2.67	79.45	4.37	44.95	-2.69	0.3844	6.14
May-06	57.97	-4.67	84.85	-4.93	45.41	-4.23	0.4064	0.39
Jun-06	58.34	-9.08	84.96	-6.65	46.06	-5.38	0.4021	-0.2
Jul-06	58.96	-11.04	85.66	-10.86	46.46	-6.28	0.4017	-3.11
Aug-06	59.62	-10.11	88.05	-11.25	46.54	-6.27	0.4017	-1.97
Sep-06	58.76	-8.46	87.05	-8.82	46.12	-4.79	0.394	0.3
Oct-06	57.39	-6.06	85.26	-7.25	45.47	-1.43	0.3834	1.83
Nov-06	57.75	-6.61	85.69	-7.43	44.85	1.96	0.3825	0.94
Dec-06	58.99	-8.26	87.7	-9.12	44.64	2.24	0.381	1.08
Jan-07	57.67	-6.8	86.84	-9.87	44.33	0.16	0.3689	4.15
Feb-07	57.74	-8.23	86.52	-10.36	44.16	0.38	0.3662	2.76
Mar-07	58.27	-8.25	85.68	-9.41	44.03	1.02	0.3754	1.04
Apr-07	56.96	-3.18	83.82	-5.21	42.15	6.64	0.3546	8.4
May-07	55.11	5.19	80.91	4.87	40.78	11.35	0.3377	20.34
Jun-07	54.71	6.63	80.99	4.9	40.77	12.98	0.3325	20.93
Jul-07	55.43	6.37	82.18	4.23	40.41	14.97	0.3325	20.81
Aug-07	55.65	7.13	82.12	7.22	40.82	14.01	0.3497	14.87
Sep-07	56.03	4.87	81.38	6.97	40.34	14.33	0.3507	12.35
Oct-07	56.22	2.08	80.73	5.61	39.51	15.08	0.3411	12.4
Nov-07	57.92	-0.29	81.71	4.87	39.44	13.72	0.3554	7.63
Dec-07	57.51	2.57	79.78	9.93	39.44	13.18	0.3519	8.27
Jan-08	57.92	-0.43	77.54	11.99	39.37	12.6	0.3643	1.26
Feb-08	58.6	-1.47	78.05	10.85	39.73	11.15	0.3711	-1.32

Graph: 4 ; Depreciation (-)/Appretiation (+) of Indian Rupee against per unit of individual currency



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b. Trends in Interest Rate

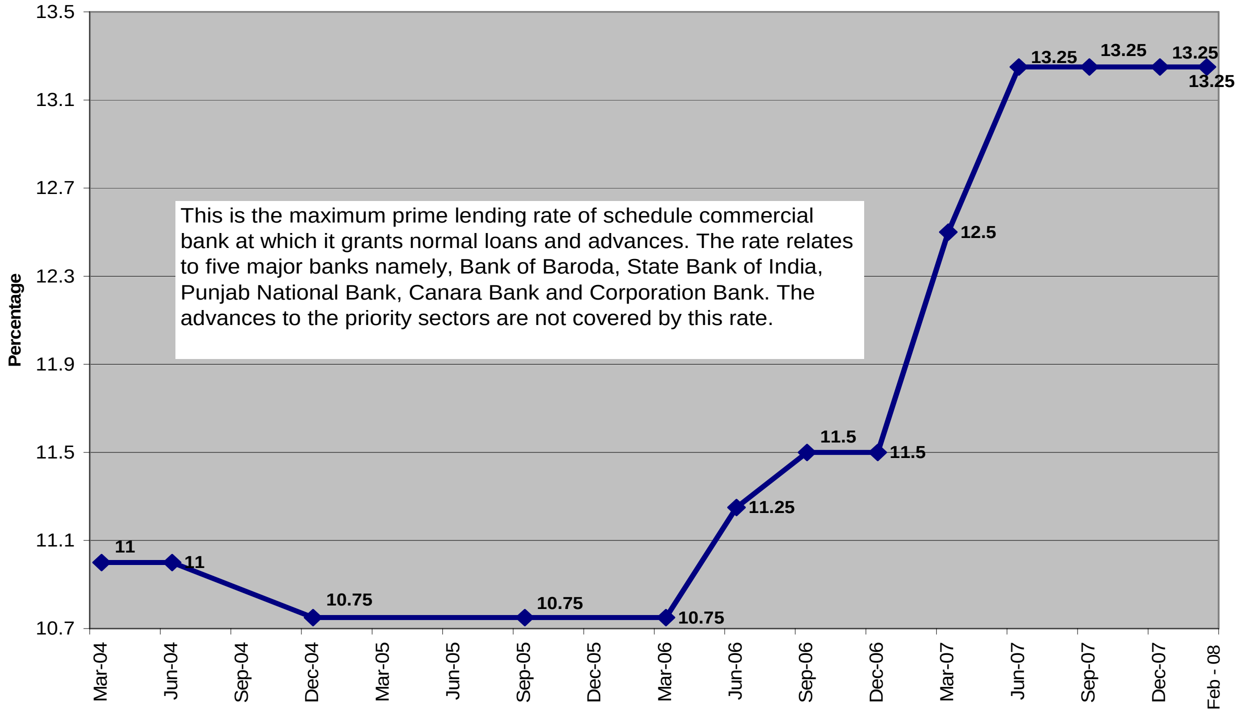
1. Benchmark prime landing rates (BPLRs) of Public sector banks softened to the range of 13.00-16.50 per cent by mid October 2007 from 13.00- 17.25 Per cent in June 2007. The range of BPLRs of PSBs and foreign Banks, however, remained unchanged during this period. The **graph 5** gives the trend in PLR (maximum) since quarter ending March 2004 till quarter ended Dec. 2007 and February 2008. It may be seen that since the last three quarters (i.e. from quarter ended June to December 2007), the PLR (maximum) has remained stable around 13.25 %. But in recent months, some of the major schedule commercial banks have reduced their BPLR as shown in **Table 4**.

Table 4

Bank Name	BPLR (in %)	Reduced by (basis points)	Effective date
State Bank of India	12.25	25	**27.02.2008**
Bank of Baroda	12.75	50	**27.02.2008**

Punjab National Bank	12.5	50	**01.03.2008**
Canara Bank	12.75	25	**25.02.2008**

Graph: 5; Prime lending rate (maximum)



Note : As on February 2008, PLR (maximum) for Corporation Bank is 13.25%.

Supplement To Agenda Item No. 2

Deceleration in Manufacturing Sector for the period of April-January 2007-08

The manufacturing growth for the period April-January 2007-08 has decelerated from 12.16% to 9.2% as compared to same period in the previous year (i.e. for the period April- January 2006-07). Out of the 17 sectors monitored by Index of Industrial Production (IIP), 11 sectors have shown decelerating growth and only 6 sectors have shown accelerating growth for the period April- January 2007-08 as compared same period in the previous year (i.e. for the period April- January 2006-07). A diagrammatic representation of the decelerating growth of 11 sectors and accelerating growth of 6 sectors are shown by **Diagram-1** and **Diagram-2** respectively.

Diagram 1: Decelerating growth in eleven sectors of Manufacturing

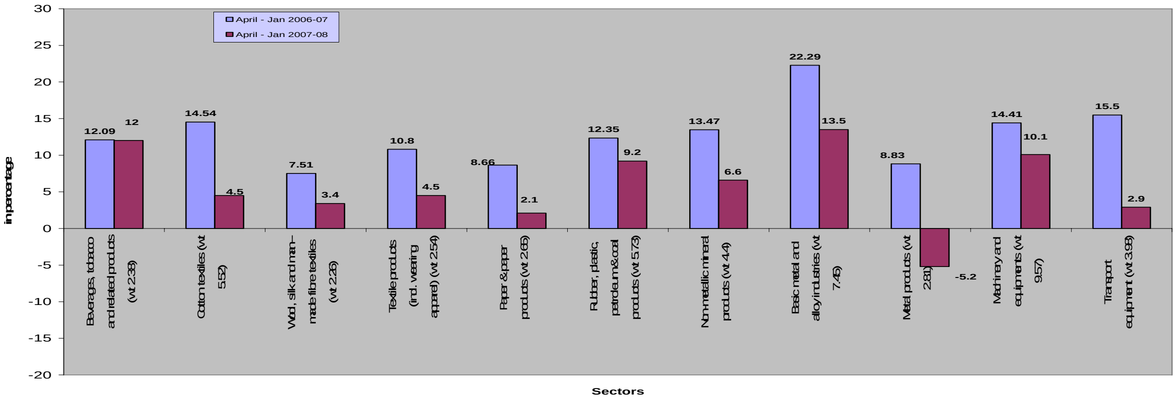
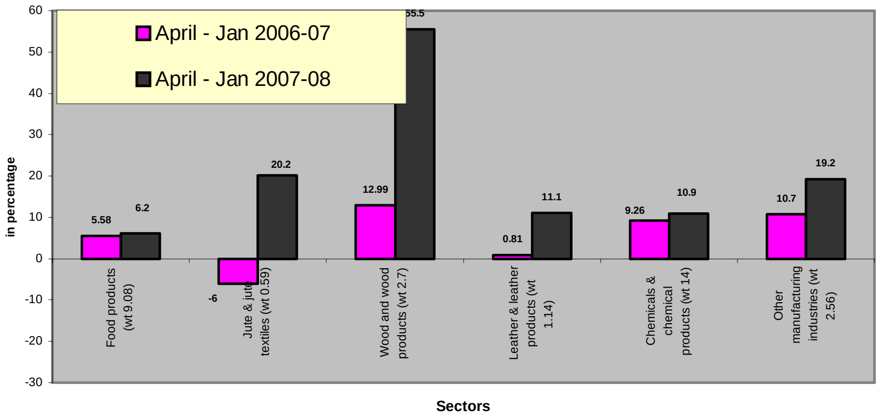


Diagram-2:Accelerating growth in six sectors of Manufacturing



From **Diagram-1**, we can see that the deceleration in manufacturing for the period April-Jan 2007-08 as compared the same period in the previous year (i.e. for the period April- January 2006-07) is mainly because of deceleration in some of the sectors like Cotton textiles, Textile products, Non metallic mineral products, Basic metal and alloys industries, Metal products and Transport equipments. Out of eleven sectors which have decelerating growth, one sector (Metal products) has shown negative growth (from 8.83% to –5.2%).

From **Diagram-2**, we can see that out of the six sectors which have shown accelerating growth for the period April-Jan 2007-08 as compared the same period in the previous year (i.e. for the period April- January 2006-07), three sectors, Jute and jute textiles, Leather and leather products and wood and wood products have shown significant growth (Jute and jute textiles from negative 6% to 20.2%, Leather and leather products from 0.81% to 11.1% and wood and wood products from 12.99% to 55.5%). Two sectors, Food products and Chemical and chemical products have shown only marginal acceleration in growth rate (Food products from 5.58% to 6.2% and Chemical and chemical products from 9.26% to 10.9%).

According to latest IIP estimates for the month of January 2008, the manufacturing growth rate has further declined to 5.9%. The manufacturing growth for the corresponding month in previous year (i.e. January 2007) was 12.26%. Some of the sectors which have shown very low growth for the month of January 2008 include wood and wood products (-4.6%), Machinery and equipment sector (-3.8%), Rubber, plastic, petroleum and coal products (1.9%) and transport equipment (1.5%). For the month of January 2008, highest growth is recorded by Jute and jute textiles sector (281.1%) and lowest growth is recorded by Wood and wood products sector (-4.6%). The monthly growth rates of these two sectors in January 2007 were – 72.65% and 81.55% respectively. Other sectors, which have shown higher growth in January 2008 as compared to January 2007 include Food products, Beverages, tobacco and related products, Textile products, Leather and leather products, Chemical and chemical products, and metal products.

The Third agenda item: Budget and the Manufacturing Sector.

The following are the highlights of the agenda item:

Keeping in view the recent deceleration in the manufacturing activity mainly due to the appreciation of rupee as well as the high interest rate, it was felt that the budget should include measures for reversing this trend. The Group set up by the Prime Minister to ensure growth of the Manufacturing Sector also went into this aspect. The Agenda Item 5 gives the discussion in the Group in some detail.

2. Proposals were received for the budget from the various industry associations and individuals. These were considered in the light of the broad directions of policy set for the growth of the manufacturing sector. The Finance Ministry expressed that there was only limited maneuverability in the monetary policy for correcting the loss of competitiveness due to

rupee or in reducing the interest rates. It was therefore suggested that the fiscal policy should look at the options available for ensuring that the loss of competitiveness is reversed and the downward trend of growth of manufacturing is arrested.

3. For this purpose following as under were suggested.

i. *Apart from monetory policy correction and export related assistance it was felt that in the current situation, there was no room or case for reducing the peak tariff levels. Hence it was recommended that the peak tariff levels should be retained at the current levels;*
ii. *The inverted duty structures are affecting the domestic industry adversely. Therefore, action should be taken to reverse wherever inverted duty structures are still in place. It was also noted that whenever Free Trade Agreements (FTAs) or Regional Trade Agreements (RTAs) are negotiated their impact on domestic industry should be simultaneously addressed, particularly those relating to inverted duty structures;*
iii. *There has been a steep increase in the price of raw materials and inputs to the industries. It was suggested that in order to ensure that the domestic industry gets adequate raw materials at reasonable price, export of raw materials should be restricted if necessary through export taxes.*
iv. *The domestic tax levels continue to be much higher than the tax levels obtaining in the competing countries. Therefore, it was suggested that a time bound programme for reducing domestic tax levels to the levels of competing countries should be worked out and implemented. Introduction of GST is one of the important initial steps towards this goal.*
v. *In order to encourage domestic value addition, exemptions and subsidies provided by the Government should be linked to value addition in India. It would not only ensure that domestic manufacturing sector grows robustly but also could be an instrument for technology transfer. It was suggested that a detailed study in this regard should be taken up.*

4. Detailed proposals were sent to the Finance Ministry in line with the above policy guidelines. It can be seen that some of the important suggestions made by the NMCC have been accepted and reflected in the Budget.

Highlights of the Manufacturing Sector in the Union Budget 2008-09

5. The Budget 2008-09 has highlighted the moderation in the index of production of core industries as well as the overall index of industrial production for the year April-December, 2007-08. It also recognizes the

present adverse impact in manufacturing sector like Food products, Textile products and apparel, Paper, and Transport equipments and a very sharp decline in the consumer goods.

General Excise Duty Reduction

6. Recognizing the role of manufacturing sector as the backbone of the economy, the Budget 08-09 has given a generic stimuli for the overall growth in the manufacturing production for boosting demand by way of reduction in the general excise duty/CENVAT on all goods from 16 to 14%. This broad base reduction in the excise duty for all manufactured goods is likely to reduce the price of products in the range of 1.5 to 2% across the board.

Reduction of Peak Customs Duty

7. The peak rate of customs duty for non-agricultural products which is 10% has been retained at same level of 10% for fiscal year 08-09 also. However, the excise duty of project imports has been reduced from 7.5 to 5%. Duty on Steel and Aluminum scrap has been completely abolished for making the raw material cheaper for domestic user industry. The retention of the of peak customs duty at 10% in fact is a postponement of the duty reduction regime's long-term policy announced by the Government earlier recognizing that the rupee has appreciated against the dollar by nearly 10% in the last one year. This major move is going to give some breathing space to the industry in view of the upward movement of Indian rupee against our major competing countries.

Phase out of CST

8. Central Sales Tax which is already on a phase out mode has been reduced further by 1% (from 3 to 2%). The reduction of this tax which imposes a huge transaction cost on the manufacturing industry and exporters will help the sector to some extent.

Research & Development

9. To promote outsourcing of research, the budget has proposed to allow a weighted deduction of 125% of any payment made to companies engaged in R&D. This will help in intensifying the R&D effort for organizations which can now depend on dedicated research bodies instead of only doing research for product development only in in-house. In addition the Budget 08-09 has also included many sector specific proposals which are in the **Annexure**.

10. Apart from the above, specific tax measures the targets and outlays of the following sectors will have a positive impact on the general manufacturing sector of the country.

Defence

11. The allocation for defence has been increased by 10% from Rs.96000 crore to Rs.105600 crore with an assurance that any further amount needed for the defence forces, especially for capital expenditure will be provided.

Climate Change

12. Identified promotion of clean technology products, reviewing fuel emission and efficiency regulations, replace wood by solar as the common fuel, encourage gas, trading platform for carbon emissions, build sustainable Greenfield cities etc. In order to explore and implement these and other ideas a permanent institutional mechanism has been proposed, the details of which is going to be announced later.

Annexure to Agenda Item No. 3

Sectoral Highlights of Budget 2008-09:

1. Textiles

- The duty exemption on **naphtha** for use in the manufacture of **polymers** has been withdrawn and placed it to the normal rate of 5 %. This could lead to hike in the prices of polyester and Nylon clothing by 2 to 3%.
- The 1% Excise Duty (National Calamity Contingency Duty (NCCD)) imposed on polyester filament yarn has been removed
- The two flagship programmes of the Textiles sector viz. TUFS & SITP will be continued in the 11th Plan Period. The provision for SITP in 2008-09 has been maintained at Rs.450 crores, whereas that for TUF has been increased from Rs.911 crore in the

current year to Rs.1090 in the 2008-09.

2. Handlooms & Handicrafts

- The allocation to the Handloom sector has been increased to Rs.340 crore in 2008-09.
- Six centers viz. Varanasi and Sibsagar for handlooms, Bhiwandi and Erode for power looms, and Narsapur and Moradabad for Handicrafts will require about Rs.70 crore each to develop as mega-clusters.
- The Budget proposed to start the process of cluster development approach with an initial provision of Rs.100 crore in 2008-09.

3. Gems & Jewellery

- Appreciating the positive response of the sector against the duty reductions made last year, to encourage value additions and exports, the budget proposed to exempt from duty rough cubic zirconia.
- It also proposed to reduce the duty on polished cubic zirconia and rough coral from 10 per cent to 5 per cent.

4. Auto Sector

- Excise duty reduced on buses and their chassis from 16 per cent to 12 per cent.
- Excise duty reduced on small cars from 16 per cent to 12 per cent and on hybrid cars from 24 per cent to the general revised rate of 14 per cent.
- Excise duty reduced on two wheelers and three wheelers from 16 per cent.

5. Food Processing

- The duty on bactofuges (increase the shelf life of milk) has been reduced from 7.5% to Nil.
- Reduced excise duty on packaged coconut water, tea, and coffee mixes, and puffed rice from 16% to Nil.
- Reduced excise duty from 16% to 8% on specified packaging material and breakfast cereals.
- To encourage cold chain facilities excise duty has been exempted on refrigeration equipment (consisting of compressor, condenser units, evaporator etc.) above 2 TR (tonne refrigeration) utilizing power of 50 KW and above on end-use basis.

6. Pharmaceuticals

- The cut in excise duty on pharmaceutical products, from 16 per cent to 8 per cent, will reduce the burden on players.
- The 125 per cent deduction on R&D outsourcing expenditure will increase the competitiveness of Indian players. The weighted deduction of 125 per cent for expenditure related to Research and Development (R&D) outsourcing will encourage the same and will increase the competitiveness of Indian players.
- The reduction in customs duty on select life saving bulk drugs, from10 per cent to 5 per cent, will be marginally positive.
- The cut in excise duty on all pharmaceutical formulation products, from 16 per cent to 8 per cent, will reduce the excise-burden on medicines for consumers.
- Extension of weighted deduction of 150% on R&D expenditure.
- 5 years tax holiday for setting up hospitals in non urban cities.
- Customs duty on specified raw materials required to manufacture of ELISA kits has been reduced from 10%/7.5% to 5%.
- Excise duty has been fully exempted on anti-AIDS drug ATAZANAVIR, and bulk drugs for its manufacture.
- Rs. 16,534 crore is allocated for healthcare sector.
- Rs. 1,042 crores allocated for drive to eradicate polio with focus on high risk districts in Uttar Pradesh and Bihar.

7. Paper

- The excise duty on paper, paperboard, and articles manufactured out of non-conventional raw materials is reduced from 12 per cent to 8 per cent.
- Further, the excise duty on clearances upto 3,500 MT is reduced from 8 per cent to nil.
- Excise duty has also been cut from 12 per cent to 8 per cent for most of the varieties of paper.

8. Steel

- Reduction in the CENVAT rate on all goods from 16 per cent to 14 per cent is likely to reduce prices by around Rs 500 per tonne.
- The customs duty on melting scrap is reduced from existing 5 per cent to Nil.

9. Chemical & Petro-chemical

- The customs duty on all petrochemical products (basic and polymers) remains unchanged.

- Customs duty on naphtha for petrochemicals use has been increased from zero to 5 per cent. This will negatively impact naphtha-based crackers (70 per cent of total capacity).
- Conversely, excise duty (CENVAT) has been reduced from 16 per cent to 14 per cent and central sales tax has been reduced by 1 per cent.
- Reduction of 2.5 per cent in customs duty on project imports is likely to reduce capital costs of players in the oil and gas industry providing all the inputs to the chemical and petro-chemical industries.

10. Fertilizer

- The reduction in customs duties on phosphoric acid (from 7.5 per cent to 5 per cent) and sulphur (from 5 per cent to 2 per cent).
- The budgetary allocation for fertilizer subsidy has been increased marginally from Rs 305 billion in 2007-08 to Rs 310 billion in 2008-09, even as the subsidy bill for 2008-09 is estimated to be around Rs 500 billion.
- Government offered nutrient based fertilizers subsidies scheme.

11. IT Hardware/Electronics

- Full exemption from duty on specified parts of set top boxes.
- Full exemption from duty on specified raw materials for use in the IT/Electronics Hardware Industries.
- Excise duty has been fully exempted on wireless data modem cards.

12. Information Technology

- Allocation to DIT enhanced from 1500 crore to 1680 crores in 2008-09.
- Rs.75 crore allocated for the scheme for establishing 1 lakh broadband internet enabled common service centers in rural areas.
- Rs.450 crore allocated for an ongoing scheme for establishing State wide area network (SWAN).
- Rs.275 crore for scheme for State Data Centers approved.
- Rs.100 crore establishing National Knowledge Network.
- Excise duty on packaged software has been enhanced to 12%

from 8%.

- IT Software services provided for use in business or commerce has been covered under the list of taxable services.

13. Telecom

- National Calamity contingency duty (NCCD) of 1% has been imposed on mobile phones.
- Reduction in the customs duty on convergence products from 10% to 5%.
- Reduction in excise duty on specified convergence products from 16% to 8%.

14. MSME

- To give a fillip to the MEME sector, the Budget proposed to create a risk capital fund in the SIDBI.
- The Credit Guarantee Trust with SIDBI had extended Rs. 2479 crore as guarantees to 89,129 units as on January 31, 2008. SIDBI will reduce the guarantee fee from 1.5 % to 1% and the annual service fee from 0.75 % to 0.5 % for loans upto Rs. 5 lakhs.

15. Skill Development Mission

- The compelling need for quickly launching a world-class skill development programme in mission mode for imparting skills required by a growing economy. To lead this ambitious programme to be scaled up to reach out to the country as a whole, the mission has been entrusted to a non-profit corporation, with an estimated capital of Rs. 15000 crore sourced from governments, the Public and Private sector, bilateral and multilateral sources. The Government's equity will be Rs. 1000 crore in this Corporation.
- For upgradtion of ITIs, 238 are undergoing upgradation, under PPP scheme, 309 it is in 29 states have been identified with corresponding industry partners and agreements have been signed in 244 cases. For upgrading 300 more ITIs Rs. 750 crore has been set apart in 2008-09.

16. Science & Technology

A provision of Rs.85 crore in 2008-09 has been allocated for building a knowledge society especially through schemes like Innovations in Science Pursuit for Inspired Research (INSPIRE) to provide scholarships for young learners (10-17 years) and scholarships for continuing science education (17 to 22 years) and opportunities for research careers (22-32 years).

The Fourth agenda item: <u>Trends in India and China bilateral Trade and its implications for Manufacturing Sector</u> . The following are the highlights of the agenda item:

Developments of last Decade

In the recent years there has been a concern that the imports from China are growing at an alarmingly fast rate resulting in severe balance of trade as well as hurting domestic manufacturing industry severely. This paper analyses the trends and its implications particularly from the point of view of Indian Manufacturing Sector.

Imports growing faster than Exports

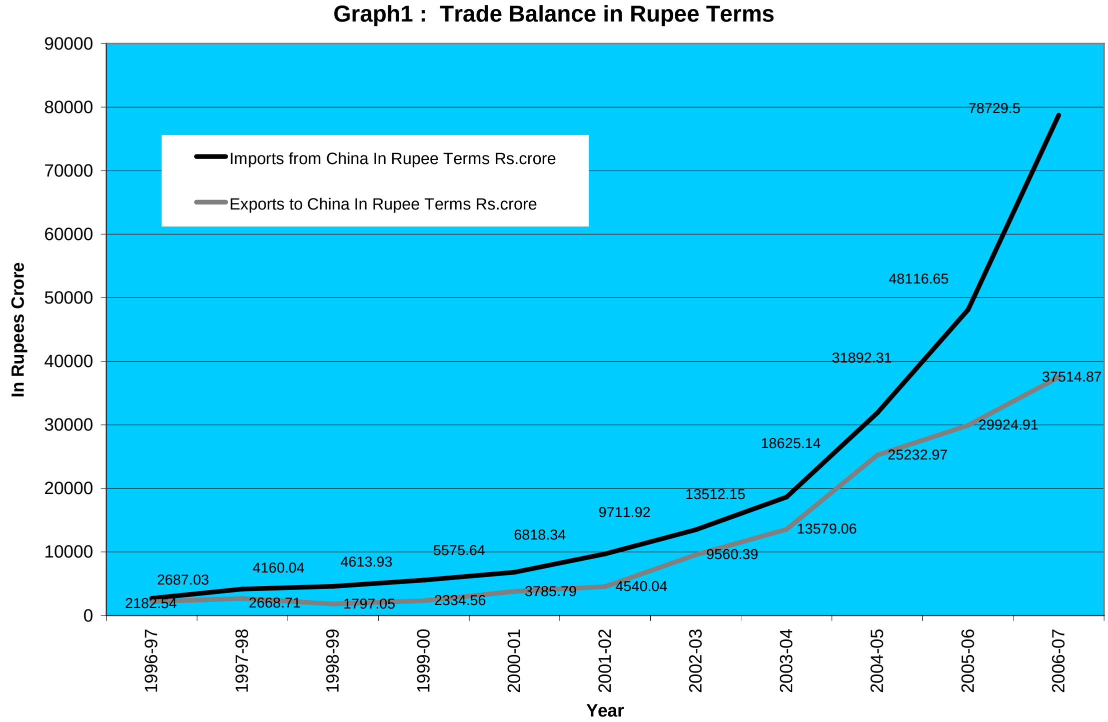
2. In the year 1996-97 India's imports from China were worth only Rs. 2,687 Crore while exports to China were Rs. 2,182 Crore, i.e., exports were

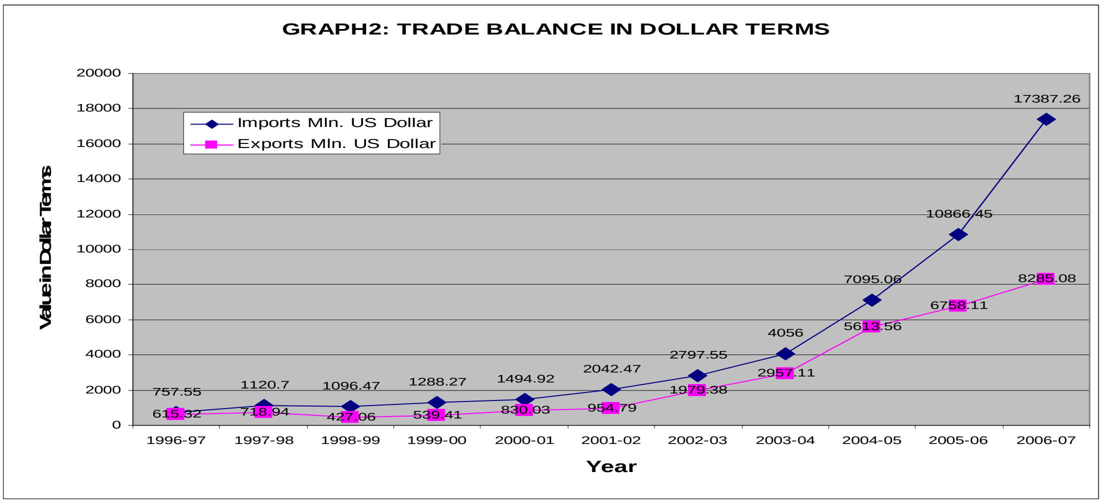
81 per cent of the imports. The corresponding figures in the year 2001-02 were Rs.9,712 Crore and Rs. 4,540 Crore with an export ratio of 47 per cent. The corresponding figures for the year 2006-07 are Rs. 78,730 Crore and Rs. 37,515 Crore with an export ratio remaining at 47 per cent. In other words, in the 10 years since 1996-97 the imports from China have grown by about 30 times while the exports grew only by about 17 times. This widened the trade balance with China substantially (**Table 1, Graphs 1 & 2**). The trade balance in 2006-07 was about US $ 10 billion as against about US $ 140 million in 1996-97 and about US $ 1 billion in 2001-02. These figures clearly indicate that the imports grew much more rapidly while the rate for exports to China did not keep pace resulting in a huge trade gap.

Table 1

India's Trade With China

Year	Imports from China		Exports to China	
	In Rupee Terms	In US Dollar Terms	In Rupee Terms	In US Dollar Terms
	Growth Rate in %	Growth Rate in %	Growth Rate in %	Growth Rate in %
1996-97	-1.07	-6.84	96.12	84.67
1997-98	54.82	47.94	22.28	16.84
1998-99	10.91	-2.16	-32.66	-40.6
1999-00	20.84	17.49	29.91	26.31
2000-01	22.29	16.04	62.16	53.88
2001-02	42.44	36.63	19.92	15.03
2002-03	39.13	36.97	110.58	107.31
2003-04	37.84	44.98	42.03	49.4
2004-05	71.23	74.93	85.82	89.83
2005-06	50.87	53.16	18.59	20.39
2006-07	63.62	60.01	25.36	22.59
2007-08 (Apr-Aug)	43.09	60.42	-2.98	8.77





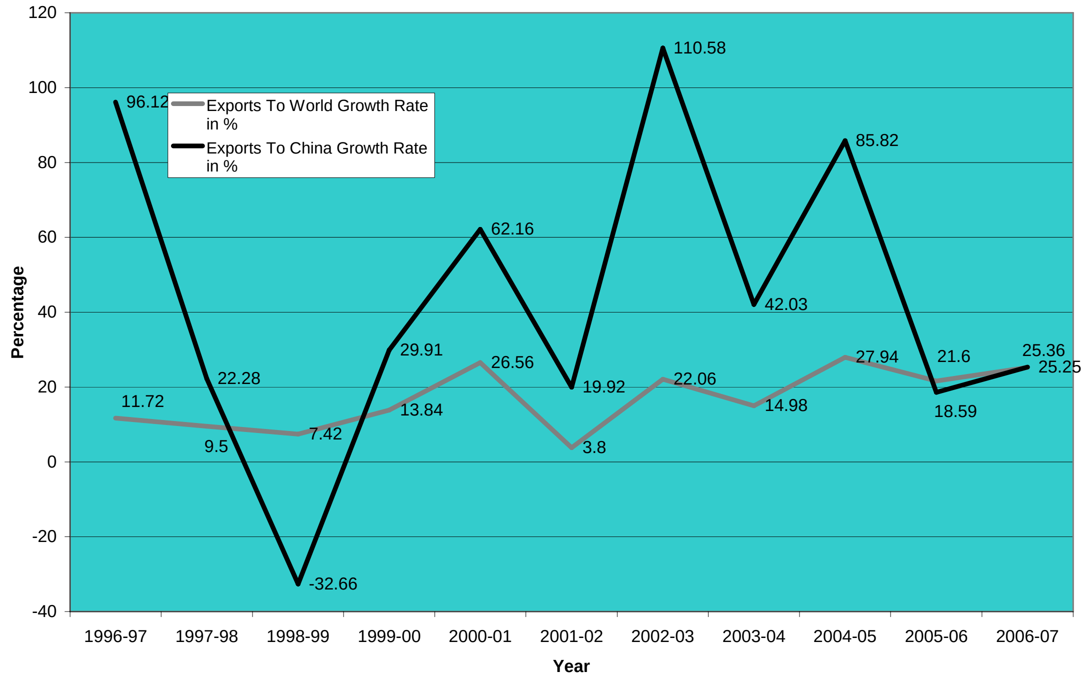
3. If we look at the trends of India's overall trade with the world during 2006-07 the rate of growth of India's exports to China was in line with the overall rate of our exports to the world. When we look at the imports, the rate of growth of imports during the same year was more than twice from China as compared to the rate of growth of imports from the world as a whole. **(Table 2, Graphs - 3 & 4).** This trend could be seen particularly during the past five years when there has been an accelerated growth of imports from China.

Table 2

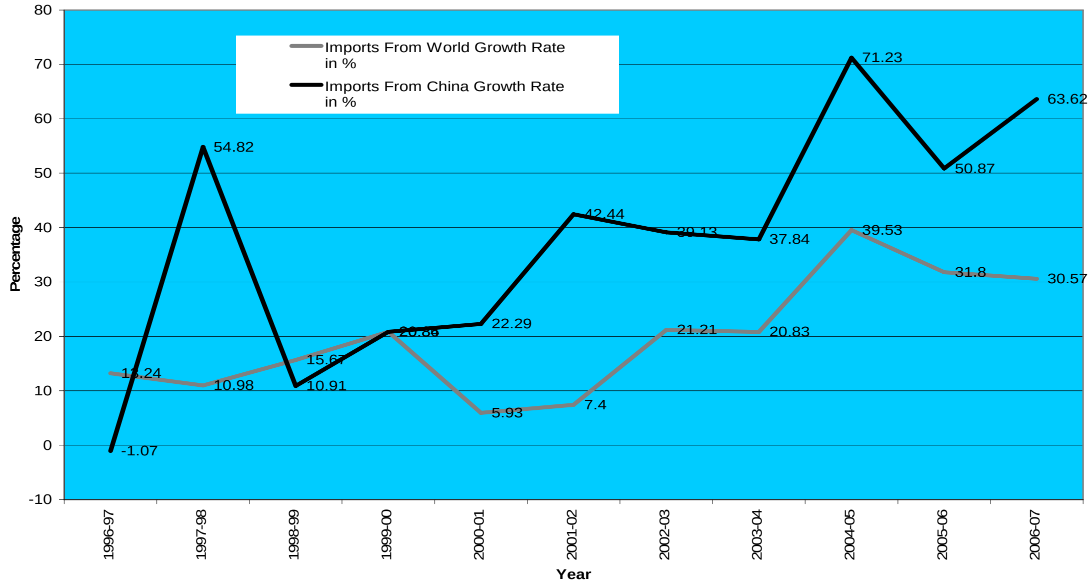
India's Direction of Trade

Year	Imports		Exports	
	From World	From China	To World	To China
	Rs.crore	Rs.crore	Rs.crore	Rs.crore
1996-97	138919.88	2687.03	118817.32	2182.54
1997-98	154176.29	4160.04	130100.65	2668.71
1998-99	178331.69	4613.93	139751.77	1797.05
1999-00	215528.53	5575.64	159095.2	2334.56
2000-01	228306.64	6818.34	201356.45	3785.79
2001-02	245199.72	9711.92	209017.97	4540.04
2002-03	297205.87	13512.15	255137.28	9560.39
2003-04	359107.66	18625.14	293366.75	13579.06
2004-05	501064.54	31892.31	375339.53	25232.97
2005-06	660408.9	48116.65	456417.86	29924.91
2006-07	862301.53	78729.5	571641.88	37514.87
2007-08 (Apr-Aug)	386996.14	42728.06	244772.57	12694.89

Graph 3: India's Export Growth to China in Rupee Terms



Graph 4: Growth Rate of India's Import from China in Rupee Terms



Performance of Manufactured Goods in the Trade Basket

4 There has also been significant difference in the composition of imports when compared with the composition of exports. Out of the total imports of Rs. 78,729 Crores in 2006-07, the manufactured goods totaled to Rs. 66,500 Crore, i.e., a percentage of 84 per cent signifying that a very substantial part of the imports from China are manufactured goods (**Table 4**). When we look at Indian exports to China during the year 2006-07 out of Rs. 37,515 Crore manufactured goods are Rs.12, 380, i.e., 33 per cent while Ores and Minerals accounted for Rs.19,678 Crore or approximately 52 per cent of our total exports. (**Table 3**).

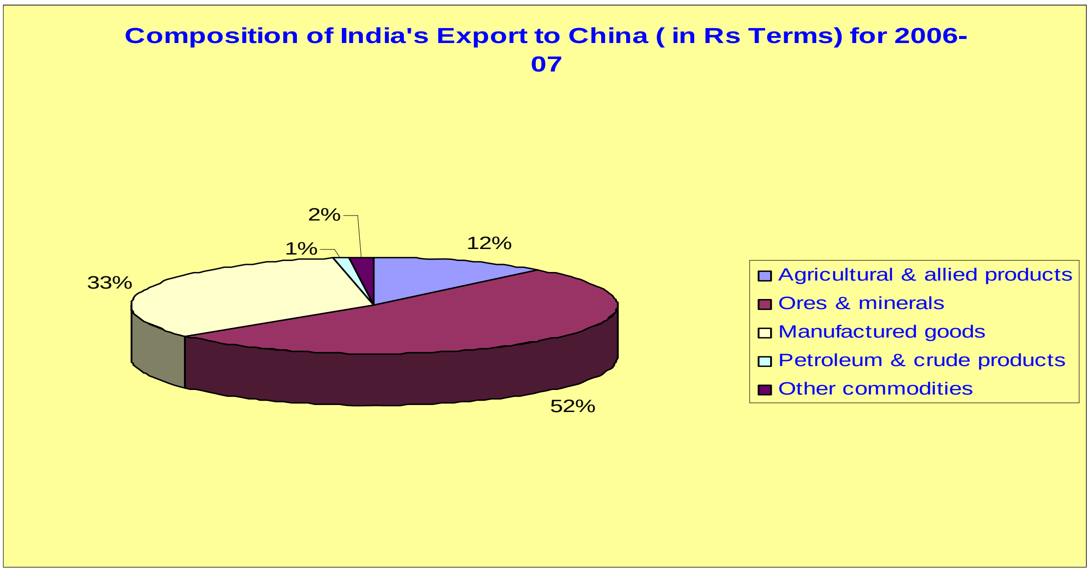
Table 3 India's Export to China (in Rs. Lakhs)

Commodity Name	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (Apr-Aug)
Agricultural & allied products	73395.41	59971	72971.13	90384.69	112404.2	360451.6	436636.8	81794.94
Ores & minerals	100030	164087.4	314966.4	485673.7	1479477	1747442	1967754	713976.5
Manufactured goods	201743.7	224613.5	553561.3	719903.4	904972.8	840979.6	1238041	397293.2
Petroleum & crude products	11.64	684.81	4683.84	34124.73	2595.37	8298.85	49391.75	40058.95
Other commodities	3397.79	4646.86	9856.5	27819.32	23847.92	35319.35	59663.14	36365.44

Growth Rate in India's Export to China (in Rs. Lakhs)

Commodity Name	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (Apr-Aug)
Agricultural & allied products	14.21	-18.29	21.68	23.86	24.36	220.67	21.14	-37.26
Ores & minerals	45.72	64.04	91.95	54.2	204.62	18.11	12.61	1.8
Manufactured goods	102.08	11.34	146.45	30.05	25.71	-7.07	47.21	-7.34
Petroleum & crude products	N.A.	5783.29	583.96	628.56	-92.39	219.76	495.16	47.55

Chart 1



5. In other words, in absolute terms, India imported manufactured goods which were five times that of the manufactured goods that India exported to China in 2006-07. On the other hand, more than 50 per cent of Indian exports to China are Ores and Minerals which are used for producing manufactured goods in China. In other words, our relationship with China in trade is more as a primary commodity supplier to enable value addition by them and export finished goods. In addition, these figures clearly bring out the fact that Indian manufacturing sector has not only been not able to increase its exports to China adequately but also had to deal with severe competition from them both domestically as well as for exports. Needless to say that policy actions are urgently required to rectify the situation.

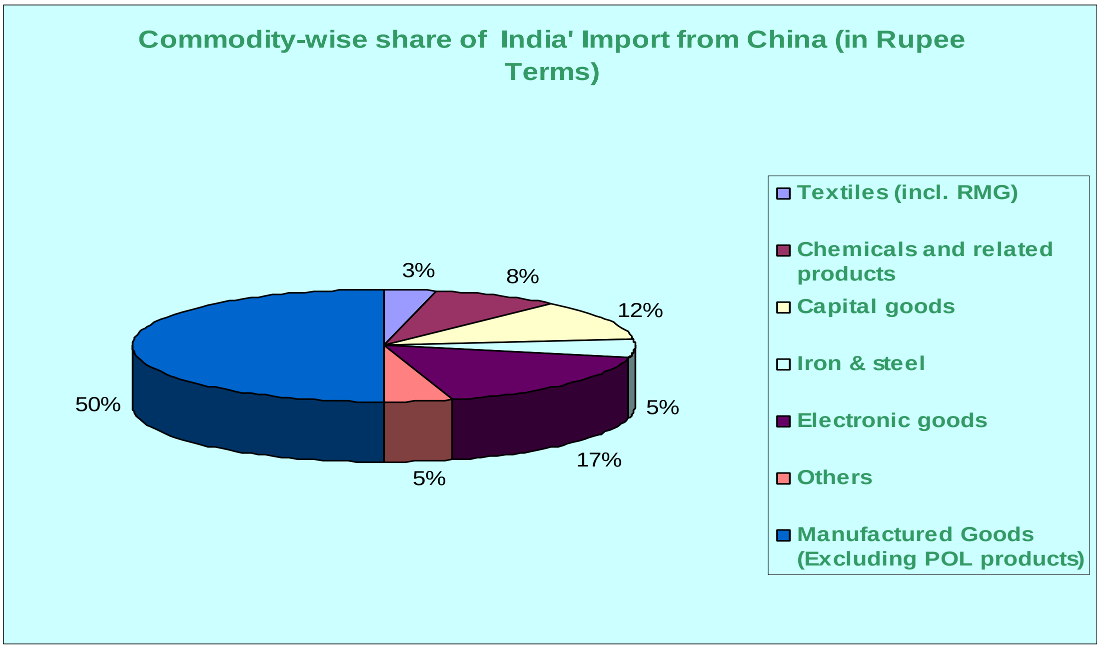
Inter-sectoral Performance

6. A breakdown imports of the manufactured goods from China during 2006-07 indicates that five categories of goods constitute nearly 90 per cent of all manufactured imports. These are electronic goods, capital goods, iron and steel, chemicals and related products and Textiles including readymade garments. These imports are not high-tech items. In all these areas India is, in fact, technologically equally capable if not better. The capital goods imports from China increased by about 86% in 2006-07 when compared to the previous year. As far as Iron and Steel imports are concerned they increased by 350 percent during the same period. From the available data for the current year one can see that these trends are continuing even this year (**Table 4**).

Table 4

India's Import from China						
Commodity	2005-06		2006-07		2007-08(Apr-Aug)	
	Rs.Lakh	US $ Million	Rs.Lakh	US $ Million	Rs.Lakh	US $ Million
Textiles (incl. RMG)	398058.29	898.96	457359.83	1010.07	206830.9	504.96
Chemicals and related products	760386.4	1717.22	1087747.57	2402.27	618717.52	1510.54
Capital goods	827931.16	1869.76	1574616.4	3477.51	824834.49	2013.76
Iron & steel	147225.05	332.49	672905.78	1486.1	398336.16	972.5
Electronic goods	1545716.77	3490.78	2258376.54	4987.58	1253635.33	3060.63
Others	380521.07	859.37	598479.73	1321.74	412261.4	1006.51
Manufactured Goods (Excluding POL products)	4059838.74	9168.58	6649485.85	14685.27	3714615.8	9068.9

Chart 2



7. From a perusal of the imports from China at **Table 1** and **Graph 1** it is clear that the Chinese imports have grown rapidly from the year 2003-04 onwards. This trend seems to have been further exacerbated by the rupee appreciation during the year 2006 onwards. Clearly the reduction of Customs duties to a level of 20 to 25% appears to have spurred the rapid growth of imports from China indicating that this level of import duties could be the inflexion point in so far as the competitiveness of Indian industry against Chinese products is concerned.

Prima facie Reasons

8. The foremost reason is the difference in the Industrial Policy and Trade Policy regimes followed by the countries. China has followed an

industrial policy including the FDI policy which promoted domestic manufacturing growth. In addition to the advantage provided by better infrastructure, labour flexibility/discipline etc., some specific policy actions put in place by Chinese Government have substantially contributed to the rapid growth of manufacturing in China.

10. China has adopted a clear policy for promoting manufacturing as a primary goal in its growth model unlike India. Their policy included a clear set of incentives in terms of subsidies, concessions in taxes etc., for investment and promotion of manufacturing industries. The macro economic policies such as the Exchange rate and Interest rate policies were also made to sub serve the goal of growth of manufacturing. China has recently embarked on a revised manufacturing policy which has further sharpened their focus. The new policy aims at aggressively promoting value addition in manufacturing. For example, the concessions on VAT are given on a graded basis with reference to the amount of local value addition. Also, to support the domestic industry with cheap availability of raw materials and inputs, China is using the export taxes on these materials as tool. This serves two purposes. The levy of export taxes ensures that the Chinese companies get cheaper raw materials and inputs while the countries that import these materials would have to buy it at a higher cost and therefore, will be less competitive in terms of the finished products. In contrast in India, to give one example, our Steel is being sold to domestic manufacturers at the International prices which is making their products uncompetitive. China also has similar policies in respect of the FDI, by making it conditional. For example, absorption of technology by local company, Minimum capital requirement, local participation in the companies etc., are prescribed to ensure that the manufacturing along with technology is shifted to China.

11. On the Trade side, while China has ostensibly kept the import duties low, many hurdles for exporting products into China in the form of non tariff barriers etc., have been deliberately worked out and implemented, particularly in respect of those items which could hurt domestic manufacturing. In other words there is a cushion made available to the local manufacturers in the form of these barriers to discourage import competition. Indian exporters to China would confirm that it is extremely difficult for them to export finished goods to China such as two wheelers etc., in view of the Chinese Government’s active interference. There are many other policies which assist domestic manufacturing growth in China.

12. In India we do not have any specific policy thrust on manufacturing. Our policy actions have generally been adhoc and reactive and are not designed towards long term growth of manufacturing. There are many aspects of Chinese policies which can perhaps, be considered for implementation in India even within our democratic structure.

The Fifth agenda item: <u>Discussion on the medium and long-term issues before the Prime Minister's Group on Manufacturing</u>. The following are the highlights of the agenda item:

Hon'ble Prime Minister has set up a Group to look into the issues of growth of Manufacturing Sector under the Chairmanship of Dr. V. Krishnamurthy, Chairman, National Manufacturing Competitiveness Council (NMCC).

The Terms of Reference of the Group are:-

a) *to suggest policy measures and a continuing mechanism to ensure sustained growth of the Indian manufacturing industries for the next 10-15 years;*

b) *to suggest policy measures and immediate steps to reverse the recent deceleration in the growth of the manufacturing industries;*

c) *to suggest policy measures and immediate steps to boost exports of Indian manufactured goods in the face of appreciation of the rupee and high interest rates, particularly with respect to labour intensive sectors like textiles, leather and handicrafts;*

d) *to suggest policy measures to leverage FDI to modernize manufacturing in India and create a strong technological base.*

2. The Group has been requested to submit its recommendations in three months from 3rd January 2008. Among the four terms of reference given to the Group, items (a) and (d) are related to long-term aspects while (b) and (c) are those that require immediate action.

<u>Discussions so far on long term issues:</u>

3. The Group met and discussed in detail the immediate measures that are required to be addressed in the budget 2008-09. The Group met fifteen Secretaries to the Government of India directly in charge of manufacturing sector and also the three apex industry associations to obtain their views (Annexure I). The Group itself includes Finance Secretary, Revenue Secretary, Commerce Secretary, Secretary Textiles and Secretary, Department of Industrial Policy and Promotion as members.

4. The proposals for fiscal policy intervention were made under the following seven broad categories:

   1. Basic customs tariff not be reduced from the present level.
   2. Concessional Import duty of Zero per cent on input materials.
   3. Correction of inverted import duty structure.
   4. Reduction of domestic duties to the levels in competing countries.
   5. Restriction on export of raw materials.
   6. Concessions under the Income Tax Act.
   7. Abolition of CST and rationalization of State VAT.

5. The Group also discussed the generic issues which affect manufacturing which included monetary policy issues, viz., exchange rate, interest rate developments and also the issues relating to India's outward investment. It was noted that the Manufacturing Sector has decelerated during the period April – November 2007 to 9.8 per cent when compared with 11.8 per cent during the previous year. A number of manufacturing sectors are showing deceleration in their growth. The consumer durables in fact have started registering negative growth rate. The Economic Advisory Council to the Prime Minister in their review of the Economy in January,2008 have estimated that the manufacturing growth during 2007-08 would be around only 9%. Compared with the growth of 12.5% achieved during 2006-07 this indicates a very significant deceleration in growth of this sector.

6. During the year 2006-07 the Interest rates for the borrower have gone up by about three to four per cent. The Rupee appreciated against the dollar by about 12% during the last one year. Evidently, the steps taken by the government and the RBI towards inflation control have had an effect on the slowing down of the Manufacturing sector. It was noted that the competitiveness of the manufacturing sector eroded very substantially due to unprecedented movement in the Exchange rate and that productivity improvements did not match or practicable to take care of the changed situation in such a short time. The fact that many of the internal reforms which would have helped competitiveness is taking time giving rise to the above situation.

7. The Group discussed the issue of impact of change in interest rates during the past one and half years and the exchange rate appreciation that had taken place during the year on the manufacturing sector. The view of the Finance Ministry is that there are constraints faced by the Union Government in moderating interest rates as well as for ensuring that the exchange rate does not

appreciate further. The main concern of the Government has been to get inflation and inflationary expectations under check while ensuring that a reasonable growth rate is maintained. Therefore Finance Ministry is of the view that only a limited head room exists for checking the inflows under Capital Account which could be in the form of External Commercial Borrowings (ECBs). Accordingly, the Ministry in discussion with the RBI are constantly working on these issues to do whatever is possible in the given situation.

8. The Group appreciated the need for macro economic stability for long term growth of the economy. In that process, it was recognized that inflation control is an essential element. The Group felt that moderation of capital inflows through a suitable mechanism would ease the pressure on Rupee from appreciating further. It would also reduce costs on account of sterilization. The policy should be able to differentiate and encourage the more stable components of the capital flows and moderate the less stable flows more actively through policy. It was noted that the flows from NRIs have been moderated relatively successfully when compared with the External Commercial Borrowings (ECBs) flows. It is understood that proposals to moderate ECBs and other flows are under consideration of the Finance Ministry. It was felt that necessary actions may be taken to moderate the flows and ensure that the exchange rate reflects the competitiveness of the economy and in particular of the manufacturing sector. With the sizeable cut in interest rates by the US of the order of 125 bp recently, the possibility of enhanced capital flows in the coming months are expected.

9. In the background of the view of the Finance Ministry regarding limited maneuverability in adjusting the interest rates and the exchange rates, it was felt that there was a need to seriously look at other options available on the fiscal policy side to ensure that competitiveness in the Manufacturing sector is maintained if not strengthened

Issues for discussion

10. In this background following issues relating to the long-term growth of Manufacturing Sector in the country which have also been identified in the National Strategy for Manufacturing, need to be considered

    (a) Macro Economic Management, in particular, the Monitory and Fiscal policy, should make manufacturing growth as the focus of the Policy while ensuring that inflation is maintained at reasonable levels.

(b) Sectoral policies both at the Central Government as well as at the State Government level should ensure that they facilitate growth of manufacturing.

(c) Policies, such as the FDI Policy, should be re-oriented to ensure that they promote manufacturing in India. Policies adopted by Government in this regard would require to be reviewed.

(d) The outward investment policy should ensure that the long term natural resource requirements of the country are given importance and accordingly further steps should be taken. Such policy would also help better management of the Foreign Exchange Reserves.

(e) Infrastructure bottlenecks need to be addressed through a long-term Plan which should include programmes building appropriate regulatory institutions for infrastructure development should be given priority. Energy availability, both in quality and quantity, should be given highest priority.

(f) Economic growth and, in particular, robust and sustained manufacturing growth, cannot be expected to take place without technological backing. Technology development should, therefore, be an important focus of the country's growth strategy.

(g) Availability of skilled manpower to match the desired growth rate of manufacturing requires to be ensured. Skill Development is required at the basic level of labour intensive industries right upto highly sophisticated and high technology industries. The proposed Mission should cover the entire gamut of skill development.

(h) A massive campaign for procedural reforms is essential. In a globalizing world time is the essence and it is necessary to set targets for reduction in red tape and a system of awards and punishments should be established to ensure speedy implementation of reforms.

(i) The State Governments need to be sensitized on ensuring that necessary business climate is created for development of the manufacturing sector.

(j) In order to ensure that the Government follows up on all these aspects there is a need to put in place a Manufacturing Policy.

Annexure-I

List of participants in the meetings of the Group set up by PM on Manufacturing Sector

Secretaries to Government of India

Ministry of Heavy Industries & Public Enterprises

Department of Information Technology

Department of Telecommunications

Department of Scientific & Industrial Research

Ministry of Science & Technology

Ministry of Steel

Ministry of Mines

Ministry of Coal

Ministry of Shipping

Ministry of Road Transport & Highways

Ministry of Food Processing Industries

Ministry Chemicals & Petrochemicals

Ministry of Micro, Small & Medium Enterprises

Department of Fertilizers

Department of Defence Production

Industry Associations

Confederation of Indian Industries (CII)

Federation of Indian Chambers of Commerce & Industry (FICCI)

Associated Chambers of Commerce & Industry (ASSOCHAM)

The Sixth agenda item: **Issues Relating to Participation of Privatesector in Defence Equipment Manufacture**. The following are the highlights of the agenda item:

I. Background

The issue regarding participation of private sector in the defence equipments manufacture has been engaging the attention of the Government in recent times in view of increasing imports from abroad. In the NMCC, we see this as an area of great opportunity for jumpstarting manufacturing of advance technology products in which the Indian industry does not have much presence now. The formulation of a comprehensive off-set policy by the Ministry of Defence is the first window of opportunity opened to the Indian private industry to participate in the production and supply of defence related products. The opportunities and advantages of a good off-set policy with its related spins-off benefits in terms of technological leap across the manufacturing sector cannot be overstated. Initiative and participation of Indian industry in this regard would help the country in moving towards the objective of creating a world class design as well as production capability for sustainable growth of high technology industries which will not only able to meet the future defence requirements but also the needs of many high technology sectors in areas like space, aero-space, nuclear energy and other alternative energy areas of future.

2. Though in 2001 some windows were opened in the rules for foreign investment, with a cap of 26 % in local firms, a greater role of the private sector participation was recommended by the Kelkar Committee. It while identifying the cause for shying away of the private players due to the high cost of R&D vis-à-vis the fully funded DPSUs, its suggestion that the government share the R&D costs with the Raksha Utpadan Ratnas (RURs), and select the private firms based on financial and technical merits for awarding 'minimum quantity' orders is now under consideration. With a ardent modernization strategy, together with the 2001 rules for foreign collaboration and the Budget 2008's incentive of 125% of weighted deduction on any payment made to companies engaged in R&D to promote outsourcing of research and the proposed 10% hike in the defence budget allocation from 96,000 crore to Rs. 105,600 crore could open up huge potential for the private sector to play a more active and pertinent role in enhancing India's advanced technology products competency.

II. Recent Developments

3. The recent developments in opening up the defence industry by the government of India to the private sector from their decade old restrictive stand look to be very feeble. The recent interest shown by the private

sector in engaging with global majors in defence production areas viz. the tie-ups between the US' Northrop Grumann Corp. and the India's Satyam Computer services to provide high engineering services to the global aerospace and Defence industry, the Tatas's JV with the Israel Aerospace Industries to cater to the IAL's Indian customers etc are the few encouraging developments. Chairman, NMCC had taken a meeting on Offset Policy on 16.10.2007. The aim was to sensitize the stakeholders on the need to improve the manufacturing growth rate for which the most crucial ingredients are the acquisition of new technology and fresh investment of sizeable magnitude.

4. In the 10th Meeting of the NMCC held on 23.11.2007, the Confederation of Indian Industry (CII) gave a presentation on Offset Policy. During the presentation the following issues were highlighted:

a) The delay in the notification of Raksha Utpadan Ratnas (RURs) and similar other eligible industries. Now, 13 RUR have finally been notified for 57 selected items. But non of them are in a position to show anything concrete in terms of the benefit of a production system/facility on the basis of the Offset model as the first one is just off the ground.
b) The present Defence Offset Policy does not encourage new companies to be entitled for the Offset. Therefore, making it more liberal and open ended will be helpful.
c) For enhancing the Offset based production in the country, deemed exports benefit could be helpful as that would neutralize the cost disadvantage of a domestic supply vis-à-vis the foreign supply which exists at present.
d) The quantum of absorption of Offset is also required to be spelt out much more clearly for better understanding and improved participation of the intending suppliers and sub-suppliers.
e) Banking of Offsets not allowed now would be helpful to expanding the scope and time frame of its use.
f) Software use from the domestic source is required to be factored into the Offset commitment. This will help sophisticated software products to be developed in India.

5. After the discussion a consensus was reached in the Council Meeting for undertaking the following initiatives:

i. Need to harness the Offset Policy for the general purpose of building a good manufacturing base for various advanced technology product industry sectors like defence, civil aviation, space, atomic energy etc.

ii. In the implementation of Offset Policy, preference for manufacturing in India along with technology transfer is most important. Research needs to be directed in line with the requirement.

iii. Some mechanism for coordination between various Departments on Offset Policy is essential and details for implementing the policy have to be worked out to ensure the results are obtained.

iv. Greater dialogue with private industry is required for the policy to be operational quickly.

v. Leverage our large purchase from foreign suppliers against the Offsets.

vi. Constitute a Sub-Committee consisting Mr. Jamshyd Godrej, Mr. Baba Kalyani, Mr. A.M. Naik, Secretary, DIPP and Member Secretary, NMCC to prepare a brief document on Offsets in next 3-4 weeks time to facilitate the framing of policy guidelines in this regard.

6. The meeting of the said sub-group was held on 11.01.2008. In the meeting a concern was expressed on the lack of leadership role by the private majors in the areas where offset presents opportunity. It was indicated that the private sector need to be prepared to take up the challenge of utilizing major Offsets in case of a breakthrough in the policy front. The issue of engaging large number of small units involved in advance technology products also came up for discussion. It was suggested that the potential of the many small and medium size players making advance technology products for export which have to be harnessed for making complete products for the Defence from end to end. The suggestions made in the Sub-group include;

- Jumpstarting private sector participation in defence production by notifying Raksha Udyog Ratnas (RUR's) to provide a level playing field which could enable building of scale, create platforms for technology transfer, develop indigenous capabilities and build export competitiveness.
- India's offset policy must be framed on the basis of global best practices. It should therefore provide for indirect offsets in other high technology areas of critical importance to India besides defence such as conventional and non-conventional energy, space, and commercial aviation industries.
- In the above high technology industries, higher offsets than the prescribed 30%, say 40% may be mandated.

- Co-terminus offset obligations are delaying expeditious implementation of offsets. Policy needs to provide for a 10 year banking of offsets.
- Transfer of Technology should not be included as part of offset obligations. Technology flows should be routed through normal RBI channels or be included as part of FDI.
- Policy should be fully inclusive and facilitate SME's participation.

III. Discussion with the DRDO Review Committee

7. To further broaden the scope of industries participation in the production of defence related products, a meeting was held by the Chairman, NMCC, on 7.02.2008 with the DRDO Review Committee under the Chairmanship of Dr. P. Rama Rao. Dr. M. Natarajan, Scientific Adviser to Defence Minister also participated in the discussion for involving the private sector with the DRDO for technology and product development. In the discussion, the Secretaries of the department of S&T, DSIR, and DIPP, and the members of the Council from the Industry and representatives of the apex associations like CII, FICCI were also participated. The DRDO Review Committee is at present studying key issues of product development to build confidence and competency in production of defence related items in partnership with the industry which can help in reducing country's dependence on imports. The DRDO Review Committee is examining following areas for increasing domestic production of various defence products:

- To develop synergistic cooperation with sister R&D agencies and academia to keep pace with advances in science & technology and to ensure immunity against denial regimes.
- To maximize technological appreciation and knowledge from user trial, test, and evaluation and in service use of imported equipment and stores.
- To utilize private industries for development of enabling technology, design, and proof- of- concept research.
- To recommend measures to ensure that a certain percentage in value acquisition in ongoing and futuristic efforts to indigenously build industrial capability in India.

8. While the efforts being made by the DRDO towards increasing efficiency in various segments of the defence manufacturing sector for meeting the future eventualities of the country was appreciated in the meeting, the production of relevant advanced technology products was emphasized considering the vast potential of defence production through indigenization which is estimated to be 40% of total defence expenditure of 1 lakh crore spent on acquisition of various defence equipments. The best option for the country, it was felt, is to develop indigenously the

technology so that the technology competency can be achieved as successfully demonstrated by countries like Israel through concerted efforts.

In the meeting the following points were suggested:

- Partnership with the industry for delivering the output through joint development approach.
- Preparedness of the private sector to freely engage in the areas of advanced manufacturing.
- A more active role for the private sector in design and production areas.
- Liberal approach from the DRDO in engaging the private sector into the hitherto restricted areas of defence equipment development and production.
- To undertake future actions based on detailed interactions on specific issues by forming focused groups involving the main actors viz. the user (concerned defence services), the MOD, and the interested private industry groups.
- To arrive at a formal mechanism at the higher level for operationalizing the working environment between the private sector and the defence PSUs under the DRDO guidance.
- To formulate a working arrangement for implementing and pursuing the programme of advancement of critical technology areas in domestic manufacturing.
- To take 4 to 5 projects and award it for creating competition between public and private sector.
- DRDO should be focusing on development of the cutting edge technology through utilizing its highly competitive and talented human resources.
- The private sector should be used for commercial production including engineering to achieve cost efficiency.
- The DRDO should initiate strategic partnership with the Indian private sector on product to product basis.
- A business model should be evolved to engage the private sector optimally by utilizing the existing R&D infrastructure on a production-operation lease basis.
- The private sector should come forward to given professional allowance for the best talents while utilizing them in specific joint project with the DRDO or DPSUs.

IV. Issues for Discussion:

- To arrive at a formal mechanism at the higher level for operationalizing the working environment between the Private sector and the Defence PSUs under the DRDO guidance.

- A possible approach for early notification of the Raksha Utpadhan Ratnas (RUR's) to create new platforms for technology transfers and build export competitiveness with active participation of the private sector in defence production.
- Identifying ways for the quick use of Offset as an instrument to leverage for promoting local industry through various options such as licenses, production, Transfer of Technology, Co-development in the defence procurement process.

- A liberal approach from the DRDO in engaging the private sector into the hitherto restricted areas of defence equipment development and production.
- Need for initiating strategic partnership between the DRDO and the Indian private sector on product to product basis.
- Evolving a business model to engage the private sector optimally by utilizing the existing R&D infrastructure on a production-operation lease basis. E.g. to take 4 to 5 projects and award it for creating competition between public and private sector.
- Mechanism for development of indigenous capacity and capability based on global best practices for critical raw materials and specific metallurgies and grades/standards which can be used for advanced defence products being imported now.
- Partnership with the industry for delivering the output through Joint development approach with a more active role for the private sector in design and production areas.
- Preparedness of the private sector to freely engage in the areas of advanced manufacturing and fully utilizing its role in commercial production including engineering to achieve cost efficiency.
- Creation of a national data base for material substitute to facilitate the new design paradigm.
- Facilitation of SMEs participation to make the production system robust instead of keeping the niche players as more venders.
- Entitling software companies to the benefit of offset credits for supplies made in terms of software use in the absence of licensing conditions for the software Industry.
- The issue of inclusion of Technology Transfer (ToT) as part of Off-set obligations. Indirect offsets in other high tech areas besides defence.
- Formulation of Sunrise and Sunset clauses, tradability.

The Following Points were made by the Council Members:

On Chinese Manufacturing Imports:

Shri Venu Srinivasan, commenting on the Chinese manufacturing onslaught both in the Indian as well as global market said that he is at a loss to suggest any strategy for the Indian manufacturing industry to face their competition. He said apart from being extremely innovative in bringing out attractive products at extremely cheap cost which hopefully can be tackled through appropriate design improvement and innovation by the Indian Industry, it is still unclear as to how we can face the opacity of their cost structure both at the firm level as well as at the higher macro economic level. The hidden subsidy coming to the industries from the banking sector of China as well as from their Government at the local as well as higher level give them enormous advantage. He said that it is very difficult to pin-point the same in a specific case. Therefore, Indian manufacturing by-and-large become uncompetitive against them unless the rule of the game in the larger international world completely change for total transparency and proper cost accounting standards.

Shri Srinivasan said that in his experience he has seen that whenever the Chinese manufacturing companies are involved in a joint venture with a foreign company, they adopt the international standards of the foreign partners in their costing system and in such cases it becomes comparable to that of any Indian manufacturer in the relevant field. However, whenever a Chinese company or manufacturer by itself is doing business or sending a quotation which is invariably a lump sum amount the prices are found to be always around 20% cheaper which is very difficult to explain except for linking the same to the hidden subsidy coming from the banking sector and the Government through various concessions and rebates to the Industry.

Dr. Surinder Kapur stated that a study has been undertaken on the issue of China vis-à-vis South-East Asia by the CII. The study comes out with major concerns regarding lack of domestic reforms like power shortage, labour cost, red-tapism, infrastructure, areas in which nothing very serious has been done by the Government to tackle these issues so far.

On Measures for a Comprehensive Manufacturing Policy

Dr. Surinder Kapur said that we should try to do things in our own system in a more innovative way enhancing quality and productivity which is the Indian forte and by that alone we should be able to survive both in the National market as well as selling our products and services in the International market on a very clear and transparent platform. What worries us is the inverted duty structure, the infrastructure deficiency in the country and the high transaction cost which are all solvable by appropriate Government intervention in a straight forward manner without any subsidy to any individual industry or manufacturer. Thrust of the Government should now be to have a clear-cut manufacturing vision which we lack and did not bother to create all these years even after liberalization which has created vast policy gaps in certain areas. Without an encouragement to value addition through manufacturing, it would not take place automatically. Therefore, Government should create differential treatment standards between pure trading like activity and the value addition in manufacturing which alone is the path for giving employment and creating long-term growth story for the country.

Dr. Kapur requested the Chairman and other members to see that how all our policies are directed towards domestic value addition, in a competitive model. Macro economic policies of the country also need to balance the need of the industry with the larger concern of inflation etc. if the manufacturing industry as to survive and prosper in this country. Any long-term strategy for supporting manufacturing industry would have to be achieved through strong domestic reforms. Another important issues to be looked into is skill development, R&D initiative, common facilities like tool rooms, effluent treatment plant etc. which individual industry particularly in small and medium sector can not afford. Unless Government addresses these issues nothing significantly will change. He suggested that NMCC should take initiative for formulating a comprehensive manufacturing policy if we have to forge ahead.

Dr. Amit Mitra, said that the growth rate in various sectors of the economy during the last quarters is a matter of concern. The growth rate in manufacturing sector is decelerating quite rapidly in the recent months. Cost push due to increase in the cost of raw material, increase in wage bills and rise in interest payments, of late has been phenomenal eroding the competitiveness of Indian industry. The costs of raw material have increased by 17.1%, the wage bill has increased by 22.7% and interest cost has increased by 29% over the last one year. We need to address these issues immediately. Because of all these reasons, he highlighted that the growth of manufacturing sector in January 2008 was the lowest witnessed in the current year (2007-08).

Dr. Mitra emphasized that the following three factors should be key to the competitiveness of Indian manufacturing sector at least in the short to medium term:

- o Availability of raw material at competitive rates
- o Availability of skilled manpower at competitive wages
- o Availability of finance at competitive rates

These three priority areas of intervention should be targeted by the Government to reverse the slowdown in the manufacturing sector. There is also a need for procedural reforms which are very important for the healthy and sustainable growth of the Industry. An audit of the progress made by States in reforms is to be attempted to give a good pointer to the future investment flow also. Also Innovations at all levels should be encouraged and fostered with the help of scientists of Department of Science & Technology and others. A FICCI study shows that productivity is not uniform accross all firms in the same industry. The Government in this regard should create an appropriate Innovation Policy complemented by regulatory framework and financial support for encouraging private sectors to innovate and undertake riskier initiatives. There is also urgent need for quick decision making. There is a need to have a Committee/Taskforce to see that project clearances are given in shortest possible time. He requested the PM's Group under Chairman, NMCC to look into from the long term perspective is development of Manufacturing Investment Regions (MIRs). The MIRs could provide world class infrastructure and integrated facilities to the manufacturers. Already, such a policy is there for petrochemical sector (PCPIR) and IT Sector also which is looking at promoting such regions for electronics hardware sector. The same model can be replicated for Textiles and other sectors also. If such sector specific manufacturing regions can be promoted and developed fast, it will go a long way in strengthening the manufacturing sector. Dr. Mitra said that the Group needs to look sincerely into the following areas:

- Technology road map in PPP Mode
- Raw material availability in a holistic manner
- Speedy project clearance
- Appropriate monitoring of projects
- Productivity enhancement initiative.

Shri Mukul Kasliwal agreeing with the view of Dr. Mitra said that States like Andhra Pradesh, Gujarat and Tamil Nadu are bringing about reforms whereas States like Maharashtra and Madhya Pradesh are left far behind in reforms. Therefore, the results are showing very clearly.

Dr. Uma Reddy referring to the concern of MSME sector stated that at the starting level of small enterprises, no schemes are available for growth of this sector. She stated that in the past meetings have been held on skill and labour issues to address issues of training problems for imparting, basic engineering skills and for re-skilling of staffs. She mentioned that MSMEs and DG&ET are working on these issues; but more needs to be done in terms of effective networking and involvement of small scale industries. Unless the skill shortage issue is immediately addressed small industries which are under tremendous pressure now both from demand and supply side will find it difficult to manage. ICT applications should be encouraged for MSMEs and affordable software like e-module on skill development should be available to this sector at reasonable cost as they cannot afford costly software for their operation. In response to ICT application and usage in the small and medium enterprises, Member Secretary said that it would be helpful if she can interact with DC, SSI who is grappling with ICT intervention strategy under NMCP now.

Dr. Anwarul Hoda, Planning Commission stated that in his analysis deceleration in manufacturing growth during the last 3 quarters has been mostly due to increase in raw material cost. In this regard Planning Commission has isolated 3 areas; these are commodity price increase including food price increase, wage increase due to inflation, and skill shortage. The increase in the raw material price including food price is due to global shortage. The Planning Commission is feeling a bit helpless as to how this issue can be tackled by way of appropriate intervention at various levels. Another cause for concern is rise in interest rates. It is causing double disadvantage to most of our vulnerable labour intensive sectors when rupee has also appreciated so much in the recent past. The industry must come up with good ideas since Government alone cannot come up with any plan to solve this huge range of issues by itself as the major global contributing factor is beyond its control. There is also the issue of skill deficit for which suitable mechanism of skill development must be planned out to quickly bridge the large difference. There have been certain pilot projects like the programme of Leather Design which have been very successful. The skill Development Mission announced in the last budget would be of good help in this regard. He further said that labour laws need not be applied to small scale sector at all to give them respite at least from one of the many problems impacting the sector.

Secretary, Heavy Industry stated that the Government should create a long-term policy to develop and promote capital goods industries which is the backbone for the entire manufacturing sector. This sector after showing a very good growth in the earlier 3 years has now started losing momentum due to reasons mentioned by Dr. Mitra and Mr. Hoda. He said that the long-term solution in this regard could be articulated by way of a comprehensive National Manufacturing Policy clearly spelling out all aspects of the matter.

Dr. Brahmachari, D.G., C.S.I.R suggested the following measures to increase manufacturing growth in the country:

i. *Promotion of energy efficiency linked to lower taxation on Green manufacturing process*
ii. *Promotion of nano technology*

He said that there is a need for focus on energy efficient manufacturing which needs to be incentivized. This is directly linked to adoption of clean technology methodology by the industry across all sectors. Such a strategy has many benefits at the farm level including lower long term cost. This also has the potential to position Indian manufacturing sector as a clean process production system juxtaposed to dirty and environment unfriendly production system of China. This approach will give Indian manufacturing a clear edge over our competitors in the international market. He said that if this has to happen, we need to create a taxation regime which should link better technology and power saving manufacturing techniques to lower taxation. All the Govt. schemes for helping manufacturing need to be redesigned and better focused. There is a need for intervention of a new kind by creating appropriate incentive structures.

DG, CSIR said that there should be no permission for import of drugs of any kinds from across the borders from countries like China which kills domestic industry through their predatory pricing. Thereafter, they get a free run in the absence of any domestic competition. He said that there is a need to have a pro-active strategy in this regard. He was also of the view that to tackle the increased problem created by import of Chinese goods to our domestic Industry, the National Manufacturing Policy should be put in place with the long-term approach. For promoting innovation, he said that there should be flexibility to allow the scientists working in Government research institutes to hold equity wherever their patent has potential for commercial production. In this context he suggested that the technology and patents developed by CSIR and individual scientists should be invested as equity in the private commercial sector in stead of asking for the total cost of development as an upfront payment from the private players. By this mechanism it will help both the individual scientists as well as private sectors to quickly commercialize many innovations and technologies which remain in the laboratories in the absence of easy commercial model for attracting the private sector to use it in a win-win commercial model.

Member Secretary, NMCC said that on China issue, the situation needs close watch as agreed to by almost all the Members. He said that a special focus on China will have to be attempted in our long-term policy suggestions. He pointed out that on the Defence Offset Policy there are immense potential for the private sector to join hands with the DRDO. He said that issue of lack of linkage between technology development and commercialization of various defense equipments needs to be addressed. With flow of knowledge from the DRDO to private commercial sector, it should help to reduce the larger dependence on imports of defence equipments in the future.

Chairman, NMCC stated that he has taken note of the suggestions given by the members. The NMCC will make all efforts in recommending various measures to be taken by the concerned Departments on the issues raised and discussed to-day. He commented that so far we have discussed the things that Government ought to do; but what the industry must do has also to be thought of as the Government alone cannot solve all the problems. He said that the large industries and small industries have a clear divide between them. Large industries have the strength to withstand the present turmoil; but not the small industries. Therefore, he said that there is a need to see that small and medium industries are given a special focus so that they survive as small scale sector provides large scale employment to our masses.

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