

F. Sixth Meeting of the NMCC held on 18th August 2006.

Dr. V. Krishnamurthy, Chairman, NMCC welcomed the participants at the new premises of the NMCC and said that the work done so far by the Council has been appreciated by all concerned. He mentioned that the NMCC should continue its work with the same vigour. He said that building competitiveness of the Indian manufacturing sector was not a one-time affair. It is a long-drawn out process and that there were several sectors needing attention. He, however, stressed that prioritization is required and NMCC should focus their attention to such priority areas for the next six months.

Dr. Krishnamurthy informed of the formation and the First meeting of the High Level Committee on Manufacturing (HLCM) held on 4th August, 2006 under the Chairmanship of the Hon'ble Prime Minister. The National Strategy for Manufacturing prepared by the NMCC was adopted formally for its implementation at the above meeting. The High Level Committee discussed the sectors which should be accorded priority. It was decided that to begin with Textiles & Garments, Food and Agro Processing Industries, Leather and Footwear, IT Hardware & Electronics, Skills Development and problems of Small & Medium industries including Cluster development should be the areas in which further action should be taken immediately.

The Chairman also briefly informed about the interactive session held with the Investment Commission in order to identify areas/sectors of mutual interest wherein Investment Commission and NMCC could work together. He said that among others Textiles and Garments, and Food and Agro Processing sectors were identified by the Investment Commission as priority areas. In addition, it was felt that among infrastructure, power sector could be another area where the two agencies can work together. It was agreed that the NMCC and the Investment Commission would continue to coordinate their work through periodic discussions for ensuring the growth of investments in manufacturing sector.

He further informed about the interaction with the Planning Commission regarding the approach to Eleventh Plan and the presentation made by the NMCC to the Prime Minister's Council on Trade and Industry.

The Member Secretary then introduced the Agenda items and mentioned that the first meeting of the HLCM took place on the 4th of August, 2006 and in the meeting, the National Strategy for Manufacturing (NSM) was adopted. It was decided that all efforts should

be made to implement the recommendations contained in the NSM. It was also decided to constitute an Empowered Sub-Committee to be headed by the Chairman, NMCC, which will take up specific sub-sectors for detailed studies and come up with specific issues to be addressed. The recommendations of the Empowered Committee would be put up to the HLCM for decision. He also briefly explained the present status in respect of all the other items on the Agenda.

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

The first agenda item: Progress of work since the last Meeting on April 5, 2006. The following are the highlights of the agenda item:

1. High Level Committee on Manufacturing:

The most important development after the 5th Meeting of the NMCC held on 5th April, 2006 was the setting up- of the High Level Committee on Manufacturing (HLCM) under the Chairmanship of the Hon'ble Prime Minister. A copy of the notification dated 10th April, 2006 is at Annexure-A. A separate agenda item in this regard is put up as Agenda Item No.2.

2. Investment Commission:

In order to identify areas/sectors of mutual interest wherein Investment Commission and NMCC could work together, the Three-Member Investment Commission led by Shri Ratan Tata called on the Chairman, NMCC on 7th July, 2006. During discussions, it was found that there is a commonality in respect of a number of areas between the works being done by the two organizations. A separate item on the Agenda is put up for the NMCC meeting as Item No.3.

3. Skill Development

In order to review the status of action taken on the issues discussed in the previous meetings and the plan of action for attaining the higher growth and employment generation, the Chairman, NMCC, took meetings on the Skill Development Sub-sector on 26th April, 2006 and 21st July, 2006.

3.1. The conclusions of the 26th April, 2006 meetings were:

- i) FICCI's study on 100 ITIs has shown the problem of present system. This needs to be examined by the DGE&T and appropriate remedies suggested for implementing across the Board for the success of the scheme.

- ii) As many of the existing 5000 ITIs as possible need to be covered in the Public Private Partnership mode in a time bound manner. A scheme needs to be prepared for phased implementation.
- iii) There is general complaint that the existing system for making suitable changes in the curriculum is cumbersome and needs to be reformed on a priority basis to enable the ITIs to meet the changing needs of the industry.
- iv) Suitable policies for making certification meaningful need to be worked out.
- v) Setting up of new ITI's in the private sector to be encouraged. A policy towards this need to be worked out as early as possible.
- vi) The average number passing out of ITI's works out around 140 to 150 per ITI per annum, i.e. that there is extremely low utilization of Government assets and infrastructure. This matter need priority, as it is possible to double existing out turn with some additional physical and human infrastructure.

3.2 In the review meeting taken by the Chairman, NMCC on 21st July, 2006 the following emerged:

- (i) Progress made in respect of some of the ITI's selected less than 100 ITIs scheme, mainly remained symbolic.
- (ii) The Ministry has to draw up an Action Plan urgently to meet the projected shortage of about 1 million people at the lower end of skill development, i.e., short-term training requirements as well as ITI level.
- (iii) In the preparation of the Action Plan, an assessment of the training being imparted by various other ministries should also be taken.
- (iv) The Action Plan should list activities for time bound implementation.
- (v) The quality and relevance of the training being imparted needs to be assessed.
- (vi) A co-ordination mechanism needed to enable each of the stakeholders to know their role and discharge the same.
- (vii) Skill development being one of the most important requirements, the status of progress in this regard would be very shortly put up to the High Level Committee on Manufacturing chaired by the Prime Minister. It would be helpful if the Department of Labour prepare a note stating their plans for meeting the requirements of the industry in this regard.

4. Ports & Ship building

4.1 A meeting on the Ports and Ship Building Sectors was taken by Chairman, NMCC on 28th April, 2006 to discuss various issues relating to the Ports sector and Ship building Industry, the impediments coming in the way of attracting investment in these sectors and the difficulties being faced. At the conclusion of the meeting, it was decided that:

- (i) The Ministry of Shipping will set up a task force which would study issues and problems in Ship Building Industry to improve the industry so that India becomes a major ship building nation and come up with proposals within 2 weeks.
- (ii) On the Ports side the Ministry assured that the views expressed in the above meeting on expansion of ports and developing giant ports for future needs would be incorporated suitably in the Maritime and Port development policy and further action taken very quickly.

5. Electronic Hardware

5.1 A delegation of the FICCI Electronic Hardware and Members of the CEHA (consisting of major Electronics Hardware Associations such as ELCINA, MAIT and CETMA) met the Chairman, NMCC on 2nd May, 2006 and gave a presentation on the status of the industry. The issues such as tax structure particularly with regard to imports of computer and electronic hardware into the country; Central Sales Tax / multiple taxation on the indigenous hardware; low indigenous value addition and high imports etc were raised by the industry. It was decided that the Industry will come up with a suitable plan that can generate revenues as well as create employment in two weeks time. NMCC would take up the issues expressed by the Industry with the concerned authorities in the Government on merits for further follow up action in consultation with the Department of Information Technology.

5.2 On 6th July, 2006 the Chairman, NMCC took a review meeting of the above sub-Group. In conclusion it was decided that:

- (i) The Industry to work out some proposal for compensating the revenue loss and to accord priority to promote the growth of sector and employment;
- (ii) A working group comprising of representatives from the Department of Information Technology and Industry shall be set up to prepare a plan for the growth of industry and submission of the same to NMCC; and
- (iii) DIT will prepare a detailed paper on the lines of the discussions and submit the same to NMCC in 7 to 10 days' time.

6. Innovation and R&D:

6.1 A meeting of the Sub-Group on the Innovation and R&D Policy on Manufacturing was taken by Chairman, NMCC, on 16th May, 2006. The Department of Scientific and Industrial Research made a presentation on the status of the present policies with regard to Innovation and R&D. After detailed discussions the following points emerged for taking further action:-

- (i) Sustained scientific advancement and innovation is the key to improve India's competitive edge;
- (ii) India should Benchmark the existing capabilities and develop a major 10 year initiative for Science, Research, Design and Innovation taking into account the country's needs and the views expressed in this meeting;
- (iii) The attempt should be to ensure a national movement to bring in the scientific temper into manufacturing sector and encourage innovation;
- (iv) Department of S&IR may prepare a concept paper urgently which can be the basis for discussion at the next meeting to be called in the first week of July 2006;
- (v) The concerned departments namely, the DST, DBT, DRDO, and HRD may also send their inputs to the NMCC as well as DSIR. These will be discussed at the next meeting to be held in the first week of July, 2006.

6.2 It may be mentioned that in the last meeting of the NMCC held on 5.04.2006 Dr. R.A. Mashelkar DG, CSIR had offered to give a detailed note on the subject for encouraging R&D and Innovation in industry based on his experience for the NMCC to take up suitably. The concept paper from the DG, CSIR on Innovation & R&D for the manufacturing sector is awaited.

7. Auto-Components:

A review meeting of the Sub-Group on Auto-components and Capital Goods was held on 22nd May, 2006 under the Chairmanship of Dr. V. Krishnamurthy. A presentation on the status of the automotive industry was made by the Department of Heavy Industry. After detailed discussions the following points were noted for further action:-

- (i) it was noted that the current year Budget has recognized that India should become Automobile Manufacturing Hub with domestic employment as an objective. Therefore, efforts by the Department and the Industry need to act accordingly;

- (ii) there was need to ensure that the Auto Component Industry becomes competitive since it generates substantial employment. The issues relating to RTAs/FTAs and SEZs need to be studied;
- (iii) skill building is an important issue. Timely action to develop well trained technicians is at the core of the future of the Industry;
- (iv) the Industry and Government need to work for larger investments in R&D, through appropriate policies;
- (v) there is a need for putting together information on the Auto policies of competing countries. It was felt that ICRIER could be approached for the purpose. This report once commissioned would provide inputs for periodic review of policy; and
- (vi) the draft report of the Department of HI on Auto Industry would be got ready by about the middle of June 2006 and sent to the NMCC for their preliminary views.

8. Textiles and Garments:

8.1 A review meeting of the Sub-group on Textiles and Garments was taken by the Chairman, NMCC on 24th May, 2006 to take stock of the work done in the above sectors since the last meeting held on 18.11.2005. After detailed discussions the following points emerged for further action:

- i. Textiles and Garments sector has been accorded high priority in view of the potential it has for high growth as well as provision of employment. The last two budgets have given special treatment to the sector and now it is for the sector to respond and ensure that the objectives are achieved.
- ii. In the earlier presentation specific target of achieving 8% of global trade and specific employment to be created by 2010 were mentioned. The view of NMCC has been that 8% target is too conservative in the light of opportunities available and at least 10% level should be aimed at. The Department may work towards this. Reviews need to be made regarding the progress with reference to the targets set by the Department itself at the least in respect of investment, production and employment. The targets should be split into annually reviewable indicators.
- iii. A fact has clearly come out that while the world trade is shared at 45% by cotton based textiles, garments, the Man Made Fabric (MMF) share is round 55%. However, India's exports show a share of 85% for cotton and 15% for MMF. Since production of

cotton cannot be increased by huge quantities in a short period, if the overall global targets are to be achieved a substantial shift towards production of MMF at competitive rates quickly is essential. Otherwise, the potential available in the global markets would be lost. The Department of Textiles needs to urgently analyze and attend to this issue.

- iv. Similarly, more attention needs to be paid to investments in garment sector which provides maximum employment. It is understood that less than 20 per cent of the units covered by the new cluster development scheme appear to be in garment sector. Specific attention is needed in regard to developing garment sector as a whole on an urgent basis.
- v. It is necessary that given the investments likely to be made in the Textiles and Garments sector, the capacity of textile machinery manufacturing within the country requires to be urgently reviewed in order to increase domestic supply. Currently only 12 to 15% of total investment in new plant and machinery is from the domestic sector. Urgent action to attract investments including FDI should be explored.
- vi. Skill development has been identified as an important element in the development of the sector. The Department would need to come up with specific requirements in each of the States which are prominent in the Textile sector and co-ordinate with Labour Ministry in implementing the new ITI scheme launched by this Government. A clear programme needs to be developed in consultation with the Industry. Training centres need to be established.
- vii. The Department may come up with a plan of action by the 20th June, 2006 in respect of all these aspect and send it to the NMCC.
- viii. Given the high importance given by Government particularly from the point of view of employment creation, this sub-sector is likely to be one of the first to be received at the newly created High Level Committee on Manufacturing by the Hon'ble Prime Minister.

9. Food Processing Industries:

9.1 A review meeting of the Sub-group on Food Processing Industries was taken by Chairman, NMCC on 24th May, 2006. In sum the following points emerged for further action by the Department:-

- (i) FPI is a priority sector for the Government as indicated in the NCMP and the Budget. Hence it was necessary for the

department to come up with a credible action plan covering a period of 10 years with phasing.

- (ii) The department already has a detailed report on the sector. FICCI has also done extensive work. What is needed is to develop a clear action plan of 10 years with two phases of 5 years each for implementation.
- (iii) Almost all states are interested in this sector and they should be taken on board appropriately. Some states have already amended even the APMC Act also.
- (iv) Implementation of the Action Plan could be through Mission Mode.
- (v) The Prime Minister has constituted a High Level Committee for Manufacturing (HLCM) under his chairmanship and the Committee is likely to meet shortly. Food Processing Industry being a priority sector, it is likely to be taken up for review as early as possible. Hence the Department may speed up the action.

10. Leather and Leather Products:

A review meeting of the Sub-Group on Leather and Leather Products was taken by the Chairman, NMCC on 26.5.2006. In conclusion the following points emerged for further action:

- i. That leather and products was the first sub-sector taken up by the NMCC in January, 2005 and most of the points mentioned were also mentioned then.
- ii. The timelines in respect of the activities mentioned in the Action Plan prepared by the Department of Industrial Policy & Promotion (DIPP) need to be related to the target of \$ 7 billion exports by 2010 and the total production required to achieve the same. Progress of implementation should be closely monitored.
- iii. The Action Plan is concentrating on a part of the sector. Footwear and footwear components are an important part of the sector and need to be included in the overall programme.
- iv. It is not clear what has been the actual investment that has taken place during 2005-06 and whether it is in line with the targets. What is the employment generated? These need monitoring.
- v. It is necessary is to create appropriate conditions domestically to enhance competitiveness of the Industry. Action should be taken accordingly. Action should be taken accordingly.

- vi. The progress regarding the Rs. 290 crores project of for Tannery modernization requires to be substantially speeded up since the current year is the last year of the Plan.
- vii. DIPP should take into account all these comments including those conveyed earlier to Secretary DIPP by NMCC and come up urgently with an implementation Plan.

11. Chemicals & Petro-Chemicals

The Chairman, NMCC took a review meeting of the Sub-Group on Chemicals & Petrochemicals on 18th July, 2006. A presentation was made by the Department of C&PC on the status of the work done since the last meeting of the Sub-group. In conclusion, the following emerged:

- (i) The growth of chemicals and petro-chemicals industry as well as fertilizers and manmade fibre industries would depend predominantly on the adequate availability of feedstock at competitive prices. Hence approval of feed stock policy with a long term horizon is essential.
- (ii) The Petroleum, Chemicals and Petro-chemicals Investment Regions (PCPIR) concept is welcome. However, even its success would depend on availability of feedstock.
- (iii) It was necessary given the predominant role that these sectors play in growth of manufacturing, a policy and action plan which addresses all these issues for time bound implementation needs to be prepared and an integrated view needs to be taken.
- (iv) It was agreed that since Secretary Chemical & Petrochemical was not able to attend the meeting due to unforeseen circumstances, a full meeting may be organized in two weeks time where all issues raised would be discussed by NMCC.

12. Meeting of the PM's Council on Trade & Industry:

12.1 A presentation was made by NMCC to the PM's Council on Trade & Industry on 20th July, 2006. In his concluding remarks the Hon'ble Prime Minister while complimenting the valuable work done by the National Manufacturing Competitiveness Council(NMCC) and the Investment Commission added that the two reports give a comprehensive account of the kind of initiatives required to be taken to bolster our manufacturing sector. He wanted the C&IM and other relevant Ministries to study these reports carefully and bring before the Cabinet relevant policy proposals on which the Government can act. He also suggested that these reports should be sent to Chief Ministers so that State Governments are aware of the organizations' thinking on these issues.

12.2 The Hon'ble Prime Minister in his concluding remarks at the meeting of the Council on Trade & Industry said "I am grateful to Shri Krishnamurthy, and the Members of the National Manufacturing Competitiveness Council, and to Shri Ratan Tata, and Members of the Investment Commission, for the valuable work they have done. I am also grateful to all of you for your comments and suggestions. I think in the two reports we have a comprehensive account of the kind of initiatives we must take to bolster our manufacturing sector".

13. Engagement with States:

13.1 As part of its strategy NMCC has continued engagement with the State Governments. To start with four States have been selected for interaction, namely, Andhra Pradesh, Bihar, Punjab and West Bengal. Out of these beginnings have been made in Andhra Pradesh and Bihar. Chairman, and Member Secretary, NMCC met with Chief Minister of Bihar on 8.04.2006 to discuss issues relating to revival of industrial activities in the State and the need for co-ordination on various aspects with the NMCC in this regard. It was pointed out that Bihar would require large scale investments in manufacturing sector since the share of manufacturing the State GDP is only about 7% in Bihar as against 17% in the country as a whole. Bihar being pre-dominantly an agricultural State, Agro and Food Processing Industries selected them as priority for the State. In addition, with substantial production of raw hides in Bihar, Leather & Leather Products could also be promoted. Textiles & Garments is another sub-sector which could be taken up on a big scale in Bihar. With its huge human resources, skill development, particularly in respect of the sectors mentioned above should be another area of priority.

13.3. The Chief Minister of Bihar agreed with the basic suggestions of NMCC and suggested that Member Secretary, NMCC could make a follow up visit to Bihar to further the process. The Member Secretary and Joint Secretary, NMCC visited Bihar on the 3.05.2006 and attended the meeting of officials convened by the Chief Secretary, Bihar. In the meeting various aspects of developing industry in Bihar has been discussed. Based on these the State government would be preparing a blueprint for developing manufacturing industries in the State. It was also felt that resource mapping could be done for identifying further areas in which Bihar could work on. A copy of the minutes of the meeting is at **Annexure-B**.

The second agenda item: First Meeting of the High Level Committee on Manufacturing (HLCM) - A Brief The following are the highlights of the agenda item:

The First Meeting of the High Level Committee on Manufacturing was held on August 4, 2006 under the Chairmanship of the Hon'ble Prime Minister in PMO. South Block, New Delhi. Chairman NMCC is the Member Convener of the HLCM and NMCC provides the Secretariat Assistance to the Committee. Following Members were present in the above meeting: Shri P. Chidambaram, Minister of Finance; Shri Kamal Nath, Minister of Commerce & Industry; Shri M.S. Ahluwalia, Dy. Chairman, Planning Commission; Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister; Shri T.K.A. Nair, Principal Secretary to Prime Minister, Dr. V. Krishnamurthy, Chairman, NMCC and Member Convener, HLCM

2. The following permanent invitees were also present: Shri V. Govindarajan, Member Secretary NMCC; Dr. Adarsh Kishore, Finance Secretary, Ministry of Finance; Shri S. N. Menon, Secretary, Department of Commerce; Shri Anupam Dasgupta, Secretary, Ministry of SSI&ARI; Dr. Ajay Dua, Secretary, Department of IPP; Shri Priyadarshi Thakur, Secretary, Ministry of Heavy Industry & PE ; Dr. D. Subbarao, Secretary, Economic Advisory Council.

3. Important decisions were taken in the HLCM meeting:

- i. The National Strategy for Manufacturing (NSM) as proposed by the NMCC was adopted. It was also decided that all efforts should be made to implement the recommendations contained in it.
- ii. a) An Empowered Sub-Committee of the HLCM may be constituted with Dr. V. Krishnamurthy as its Chairman. The notification regarding constitution of the Sub-Committee giving its composition and terms of reference would be issued by the PMO separately later.
- b) To begin with, work on the following sub-sectors/generic issues may be completed on priority and brought before the HLCM:
 - Textiles and Garments
 - Food & Agro Processing
 - Leather and Footwear
 - IT Hardware and Electronics
 - Skills Development
 - Problems of small & medium industries including cluster development.

The third agenda item: Meeting with the Investment Commission

The following are the highlights of the agenda item:

In view of the complementarity of the work of the Investment Commission and of the NMCC, a meeting between the Chairman, NMCC and the Chairman and the Members of the Investment Commission(IC) was held on the 7th July, 2006. The two sides discussed in detail the areas in which both could work to enhance the competitiveness of the manufacturing sector as well as increase investment and thereby generate more employment. Out of the four areas identified by the Investment commission, Textiles & Garments and Food & Agro Processing sectors are also in the priority list of the NMCC. Besides, it was felt that Power was the most important in put for manufacturing and should be taken up for combined action along with the above two sectors. The IC has suggested the desirability of taking up some big technologically challenging national programmes in the area of Bio-technology/Nano-technology by the networks, drinking water etc. which give a boost to the manufacturing also.

2. The Chairman, Investment Commission, welcomed the NMCC initiatives for building up a world-class mega port as well as building a yard for manufacturing super size vessels for carrying goods given the potential demand. The Members of the Investment Commission expressed their concern regarding the delay in environment clearances by the Government. They suggested that the Government may earmark 20 to 25 sites with all clearances for setting up power plants and similar mega plants. It was their view that if the power scenario in India improves quickly investments will automatically flow into the country.

4. After detailed discussions, it was agreed that:

- (i) the NMCC and Investment Commission would co-ordinate in respect of Power, Textiles and Garments and Agro processing sectors which are identified as National Thrust Areas;
- (ii) the NMCC and the Investment Commission will work jointly for the growth of manufacturing sector and employment generation;
- (iii) the NMCC would pursue on their own with the Department of Shipping and Ports in respect of the Technology challenging projects; and
- (iv) in the selected sectors NMCC would take the lead and Investment Commission would support by facilitating investment, marketing etc.

The fourth agenda item: Special Economic Zones (SEZs) Policy and Implementation: The following are the highlights of the agenda item:

The Government of India has formulated with a Special Economic Zones (SEZs) Policy to make SEZs an engine for economic growth supported by quality infrastructure and leading to generation of substantial employment.

A presentation on the SEZs' policy and implementation will be made by the Commerce Secretary, Government of India. A background note on the SEZs based on the material received from the Department of Commerce is enclosed as **Annexure - C** for information.

The fifth agenda item: National Manufacturing Competitiveness Programme (NMCP). The following are the highlights of the agenda item:

The Government has announced the formulation of a National Manufacturing Competitiveness Programme (NMCP) in order to revive the manufacturing sector, particularly small and medium enterprises (SMEs) in the Budget speech 2005-06. Accordingly, the components of the programme was conceptualized and finalised by NMCC along with relevant stakeholders like the Ministry of SSI after incorporating suitable inputs from the stakeholders. The current year's Budget speech 2006-07 mentions that "The National Manufacturing Competitiveness Council (NMCC) has finalized a five-year National Manufacturing Competitiveness Programme. Ten schemes have been drawn up including schemes for promotion of ICT, mini tool rooms, design clinics and marketing support for SMEs. Implementation will be in the PPP model, and financing will be tied up during the course of the next year - Para 68."

2. The Ministry of SSI has been implementing several schemes for the growth and development of the small scale industries. Recently they have finalised a comprehensive package for promotion of micro & small enterprises. The relevant schemes out of the above package for increasing the competitiveness of the micro and small enterprises in India relate to technology and quality upgradation support, marketing support and entrepreneurial and managerial development. The package needs to be implemented and those of the schemes having particular relevance for increasing the global competitiveness of Indian SMEs need to be supplemented and strengthened. Some of the elements of the proposed package relating to technology and quality upgradation support for entrepreneurial & managerial development and market support which have a direct bearing for enhancing competitiveness of the Indian manufacturing industry have been taken up under the National

Manufacturing Competitiveness Programme. The NMCC has sent the National Manufacturing Competitiveness Programme (NMCP) to the Ministry of SSI on 3.1.2006 for getting the formal approval in view of fact that bulk of the beneficiaries are small and medium enterprises. The NMCP is being processed by the Ministry of Small Scale Industries (SSI).

3. The present status of the NMCP sent by the Development Commissioner (SSI) is at **Annexure-D** for information.

The sixth agenda item: Future Work Programme of the NMCC The following are the highlights of the agenda item:

The 5th Meeting of the Council considered a detailed work programme of the NMCC. Discussions were held to finalize the items sketched out in the work programme. The following are in the process of finalization, namely, (I) Monitoring of the Indian Manufacturing Sector to be done by Centre for Monitoring Indian Economy (CMIE); (II) Research Study on "Competitiveness of Indian Automobile Industry" to be conducted by the Indian Council for Research on International Economic Relations (ICRIER); and (III) Study on Productivity and Export Competitiveness of Indian Manufacturing Sector by National Productivity Council (NPC). These three proposals are summarized below:

I. Monitoring of Indian Manufacturing Sector

It seeks to provide a comprehensive solution to the economic and business information requirements of NMCC. The service, called I-cube, makes available to the organization all the CMIE standard database products on a server at the premises of the organization. It includes (a) databases and associated query software, (b) powerful computers required to host these databases and (c) the full-time services of a team of Information Specialist. The full set of databases offered under this service is listed below:

(1) Macro Economic databases:

- *The Economic Intelligence Service (EIS)* is designed to present an analytical macroeconomic view of the Indian Economy. At the core of this service is Monthly Review of the Indian Economy.
- *Business Beacon* is a comprehensive time-series database on the Indian Economy. It contains 9808 economic indicators which are updated daily, weekly, monthly, quarterly, cumulative and annual.
- *International Economic Statistics* is a database of about 630 indicators for the 200-odd countries and regions of the world. This service is designed to help the users gain an India-centric view of

the world as well as recent performance and trend of all the countries of the world.

(2) Sectoral databases:

- *Industry Analysis Service (IAS)* provides an up-to-date database and an incisive analysis of what the numbers speak. It presents detailed data on production, trade, consumption, inventories, prices, financial performance, and investments etc. of the industries.
- *India Trades* presents India's official foreign trade statistics and related data in a user-friendly and software-enabled database.
- *Indian Harvest* is a database of the wide variety of crops cultivated in India. It provides detailed data on area, production, yield, farm-harvest prices, value of output of crops, use of fertilizers or other inputs etc.

(3) Firm-level databases:

- *CapEx* is a unique database on new and ongoing investment activities in India. These are investments into capacities being created by setting up new plant and machinery.
- *Prowess* is a database of large and medium Indian firms. It provides quantitative information on production, sales, consumption of raw materials, energy etc.
- *First Source* is a database on the financials of companies registered in India. It is useful in locating possible business partners, potential markets for goods and services etc.
- *Alpha* is a database of mutual funds in operation in India.
- *Mergers & Acquisitions (M&A)* presents all the facts and figures relating to mergers and acquisitions and also provides a lucid description of the various deals.

(4) **Regional Monitoring Service:** presents a monthly review of the recent trends in the economy of the major States of India.

CMIE will prepare customized Industry reports for selected Industries required by the NMCC. These reports would be prepared keeping in mind the mandate of the NMCC. They would focus on performance indicators and on factors that would play a dominant role in the performance of these industries in the future. CMIE would produce a few reports every month. It would cover all Industries during a quarter and then repeat these during the next quarter, and so on, every quarter. These reports would be an extension of the I-Cube service. The total cost of the above proposed service would be Rs 12 Lakh per annum.

2. Research Study on Competitiveness of Indian Automobile Industry by ICRIER

The automotive industry is of great importance to the Indian economy. It accounts for 6% of the primary sector employment, 6.1% of the value added, 4.1% of the invested capital, and 16% of the indirect taxes paid by the sector. The Indian automobile and auto components industry is characterized by a mix of foreign and indigenous producers in the automobile sector. India in particular has a strong indigenous presence both in the assembly and auto components sectors and has also been able to attract the leading foreign producers to set up plants within India. On the other hand, given the highly networked nature of the industry, which is characterized by complex global production networks, India can emerge as a major player in the global automotive market on the basis of its domestic demand, entrepreneurial talents, technological and innovative capacity and openness to foreign investment.

To know whether India can take advantage of its large burgeoning domestic markets and other positive factors to create globally competitive domestic capacities that represent a transition to modern (mass or flow) manufacturing production methods and create much needed employment, NMCC has decided to get a detailed study done on the topic "Study on Competitiveness of Indian Automobile Industry" by the ICRIER. The proposed study will be carried out in two phases. The total duration of the study will be about 8 months. The first phase of the study is proposed to be for a period of three and a half months and will:

- (i) Undertake an analysis of the cost competitiveness and prevailing policy regime, to assess the investment climate, for the Indian Automobile Industry, based on the comprehensive review of earlier studies and secondary firm level data.
- (ii) Identify factors that influence the cost competitiveness of this industry, based on interviews and a primary survey with industry experts all over India.
- (iii) Propose some policy implications to improve the cost competitiveness of the industry.

The second phase of the study will cover the following points:

- a) Examine emerging global trade patterns in a scenario where countries are entering into preferential/free trade/bilateral/regional arrangement, based on secondary data as well as interviews with the firms of six other countries, namely China, Malaysia, South Korea, South Africa, Thailand and Taiwan, with possible collaboration with research institutions of the respective countries.

- b) Identify the strategies that Indian automobile industry should follow to achieve exponential growth and to become an important destination for automobile companies all over the world.
- c) On the basis of the analysis undertaken highlight the policy measures required to help India emerge as a major global production hub for the automobile and auto component industry in the coming decades.

3. Study on Productivity and Export Competitiveness of Indian Manufacturing Sector by NPC

Manufacturing sector has shown robust growth in the recent years, which helped Indian economy to register growth rates of 8 percent per annum. A number of manufacturing sectors such as beverages and tobacco, textile products, leather and leather products, chemicals and chemical products, and rubber, plastics, petroleum and coal benefited from the reforms, with steady growth even after the onset of recession in 1997-98. Most of the traditional manufacturing and capital goods industries experienced declining growth trends after 1997-98. However, the economy revived after 2002, and exports increased continuously, at an average rate of over 20 percent per annum throughout the post liberalization period.

As a part of the study, detailed analysis of productivity and export competitiveness of the major industry segments of the manufacturing sector which have both value addition and export potential would be carried out. The factors that are critical to productivity and/or export competitiveness of - the select manufacturing sectors would be studied in detail through industry/sectoral data analysis as well as field investigations and discussions.

The study has the following objectives:

- To identify the factors that boost (or hinder) India's international competitiveness in the manufacturing sector.
- To measure productivity & competitiveness levels in various segments of the sector.
- To find out the grey areas that the States need to concentrate to enhance competitiveness of the manufacturing sectors using State wise data.
- To analyze the productivity trends and manufacturing competitiveness among the major industry clusters.

- To find out the reasons for the low productivity and competitiveness levels of the Indian Manufacturing sector covering various identified sectors in major industry clusters.
- To provide action plan and its implementation for improving the export competitiveness of the manufacturing sector.

The methodology adopted for the present study would be based on two different approaches. The first approach is to develop sectoral reports based on secondary sources of data and review of literature. Second approach is to conduct studies based on field investigations through structured questionnaires and discussions.

Eight major manufacturing sectors have been selected for the detailed study where India has considerable value addition and export competitiveness. The selected sectors are: (1) textiles & garments (2) leather & leather products (3) auto-components (4) food processing (5) IT hardware & electronics (6) drugs & pharmaceuticals (7) gems & jewellery and (8) chemicals & petrochemicals.

In the first approach, the study team would analyze published literature related to each of the select sectors with a view to study the productivity, competitiveness (domestic and export market). Further, the study will use the State-wise data to arrive at those manufacturing sectors, sector-specific manufacturing clusters which need Special attention. The study will analyze the productivity trends and manufacturing competitiveness among major industry clusters. Apart from the detailed study of literature, the study team would compile published industry specific data for the last twenty years for each of the select manufacturing sectors from the Central Statistical Organization (CSO), which brings out Annual Survey of Industries. The compiled data would be used for the estimation of productivity and export competitiveness indicators for the selected manufacturing sectors at national and state levels using appropriate econometric tools. These indicators could be useful in framing export penetration strategies for the identified sectors. Besides, relevant data published by various state statistical bodies and apex/ sectoral industry associations like CII, FICCI, ACMA, MAIT etc. would also be utilized.

Second approach that would be adopted for the present study is based on field surveys separately for each of the select sectors. The field surveys broadly would follow the methodology adopted by the World Competitiveness Yearbook in conducting the Executive Opinion Surveys. The surveys would be conducted among the middle and top executives of 500 manufacturing firms in India selected from the identified manufacturing sectors. Apart from that the views of leading experts in the area like management specialists, technologists, economists, policy makers etc. would also be sought for gathering a host of qualitative information on the subject.

4. ICT in Manufacturing – Project VIKAS with Microsoft

The NMCC and Microsoft Corporation India Private Limited have signed a Memorandum of Understanding (MoU) on 14.02.2006 with an objective to use Information Technology (IT) in SMEs to enhance their competitiveness significantly and to enable them to compete in the globalized environment. This would energize NMCC's efforts to establish a sustainable growth path for the small & medium enterprises in India.

Under the aegis of the MoU it is proposed to launch a Project "VIKAS" to kick start the process of making the Indian SME sector competitive and to help establish "Made in India" as a global brand. The 5-years' project is designed to enhance the competitiveness of India's SME sector through a multi-pronged strategy, encompassing skill and capacity building, knowledge creation and dissemination, and enablement of linkages in the cluster ecosystem. Under the proposed MoU, the Microsoft shall fund about US\$ 15 million in the projects undertaken.

It was informed by the Microsoft Corporation that:

- Microsoft has signed a services agreement with a cluster development expert, Apex Cluster Development Services (ACDS) as its consulting agency for the various intervention activities.
- Preliminary visits to 7 clusters have been made by Microsoft Officials in the last few weeks to understand the cluster dynamics, current usage of ICT and get initial buy-in into our program.
- Pune Auto component cluster, Tirupur Textile cluster and Ahmedabad Pharma cluster have been identified as 3 pilot clusters for this fiscal year.
- Cluster Development Agents are being hired and local offices being setup which will drive the day-to-day activities including relationship building and help guide the intervention activities.
- Diagnostic studies including valuation of ICT usage is to be carried in 2 clusters before August 31st. This would set the stage for various intervention activities specific to each cluster.
- At the national level, efforts are on to collaborate with line Ministries like Small Scale Industries, Department of Information Technology & Ministry of Labour to understand their current programs and establish common areas to leverage the various intervention activities.
- Microsoft has had initial interactions with Apex Industry Associations like CII, FICCI, NASSCOM, ASSOCHAM and PHDCCI to

understand their cluster programs which can be leveraged in the future.

- Conceptualization and Design of the National Manufacturing Portal is expected to start in July. Microsoft plans to assign resources to scope the effort, various input requirements and prepare a scalable & manageable architecture for this portal.

The common activities to be undertaken in a cluster would be comprising of (i) E-Readiness Study; (ii) Initial ice breaking with local partners and industry association; (iii) Programme sensitization; (iv) Creation of National Portal; (v) Cluster Portals; (vi) Knowledge Networks; (vii) E-Readiness Centres; (viii) Institutional networking; (ix) Workshops, Seminars, Demos, POCs and training programme on ICT related issues; (x) Exit strategy.

The likely output of the programme would be as follows (i) Innovative change in management, technology and statistical information for faster decision making; (ii) Changing of instruction oriented follow-up to system oriented follow-up; (iii) Free flow of communication and greater transparency at the organizational level; (iv) Executive/entrepreneurs spend more time for Planning and development instead of attending on internal problems and stabilization; (v) Recognition by the international firm and higher market potential; (vi) Higher level of internal efficiency and better competitiveness.

The cluster Action Plan would cover the following:

- Cycle time reduction from enquiry to sample approval/pre-production approval;
- Technical stand alone system is to be integrated in to functional decisions corporate process;
- Activity based cost control and budgetary control;
- Resource optimization in men -machine charts introduction and control;
- Design inputs from international organization for design development;
- System for enabling faster execution of 'repeat orders' by tracing the previous performance data;
- Systems to improve quality and minimize waste (defect analysis);
- Integration of customer/supplier and the organization;
- Management review by objectives signal system;
- Introducing customized ready solution in the key area such as Production Planning and Control, Supply Chain Management,

Customer Relation Management, Financial Management, which are affordable to SMEs;

- Introducing the professionalism and improving the skill of HR through training ;
- Creating source for the supply of required skill though introduction of suitable curriculum and training at the Institute level;
- Introduction of dynamic website and creation of a manufacturing portal and consolidated efforts to make it reach to the target group; Introduction of 'model' in the cluster in each functional area to demonstrate the results and benefits;
- Creation of facility to extend hand on training and support to solve the problems faced by the entrepreneurs ; and
- Empowering software vendors to solve the problems at source instead of waiting for the management to report.

To oversee the implementation of the various programmes to be undertaken under the above MoU a Steering Committee has been constituted under the Chairmanship of the Member Secretary, NMCC with Joint Secretary, NMCC; Ms Neelam Dhawan, MD, Microsoft; Mr. Doug Hauger, BMO, Microsoft; Mr. Rakesh Bakshi, Director, Microsoft; and representatives from the Department of IT, Ministry of SSI as members. Further, a working Group under the Chairmanship of Shri Rajeev Ranjan, Joint Secretary, NMCC has also been constituted to monitor the various programmes mentioned in the MoU. The programmes are being followed up in order to ensure that the impact is felt and also synergy created with the ICT component in the National Manufacturing Competitiveness Programme (NMCP).

Following Points were made by the Council Members:

On Special Economic Zones(SEZ)

Secretary (Commerce) has made a presentation on the role of SEZs' in promoting accelerated growth of Indian economy. The objective of the scheme is to provide World class infrastructure for manufacturing and exports and creation of employment. The target is to get US \$ 6 billion of investment and 5 lakh of employment creation. He informed that 150 formal approvals have been given for SEZ's and 18 SEZ's are functional. He stated that the Scheme has brought some useful results and that a number of investment proposals have been received primarily for the manufacturing sector due to the setting up of Special Economic Zones. He also referred to SEZs success stories stating that many new units are being set up taking advantage of the benefits offered.

He informed that SEZs were instrumental in attracting Foreign Direct Investment (FDI) adding that a number of National and International companies were coming in SEZs for setting up of manufacturing units which otherwise may not have come. He said that certain safeguards and checks have been incorporated in the Special Economic Zones Act, 2005 to check any possible misuse. He added that several States which have requested for the removal of internal ceilings of 150 SEZs and wanted more of such requests considered. He said that a review needs to be done periodically and an empowered Group of Ministries has been constituted for the purpose.

Dr. Isher Judge Ahluwalia, Member, NMCC said that focus of SEZs should be on manufacturing and opined that services sector should not hijack the SEZs or else manufacturing would remain a step child. Dr. Ahluwalia restated that the Scheme, when launched was specifically for manufacturing sector growth. She suggested that the NMCC is within its mandate to take this issue up with the Ministries concerned.

Member Secretary, NMCC said that the issue of displacing employment was as important as land issue. He also pointed out the anomalous position of low export requirements and the fiscal incentives interrelated with that. He stated that there was a cushion available to domestic entrepreneurs against imports from other countries by way of transportation costs which would not be available if SEZ units are allowed to import into India with just the import duties levied. He said that SEZ doesn't talk of exports adequately which meant that the units could export into rest of India totally.

Shri Anwarul Hoda, Member, Planning Commission wondered why the development of real estate should be shunned and said that the

implementation of the Scheme should be in a way that it is ensured that townships also develop as there was a need to be careful about the possibility of social backlash. He said that it is too early to doubt the Scheme although the need to guard against possible misuse was essential. He mentioned that the Scheme was only 6 - 12 months into active operation and to doubt its individual components and procedural details which had been cleared by the Cabinet and Parliamentary Legislation would send wrong signals.

Shri R. Seshasayee, President, CII expressed concern over the misuse of the SEZ and that this may become a major issue of social and political backlash. He wanted lot more thought to be put into it.

Secretary (DIPP) wanted to know whether the SEZs would be addressing the issues of FDI inflow, slow pace of infrastructure development, streamlining of the procedures and the bureaucratic red-tapism and the flexibility in labour laws, connectivity issues and other impediments to growth etc. He said that the multiplicity of SEZs at over 200 or 300 places was not viable and was of the opinion that manufacturing Investment Regions (MIR) covering a larger area and encompassing SEZs or regions like the PCPIR concept would be more viable option for infrastructure development rather than smaller SEZs.

Mr. Anil Agarwal, President, ASSOCHAM expressed the fear that since all fiscal benefits will be taken up by SEZs, EOUs would not be able to get tax benefits.

Mr. Bibek Debroy, Member, NMCC said that conceptually he had a discomfort as it led to fiscal and land value distortions which are not appropriate in the post reform era. **Dr. Surinder Kapur**, Member, NMCC advocated for stringent conditions to check any possible misuse resulting in a real estate scam.

Ms. Uma Reddy, Member, NMCC stated that the SEZ Scheme had a inbuilt partiality towards the mother units which get all the fiscal incentives but the small enterprises which are the ancillary units supporting the mother unit do not get any incentives and they are squeezed and exploited. She said that these small and medium enterprises also need to be incentivised and the fiscal tax benefits etc. shall be extended to them. It was agreed that the issue needs to be looked into.

Mr. Suresh Neotia, Member NMCC stated that external infrastructure linkages are also very important and the impact on firms outside SEZ's should also be assessed as some of them may become defunct.

Chairman, NMCC intervening in the discussions stated that the Department of Commerce needs to look at the fact that the maximum beneficiaries so far in this scheme have been the IT/ITES sector and there was a need to dispel the feeling that SEZ was not meant for real estate developers but was basically for boosting manufacturing. The members of NMCC also believed that over emphasis being given to IT and not on the manufacturing sector is a strong reason to have a re-look on the entire SEZ policy. The Scheme should not be hijacked by people for whom it was not meant for originally. Secretary, Commerce explained that the SEZ Act had come into force in 2005 and the rules were framed in 2006 and basically, the Scheme was in progress since the last six months only and the apprehensions being expressed by the members will be kept in mind.

The Commerce Secretary re-assured that all these concerns were inbuilt in the SEZ Act, 2005 and the subsequent rules which have been notified. He said that virtually, all types of contingencies have been taken care in the SEZ Act and what remained outside its purview would be taken care of by the SEZ rules and guidelines and that sufficient safeguards have been built into the legislation to ensure its implementation and eliminate misuse. He informed that basically the SEZ procedures were simple and that was one of the main reasons that people were attracted towards the scheme and coming up with investments in them. However, he agreed that continuous fine tuning was required.

In conclusion, it was agreed that the feedback and discussions should be suitably acted upon and the apprehensions raised about the scheme need to be formally conveyed to the Ministry of Commerce. The Members said that NMCC would appreciate if the main objective of the SEZ Scheme of boosting the manufacturing sector is retained and necessary course corrections taken. Also adequate safeguards should be put up in place so that the scheme is not distorted.

On NMCP

The Chairman, NMCC, introducing the issue said that the larger industries being strong had the ability to take needed steps for achieving competitiveness. However, the SMEs do not have the capacity to take on these problems on their own and there was, therefore, a need to help and facilitate the SMEs in their endeavour to become competitive. He said that the stage has come where we need to create SMEs into stronger entities and make them competitive. A beginning has been made by the Government in announcing the National Manufacturing Competitiveness Programme (NMCP). Accordingly, the NMCC has designed the programme with assistance from some of the Members of the Council and has

forwarded it to the Ministry of Small Scale Industries for getting necessary approvals and implementation.

Shri Anil Agarwal raised the issue of the Inspector Raj prevailing and stated that the SMEs suffer the most as they have an interface with the various Government agencies from labour, environmental angles etc. He emphasized on the need to revisit the criteria to define small or medium enterprises and that the employability of the number of people should be the relevant criteria for defining enterprises.

Ms. Uma Reddy said that the SMEs find that the procedural hassles are most cumbersome and tedious and suggested for increased usage of Information and Communication Technology (ICT) by SMEs in manufacturing. She also touched upon the aspect of training of employees in the SMEs and said that there was a need for hands-on training and flexi training in ITIs to acquire skills.

Shri Mukul Kasliwal, while commenting on the issue of Inspector Raj asked if any audit on the number of laws to which the business was subjected to had been made. He suggested that NMCC should recommend abolition of such laws which are archaic and redundant and a great source of irritation to the business community. The Chairman, NMCC, said that this complaint was voiced several times before and Mr. Anwarul Hoda would be able to respond on this as he had been vested with the responsibility of looking into this.

Shri Anwarul Hoda stated that a Committee was set up in the Planning Commission to cover inspection related aspects. One of the major recommendations made by the Committee was instituting Third-Party inspections. He said that recommendations have been in the report to make the laws simple and flexible. One of the recommendations was not to take up surprise inspections as far as feasible. However, in certain categories like Weights and Measures to do away with surprise checks would defeat the purpose of the legislation. He said that the inspections will remain tools for enforcing labour and environment laws.

Shri R. Shasayee, said that there should be more specificity in the laws and their subjective interpretation causes complications and multiplicity of laws complicates the situation even more. Dr. Surinder Kapur, Member, NMCC, touched upon the issues of graduation of units from small to medium etc. and on Skills Development. He suggested promoting village clusters on the Chinese model as that would bring in greater production with uniform quality.

Shri Anupam Dasgupta, Secretary, SSI&ARI then briefed on the status of implementation of the NMCP which was the Agenda Item No.5.

He categorized the elements of the Programme to address the impediments being faced by SME's in to four viz. (i) Manufacturing process related; (ii) Intellectual Property Rights; (iii) Marketing and (ii) Skills Development. He mentioned about meetings with the Planning Commission so far for obtaining plan outlays for the programme. Secretary, SSI&ARI also touched on the subject of reservation for small sector industry and said that there was a proposal for phasing out reservations, but one has to be prepared for certain amount of friction in the transition. He added that there was a need for scaling up of Associations. It was necessary to assess how far the existing Associations were working for the benefit of SMEs. After due discussion of the NMCP, it was felt that the matter should be taken up by the Chairman, NMCC for early approval of the Scheme.

Shri Priyadarshi Thakur, Secretary, Heavy Industry and PE, mentioned about the initiatives taken by his Ministry relating to the Automotive and Capital Goods industry. He informed that the task force report on automotive sector is ready and Inter-Ministerial meetings are going on and the process will be completed by September, 2006. On the Study of the Capital Goods Industry by CII he mentioned that four regional consultations have been done and the final consultation has been scheduled for 25.08.2006 in which he invited NMCC to participate.

On a general note Chairman, NMCC said that the recommendations of the NMCC should be based on the philosophy that NMCC does not support protection or subsidies as a tool for competitiveness. Indian industry should be enabled through appropriate policies to stand on its own and if this philosophy is understood in the right spirit then the endeavours of NMCC would gain respect and shall be fruitful.

Notification regarding setting up of High Level Committee on Manufacturing (attached as PDF File).

ANNEXURE-B

Record of discussion of the Committee headed by the Chief Secretary, Government of Bihar held on the 3rd May, 2006 at Old Secretariat, Patna, Bihar

2. The Industrial Development Commissioner welcomed the participants and mentioned that the Hon'ble Chief Minister of Bihar has had two meetings with the NMCC and he himself also had extensive discussions with the NMCC. The present meeting was being conducted as a follow up of those meetings. The purpose was to prepare the action plans for the revival of manufacturing sector in Bihar and the growth of industries in general.

3. The Member Secretary, NMCC explained about the circumstances resulting in the setting up of NMCC and the important role manufacturing sector has to play in the overall growth of the country's economy and in generating employment. He mentioned that manufacturing as a percentage GDP has been stagnating at around 17%. There is a need to increase this percentage as also the rate of growth of manufacturing from previous average of 7% per annum to 12 - 14%. He also mentioned that India's experience of transiting from the agricultural sector to services sector growth directly may not be sustainable and to ensure balanced growth manufacturing sector has to grow strongly. He also informed about the setting up of the High Level Committee on Manufacturing under the Chairmanship of the Hon'ble Prime Minister which is to be serviced by the NMCC.

4. Mr. K.P.S. Keshri, President, Bihar Industries Association mentioned that in the previous meetings at the State level they had identified a few sectors for prioritised growth, namely, agricultural and food processing, leather and textiles. He mentioned that the rate of growth of manufacturing in Bihar has been negative and he suggested that the entrepreneurs in Bihar should be taken to advanced States in India in order to expose them to recent trends and if possible can also be invited to attend the meetings of the NMCC. He mentioned that a draft strategy for Bihar needs to be prepared involving the industries associations.

5. Chief Secretary, Bihar said that standardization of raw material and output needs to be done in order to ensure scaling up of food processing industries. He said that this was important for Bihar which is number two in terms of vegetable production and number three in fruit production in the country. He asked the Agricultural Production Commissioner to look into the issue. He mentioned that leather is an important industry for Bihar as the hides and skins from Bihar are considered best in the world and are being sent for processing to Kanpur, Kolkata etc. He also mentioned about the potential for pharmaceutical sector growth as Bihar was one of the largest consumers of medicines. He remarked that the plastic sectors can also grow

easily when even cheap buckets are coming from Mumbai and can be easily produced in Bihar.

6. Finance Secretary, Bihar mentioned that packaging is an important component where lot of value addition takes place. Industrial Development Commissioner mentioned that Agricultural Producing Marketing Committee Act (APMC) is to be amended shortly and hopefully it will be done in the next Session of the Bihar Assembly.

7. Chief Secretary stated that self-certification by industries on the pattern of Punjab is being thought of and random checking by the State machinery can be incorporated.

8. Joint Secretary, NMCC mentioned about the importance of skill development in view of the fact that Bihar has the dubious distinction of sending a large number of low skilled people to other States and therefore institutions of learning and skills development should be improved in order to build skills in the State itself. The importance of immediately improving the working of ITIs and other educational institution would also be very important for the manufacturing sector in Bihar. He suggested that major infrastructure projects like building up of International airport to cater to exported oriented industries and the Buddhist Circuit can be taken up. He mentioned the importance of reviving these sectors like tourism etc. which have potential for large job creation and would have a positive impact on the economy and would lend to better business confidence and spin-offs for industrial growth.

9. Representative from the industry said that in Bihar the Public-Private Partnership (PPP) is to be supplemented by another partner, namely, the Panchayati institutions. The recent measures taken by the State Governments have given the right signals and the initiative needs to be consolidated and translated into concrete plan involving the industry representative.

10. Summing up the Member Secretary, NMCC said that:

- i) While Agro-food processing, Textile and Garments, Leather products and Skill Development sectors select themselves as priority sectors, there is a need for a basic study on Bihar's potential for industrialization which would include resource mapping a preparing a road map for improving competitiveness etc. The study should bring out in which areas Bihar can specialize in a competitive way and develop its industry. He mentioned in this regard a study by CRISIL done for Gujarat and offered that NMCC can assist in such a study to be done for Bihar.
- ii) Various States are competing with each other for attracting investments through creation of proper business climate and a proper mindset in the State for this has to be created. He

mentioned that new Acts enacted in Bihar recently similar to the AP model would help accelerate development by rationalizing and streamlining the system. But further work needs to be done in this regard.

- iii) Southern States where the development expenditure is 75% higher than other States like Bihar and this aspect should also be looked into. Infrastructure like roads needs to be improved in a time bound manner.
- iv) Some basic requirement for setting up new industries like power has to be improved and needs to be attended to on a priority basis.
- v) The aim should be that large industry should be attracted in order to ensure large scale industrialization through cluster formation around those industries. Handholding may be required for some large groups to begin with and once such an investment becomes successful it will have a catalytic effect for attracting more investors.
- vi) Textile parks are being set up by the Govt. of India which could also be taken up in Bihar.
- vii) On the Labour Laws which are in the Concurrent list Member Secretary mentioned that quite a few steps can be taken at the State level itself. In fact, as brought out in the National Strategy for Manufacturing (NSM), there is large role for the State Governments to play in this regard. This issue has been covered in the NSM.
- viii) Skills development has to be a high priority for Bihar as there is surplus manpower and setting up of ITIs and improving their functioning would be very important. The Government of India has a scheme to modernize the ITI's and Bihar should make use of the same. He mentioned that assistance of apex industry associations like CII, FICCI should be taken in order to get national level players interested in Bihar. He mentioned that Law and order is only a manifestation of lack of employment opportunities and skill development will make people employable and mitigate unemployment problem to some extent.

11. The Industrial Development Commissioner mentioned that he will follow up on the various issue discussed and will be in touch with the NMCC. He will work on a detailed proposal for reviving the manufacturing sector in the State.

Background Note on Special Economic Zones

1. INDIA'S POLICY ON SEZs:

India was one of the first in Asia to recognise the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. Seven more zones were set up thereafter. However, the zones were not able to emerge as effective instruments for export promotion on account of the multiplicity of controls and clearances, the absence of world-class infrastructure, and an unstable fiscal regime.

While correcting the shortcomings of the EPZ model, some new features were incorporated in the Special Economic Zones (SEZs) Policy announced in April 2000. This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. The salient features of the SEZ scheme are:-

- A designated duty free enclave to be treated as foreign territory only for trade operations and duties and tariffs.
- No licence required for import.
- Manufacturing or service activities allowed.
- SEZ units to be positive net foreign exchange earner within three years.
- Domestic sales subject to full customs duty and import policy in force.
- Full freedom for subcontracting.
- No routine examination by customs authorities of export/import cargo.

2. SPECIAL ECONOMIC ZONES ACT, 2005 AND SPECIAL ECONOMIC ZONES

In order to impart stability to SEZ regime and to achieve generation of greater economic activity and employment through the establishment of SEZs, a Special Economic Zone Act has been enacted. The SEZ Act, 2005, supported by SEZ Rules, has come into effect on 10th February, 2006.

The minimum area requirements stipulated for various categories of SEZs are:

TYPE	AREA	AREA FOR SPECIAL STATES/UTs
Multi- product	1000 hectares	200 hectares
Multi services	100 hectares	100 hectares
Sector specific	100 hectares	50 hectares
IT	10 hectares & min. built up area of 1 lakh sq. mtrs.	10 hectares & min. built up area of 1 lakh sq.mtrs.
Gems and Jewellery	10 hectares & min. built up area of 50 thousand sq. mtrs.	10 hectares & min. built up area of 50 thousand sq. mtrs.
Bio-tech and Non-conventional energy (including solar energy equipments/cell but excluding SEZs for non-conventional energy production and manufacturing)	10 hectares & min. built up area of 40 thousand sq. mtrs	10 hectares & min. built up area of 40 thousand sq. mtrs
FTWZ	40 hectares & min. built up area of 1 lakh sq. mtrs.	40 hectares & min. built up area of 1 lakh sq. mtrs.

The Special States are Assam, Meghalaya, Nagaland, Arunachal Pradesh, Mizoram, Manipur, Tripura, Himachal Pradesh, Uttaranchal, Sikkim, Jammu & Kashmir and Goa.

Incentives and facilities offered to SEZs: The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:-

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from minimum alternate tax under section 115JB of the Income Tax Act.

- External commercial borrowing by SEZ units upto US \$ 500 million in a year without any maturity restriction through recognized banking channels.
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approvals.
- Exemption from State sales tax and other levies as extended by the respective State Governments.

The major incentives and facilities available to **SEZ developers** include:-

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.
- Income Tax exemption on export income for a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act.
- Exemption from dividend distribution tax under Section 115O of the Income Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act).

3. APPROVAL MECHANISM OF SEZs:

Proposal for setting up of SEZ in the private/joint sector is required to be submitted to the Chief Secretary of the concerned State. The State Government in turn, forwards the same to the Department of Commerce with their recommendations. Thereafter, the proposal is considered along with the recommendation of the State Government by an Inter-Ministerial Committee known as the Board of Approval. Applicant also has the option to submit the proposal directly to the Board of Approval. In such cases, the applicant shall have to obtain the concurrence of the State Government within 6 months from the date of such approval.

4. ADMINISTRATIVE SET UP FOR SEZs:

The functioning of the SEZs is governed by a three tier administrative set up. The Board of Approval is the apex body and is headed by the Special Secretary, Department of Commerce. The Approval Committee is the body at the Zone level dealing with approval of units in the SEZs and other related issues. Each Zone is headed by a Development Commissioner, who is also heading the Approval Committee.

Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ. All the proposals for setting up of units in the SEZ are approved at the Zone level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government. All post approval clearances including grant of importer-exporter code number, change in the name of the company or implementing agency; broad banding diversification, etc. are given at the Zone level by the Development Commissioner. The performances of the SEZ units are monitored annually by the Unit Approval Committee and units are liable for penal action under the provision of Foreign Trade (Development and Regulation) Act, in case of violation of the conditions of the approval.

5. CONVERSION OF EPZ INTO SEZ

All the 8 Export Processing Zones (EPZs) located at Kandla and Surat (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Chennai (Tamil Nadu), Vishakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (U.P.) have been converted into Special Economic Zones.

Eight existing Export Processing Zones were converted into SEZs and are functional. In addition to this 20 more SEZs have since become operational, out of which exports have commenced from 8 SEZs.

6. LABOUR POLICY IN SEZs

Normal Labour Laws are applicable to SEZs, which are enforced by the respective State Governments. The State Government has been requested to simplify the procedures/returns and for introduction of a single window clearance mechanism by delegating appropriate powers to Development Commissioners of SEZs.

7. IMPLEMENTATION OF THE SEZs ACT

(I) **New applications:** Under the SEZ Act, 2005, 388 new applications have been received for setting up of SEZs in various States. The breaks up of these are as under:

i.	No. of new applications considered in Board of Approvals meeting held on 17.3.06	125
ii.	No. of new applications considered in Board of Approvals meeting held on 12.6.06	111
iii.	No. of new applications received after the 2 nd Board of Approvals and up to 17.7.06	124
iv.	No. of applications received after 17.7.06 up to 26.7.06	28

- (II) **Ratification proposals:** Prior to the coming into force of the SEZ Act, 2005, 117 approvals were given for establishment of SEZs. Out of these, some of the SEZs had become operational. Those which had not become operational had to be ratified under the SEZ Act. Such proposals for ratification of approvals already granted prior to the SEZ Act were also received and considered in the two BoA meetings. 49 such ratification proposals have been given formal approvals. The 105 Formal approvals so far given by the BoA include these 49 proposals also.
- (III) **Operational SEZs:** Eight existing Export Processing Zones were converted into SEZs and are functional. In addition to this 20 more SEZs have become operational.
- (IV) **Formal Approvals granted under the SEZ Act:** Under the SEZ Act, formal approvals have so far been given for setting up of 105 Special Economic Zones in the private/joint sector or by the State Governments and its agencies. This includes 49 proposals which were for ratification of formal approvals given prior to the enactment of the SEZ Act, 2005 and 56 for new proposals. Out of this, notifications have already been issued in respect of 10 SEZs after the SEZ Act, 2005 came into force.
- (V) **Revenue loss on account of the tax concessions to SEZs:** The revenue losses on account of incentives and concessions granted to SEZs cannot be estimated since it is not possible to estimate how much of investment would have been made into SEZs has these concessions not been given under the scheme.
- (VI) **Benefits derived from SEZs:** Benefits derived from SEZs can be gauged from their export performance, investments and infrastructural developments and employment opportunities provided.
- (a) Exports from the functioning SEZs during the last three years are as under:

Year	Exports (Rs. crores)	Growth Rate of exports
2003-2004	13,854 (US\$ 2996 million)	39%
2004-2005	18,309 (US\$ 4075 million)	32%
2005-2006	22510.83 (US\$ 5004.56 million)	22.95

- (b) **Employment Generation:** SEZs provide direct employment to about 1.10 lakhs persons (about 40% of them are women).

Private investment by entrepreneurs for establishing units in the SEZs is about Rs. 2000 crores, of which foreign/NRI investment is about Rs. 600 crores, accounting for nearly 25% of total investment.

- (c) At present, 927 units are in operation in the SEZs, providing direct employment to about 1.10 lakhs persons (about 40% of whom are women). The private investment by entrepreneurs for establishing units in the SEZs is of the order of about Rs. 2000 crores, of which foreign/NRI investment is about Rs. 600 crores, accounting for nearly 25% of total investment.

(VII) Mechanism developed by the Government to prevent violation of rules/objective of schemes under SEZs:

The Special Economic Zones units operate in a custom bonded environment and under the supervision of a dedicated customs wing. The performances of the units are monitored annually by the Units Approval Committee consisting of Development Commissioner and the Customs Authorities. Failure to meet the requirements of the scheme or any violation attracts action under Foreign Trade (Development and Regulation) Act, 1992.

Following mechanism has been provided for in the SEZ Act/Rules with a view to prevent violation of rules/objectives of the scheme:

- In order to fulfill the obligation regarding proper utilization and accountable, the unit has to execute a bond-cum-legal undertaking.
- Where the entrepreneur or developer does not utilize the goods or services on which exemptions have been availed, refund of the amount equal to the benefits availed has to be made.
- The letter of approval to the entrepreneur can be cancelled in case of contravention/non-fulfillment of terms and conditions or obligations.
- Provision for penal action has also been provided in case of non-achievement of positive net foreign exchange.
- There are provisions in the SEZ Rules for monitoring of utilization of goods imported or procured from the Domestic Tariff Area.

Present Status of
The National Manufacturing Competitiveness Council (NMCP)

(A) In his Budget speech 2005-06 the Finance Minister stated "In order to revive manufacturing sector, particularly the small and medium enterprises and to enable them to adjust to the competitive pressure caused by liberalisation and modernisation of tariff rates, I propose to launch a new scheme that will help in their operation and sharpen their competitiveness. The scheme will be called "the National Manufacturing Competitiveness Programme". Design of the scheme will be worked out by the NMCC in consultation with the Ministry of Small Scale Industries." Accordingly, the NMCC conceptualised and finalised the components of the programme in its meeting on 13 January 2006 along with relevant stakeholders like the Ministry of Small Scale Industries. The Finance Minister in his Budget speech 2006-07 had also announced: -

"The National Manufacturing Competitiveness Council (NMCC) has finalised a five year National Manufacturing Competitiveness Programme. Ten schemes have been drawn up including schemes for promotion of ITC, Mini Tool Rooms, Design Clinics and market support for SMEs. Implementation will be in the PPP mode and financing will be tied up during the course of the next year."

(B) The ten component schemes of NMCP, as fine-tuned and submitted for clearance, are described hereunder:-

(1) The National Programme of Application of Lean Manufacturing: -
The objectives of this intervention are to:

(i) provide direct assistance to enterprises for meeting their manufacturing needs and competitiveness. (ii) eliminate waste throughout the business cycle and (iii) strengthen enterprises associations/district level associations to enable them to provide such services to their members on sustainable basis.

The activities proposed under this intervention include training of consultants for shop floor intervention with the help of international/national experts, to be followed up with the trained consultants intervening at the firm-level, using tools like 5S system, JIT, KANBAN, Cellular lay out, tool productivity maintenance, etc. The interventions would be at the cluster level. The intervention would be in the PPP mode with the GoI share of Rs. 300 crore and industry contribution of Rs. 80 crore. Each enterprise/cluster would be assisted for a period ranging from 18 to 30 months. The five year project is so designed that it would be self-sustaining afterwards, with the industry

owning it completely. The numbers of beneficiaries in 500 clusters are expected to be 10,000 firms. The expected outcomes include an increase in labour productivity, lower input costs to other industries and intervention of new production equipment/methods.

(2) The Second component scheme relates to the promotion of **ICT in Indian MSMEs with the objective of using ICT Tools custom made for SMEs for the purpose of** : (i) ICT driven business applications through the adoption of best practices (ii) Standardization of business processes across organisations (iii) Improvement in manpower productivity (iv) Improved manufacturing planning processes and supply chains (v) Powerful executive information systems to facilitate pro-active decision making processes

With a view to improving the competitiveness of Indian SMEs, it is proposed that ten or so clusters of SMEs which have quality production and high export potential should be encouraged and assisted in adopting ICT applications in their business. The CII, which is a partner in the project, has suggested a four-stage ICT adoption model for SMEs: (i) Basic ICT infrastructure (ii) Functional Automation (iii) Process Integration, and (iv) Business Integration

The majority of manufacturing enterprises in India is in the early stages of their ICT adoption in business, and hence is not able to improve business performance. The adoption of stages (iii) & (iv) of ICT applications, such as Enterprises Resource Planning (ERP), e-procurement, e-market/business, etc., require the help of experts that is sometimes more expensive than the ICT processes.

Therefore, the proposed scheme envisages that Government should assist the SMEs in adopting ICT applications. Under the scheme, the SMEs are required to provide, at their cost, the network infrastructure for 5 LAN Points, hardware, IT skilled manpower and annual maintenance, and Government of India will provide at its cost ICT enabled business applications, software, implementation consultancy support, etc. The total estimated cost of the Programme is Rs. 207 crore, which is to be shared by Government of India (Rs. 103 crore) and by beneficiary SMEs (Rs. 104 crore). The Programme is to be implemented over a period of six years.

(3) The objective of the component scheme for **Setting up of 15 new Mini Tool Rooms as Extension Centres of the existing Tool Rooms** is to provide technological support to SMEs by creating facilities for design and for manufacturing quality tools and also to provide training facilities in the related areas resulting in improved competitiveness of the SME sector. This proposal would assist those SMEs which cannot afford to have captive Tool Rooms in tool designing and quality tool manufacturing. The establishment of a typical Mini Tool Room, at a cost of Rs. 14 crore, would enable the training of about 200 trainees and the

generation of Rs. 1 crore worth of production of tools and consultancy services per year. The project is likely to be completed within five years and the expected benefit may commence from the second year itself. The total estimated cost for the establishment of 15 Mini Tool Rooms is Rs. 210 crore, out of which the Government of India share will be around Rs. 135 crore. The rest is to be borne by other stakeholders, including State Governments/Industries Associations, etc., in the PPP mode.

(4) The fourth component relating to **Technology and Quality Upgradation** support in SMEs has been introduced with the objective of encouraging SMEs to adopt the latest and widely acceptable national and international standards so that products from the Indian SMEs are globally accepted. This would include sensitisation and intervention of renewable energy and energy efficiency technologies and nano-technologies. The proposal envisages the adoption of 50 SSI units every year for technology upgradation, upgradation and acquisition of latest apparatus and measuring instruments, etc. in technical institutions conducting awareness programmes on quality standards and the like. The total cost for the five year intervention is expected to be Rs. 93.50 crore. Wherever individual units are involved, they would contribute 25% of the sub-cost if they are small enterprises or 15% if they are micro enterprises.

(5) The fifth component relates to **Providing Support for Entrepreneurial and Management Development for SMEs**. It is for assisting first generation entrepreneurs in establishing healthy enterprises by close hand-holding through incubators established by reputed technical institutions. The proposal envisages the establishment of 50 incubators every year, with each hosting at least five micro and small enterprises. The proposal also provides for the upgradation of infrastructure and training of the personnel of the technical institutions concerned. 900 micro and 100 small enterprises are proposed to be assisted through the 250 incubators over the five year initiative which would be in the PPP Mode, with a projected expenditure of Rs.66.50 crore.

(6) The sixth component relates to the **Design Clinic Scheme to give Expertise to the manufacturing sector**. The objective of this intervention is to provide expert advice and solution on real time design problems to develop alternative design strategy and design intervention in micro and small enterprises. The scheme to be implemented in PPP mode follows the cluster approach for development involving the conduct of feasibility studies, through a team of identified designers, the conduct of design sensitisation workshops and establishment of design clinics in clusters. The five year intervention would include the establishment of a nodal centre at the NID and regional design centres, conduct of assessment surveys, organisation of design clinics and workshops for skill upgradation and capacity building, etc. It would be

implemented in 225 clusters at a cost of Rs. 50 crore, out of which Rs. 9 crore (20% of the recurring expenditure) would be contributed by enterprises.

(7) The seventh component for **enabling Manufacturing Sector to be Competitive through Quality Management Standards and Quality Technology Tools** is designed with the objective of sensitising SMEs in respect of quality and technology upgradation with a view to enhancing their competitiveness. The activities proposed in this component involve the development of training course modules at college level by engaging consultants/experts, international study missions, assisting about 100 SMEs by building competitiveness through cluster projects, besides conducting awareness programmes. Wherever, individual enterprises are involved, 25% contribution from small enterprises and 15% from micro enterprises will be charged.

(8) The eighth component relates to the launching of a **National Campaign for Investment in Intellectual property**. The objectives of this component are:-

(1) Creating IPR awareness to enable MSMEs to protect ideas/strategies.

(2) Utilisation of IPR tools by MSMEs for technology upgradation & enhancing competitiveness

(3) Access to technical facilities & expertise for value addition.

The proposed activities include the conduct of awareness programmes and training courses, setting up of IT-enabled IT Advisory office, providing financial assistance to MSMEs to acquire patents, training programmes, etc. It is proposed to implement the scheme in PPP mode to the extent possible, at a total cost of Rs. 50 crore for the five year intervention.

(9) The ninth component relates to **Market Assistance/Technology Upgradation Activities through the popularisation of Bar Coding certification from GS-I**. Currently the scheme for assisting micro and small enterprises attaining of bar coding certification provides for reimbursement of up to Rs. 15,000 (75% one time registration fee). It has been observed that MSEs find it difficult to meet the recurring liability of annual fees for continuing the Bar Coding certification. This component, therefore, provides for the reimbursement of 75% of the annual fee of Rs. 15000/- for three years, to encourage SSI units to obtain and sustain the bar coding certification. It is expected that about 750 micro and small enterprises would benefit from this intervention at an estimated cost of Rs. 0.67 crore. This would assist these beneficiaries in higher export realisation and help the promotion of Indian value-added products world-wide.

(10) It has been decided that the **tenth component proposal relating to market support/assistance to SMEs** need not be pursued.

(C) The Ministry of SSI has already initiated necessary action for seeking clearances and financial tie-ups for the NMCP. The clearance for the component proposal/schemes is being sought separately as stand-alone proposals. The component proposal relating to ICT promotion was circulated by the AS & FA to the Department of Expenditure and Planning Commission in the month of April, 2006. The draft EFC Memos of the other 8 component proposals (except the component relating to the promotion of ICT) have been forwarded to the Integrated Finance Wing during July 2006 and queries are being attended to. The status would be reviewed with Integrated Finance and Planning Commission officers concerned, to expedite the process and its approval.

(D) The funds for the implementation of MNCP have not been made available in the approved outlay of Annual Plan 2006-07 of the Ministry of SSI by the Planning Commission. Within the approved budget amount for plan 2006-07, it would not be possible to commence the implementation of the scheme components of NMCP, unless the plan outlay is suitably augmented. The insistence of the Ministry of Finance and Planning Commission to process each component of the NMCP as a stand-alone scheme is not congruent with the requirement to view the Programme as a composite whole and this component-wise process is time consuming and involves avoidable paper work