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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

INVESTMENT POLICY REVIEW

INDIA

The changing investment environment

V.94-22293

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The views and comments contained in this study do not necessarily reflect those of the Government of India nor do they officially commit UNIDO to any particular course of action.

PREFACE

This Investment Policy Review has been prepared by the Industrial Development Review Unit, Programme Support and Monitoring Branch, UNIDO, for the INVESMART, 18-22 April 1994, organized under the joint auspices of the Ministry of Industry, Government of India, and UNIDO.

The purpose of the Review is to highlight the salient features of recent policy reforms which have immediate implications for industrial investment. An assessment of recent policy reforms is conducted against the background of the economy's resilience to rebound from crisis, the most recent policy pronouncements and the budget for 1994/1995, with a view to providing investors with up-to-date information on the changing investment climate in India.

The Review contains six sections. A preliminary discussion of recent economic recovery in Section I is followed by an analysis of the exposure of the economy to dynamic forces of foreign trade and foreign investment, with a focus on pertinent policy reforms in Section II. Section III examines the domestic policy environment in terms of industrial deregulation, the role of the public sector, financial reforms, institutional restructuring and labour policy. Section IV presents the major fiscal reforms of the 1994/1995 budget, highlighting the initiatives for rationalization and simplification. The impact of recent reforms on the economy in general and investment in particular is discussed in Section V, while Section VI focuses on the emerging investment opportunities across selected subsectors.

This Investment Review does not attempt to give detailed information on investment regulations and procedures, which is already available elsewhere. Rather it is intended to serve as a brief analytical document to assist foreign investors in their assessment of the emerging investment opportunities in India.

A full-scale **Industrial Development Review of India** will subsequently be issued as a sales publication in mid-1994, with more extensive analysis of industrial investment priorities and opportunities and problems and prospects of key branches of industry.

This Review was prepared by Ms. Isher Judge Ahluwalia as UNIDO consultant in cooperation with UNIDO staff.

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I. INDIA AT THE CROSSROADS

India today is a land of opportunity. As the economic reforms take root, the market with a vast untapped potential is unfolding for all. With a population close to 870 million and an economy the sixth largest in the world, India's market potential ranks second only to China's among developing countries (see Table 1). A middle-class of anywhere between 150-250 million has emerged within the framework of an open democratic society and a strong institutional base for development.

Table 1. GDP of selected large developing countries, 1992

	GDP per head, $		GDP, $ billion
	Market exchange rates	Purchasing power parity	Purchasing power parity
China	370	2,460	2,870
India	275	1,255	1,105
Brazil	2,525	4,940	770
Mexico	3,700	6,590	590
Indonesia	650	2,770	510
Republic of Korea	6,790	8,635	380
Thailand	1,780	5,580	320
Pakistan	400	2,075	240
Argentina	6,870	5,930	190
Nigeria	275	1,560	190
Egypt	655	3,350	180
Philippines	820	2,400	155
Malaysia	2,980	7,110	130

Source: Business Eye Special Report: Mckinsey & Company, London, October 1993.

The old isolationism of India is giving way to a new zeal for globalization. It is nothing short of a quiet economic revolution. Unlike the false starts in the mid-sixties and the eighties, the change this time together with India's immense market, vast natural resources, a long history of private enterprise, and abundance of associated skills and systems, makes India a good place to do business in.

India is one of the very few countries to have had positive economic growth rates in the years immediately following the initiating of a programme of macroeconomic stabilization and liberalization. A GDP growth rate of 1.1 per cent in 1991/1992, the first year of the stabilization programme, followed by growth rates of 4 per cent and 3.8 per cent in the next two years is a reflection of the inherent strength and resilience of the economy (see Table 2.). The Indian economy has also had the distinction of coming out of a crisis in its external sector without recourse to debt rescheduling.

Table 2. **Recovery from crisis, 1992-1994**
(Percentage unless otherwise specified)

	1990/1991	1991/1992	1992/1993	1993/1994
		Annual growth		
GDP	4.9	1.1	4.0	3.8
Industrial production	8.3	0.0	1.9	2.4 a/
Exports	9.2	-1.5	3.8	21.4 b/
Imports	13.5	-19.4	12.7	0.7 b/
Prices (Percentage change in wholesale price index)	12.1	13.6	7.0	9.1 b/
		Per cent of GDP		
Current account deficit	3.3	0.9	2.1	0.5
Fiscal deficit	8.4	5.9	5.7	7.3
Savings	24.0	23.1	22.3	..
Investment	27.4	24.2	24.5	..
Foreign exchange reserves ($ billion)	2.2	5.6	6.4	15.0
Exchange rate (Rupee equivalents to $1)	17.9	24.7	29.0	31.4

Source: Economic Survey 1993/1994, Ministry of Finance, Government of India.

a/ April 1993 to December 1993. Industrial growth is 6 per cent per annum if capital goods are excluded.

b/ April 1993 to January 1994.

India has long been perceived as an economy shackled by bureaucratic controls and administrative regulations, deeply suspicious of foreign capital, protected by high import tariffs, and dominated by government-owned enterprises. This perception persisted even as India began to change in the eighties. So much so that the world hardly took notice of the fact that throughout the eighties the Indian economy averaged a growth rate of over 5 per cent per annum which was much higher than the average growth of around 2.5 per cent per annum for the middle-income developing economies. This was also the period when India could withstand the worst monsoon failure of this century without recourse to imports of food grains.

The growth dynamism of the Indian economy in the eighties, however, could not be sustained in the face of the growing fiscal imbalances. The Gulf War of 1990 finally brought the economy to a brink. Inflation was rising, industrial production was falling, and foreign exchange reserves were at an all time low of $1 billion - barely enough to cover India's normal import needs of about a week.

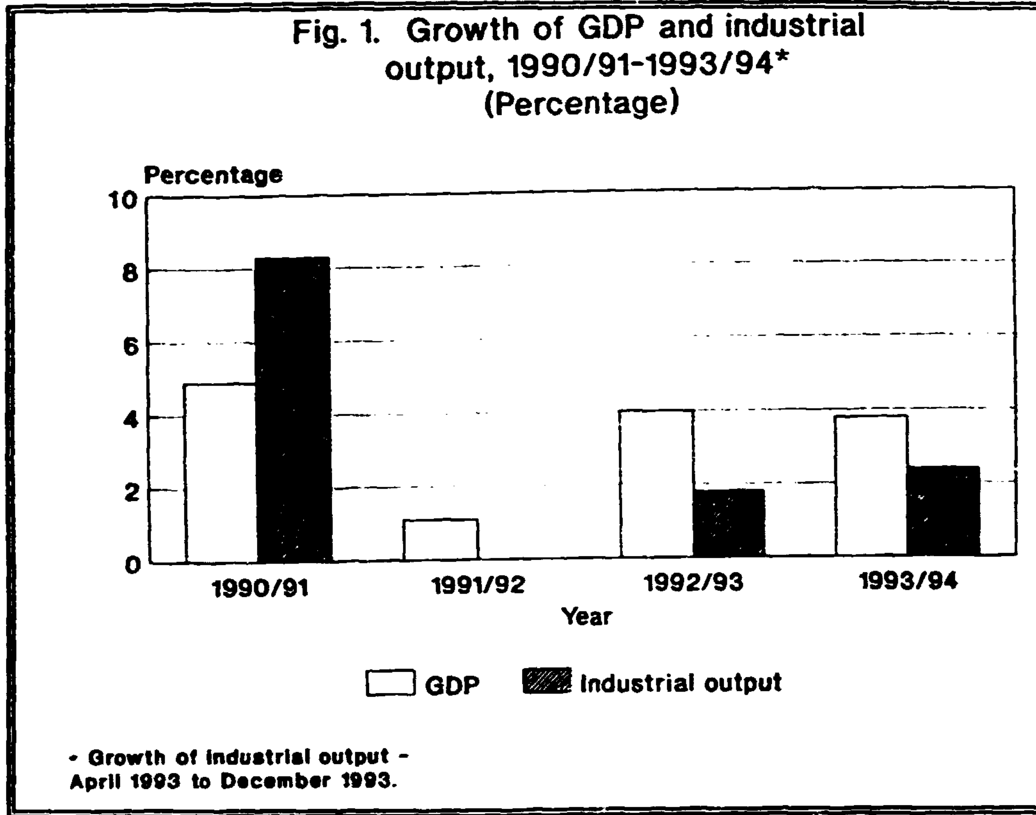
June 1991 was the watershed. A new government came to power and was immediately confronted with the gravest economic crisis for decades, i.e., the prospect of default on repayment of international obligations. India had been conservative in borrowing but had an impeccable record of repayment of whatever little it borrowed.

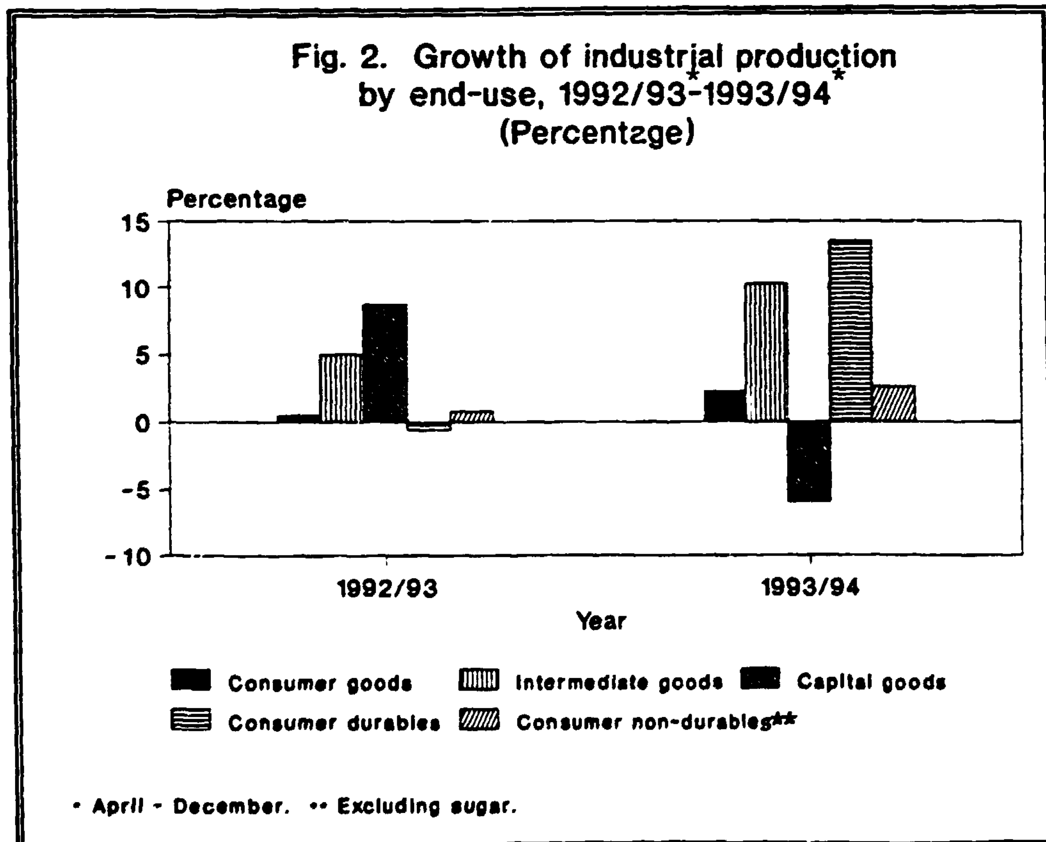
The 1991 crisis had its origins in two factors. The growing fiscal imbalance of the eighties, aggravated by the use of high-cost borrowings to meet consumption needs of the economy, had created a macroeconomic environment which was destabilizing. Also, while the Gulf War of 1990 did contribute to the crisis, it was the non-competitiveness of much of Indian industry and trade brought about by years of insulation from domestic and international competition and from foreign technology that lay at the root of the problem.

Faced with a severe balance of payments crisis India had the choice of either slapping on more import controls and "insulating" itself from external pressures of plunging into the task of building its export capability in order to be truly resilient and self-reliant. India has chosen the latter course which leads to globalization.

The crisis was turned into an opportunity. A series of steps were taken to avert default in the short-term and at the same time a programme of economic reforms was implemented to ensure that a 1991-type crisis on the external sector would not repeat itself. India's reform programme has emphasized gradualism and evolutionary transition rather than shock therapy.

MACROECONOMIC TRENDS





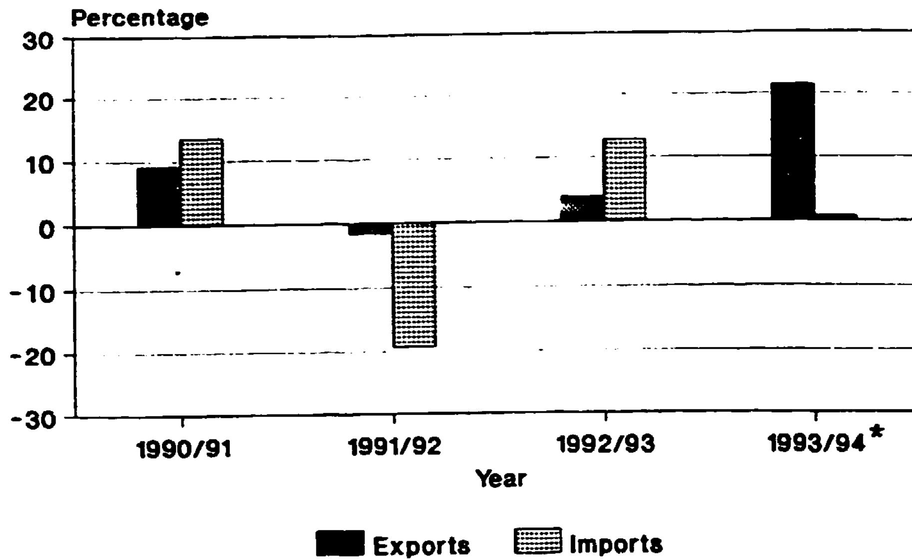


Fig. 3. Growth of exports and imports,
1990/91-1993/94
(Percentage based on dollar terms)
Percentage
30
20
10
0
-10
-20
-30
1990/91
1991/92
1992/93
1993/94*
Year
Exports
Imports
* April 1993 to January 1994.

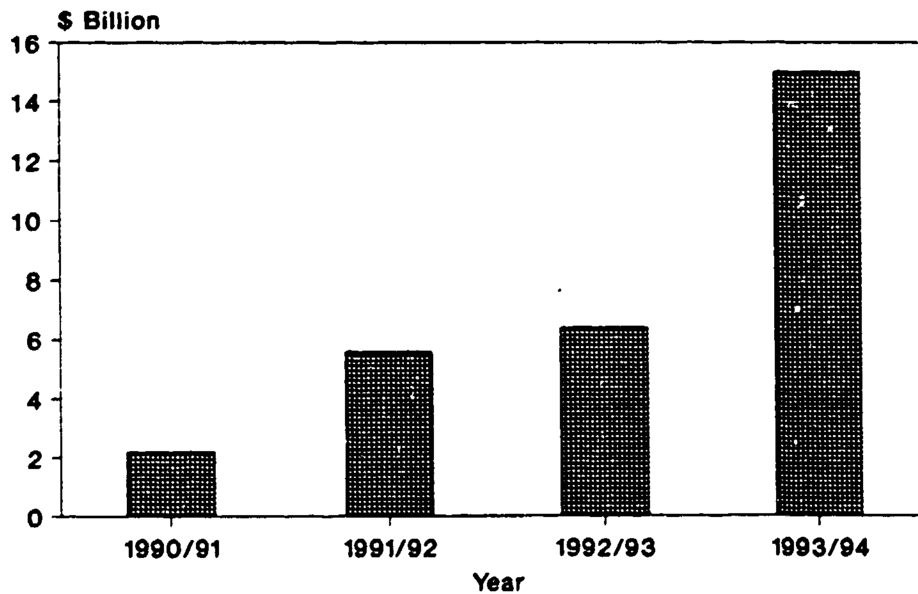


Fig. 4. Foreign exchange reserves,
1990/91-1993/94
(Billion dollars)
$ Billion
16
14
12
10
8
6
4
2
0
1990/91
1991/92
1992/93
1993/94
Year

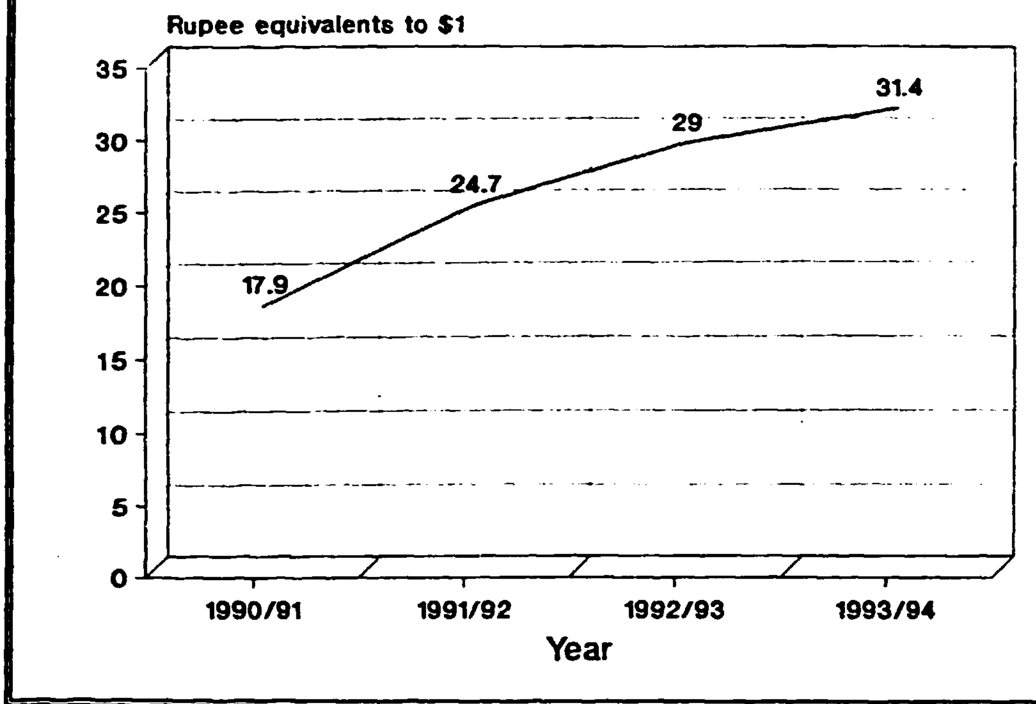


Fig. 5. Exchange rate, 1990/91-1993/94
Rupee equivalents to $1
35
30
25
20
15
10
5
0
17.9
24.7
29
31.4
1990/91
1991/92
1992/93
1993/94
Year

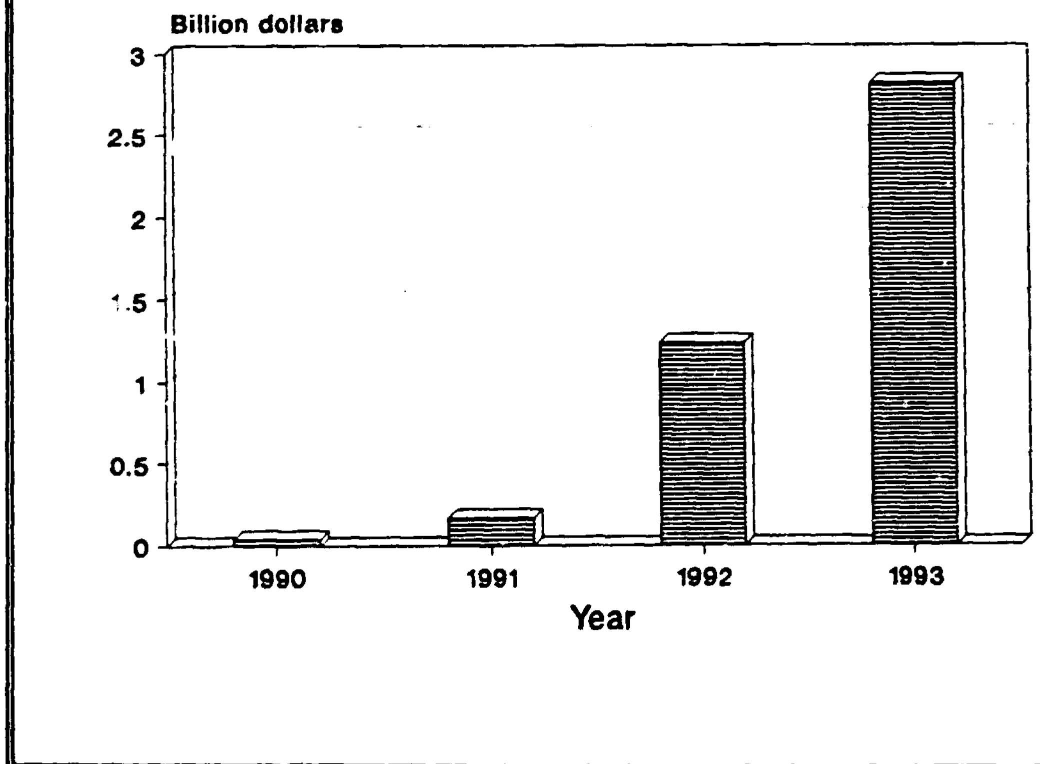


Fig. 6. Foreign investment approved, 1990-1993
Billion dollars
3
2.5
2
1.5
1
0.5
0
1990
1991
1992
1993
Year

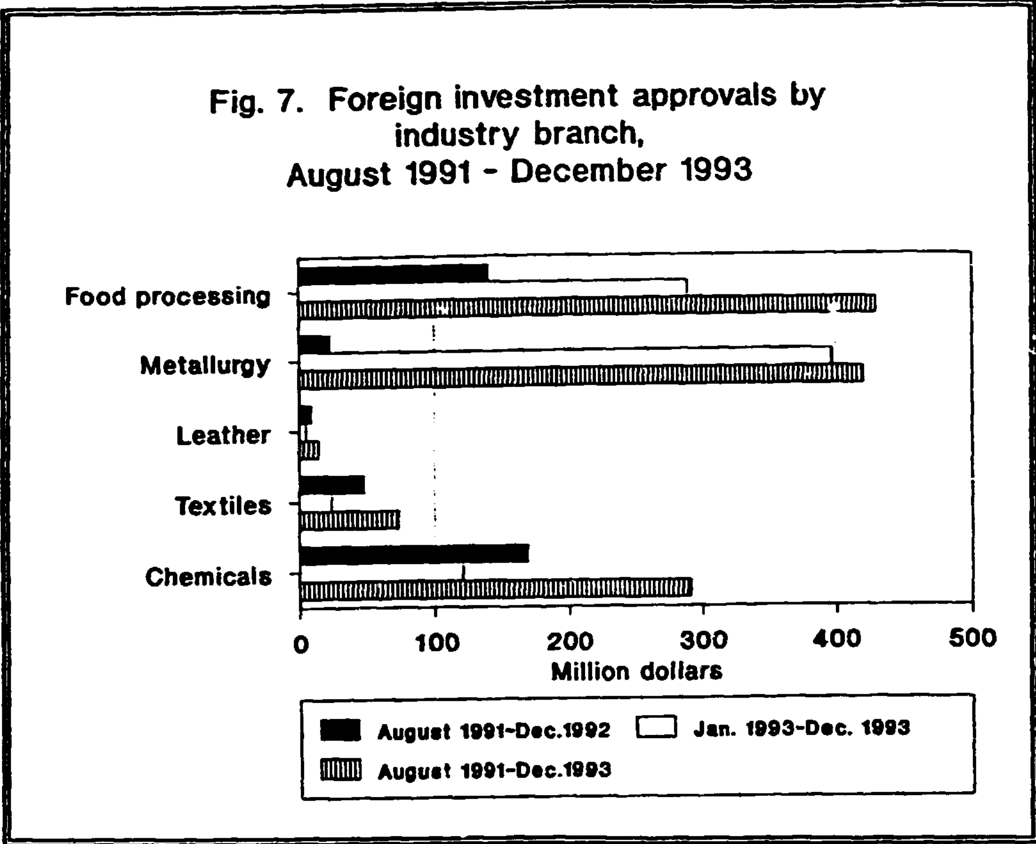


Fig. 7. Foreign investment approvals by industry branch, August 1991 - December 1993
Food processing
Metallurgy
Leather
Textiles
Chemicals
0
100
200
300
400
500
Million dollars
August 1991-Dec.1992
Jan. 1993-Dec. 1993
August 1991-Dec.1993

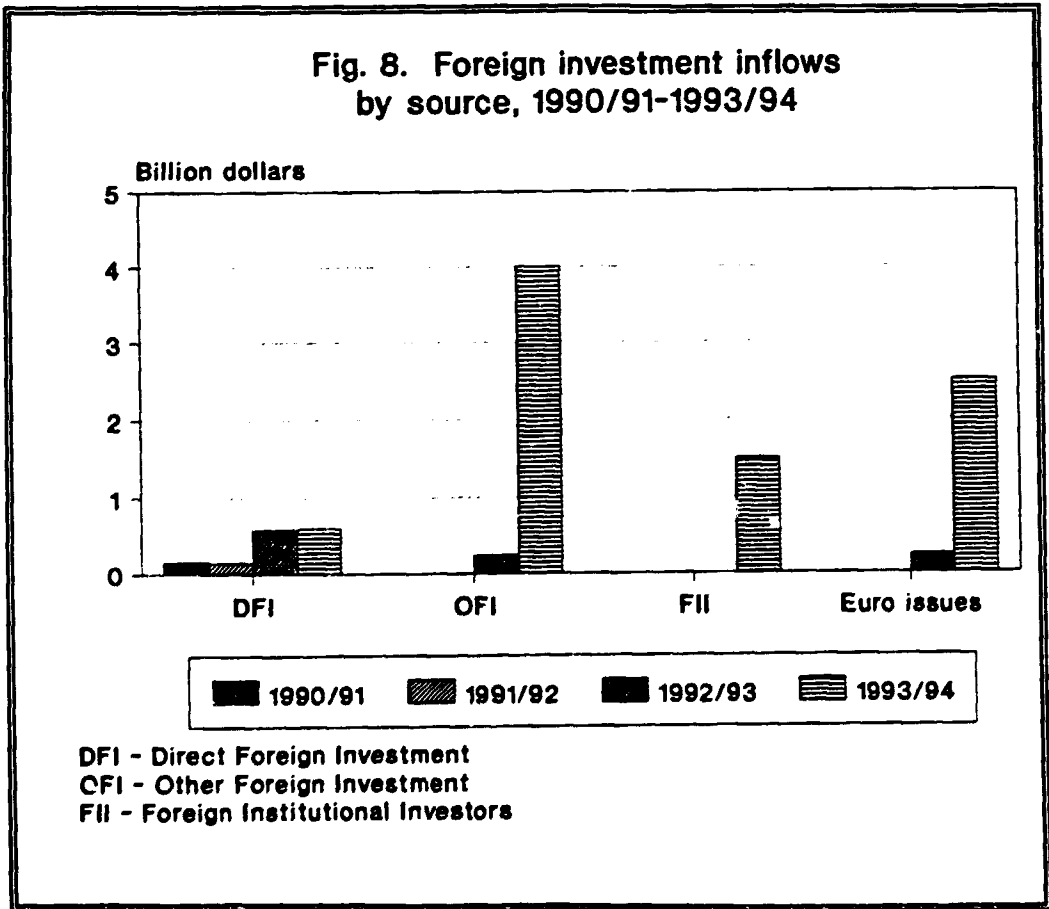


Fig. 8. Foreign investment inflows by source, 1990/91-1993/94
Billion dollars
5
4
3
2
1
0
DFI
OFI
FII
Euro issues
1990/91
1991/92
1992/93
1993/94
DFI - Direct Foreign Investment
OFI - Other Foreign Investment
FII - Foreign Institutional Investors

II. OPENING UP TO TRADE AND INVESTMENT

After decades of inward-oriented policies and experimentation with import substitution, India has finally decided to open up to the dynamic forces of foreign trade and foreign investment. Trade policy reforms have been at the centre of the new economic policies of the 1990s. Doors have been opened to imports by doing away with import quotas and lowering the tariff rates in a phased manner to bring them in line with those prevailing in other developing economies. A new pro-active approach to foreign investment forms an important plank of the new economic policy which is pushing Indian industry to be internationally competitive.

Import licensing removed

Knocking at numerous government doors to obtain a license which would entitle industry to import machines or inputs for use in production is truly a thing of the past. So much has changed in such a short time. In a major initiative towards convertibility of the Indian rupee, import licensing has been done away with for most goods other than consumer goods and a few others. This has removed with one stroke a major source of bureaucratic delays and inefficiencies.

Export trading houses have been provided special incentives for exports by permitting them to import certain consumer goods and some other items otherwise banned. Most recently, the export/import policy for 1994/1995 has widened the list of such items. The areas of operation of the export processing zones has been expanded to include trading.

Tariff rates lowered

The government made an open commitment at the very early stage of the reform process to bring the tariff rates down to international norms in a phased manner. This is being done without fail. In the budget for 1994/1995 customs duties were lowered even when revenue compulsions of the government may have provided some reason for holding back the tariff reform.

Prior to the reforms India's tariff rates were very high indeed. There has been a consistent decline in these rates over the past three years. The peak rate of customs duty exceeded 200 per cent. The maximum tariff today stands at 65 per cent. Even capital goods imports were subject to tariff rates of around 100 per cent. The duties on capital goods have been lowered to a range of 20-40 per cent, while the basic import duty on general capital goods is 25 per cent. There is no import duty on fertilizer projects and a duty of 20 per cent on power projects. For leather which is a major export earner, import duties on most raw materials and machinery are at 20 per cent without any countervailing duties.

The reductions in tariff rates are very significant on an import-weighted basis (see Table 3). Because of numerous exemptions, the published tariff rates do not fully reflect the nominal levels of protection, and collection rates (the ratio of the realized customs revenue to the value of the imports of a commodity) provide a more accurate picture. The decline in collection rates over this period is also evident from Table 3.

Table 3. Tariff rates for selected goods, 1990/1991-1993/1994

	1990/1991	1991/1992	1992/1993	1993/1994
Import weighted averages (per cent)				
Total	87	64	47	33
Agricultural products	70	30	25	17
Capital goods	97	76	50	38
Intermediate goods	117	55	40	31
Consumer goods	164	144	n.a.	n.a.
Collection rates (per cent)[a/]				
Total	47	44	37	n.a.
Food products	47	27	12	n.a.
Capital goods	60	64	53	n.a.
Chemicals	92	82	71	n.a.
Man-made fibres	83	63	45	n.a.

Source: Ministry of Finance, Government of India; and World Bank.

a/ The ratio of the realized customs revenue to the value of the imports of a commodity.

A pro-active approach to foreign investment

There has been a radical change in India's policy towards foreign investment. From being rather restrictive and selective the foreign investment policy has come a long way in becoming friendly and pro-active. In particular, the government is encouraging foreign investment in infrastructure areas (see Section III). Table 4 provides a list of major foreign investment projects approved under the new policy regime.

Direct foreign investment is permitted in virtually every sector of the economy. Majority foreign investment (up to 51 per cent) is freely allowed in most industries. In industries reserved for the small scale sector foreign equity up to 24 per cent is permitted. Foreign equity up to 100 per cent is encouraged in export-oriented units in the power sector, electronics and software technology parks. In other industries also, foreign equity up to 100 per cent is permitted on merit. There is no restriction on the use of foreign brand names/trade marks for internal sale.

A foreign investor has to seek "government approval" in one of two ways. A simple fast track mechanism or "automatic approval" is available for projects of certain kinds, e.g., up to 51 per cent equity in units in Export Processing Zones and also in 100 per cent export-oriented units and all foreign technology agreements which meet certain economic parameters. For all other proposals, applications are processed by a high level Foreign Investment Promotion Board (FIPB). With its record of speedy clearances, the Board has approved a total volume of foreign equity of $3 billion in the first two years. All this is in sharp contrast to the approvals of only about $150 million per year only a few years ago. It is not surprising then that while it took the government five years to give approval to Pepsi Cola for entering the Indian market in 1990, only two years later the government took only three months to grant approval to Coca Cola. The administrative procedures are much simpler today.

Table 4. Major foreign investment projects approved, August 1991 to January 1994

Foreign collaborator	Indian company	Foreign equity	
		Amount (Rs million)	Share (per cent)
Power			
Enron Power Development Corporation, USA	-	14,640	60
National Power, United Kingdom	Ashok Leyland	3,570	51
Cogentrix Development Company, USA	-	2,745	56.2
Chemicals and petrochemicals			
International Petroleum, Switzerland	-	6,000	100
Oman Oil Company, Oman	Bharat Petroleum	3,477.5	26
ENI Group Italy and Columbian Chemicals Company, USA	Harrison Malayalam Ltd.	390	-
C. Itochu, Japan	Reliance Industries	2,340	26
Proctor and Gamble	-	720.25	100
Richardson Vicks Inc., USA	Procter and Gamble, Bombay	378	51
Others			
General Electric Corporation, USA	GE Capital	3,159	100
Caparo Group, UK (Iron and steel)	-	2,700	16.9
Automobiles Peugeot, France (Passenger cars)	Premier Automobiles	1,200	50
General Motors, USA (Premier cars)	Hindustan Motors	780	30
ABB Kraftwerke, Germany (Steam and gas turbines)	Asea Brown Boveri, Bombay	508	63.5
Fujitsu Japan (Electronics)	Punjab State Electronics Chandigarh	331	51

Source: Ministry of Industry, Government of India.

Note: Total projects are 3,630 with foreign investment of Rs 131.6 billion equivalent to $4.2 billion.

The Foreign Exchange Regulation Act (FERA) has been substantially amended to remove its restrictive provisions. The restrictions applied to the operation of companies with foreign equity of 40 per cent or more. Some of the important changes are that FERA companies can now acquire and sell immovable property. They can also borrow and accept deposits from the public. Raising equity up to 51 per cent for these companies is permitted through the "automatic approval" route. All companies incorporated in India are now treated alike irrespective of the level of foreign equity.

India has joined the Multilateral Investment Guarantee Agency (MIGA) and has recently concluded a bilateral Investment Protection Agreement with the United Kingdom. Similar agreements are being negotiated with other major investing countries.

As is to be expected, actual inflows of direct foreign investment follow approvals after a time. This is happening in India as well. By the end of 1993 India had attracted $1.3 billion dollars of actual direct foreign investment, compared with approvals of over $4 billion.

Exchange control liberalized

Exchange rate policy has seen a total transformation in the past three years. The reforms began with a devaluation of the Indian rupee of about 24 per cent in July 1991 in a situation in which extensive trade restrictions were still in place. After a series of successful transitional moves, a unified exchange rate regime was established in March 1993 in which the exchange rate was

allowed to be determined by market forces. Further liberalization of payment restrictions on current transactions was announced in March 1994. For foreign investors, the Indian rupee is already fully convertible on the capital account.

The transition to current account convertibility is by no means complete, since consumer goods remain subject to import licensing and tariffs are still high. But the fact that the reforms in the trade and exchange rate policy regime have been successfully managed has created the confidence necessary for a smooth transition through the remaining stages.

The Uruguay Round and India

India, one of the 23 founder members of GATT, has always stood for a strong and effective multilateral trading system. There has been a lively debate on the Dunkel proposals in the country. Strong opinions have been expressed. The government has repeatedly stressed the benefits to the Indian economy of signing the Uruguay Round. In April, India will formally initial the New Treaty in Morocco.

The main impact of the Uruguay Round will be on the patent system. The Indian Patents Act of 1970 will have to be amended in a major way to allow for product patents in the pharmaceuticals, food processing and chemical industries. The period of protection will also have to undergo a change from 7 years currently allowed for pharmaceuticals and food processing and 14 years for others to 20 years for all. The scope of compulsory licensing will have to be clearly defined and delimited.

India is already a member of the Berne Convention for the protection of literary and artistic works. India's copyright laws are well ahead of provisions laid out in the Uruguay Round. Computer software is protected as a literary work under the copyright law since 1983. With respect to the protection of layout designs of integrated circuits, India is already a signatory to the Washington Treaty of 1989 on Intellectual Property in respect of integrated circuits. The process of enacting a law in accordance with this treaty has already been initiated. The Bill pending before the Indian Parliament for amending the Copyright Act provides, inter alia, for the protection of performers, sound recorders and broadcasting organizations. India's laws relating to trademarks, trade secrets and industrial designs are on par with generally accepted international standards and any improvements that may be required are only incremental in nature.

The Uruguay Round proposals in regard to agriculture and textiles will also work to the benefit of India. In the case of textiles, the abolition of quotas, however unsatisfactorily phased out over ten years from the point of view of developing countries like India, will still benefit an industry that accounts for one third of India's industrial employment, as well as of total exports. In agriculture, the Uruguay Round limit for subsidies is equivalent to about 3 per cent of GDP at current market prices. Agriculture is taxed in net terms in India to the tune of about 2 per cent of the value of agricultural production, unlike the huge subsidies agriculture enjoys in the developed countries. Thus, the competitiveness of India's exports of agricultural commodities has a strong chance of being enhanced with the reduction in farm subsidies in the developed countries between 1995 and the year 2001. Already in the year 1993/1994, agricultural exports have led the way with a 38 per cent increase in dollar terms. Finally, in agriculture, India will be called upon to introduce new legislation in regard to the protection of plant varieties. The Uruguay Round only calls upon each country to have its own system and India will soon introduce legislation for the approval of Parliament that incorporates the notion of breeders' and farmers' rights of the kind that exist in many other countries.

III. DOMESTIC POLICY ENVIRONMENT

The reforms stress competition within the domestic economy just as they encourage competition from imports. They provide a larger scope for the private sector to participate in the growth process. Public sector is being subjected to greater competition from the private sector. Reforms in the public sector are designed to bring about commercial orientation in the running of public sector enterprises. The banking system is also being opened up to competition from private banks

- domestic as well as foreign. More generally, the financial sector is being revamped to cater to the needs of an internationally competitive industrial sector.

Industrial deregulation

Industrial licensing policy has seen the most dramatic change. No license is required from the Government of India to set up new investments as well as capacity expansions in most industries. The parallel controls over large industrial houses through the Monopolies and Restrictive Trade Practices (MRTP) Act have also been eliminated. However, licensing controls remain for industries which are reserved for the small-scale sector. More recently, the government has modified the policy so as to allow medium-scale units to enter even the reserved areas provided they export in the range of 50-75 per cent of their production. Prices are no longer controlled in important sectors such as steel and aluminum.

A new role for the public sector

India has never been a centrally planned economy in the sense that the former centrally planned States of eastern Europe were. Planning in India has meant articulating a broad framework of investment priorities for identifying and establishing key inter-sectoral linkages. Today, the capital invested in about 240 enterprises which constitute the public sector owned and operated by the central government is close to $47 billion. For a number of reasons, the net profits are just about 2.4 per cent of the capital employed. The reforms provide a new role for the public sector.

The number of areas exclusively "reserved" for the public sector has been whittled down to just 6 which covers areas such as defence, atomic energy, minerals going into atomic energy, coal and lignite, mineral oils and railway transport. Virtually all other areas have been opened to private investment. Many critical areas of infrastructure have been opened to foreign investment.

The government has announced that budgetary support to finance losses of public enterprises will be phased out over a period of three years. Price preference for the public sector has also been scrapped. All this has had a salutary effect in confronting public sector units with a hard budget constraint. This stance is supplemented by reforms which are designed to provide greater commercial autonomy to the enterprises. There are, however, close to 50 chronic loss-making enterprises that just cannot be turned around since they perennially make cash losses. Two of these companies are under closure. In the public sector textile industry which employs 170,000 workers and which has an identified surplus of 70,000 workers, 33,000 have already availed of generous retirement schemes. Another 27,000 workers in other public sector companies have opted for voluntary retirement bringing the total to 60,000 workers in the public sector.

A significant area of activity in the public sector has been disinvestment in the shares of public sector enterprises. Close to $1.7 billion has already been raised through three rounds of disinvestment to government-owned financial institutions, mutual funds and the general public. A fourth round of disinvestment has recently been announced. For the first time foreign investors have been permitted to pick up shares of the seven companies which have been offered for partial disinvestment.

Privatization as such has not been common in India, although there are a few examples of companies owned by the central government and some state governments that have actually experienced transfer of management control to the private sector. The best example of this is the company owned by the Andhra Pradesh state government which used to produce light commercial vehicles, watches and refrigerators. The light commercial vehicle unit was sold to a private company and negotiations are under way to sell the other two units as well.

A number of state governments have put some of the companies that they own and operate like sugar mills, pharmaceutical companies, tractor factories, etc., for sale. In almost all cases it is the loss-making enterprises that are being offered for privatization, with a view to revitalizing those enterprises.

Infrastructure

Infrastructure remains the principal responsibility of the public sector whether it is in physical sectors such as power and telecommunications or in social sectors such as health and education. The discharge of this responsibility increasingly involves not only direct public investment but also creating conditions for private investment to flow to these sectors, particularly the physical infrastructure sectors.

The Eighth Plan (1992/1993-1996/1997) envisages public investment of $113 billion at 1991/1992 prices over the plan period. This will amount to about 43 per cent of the total investment in the economy envisaged over this period. About one third of this, i.e. $38 billion, is expected to be in critical infrastructure industries like oil and gas, power, coal, railways, roads, ports and telecommunications. The remaining funds are to be equally divided between agriculture, irrigation, rural infrastructure, poverty alleviation and employment generation programmes, on the one hand, and social sectors, e.g., education, health, nutrition and population, on the other.

Foreign investment is now actively encouraged in critical infrastructure sectors such as energy, hydrocarbons and petroleum. India produces close to 26 million tonnes of oil and another 17 million tonnes of oil equivalent of natural gas. Joint ventures are now permitted in both exploration and development of oil fields. In the power sector the government has gone out of its way to attract foreign investment so as to break critical infrastructure bottlenecks. Not only can a foreign investor hold a majority 51 per cent stake in a venture but tax holidays are also offered for five years for new power projects. Several state governments are actively negotiating with various foreign investors for setting up private sector power plants. The hydrocarbon sector has also attracted significant investor interest. Air transport, which until recently was a public sector monopoly, has been opened up to the private sector and some new entrants have begun operations. The telecommunications sector has also been opened up for certain value added services such as cellular telephones, with public investment being the main provider of what is often called POTS (plain old telephone service). Privately funded and operated toll roads have also been commissioned.

By the end of 1993, more than $1.6 billion worth of foreign investment approvals were made in the basic infrastructure sectors and telecommunications and transportation projects. The expectation is that in the next five years projects involving foreign equity of about $1 billion will add more than 4,000 Mw to India's power generation capacity. Table 5 presents the growth of basic infrastructure sectors in recent years and months.

Table 5. Growth of basic infrastructure subsectors, 1990/1991-1993/1994 (Annual growth in percentage)

Sector	1990/1991	1991/1992	1992/1993	April - January 1992/1993	April - January 1993/1994
Total	**4.8**	**6.1**	**3.0**	**3.5**	**4.9**
Electricity	7.8	8.5	4.9	5.7	6.8
Coal	5.4	8.3	3.8	2.9	4.4
Steel	3.0	8.1	7.0	8.7	4.4
Petroleum crude	-2.9	-8.1	-11.2	-10.7	-1.8
Petroleum products	-0.3	-0.7	4.2	6.1	1.1
Cement	6.3	10.3	0.3	1.4	6.1

Source: Ministry of Industry, Government of India.

Human resource development

On the human resource development front, India has one of the largest pools of scientific and technical personnel in the world. A large network of engineering colleges and technical schools ensures adequate availability of technically skilled personnel. There were close to 5,000 such institutions by the end of the eighties with a total enrollment of 860,000 students. Longstanding collaborations between Western and Indian Universities, especially in science, engineering and business administration, have resulted in a strong useable human resource base for modern industrial development. Communication is helped immensely by the fact that English is the official business language and India has strong comparative advantage in computer software. There is a well-developed R & D infrastructure that has helped the country to achieve impressive advances in the areas of nuclear energy, space technology, remote sensing and satellite communication. The public sector has played a major role in building this base.

Financial sector reforms

An internationally competitive industrial sector requires a modern financial system. The government is committed to a package of financial sector reforms to be implemented over a three-year period to meet the needs of the new liberal economic environment. Several initiatives have already been taken towards reforming the banking system and the capital markets.

There has been a reduction in the Statutory Liquidity Ratio (SLR) and the Cash Reserve Ratio (CRR) that banks have historically had to maintain. The CRR is now down to 14 per cent and the reduction has added about $800 million to the lendable reserves of banks. But it is the reduction in the SLR that is more important. The phased reduction in SLR is designed to bring down the level of pre-emption of bank funds by the government at interest rates below market rates. The interest rates on government securities are also increasingly market determined so that government securities can become an attractive instrument for banks and financial institutions to hold voluntarily. Over time, the average SLR is expected to come to 25 per cent, down from the present level of about 33 per cent.

There has been drastic simplification in the structure of interest rates. Deposit rates for different maturities have been freed subject only to a single ceiling. The number of interest rates for bank advances to different types of borrowers has been reduced from six to three. Interest rates have also been reduced and the minimum lending rate is now at 14 per cent, down by almost 4 percentage points in the last one year.

Prudential norms relating to income recognition, provisioning and capital adequacy applicable to banks have been brought in line with Basle Committee standards. These norms are being phased in gradually to be fully in force by March 1996. The government has announced a programme of contributing fresh capital to the nationalized banks to meet partially their capital adequacy needs. Banks and financial institutions have also accessed the capital market to expand their equity base and thereby reduce the shareholding of the Reserve Bank of India. India's premier commercial bank, the State Bank of India, has already raised close to $500 million as equity from the public.

The banking system is being opened up to competition from new private banks. Several new banking licenses have been granted. Branches of foreign banks have also been expanded to increase competition. The increased competition together with the new machinery that is being set up for improved supervision of bank operations and Debt Recovery Tribunals should help strengthen the Indian banking system to meet the new challenges of a competitive economic environment.

India has a fairly well-developed institutional infrastructure for a capital market compared to the emerging economies of South East Asia. During the 1980s the capital market grew remarkably in size. The corporate sector raised close to $4 billion in the form of debt and new equity. The investing public also expanded, especially in the form of subscribers to mutual funds. Historically, Indian companies have preferred debt. Of the capital raised in the eighties, over 65 per cent was

through debt instruments. But the quantitative expansion of the capital market was not matched by necessary qualitative improvements.

The government has also embarked on major reforms relating to the capital market. Several important initiatives have been taken in the past two years to remove the deficiencies of the Indian capital market and raise its standards to those prevailing in countries with well functioning and efficient capital markets. Firms are now free to issue capital and price new issues according to market conditions subject only to guidelines aimed at effective disclosure of information necessary for investor protection. The Securities and Exchange Board of India (SEBI) has been established as an independent statutory authority for regulating the stock exchanges and the major players in the capital markets (brokers, underwriters, merchant bankers, mutual funds, etc.), with a view to establishing a national stock market system in line with international norms and procedures.

A significant initiative has been the opening up of the capital market for portfolio investments. Indian companies have been allowed to access international capital markets by issuing equity abroad through the mechanism of Global Depository Receipts. Foreign institutional investors managing pension funds or other broad based institutional funds have been allowed to invest directly in the Indian capital markets. Favourable tax treatment has been granted to such investments to encourage capital inflows through these routes. These initiatives have come at a time when international fund managers are diversifying their portfolios by investing in "emerging capital markets" and India has benefitted from this trend along with other developing countries. Inflows from international equity issues by Indian companies in 1993/1994 are expected to be about $2.5 billion, while foreign institutional investors have invested about $1.5 billion in the domestic capital markets (Table 6).

Table 6. Foreign investment inflows by source, 1990/1991-1993/1994
(Million $)

	1990/1991	1991/1992	1992/1993	1993/1994
Total	**165.0**	**148.0**	**585.0**	**4,600**
Direct foreign investment	165.0	148.0	343.5	600
Other foreign investment	0.0	0.0	241.5	4,000
Foreign institutional investors	(0.0)	(0.0)	(1.0)	(1,500)
Euro issues	(0.0)	(0.0)	(240.5)	(2,500) a/

Source: Ministry of Finance, Government of India.

a/ Estimates based on actual inflow of $2,100 million up to 4 March 1994.

There are over 6,800 companies listed in the 20 stock exchanges in the country making India the third largest country in this regard. The Eighth Plan projections show that the Indian private sector will raise close to $20 billion from the capital market during the five years 1992/1997. If market conditions are any indicator, the actual mobilization may far exceed this estimate of the Eighth Plan. There has been a significant shift towards equity in recent years. Close to 60 per cent of the capital raised in 1992/1993 was in the form of equity. Market capitalization is estimated at over $106 billion making India among the leading emerging markets in this respect.

The real challenge in reforming the financial sector relates to the role of regulation in the liberalized framework. Even in countries like the United States, the financial services sector is subject to a regulatory legislation and operates under the supervision of the Securities and Exchange Commission. The Securities and Exchange Board of India is working towards establishing a fair, transparent and independent regulatory structure to protect the interest of investors who today number 15 million, and to facilitate the efficient functioning of the capital market.

Industrial restructuring and labour policy

With industrial deregulation, the opening up of the economy and financial sector reforms, there is an urgent need to create an economic environment which permits the smooth restructuring of the industrial sector. Only then can resources flow from the sick non-viable units to the more vibrant and dynamic sectors.

The Board for Industrial and Financial Reconstruction (BIFR) was set up in 1987 to take up the task of separating the non-viable sick enterprises from the revivable ones in the private sector and provide rehabilitation packages for the one set and effective solutions for exit to the other. Subsequently public enterprises were also brought under the Board's purview.

A successful process of industrial restructuring requires a supportive legislative framework and a positive labour policy. The challenge lies in modernizing the legislative framework in such a way that it combines flexibility in hiring and firing with adequate protection for labour and allows speedy mergers of sick units with healthy ones. The amendments of the Industrial Disputes Act and the Companies Act are on the anvil with a view to meeting this challenge. A new Industrial Relations Bill is also under consideration with a view to addressing the problem of multiple trade unions and setting up of appropriate framework for voting within the trade unions.

One factor that has hampered effective industrial restructuring in the past is the absence of a state-run unemployment insurance system. This is changing. In 1992, a National Renewal Fund (NRF) was established to assist employees in retraining, redeployment and counselling. The NRF has a corpus of about $350 million and initially it is restricted to public sector employees. As mentioned earlier, about 60,000 workers have already opted for benefits under the NRF. By some estimates, this is about 10 per cent of the labour force that can be termed "surplus" in a total employment of close to 2 million in the 240 or so enterprises owned and operated by the central government.

Examples of worker-management cooperation can also be found in the area of industrial restructuring in India. Of the instances in which the BIFR has recommended workers' participation in management as a turnaround strategy, a few have been successful. More recently, worker-management cooperation has been forged in six pharmaceutical companies to facilitate effective restructuring.

The industrial relations environment in the economy has changed for the better in recent years, mandays lost on account of strikes and lockouts showing a major decline from 34.6 million in 1991-1992 to 21.1 million in 1992-1993.

There have also been a number of instances of successful restructuring. Most of these examples, however, are in the Western, Northern and Southern regions of the country which are attracting new investment. It is relatively less difficult to restructure when the overall climate is one of economic expansion so that new jobs can be created to fill the vacuum created by the loss of old jobs. The Eastern region of the country, which was the region to industrialize first but is attracting less than 15 per cent of the new corporate investment, is handicapped in this respect.

IV. FISCAL REFORMS

The fiscal stabilization programme started very well when the fiscal deficit was brought down from a level of 8.4 per cent of GDP in 1990/1991 to 5.9 per cent in 1991/1992. This was achieved by cutting down the fertilizer subsidy, eliminating the export subsidy and reducing plan expenditures. In 1992/1993, fiscal adjustment was of a much smaller order and that too mainly focussing on plan expenditures rather than subsidies. The fiscal deficit was brought down to 5.7 per cent of GDP, but there has been significant deterioration in 1993/1994 when the deficit reached 7.3 per cent. The substantial slippage in fiscal performance is a cause of concern and the government is aware of the dangers it poses. The inflationary impact of the fiscal excesses could be contained in 1993/1994 partly because reserves of food grains and foreign exchange were available as cushion,

and partly because industry was facing recessionary conditions. By all indications, the latter is certainly not likely to continue. The target for the fiscal deficit in 1994/1995 has therefore been set at 6 per cent of GDP - much lower than the 7.3 per cent of last year.

On the tax reform front, there has been significant progress. Some important changes are as follows:

The maximum marginal rate of personal income tax was 56 per cent in June 1991. This has now been reduced to 40 per cent.

The rates of corporate income tax, which were 51.75 per cent for a publicly listed company and 57.5 per cent for a closely held company have been unified and reduced to 46 per cent. These rates are inclusive of a 15 per cent surcharge. Without this surcharge the rate of corporate tax would be 40 per cent which is the same as the maximum marginal rate on personal taxation. The tax on companies registered abroad but earning income in India has been reduced from 65 per cent to 55 per cent.

The wealth tax has been modified to exempt all productive assets including financial assets.

Customs duties have been significantly reduced and further reductions are expected as noted above.

The system of excise duties has been greatly simplified and made transparent. The number of exemptions has also been greatly reduced. The number of rates has been reduced from 21 to 10. The bulk of the duties have been shifted to an ad valorem basis, thus providing greater scope for tax buoyancy. The coverage of the tax credit for taxes paid on inputs has been extended to include petroleum and capital goods.

V. IMPACT OF THE REFORMS

The success in managing the balance of payments crisis is impressive indeed. Foreign exchange reserves have increased from $1.2 billion in June 1991 to over $15 billion in March 1994. Inflation was reduced from a peak of 17 per cent in August 1991 to half that rate within two and a half years. More recently, the inflation rate is rising once again, and it is likely that the year 1993/1994 may show overall inflation of over 9 per cent. The containment of the fiscal deficit would be crucial to the maintenance of macroeconomic stability in the economy.

Exports have begun to respond very well to the new trade policy and the exchange rate regime. Export performance in the first two years of reforms was severely and adversely affected by the collapse of the former Soviet Union which had been a major trading partner of India. Exports (measured in US dollars) declined by 1.5 per cent in 1991/1992 and increased by less than 4 per cent in 1992/1993. But with the effect of this disruption over, the underlying structural transformation is coming to surface. The number of companies achieving international quality standards by obtaining certification from ISO 9000 series today stands at over 220 compared with less than 5 only three years ago. Exports are beginning to respond to the new policies, growing in dollar terms by 21 per cent in the first eleven months of 1993/1994. Consequently, the current account deficit on the balance of payments has declined sharply from 3.3 per cent of GDP in 1990/1991 to just about 0.5 per cent in 1993/1994. International confidence has been restored and there is a surge of investor interest in India both for direct foreign investment and portfolio investment.

Unlike many economies going through structural adjustment with sluggish and even negative growth in the early years, India's experience of structural adjustment has been much less painful. Growth has not collapsed, although it will take two-to-three years before it recovers to its trend performance of 5.5 per cent per annum in the 1980s.

Industrial revival, however, has been slower than expected. Growth of industrial production at 2.4 per cent per annum in the nine months April - December of 1993 was only marginally higher than the growth during the same period of 1992/1993 (see Table 2). But there are some positive signs. If, for example, certain segments of the capital goods industry are excluded, then the average industrial growth during this period was 6 per cent per annum. The budget for 1994/1995 has presented a special package for the revival of the capital goods sector. More generally, industrial recovery is much more evident in the disaggregated picture. In the intermediate goods sector, growth in April - December 1993, was 10.3 per cent compared with 5 per cent in the preceding year. In consumer durables, the corresponding growth rates were 13.5 per cent and -0.6 per cent. In consumer non-durables, also, once sugar is excluded, there is evidence of strong recovery in growth from 0.8 per cent to 2.6 per cent (see Table 7).

Table 7. Production of industrial products by end-use, 1992-1994
(Annual growth in percentage)

Products	April to December 1992/1993	April to December 1993/1994
Basic goods	3.3	3.2
Intermediate goods	5.0	10.3
Capital goods	8.7	-6.4
Consumer goods	0.5	2.3
Durables	-0.6	13.5
Non-durables a/	0.8	2.6

Source: Central Statistical Organization, Government of India.

a/ Excluding sugar.

There is no denying that the transition to a higher and sustainable growth path requires a revival in investment. This has been slow in coming. Public investment has been low because of severe resource constraints affecting state governments. Private investment has been depressed as the corporate sector is reorienting its investment strategy to the new liberalized economic environment.

There are indications that private investment activity is beginning to revive and that the new investment will be more efficient. Corporate strategies are being re-oriented to enable companies to perform effectively in the emerging, more competitive environment. Firms are paying much more attention to the modernization of existing plants than to creation of new capacity in greenfield sites. Several companies are also undertaking labour rationalization through voluntary retirement schemes to ready themselves for stiffer competition. Financial sector reforms are creating an environment in which firms with a good track record and market appeal are able to raise capital both domestically and internationally to finance modernization and expansion. Increased interest by foreign investors looking for joint venture partners is also helping to stimulate investment optimism on the part of domestic firms through tie-ups with global partners. All in all, the mood for wait and watch seems to be turning into a mood for action.

Table 8. **Foreign investment approvals: selected industries, August 1991 - December 1993 ($ Million)**

Industry	August 1991 to December 1992 (17 months)	January 1993 to December 1993 (12 months)	August 1991 to December 1993 (29 months)
Food processing	140.1	289.1	429.2
Metallurgy	23.7	397.0	420.7
Leather	8.9	5.4	14.4
Textiles	48.8	24.5	73.3
Chemicals	169.7	120.9	290.6
Total	**391.2**	**836.9**	**1,228.2**

Source: Ministry of Industry, Government of India.

VI. EMERGING INVESTMENT OPPORTUNITIES

As India liberalizes and policy reforms continue, the new economic environment beckons investors to tap the growing markets in India and use India as a base for exporting. Industries which clearly emerge as candidates for active consideration in the new environment include textiles and clothing, leather and leather products, food processing, metals, and chemicals. These are the focus of INVESMART.

Textiles and garments

Textiles is the largest industry in India accounting for 20 per cent of industrial production and over a quarter of total export earnings. Combining the traditional handloom sector with the more modern powerloom and mill sectors, the industry today is at the crossroads as it modernizes itself to prepare for the new challenges arising from the fundamental changes in the world trading system in textiles as agreed upon at the Uruguay Round.

The competitiveness of Indian textile and clothing industry can be seen from the influx of international giants such as Benetton, Hugo Boss, Lacoste, Pierre Cardin, Van Heusen, Louis Philipe, Arrow, Wrangler and Levis, to name a few. What is more, they are all setting up major production bases in India to exploit the comparative advantage offered by India in this sector.

The major policy initiatives in the subsector are listed below:

- (i) Textile industry delicensed.
- (ii) Machinery for textiles allowed to be imported at a concessional duty rate of 15 per cent by exporters.
- (iii) Duty rates on import of raw materials and intermediates reduced substantially.
- (iv) A new Export Entitlement Distribution Policy for 1994/1996, generally known as Quota Policy, announced with a view to increasing the unit value realized for quota items, simplification of procedures and greater transparency in quota allotment.
- (v) Liberal policies on foreign collaborations and use of brand names.

Foreign investment approvals in the post July 1991 period have amounted to $73.3 million.

Exports of cotton textiles including cotton fabrics and madeups and cotton yarn increased by 16 per cent in dollar terms during the period from April to November 1993 compared with the same period in the preceding year. This performance was largely a reflection of the response to the liberalized policy regime in the economy. There has also been a turnaround that has taken place

in the cotton production base in the country. Due to the development of hybrid varieties, larger coverage of the crop under irrigation and improved management practices, the cotton segment of the Indian textile and clothing industry is poised for a bright future in the years to come.

Garments have emerged as one of the most dynamic items in the textile sector. Both in 1991/1992 and 1992/1993, garment exports from India not only exceeded the targets set by the government, but grew at rates almost twice as fast as the growth in world exports. In 1992/1993 as well as the first nine months of 1993/1994, garment exports in US dollar terms have shown an impressive growth of 21 per cent per annum. There is vast potential for doing even better as garment exports from India still amount to only 2 per cent of the world trade.

Man-made fibre blends account for 60 per cent of the international trade in garments. So far India has concentrated entirely on cotton-based apparel. India's garment exports are largely based on the fabric made by the powerlooms in the unorganized sector where quality control standards are difficult to enforce. Investments are needed in the organized mill sector for improving the fabric base to meet the growing needs of the export sector of garments.

Leather and leather products

India has slowly but steadily been transforming its traditional leather industry into a modern and vibrant sector over the past decade or so. With the largest livestock population in the world and the annual availability of hides and skins expected to rise from 166 million pieces at present to 218 million pieces by the end of the century, India has decided to use its strong base of skilled manpower and low labour costs to exploit her comparative advantage in the manufacture of leather and leather products.

Added to the export potential is the attraction of the growing domestic market. *Per capita* consumption of leather footwear at 0.5 pairs per year is very low compared with 5 to 6 pairs in the USA and 14 pairs in the UK. Even in Pakistan the consumption is 0.76 pairs. As income rises, domestic consumption of leather footwear is bound to rise.

Recognizing the importance of research and development in modernizing the leather industry in India, the government set up the Central Leather Research Institute in Madras. The Institute with its focus on research and training in production, designing and quality control of leather has provided strong impetus for the development of a modern leather industry in India. Moreover, there is a network of other institutions engaged in the promotion of skills and technical manpower needed for the growth of this industry. The Indian Institute of Leather Products supports training of technical manpower for footwear, leather garments and accessories. The Footwear Design and Development Institute and the Central Footwear Training Centre are other major institutes providing institutional support for the development of the industry. The Council for Leather Exports helps the industry in promoting exports.

A number of policy initiatives have been taken to provide a boost to leather industry in India.

(i) No industrial license required for tanneries, footwear, leather outerwear and leather goods and accessories if investment in plant and machinery is less than Rs 6 million.

(ii) No industrial license required for capital goods and chemicals going into leather industry as also for components other than some components for footwear.

(iii) Foreign equity up to 51 per cent and automatic approvals of foreign technology agreements permitted in leather chemicals and auxiliaries, leather footwear, garments and leather goods.

(iv) Foreign export/trading companies allowed to open branches in India or invest in Trading companies in India up to 51 per cent.

(v) Imports of chemicals, components, consumables, etc., allowed liberally at concessional tariff.

(vi) Import duty on machinery and raw materials reduced from 40 per cent to 20 per cent.

(vii) Exports of raw hides and skins and semi finished leather banned.
(viii) Export duty of 5 per cent levied on finished leather to discourage exports.
(ix) Duty free imports of raw hides/skins, chrome tanned crust and finished bovine leather allowed.

After slow growth in 1991/1992 and a decline in 1992/1993, production of leather and leather products increased by 9.2 per cent in the period April-December 1993. Exports of leather footwear in dollars also increased by almost 13 per cent in April-December 1993 compared with the same period in 1992. Foreign investment interest in this sector so far does not match the potential offered by the sector. The approvals for foreign investment in the post July 1991 period have amounted to $14.4 million.

Food processing

India is ideally placed for a take-off in food processing. India possesses the world's largest livestock population, produces the largest amount of wheat, is the second largest producer of fruits and vegetables and the third largest producer of milk in the world. As incomes rise and demand for processed relative to unprocessed foods increases, the opportunities in the food processing industry are staring at the investors. With only one per cent of fruits and vegetables processed at present, only one per cent of the meat production going for value addition, and more generally, only one per cent of the total raw produce used for processing, the untapped potential is vast.

Recognizing the tremendous potential of this industry, the government has taken some major policy initiatives:

(i) No licenses needed for investment in food processing; the only exceptions are sugar, animal fats and oils, and alcoholic beverages.
(ii) Foreign equity up to 61 per cent permitted.
(iii) Automatic approval of foreign technology agreements.
(iv) Excise duties withdrawn on processed fruits and vegetables.
(v) Export of tea freely permitted.

Installed capacity in processed fruits and vegetables has increased from 599,000 tonnes in 1989 to 1,260,000 tonnes in 1993. Production of processed fruits and vegetables has increased from 245,000 tonnes to 580,000 tonnes over the same period reflecting compound growth of 23 per cent per annum. The story is much the same for meat and poultry products.

There are indications that investors are responding to the perceived prospects of the food processing industry. Already, domestic investors have lined up over $10 billion in investment intentions. Foreign investment approvals as part of foreign investment and technology agreements amount to $685 million.

Metals

India's rich mineral reserves have allowed India to develop a large metallic and non-metallic industrial base. Mining was largely reserved for the public sector. In a major move at liberalization in 1993, 13 minerals (e.g. gold, diamond, tin, copper, zinc, iron-ore etc.) have been opened for exploitation by the private sector. Import duties on metals have also been lowered substantially. This should provide a stimulus to mining and related industries.

The forging industry is crucial to the nation's industrial progress as it affects a wide spectrum of manufacturing, particularly the automobile, aerospace, agriculture, railways, ordinance, machining, mining, oil and natural gas, power, petrochemical industries etc. At present, the structure of the industry consists of large and medium units, small-scale units and tiny units. The three sectors together have an annual installed capacity of 620,000 tonnes.

The automotive industry accounts for 60 per cent of the total demand for forgings but other sectors such as machinery making, petrochemicals, aviation, defense and railways have emerged

as important buyers. Most important, the forging industry has emerged as an exporter. From a small value of $14 million in 1990/1991, exports have increased to $30.5 million in 1992/1993 and are expected to be $60 million in 1993/1994. With the government having selected this industry for "extreme focus" on exports, the industry is gearing itself to the task of globalization. Fifteen companies have foreign technical collaborations from Germany, UK, Japan, USA, Austria and Italy, and many of these have already been implemented.

The Indian seamless tube industry is 35 years old and spans both the public sector and the private sector. The industry has been set up to meet high quality standards required in stringent and critical applications for end-use. The production facilities include sophisticated testing equipment and allow for third party inspection. One public sector, company producing seamless tubes for boilers has got ISO 9001 certification in 1993. The other major units are in the process of obtaining the ISO 9000 series certification. Exports of Indian seamless tubes began in 1987 and so far the precision tubes have been exported to USA, UK, Germany, Italy, Japan, Canada, Malaysia, UAE, Dubai and Australia.

In the metallurgy sector as a whole, foreign investment approvals in the post-liberalization period have been of the order of $420 million.

Chemicals

The chemical industry in India is a wide-ranging industry covering organic and inorganic chemicals, drugs and pharmaceuticals, dyes and pigments, soaps and detergents, agro-chemicals like pesticides and fertilizers, and petrochemicals including polymers, synthetic elastomers and synthetic fibres. Its share in the nation's industrial output is estimated to have risen from a nominal 8 per cent in 1970/1971 to about 20 per cent today. The magnitude and importance of the industry can be gauged from the fact that the global chemical sales (excluding synthetic fibres) in 1989 were valued at more than $1,000 billion. Domestic sales of the industry at present are about $10 billion per year, and chemical exports account for almost 10 per cent of the total export earnings.

India today is well placed with a large resource base in nearly all major heavy chemicals necessary for a number of chemical industries. With the advantage of a burgeoning middle class, the world's third largest technical labour force, a fairly well-developed technology base, the scope for pathbreaking research and development, and ample stock of raw materials, there is an inherent comparative advantage that India possesses in the field of chemicals. The country has a phenomenal potential of becoming a world leader in chemicals, petrochemicals and a number of constituent sectors.

Major policy initiatives in the chemical sector include:

(i) No industrial license needed for chemicals except a few hazardous products.
(ii) No import licensing for chemicals.
(iii) Import of Naphtha, LPG and SKO no longer through government agencies.
(iv) Import of capital goods allowed freely if foreign exchange cost is met by foreign equity or from the open market.
(v) No import duty for Naphtha imports.
(vi) Import duty on number of chemicals rationalized.
(vii) Removal of price and movement controls on feedstock, alcohol, etc.
(viii) Foreign equity participation up to 51 per cent permitted.

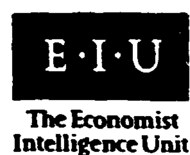
The petrochemical industry is an area which offers major growth prospects. Major petrochemical complexes are in the process of being set up with an estimated investment of $8 billion. As a result, the capacity of the petrochemical sector is expected to increase to over 6 million tonnes by the year 2000. The increased availability of these materials will open up a multitude of opportunities for extension and diversification for existing downstream units, setting up of new units, development of new products, applications, and markets.

As the Indian economy responds to the new liberal economic environment, faster growth will generate increasing demand for consumer durables. Estimates are that by the year 2000, even at low penetration levels, the requirement of washing machines would go up to 10 million units, of vacuum cleaners 7 million units, of refrigerators 14 million units, and of TVs 24 million units per annum. This would generate faster growth in the consumption of chemical products like polymers, detergents, surface coating, electronic chemicals, deodorants, etc. There will also be increasingly new vistas opening in the field of engineering plastics, electrically conducive polymers, novel packaging materials as well as transportation, aviation and electronics industries.

India is at the threshold of a plastics revolution spurred by the increasing preference of polymer products in agriculture and irrigation and the all-round growth of packaging industries. Demand for plastics in India is expected to grow to 3 kg per capita by the turn of the century as against the present 1.5 kg *per capita*. Even then it would be still far below the average world level of 15 kg *per capita*.

The pharmaceutical industry in India has also come a long way. From a value of output of less than Rs 0.1 billion mainly in the form of converting imported bulk drugs into formulations with no significant production base of their own, it is a billion dollar industry today. The production of bulk drugs has more than doubled since the mid-1980s. In recent years the pharmaceuticals subsector has emerged as a net exporter. While basic drugs are being exported to developed countries, finished formulations find their way to developing countries and earlier the former Soviet Union. As the Indian patenting laws, which protect the process and not the product, adjust to the requirements of the new world trade order, the industry will face new challenges, but it is poised to meet this challenge and compete internationally.

India: Industrial Development Review



Forthcoming - Summer 1994

India's recent economic reforms have unleashed the potential for a globalization of the country's industrial sector. Fiscal and monetary systems have been rationalized and the legal framework has been liberalized. Direct foreign investment is now permitted in virtually every sector of the economy and joint ventures with foreign majority participation are freely allowed in most industries.

The forthcoming **Industrial Development Review of India** published jointly by the United Nations Industrial Development Organization and the Economist Intelligence Unit, presents a comprehensive and detailed analysis of the changing dimensions of India's industrial sector, pinpointing investment opportunities across key industry branches.

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