

Production

1.33 The share of services in GDP has gone up by 12.8 percentage points from 36 percent in 1980 to 48.8 percent in 2001. This increase in the share of services is strikingly similar to the corresponding rise in services' share in GDP in many other Asian countries ([Table 1.5](#)) between 1980 and 2001. Among some selected countries given in [Table 1.5](#), except for Indonesia and Malaysia, there is an increasing trend in the share of services, to a large extent matched by a corresponding decline in the share of agriculture. However, the industrial share of GDP appears particularly low in India. It is likely that with accelerated growth and development, there will be a rise in the share of industry in GDP. A disaggregated profile of the sectoral real growth rates in GDP for India, since 1994-95, is given in [Table 1.6](#).

1.34 The relative performance of agriculture and industry and their contributions to growth are likely to be quite different in 2001-02 and the current year. A robust performance by agriculture (5.7 percent) was instrumental in the acceleration of GDP growth by more than one percentage point in 2001-02. Industry, by contrast, had a relatively disappointing record in 2001-02, with lower growth being registered by all industry groups compared with the preceding year.

1.35 Industry has experienced a significant revival, with IIP growth of 5.3 percent in April-November 2002-03. This has been a broad-based recovery, comprising of 5.7 percent in mining and quarrying, 5.4 percent in manufacturing and 4 percent in electricity. The two key elements which led this growth were capital goods, which grew by 9.9 percent, and consumer non-durables, which had growth of 12.7 percent.

1.36 The revival of industrial growth is also reflected in freight traffic movements. Cargo handled at major ports grew by 8 percent during the current year (April-November) compared with 2.4 percent during the same period of the previous year. Over the same period, railway freight traffic grew by 6.2 percent as against 2.6 percent in the previous year. Import and export cargo handled at airports grew remarkably well during the year, while growth in volume of passengers also reversed the declining trends of the previous year.

1.37 The growth in capital goods production, as well as imports, suggests a revival of investment demand. It is corroborated by the Department of Industrial Policy and Promotion (DIPP) data for foreign direct investment (FDI), where inflows in 2002 rose to Rs.21,286 crore, as against Rs.19,265 crore in the previous year.

1.38 Two industries, which have experienced striking revivals in the current year, are steel and cement. World steel prices rose from December 2001 onwards. Domestic demand for steel and cement was supported by the highway construction taking place under the aegis of NHAI, and housing sector growth spurred by easy access to housing finance and a favourable tax regime. Improvements in technology and cost reductions have made India more competitive in exporting steel and cement. For these reasons, steel output grew by 19.8 percent in 2001-02, and a further 24.5 percent in April-November 2002. In the first half of 2002-03, cement production grew strongly by 9.5 percent.

1.39 The textile industry is a key area where India has an opportunity for labour-intensive exports. Textile products showed a strong growth of 14.8 percent in April-November 2002. A key element of this growth was an increase of 11.6 percent in exports of readymade garments in dollar terms. The powerloom segment accounted for most of the growth in fabrics.

1.40 Tourism is an environment-friendly, labour-intensive, export-oriented sector. Tourist arrivals into India

fell sharply in the wake of the September 11, 2001 attack in the US and other developments. There were travel advisories by many foreign governments advising their nationals against travel to India. This resulted in group cancellations and limited future bookings. There are signs of a subsequent revival since October 2002.

1.41 Assisted by low interest rates, growth in consumer finance, and strong export demand, the automobile industry is experiencing sound growth. The number of vehicles exported during April-December, 2002, was 2,15,318, compared with 1,28,119 in the corresponding previous period, thereby registering a buoyant growth of 68 percent. Most major international companies in this industry now have operations in India, and are increasingly using India as a platform for export-oriented production. All elements of the automobile industry are functioning soundly in India, ranging from components to various kinds of vehicles, sophisticated inputs of design, research and consulting.

1.42 Gems and jewellery, which since 1998-99 has had a share of 16-20 percent in the total exports of the country, registered a buoyant growth of 28.6 percent in April-October 2002, relative to a decline of 12.2 percent in April-October, 2001. The rise in exports mainly reflects a spurt in sales to the United States, the largest importer of India's gems and jewellery. This has been assisted by policy initiatives of the government, such as delicensing of the import of rough diamonds. There are fresh efforts underway in prospecting for precious gems in the country.

1.43 In the oil and gas industry, a significant development is gas discovery in new blocks. Preliminary estimates of the in-place reserves from the recent discoveries in the Krishna-Godavari offshore, and in the Rajasthan block, are about 220 million metric tonne (MMT) of oil and oil equivalent gas. In late 2000-01, there was enough refining capacity in India relative to domestic demand, to result in India exporting petroleum products in net terms of 3.08 million tonnes in 2001-02, and 2.08 million tonnes in April-October 2002. In addition, three new refineries, adding up to a capacity of 24 million tonnes, are under construction. Natural gas production rose to 20.61 billion cubic metres (BCM) during the current year (April-November 2002), which was 4.2 percent higher than that in the corresponding period of last year. To enhance the natural gas availability in the country, eight coal bed methane (CBM) blocks have been awarded in the first round under the National CBM Policy.

1.44 India continues to make progress on export-oriented production in electronics and computer technology. Software exports have grown at a compound growth rate of over 50 percent per year for the last five years. There are now signs of headway being made in the field of hardware exports as well. Hardware exports grew sharply in 2000-01 and 2001-02, reaching a level of Rs.5,871 crore in 2001-02, with growth of 22.6 percent over the previous year. Many top information technology (IT) firms from across the world have started utilising India in their global production chains, and in high-end functions such as research and development.

1.45 One important area of policy focus has been the resolution of failure, or the creation of swift and efficient mechanisms through which labour and capital in failed firms can be reutilised as efficiently as possible. This is closely related to the problem of creditors rights. Initiatives like the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Bill, 2002, giving creditors the ability to seize collateral when a loan becomes delinquent, and amendments made to the Companies Act, which are likely to improve the working of the BIFR, can significantly reduce the loss of output associated with failed firms. In December 2002, the Competition Bill 2001 was passed in Parliament. This seeks to establish a pro-competitive legal framework, contain anti-competitive practices and abuses of dominance and yield better regulation of markets.

1.46 The government has been following a policy of privatisation of non-core enterprises, in the quest for greater productivity. There has been a steady stream of transactions where PSUs, or productive assets such as hotels, have been sold through strategic sales. Contrary to fears expressed earlier, these transactions have not had any harmful effects upon employment.

1.47 In 2002-03, with seasonal rainfall falling short of its normal volume by 19 percent, the country experienced the most deficient monsoon after 1987-88. Seventeen states of the country experienced moderate to severe drought conditions. Kharif foodgrain output (rice, coarse cereals and pulses) declined by 19 percent compared to the previous year. Among commercial crops, oilseeds were the worst hit, followed by cotton and sugarcane. While a strong rabi harvest in April 2002 had led to a four percent growth for agriculture in the first quarter of the current year, the subsequent poor monsoon has cast its shadow on the outcome of this year's rabi crops, even though the late January rainfall may imply normal wheat harvest in Punjab and Haryana.

1.48 The decline in this year's projected foodgrain production to 183.2 million tonnes compared to last year's output of 212 million tonnes, (13.6 percent fall) is large. Fortunately, though, the accumulated public stock of foodgrains provide a cushion to more than compensate for this shortfall, the most important effect of which is the absence of an inflationary undercurrent amongst primary product prices.

1.49 The services sector, the most consistent performer in recent times, maintained its growth momentum in 2001-02, as well as in the first half of the current year. Trade, hotels, transport & communications, and financing, real estate & business services, improved their performance in 2001-02 over 2000-01. In the current year, on a year-on-year basis, in terms of GDP, the services sector registered a growth of 7.6 percent in the first and second quarters, respectively. According to advance estimates released by the CSO, services sector GDP is estimated to grow by 7.1 percent in 2002-03, a rate higher than the 6.8 percent observed in 2001-02.

1.50 The demand generated by enhanced public investment in physical infrastructure has been a key stimulant behind industrial recovery. The impressive progress of the National Highway Development Project (NHDP), one of the most ambitious highway projects in the world, has provided strong backward linkages for the steel and cement industries. Major gains have also been achieved in telecommunications in the current year. New telephone connections during the current year (April-December) have shot up by 17 percent compared to the corresponding period of the previous year. Out of these, 63 percent are attributable to cellular phones, underlining the growing preference of new consumers towards mobile services. Progressively falling tariffs have expanded the cellular subscriber base in the country to 10.4 million from just 0.3 million within a little over five years.

1.51 Despite a disappointing performance by hydroelectric power owing to scanty rainfall, overall power generation has improved during the current year, due to good growth in thermal and nuclear generation. Rural electrification has been proceeding fast, with ten states having achieved 100 percent village electrification. The country is slated to electrify all villages by 2007. Apart from electrification, rural infrastructure is being strengthened through the Pradhan Mantri Gram Sadak Yojana (PMGSY), under which more than 10,000 rural roads have already been constructed.