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MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN INDIA

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MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN INDIA

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The Micro, Small & Medium enterprises (MSMEs) is one of the most vital sectors of any economy in general and India in particular in ensuring equitable, inclusive & employment friendly economic growth. MSMEs have been playing a momentous role in overall economic development of a country like India where millions of people are unemployed or underemployed. This sector solves many problems viz. poverty & unemployment by providing immediate large-scale employment, with lower investments and proves to be the second largest manpower employer, after agriculture. By contributing to more than fifty per cent industrial production in value accumulation terms, this sector occupies a position of prominence in Indian economy. In this regard, Prime Minister Dr. Manmohan Singh stated, "the key to our success in employment lies in the success of manufacturing in the small scale sector".

MSMEs play very important role in socio–economic development of Indian economy on account of their inherent advantages like low capital requirement, high employment generation, decentralization of industrial activity, utilization of locally available resources and widening of entrepreneurial base. MSMEs have a place of pride in Indian economy. The growth rate recorded by this sector has normally been higher than that of the industrial sector as a whole. The small scale industrial sector has emerged over five decades as a highly vibrant and dynamic sector of the Indian economy. MSMEs has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification. The employment generating potential of this sector reveals its aptness for labour surplus economy like India.

The Micro, Small and Medium Enterprises (MSME) or Small and Medium enterprises (SMEs) are also known as small scale industries. (SSIs) are defined on the basis of their investment in plant and machinery (for manufacturing enterprises) as well as in equipments for service enterprises. The Ministry of Micro, Small and Medium Enterprises, Government of India imposed the Micro, Small and Medium Enterprises Development (MSMED) Act in 2006 which defines MSME for both manufacturing and service sector. In case of manufacturing sector, micro enterprise is where the investment in plant and machinery does not exceed twenty five lakh rupees; small enterprise is that enterprise in which the investment in plant and machinery is more than

MANUFACTURING ENTERPRISES	
Enterprises	**Investment in Plant & Machinery**
Micro	Upto Rs. 25 lakhs
Small	More than Rs. 25 lakhs and upto Rs. 5 crores
Medium	More than Rs. 5 crores and upto Rs. 10 crores
SERVICE ENTERPRISES	
Enterprises	**Investment in Equipments**
Micro	Upto Rs. 10 lakhs
Small	More than Rs. 10 lakhs and upto Rs. 2 crores
Medium	More than Rs. 2 crores and upto Rs. 5 crores

TABLE 1: CLASSIFICATION OF MSMEs BASED ON INVESTMENT SLABS

Source: Small & Medium Enterprises Development Act, 2006.

twenty five lakh rupees but does not exceed five crore rupees; medium enterprise is that having investment in plant and machinery more than five crore rupees but does not exceed ten crore rupees.

In case of the enterprises engaged in providing or rendering of services, micro enterprise is that one in which the investment in equipment does not exceed ten lakh rupees; small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; medium enterprise is where the investment in equipment is ranging between two crore rupees and five crore rupees. The ceilings on investment for the micro, small and medium enterprises both in manufacturing sector and service sector can be summarized in Table 1.

Role of MSMEs in Economy

The Micro, Small and Medium enterprise sector has recorded a high growth rate since independence in spite of stiff competition from the large sector and not so encouraging support from the government. Presently, there are around 29.81 million MSMEs in India. The size of the registered MSME sector is estimated to be 1563974. Of the total working enterprises, the proportion of micro, small and medium enterprises are 94.94 per cent, 4.89 per cent and 0.17 per cent respectively. This comprises of 67.10 per cent manufacturing enterprises and 32.90 per cent services enterprises. About 45.23 per cent (7.07 lakh) of the units were located in rural areas. MSMEs are producing wide range of products, from simple traditional crafts and consumer goods to highly sophisticated products like micro–processors, mini computers,

Year	Total MSMEs (In lakh)	Fixed Investment (Rs. crore)	Production (Rs. crore)
2001-02	105.21	154349	282270
2002-03	109.49	162317	314850
2003-04	113.95	170219	364547
2004-05	118.59	178699	429796
2005-06	123.42	188113	497842
2006-07	261.12	500758	709398
2007-08	272.79	558190	790759
2008-09	285.16	621753	880805
2009-10	298.08	693835	982919
2010-11	311.52	773487	1095758
CAGR	16.1%	24.1%	17.6%

TABLE 2 : GROWTH RATE OF MSMEs IN INDIAN ECONOMY

electronic components, electro–medical devices, etc. The growth of MSME sector can be shown through Table 2.

Table 2 highlights the growth performance of MSME sector during 2001-02 to 2010-11. It is clear that the total numbers of MSMEs have increased from 105.21 lakh in 2001-02 to 311.52 lakh i.e. in 2010-11 at the compound annual growth rate (CAGR) of 16.1 per cent. The fixed investment in this sector have also raised in a considerable manner from Rs 154349 crore in 2001-02 to Rs 773487 crore in 2010-11 with a significant CAGR of 24.1 per cent. The value of production of MSMEs has grown at the compound rate of 17.6 per cent during the period of ten years. A major point to be noted here that is the explosive growth of MSMEs in the year 2006-07. Despite, the global meltdown, MSME sector registered a considerable growth rate in terms of units, production, and investment etc.

However, MSME sector has maintained a higher rate of growth vis-a-vis the overall industrial sector which can be observed from the comparative growth rates of production over the period of time for both the sectors. The growth rate of MSME sector, in terms of index of industrial production (IIP) (base 2001-02) reached to 13 per cent in 2007-08. While the overall industrial sector achieves only 8.70

per cent growth rate in terms of IIP for the same year. It is also cleared that MSME sector has also consistently attained a higher growth rate as compared to the overall industrial sector in each year during 2002-03 to 2007-08. Another important point here is that the sharp decline in the growth rate of industrial sector in the year 2008-09, which may be due to the impact of global economic crises.

The development of MSMEs has been viewed as a powerful instrument for accelerated industrial growth, productive employment opportunities and export earnings in any economy in general and India, in particular. This sector is contributing to the manufacturing output, employment and exports in Indian economy since long time. This sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 60 million persons in over 26 million events throughout the country.

MSMEs are labour-oriented and labour intensive with relatively high labour-investment ratio. A given amount of capital invested in this sector of industries is likely to provide more employment, at least in short run, than the same amount invested in a large industry. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector generates employment for four persons. It will not be wrong to say that small scale sector in India creates largest employment opportunities for the Indian populace, next only to agriculture.

Similarly, MSMEs play a major role in present export performance of India because about 45-50 per cent of the Indian exports are being contributed by this sector. The role of MSMEs in employment generation as well as in exports can be seen through following Table 3:

Year	Employment (lakh person)	Export (Rs. crore)
2001-02	249.33	71244
2002-03	260.21	86013
2003-04	271.42	97644
2004-05	282.57	124417
2005-06	294.91	150242
2006-07	595.66	182538
2007-08	626.34	202017
2008-09	659.35	N. A.
2009-10	695.38	N. A.
2010-11	732.17	N. A.
CAGR	15.5%	20.1%

TABLE 3: ROLE OF MSMEs IN EMPLOYMENT GENERATION & IN EXPORTS IN INDIA

Source: Ministry of MSMEs, Annual Report, 2011-12, GOI

The above table 3 clearly depicts the critical role of MSMEs in employment generation and in Indian exports during 2001-02 to 2010-11. The number of persons employed in this sector stood at 249.33 lakh in 2001-02 and reached to 732.17 lakh in 2010-11 at the CAGR of 15.5 per cent. Besides, the growth rate of employment achieved by this sector in 2006-07 was more than hundred per cent. Similarly, the contribution of MSMEs in exports is quite significant. The value of production exported by this sector has grown at the compound rate of 20.1 per cent over the period. However, export-oriented MSMEs are impacted from imminent global slowdown; as a result percentage increase in exports during 2007-08 was less in comparison to earlier five years.

MSMEs constitute an important and crucial segment of the industrial sector in Indian economy. By contributing to the overall growth of the gross domestic product, employment generation and exports, the sector is emerged as the engine of growth for Indian economy. The performance of MSMEs has a direct impact

on the growth of overall economy. The contribution of MSMEs in total industrial production and gross domestic product is highlighted in the Table 4:

It can be seen from the table that the contribution of the MSME sector to overall industrial production has increased from 39.12 per cent in 2001-02 to 44.86 per cent in 2008-09.

Year	Percentage Contribution of MSMEs at 1999-2000 prices in	
	Total industrial production	Gross Domestic Product (GDP)
2001-02	39.12	5.77
2002-03	38.89	5.91
2003-04	38.74	5.79
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

TABLE 4: CONTRIBUTION OF MSMEs IN GDP IN INDIA

Source: Ministry of Micro, Small & Medium Enterprises, Annual Report, 2010-11, GOI

Similarly, the contribution of the MSME sector to the gross domestic product (GDP) has increased from 5.77 per cent in 2001-02 to 8.72 per cent in 2008-09 which justifies the need for continuous efforts to sustain the progress of MSME sector.

Despite the appreciable performance of MSME sector and its significant contribution in Indian economy, the problem of industrial sickness is persisting in this sector. It is not so easy to define a sickness. Generally, a sick industry is defined as one which is not able to earn a reasonable return on capital employed and to build up reserves after providing reasonable depreciation. According to Reserve Bank of India, a small scale industrial unit is considered as sick when any of its borrowable accounts has become a doubtful advance that is most important or interest in respect of any of its borrowal accounts has remained overdue for a period more than two and half years and there is wearing away in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its climax net worth during the forgoing two accounting years.

Industrial sickness is a continuing process with distinct stages taking some years to corrode the health of a unit beyond cure. It starts with downturn in the industry whose continuation leads to setting in of industrial sickness. The number of sick units among MSMEs declined to 0.85 lakh in 2008-09 from 1.77 lakh in 2001-02. Their percentage in total MSMEs has also reduced from 1.68 per cent in 2001-02 to 0.36 per cent in 2008-09. The total investment in MSME units stood at Rs. 154349 crore in 2001-02 out of which 3.12 per cent of investment was incurred on sick units of MSME sector. The percentage of investment on sick units ranged from 0.55 per cent to 3.52 per cent over the years.

PROBLEMS FACED BY MSMEs IN INDIAN ECONOMY

The small and medium scale enterprises have suffered with many problems, which are mainly depending on the level of economic and social development of the country. India as a developing country is not an exception to the above condition. Though, there are unlimited problems connected with MSMEs, some of them are given below. They are:

- Difficulties in obtaining credit, competing with imported products, identifying appropriate technology & technical assistance, investment promotion and maladjusted project preparation and evaluation.
- Inability to offer liberal credit terms in the sale of their products, absence of management expertise, under capitalization and bureaucratic red tapism and regulations.
- Lack of industrial training & skill formation, quality control & testing facilities, proper

market promotion, both domestic & export, scientific & industrial research, lack of management & reorganization of small & medium scale enterprises through various schemes and productivity increase through modernization.

Thus, MSMEs are facing multi-dimensional problems. However, this sector in India has been confronted with an increasingly competitive environment due to:

(i) liberalization of the investment regime in the 1990s, favouring foreign direct investment at the international level, particularly in socialistic and developing countries;

(ii) the formation of the World Trade Organization (WTO) in 1995, forcing its member- countries (including India) to drastically scale down quantitative and non-quantitative restrictions on imports, and

(iii) domestic economic reforms.

The cumulative impact of all these developments is a remarkable transformation of the economic environment in which MSMEs operate, implying that this sector has no option but to 'compete'.

Opportunities and constraints of globalization from the view point of MSMEs:

Globalization may be defined as the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. Therefore, it signifies internationalization plus liberalization, through which the world has become a small global village.

OPPORTUNITIES:

(i) ***Exposure to foreign markets***: Globalization has opened up the economy and integrated it with the world economy. The MSMEs enjoy the benefits of selling their products and services to the world market rather than being confined into domestic market. The free economy ushers in accessibility to bigger markets, greater linkages for SMEs with larger companies and marketing outfits, improved manufacturing techniques and processes.

(ii) ***Flow of foreign investment and technology:*** The MSMEs in India suffer from outdated technology and sub-optimal scale of operation. Many foreign companies have tied up with Indian MSMEs and helped them to use better technology, managerial skill etc. Thus, a proper collaboration between the small and large companies can help small firms to develop technology base through Research & Development activities, contribution from the technological institutes, universities, etc.

(iii) ***Emerging areas of business:*** MSMEs have been able to identify many uncommon but highly promising business areas like outsourcing, medical transcription, clinical research trials, sub-contracting, ancillarization and many new technologies like biotechnology, nanotechnology, etc. which are attractive for the new generation MSME entrepreneurs.

(iv) ***Less Govt. Intervention:*** As the economy is mainly market driven; there is less Govt. intervention, red tapes, less control on import and export etc. The MSMEs would be allowed to work in a free environment.

(v) ***Employment generation:*** Being labour-intensive in nature, the MSMEs make significant contribution in employment generation and expanding industrial network in rural areas. This sector nurtures the traditional skills and knowledge based small and cottage industries. The workers inherit and transfer skills from generation to generation. The handicrafts and other products produced by this sector have good demand in market. The MSMEs have been a good source of employment generation and can be even more if the sector gets support in terms of infusion of technology, capital and innovative marketing techniques, etc.

(vi) ***Better performance by the MSMEs:*** Before globalization, the MSME sector was a highly protected sector. Suddenly, after globalization they discovered that many of such protective measures were withdrawn and they had to fight for their existence. This competitiveness in domestic and global market might bring out superior performance.

(vii) ***Better Customer Satisfaction*** - As the domestic market gets competitive, small and medium firms try to satisfy the consumers in every possible way. They try to produce products as per the needs and preferences of the consumers and satisfy the customers in the best possible way.

(viii) ***Short and long term capital -*** In a liberalized economy, banks would try to find out new avenues of giving credits to increase their profitability. Thus, supply of funds may be easier. Development in money market would initiate development in capital market.

(ix) ***Export contribution -*** The products produced by MSME sector (like sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products, handicrafts, etc.) have an excellent foreign market. As per the results of fourth MSME census (2006-07), this sector registered an export earning of Rs. 202017 crores in 2007-08.

(x) ***Removal of Regional disparity -*** People from remote areas have the tendency to migrate to urban areas in search of jobs. This creates excessive pressure on urban areas and initiates social and personal problems. This problem can be addressed by setting up a network of micro, small and medium enterprises in economically backward areas. MSME sector can take care of local needs, improve economic condition of the area and most importantly, can bring a qualitative change in the economy of the country.

(xi) ***Better industrial relations -*** The MSMEs are less prone to industrial disputes. However, the truth behind the scene is the workers in small sectors are mostly from unorganized sector and cannot raise their voice collectively. Thus, apparently, they share harmonious relations with the firm owners.

CONSTRAINTS**:** Process of globalization has resulted in some serious constraints on the MSMEs:-

(i) ***Financing Problems:*** Financing has always been a major problem for the small and medium industries in India. The MSMEs mostly depend on internal sources of finance (personal savings, loan from relatives, and loan from local money lenders) than that of institutional financing by banks and other financial institutions. The Scheduled banks do not consider the MSMEs as preferred area of investment. Traditionally, banking sector considers Small industries a risky field of investment due to reasonably low growth rate of the small firms, firms following informal business practices, inability of the MSME entrepreneurs to maintain collateral securities, lack of creditworthiness, relatively high processing cost, and poor flow of information. Moreover, incidence of Non-Performing Assets (NPA) in Small and Medium Sector is about 15 percent compared to about 9 percent in large business houses.

(ii) ***Extreme competition:*** The MSMEs face ruthless competition from the large domestic firms and multinationals armed with improved technology, managerial ability, skilled workers, marketing skills, better product quality, and wide range of products. The small firms find it difficult to maintain their existence as the cases of merger and acquisition are continuously increasing.

(iii) ***Poor Technology Base:*** There exists considerable heterogeneity among the MSMEs in India. A small percentage of firms operate with sophisticated technology base whereas majority of firms use outdated technology. They suffer from low productivity and poor

product quality. Due to their small size, they cannot enjoy large-scale production economies.

(iv) ***Lack of infrastructure:*** Infrastructural lacking includes inadequate power supply, transportation, water supply etc. Small firms cannot bear the cost of setting up independent power supply unit. They have to depend on irregular power supply from the electricity boards. Inadequate transportation system increases cost of production. The MSMEs producing beverages, tobacco products, medicines, etc. face the problem of inadequate water supply. As per the study conducted by Keshab Das and Sebastian Morris (2001), out of 1063 surveyed firms, 716 firms (more than sixty-seven percent) confessed that they have serious infrastructural problems.

(v) ***Lack of Skilled workers:*** Though India has no shortage of human resource, most of them are unskilled workers. Large firms pay higher remuneration and employ skilled workers. The MSMEs have to operate with unskilled or semi-skilled workers. Thus, the MSMEs suffer from low managerial capabilities.

(vi) ***Marketing and Distribution Problems***: Marketing is probably the most neglected and less explored problem for Micro and Small firms. Most of them do not have any well formulated marketing strategy, market research programmes, innovative advertisement techniques, etc. Most of the MSMEs do not have adequate monetary support to develop marketing section and many are not aware of modern low-cost marketing techniques (blogging, sending mails, developing website for the company).

(vii) ***Delayed payments:*** The small firms find it difficult to recover their dues from the large firms and even from Govt. departments due to complex payment procedure and corruption. Due to lack of funds, they cannot employ credit collection machineries (like factoring services). The large firms force them to offer long credit period and even pay advance to ensure timely supply of materials.

(viii) ***Gradual withdrawal of Reservation Policy :*** Reservation Policy, introduced in 1967 emphasized that some products would be earmarked for exclusive production by the small enterprises and Non-MSME units can undertake manufacture of reserved items only if they undertake 50 percent export obligations. Withdrawal of reservation policy allowed MNCs and large domestic firms to produce reserved items without any restrictions and increased the degree of competition for the small firms. However, Several Expert Committees like Abid Hussain (1995), Shri T.S. Vijayaraghavan (1997), Confederation of Indian Industries (CII) (1997), etc. concluded that reservation policy is no longer helpful for MSMEs as MSME units with no reservation facility have performed better than those units with reservation support. Moreover many MSMEs do not produce the reserved items and many MSME Entrepreneurs do not consider it a relevant policy.

(ix) ***Mindset Problems:*** The mindset of the many MSME entrepreneurs has not yet changed. They still expect protection policies and preferential treatment for the MSMEs. Fortunately, this tendency is low in the new generation entrepreneurs. Workshops, success story based approach may help reduce this tendency even more.

(x) ***Outflow of wealth:*** Globalization process seems to favour the developed countries and the multinationals more than that of developing countries and the MSMEs. The MNCs use domestic wealth, infrastructure, and local unskilled workers at a lower cost and repatriate huge profits to their own countries.

(xi) ***More prone to global fluctuations:*** A well liberalized economy reacts more sharply with the changes in global market. The demand and supply would be determined by global fluctuations and not by the needs of the consumers.

(xii) ***Social welfare areas neglected:*** The MNCs are more willing to produce consumer goods to maximize their profit. The qualitative services like health, education, etc. which require huge investment but generate less and time taking return on investment, would be neglected.

Government Schemes for SMEs

There are various schemes run by the Indian Government to boost the SME's in the country to help them become more innovative, efficient and competitive. The enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 was a landmark initiative taken by the Government of India to enable the SMEs' competitive strength, address the issues and challenges and reap the benefits of the global market. SME policy initiatives at the national and state level are aimed at strengthening the role of SMEs at the base as well as at the higher level.

The Ministry of Micro, Small and Medium Enterprises (MSME) is implementing the promotional schemes for the development of micro, small and medium enterprises. The schemes and programmes generally focus on capacity building in states and regions; nevertheless, there are a few schemes and programmes, which are individual beneficiary-oriented.

Some of the schemes by the Ministry of Micro, Small and Medium Enterprises (MSME) are as below.

- Scheme of Surveys, Studies and Policy Research.
- Entrepreneurship Development Institution Scheme.
- Scheme of Fund for Regeneration of Traditional Industries (SFURTI).
- Rajiv Gandhi Udyami Mitra Yojana (RGUMY).
- Marketing Assistance Scheme (Implemented through NSIC).
- Performance and Credit Rating Scheme (Implemented through NSIC).
- Prime Minister's Employment Generation Programme (PMEGP) (Implemented through KVIC).
- Product Development, Design Intervention and Packaging (PRODIP) (Implemented through KVIC).
- Khadi Karigar Janashree Bima Yojana for Khadi Artisans (Implemented through KVIC).
- Interest Subsidy Eligibility Certification (ISEC).

While there are no specific reservations for women, there are some concessions/incentives available under these programmes for the benefit of women entrepreneurs. In respect of entrepreneurship/skill development training programmes, under the National Awards for Entrepreneurial Development (Quality Products) and Trade Related Entrepreneurship Assistance and Development (TREAD) Programme for women, the necessary guidelines have been issued and specific reservation provided for women. Similarly, under two employment generation programmes being implemented by the Ministry like Rural Employment Generation Programme (REGP) and Prime Minister's Rozgar Yojana (PMRY), some concessions have been provided for women beneficiaries. Besides, the Coir Board is implementing the Mahila Coir Yojana, which is a women oriented self-employment programme.

There are certain schemes which National Small Industries Corporation carries forward to assist small enterprises with a set of specially tailored schemes designed to put them in a competitive and advantageous position. The schemes comprise of bank credit facilitation, Export credit Insurance, SME Credit Rating, Bill discounting schemes, Government stores purchase programme, infomediary services, facilitating marketing support, technology support and other support services.

Besides these schemes, the Government of India also runs a International Cooperation Scheme for Technology infusion and/or upgradation of Indian MSMEs, their modernisation and promotion of their exports are the principal objectives of assistance under the International Cooperation Scheme.

SPECIAL ECONOMIC ZONES (SEZs) in INDIA

An SEZ is a trade capacity development tool, with the goal to promote rapid economic

growth by using tax and business incentives to attract foreign investment and technology. An SEZ can also be identified as a geographical region which has more liberal economic laws than a country's typical economic laws. Today, there are approximately 3,000 SEZs operating in 120 countries, which account for over US$ 600 billion in exports and about 50 million jobs. By offering privileged terms, SEZs attract investment and foreign exchange, spur employment and boost the development of improved technologies and infrastructure.

Most developing countries, like India, across the world have recognized the importance of facilitating international trade for the sustained growth of the economy and increased contribution to the GDP of the nation. As a part of its continuing commitment to liberalization and to trigger larger flow of foreign and domestic investment for the generation of additional economic activity and creation of employment opportunities, government of India started promoting SEZs. India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. Asia's first EPZ was set up in Kandla in 1965. EPZ's could not prove their efficacy in Indian economy and so could not attract larger foreign investments. Therefore, due to the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime, the Special Economic Zones (SEZs) Policy was 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. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

To instill confidence in domestic as well as foreign investors and signal the Government's commitment to a stable SEZ policy, extensive discussions with the stakeholders were held to evolve a comprehensive draft of SEZ Bill, 2005. A number of meetings were held in various parts of the country both by the Minister for Commerce and Industry as well as senior officials for this purpose. And thereafter, the Ministry of Commerce and Industry laid down the regulations that govern the setting up and administering of the SEZs. State Governments play a significant lead role in the development of SEZs in their respective States by stipulating the conditions to be adhered to by an SEZ and granting the necessary approvals. The policy framework for SEZs has been enacted in the SEZ Act and the supporting procedures are laid down in SEZ Rules.

The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments.

The main objectives of the SEZ Act are:

- Generation of additional economic activity
- Promotion of exports of goods and services;
- Promotion of investment from domestic and foreign sources;
- Creation of employment opportunities;
- Development of infrastructure facilities;

The Special Economic Zones Act, 2005 was developed to overcome the shortcomings of existing statutes governing the SEZ's in India and to simplify the procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs.

The SEZ Rules provide for:

- Simplified procedures;
- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zone;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self-certification.

Incentives and Facilities Offered To SEZs In Indian Economy:

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 income derived from the business of development of the SEZ in 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).

Efficacy of Special Economic Zones:

Benefit derived from SEZs is evident from the investment, employment, exports and infrastructural developments additionally generated in Indian economy. The benefits derived from multiplier effect of the investments and additional economic activity in the SEZs and the employment generated thus has far outweighed the tax exemptions and the losses on account of land acquisition. Stability in fiscal concession is absolutely essential to ensure credibility of Government intensions. Tables and diagrams given hereinafter containing the information regarding "Level of investment in functional SEZs in India", "Level of Employment in Functional SEZs in India", "Exports from SEZs during the last Five Years (from2003-04 to 2007-08)", gives clear picture of efficacy of SEZs in Indian economy.

SEZs – Engines of Economic Growth:

The Special Economic Zone policy was promulgated by the Government of India in year 2000 to correct the shortcomings of the EPZs like size, infrastructure constraints, location handicaps and lack of policy framework. This policy aimed to make the SEZs engines of economic growth, supported by quality infrastructure and complemented by an attractive fiscal package and a plethora of sops like:

Tangible benefits:

- Contribution to respective State's GDP.
- Employment generation (Direct & Indirect).
- Creation of world class self-contained infrastructure.
- Improvement in fiscal position of the state due to consequential benefits- cascading effect on economic activity.
- Increase in State's revenues from VAT, Property taxes, Stamp Duty, etc.

Intangible benefits:

- National and International recognition as Preferred Investment Destination
- Facilitates urbanization – shift from agriculture to industry.
- Creation of high quality social infrastructure.
- Reduction in pressure on existing urban infrastructure.
- Better standard of living.
- Improved competitiveness of the local industry.
- Absorption of latest technology and managerial capabilities.

- Environmental benefits from planned developments.
- Rehabilitation of Project Affected Persons

India must not fail to encash the benefits that SEZs could bring to the country. India must try to emulate the success of Chinese SEZ model, but by customizing their model to our specific requirements. For example, sectors where India has inherent strengths, like IT and gems & jewellery - the manpower requirements for which only being available in cities where large

Exports from SEZs during the Years (2003-04 to 2008-09)

2003-2004	13,854	39%
2004-2005	18,314	32%
2005-2006	22 840	25%
2006-20007	34,615	52%
2007-2008	66,638	92%
2008-2009	99,689	50%

areas are difficult/not possible - must definitely be encouraged without getting into apprehensions about their numbers, lower land area requirement etc., in the interest of quick implementation of SEZs.

SEZs as vehicle for Job Creation – Reaping the demographic dividend:

India needs to convert its demographic profile into a beneficial cycle of creating productive jobs for the rising work force resulting into higher savings, which in turn leads to investments and economic growth. India's median age is just under 25 years which means that there are over 500 million people below 25 years of age. Two-thirds of these 500 million are supported by the agricultural sector, a sector which contributes just 21 per cent to the GDP. These people have rising aspirations and must find jobs in manufacturing and services sectors. If substantial job creation does not take place, it would have serious, if not disastrous, social and economic implications for the country.

SEZs are job creators - it was estimated that close to 15,00,000 jobs (by end of 2010) would be created by SEZs.

Manufacturing needs a leg up - SEZs are the answer:

Poor infrastructure, an interfering administration and unfriendly tax law environment, and unfavourable labour laws are some of the factors affecting manufacturing

Level of Employment in Functional SEZs in India

EMPLOYMENT (As on 31st March, 2009)	**Incremental Employment**	**Total Employment**
SEZs Notified under the Act	1,34,627persons	1,34,627persons
State/Pvt. SEZs set up before 2006	43,422 persons	55,890 persons
Government SEZs	74,686 persons	1,96,922 persons
Total	**2,52,735 persons**	**3,87,439 persons**

competitiveness in India. This is reflected in India's poor ranking on the list of global goods exporting countries. In 2005, India's share in world goods exports was under 1 percent, which is lower than many other small economies, including Thailand and Indonesia.

It has become imperative for India to improve its manufacturing environment. Given the current political and economic set-up, improving conditions nationwide for manufacturing will be difficult. Hence, it may be a better strategy for India to create the enabling environment in pockets - high quality infrastructure, a liberal and supportive business policy environment, which will give the necessary push to manufacturing growth. SEZs can be particularly helpful for small and mid-sized entities, which cannot afford to set up captive infrastructure facilities like large Indian companies but can share the costs in a large group. Lastly, it can help attract foreign capital and technology.

SEZs – Means to attract Mobile Investors & Infrastructure Development:

National borders have lost importance in the global competition for international investment capital. There is a global competition between countries for international investment capital more intensively in recent years. India can become a global manufacturing hub inviting mobile investors to set up manufacturing base in India for worldwide exports from the beneficial tax and other incentives available in the SEZs. If India fails to woo the mobile investments, there are other low cost countries waiting in the wings. The SEZs are ideally suited for attracting International investors – not only big investors but also mid-sized investors.

"Indian SEZs will be engines of growth, supported by quality infrastructure and complemented by an attractive fiscal package with the minimum possible regulations". Given the country's poor infrastructure, sorry state of public finances and huge unemployment, getting private investment in infrastructure and attracting huge amounts of foreign direct investment (FDI) especially into labour intensive manufacturing sectors is the prime objective of the policy makers. This becomes more important, since India has been ranked at a disappointing 134th on the ease of doing business in the latest World Bank-IMF listing. Thus, the Indian policy makers need to take radical and bold changes to emerge as a global investment hotspot.

SEZs have emerged as a perfect tool to do away with the above infrastructure and social woes of the country.

Infrastructure Development:

Modern infrastructures are the arteries of commerce within a country. Commerce requires roads, rail lines, sea ports, airports, and reliable

Level of Investment In Functional SEZs In India

INVESTMENT (As on 30th June, 2009)	**Incremental Investment**	**Total Investment**
SEZs Notified under the Act	**Rs.1,04,589.3cr**	**Rs.1,04,589.3 cr**
State/Pvt. SEZs set up before 2006	**Rs.4,901.27 cr**	**Rs.6,657.58 cr**
Government SEZs	**Rs.1,114.45 cr**	**Rs. 3,393.65 cr**
Total	**Rs.1,10,605.02 cr**	**Rs.1,14,640.53 cr**

Source: Special Economic Zones In India, Ministry of Commerce and Industry.

sources of energy at reasonable prices or else goods cannot be transported rapidly, production is interrupted, the supply chain collapses, and the economy suffers. Similarly a well functioning communications system is a prerequisite for investment; in today's global markets, if companies lack reliable communications, they cannot operate.

The infrastructural development within SEZ has been very widely defined, to mean all facilities needed for development, operation and maintenance of an SEZ, including industrial, business and social amenities like roads, buildings, sewerage and effluent treatment facilities, solid waste management facilities, ports, airports, railways, transport system, generation and distribution of power, gas and other forms of energy, telecommunication, networks and social & recreational infrastructure like hospitals, hotels, educational institutions, residential and business complexes etc.

The beauty of SEZs is that this infrastructure would be created by the private sector, through private funding.

Social Infrastructure:

With a large-scale migration of population from rural to urban areas taking place, there is also a need to ensure adequate social infrastructure like houses, hospitals, schools, etc. This aspect is often ignored by critics of the SEZs on the grounds that in the garb of developing non-processing areas in SEZs, developers would actually be conducting real estate business.

SEZ: Does size matter?

Detractors of the SEZ policy often take issue with the minimum land area requirements for sector-specific SEZs. They point out to Chinese SEZs which are massive, and indicate that India is going wrong in allowing sectors like IT, gems & jewellery etc. to have small sized SEZs. The fact is, the development of large, multi-product SEZs will requires a lot of time. We have the example of China where several big SEZ projects were approved in the 1980s anticipating investment of approximately $30 billion. These SEZs became fully operational only towards the end of the 1990s because of the size.

The pertinent question is, Can we afford to wait that long? An IT SEZ, for example, does not need large land area– it could very well work out of a multi-storied building. Therefore, a sector with lower minimum land area requirement could have an operational SEZ in a quicker time-frame, even in cities – where land is scarce but manpower is available.

An IT SEZ could be developed and made operational within a period of six months from the date of notification. IT companies are using SEZ units for EPOs (Engineering Process Outsourcing). The world class technical training that these IT companies will be required to impart to its employees would ignite knowledge revolution resulting into exponential progression of our economy. According to the McKinsey report 2005, out of the total global market size of $300 billion in IT and BPO industry, the Indian IT and BPO industry share is at $22 billion. The IT Specific SEZs in India can help capture more than 50 per cent of this opportunity. IT SEZs will play an important role towards this and the policy must provide an enabling environment. We have to see our requirements and the resources available to us and then refine our policy. A one-size-fit-all approach may not be the best one for India.

Revenue loss to the government?

A lot is being said about revenue loss to the government due to the tax holidays given to the SEZ developer and units. We now need to step back and look at the issue like this: clearly, the government will only lose in case the government gains. Only if the SEZs are a success, does the government stands to lose revenue. But then again success of SEZs would mean generation of so much additional economic activity that the revenue gains from additional economic activity would be many times the revenue loss.

Competition in Industrial Land:

Industrial land, particularly developed with good infrastructure has been a scarce commodity in India. With the number of SEZs coming up, a lot of land would be developed. Moreover, competition between developers would ensure better operation and maintenance of the infrastructure for investors looking for units in SEZs.

THE ISSUE OF LAND ACQUISITION

The national debate on Nandigram is by no means any different in nature from earlier protests regarding acquisition of land for projects, and one need not look further back than 2006 to note similarities. Indeed, 2006 saw the notification of the rules under the SEZ Act (2005) – and they are on the way to creating no less than 300 land-intensive, enclaves. The year 2006 also witnessed popular, anti-SEZ agitations –especially in UP (Dadri, Ghaziabad), Haryana and Maharashtra. Ghaziabad's Dehat Morcha had kept alleging that there were 4.20 lakh acres (1 acre = 0.4 hectares) in the NCR region that government agencies had acquired only in order to re-sell it to property developers and corporates. SEZs have even been creating fissures inside the UPA. It needs no very great political acumen to gauge how embarrassed the CPM must be in West Bengal following the State's Nandigram debacle. However, this is not what is so often alleged as the "unbridled privatisation of land for purely commercial use devoid of public purpose". It might even be argued that things are much more upfront, and draconian, in China, where SEZs are few, but the whole economy is run by the government on quasi-market principles (and certainly, there is no place for unionised labour).

As for those who seek a "public purpose" it should suffice if they understand that an expanding cake is one very important part of that story – but one that had been totally missing during India's long (initial) years of 'planned' development. The other half of the story is that India's political class has kept the economy's main landowners timelessly trapped in crystal – with neither education, electricity (except for the farmers of the North West) nor even basic health care. It is that long history of defaults that has kept farmers chained to their land and made a bogey out of out-migration.

Only after they have garnered the wherewithal to tap into this cornucopia will the farmers feel comfortable enough to let go of their land. Meanwhile, the government – like Caesar's wife – must be above suspicion, and the best way it can attain that status would be by revisiting the question of the power of eminent domain for land acquisition for public purposes. That should be accompanied by proper land pricing (with industry preferably in direct negotiation with landed farmers and the government keeping out of their way).

Land pricing, and particularly where agricultural land is acquired by State governments, needs to be carefully and transparently done. The existing process of arbitration and adjudication on appeal needs to be reexamined and sharpened. Failing that, we will have to live with the perception of inequity in the land acquisition process – something that will surely spike the actions of the buyer on the one hand, and farmers on the other. Worse, executive clumsiness has also played into the hands of the opposition: rival parties have often been able to garner a constituency based on their demonstrative dissent on the matter of dispossessing farmers from their land. As for the real extent of the problem, there is land aplenty – but even that is not enough for the degree of political opportunism that infuses this debate.

In this context, it is interesting to note that the total land area in India is 2,973,190 sq. kms and total agricultural land is 1,620,388 sq. kms. What is being sought for SEZs is in the region of 2058 sq. kms – which would be just about 0.069 per cent of India's total land area. Nor would it exceed 0.12 per cent of total agricultural land.

There is, anyhow, no immediate alternative to SEZs for India. However, the land transfers that these would entail would also mean that real estate pricing must be got right for a smooth transition. Alternatively, valuations may be arrived at in several different ways – i.e., via revenue records, acquisition price, and so on, but they would mostly differ. Ideally, though, what farmers get should reflect not only the opportunity cost of losing their holdings (in terms of future earnings); it must also factor on the inevitable jump in land prices once it looks as though the area might be declared an SEZ. (That would be easy to extrapolate, based on the type and fertility of the land in question, and the expected value of the product for which the SEZ seems likely to be earmarked.) Land acquisition at submarket rates set by State governments would be the biggest let-down for landholders – especially if they know that an area is destined for much bigger things. That, actually, is the biggest argument for letting intending investors talk directly to landholders.

The latter could then bargain for better prices. The experience of Nandigram, Singur (although the latter is not an SEZ) and similar areas shows that cultivators and villages, are no longer willing to take State governments at their word or make big saleprice sacrifices. Even the official claim that landholders should sell at a discount to partially defray the State's costs of re-location, training and job placement rings hollow. It merely holds out the promise of employment, little more. Also, it totally ignores the fact that persons who have been cultivators by tradition may set a very low, zero, or even negative, weight on the relocation/retraining promised by the State. Indeed they might even turn the State government's logic on its head and claim supra-market rates. Their logic: they must be compensated for the traumas of re-location, loss of profession and the arduous business of retraining.

So, it would really be best if intending industrialists got into direct contact – either with particular landholders, or with any institutionalized body that has been put together through all-round agreement from the local farming community. The latter can even retain real estate professionals to determine the sale value of the land that they currently hold and would like to sell to industry at a fair price. Attempts to include dispossessed landholders have, on occasion, gone even beyond just promises of 'employment guarantees for one person per family' – the most prominent of which have been the mooted idea of land-equity swaps. The way that would work would be through a handover by the SEZ developer of equities (shares) to the seller of land. The quantum of handover would, in turn, be determined by the total value of the land being relinquished – over and above the pre-agreed price-based consideration. The only problem is that other, existing shareholders might feel that such handouts would lower the total dividend kitty and force them to settle for less. That could punish the company in the bourses by inducing stock sell-offs and lowering the value of its equity. But even this added burden on the company might be lightened if the latter manages to strike a contract with those who are parting with their land. The modus operandi, in that case, would be for both sides to agree to treat the equity as though it were bonds (or borrowings by the unit from erstwhile landholding shareholders). The company, in that case, would have to only pay out interest on a regular basis until (say) it feels that it will break even – after a pre-agreed interval. Only thereafter would it start distributing dividends based on profits. Not only would that be a help to the unit which might face the usual cash-flow problems initially; it would also dispel the income (dividend) uncertainty which landholders dread. They would get an initial income flow that is guaranteed but, when the unit is on a sounder footing, exchange that for profit-based dividend earnings.

National Manufacturing Policy

Economist Nicholas Kaldor theorised manufacturing as the engine of growth and stipulated that there exists a close relationship between the growth of manufacturing output and the GDP of a country. Post-independence, thanks to the legacy of a good industrial and infrastructural base left over by the British regime, India held an advantageous position in manufacturing in Asia. However, the next 50 years saw our 'socialist' bent of industrial policies stifle the growth of the infant manufacturing sector. Even though the reforms of the early 90s removed illogical growth barriers and turned the tide for the Indian industry, manufacturing still accounts for only 16% of GDP comparing weakly to other Asian countries of similar economic maturity.

The major factors constraining growth of Indian manufacturing are well-documented - poor core infrastructure, lethargic bureaucracy, high cost of capital, an agonising land acquisition process and labour issues. An earlier initiative to further manufacturing growth by setting up of SEZs met with limited success. This was due to deficient land acquisition reforms, and lack of power and logistics infrastructure. The services sector including IT/ITES, already on a healthy growth trajectory, was the only real beneficiary of SEZs.

The need to raise the global competitiveness of the Indian manufacturing sector is a key imperative for the country's long term growth. The National Manufacturing Policy (NMP) is by far the most comprehensive and significant policy initiative taken by the government.

Government of India decided to bring out the National Manufacturing Policy to bring

about a quantitative and qualitative change with the following six objectives:

(i) Increase manufacturing sector growth to 12-14% over the medium term to make it the engine of growth for the economy. The 2 to 4 % differential over the medium term growth rate of the overall economy will enable manufacturing to contribute at least 25% of the National GDP by 2022.

(ii) Increase the rate of job creation in manufacturing to create 100 million additional jobs by 2022.

(iii) Creation of appropriate skill sets among the rural migrant and urban poor to make growth inclusive.

(iv) Increase domestic value addition and technological 'depth' in manufacturing.

(v) Enhance global competitiveness of Indian manufacturing through appropriate policy support.

(vi) Ensure sustainability of growth, particularly with regard to the environment, including energy efficiency, optimal utilization of natural resources and restoration of damaged/ degraded eco-systems.

In order to achieve these goals:-

(i) Foreign investments and technologies will be welcomed while leveraging the country's expanding market for manufactured goods to induce the building of more manufacturing capabilities and technologies within the country;

(ii) Competitiveness of enterprises in the country will be the guiding principle in the design and implementation of policies and programmes;

(iii) Compliance burden on industry arising out of procedural and regulatory formalities will be reduced through rationalization of business regulations.

(iv) Innovation will be encouraged for augmenting productivity, quality, and growth of enterprises; and

(v) Effective consultative mechanism with all stakeholders will be instituted to ensure mid-course corrections.

Specific policy instruments have been conceptualized to achieve the objectives stated above, including the following areas:-

(i) Rationalization and simplification of business regulations;

(ii) Simple and expeditious exit mechanism for closure of sick units while protecting labour interests;

(iii) Financial and institutional mechanisms for technology development, including green technologies;

(iv) Industrial training and skill up-gradation measures;

(v) Incentives for SMEs;

(vi) Special Focus Sectors;

(vii) Leveraging infrastructure deficit and government procurement -including defence;

(viii) Clustering and aggregation: National Investment and Manufacturing Zones (NIMZs);

(ix) Trade Policy.

Key challenges in industrial development:

Currently, the following critical issues impede the growth of manufacturing in India:

Infrastructure deficit: There is an urgent need to bridge the gap in physical infrastructure and address the equipment and raw materials requirements in key sectors such as power and transport. Poor connectivity results in high logistics costs, long lead times and impacts market penetration. For example - "a truck carrying goods from Gurgaon to Mumbai has to pass through 36 checkpoints and takes up to 10 days to reach its destination. While 57% of goods in India are transported by road (the most inefficient, expensive and emissions intensive mode of transport), the figure in China is just 22%". It is estimated that addressing this deficit can enhance growth in India's manufacturing sector by 3% annually.

Land acquisition: Multiple land acquisition policies, variation in rules on how land can be acquired, compensation paid to land seller, have added to the complexity of doing business and is a major impediment in establishing new industrial projects (e.g., Tata Motor's land acquisition in Singur, West Bengal had an in-principle approval but later ran into hurdles

and political opposition leading to major production delays. Eventually, the company pulled out of the project.).

Environmental clearances: Securing environmental clearances for new projects have been a key roadblock for investors in the past due to long delays and social hurdles (e.g., Posco's project in Orissa).

Labour-related issues: A universal concern for manufacturers is enhancing labour productivity, ensuring sustained availability of skilled and highly qualified workforce, resolving labour disputes during closures or bankruptcy and managing rigid and archaic labour laws. These are impediments in attracting investments.

Multi-tier regulatory framework and complex procedures: Multi-tier regulatory frameworks and complex procedures, prevailing at the central, state and local jurisdictions, increase the burden on investors and deter them from venturing into capital intensive projects. e.g., a manufacturer has to comply with almost 70 regulations and file 100 returns a year. Recent attempts to streamline procedures for bringing down compliance requirements (e.g., single window systems) have only been partially successful.

Extent of Industrialization:

Differences in the extent of industrialization are one of the most glaring aspects of the variations in the levels and structure of state economies. The share of manufacturing in the Gross State Domestic Product (GSDP) varies very widely among the Indian states. In terms of this indicator, Gujarat with about 30 per cent share of manufacturing in GSDP was the most industrialized state among the major states of India in 2008–09. Other major states which had a higher than the national figure of 17 per cent were Maharashtra (23.46 per cent), Tamil Nadu (23.32 per cent),Haryana (20.0 per cent), Karnataka (19.85 per cent) and Orissa (17.04 percent). Kerala had the lowest 9.96 per cent of its SDP originating in manufacturing.

Andhra Pradesh followed by Bihar and Uttar Pradesh were other states with low level of industrialization with only 12 to 14 per cent of their SDP originating in manufacturing.

Among the three new states—Chhattisgarh, Jharkhand and Uttarakhand—Chhattisgarh and Jharkhand feature as relatively better industrialized states with 21.94 and 32.02 per cent share of manufacturing in their SDP. Uttarakhand with 14.12 per cent of its SDP from manufacturing is among the states with a low level of industrialization. All states in the North Eastern Region except Assam (10.74 percent) had less than 10 per cent of their SDP from manufacturing industry. Among UTs and other states Puducherry (65.49 per cent) and Goa (30.08 per cent) showed a relatively high degree of industrialization. The share of industry in GDP ranged between 9.96 per cent in Kerala, the least industrialised state to 29.94 per cent in Gujarat, the most industrialised state, in 2008–09. The range of variation seems to have marginally declined from 1980–81, when the least industrialised state (Kerala) had 9.52 per cent of its SDP originating from manufacturing while in the most industrialised state (Tamil Nadu) manufacturing contributed 31.47 per cent. But the states in the most industrialised category have changed their relative positions. In fact, West Bengal which held second position in 1980–81 has gone out of the group of top five, to the seventh position. Haryana, which was below national average, has acquired fourth position. Tamil Nadu has yielded its first position in 1980–81 to Gujarat in 2008–09, the latter held fourth position in 1980–81. Orissa, which was amongst the least industrialised states in 1980–81, rose to the national average in 2008–09. Other states which have experienced relatively rapid industrialization during the 28 year period, in terms of a significant increase in the share of manufacturing in GSDP are: Karnataka, Punjab, Madhya Pradesh, Rajasthan and Uttar Pradesh. Gujarat, of course, had the fastest advance in industrialisation, raising its manufacturing share in SDP from 19 per cent in 1980–81 to 30 per cent in 2008–09. Among smaller states and UTs, Himachal Pradesh (from 3.01 per cent in 1980–81 to 13.64 per cent in 2008–09) and Puducherry (from 20.39 per cent in 1980–81 to 65.49 per cent in 2008–09) made rapid advance in industrialisation.

Delhi Mumbai Industrial Corridor (DMIC):

Government of India plans to develop Multi-modal High Axle Load Dedicated Freight

Corridor (DFC) between Delhi and Mumbai, covering an overall length of 1483km, with end terminals at Tughlakabad and Dadri in the National Capital Region of Delhi and Jawaharlal Nehru Port at Mumbai.

Government of India is further establishing, promoting and facilitating "Delhi Mumbai Industrial Corridor (DMIC) along the alignment of DFC between Delhi and Mumbai. The objective of DMIC, supported by world-class infrastructure, would be to optimize on the present potential, enhance investment climate and promote the economic development of the region through creation of a long term enabling environment.

Vision for DMIC:

The vision for DMIC is to create strong economic base with globally competitive environment and state-of-the-art infrastructure to activate local commerce, enhance foreign investments and attain sustainable development. Delhi-Mumbai Industrial Corridor is to be conceived as a Model Industrial Corridor of international standards with emphasis on expanding the manufacturing and services base and developing DMIC as the 'Global Manufacturing and Trading Hub'.

Project Goals:

The developmental planning for DMIC aims to achieve certain end results with implementation that would ensure realization of envisaged vision for the project and lead to economic development. Accordingly the project goals for DMIC are:

- Double employment potential in five years (14.87% CAGR)
- Triple industrial output in five years (24.57% CAGR)
- Quadruple exports from the region in five years (31.95% CAGR)

Sectoral Objectives:

The sectoral objectives for Delhi-Mumbai Industrial Corridor (DMIC) envisage provision of quality industrial investments and world class infrastructure facilities which, inter alia, includes:

Industrial Infrastructure:

- Upgradation of existing industrial clusters/ industrial estates with requisite facilities;
- Developing new industrial clusters or townships and export oriented manufacturing zones;
- Development of 'Skill Development Centres (or) Knowledge Hubs' consisting of schools, colleges, vocational institutes, engineering/ technical institutes, agricultural colleges with state-of-the-art research and development facilities with integrated residential, health/recreational facilities;
- Developing agro-processing hubs with cold storage, packaging and distribution and other allied infrastructure;
- Developing IT/ ITES Hubs/ other service oriented facilities.

Physical and Social Infrastructure:

- Efficient logistics chain with multi-modal transshipment zones and logistic hubs;
- Provision of Feeder Road and Rail connectivity to ports, hinterlands and markets;
- Augmentation of existing port infrastructure and developing Greenfield ports;
- Upgradation/ Modernization of Airports;
- Captive Power Generation Plants with power transmission facilities;
- Ensuring effective environment protection mechanism for sustainable long term development;
- Dovetailed residential, commercial, institutional, leisure/ recreational infrastructure to ensure attractive investment climate.

Project Influence Area:

In order to optimize on the alignment of DFC and the feeder transport infrastructure requirements, influence region for development of high impact economic regions with quality infrastructure is considered to be extended up to150km to 200 km on both sides of the alignment of DFC. In addition to the influence region, development of DMIC would also include augmentation of feeder rail and road

connectivity to hinterland, markets and the select seaport locations along the western coast.

Project Influence Area (PIA) for DMIC comprises of 436,486 sq km area, which constitutes 13.8% of geographical area of overall India. Based on the area distribution, PIA of DMIC comprises of seven states and two union territories:

- Project Influence States include Delhi, Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra.
- Project Influence Union Territories include Diu & Daman, Dadra & Nagar Haveli.

Project influence area for DMIC comprises of a combined population of 178 Million constituting approximately 17% of total population of the country. DMIC states contribute 50% of agricultural produce of principal crops of the country and 60% of overall exports from the country. Moreover, the foreign investment trends indicated that DMIC states cater to 52% of overall FDI equity investments into the country during January 2000-December 2006.