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Challenges to Industrial Sector: Economic YouTube Lecture Handouts

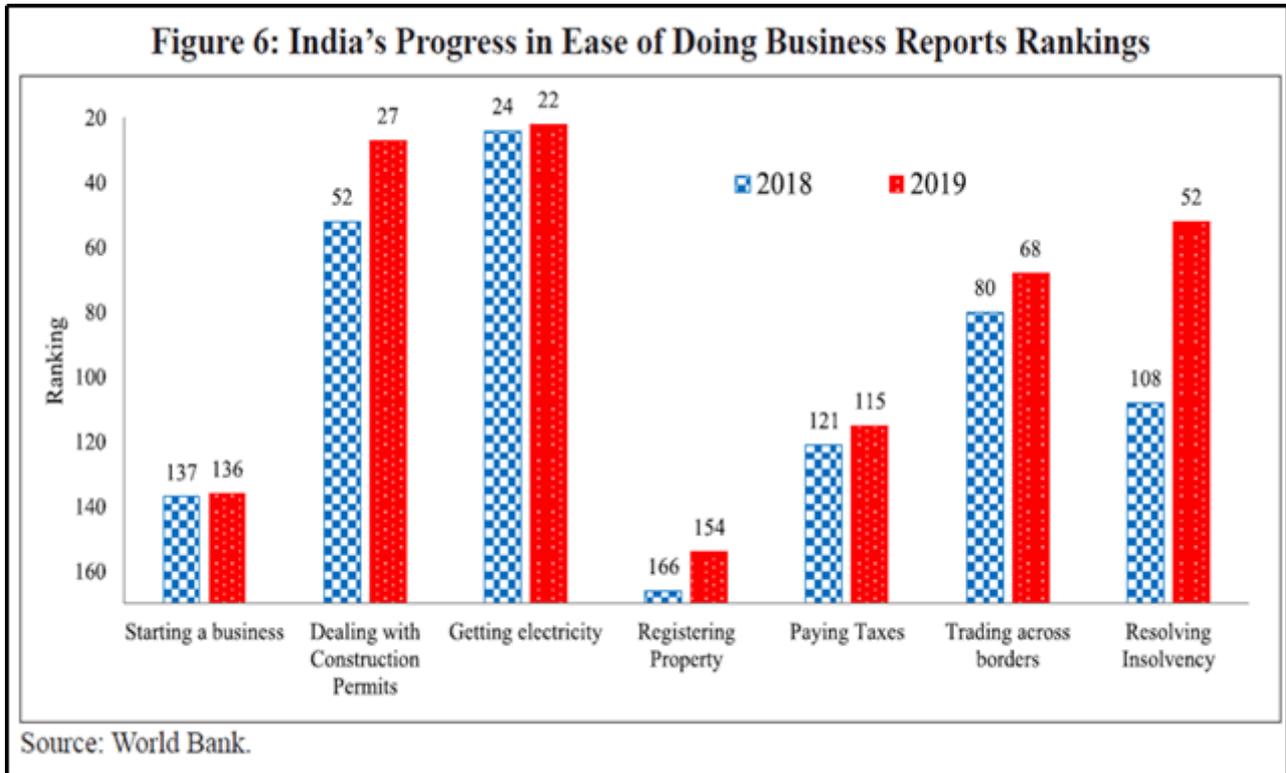
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IIP Contraction

- IIP index of Industrial Production has been contracting which indicates slowdown and decline in production.
- IIP measures the changes in the volume of production of a basket of industrial products during a given period with respect to the volume of production in a chosen base period.
- 8 Core Industries are included: Coal, fertilizer, electricity, crude oil, natural gas, refinery products, steel, and cement.
- CSO, MOSPI publish data on monthly basis. Higher weightage is given to Manufacturing sector.
- **Textile and Apparels:** Textiles contributed 18.0 per cent of manufacturing and 2.0 per cent of GDP in 2017 - 18.
- India's textile sector is 2nd largest in the world both in terms of manufacturing and exports. The sector employed 4.5 crore people directly and 6 crore people in allied sectors.
- Problems like technological gap in weaving, processing and embroidery and competitors getting duty free access to international market has affected the growth of the sector.

Ease of Doing Business

- India has improved to 63rd position (from 77th last year) among the 190 countries in the World Bank's Doing Business 2020 Report.
- In terms of performance, various problems are there which are evident from India's ranking in various parameters.



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Problems

- **Finance & Credit:** weak capital base owing to sole proprietorship & lower profits. Govt. under PSL mandated that 40 % of credit should be given for agriculture, small business, cottage industries etc.
 - Issues bank face is Lower recovery rates, higher lending cost. (17.4 % of bank credit-2017)
 - Triple bind: less credit, large bias against small firms, large firm's linkage with small firm, wherein the problems in former severely affects the later.
- **Infrastructural constraints:** Access to stable reliable power supply, rampant corruption, Storage capacity, lack of connectivity etc.
 - In the absence of proper transportation (rail and road) and communication facilities industrial development could not be attained in those regions which have huge development potentialities.

- Infrastructural constraint has led to rise in raw material cost, transport cost, lesser accessibility to markets, labour market issues.
- **Raw material & Inverted tariff:** high tariff on raw material and low on finished goods, exploitation by traders as cotton is supplied on condition that finished product be sold to them & not in open market has severely affected the growth.
 - Industries are largely dependent on agriculture for the raw materials and monsoon impacts the supply of raw material as it decided the production level. Delay in monsoon severely affects the growth of allied industries.
 - Issues in connectivity further affects the supply of materials especially perishable goods.
- **Machines & other equipment's:** decades old machines led to decline in productivity & rise in cost. Products not in line with market dynamics. This has also led to less diversification which impacted the consumer base.
- **Problems of Marketing:** little knowledge of marketing through modern channels, lesser storage capacity & access to technology. Share of MSME in online marketplace is also very less.
- **Delayed payments:** Frequent delayed payments from large industries, lesser bargaining power, lesser credit periods affects financial viability and operations. E. g. Sugarcane industry.
- **Problem of sickness:** Inter-ministerial committee found that in 2013, there were *2,49, 903 sick units with outstanding credit of ₹ 12,800 crore.*
- **Poor database:** SIDBI report stated an urgent need to upgrade & collect data on SSI on regular basis for effective policy decisions. This affects policy decisions as they are based on old data.

Practice Question

Q 1 With respect to IIP, select the correct answer

- 1) Highest weightage is given to Mining
- 2) 7 core sectors are there.
- 3) NSO collects and publishes data.
- 4) IIP is the only indicator which measures change in volume of production

Answer: 4