



India's Industrial Sector

This editorial is based on [“Core constraints: On economic recovery”](#) which was published in Hindustan Times on 01/08/2022. It talks about the core sectors of economy in India and related concerns related to economic recovery.

For Prelims: Index of Industrial Production (IIP), MSME sector, Production-Linked Incentive (PLI) , PM Gati Shakti- National Master Plan, Start-up India, PPP model, Industry 4.0

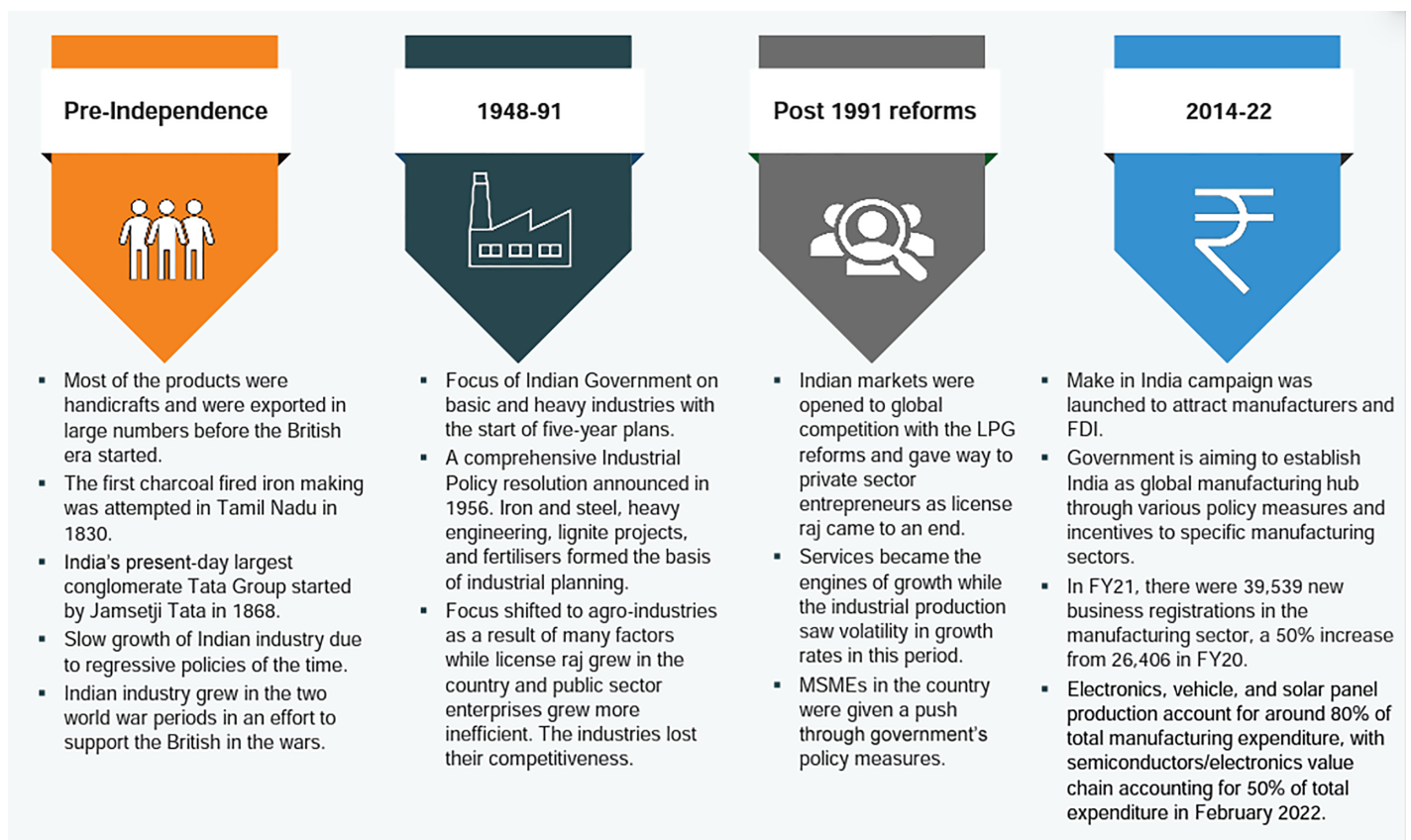
For Mains: Challenges Associated with the Industrial Sector in India, Recent Government Initiatives for Growth of the Industrial Sector

India's vision of a [USD 5 Trillion Economy](#) will significantly depend on the growth of the [Industrial sector](#). There are **eight industrial sectors that are considered the core in India**.

The [core sector](#) makes up **40% of the [Index of Industrial Production \(IIP\)](#)**, making it a lead indicator of industrial activity. The core sector **reported 8% growth in June 2022 from the Covid level**, with a healthy performance from all the sectors, **except steel and crude oil**.

With [Industry 4.0](#) fast approaching, it is **important to acknowledge the hurdles that exist in India's industrial development**, especially the **core sector**, since demand is exceeding the supply.

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What is the Index of Industrial Production (IIP)?

- It is an **indicator that measures the changes in the volume of production of industrial products** during a given period. Base Year- 2011-2012.
- It is compiled and published monthly by the **National Statistical Office, Ministry of Statistics and Programme Implementation**.
- It is a composite indicator that measures the growth rate of industry groups classified under:
 - Broad sectors:** Mining, Manufacturing, and Electricity.
 - Use-Based Sectors:** Basic Goods, Capital Goods, and Intermediate Goods.
- Index of Eight Core Industries (ICI):** This is an index of the eight most fundamental industrial sectors of the Indian economy and comprises **40.27% of the weight in IIP**.
 - The monthly **Index of Eight Core Industries (ICI)** measures **collective and individual performance** of production in **eight core industries**.
 - The eight core sector industries in **decreasing order** of their weightage:
 - Refinery Products > Electricity > Steel > Coal > Crude Oil > Natural Gas > Cement > Fertilizers.**

What are the Challenges Associated with the Industrial Sector in India?

- Lack of Efficient Infrastructure and Manpower:** High technology based Infrastructure especially for transportation and **skilled manpower** are crucial for enhancing manufacturing competitiveness in the globalized economy.
 - Telecom communication** facilities are mainly **confined to big cities**. Most of the **State Electricity Boards are running in loss** and are in deplorable condition.
 - Rail transport** is **overburdened** while **road transport** suffers from a variety of problems.
- Maintaining a Level Playing Field:** The **MSME sector** seems to be **relatively less favorably placed in terms of credit availability** and credit cost of working capital as compared to the medium and large scale industrial and services sectors. **This persistent bias needs to be corrected.**
- Reliance on Foreign Imports:** India is still dependent on foreign imports for **transport**

equipment, machinery (electrical and non-electrical), iron and steel, paper, chemicals and fertilizers, plastic material etc.

- In India, the **total industrial production of consumer goods contributes 38%** In newly industrialized countries like Singapore, South Korea and Malaysia this percentage is 52, 29 and 28 respectively.
- This shows that **import substitution is still a distant goal for the country.**
- **Improper Location Base:** Industrial locations, in several instances, were established **without reference to cost-effective points.** Each **state** clamors for the establishment of **major industries in the public sector within its boundaries,** and the **location decisions are often politically motivated.**
- **Loss in Public Sector Industries:** Owing to focus on the socialistic pattern of development, investment under public sector industries increased phenomenally during early five year plans.
 - But due to ineffective policy implementation characterized by **red-tape** and **strained labor-management relations** most of these public sector enterprises are running in loss.
 - Every year the **government has to incur huge expenditure to cover up this loss** and meet obligations of paying wages to the employees.

What are the Recent Government Initiatives for Growth of the Industrial Sector in India?

- **Production-Linked Incentive (PLI)** - To scale up domestic manufacturing capability.
- **PM Gati Shakti- National Master Plan - Multimodal connectivity** infrastructure project.
- **Bharatmala Project** - To Improve **connectivity in North East India**
- **Start-up India** - To catalyse **Startup culture** in India
- **Make in India 2.0** - To transform India into a global design and **manufacturing hub.**
- **Atmanirbhar Bharat Campaign** - To **cut down import dependence**
- **Disinvestment Plans** - To support India's economic recovery
- **Special Economic Zones-** To **create additional economic activity** and **boost the export of goods and services.**
- **MSME Innovative Scheme-** To promote the **complete value chain** from developing **ideas into innovation** through **incubation** and **design interventions**

What Should be the Way Forward ?

- **Public-Private Partnership Projects:** There is a strong case for enhancing public investment and building PPP projects that will increase efficiency and transparency.
 - The first line of **Mumbai Metro** between Ghatkopar and Versova **was built on PPP model.**
 - **Removal of Infrastructural Bottleneck:** Slow rate of capacity addition in physical infrastructure sectors is constricting industrial sector growth. **Capacity addition in core sectors** and **removal of infrastructure bottlenecks would spur industrial sector output** in the medium to long term.
 - **Optimum Use of India's Demographic Dividend:** **With increasing share of young working population** in the total population, India can achieve its full manufacturing potential as it looks to benefit from its **demographic dividend** and a large workforce over the next two to three decades.
 - **Improving Research and Development:** Industrial research and development needs to be strengthened in general and **industrial sector-specific in particular,** so that the industrial sector can become more **demand-driven.**
 - **Potential to become a Global Hub:** India's manufacturing industry is already moving in the direction of **Industry 4.0** where every datapoint will be connected and analyzed.
 - With a **large pool of engineers, a young labor force, wages that are half that of China's,** strengthens India to be a **global powerhouse.**
 - **Reforms in Industrial Policy:** Over the medium to long term, to **sustain double-digit output growth** and **reduce the vulnerabilities of the core sector,** there is a need to put in place an effective **industrial policy** framework for embarking on another round of **multifaceted reforms.**
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Drishti Mains Question

What are the major roadblocks for the development of the Industrial Sector in India. How Gati Shakti National Master Plan can help India to improve its core sector.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. In the 'Index of Eight Core Industries', which one of the following is given the highest weight? (2015)

- (a) Coal production
- (b) Electricity generation
- (c) Fertilizer production
- (d) Steel production

Ans: (b)

Mains

Q.1 "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far the recent changes in Industrial Policy are capable of increasing the industrial growth rate? **(2017)**

Q.2 Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? **(2014)**

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