

Distance Learning Programme

UPSC Mains

Indian Economy-II

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INDIAN ECONOMY - II

641, First Floor, Dr. Mukherjee Nagar, New Delhi-110009 Contact No.: 011-47532596, 8448485520 Web : www.drishtiias.com E-mail : dlpsupport@groupdrishti.com

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Major Industries



India has a number of favourable factors for the development of different types of industries. The various favourable factors present in the country for the development of industries are: The country is rich in natural resources, such as minerals, forests, fisheries, etc., required for the development of industries. The country is rich in commercial crops, such as sugar cane, raw cotton, raw jute, tobacco, oilseeds, etc., required for the development of agro-based industries. The country is fairly rich in power resources, such as coal, hydro-electricity, atomic energy, etc., required for turning the wheels of industries. India is rich in human resources. As such, cheap labour required for the development of industries is also available in the country.

The real beginning of the modem industry in India is recognised with the establishment of cotton textile industry in Mumbai in 1854. The first jute mill was set up at Rishra near Kolkata in 1855. Among the other industries which appeared on the industrial scene of India before the outbreak of World War I in 1914 were woollen textiles, paper and breweries. The main industrial centres were port cities of Mumbai, Kolkata and Chennai. However, the planned development of manufacturing industries in India began in 1951 and various types of products began to be produced here. The industrial policies of 1948 and 1956 indicated the direction of industrial development in India. The process of industrialisation started with the launching of the First Five Year Plan and continuing through the different plan periods.

General Factors Influencing Location of Industries in India

Location of industries is determined by several factors like access to raw materials, power, market, capital, transport and labour, etc., as these factors influence the cost of production and delivery cost of manufactured goods to consumers. It is economical to locate the manufacturing industries at a place where the cost of production is least and profit is more. However the relative significance of these factors varies with time and place.





A brief description of factors influencing the location of industries is given below:

Raw Materials

Raw materials are one of the most important determinants of location of industries. Industries using weight-losing raw materials are located in the regions where raw materials are located. This includes Sugar mills, iron and steel industries, pulp industry, copper smelting and pig iron industries. For example, most of the iron and steel industries are located either near the coal-fields (Bokaro, Durgapur, etc.) or near sources of iron ore (Bhadravati, Bhilai, and Rourkela) as iron ore and coal both are weight-losing raw materials. Similarly, industries based on perishable raw materials are also located close to raw material sources. E.g., sugar mills.

Power

Power supply has to be ensured before the location of any industry as it provides the motive force for machines. However, certain power intensive industries, like aluminium and synthetic nitrogen manufacturing industries tend to be located near sources of power because they require huge quantum of electricity. However, since electricity can be easily transmitted, and petroleum can be transported, these industries can also be dispersed.

Market

The entire process of manufacturing is useless until the finished goods reach the market. Nearness to market is essential for quick disposal of manufactured goods. It helps in reducing the transport cost and enables the consumer to get things at cheaper rates.

Capital

Modern industries are capital-intensive and require huge investments. In India, Big cities like Mumbai, Kolkata, Delhi, and Chennai are big industrial centres, where capital is available for investment.

Transport

Transport by land or water is necessary for the collection of raw materials and for the marketing of the finished products. It was the major factor behind the development of Great Lakes-Pittsburg industrial area in the US. In India, Kolkata, Mumbai and Chennai were the only major industrial centre earlier, and the industries shifted to interior locations, only when railway lines were expanded to the hinterlands. All major industrial plants are located on the trunk rail routes.

Labour

The availability of both unskilled and skilled, or technically qualified manpower, is an important factor in the location of industries. One characteristic feature of the labour factor is its mobility. Some of the small scale industries traditionally associated with labour are glass-work (Ferozabad), brass-work (Moradabad), utensils (Yamunanagar in Haryana), silk sarees (Varanasi), carpets (Mirzapur), etc.





Water

Water is another important requirement for industries. Many industries are established near rivers, canals and lakes, because of this reason. Iron and steel industry, textile industries and chemical industries require large quantities of water, for their proper functioning.

Site

Site requirements for industrial development are of considerable significance. Sites, generally, should be flat and well served by adequate transport facilities. Large areas are required to build factories. Now, there is a tendency to set up industries in rural areas because the cost of land has shot up in urban centres.

Climate

Climate plays an important role in the establishment of industries at a place. Harsh climate is not much suitable for the establishment of industries. There can be no industrial development in extremely hot, humid, dry or cold climate.

Banking Facilities

Establishment of industries involves the daily exchange of crores of rupees which is possible through banking facilities only. So the areas with better banking facilities are better suited to the establishment of industries.

Government Policies

Government activity in different spheres like in planning the future distribution of industries, for reducing regional disparities, elimination of pollution of air and water and for avoiding their heavy clustering in big cities, has become no less an important locational factor.

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Coal

Coal is the key to the worldwide structure of energy. It accounts for about 40% of the world's electricity production, hence it is a leading source of electricity. India is the 3rd largest producer of coal after U.S.A and China. Coal production stood at 676.51 million tonnes in FY18. India has the 5th largest estimated coal reserves in the world, and had 315.14 billion metric tons of the resource as on 31 March 2017.

About 96% of total coal reserve in India is found in the Gondwana structure which has been formed mainly in the Carboniferous and Permian periods. The rest of the coal is of the tertiary epoch. Jharia is the largest coal field followed by Raniganj in India.

Gondwana Coalfields: Coal areas of the river valley of Damodar, Son, Mahanadi, Godavari, Pench, Wardha, etc.

Tertiary Coalfields: Meghalaya-Cherrapunji, Letringu, Maolong,and Langrin areas;Upper Assam – Makum, Jeypore, Nazira areas; Arunachal Pradesh – Namchik, Namruk, Dingrak (Daffla hilly Area); Jammu and Kashmir – Kalakot area.



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Major Kinds of Coal

- Anthracite: It is the best quality coal. It contains 80-95% carbon. This kind of coal is found mainly in the district of Reasi (near Jammu) in Jammu and Kashmir.
- **Bituminous:** It is medium quality coal. It contains 42-72% carbon. Much of the coal in India comes under this category.
- Lignite: It is the lowest quality coal. It is brown in colour. It contains 30-50% carbon. It is also called brown coal. The major lignite mining centres of India are (i) Neyveli (South Arcot district, Tamil Nadu), (ii) Palana (Bikaner, Rajasthan), (iii) Lakhimpur (Assam) (iv) Kareva area (Kashmir), (v) Umarsar (Gujarat).
- Peat: It is the middle stage in the process of coal making. Parts of wood are remarkably present in it.

The bulk of the coal reserves is confined to the southeastern quadrant of the country in West Bengal, Jharkand, Odisha, Chattisgarh & Madhya Pradesh.

Coal is primarily used for thermal generation in India and all other uses are almost insignificant as compared to it. However, the coal industry in India, has faced several challenges in the past and the contemporary times have their own share of problems.

Challenges Before the Industry

Coal mining has been carried out in India for commercial purposes for over 200 years now. After independence, the coal mining was in the hands of the private players, however,



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it was nationalized in the early 1970s. Despite nationalization, coal industry had to deal with the following problems:

- The technology used for mining of coal continued to be primitive and there were major issues of capacity and efficiency. The capacity of production is also related to the productivity of labour, which has been low mainly owing to the poor infrastructural facilities available. The labour cost is very high and accounts for 40% of the total cost of coal production. The high labour costs, increase the coal production costs, making it 35% more expensive as compared to countries like Australia, Indonesia and South Africa.
- Most of the coal reserves in our country are not of the good quality, they are either bituminous or peat, having a very large ash content.
- Even if there is a surge in the production, there is a challenge of transportation of such huge quantities of coal from the hinterlands, where the mines are located to the markets where they are required due to infrastructural bottlenecks. As a result, India started importing, particularly high quality coking coal. In fact the cost per tonne of imported coking coal for the coastal states was less as compared to the domestic coal, which resulted in the development of thermal power industries in the southern part of the country.
- There are issues related to acquisition of land for mining purposes and the environmental clearances associated with it.
- There have always been issues related to corruption cropping up, whenever the government mooted any proposal for the involvement of the private sector in the coal industry.
- In recent times, there has been a major trend towards the increased use of renewable sources of energy, particularly solar power, for catering to the demands of power mainly because of the fact that thermal power plants are great carbon emitters. Furthermore, with the development of new technology, there are cheaper and cleaner alternatives available in the form of shale gas and natural gas for the generation of power.

All these factors affect the coal industry, however, still we can hardly afford to overlook coal as a major source of power generation, particularly when we are able to develop cleaner and cheaper methods of extracting power from coal in a more efficient manner.

It could largely reduce our dependence on other fossil fuels like natural gas, etc., given the fact that we have one of the largest known reserves of coal in the world and any breakthrough in this sector can go a long way in saving our valuable forex resources.

Countering Challenges

In view of the aforesaid circumstances, the present government has come up with a policy of allowing 100% FDI in coal mining, thereby inviting both domestic and foreign players to chart the course of the future of the coal sector in the times to come. The move is expected to yield the following advantages:

- Boost productivity and help check the sizeable demand-supply gap.
- Usher in greater efficiency in the coal sector by reducing power tariffs as the move will take us away from an era of monopoly to an era of competitiveness.
- The move is expected to induce the much needed reform towards efficiency and generate employment on a large scale, particularly in the mining areas which are predominantly poor thereby helping in the process of economic development of these areas.



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- Another important aspect of the proposal is that the entire revenue from the bidding of coal blocks to the private players shall go to the states, thereby improving their finances and helping them introduce schemes for the economic development of these areas, particularly the tribals and the poor inhabitants of the region.
- The private players are expected to bring in better facilities for the workers employed for mining purposes and environment friendly practices.

Apart from the policy initiatives, which are expected to cut down problems of technological up-gradation, capacities, efficiency, labour and environmental concerns, the infrastructural bottlenecks associated with transportation are expected to be addressed by various initiatives undertaken on the infrastructural front viz. dedicated freight corridor, Bharat Mala, etc., which are discussed in the later part of this article.

Iron and Steel Industries

India was the world's third-largest steel producer in 2017 and now it has overtaken Japan to become the second largest producer of steel in 2018. In India, steel industry is very modern with state-of-the-art steel mills.

According to World Class Steel Makers in the World' report released by World Steel Dynamics in June 2017, 36 Indian steel makers were classified as World Class Steel Makers out of more than 250 large steel makers in the world.

Most of the industries are located at the source of raw material like Jamshedpur, Burnpur, Bhadrawati, Bokaro, Rourkela, Durgapur, Bhilai, Salem and Vishakhapatnam.

The first unit, which was able to produce pig iron successfully, in the country came up at Kulti in 1874 and was named the Bengal Iron Work Company. Another plant came up at Sakchi (now Jamshedpur) in 1907, set up by the Tatas and called the Tata Iron and Steel Company (TISCO). In 1919, the Indian Iron and Steel Company (IISCO) plant was set up at Burnpur. In 1923, another plant came up, called the Mysore Steel Works (later named the Visveshwaraiya Iron and Steel Limited – VISL). The Bhilai and Bokaro plants are established with Soviet collaboration, the Durgapur steel plant with British collaboration, the Rourkela plant with German collaboration. The VISL plant is located in Bhadravati in Shimoga district of Karnataka which lies in the mineral rich forest belt of western Karnataka.

Market Size

India's finished steel consumption grew at a CAGR of 5.69 per cent during FY08-FY18 to reach 90.68 MT. India's crude steel and finished steel production increased to 102.34 MT and 104.98 MT in 2017-18, respectively.

In 2017-18, the country's finished steel exports increased 17 per cent year-on-year to 9.62 million tonnes (MT), as compared to 8.24 MT in 2016-17. Exports and imports of finished steel stood at 0.99 MT and 1.22 MT, during Apr-May 2018.

Investments

The steel industry in India and its associated mining and metallurgical sectors have seen a number of major investments and developments in the recent past. According to the data released by the Department of Industrial Policy and Promotion (DIPP), the metallurgical industries attracted Foreign Direct Investments (FDI) to the tune of US\$ 10.56 billion in the period April 2000–December 2017.



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Prospects of Steel Indust<mark>ry in India</mark>

The significant recovery of the global economy as well as that of the Global Steel Industry in 2017 points to a favourable outlook for the Indian steel industry. The continued growth in GDP in India, in fact, indicates that major steel consuming segments such as construction, real estate/housing, capital goods/machinery, consumer goods, automobiles and energy sector shall benefit.

The housing and construction sector, where major chunk of steel is consumed, shall get a boost with increase in per capita incomes and social sector schemes like Pradhan Mantri Awas Yojna-Housing for All, Sardar Patel Urban Housing Mission, 100 Smart Cities Mission (by 2022), Bharatmala Project, 24x7 Power for All Initiative (by 2019), Development of Industrial Corridors and National Investment and Manufacturing Zones, and many others. This is also given the fact that the per capita finished steel consumption remains at a dismal 60 kgs, in contrast with the world average of around 220 kgs. The recently formed Global Forum on Excess Steel Capacity has acknowledged India's capacity expansion of steel as a function of growing consumption in the domestic market.

Challenges

- Over the past few years, the global steel industry has been reeling under the pressure of overcapacities, especially on account of those existing in China. This in turn has had an impact on high growth centres of steel consumption in "steel-non-mature" nations such as India. Additionally, depreciation of major currencies has led to a spurt in export by several countries like Russia and Ukraine. It was for these reasons that India saw an influx of imports beginning 2014-15 from several countries, including China.
- The surge in imports impacted the sentiment of the domestic steel market, with declining capacity utilization rates of both the primary and secondary steel players.
- Additionally, erosion of margins, coupled with sluggish demand growth, made the Indian steel investors wary of returns on their investment.
- Currently, the Indian Steel Industry continues to grapple with uncertainties pertaining to the availability and consistent supplies of raw materials, i.e., both coal and iron ore, which still remain a challenge, with the recent closure of mines in Goa adding to the woes of the industry.
- Even though the marked shift from an allocation process to an auction process of getting mining blocks has brought about considerable transparency; issues pertaining to transport logistics from the mining areas need to be sorted out to mitigate lag in evacuation of iron ore, coal and other minerals.

Countering Challenges

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- The Government of India came out proactively to provide a level playing field to Indian companies through imposition of anti-dumping and safeguard duties as well as minimum import prices, wherever injury to the industry was noteworthy.
- Indian Steel Association has identified that "handholding" from the various state governments in such matters is very essential and has embarked upon bringing such issues to the attention of state government authorities, beginning with Odisha.
- Additionally, the resolution process of debt ridden steel companies currently underway at the National Company Law Tribunal (NCLT) shall necessitate a marked change in the structure of the industry.

The Government of India's focus on infrastructure and restarting road projects is aiding the boost in demand for steel. Also, further likely acceleration in the rural economy and infrastructure is expected to lead to growth in demand for steel.

National Steel Policy, 2017: The Union Cabinet, Government of India has approved the National Steel Policy (NSP) 2017, as it seeks to create a globally competitive steel industry in India. NSP 2017, targets 300 million tonnes (MT) steel-making capacity and 160 kgs per capita steel consumption by 2030. Other objectives of the National Steel Policy 2017 are:

- To domestically meet the entire demand of high grade automotive steel, electrical steel, special steels and alloys for strategic applications by 2030-31.
- Increase domestic availability of washed coking coal so as to reduce import dependence on coking coal to 50 per cent by 2030-31.
- To become a net exporter of steel by 2025-26.
- Encourage industry to produce raw material efficient steel production by 2030-31, in a safe and sustainable manner.
- Develop and implement quality standards for domestic steel products.

Further, in order to protect the domestic industry from imports to meet the accelerated demand growth, the government has announced another policy which provides a preference to domestically manufactured iron and steel products for government procurement with immediate effect.

The Ministry of Steel is facilitating setting up of an industry driven Steel Research and Technology Mission of India (SRTMI) in association with the public and private sector steel companies to spearhead research and development activities in the iron and steel industry at an initial corpus of ₹200 crore (US\$ 30 million).

Oil and Gas

Latest Update: December, 2018



Note: OALP - Open Acreage Licensing Policy, CBM - Cool Bed Methane, ^As per Directorate General of Hydrocarbons.

The oil and gas sector is among the eight core industries in India and plays a major role in influencing decision making for all the other important sections of the economy. Petroleum and natural gas are found in the fossil-rich rocks of the Tertiary epoch. Petroleum

