Chapter 10: Industrial Sector

GSEB Class 12 Economics — Complete Board Exam Notes

INTRODUCTION

Nations of world are having combination of three producing sectors: agriculture, industry and service sector. Industry is one of the important producing sectors, therefore it has special importance in each economy. Except petroleum exporting country Saudi Arabia, all developed nations are industrial economies — USA, Britain, Japan. Therefore majority of world economies have started believing that to attain faster economic development, industrial sector has to develop.

10.1 IMPORTANCE OF INDUSTRIAL SECTOR

Industrialisation is necessary to have speedy growth of the economy, to develop agriculture sector, to generate more employment opportunities, to do optimum utilization of internal resources of economy, for quick increase in income and for improving living standard of people. Industrialisation is must to overcome serious issues like unemployment and poverty in developing economies like India. It is also necessary for social and political stability.

10.1.1 Contribution in National Income:

At the time of independence, agriculture sector was having dominance over economy which reduced gradually with development of industries. In the year **1951, industrial sector contributed 16.6% in national income** which rose to **27%** (at constant prices) in the year **2013-14**. It is also noticeable that in the growth of service sector, industrial sector has played extra ordinary role.

10.1.2 Employment:

India is highly populated nation, where entire labour supply is not being utilized in productive activities. Planned efforts have increased employment opportunities in industrial sector. In the year 1951, **10.6% labourers** were employed in industries which rose to **24.3% in 2011-12**. Small scale industries in industrial sector generally use labour intensive production technique — therefore increase in small scale industries could substantially increase employment.

10.1.3 Export Income:

Similar to agriculture sector, industrial sector can also increase its production volume and generate surplus in economy. These surplus items can be exported to earn foreign exchange. This foreign exchange is very useful to import scarce items in the economy. In the year 2013-14, **industries earned about 2/3 share of export income**. Thus industrial sector of economy does not only satisfy requirement of citizens but it also earns foreign exchange from exports of surplus production.

10.1.4 Balanced Economic Development:

Industrial sector is very useful in attaining rapid and balanced economic development. Along with development of economy, there is a rise in demand of primary commodities. In addition to this, excess income remains as savings. This increases demand of luxurious and entertainment products — which can also be satisfied by industries. In addition, government can establish several public sector enterprises in less developed or backward areas to increase employment and income — making speedy and balanced development of economy possible.

10.1.5 Modernization of Agriculture:

Modernization of agriculture is needed to increase development of agriculture sector and to increase land and labour productivity. Industries can provide technology to help agriculture sector. **Tractor, Thresher, Submersible pumps, equipment to spray pesticides** etc. and such other modern instruments can be provided by the industry. Even chemical based fertilizers, pesticides etc. are also produced by industries. Finally, it can be said that by using the modern technology of manufacturing industries, development of agriculture could be made possible.

10.1.6 Strengthens Economic Structure:

Industrial sector is essential to create strong solid structure of economy. Industrial sector produces products like **steel (Iron), cement** which are useful to build irrigation projects, roads, bridges, etc. In addition to that, it provides vehicles of transportation such as buses, trucks, railways, plane, car, two wheelers, etc. which strengthen the economy. Even instruments of safety — protection (Rifles, bullets, tanks, etc.) are also produced by industrial sector which reduce dependence on other nations and make India much stronger economically.

10.1.7 Change in Social Structure:

Due to industrialisation, new industrial culture emerged. New values like **discipline, hard work, competition, team work, self dependency, co-operation, under-standing, innovation skills, institutional capability** get developed and stands against superstitions, fatalism, narrow psychology, orthodox behaviour. These types of social changes inspire economic development.

10.2 INDUSTRIAL STRUCTURE

Industrial structure of India has remained progressive during planning period. Industrial structure varies depending upon the size of investment, ownership and produced products.

10.2.1 Types of Industries on the Bases of Investment Size:

Type	Investment Limit	Production Technique	Examples
Cottage Industries	Negligible (family run, negligible electricity)	Traditional, simple equipment	Khadi, Papad, Khakhra, Incense stick
Tiny Industries	Up to ■25 lakhs	Labour intensive	Artistic products from metal, leather, clay
Small Scale Industries	■25 lakhs to ■5 crores	Labour intensive; ancillary to big industries	Tools, simple consumer goods, auto repair units
Medium Scale Industries	■5 crores to ■10 crores	Labour intensive or capital intensive	Machinery, chemicals, electronic equipments
Large Scale Industries	More than ■10 crores	Capital intensive	Railway equipment, big vehicles, iron/steel

Table: Types of Industries by Investment Size

10.2.2 Types of Industries on the Basis of Ownership:

10.2.2.1 Public Sector Units:

Industries which have ownership and administration under government control are known as public sector units. E.g., Railways, Telephone, Post, etc. Public sector units are classified in three categories:

- **Departmental Industries:** When government runs industrial units under its direct observation as its department and includes its income and expenditure provisions in budget. E.g., Railways, Post, etc.
- **Public Corporations:** Units which are owned by central or state government but administration is under independent control of corporation. E.g., Life Insurance Corporation (LIC), State Transport Corporation, Air India, **GSFC and GNFC** are known as public corporations.

- **Joint Stock Companies:** Units which are managed by government like private companies within framework of prevailing company laws, for which government raises capital by issuing and selling shares to the people or institutes. These types of units are different from departmental industries and public corporations. E.g., **Bharat Heavy Electricals Limited (BHEL), Oil and Natural Gas Corporation Limited (ONGC), Indian Oil Corporation (IOC)**, etc.

10.2.2.2 Private Sector Industries:

Industrial units which are owned and managed by private sector are known as private sector industries. Management of such units is under personal ownership or partnership. E.g., Car, TV, Shoe making units.

10.2.2.3 Joint Sector Industries:

There is difference between joint stock companies and joint sector industries. Units in which government has given up ownership rights of industry to people and institutes 51% or more are joint sector industries. Thus though industry is joint sector industry, still it remains in the control of government. E.g., **GSPC (Gujarat State Petroleum Corporation)**.

10.2.2.4 Co-operative Sector Industries:

Industries run on co-operative activities to stop exploitation of small (marginal) owners, to stop exploitation of labourers or consumers and to provide benefit to all are known as industries of co-operative sector. Shops of daily used (essential) commodities, dairies, several banks have administration on co-operative bases. E.g., **IFFCO, KRIBHCO**.

10.2.3 Types of Industries on the Basis of Products:

10.2.3.1 Consumer Goods Industries:

Goods which directly satisfy the requirements of people are known as consumer goods. Industries producing these type of commodities are known as consumer goods industries. E.g., ghee, oil, soap, shampoo, powder making industries, etc.

10.2.3.2 Intermediate Goods Industries:

Units which have semi finished production — the types of goods which are semi processed in nature and still one stage of production is remaining — are known as intermediate goods industries. E.g., yarn, steel sheets, machines etc.

10.3 MEASURES TAKEN BY GOVERNMENT FOR INDUSTRIAL DEVELOPMENT

10.3.1 State Owned Enterprises:

Government set up basic and key industries. These sectors require heavy investment and are risky. Therefore private sector is not ready to make investment. Produce of these industries is very useful to other industries. Therefore government runs such industries which contain high risk and at the same time are very important for development of industries.

10.3.2 Encouragement to (Promotion of) Private Sector Industries:

To start and to run private sector industries, government provides various types of help: land at concessional rates, electricity, water and even tax breaks. In addition, cheap and enough finance is provided by government. Government also gives private sector entry into the reserved sectors to have enough opportunities to grow.

10.3.3 Import Tariff:

Import tariff means **tax on imports**. To protect local industries in international competitions, government relies on import tariff — due to that foreign products (because of taxes) become expensive and become as costlier as cost of production and cost of sales of our domestic products. This way domestic products may become competitive to foreign products and they get protection.

10.3.4 Technical Skills and Training:

Government provides technical and professional training to domestic industries to sustain in competition, specially in the period of liberalisation and globalisation. They are trained about new technologies prevailing in the world, new types of goods, selling techniques, administration, etc. The purpose is to make them as strong as possible.

10.3.5 Economic Support:

Government also provides various economic help to industries to reduce their production cost. So domestic industries may have lower production cost which enable them to sell their products in international market and by having price benefits that maximise its demand. Government may provide economic help by giving land on concessional rate, water, electricity, telephone and even transportation and finance to make them efficient.

10.3.6 Infrastructural Facilities/Services:

To develop industries, basic facilities like road, water, electricity, banks, insurance, sewage and many more are provided by government. Due to that industries may keep their costs under control. By availing infrastructural facilities, industries can save their money, time and efforts to attain least cost levels and become competent.

10.3.7 Setting up Various Institutes and Policies:

Government makes various industrial policies and makes necessary changes in them as per the requirement. It creates system so that its import policy, export policy, monetary policy, fiscal policy, tax policy etc. remains favourable to industry. It also tries to prevent unfair competition by drafting different laws like **industrial act, company act, competition act** etc. It has also created institutes like **IDBI, SIDBI, ICICI, IFCI, LIC, GIC** etc. to provide financial help to industries. It also tries to attract foreign investment.

10.4 SPECIAL ECONOMIC ZONES (SEZ)

Special Economic Zones known as SEZ were introduced from **1st April 2000**. Its main purpose is to attract foreign investment and to develop control free environment for exports. To make Indian producing sectors as equivalent to those of the world. Tax incentives granted by law for special economic zones to attract foreign investors. These special economic zones are developed from the model of special economic zones of **China** which are very helpful to develop export oriented producing sector with foreign direct investment. Tax free zones are being created by special economic zones.

India has set up **Eight Special Economic Zones**:

- Santacruz (Maharashtra) | Kochin (Kerala) | Kandala and Surat (Gujarat)
- Chennai (TamilNadu) | Visakhapattanam (Andhra Pradesh) | Falta (West Bengal) | Noida (UttarPradesh)

In addition, new **eighteen** special economic zones are proposed. Any private person, government, joint sector, state government or their representative bodies may start special economic zone. Even foreign institutes can also start special economic zone. All these types of special economic zones may be controlled by government.

10.5 IMPORTANCE OF SMALL SCALE INDUSTRIES

Small scale industries have remained much important and progressive during the last five decades. They are very useful for employment generation, production with small capital, industrialisation in rural areas, development of backward areas, reduce regional imbalance and to have adequate distribution of national income and wealth. Small scale industries are complementing to large scale industries for social and economic development in India. Industries which have investment more than ■25 lakhs and less than ■5 crores are known as small scale industries.

10 Importance Points of Small Scale Industries:

(1) Employment Generation:

Small scale industries have very high potential of employment generation because they use labour intensive production technique. In 1994-95 small scale industries generated 191.40 lakhs employment. It rose to 249.33 lakhs in 2001-02 and sharply increased to **1,012.59 lakhs in 2011-12**.

(2) Increase in Production:

They produced goods worth ■1,22,154 crores in 1994-95 which rose to ■2,82,270 crores in 2001-02 and in 2011-12 it rose to **■18,34,332 crores**. Production carried out using less capital.

(3) Increase in Production Units:

India had 79.60 lakh small industrial units in 1994-95. It increased to 105.21 lakhs in 2001-02. That rose to the number of **447.73 lakhs units in 2011-12**. This shows that development of small scale industries is leading India towards industrialisation.

(4) Exports:

Small scale industries of India exported worth ■29,068 crores in 1994-95. It reached to ■71,244 crores in the year 2001-02 and it rose to **■1,77,600 crores in the year 2006-07**. This generates income of foreign exchange which is very useful to manage imports of required items.

(5) Labour Intensive Production Technique:

Production techniques are of two types: Capital intensive and Labour intensive. Labour intensive production technique produces goods with the help of labourers — it utilises more labour and less capital. Labour intensive production techniques are blessings for nations like India where availability of labour is in excess. As labour intensive production technique has more scope of employment — it is more suitable to our nation.

(6) Saving of Foreign Exchange:

Small scale industries are very useful to India. On one hand they generate export incomes and on other hand reduce India's import expenditure by producing many necessary goods locally. Ultimately they help to improve balance of payment.

(7) Short Period of Time:

Small scale industries can be started within very short period of time. Very short period of time between investment and production. As it can start production in a very short period, it is useful to overcome scarcity of goods.

(8) Balanced Regional Development:

Small scale industries can be started with capital, material and resources in any part of the nation. Due to that benefits of it are not restricted to a fewer developed areas and it makes possible balanced regional development — useful to reduce imbalance between rich and poor, developed and developing regions.

(9) Decentralisation:

As large scale industries need a large amount of capital, they can only be started by a very limited part of society of rich people — this is centralisation of capital and wealth. Where small scale industries need very less amount of capital, it can be started by even small sized producers and have benefit of it. Small scale industries utilise different resources, dormant and passive equipment which increases volume of total production — getting income to distribute benefits of production equally. This is called decentralisation in true sense.

(10) High Rate of Development:

Large scale industries need large profits and large investments. They develop economy with irregular rate by doing large investments because they can not get change as per market changes. Where small scale industries can be set up with small amount of capital — a large number of producers increase the volume of production and income. It brings changes in production as market changes, requires shorter gestation period — thus small scale industries give very high rate of development which is highly required to develop nation.

EXERCISE — MCQs (Ch10)

(1) How much was the contribution of industries in 2013-14 in national income of India?

Options: (a) 16.6% (b) 27% (c) 40% (d) 60%

✓ Answer: (b) 27% — industrial sector contributed 27% in national income in 2013-14.

(2) What was the proportion of employment in industries in 2011-12?

Options: (a) 10% (b) 24.3% (c) 27% (d) 49%

✓ Answer: (b) 24.3%

(3) How much investment is needed in large scale industries?

Options: (a) 2 crores (b) 5 crores (c) More than 10 crores (d) 100 crores

✓ Answer: (c) More than ■10 crores

(4) What is public sector?

Options: (a) Sector run by people (b) Sector run by government (c) Sector run on co-operation (d) International sector

✓ Answer: (b) Sector run by government

(5) When was the implementation of special economic zones?

Options: (a) 1947 (b) 1991 (c) 2000 (d) 2011

✓ Answer: (c) 2000 — SEZs were introduced from 1st April 2000.

Key One-Line Answers

(1) Which type of production techniques are being utilized by small scale industries?

Labour intensive production techniques are utilized by small scale industries. These use more labour and less capital.

(2) What is medium scale industries?

Industries which have investment limit of more than ■5 crores and less than ■10 crores, utilise labour intensive or capital intensive production techniques. E.g., Industries of machinery, chemicals, electronic equipments.

(3) Define public corporation.

Units which are owned by central or state government but administration is under independent control of corporation. E.g., LIC, State Transport Corporation, Air India, GSFC and GNFC are known as public corporations.

(4) Australia is known as which type of nation in the world?

Australia is known as a developed agricultural economy of the world — an example of a nation that became developed through agriculture as main occupation.

(5) How many special economic zones are in India?

India has set up Eight (8) Special Economic Zones. An additional eighteen new ones are proposed.

■ BOARD EXAM QUICK REVISION — CHAPTER 10: INDUSTRIAL SECTOR

1. Industrial sector = 7 importance: Contribution in NI | Employment | Export Income | Balanced Economic Development | Modernisation of Agriculture | Strengthens Economic Structure | Change in Social Structure.

2. Contribution of Industrial Sector in NI: 1951 = 16.6% → 2013-14 = 27% (at constant prices).

3. Employment in Industrial Sector: 1951 = 10.6% → 2011-12 = 24.3%.

4. Export Income: In 2013-14, industries earned about 2/3 (two-thirds) share of export income.

5. TYPES OF INDUSTRIES BY INVESTMENT: Cottage (negligible, family) | Tiny (up to ■25 lakh) | Small Scale (■25 lakh–■5 crore) | Medium Scale (■5–10 crore) | Large Scale (>■10 crore, capital intensive).

6. TYPES BY OWNERSHIP: Public Sector (Departmental e.g. Railways; Public Corporation e.g. LIC; Joint Stock Companies e.g. BHEL, ONGC, IOC) | Private Sector (personal/partnership, e.g. Car, TV, Shoes) | Joint Sector (govt gives up 51%+, e.g. GSPC) | Co-operative Sector (e.g. IFFCO, KRIBHCO).

7. TYPES BY PRODUCTS: Consumer Goods Industries (direct use; e.g. ghee, oil, soap) | Intermediate Goods Industries (semi-finished; e.g. yarn, steel sheets, machines).

8. GOVERNMENT MEASURES (7): State Owned Enterprises | Encourage Private Sector | Import Tariff | Technical Skills & Training | Economic Support | Infrastructure | Setting up Institutes & Policies (IDBI/SIDBI/ICICI/IFCI/LIC/GIC).

9. SEZ = Special Economic Zone. Introduced: 1st April 2000. Purpose: attract foreign investment + control-free export environment. Developed from China's model. Tax-free zones.

10. India has 8 SEZs: Santacruz (Maharashtra), Kochin (Kerala), Kandala and Surat (Gujarat), Chennai (TamilNadu), Visakhapattanam (Andhra Pradesh), Falta (West Bengal), Noida (UttarPradesh). 18 more proposed.

11. Small Scale Industries = ■25 lakh to ■5 crore investment. Use LABOUR INTENSIVE technique. 10 points of importance.

12. SSI Employment: 1994-95 = 191.40 lakhs → 2011-12 = 1,012.59 lakhs. Production: ■1,22,154 crore → ■18,34,332 crore. Production units: 79.60 lakh → 447.73 lakh. Exports: ■29,068 crore → ■1,77,600 crore.

13. SSI can create 7.5 times more employment than big industries with same capital (from Ch6 context).

14. Capital Intensive = More capital, less labour (suitable for developed countries). Labour Intensive = More labour, less capital (suitable for labour-abundant countries like India).

15. SSI advantages: Employment | High production | More units | Export earnings | Labour intensive | Save foreign exchange | Short setup time | Balanced regional development | Decentralisation | High rate of development.

Notes prepared from GSEB Class 12 Economics Textbook — Complete Board Exam Coverage.