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B.Com (Morning Shift)

Economics: Indian Economy

Semester IV

Unit 3: Sectoral Trends & Issues

Manufacturing Sector- Part 3

Problems faced by MSMEs

Problems	External/Exogenous	Internal/Endogeneous
Finance	Inadequate finance & excessive collateral security	High borrowing cost, inadequate fiancé, issue of loan recovery
Managerial	Market saturation, weak market demand, competitive market	Lack of- sales promotion, local market, marketing research High price of product, Dependency on large-scale industry
Raw Material	Inadequate availability of Raw Materials Imports are difficult	Poor Inventory management
Marketing	Market Saturation, weak market demand; Competitive environment in the market(since April 2015, no items have been kept reserved for exclusion production in the MSME	Lack of sales production, Limited local market, Price of the product is high, dependence on large scale industries, lack of marketing research.

	sector)	
Technology	Delay in delivery machines	Obsolete Plant and Machinery, Poor capacity utilization, Inadequate maintenance, Transport bottleneck.
Labour	Unavailability of skilled labour	Labour Absenteeism/ turnover, High rates of wages/salaries, inefficient handling of labour problems etc.

Additionally, the problems faced are:

1) Underutilsation of capacity which prevents the average cost to fall to minimum.
2) Dereservation and uneven competition
3) Other problems like non-availability of cheap electrical power, burden of local taxes etc.

Government Policy towards MSME:

1) Easy registration of MSMEs with minimum complications
2) Supply of credit at a subsidized interest rate through schemes like Credit Linked Capital Subsidy Schemes (CLCSS) and Credit Guarantee Fund Scheme for Micro & Small Enterprises (CGTMSE). The Micro Units Development and Refinance Agency (MUDRA) bank grants loans in the following categories: i) Sishu Loan of up to INR

50,000/- , ii) Kishore Loan for expanding the business, ranging from INR 50,000 to INR 5 lacs; iii) Tarun Loan of up to INR 10 lacs.

3) Revival & Rehabilitation of MSMEs
4) Schemes for Promotion of Innovation, Rural Industry and Entrepreneurship through schemes like ASPIRE- A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship'.
5) Emphasis of creating competitive strength where it is important to note that the list of items reserved for exclusive manufacture in the MSE sector has been done way with since April 2015.
6) Public Procurement of goods produced by the MSME Sector
7) Technology Centres for the MSME
8) Cluster Development of MSMEs

Economic Reforms and Indian Industries

The three basic elements of reform policy are- liberalization, privatization and globalization. The efficient utilization of resources is expected to generate demand by reducing product prices and thereby raising real income and generating gainful employment.

Constituents policies of economic reforms of Indian Industries

1) Industrial Policy 1991:
    a) Industrial Licensing- This policy abolished the system of industrial licensing for all industrial undertaking irrespective of the level of investment (expect for a short list of industries like coal, petroleum etc). At present only the following industries require licensing- i) Distillation & brewing of alcoholic drinks, ii) Cigars & cigarettes of tobacco, iii) Defence equipments, iv) Industrial explosives, v) Hazardous chemicals, vi) Some specific drugs & pharmaceuticals.
    b) Policy regarding Public Sector: Previously 17 industries were under public sector but now only 3 are under the public sector- i) Arms & Ammunitions, ii) Atomic Energy, iii) Railway transport
    c) Exit Policy- Closing down of sick PSUs

d) Foreign investment- High investment and high technology industries including thirty four priority industries are allowed up to 51% of foreign equity in FDI

e) Abolition of MRTP (Monopolies Restrictive Trade Practices) limit-to allow firms to grow without any hindrance. Competition Act (2002) helps promote healthy competition among industries.

f) Industrial Location – for location other than in cities with 1 million & above population, no permission from the centre is required.

2) Foreign Trade Policy:

a) Removal of quantitative Restrictions

b) Rationalisation of Tariff Structure

c) Organizational Support for export promotion: Includes the establishment sof Special Economic Zones (SEZs) under the EXIM policy to provide internationally competitive and hassle-free environment for export-promotion. The SEZ act was passed in 2005.

3) Foreign Exchange Policy:

a) Foreign Exchange Control – Foreign Exchange Regulations Act (FERA) restricted foreign exchange transactions. Foreign Exchange Management Act (FEMA) in 1999 encourages foreign investment and facilitates Indian companies to invest abroad.

b) Convertibility of the Indian Rupee

4) Financial Sector Reforms Policy- i) Reduction in RBI's control over the Indian Banking System ii) entry of private & foreign banks in India iii) reduction in the number of public sector commercial banks iv) maintenance of capital adequacy norms v) improvement in the operational efficiency of weak public sector banks vi) entry of private institutions in insurance. Important terminology- Security & Exchange Board of India (SEBI), The National Stock Exchange (NSE), The National Securities Deposit Ltd (NSDL), The National Security Clearing Corporation (NSCC), The Clearing Corporation of India Ltd (CCIL)

<u>Favorable impacts of the reform policies of Indian Industries</u>

1) Creation of Competitive Environment
2) Efficient Utilization of Resources

3) Greater Outward orientation of Indian Industries
4) Greater Benefits from Comparative Cost Advantage
5) Greater inflow of foreign capital
6) Solving the problem of structural imbalance
7) Easy capital availability (short & long term)
8) Restructured Corporate Strategy under which the Mergers & Acquisitions (M&A) activities result in- i) Operational Synergy to tap the economies of scale for fall in LAC and the economies of scope to diversify products ii) Financial Synergy to result in reduced cost of capital.

Till now, all the reforms & policies fall under first generation reforms.

Unfavorable Impacts of Reform Policies on Indian Industries:

1) Volatility to fluctuations in the international market where slowdown in global economic activity adversely affects exports of India
2) Intellectual Property Rights (IPR) and Indian Industries- Trade Related Intellectual Property Rights (TRIPS) which provides for 'product patent' for drugs, food & chemicals. Under the previous Patent Act (1970) only 'process patents; in India were recognized but now 'product patents' are also recognized.
3) Removal of quantitative Restrictions and Small Scale Industries (SSI) – Exports & cut-throat global competition put pressure on small scale indigenous industries in India. Since the SSI loses exclusive right to produce a few commodities after dereservation, the stiff competition results in greater number of sick SSIs.
4) Decline in Factor Productivity
5) Increase in Import Intensity – Higher import intensity for exporting rather than non-exporting companies resulted in creation of fewer backward linkages in the country.
6) Greater tendency of M&A and concentration of economic power
7) Uncertainty Regarding Capital Formation

8) Polarisation Instead of Virtuous Growth – a) Declining share of regular wage employment in the industrial sector b) increase in casualisation of /contractual workforce.

Future Prospects of Indian Industries

1) New Opportunities for the Textile Industry by capitalizing on cheap labor and exporting globally
2) Information Technology (IT) Industry by tapping into the large reservoirs of IT skills in India, investor-friendly public policies and infrastructural support
3) Food Processing Industries by creation of Food Parks and encouraging value-addition to the fruits & vegetables (F&V) sector. This also requires focus on diversifying products and focusing on Research & Development.

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