Industrial slump

A declining industry leads to a stagnant job market which is dangerous for a country which has millions of job seekers.

By N N Sachitanand

There is nothing astonishing about the Index for Industrial Production plummeting to -5 per cent in October, the first time it has dipped into negative territory since March 2009. The prime culprits responsible for this decline are mining (-7.2 per cent), electricity (-5.6 per cent) and manufacturing (-6 per cent). What is surprising is that the decline has taken so long in making itself felt.

Mining has been losing ground for the past five years. In India, major minerals of national importance, like coal, iron ore and bauxite, due to geological and geophysical reasons, are located in forested regions which are also inhabited by tribals. Starting or expanding mines has become an extremely time-consuming affair under the restrictive provisions of the new Forest Rights Act of 2006. This was further complicated by the previous environment minister, Jairam Ramesh, charting out a ‘Go/No go’ classification for mining in coal-bearing regions.

The running of existing mines has been critically affected due to two main reasons. One is the Maoist menace in the mineral-rich eastern region. The second is the crackdown on iron ore mining in Goa and Karnataka due to illegalities perpetrated by many of the mine owners. The Orissa government has also recently followed suit. One of the biggest iron ore mining companies in the country has announced a decline of 38 per cent in output in the first half of the current financial year.

The downturn in mining has had its domino effect on the downstream industries. One of the reasons for the poor performance of the power sector is the shortage of coal from our mines which led to many thermal power plants drastically reducing their generation. The ban imposed by the Supreme Court on iron ore mining in Bellary severely impacted the production of steel in the nearby Jindal steelworks.

The slump in the manufacturing sector has been mainly on account of a horrific 25 per cent slide in the output of capital goods. One of the main reasons for this is a drastic slowdown in investment, which again is related to several factors. One is regulatory delays and problems in land acquisition for new projects. This has frozen proposed huge investments in new metallurgical and power projects, which are large buyers of capital equipment. In the steel sector alone, a proposed investment of over Rs 11 lakh crore has been waiting in the wings for over seven years now due to roadblocks in land acquisition.

Power equipment manufacturers in the country have been hit on two fronts. One is the reluctance of private power producers to invest in new thermal generation plants due to the shortage of indigenous coal, high price of foreign coal and inadequate prices of power supplies set by state regulators. The other cause of concern for our power equipment makers is the predatory pricing adopted by Chinese manufacturers who are reputed to have captured over 40 per cent of the Indian power equipment market. Incidentally, according to one report, China now accounts for over 25 per cent of India’s manufacturing GDP.

Of course, investment in capital equipment requires huge amounts of capital. But the way the RBI has gone on increasing the cost of money in the last one year in a desperate measure to control inflation has severely dented the capacity of firms to purchase new equipment. Of course, inflation has to be controlled but increasing borrowing costs is a limited solution. Boosting the supply side should also be explored. In fact, the recent softening of vegetable prices has more to do with enhanced supplies than dearer money. It must not be forgotten that a declining industry leads to a stagnant job market which is a dangerous situation for a country where young employment seekers are being added by the millions every month.

The dip in the growth of output of consumer goods, both durable and nondurable, can be ascribed to a falling market resulting from lower purchasing power with the consumer, thanks to inflation. The rise in prices of basic necessities (food and fuel) has been so sharp that little is left from normal income for purchasing hardware. This situation has been further exacerbated by the increase in bank rates which have led to increased outgo in the form of interest on previous borrowings.

Ever since the UPA-2 came to power, its strategists and think tank have focused on increasing entitlements to a potential voter base. This has led to schemes like the MNREGA which have involved huge expenditure and cut into government investments in infrastructure etc. With the private sector also fighting shy of investment due to dear money, it may not be surprising to find that overall investment as percentage of GDP has fallen in the last few years to 25 per cent, as compared to 33 per cent during the 10th Plan. Industry is the ultimate loser in this process.

Of course, the depressed conditions in the developed world have had their impact on our export oriented industries, like textiles, especially apparel and auto components. But, overall exports have still not been hurt so badly. The downturn in industry is definitely much more an outcome of domestic circumstances, and needs to be attended urgently.