



## MANUFACTURING IN INDIA - GS III MAINS

Q. India's manufacturing sector is in constant need of reforms to make the manufacturing sector globally competitive. Discuss (15 marks, 250 words)

**News:** *Manufacturing has immense potential. Can the new government unleash it?*

### What's in the news?

- India is moving towards being a significant global manufacturing centre and can export items worth \$1 trillion by 2030.

### Key takeaways:

- The manufacturing industry contributes significantly to India's economy, accounting for 17% of GDP and employing more than 27.3 million people.
- The Indian government wants manufacturing to contribute 25% of economic production by 2025 through the execution of several programmes and policies.

### Significance of Manufacturing Sector:

#### 1. Employment Generation:

- The manufacturing sector is a significant source of employment, particularly for semi-skilled and skilled workers.
- It provides opportunities for income generation, reduces unemployment, and contributes to poverty reduction.
- Example - the automotive industry in India has created millions of direct and indirect jobs, offering employment to a diverse workforce.

#### 2. Economic Growth:

- Manufacturing plays a vital role in driving economic growth and contributing to the country's Gross Domestic Product (GDP).
- A robust manufacturing sector stimulates other sectors of the economy, such as agriculture and services, through forward and backward linkages.

#### 3. Export Promotion:

- Manufacturing contributes significantly to India's export earnings, bringing in foreign exchange and improving the country's trade balance.
- Industries such as pharmaceuticals, textiles, and engineering goods have a strong presence in global markets.
- Example - India is one of the world's largest exporters of generic drugs, contributing to affordable healthcare globally.

#### 4. Technological Advancements and Innovation:



- The manufacturing sector promotes technological advancements and innovation, driving productivity and competitiveness.
- The adoption of advanced manufacturing technologies and processes enhances efficiency, quality, and product development.
- The electronics manufacturing sector, including the production of smartphones and consumer electronics, has witnessed significant technological advancements and innovation in India.

## 5. Value Addition and Supply Chain Development:

- Manufacturing adds value to raw materials and transforms them into finished products.
- This value addition contributes to increased income and improved living standards.
- Additionally, the manufacturing sector stimulates the development of supply chains, involving suppliers, distributors, and service providers, which creates additional employment and business opportunities.

## 6. Infrastructure Development:

- Manufacturing necessitates the development of infrastructure, such as transportation networks, power supply, and logistics.
- This leads to improvements in overall infrastructure, benefiting various sectors and regions.
- For instance, the construction of industrial parks and special economic zones (SEZs) for manufacturing purposes has led to infrastructure development in previously underdeveloped areas.

## 7. Attracting Foreign Direct Investment (FDI):

- A vibrant manufacturing sector attracts foreign investment, which brings in capital, technology, and expertise.
- Foreign companies establish manufacturing facilities in India to tap into the domestic market and utilize the country's skilled labor force.
- Examples - Global automotive manufacturers like Suzuki, Hyundai, and Honda, which have set up production facilities in India.

## Initiatives by Government to Manufacturing Sector:

- **Economic reforms of 1991** were undertaken in order to raise the presence of the manufacturing sector in the Indian economy.
- In 2014, the government came up with '**Make in India**' programme to push manufacturing growth with emphasis on foreign direct investment.
- In 2019, the Union Government has **lowered the tax on corporates** and brought measures to improve the ease of doing business in India (like single window clearances).
- Government launched '**Production linked incentive (PLI) scheme**', to incentivize companies on incremental sales from products manufactured in domestic units.

## Challenges Faced by the Manufacturing Sector:



## 1. Complex Taxation System:

- The introduction of the Goods and Services Tax (GST) has improved the overall taxation ecosystem in the country, but it is facing multiple challenges including frequent changes in tax rates and compliance procedures, which caused confusion and disrupted business operations.

## 2. Labor Laws:

- The lack of flexibility in labor laws can discourage companies from expanding their manufacturing operations or adopting new technologies.
- In 2020, the Indian government introduced four Labour codes to address some of these concerns, but they are not implemented yet.

## 3. Land Acquisition:

- Land acquisition for manufacturing projects has often faced challenges due to complex regulations, unclear ownership, and resistance from local communities.
- This has led to delays and increased costs for setting up manufacturing facilities.

## 4. Limited Investment in Research and Development (R&D):

- India's manufacturing sector has historically underinvested in research and development, leading to a lack of innovation and technological advancement.
- Limited R&D spending hampers the development of new products, processes, and technologies, reducing the sector's competitiveness.

## 5. Inadequate Infrastructure:

- India's manufacturing sector has been hindered by inadequate infrastructure, such as poor transportation networks, inadequate power supply, and congested ports.
- These issues affect the efficient movement of goods, increase costs, and hamper productivity.
- Example - the lack of modernized ports and congested road networks have resulted in high logistics costs, making Indian products less competitive in the global market.

## 6. Access to Finance:

- Small and medium-sized enterprises (SMEs) in the manufacturing sector often struggle to access affordable financing options.
- Limited availability of credit and high interest rates act as barriers to investment and growth.
- The lack of access to finance disproportionately affects smaller manufacturers, preventing them from scaling up and adopting advanced technologies.

## 7. Problem of Missing Middle:

- The Manufacturing sector is basically dominated by a large number of small enterprises and a relatively less number of large-scale manufacturing enterprises.
- There is almost near shortage of mid-sized firms. Such a peculiar scenario is referred to as "Problem of Missing Middle". This is basically attributed





## 8. Technology Adoption:

- The adoption of new technologies like artificial intelligence, data analytics, machine-to-machine communications, robotics and related technologies, collectively called “Industry 4.0”, are a bigger challenge for SMEs than for organized large-scale manufacturing.

## Way Forward:

### 1. Boosting Innovation through Start-Ups:

- Conducive ecosystem for nurturing and promoting start-ups through access to finance, handholding, tax incentives, access to market etc. Example - Startup India.
- Focus on Sunrise Sectors based on new-age technologies such as blockchain, robotics, machine learning, big data, AI etc. to leverage opportunities created by Industrial Revolution 4.0.

### 2. Plug and Play Model:

- Under the plug-and-play model, the investors are provided with land at affordable cost with all the necessary pre-clearances including environmental clearances.
- It would provide in-built office spaces and all the basic facilities such as electricity, water etc.
- Some of the States such as Maharashtra, Haryana etc. have decided to adopt such a model to boost foreign Investment.

### 3. Capacity Building:

- Greater connection between government-industry-academia is required to identify the changing requirements in manufacturing and prepare an employable workforce.

India’s manufacturing sector is in constant need of reforms to make the manufacturing sector globally competitive. The government needs to focus on the demand side of the economy by taking measures to raise the income of individuals which would lead to a cycle of production, consumption, and economic growth of the country.