



ISSUES IN MANUFACTURING SECTOR IN INDIA - GS III MAINS

Q. Examine the issues and complexities faced by the Indian manufacturing sector and bring out the steps needed to be taken by the government to put India's manufacturing prowess on the global arena. (15 marks, 250 words)

News: *At the root of India's manufacturing challenge*

What's in the news?

- The issue of manufacturing or services as the desirable path for India's economy makes the rounds in public fora periodically.

Major Issues in Indian 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. 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.

4. Inadequate Infrastructure:

- India's manufacturing sector has been hindered by inadequate infrastructure, such as poor transportation networks, inadequate power supply, and congested ports.

5. 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.

6. 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.

7. Political Delays:



- The biggest concern of policy makers, analysts, and investors related to manufacturing is around political hold-ups.
- In every session, the working of Parliament is interrupted which delays the approval of important bills.

8. Un-skilled Human Capital:

- India lags far behind other nations in imparting skill training. Not too much has changed since then.

Implications of the Issues in Manufacturing Sector on Indian Economy:

1. Economic Growth:

- Declining manufacturing productivity can hinder overall economic growth.

2. Reduced Competitiveness:

- Declining productivity in manufacturing can erode a country's competitiveness in the global market.
- This can lead to a decline in exports and an increase in imports, negatively impacting the trade balance and potentially affecting the overall economic stability of a nation.

3. Employment and Labor Market Challenges:

- Lower productivity can result in reduced job creation within the manufacturing sector, leading to unemployment or underemployment.

4. Slower Technological Progression:

- When productivity declines, the incentives for firms to invest in research and development or adopt new technologies may diminish, leading to a slower pace of technological advancement within the manufacturing sector.

5. Lack of Industrial Development and Diversification:

- A decline in productivity can hinder the growth and diversification of the manufacturing sector, limiting its ability to contribute to overall industrial development.

6. Investment and Innovation:

- Declining productivity in manufacturing can discourage investment and innovation within the sector.

7. Sectoral Shifts:

- Declining manufacturing productivity may result in a shift towards other sectors of the economy.
- If manufacturing becomes less competitive and less productive, resources and investments may be redirected to other sectors such as services.



Measures Taken by the Government to Improve Manufacturing Sector:

1. Make In India:

- It is an initiative to convert India into a global manufacturing hub.
- In order to attract new investments and promote manufacturing, this programme addresses the problem areas in the manufacturing sector through different channels of intervention.

2. Skill India:

- It is a skill development programme for job creation and entrepreneurship for various socially vulnerable classes in Indian society.
- Hence, it lays emphasis on skill so that youth get employment and also improve entrepreneurship. It is a supplementary plan of Make In India

3. Deen Dayal Shrameev Jayate Yojana:

- It intends to bring reforms in the labor laws that could inspire confidence in businesses; improve business flexibility and ease of doing business in India

4. Micro Units Development and Refinance Agency (MUDRA):

- This scheme focuses on funding the unfunded.
- Small entrepreneurs of India are vulnerable to being exploited at the hands of money lenders, therefore Mudra supports entrepreneurs to give employment to a large number of people using the least amount of funds.

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. E.g., Startup India.

2. Focus on Sunrise Sectors:

- It should be based on new-age technologies such as blockchain, robotics, machine learning, big data, AI etc. to leverage opportunities created by Industrial Revolution 4.0.

3. 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.

4. Capacity Building:

- Greater connection between government-industry-academia is required to identify the changing requirements in manufacturing and prepare an employable workforce.
- In the context of employability of engineers, there is a need for thorough review of standards of engineering education and its linkages with industry.



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