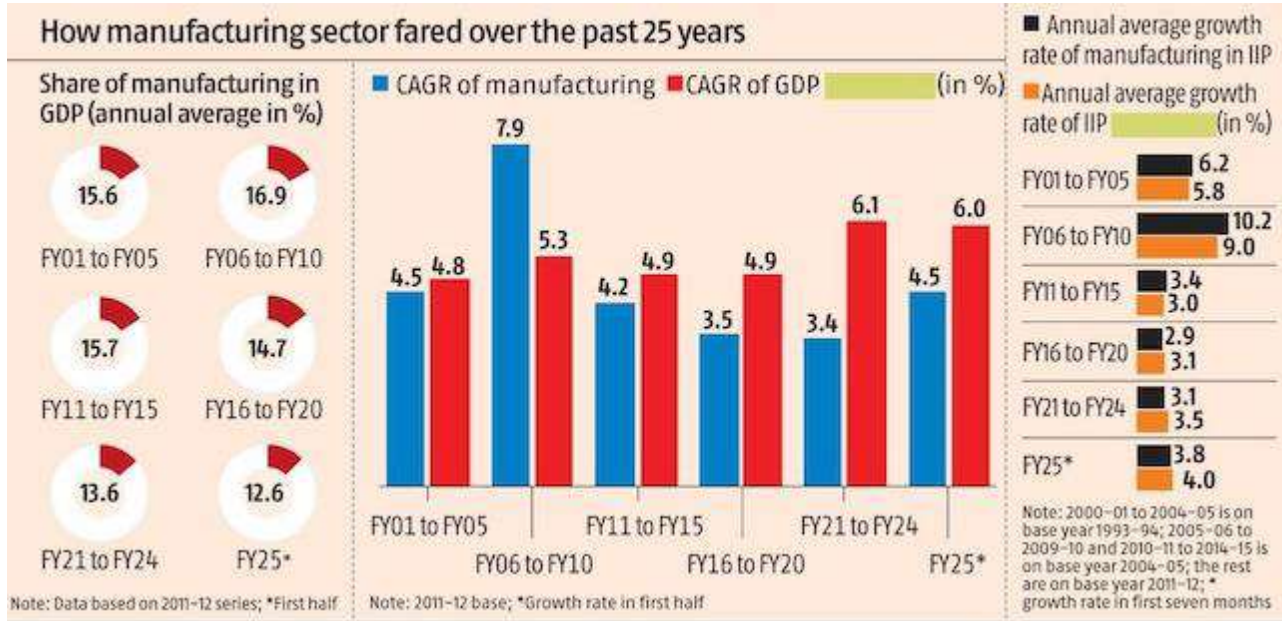




## REVITALIZING INDIA'S MANUFACTURING SECTOR: GS-III



The manufacturing sector serves as the backbone of a nation’s economy, driving employment, exports, and innovation. As a key pillar of industrialization, it underpins economic resilience and national security by reducing import dependency and bolstering global competitiveness.

For India, with its demographic dividend and vast market potential, the manufacturing sector offers a promising avenue for accelerated economic development. However, despite various initiatives, the contribution of manufacturing to India's GDP has been on a downward trajectory.

### The Significance of the Manufacturing Sector

Manufacturing is vital to a nation’s socio-economic fabric due to its multiplier effects on employment generation, supply chain development, and innovation. Globally, economies with robust manufacturing sectors, such as China, Germany, and South Korea, have demonstrated sustained growth. For India, enhancing manufacturing can:

- 1. Reduce Import Dependence:** Domestic production lowers reliance on imports for essential goods, promoting economic self-reliance.
- 2. Generate Employment:** Manufacturing has the potential to create millions of jobs across the skill spectrum.
- 3. Boost Exports:** A competitive manufacturing sector can diversify and enhance export revenues.
- 4. Spur Technological Innovation:** R&D-driven manufacturing fosters advancements in technology and productivity.
- 5. Strengthen Supply Chains:** It enhances resilience by developing localized supply networks.

#### The Current Status of Indian Manufacturing

Despite its importance, the manufacturing sector in India has been struggling. The sector's share in GDP has declined from 17% in 2011 to about 13% in 2023, failing to meet the National Manufacturing Policy (NMP)



target of 25% by 2022. While the GDP's compound annual growth rate (CAGR) has risen in the past decade, manufacturing has grown at a slower pace, particularly in micro, small, and medium enterprises (MSMEs).

## **India has made progress in select commodities, such as telecom handsets, but overall volume growth in manufacturing remains subdued. For instance:**

**1.Services Exports vs. Manufacturing:** Services exports from special economic zones (SEZs) were over 50% higher than manufacturing exports in the first quarter of 2023-24.

**2.Challenges in MSMEs:** The sector, representing a significant portion of manufacturing, continues to grapple with compliance bottlenecks, funding constraints, and post-COVID recovery challenges.

### Reasons for the Manufacturing Sector's Shortfall

Several structural and systemic challenges have hindered India's manufacturing growth:

**1. Regulatory Bottlenecks:** Complex compliance requirements and bureaucratic red tape deter investments and impede ease of doing business.

**2. Slow Infrastructure Development:** Inadequate logistics and power infrastructure increase production costs and delay projects.

**3. Skewed Income Distribution:** Stagnant income growth among the lower middle class reduces demand for manufactured goods.

**4. Limited R&D and Innovation:** India spends less than 1% of GDP on research and development, lagging behind global peers.

**5. Global Financial Crises:** Events like the 2008 financial crisis and COVID-19 pandemic disrupted supply chains and dampened industrial activity.

**6. Competition from Other Nations:** Countries like Vietnam, Indonesia, and Mexico offer attractive alternatives for multinational corporations under the "China Plus One" strategy.

### Government Measures to Promote Manufacturing

Successive Indian governments have launched ambitious policies to rejuvenate the manufacturing sector. Notable initiatives include:

#### **1. National Manufacturing Policy (NMP), 2011**

The NMP was a landmark initiative aiming to raise manufacturing's GDP share to 25%. It emphasized skill development, technology enhancement, and environmental sustainability. While the policy led to the creation of the National Manufacturing Competitiveness Council, its impact has been diluted due to slow implementation.

#### **2. Make in India, 2014**

Launched by Prime Minister Narendra Modi, this flagship program sought to transform India into a global manufacturing hub. Covering 14 manufacturing and 12 service sectors, the initiative focused on:

1.Facilitating investment.



2. Encouraging innovation.
3. Enhancing skill development.
4. Building world-class infrastructure.

### **3. Production-Linked Incentive (PLI) Scheme**

Introduced in 2020, the PLI scheme incentivizes manufacturing in sectors like electronics, pharmaceuticals, automobiles, and textiles. Key achievements include:

1. Telecom Handsets: India has become the second-largest mobile phone manufacturer globally.
2. Electronics: Apple's iPhone production in India reached \$10 billion in 2023.
3. Automotive and Steel: Enhanced domestic capacity and reduced import dependency.

### **4. National Logistics Policy (NLP)**

Unveiled in 2022, the NLP aims to reduce logistics costs, streamline transportation, and improve supply chain efficiency.

### **5. PM GatiShakti**

This infrastructure master plan integrates multiple transport networks to boost connectivity and reduce operational bottlenecks for manufacturers.

## **Way Forward**

To capitalize on opportunities and address existing challenges, India must adopt a multi-pronged approach:

### **1. Regulatory Reforms**

Simplify compliance requirements and enhance ease of doing business by adopting single-window clearances, reducing bureaucratic delays, and modernizing land acquisition processes.

### **2. Investment in Infrastructure**

Accelerate the development of industrial corridors, ports, and power supply systems to reduce production costs and improve logistics.

### **3. Skill Development**

Expand skill enhancement programs tailored to high-tech manufacturing, ensuring a steady supply of skilled labor for emerging industries.

### **4. Focus on High-Value Products**



Shift from low-cost manufacturing to high-margin, technology-intensive sectors like semiconductors, renewable energy, and advanced machinery.

### **5. Strengthen MSMEs**

Introduce targeted policies to improve access to affordable credit, promote digital transformation, and enhance market linkages for MSMEs.

### **6. Boost R&D Investment**

Encourage private-sector R&D through tax incentives and public-private partnerships, fostering innovation-led growth.

### **7. Leverage Global Trends**

Proactively position India as a preferred destination under the “China Plus One” strategy by aligning policies with global trade dynamics.

## **Conclusion**

India stands at a critical juncture where it can transform its manufacturing sector into a global powerhouse. While policies like Make in India and the PLI scheme have laid a strong foundation, deeper reforms are needed to address structural challenges and unlock the sector's full potential.

By prioritizing innovation, investing in infrastructure, and fostering a conducive business ecosystem, India can carve out a unique growth path that aligns with its demographic strengths and global aspirations. With sustained efforts and a focus on long-term competitiveness, the manufacturing sector can become a key driver of India's economic resurgence in the years to come.