

General Studies-3; Topic: Economic growth and development

Manufacturing sector in India

1) Introduction

- India's manufacturing sector has evolved through several phases - from the initial industrialisation and the license raj to liberalisation and the current phase of global competitiveness.
- The Indian Manufacturing sector currently contributes 16-17% to GDP.
- By 2020, the country is expected to become the fifth largest manufacturing destination.

2) Opportunities

- India offers the 3 'Ds' for business to thrive— democracy, demography and demand.
- Manufacturing sector holds good prospects for jobs with promising remuneration.
- Various studies have estimated that every job created in manufacturing has a multiplier effect in creating 2–3 jobs in the services sector.
- 65% of India's population is below the age of 35 - giving us the edge of demographic dividend.
- GST and improving public spending through infrastructure projects are favourable moves for the sector.
- The labour-intensive manufacturing sector is the only ray of hope for India to absorb its huge labour force.
- Robust domestic demand, a growing middle class, a young population and a high return on investment, makes India an attractive opportunity to manufacturers
- The cost of manpower is relatively low as compared to other countries.

3) Issues of manufacturing sector

- Small Enterprises suffer from low productivity given that their small size prevents them from achieving economies of scale.
- The jobs the small enterprises create are low-paying ones.
- Industry's inadequate expenditure on research and development (R&D). Currently, R&D spending amounts to around 0.9% of GDP.
- MSME sector facing tough competition from cheap imports from China and other countries with which India has free trade agreements.
- Black money generation, not complying with tax laws, and the attendant corruption, has an adverse impact on making India a competitive manufacturing destination.

4) Challenges

- Numerous regulatory roadblocks, unfavourable land and labour laws, inadequate transport, communication and energy infrastructure, among others.
- India faces stiff competition from South-East Asian and other South Asian countries
- Global technological and geo-economic changes.
- Impact of a strong rupee in recent times on Indian industry and the economy.
- According to our latest salary index, manufacturing is the lowest paid sector with Rs. 211.7 median hourly gross salary in 2016.
- According to a FICCI report, India has 5.5 million people enrolled in vocational courses, while China has 90 million of them.

5) Government Initiatives

- Make in India initiative with the primary goal of making India a global manufacturing hub
- 'Zero defect zero effect' for MSMEs to deliver top quality products using clean technology.
- 'SKILL INDIA' - a multi-skill development programme with a mission for job creation and entrepreneurship
- Labour reforms through a dedicated Shram Suvidha Portal, Random Inspection Scheme, Universal Account Number and Apprentice Protsahan Yojana.
- Defence Procurement Policy (DPP) under which the priority will be given to the indigenously made defence products
- Technology Acquisition and Development Fund (TADF) under the National Manufacturing Policy (NMP) to facilitate acquisition of Clean, Green and Energy Efficient Technologies by MSMEs.
- Pradhan Mantri MUDRA Yojana (PMMY) for providing loans to small-scale businesses.

6) Way Forward

- Improving physical infrastructure from transport systems to the power sector is essential.
- Improve access to finance for smaller enterprises
- Making firm entry and exit easier
- Enhancing the flexibility of labour regulations.
- Low-cost manufacturing is important for India.
- If India has to raise its share of manufacturing in GDP to around 25%, industry will have to significantly step up its R&D expenditure. This must be addressed by the new industrial policy.
- The quantum of value addition has to be increased at all levels. Larger the value addition, greater the positive externalities.
- FDI policy requires a review to ensure that it facilitates greater technology transfer, leverages strategic linkages and innovation.
- Aim for higher job creation in the formal sector and performance linked tax incentives.
- Attractive remuneration to motivate people to join the manufacturing sector.
- Need to have a curriculum that focuses on soft-skills and value-based training that meets the demands of the industry.