



MANUFACTURING SECTOR IN INDIA - GS II MAINS

Q. Discuss the contribution of the Manufacturing sector for India's growth and bring out the issues plugging the growth of the Manufacturing sector at present. (15 marks, 250 words)

News: *Manufacturing sector crucial for India to reach its export goals: Experts*

What's in the news?

- The Bangalore Chamber of Industry and Commerce (BCIC) said that India's manufacturing sector contribution to the country's GDP should increase from 16.5 per cent to 20 per cent if the ambitious export goals are to be met.

Key takeaways:

- The government has set an export goal of \$8.3 trillion by 2047.

Contribution of Manufacturing Sector in India:

1. Economic contribution:

- Currently, manufacturing accounts for about 15 percent of the country's GDP.

2. Global share:

- India is the sixth-largest manufacturing economy in the world and contributes 3.1% to the world GDP.

3. Employment:

- Manufacturing sector in India employs about 12% of the total labour force.
- Overall, more than 30 million people are employed in the sector (organised and unorganised).

4. Capacity utilisation:

- In the second quarter of FY22, capacity utilisation in India's manufacturing sector stood at 72.0%, indicating significant recovery in the sector.
- It is measured by the Reserve Bank of India (RBI). It indicates not only the production levels of companies but also the potential for future investment.

5. Share in exports:

- Manufactured goods consists of almost 65% of Indian merchandise exports or around 43% of total exports. Manufacturing exports saw a CAGR of more than 15 percent to touch \$418 billion in fiscal year 2021-22.

6. FDI Share:

- 35% of all FDI inflow. India is rapidly emerging as a preferred country for foreign investments in the manufacturing sector.



Issues in Manufacturing Sector:

1. Stagnation in manufacturing output and employment contraction:

- Less jobs were created due to stagnant manufacturing output and contraction of labour-intensive segment of the formal manufacturing sector.
- This is due to excessive rigidity in the manufacturing labour market and rigid labour regulations has created disincentives for employers to create jobs.
- According to world bank study Industrial Disputes Act has lowered employment in organised manufacturing by about 25%.

2. Service sector driven growth:

- The biggest employer in India is the agriculture sector, employing 45% of the population but it contributes only 15% to the GDP, whereas Service sector is the biggest contributor to the GDP but employs less than 30%.
- IT and Financial services are drivers of service sector growth in last 2 decades however both of these sectors are not employment intensive. This is contributing to jobless growth in India.

3. Import-oriented economy:

- Excessive imports have been damaging Indian manufacturing industry.
- India has failed to witness a strong growth in the labour-intensive segment of the manufacturing sector, as it did not move from the import to an export-oriented development strategy. If India had followed Labour intensive goods export-led model like Southeast Asian countries, it would have created many jobs in the MSME sector.

4. Low demand:

- Low demand has led to slow economic growth and led to loss of jobs of many due to loss to companies. This is mainly due to less lower purchasing power and concentration of wealth in hands of few.

5. Infrastructure Bottlenecks:

- Infrastructural bottlenecks (especially in access to electricity), lack of backward and forward linkages between agriculture, industry and service sector has failed to create jobs and also hindered growth of labour intensive sectors.

6. MSME problems:

- The labour intensity of MSME is four times higher than that of large firms. But they face many problems.
- They have poor access to credit and are plagued by many serious problems which has limited their growth potential.

7. Skill Mismatch:

- Indian labour is not skilled as per industrial demands.
- Lesser skill levels of workers limit them the job opportunities.
- Also various programs by government like Skill India and stand up India are launched recently only.



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 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 connect 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.

Further Reference for Schemes - [Initiatives taken by Government](#)

