



## INDUSTRIALISATION IN INDIA - GS III MAINS

**Q.** Why do the farmers demand legislation on MSP and how does the legal MSP impact the Indian scenario at present? (10 marks, 150 words)

**News:** *Why India needs deep industrialisation*

### What's in the news?

- The COVID-19 pandemic changed the way we think about our economic future. Globalisation is now in retreat.
- Industrial policy and strategic state-led economic interventions are back on the menu everywhere.

### Key takeaways:

- The Inflation Reduction Act in the U.S., the European Green Deal, and India's Atmanirbhar Bharat are prominent examples.
- If economic development and not growth were our priority, manufacturing that takes along the service sector may be the solution to India's problems.

### India's Growth Momentum:

- India's growth momentum has sustained. India recovered relatively quickly from the pandemic, yet it has entered a phase of 'premature deindustrialisation'.
- The fruits of high growth were shared by a small minority, worsening pre-existing gaps.
- High-end cars get sold out. Common people struggle to cope with high food prices.

### Industrialisation:

- Industrialisation refers to the process wherein an economy transitions from primarily agrarian to one dominated by industry and manufacturing.
- This transition involves a substantial shift in the country's economic activities with significant changes in technology, productivity, income levels, and societal structure.

### Industrial Policies in India

#### Pre-Independence:

- Primarily catered to the colonial interests, steering industries towards the production of raw materials indispensable to Britain.
- However, a significant shift in this policy approach was observed in 1908, initiating protective measures for Indian industries against foreign competition.



## Post-Independence Industrial Policies:

### 1. Industrial Policy Resolution, 1948:

- It declared the Indian economy as Mixed economy.
- Small scale and cottage industries were given the importance.
- The government restricted foreign investments.
- Industries were divided into 4 categories such as
  - Exclusive monopoly of central government (arms and ammunitions, production of atomic energy and management of railways).
  - New undertaking undertaken only by the state (coal, iron and steel, aircraft manufacturing, ship building, telegraph, telephone etc.).
  - Industries to be regulated by the government (Industries of basic importance).
  - Open to private enterprise, individuals and cooperatives (remaining).

### 2. Industrial Policy Resolution, 1956 (IPR 1956)

- This policy laid down the basic framework of Industrial Policy.
- This policy is also known as the Economic Constitution of India.
- It is classified into three sectors such as
  - Schedule A – which covers Public Sector (17 Industries)
  - Schedule B – covering Mixed Sector (i.e. Public & Private) (12 Industries)
  - Schedule C – only Private Industries
- This has provisions for Public Sector, Small Scale Industry, Foreign Investment. To meet new challenges, from time to time, it was modified through statements in 1973, 1977, and 1980.

### 3. Industrial Policy Statement, 1977:

- This policy was an extension of the 1956 policy.
- The main was employment to the poor and reduction in the concentration of wealth.
- This policy majorly focused on decentralisation.
- It gave priority to small scale industries.
- It created a new unit called “Tiny Unit”.
- This policy imposed restrictions on Multinational Companies (MNC).

### 4. Industrial Policy Statement, 1980:

- The Industrial Policy Statement of 1980 addressed the need for promoting competition in the domestic market, modernization, selective Liberalization, and technological up-gradation.
- It liberalised licensing and provided for the automatic expansion of capacity.
- Due to this policy, the MRTP Act (Monopolies Restrictive Trade Practices) and FERA Act (Foreign Exchange Regulation Act, 1973) were introduced.
- The objective was to liberalize the industrial sector to increase industrial productivity and competitiveness of the industrial sector.
- The policy laid the foundation for an increasingly competitive export-based and for encouraging foreign investment in high-technology areas.

### 5. New Industrial Policy, 1991:

- L – Liberalization (Reduction of government control)
- P – Privatization (Increasing the role & scope of the private sector)
- G – Globalisation (Integration of the Indian economy with the world economy)



## 6. New Industrial Policy 2023 (Draft):

### Objectives:

- Enhance the pace of economic activity at the national level
- Devise mechanisms to impart resilience to the industrial sector.

### Challenges of Industrialisation in India:

#### 1. Incomprehensive Economic Policy:

- India's economy shifted from a predominantly agrarian society to an economy propelled by services **bypassing the traditional industrial development.**
- This is known as the “**missing middle**” phenomenon where growth in manufacturing & industry with their ability to absorb large-scale labour is missing.
- Also, **jobs tend to be concentrated** in either highly skilled service-driven industries like IT and financial services or in very low productive farm and construction-related sectors
- Traditional Industrial development led to growth of China and led to the formation of a dynamic middle class.

#### 2. Stagnant Manufacturing Sector:

- Despite the significant diversification of manufacturing observed in East Asian countries since the late 1970s, India's manufacturing share has remained stagnant at approximately **15% of the GDP.**
- According to the employment and unemployment survey of the National Statistical Office (NSO), manufacturing accounted for 12.6% of all workers in 2011-12 which declined to 11.6% in 2021-22.

#### 3. Crisis of Unemployment:

- More than 80% of the workforce in India is engaged in the **informal sector.**
- There is a huge lack of skilled employees in India and an increase in automation may further reduce the workforce, increasing the unemployment rate.

#### 4. Outpacing Traditional Brick-and-Mortar Model:

- Indian consumers have bypassed the organized retail model in developed economies, opting for local stores or online platforms.
- This trend could adversely affect sector development by disincentivizing investments into backend infrastructure and logistics.
- Unlike private organized retail, a major employment generator in countries like the UK, e-commerce has limited capacity to absorb labour due to increasing automation and technological advancements.
- It might deprive India of an estimated 10 million new jobs.

#### 5. Imbalances Across Sectors:

- India's growth trajectory, skipping crucial developmental stages, has led to imbalances and fractures across various sectors, including retail, manufacturing, sustenance, healthcare, education and housing.



## WAY FORWARD:

### Reforms Needed in Draft New Industrial Policy 2023:

- **Development Finance Institution (DFI):**
  - It should create a DFI using India's forex reserves to provide low-cost finance, and a technology fund to incentivize companies in advanced technology areas.
- **One Nation-One Standard:**
  - It should ensure the availability of quality products, promote start-ups across rural and urban areas, and push for innovation at urban local bodies.
- **Mega Clusters:**
  - It also included a plan to develop mega clusters to integrate with global supply chains and to help small businesses access corporate bond markets.
- **Policy for Tackling Current Global Dynamics:**
  - Dealing with climate change, green energy commitments and the West's China-plus-one strategy.
- **Universal Enterprise ID for micro, small and medium enterprises (MSMEs):**
  - This will strengthen their credit rating mechanism and MSME cluster financing models.
- **Surplus Agriculture Labour:**
  - An expanding manufacturing sector may absorb much of the surplus labour from agriculture and other "subsistence" sectors.
  - Hence, the focus should be on the development of labour-intensive manufacturing sectors such as Textile and Apparel and Shoe Manufacturing.