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ANALYSIS**

TOPIC

**INDIA'S MANUFACTURING SECTOR:
CHALLENGES, AND OPPORTUNITIES**

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INDIA'S MANUFACTURING SECTOR: CHALLENGES, AND OPPORTUNITIES

Context

- Recently, the **Annual Survey of Industries (ASI) for 2022-23** was released showcasing a **positive correlation** between Production Linked Incentive (PLI) scheme incentives and sectoral performance that have been pivotal in revitalizing the manufacturing sector, positioning India as a potential global manufacturing hub.

Current Status of India's Manufacturing Sector

- The manufacturing sector is emerging as an integral pillar in the country's economic growth with 17% of the nation's GDP and over 27.3 million workers.
- Growth and Performance:** According to the **Annual Survey of Industries (ASI) for 2022-23**, the manufacturing sector registered a robust **growth rate of 21.5%** in output, with a **Gross Value Added (GVA) growth of 7.3%**.
 - Key sectors such as basic metal manufacturing, coke and refined petroleum products, food products, chemicals, and motor vehicles **collectively contributed 58% to the total manufacturing output**.
- Employment Generation:** The manufacturing sector has also been a significant source of employment, adding approximately 22 lakh jobs in 2022-23.
 - It has surpassed pre-pandemic levels, indicating a steady recovery and expansion.
 - Major states like Maharashtra, Gujarat, Tamil Nadu, Karnataka, and Uttar Pradesh have been leading contributors to the sector's GVA and employment.
- Foreign Direct Investment (FDI):** FDI in India's manufacturing sector has reached US\$ 165.1 billion, a 69% increase over the past decade, driven by production-linked incentive (PLI) schemes.
 - In the last five years, total FDI inflows amounted to US\$ 383.5 billion.

Future Prospects

- According to the **National Manufacturing Policy (NMP)**, India aims to have **25% of the economy's output** come from manufacturing by 2025.
- India has the capacity to **export goods worth US\$ 1 trillion by 2030** and is on the road to becoming a major global manufacturing hub.
- As in the **Confederation of Indian Industry (CII)**'s estimations, manufacturing sectors share in the GVA has a potential to rise from the **current 17% to over 25% by 2030-31, and to 27% by 2047-48** if sustained efforts to boost domestic manufacturing capabilities and domestic value addition continue.
 - It helps to transform the Indian economy into a developed economy by 2047.

Annual Survey of Industries (ASI)

- It has been **conducted since 1959** under the **Collection of Statistics Act, 1953**.
 - Presently, the survey is being conducted under the **Collection of Statistics Act, 2008** as amended in 2017 and Rules framed there under in 2011.
- It provides information on important characteristics of the registered manufacturing sector for objectively evaluating the industrial scenario of India.
- It covers the **factories registered under the** Factories Act, 1948 and establishments under Bidi and Cigar Workers (Conditions of Employment) Act, 1966.
- It also covers all electricity undertakings engaged in generation, transmission and distribution of electricity, not registered with the Central Electricity Authority (CEA).

Challenges and Concerns Related to India's Manufacturing Sector

- Infrastructure Deficiencies:** It includes not only physical infrastructure like roads, ports, and power supply but **also digital infrastructure**.
 - Poor connectivity and unreliable power supply increase operational costs and reduce efficiency.
- Skilled Labor Shortage:** While India has a large workforce, there is a significant gap in the skills required for modern manufacturing processes.

- ◆ It is partly due to inadequate vocational training and education systems.
- **Regulatory Hurdles:** Land acquisition laws, labor laws, and environmental regulations can be cumbersome and time-consuming, deterring investment and slowing down project implementation.
- **Access to Finance:** Small and medium-sized enterprises (SMEs), which form the backbone of the manufacturing sector, often face difficulties in accessing finance.
 - ◆ High-interest rates, stringent collateral requirements, and lengthy approval processes make it challenging for these businesses to secure the necessary funds for expansion and modernization.
- **Global Competition:** India's manufacturing sector faces stiff competition from countries like China, which have more developed manufacturing ecosystems.
 - ◆ Lower production costs and better infrastructure in these countries make it difficult for Indian manufacturers to compete on a global scale.
- **Policy Implementation:** While the government has introduced several initiatives like 'Make in India' and the Production-Linked Incentive (PLI) scheme, the implementation of these policies has been inconsistent.
 - ◆ Bureaucratic delays and lack of coordination between various government departments often result in suboptimal outcomes.
- **Technological Adoption:** The adoption of advanced manufacturing technologies such as *automation, artificial intelligence, and the Internet of Things (IoT)* is still in its **nascent stages in India**.
 - ◆ Limited investment in research and development (R&D) and a lack of awareness about the benefits of these technologies hinder their widespread adoption.
- **Environmental Concerns:** Issues such as pollution, waste management, and sustainable resource use are critical concerns that need to be addressed to ensure the sector's long-term viability.

Key Recommendations for Sustained Growth in India's Manufacturing Sector

- **Expanding the Scope of PLI:** The PLI Scheme has been instrumental in boosting manufacturing in sectors like *electronics, pharmaceuticals, and automobiles*.
 - ◆ Extending PLI incentives **to labor-intensive sectors** such as *apparel, leather, footwear, and furniture*, as well as sunrise industries like *aerospace, space technology, and maintenance, repair, and overhaul (MRO)*, could unlock new growth frontiers.
 - ◆ Additionally, sectors with high import dependency but untapped domestic capabilities, such as capital goods, should also be considered for PLI incentives.
- **Female Workforce Participation:** Enhancing female workforce participation is an untapped opportunity for boosting manufacturing growth.
 - ◆ The **World Bank's latest South Asia Development Update** estimates that India's manufacturing output **could rise by 9%** if more women join the workforce.
- **Focusing on MSMEs:** MSMEs contribute **around 45% of India's manufacturing GDP** and employ **about 60 million people**.
 - ◆ Tailoring PLI incentives to accommodate MSMEs, by lowering capital investment thresholds and reducing production targets, would empower these enterprises to scale up, innovate and integrate more effectively into value chains.
- **Addressing Structural Challenges:** These include improving infrastructure, enhancing skill development, and ensuring ease of doing business.
 - ◆ Strong reforms are essential to create a conducive environment for manufacturing to flourish.
 - ◆ Investments in transportation networks, warehousing, and port facilities can enhance efficiency and reduce the time and cost of moving goods.
- **Skill Development and Labor Reforms:** Initiatives like the **Skill India Mission** aim to equip the workforce with the necessary skills to meet the demands of modern manufacturing.
- **Promoting Sustainable Practices:** Ensuring environmental sustainability through **green manufacturing practices** is vital.
 - ◆ Policies that promote energy efficiency, waste reduction, and the use of renewable energy sources can help achieve long-term sustainability goals.
- **Encouraging Foreign Direct Investment (FDI):** Attracting FDI through favorable policies and a stable business environment can bring in **capital, technology, and expertise**.

- ◆ It can enhance the competitiveness of India's manufacturing sector on a global scale.
- **Leveraging Digital Technologies:** Adopting digital technologies can improve efficiency and productivity.
 - ◆ The Digital India initiative aims to integrate these technologies into the manufacturing process.

Way Forward

- The revival of the manufacturing sector is a testament to the effectiveness of strategic policy initiatives like the PLI scheme.
- The need for strong reforms to fully capitalize on its potential is evident. Extending PLI incentives to labor-intensive sectors as well as sunrise industries like aerospace and space technology, could unlock new growth frontiers.
- Additionally, addressing high import dependency in sectors with untapped domestic capabilities, such as capital goods, is crucial.

Source: TH



Mains Practice Question

Discuss the key challenges and opportunities India faces in its endeavor to become a global manufacturing hub. Highlight the efforts to overcome these challenges and capitalize on these opportunities?

