Manufacturing Productivity in India

Why in news?

The growth rate of manufacturing productivity in India is in negative trend which got accelerated during COVID-19.

What is the significance of manufacturing sector?

- Agriculture contributes only about *20% of India's Gross Value Added* but still employs close to *55% of India's workforce.*
- The fact that agriculture is not as remunerative is made worse by the fact in India there are just too many people dependent on agriculture ***(disguised unemployment)***.
- The better solution is to pull people out of farms and get them employed in other sectors such as manufacturing which requires fewer soft skills.
- Having more people in manufacturing will make India the preferred factory of the world and will pull millions out of poverty.
- The Indian government hopes to have *25% of the economy's output come from manufacturing by 2025.*

What is the status of manufacturing sector?

> *India is the 3rd most sought-after manufacturing destination in the world and has the potential to export goods worth US$ 1 trillion by 2030.*

- **Contribution to GDP** - Manufacturing sector contributes to ***17% of GDP*** and employs ***20% of the workforce*** in the country.
- Most of India's GDP now comes from the services sector while millions continue to languish in the agriculture sector.
- The share of manufacturing both in India's GDP or overall employment has largely stayed stagnant.
- **Employment** - The data from CMIE shows that employment in India's manufacturing sector has fallen from over 51 million in 2016 to less 36 million in 2023, *a fall of over 30%.*
- **Productivity growth -** The growth rate of productivity fluctuated between 10 to 15 % in the 1990s and 2000s and began to *stagnate after 2015.*
- This *negative trend* accelerated into the several years preceding the pandemic.
- **Regional disparity-** Western and Central Indian states tend to have the highest average productivity in manufacturing, while the Southern and Eastern states have the lowest.
- This is in contrast to the GDP per capita ranking of states, in which Southern states tend to have higher incomes than their Western and Central counterparts.

- **Investment in workers -** Data shows that investing in workers (either as higher salary or better benefits) pays rich dividends for firms.

What are the reasons for low manufacturing growth productivity?

- **Premature deindustrialisation -** At a macro-manufacturing level, India experienced premature deindustrialisation.
- It observed a *sudden fall in its manufacturing-GDP ratio* before achieving an optimal rate of development resulting in a sub-optimal manufacturing scenario and a fragmented labour market.
- **Jobless growth-** It is an economic which refers to a situation where *economic growth does not lead to job creation*, but is due to quantum jump in service sector with minimal growth in manufacturing sector.
- **Unskilled labour-** The majority of the workers in India lack the proper skills to work in the manufacturing industry. *Only 10% of the Indian workforce falls into formal economy.*
- **Lack of investment**- Manufacturing sector is capital intensive industry, lack of entrepreneurial spirit and low investment leads to low growth rate.
- **Low production capacity**- In India, MSMEs contribute around ***29% of GDP***, but having large number of small enterprises lead to increase in the cost of production.
- **Trade deficit-** It is due to cheap imports and high import duty on raw materials which hikes the production cost.
- Further, exports is less than imports.
- **Connectivity issues-** India's average logistic cost is *14% of the GDP whereas* **promote** *the global average is 8%.*

Steps Taken to Promote the Manufacturing Sector
• **Make in India -** It was launched in 2014 to facilitate investment, foster innovation, build best in class infrastructure and make India a hub for manufacturing, design and innovation. • **Industrial Corridor Development Programme-** It is to develop Greenfield Industrial regions with sustainable infrastructure. • As part of National Industrial Corridor Program, 11 Industrial Corridors are being developed in 4 phases. • **Ease of Doing Business-** The key focus areas of the initiative are simplification of procedures, rationalization of legal provisions, digitization of government processes etc., • **National Single Window System**- Announced in Budget 2020-21, it is envisioned as a one-stop shop for investor related approvals and services in the country. • **PM Gati Shakti-** It is a transformative approach to facilitate data-based decisions related to integrated planning of multimodal infrastructure, thereby reducing logistics cost. • **National Logistics Policy-** It was launched in 2022 that aims to reduce the logistics cost, which stands at *14% of GDP to 9-10%.* • **Production Linked Incentive (PLI) scheme-** It has identified 14 key sectors with an outlay of Rs. 1.97 lakh crore to enhance India's manufacturing capabilities and exports. • **National Manufacturing Policy-** It is launched in 2011 which works on the principle of economic and industrial growth in partnership with states

What lies ahead?

- **Improve capacity utilization-** Government can incentivise industry focus on increasing capacity utilisation and lower the production cost.
- **Focus on power sector-** Power sector is the lifeline of manufacturing industry, power fluctuation and shortage must be checked for consistent increase in the production.
- **Incentivise production-** The coupled efforts of tax profit and production incentives will increase in the manufacturing capability of India which would also increase the job opportunities.
- **Localize defence production-** Defence production in India will leverage its Atmanirbhar Bharat vision and reduce the high military spending on imports.
- **Skill development-** Proper skill enhancement will have a positive impact on demographic dividend of the country.
- **Increase investments-** It needs a holistic approach of improvement in land, labour, entrepreneur and capital.
- **Improve infrastructure-** Reducing the infrastructure bottlenecks and improving the connectivity will play a major role in manufacturing sector.

References

1. Indian Express| Indian Manufacturing growth rate
2. Ibef| Manufacturing sector stats
3. PIB| Schemes for Manufacturing sector

SHANKAR IAS PARLIAMENT
Information is Empowering