Reviving the Manufacturing Sector

> Mains Syllabus: GS III - Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.

Why in the News?

Recently Centre for Social and Economic Progress (CSEP) has released Competitiveness Index (CI) for the year 2025.

Why is the manufacturing sector essential for India?

- **Employment Generation** - Manufacturing provides employment to millions, especially for semi-skilled and unskilled workers, which is vital in a country with a large and young labour force and addressing employment issues in India.
- **Strengthen Forex** - A strong manufacturing base boosts exports, improves trade balance, and brings in foreign exchange.
- **Support for Other Sectors** - Manufacturing has strong backward and forward linkages with agriculture (e.g., food processing) and services (e.g., logistics, design, and maintenance).
- **Urbanization** - Manufacturing leads to the development of industrial zones, towns, and cities, boosting urban infrastructure and services.
- **Infrastructure Development** – Transport and Logistics demands better connectivity, prompting investments in roads, ports, railways, and logistics networks.
- **National Security** - Domestic manufacturing in areas like defense, electronics, and pharmaceuticals strengthens national security.

What are challenges faced by India’s manufacturing sector?

- **Less Growth** – Manufacturing sector’s share of gross domestic product (GDP), from 16 % in 2015 to just 13 % in 2023.
- **Stagnant Contribution to Global Share** - India’s share in global manufacturing exports has remained largely stagnant in recent years, inching up from 1.7 % in 2017 to 1.8 % in 2023, while Vietnam’s share rose from 1.5 % to 1.9 %.
- **Inadequate Global Integration** - Despite its large economic size, India has struggled to integrate into manufacturing global value chains (GVCs), unlike many of its Asian peers.
- **High and Fragmented Tariff Regime** - It inflates input costs, reduces export competitiveness, and pushes firms to focus on domestic rather than global markets.
- **Absence From Major Trade Blocs** – India’s rejection to join major trade groups such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) puts its exporters at

a disadvantage compared to peers like Vietnam.
- **Regulatory Restrictions** - Current labour laws impose restrictions once firms cross certain workforce size limits, discouraging expansion.
- **Inadeqaute Technology and R&D Investment** - India invests only 0.6% of its GDP in R&D, which is insufficient compared to competitors like Malaysia (0.9 per cent) and Thailand (1.2%).
- Despite various government incentives, private R&D remains low, primarily due to limited competitive pressure.

What needs to be done?

- To move forward, it is critical to identify and address the structural barriers limiting India's participation in GVCs compared to its competitors.
- By dismantling protectionist policies, embracing deeper FTAs with key partners, enhancing internal labour mobility, investing in clusters and industrial parks, improving regulatory frameworks, and prioritising technological innovation, India can better compete in the global marketplace and leverage emerging opportunities.
- Tariff reform must be seen not merely as a fiscal issue but as a strategy for integrating into global value chains, which cover 70 per cent of the global trade.
- India needs to deepen its FTA engagement, signing agreements with new partners and deepening existing agreements.
- In today's environment of trade tensions and a weakening multilateral system, bilateral agreements remain the most politically viable option.
- Regulatory reform is crucial to help firms grow and scale.
- Effective urban planning and affordable housing policies are vital to boost labour mobility and lower costs for both workers and employers.
- Practical measures, such as building worker dormitories and improving transport, can significantly attract skilled workers, especially women, who remain vastly underrepresented in India's workforce.
- Addressing these challenges will help resolve labour shortages, boost productivity, and strengthen India's manufacturing competitiveness.
- India needs to prioritise technology adoption and scale up investment in R&D to move up the value chain — from producing low-value-added goods to high-value-added, high-tech products.
- To increase manufacturing's share of GDP from 13% to 25% over the next decade — assuming GDP growth of 6.5% — the sector must grow at an average annual rate of 13.6%.

References

[Business Standard | Reviving Manufacturing]

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