



## Mains Practice Question

**Q.** Examine the concept of deep industrialization in India, underscoring its importance and potential obstacles in fostering economic and societal progress. (250 words)

06 Mar, 2024 GS Paper 3 Economy

### Approach

- Give a brief introduction to the deep industrialization in India.
- Examine its importance and potential obstacles in fostering economic and societal progress.
- Conclude suitably.

### Introduction

While industrialization typically refers to the process of developing industries in a region or country, **deep industrialization goes further by emphasizing sustainable and inclusive growth.**

It involves integrating industries with advanced technologies, fostering innovation, and ensuring environmental and social responsibility.

### Body

#### Need for Deep Industrialisation in India :

- **Ineffective Manufacturing Competitiveness:** To improve competitiveness in manufacturing, high-tech infrastructure and skilled manpower are crucial. However, India faces challenges such as limited telecom facilities outside major cities and loss-making State Electricity Boards.
  - Industrial policies in India have failed to push the manufacturing sector whose contribution to Gross Domestic Product (GDP) is stagnated at about 16% since 1991.
- **Lack of Adequate Transportation Facilities:** India's transportation infrastructure is strained, with overburdened rail networks and various issues plaguing road transport. These challenges hinder the efficient movement of goods and impact manufacturing competitiveness.
- **MSME Sector Constraints:** The MSME sector faces difficulties in accessing credit compared to medium and large-scale industries. This bias needs correction to support the growth of the MSME sector, which is vital for India's economic development.
- **High Dependency on Imports:** India still relies on foreign imports for various critical sectors, including transport equipment, machinery, iron and steel, chemicals, and fertilizers. This dependency highlights the need for import substitution strategies.
  - In India, the total industrial production of consumer goods contributes 38%.
- **Lack of Effective Industrial Policy Reforms:** Historically, industrial locations were often chosen for political reasons rather than cost-effectiveness. Additionally, the focus on public sector industries during early five-year plans led to inefficiencies and losses due to red-tape and labor-management issues, necessitating significant government expenditure to sustain them.
- **Selective Inflow of Investments:** In the current phase of investment following liberalisation, while substantial investments have been flowing into a few industries, there is concern over the slow pace of investments in many basic and strategic industries such as engineering, power, machine tools, etc.

- **Skewed Consumption-Led Growth:** Focusing attention on internal liberalisation without adequate emphasis on trade policy reforms resulted in 'consumption-led growth' rather than 'investment' or 'export-led growth'.

### Potential Challenges in India's Industrialization :

- **India's Post-Pandemic Distorted Economic Landscape:** India has maintained its growth momentum, recovering relatively quickly from the pandemic. However, it is experiencing "premature deindustrialization," where high growth benefits a small minority, exacerbating existing inequalities.
  - While high-end cars sell out, common people struggle with high food prices, highlighting structural flaws in India's growth model.
- **Drawbacks of Services-Led Growth:** While services-driven growth has been a focus since the late 1980s, it has not absorbed labor from agriculture as effectively as manufacturing would have.
  - Additionally, the service sector requires a highly skilled workforce, leading to deep inequalities. Investments in higher education have contributed to the neglect of basic and elementary education, further exacerbating inequalities.
- **Education Disparities and Industrial Stagnation:** India's education system reflects deep inequalities, with investments in human capital favoring the elite. This has led to a lack of entrepreneurial ventures on a large scale, unlike in China.
  - The differential quality of schooling and higher education contributes to unequal labor market outcomes, particularly affecting first-generation graduates from rural areas and small towns.
- **Cultural Factors in Industrialization:** A key cultural prerequisite for industrialization is mass education, which India lacks. Joel Mokyr suggests that the rise of useful knowledge is crucial for technological progress and growth.
  - India's cultural devaluation of certain occupations essential for manufacturing, as well as the undervaluation of vocational skills, hampers organic innovation and industrial progress.
- **Challenges in Job Creation:** India's labor market is characterized by low-paying and informal jobs. Most MSMEs are in the unorganized sector, lacking flexibility for job creation. China's experience underscores the importance of scale in manufacturing for job creation.
  - Over 99% of India's 63 million MSMEs are in the unorganised sector with very little flexibility for productive job creation. Their hand-to-mouth existence is not a recipe for jobs or scale. China's example suggests the influence of scale in manufacturing for more and more jobs.
    - Assessing Make-In-India's (MII's) impact on job creation is challenging due to a lack of frequent and comprehensive data. While the Production Linked Incentives Scheme (PLI) benefits high-end manufacturing, traditional manufacturing sectors remain vital for job creation among the masses.
- **Concerns of Protectionism and Past Experiences:** Past experiences of protectionism in the 1970s and 1980s led to shortages and rent-seeking behavior, benefiting producers more than consumers. There are fears that protectionist measures under MII may lead to similar outcomes.
  - The National Manufacturing Policy (NMP) of 2011 highlighted constraints in infrastructure, regulation, and manpower in the manufacturing sector. MII aims to raise manufacturing's GDP contribution to 25% and create 100 million jobs, building on NMP's objectives, but the situation remains bleak.

### A Few Suggestions for Promoting Deep Industrialization in India:

- **Multi-Faceted Approach to Deep Industrialization:** India requires deep industrialization, not just a focus on the service sector, to transform its society fundamentally. This would involve a reevaluation of labor, production, and technology, along with a shift in societal attitudes toward vocational skills and artisanal knowledge.
  - Deep industrialization would not only drive economic growth but also address societal divides rooted in caste and class.
- **The Role of New Industrial Policy (NIP '23):** The draft NIP '23 (currently on hold) seeks to attract investments, enhance efficiency, and make Indian manufacturers globally competitive, especially in sectors like toys, garments, and footwear.
  - This should be incorporated and implemented by following locally based aspirations and

manufacturing expertise of respective state governments.

- **Industrial Policy for Inclusive Job Creation:** In a labor-abundant country like India, industrial policy should prioritize job creation for the masses, particularly women. Labor-intensive manufacturing is crucial for creating productive jobs and achieving scale.
- **Importance of Data in Policy Making:** Economic policy making requires both data interpretation and a moral compass. Without high-frequency data on PLI's impact, policymakers must rely on broader principles to shape industrial policy effectively.
- **Integrating Industrial Revolution 4.0 in Economic Growth:** It is characterised by the use of technology to blur the boundaries between the digital, physical, and biological worlds, and is driven by data.
  - Key technologies include cloud computing, big data, autonomous robots, cybersecurity, simulation, additive manufacturing, and the internet of things (IoT).
- **Rethinking Economic Growth Strategies:** Some economists suggest shifting focus from manufacturing-led growth to high-skill, services-driven growth.
  - Also, this approach should synchronize with current industrial policies in order to effectively harness its effectiveness.

## Conclusion

Deep industrialization in India holds the potential to drive sustainable economic growth, create employment opportunities, foster technological innovation, and improve living standards for its citizens. However, it requires careful planning, policy support, and investment in infrastructure and human capital to realize its full benefits while addressing challenges such as environmental sustainability and inclusive growth.

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