



Indian Manufacturing Needs Product Sophistication

For Prelims: [Gross Domestic Product \(GDP\)](#), [Make in India](#), Industry 4.0, [Production-Linked Incentive \(PLI\)](#), [PM Gati Shakti](#)-National Master Plan, Bharatmala Project, [Sagarmala Project](#).

For Mains: Growth Drivers of the Manufacturing Sector in India, Challenges Related to India's Manufacturing Sector, Recent Government Initiatives for Growth of the Industrial Sector in India.

[Source: TH](#)

Why in News?

Recently, the **Finance Minister stated** that the Indian **manufacturing sector should focus on developing more sophisticated products**, and the government is ready to provide policy support to achieve this goal.

What is the Status of India's Manufacturing Sector?

- The **manufacturing sector** contributes **17% of India's GDP** and employs over **27.3 million workers**, playing a significant role in the country's economy.
 - The Indian government **aims to increase** the manufacturing sector's contribution **to 25%** of the economy's output **by 2025 (goal of Make in India)**.
- The increasing significance of manufacturing is driven by the strong performance of important sectors such as **automotive, engineering, chemicals, pharmaceuticals, and consumer durables**.
- **Manufacturing exports** reached a record high of **USD 447.46 billion** in FY23, showing a 6.03% growth compared to the previous year (FY22) when exports were USD 422 billion.
- **India's key industrial sectors (8 core industries)** saw a slowdown in January 2024, experiencing their slowest growth in 15 months. Growth slipped to 3.6%, a significant decline from December 2023 (4.9%) and January 2023 (9.7%).
- The **Index of Industrial Production (IIP)** from April-October 2023 stood at **143.5, which signifies a growth of 43.5% compared to the base year (2011-12)**.
 - IIP is a composite indicator of the general level of industrial activity in the economy. It is calculated and published by the **Central Statistical Organisation (CSO)** every month.
- **Capacity utilisation** for the manufacturing sector increased to **68.3%** in Q2 (2021-22) from 60.0% in the previous quarter due to the easing of the second wave of the **Covid-19** pandemic.
 - **Capacity utilization** refers to the manufacturing and production capabilities that are being utilised by a nation or enterprise at any given time.
- Sectors like Drugs and Pharmaceuticals (+46%), Food Processing Industries (+26%), and Medical Appliances (+91%) witnessed increased **FDI inflows**.
- As per the **Economic Survey 2021-22**, in spite of Covid-related disruptions, there is a trend of positive overall growth of **Gross Value Addition (GVA)** in the manufacturing sector.
 - The total **employment** in this sector has increased from 57 million in the year 2017-18 to **62.4 million** in the year 2019-20.

What are the Opportunities for Manufacturing Sector in India?

- **Broad Domestic Market and Demand:** The Indian manufacturing sector has seen strong demand for their goods from both domestic and external clients.
 - [PMI](#) in May 2024 (**58.8**), shows expansion in India's manufacturing sector.
- **Sectoral Advantage:** Key manufacturing sectors in India, such as **chemicals, pharmaceuticals, automotive, electronics, industrial machinery, and textiles**, have experienced significant growth in recent years.
 - In India, pharmaceutical manufacturing costs are 30%–35% lower than US and Europe.
- **Outreach to the Market of Global South: As per the [UN](#), Indian manufacturing is shifting in Global Value Chains (GVC) from Europe to Asia.** The share of foreign value-added (FVA) in India's domestic final demand from Global Southern partners rose from 27% in 2005 to 45% in 2015.
 - This shift presents opportunities for Indian firms to establish their own GVCs and for **India to become a regional growth pole.**
- **Rise of MSME:** MSMEs currently contribute approximately 30% to [GDP](#), playing a crucial role in driving economic growth and contributing nearly **45% of India's total exports.**
- **Robust demand:** India's manufacturing products are experiencing **rising demand**, both domestically and internationally.
 - The manufacturing sector of India has the potential to reach **USD 1 trillion by 2025.**
- **Competitive Advantage:** Growth in India's manufacturing sector, driven by increased production capacity, **cost advantages, supportive government policies, and private investment**, is setting the stage for sustained economic growth in the coming years..

Government Policy for the Manufacturing Sector

- [Make in India 2.0](#)
- [PLI schemes](#)
- **Liberalised** [foreign direct investment \(FDI\)](#)
- [Start-up India](#)
- [Atmanirbhar Bharat Campaign](#)
- [Special Economic Zones](#)
- [MSME Innovative Scheme](#)
- [Ease of Doing Business](#)
- [Goods and Services Tax \(GST\)](#) and Reduction in [Corporate tax](#)

What are the Challenges to the Manufacturing Sector in India?

- **Reliance on outdated technology and inadequate infrastructure** hinders the ability of Indian manufacturers to compete globally and meet international quality standards.
- **Shortage of Skilled Workforce:** As per [World Bank](#), only **24%** of India's workforce possesses the skills required for complex manufacturing jobs in contrast to 52% in the US and 96% in South Korea.
- **High Input Cost:** As per [RBI](#) (2022) states that **logistics costs** in India are **14%** higher compared to the global average which impacts the overall competitiveness of Indian manufacturing industry.
- **Complex Regulatory Environment:** It acts as deterrent for businesses looking to set up manufacturing units in India.
 - Land Acquisition is a complex process in India, [NITI Aayog](#) suggests Land Titling Act yet to pass by legislature.
- **Competition from China and Import Dependence:** In 2023-24, **China accounted for almost 42% of India's textiles and clothing imports**, 40% of machinery, and 38.4% of electronics imports.
 - As per [WTO](#), China remains the world's leading manufacturer, accounting for nearly 30% of global manufacturing output in 2022.

Way Forward

- **Need for Industry 4.0 in Indian Manufacturing:** As per reports manufacturing sector could achieve a **25%** share in GDP through [Industry 4.0 technologies](#).
 - Indian manufacturers are increasingly embracing digital transformation by investing 35% of their operating budgets towards technology investment, which needs to be increased further.
- **Investment in Infrastructure:** Enhancing the standard and accessibility of infrastructure, and reduction in logistics may lead to increased investment and business interest in the manufacturing industry.
- **Promoting Export-Oriented Manufacturing:** Encouraging the development of export-oriented manufacturing could help Indian businesses tap into new markets and increase their competitiveness.
 - This could involve providing support for businesses looking to enter new markets or implementing policies that incentivise [export-oriented manufacturing](#).
- **Financial Assistance:** Many [MSMEs](#) struggle to access credit for export-related activities. Enhancing SMEs' access to finance in the manufacturing sector can support their growth and development.
- **Enabling Regulations:** Simplifying and making regulations more efficient could lighten the load on businesses and promote increased investment in the manufacturing industry.
- **More Emphasis on Skill Development:** Increasing the availability of training and skill development programs could alleviate the shortage of skilled labour in the manufacturing industry and enhance its competitive edge.
 - Vietnam has transformed into a global manufacturing hub, due to its' relatively large, well-educated and skilled labour force.

Drishti Mains Question:

Assess the current state of India's manufacturing sector, including the progress made under the 'Make in India' initiative. What are the key challenges hindering India's manufacturing growth?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. In the 'Index of Eight Core Industries', which one of the following is given the highest weight? (2015)

- (a) Coal production
- (b) Electricity generation
- (c) Fertilizer production
- (d) Steel production

Ans: (b)

Q. Recently, India's first 'National Investment and Manufacturing Zone' was proposed to be set up in (2016)

- (a) Andhra Pradesh
- (b) Gujarat
- (c) Maharashtra
- (d) Uttar Pradesh

Ans: (a)

Q. What is/are the recent policy initiative(s) of Government of India to promote the growth of manufacturing sector? (2012)

1. Setting up of National Investment and Manufacturing Zones
2. Providing the benefit of 'single window clearance'
3. Establishing the Technology Acquisition and Development Fund

Select the correct answer using the codes given below:

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (d)

Mains

Q.1 "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far are the recent changes in Industrial Policy capable of increasing the industrial growth rate? **(2017)**

Q.2 Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? **(2014)**

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