



Rethinking India's Economic Growth Model

This editorial is based on [“Why India needs deep industrialisation”](#) which was published in The Hindu on 14/02/2024. The article discusses the importance of deep industrialization for India to tackle its economic challenges and maintain its growth trajectory.

For Prelims: [Index of Industrial Production \(IIP\)](#), [MSME sector](#), [Production-Linked Incentive \(PLI\)](#), [PM Gati Shakti- National Master Plan](#), [Start-up India](#), [PPP model](#), [Industry 4.0](#), **Services Sector**, **Manufacturing Sector**

For Mains: Challenges Associated with the Industrial Sector in India, Recent Government Initiatives for Growth of the Industrial Sector

The [COVID-19 pandemic](#) has reshaped global economic perspectives, leading to a retreat from globalization. Countries are now embracing deep industrialisation policies and state-led economic interventions. Examples include the U.S.'s Inflation Reduction Act, the [European Green Deal](#), and India's [Atmanirbhar Bharat initiative](#).

In this scenario, India is also slated to adopt policies that focus on promoting rapid growth of both manufacturing and services sector, so as to reap the dividends of population demographics and [Industrial Revolution 4.0](#).

Industrialisation Vs Deep Industrialisation:

- Deep industrialization differs from traditional industrialization in its focus and scope.
- 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.
 - Deep industrialization aims for long-term economic stability and societal well-being, rather than just rapid industrial expansion.

Why is there a 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 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.

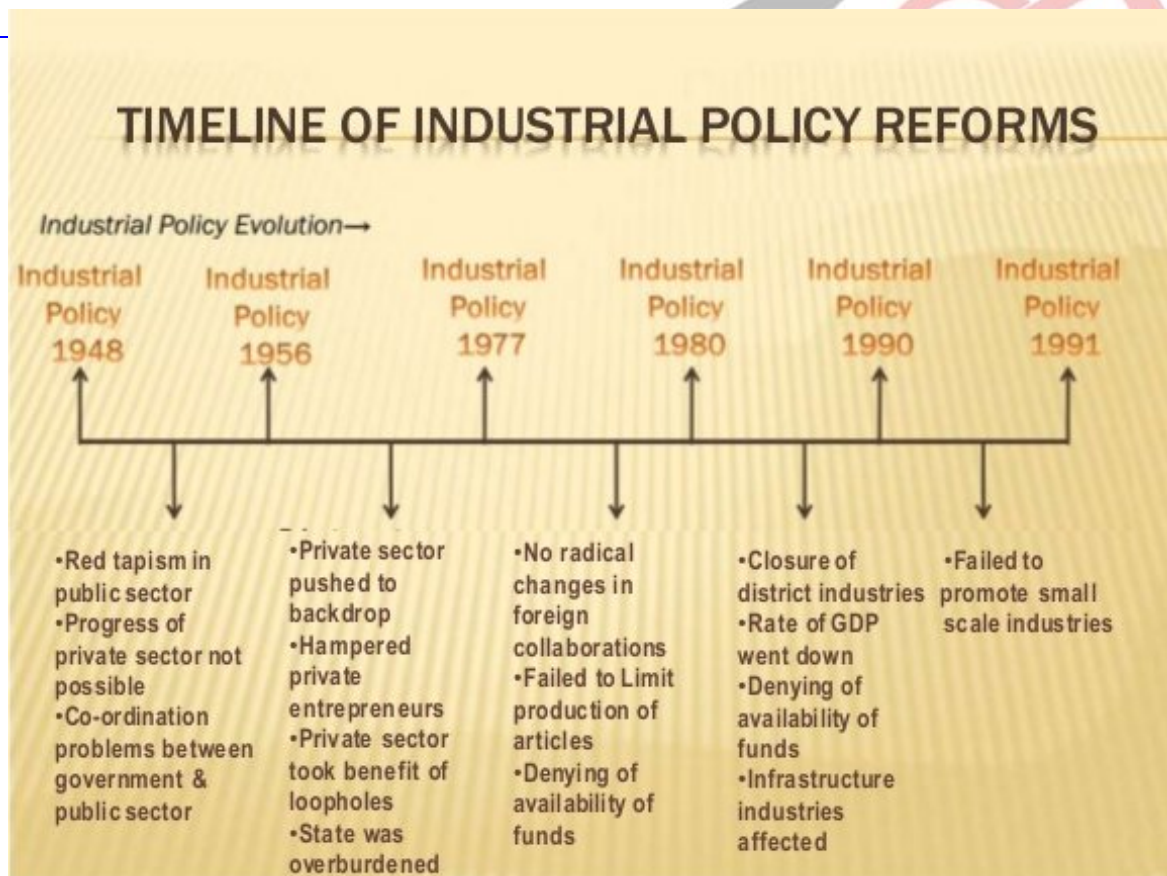
▪ **High Dependency on Imports:**

- 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%. In newly industrialized countries like Singapore, South Korea and Malaysia this percentage is 52%, 29% and 28% respectively.

▪ **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.

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▪ **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'.

What are the 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:

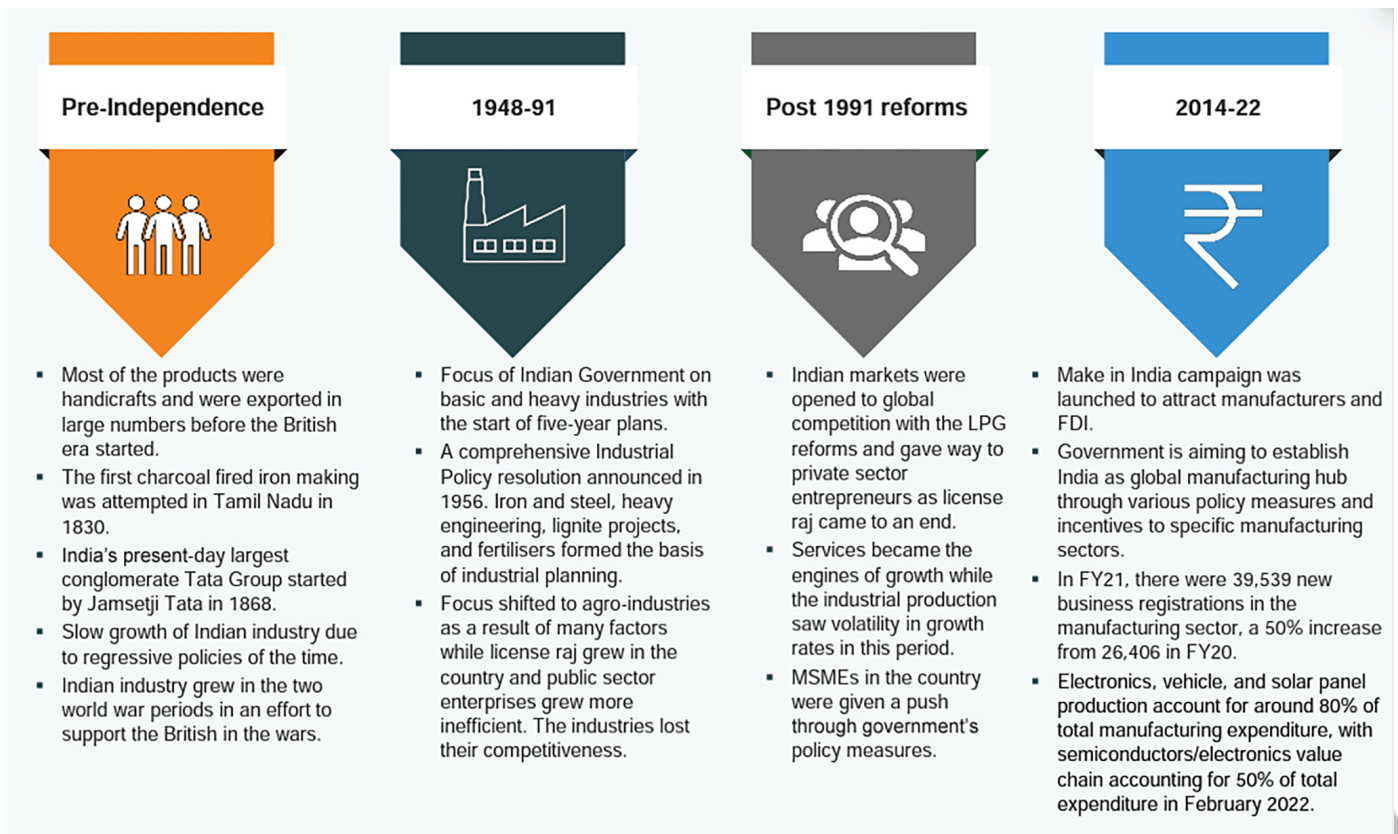
- A key cultural prerequisite for industrialization is mass education, which India lacks. Joel Mokyr suggests that the rise of useful knowledge is crucial for technological progress and growth.
- India's cultural devaluation of certain occupations essential for manufacturing, as well as the undervaluation 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.



▪ **Concerns Over Subsidiary Policies:**

- While MII is the core policy, subsidiary initiatives like Made in India and Make for India focus on branding and domestic manufacturing, respectively. However, these initiatives are secondary to MII's overarching goal of global competitiveness.

What are the Suggestions for Promoting Deep Industrialization in India?

▪ **Rethinking Economic Growth Strategies:**

- Raghuram Rajan and Rohit Lamba propose an unconventional approach in "Breaking the Mould: Reimagining India's Economic Future." They 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.

▪ **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.

▪ **Emphasizing Labor-Intensive Sectors:**

- Future industrial policies should continue to prioritize labor-intensive sectors to create quality jobs. Despite the focus on high-end manufacturing, traditional sectors remain critical for mass job creation in India.

▪ **The Role of New Industrial Policy (NIP '23):**

- The draft NIP '23, currently on hold, aims to complement the Production-Linked Incentive (PLI) scheme. It 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, policy makers must rely on broader principles to shape industrial policy effectively.

▪ **Leveraging Industrial Policies for Development:**

- Industrial policies, including MII, should be leveraged to enhance job creation and competitiveness. While challenges exist, focusing on labor-intensive manufacturing can help India achieve sustainable growth and development.
 - MII is a departure from India's past policies of self-sufficiency, such as the license raj and import-substituting industrialization of the 1970s. While concerns exist about protectionist tendencies, MII aims to encourage domestic industry without replicating past failures.
 - Protectionist tendencies such as high tariff barriers to import of electronics manufacturing goods have intimidated these manufacturer to shift their bases to countries like China, Vietnam etc. This policy anomaly should be redressed.

▪ **Integrating IR 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 \(IoT\)](#).
 - **Examples:** [Xenobots](#), which are less than a millimetre long, are known to be the first living robot, were created in 2020 from the stem cells of the African clawed frog and can be programmed using artificial intelligence.

What are the Recent Government Initiatives for Growth of the Industrial Sector in India?

- [Production-Linked Incentive \(PLI\)](#)
- [PM Gati Shakti- National Master Plan](#)
- [Bharatmala Project](#)
- [Start-up India](#)
- [Make in India 2.0](#)
- [Atmanirbhar Bharat Campaign](#)
- [Disinvestment Plans](#)
- [Special Economic Zones](#)
- [MSME Innovative Scheme](#)

Conclusion

Despite India's relatively quick recovery from the pandemic, it faces challenges such as 'premature deindustrialization' and persistent economic disparities. Raghuram Rajan and Rohit Lamba propose a focus on high-skill, services-driven growth over manufacturing, which they argue could stimulate industrialization. The root causes lie in cultural attitudes towards education, innovation, and labor, suggesting that a broader transformation is needed to achieve deep industrialization and address societal foundations.

Drishti Mains Question:

Discussing deep industrialization, highlight its importance, challenges, and potential impact on economic and societal development.

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)

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 the recent changes in Industrial Policy are 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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