



Widening Skills Gap in the Job Market

For Prelims: [Gross Domestic Product \(GDP\)](#), [Economic Survey 2023-24](#), [Global Innovation Index \(GII\)](#), [Initiatives Related to the Manufacturing Sector](#)

For Mains: Growth Drivers of the Manufacturing Sector in India, Challenges Related to India's Manufacturing Sector

[Source: IE](#)

Why in News?

India's job market is **experiencing an increasing divide between low-skilled and high-skilled employment**. Over the past two decades, the [services sector](#)—particularly IT, banking, and finance—**has been a major driver of economic growth**. In contrast, [traditional industries](#) such as apparel and footwear, which provide low-skilled jobs, are **stagnating**.

What are the Current Trends of India's Manufacturing & Service Sector?

▪ Service Sector:

- **Contribution to GDP and Employment:** India's services sector contributes over **50% to the [Gross Domestic Product \(GDP\)](#)** and **employs approximately 30.7% of the population** while serving as a global hub for software services.
- **Recovery & Growth:** The services sector made a remarkable recovery in FY 2022-23, posting a Year-Over-Year (YoY) growth rate of 8.4%.
 - The Indian **IT outsourcing market** is projected to **grow by 6-8%** between 2021 and 2024.
- **GII Ranking:** In September 2023, India maintained its **40th position in the [Global Innovation Index \(GII\)](#)**, driven by advancements in technologically dynamic, internationally tradable services.
- **FDI:** The service sector also attracted the **highest [Foreign Direct Investment \(FDI\)](#)**, receiving USD 109.5 billion from April 2000 to March 2024.

▪ Manufacturing Sector:

- **Manufacturing Stagnation:** Manufacturing remains at **around 14% of GDP, below the targeted 25%**, widening the gap between high-skilled and low-skilled jobs.
- **Lagging in Manufacturing:** India's manufacturing sector lags behind competitors such as Bangladesh, Thailand, and Vietnam, affecting low-skilled job creation.
 - Economists stress that **India cannot rely solely on the services sector** due to its large population of 1.4 billion.
- **Job Creation Needs:** The [Economic Survey 2023-24](#)'s estimate of needing **7.85 million non-farm jobs** annually highlights the broader requirement for creating jobs across various sectors to accommodate the growing workforce.
 - The national unemployment rate increased from **7% to 9% in June 2024** as per

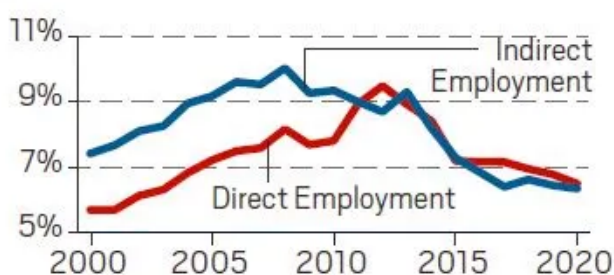
What are the Factors Contributing in the Decline in Employment in the Manufacturing Sector?

- **Manufacturing Stagnation:** Stagnation in manufacturing (contributing mere **14% of GDP**) has hindered job creation in labour-intensive sectors.
 - India's **services exports make up 4.3%** of global commercial services exports, while its **goods exports account for only 1.8% of the global goods market**. This imbalance contributes to **low job creation in India's manufacturing sector**.
- **Shift Towards High-Skill Industries:** The rise of **Global Capability Centres (GCCs)** bypassing the manufacturing sector has led to **increased job opportunities for high-skilled IT professionals**, but this shift has not translated into sufficient low-skilled job creation.
 - GCCs have proliferated in India, with nearly 1,600 established by multinational companies, focusing on **data analytics** and **software development**.
- **Declining Export-Related Jobs:** A [World Bank](#) report noted that **export-related jobs in India have decreased from 9.5% of total domestic employment in 2012 to 6.5% in 2020**.
 - This decline is attributed to the **dominance of India's service sector and high-skill manufacturing** in its export basket, which are **less effective at creating jobs for the broader workforce**, leading to reduced job creation through trade.

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JOBS CREATED BY EXPORTS-RELATED ACTIVITIES IN INDIA, 2000-2020

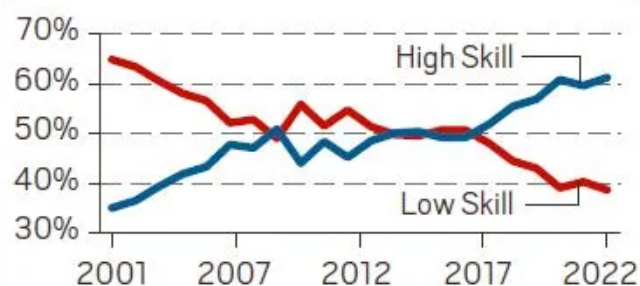
(% of domestic employment)



The World Bank indicates that while high-skilled jobs generated through manufacturing exports are rising, trade-related low-skilled job opportunities are rapidly moving to Vietnam and Bangladesh

INDIA'S HIGH & LOW SKILL-INTENSIVE MANUFACTURING

(% of total manufacturing exports)



Employment generation in trade has declined despite a decrease in China's participation in low-skill manufacturing due to rising wages, according to the World Bank

- **Limited Participation in Global Value Chains (GVCs):** India's declining participation in [GVCs](#) has limited job creation, despite GVCs driving 70% of global trade.
 - Challenges like raw material shortages and high transport costs have reduced India's trade involvement, according to the World Bank.
- **High Tariff:** High tariffs on intermediate goods have **increased production costs for Indian manufacturers**, reducing their global competitiveness.
 - India's **average tariff rose to 18.1% in 2022, up from 13% in 2014**, making it harder to compete with countries like Vietnam and Thailand and worsening the decline in low-skilled job opportunities.
- **India's Missed Opportunity in Low-Skill Manufacturing:** India has struggled to seize the opportunity presented by **China's exit from low-skill manufacturing between 2015 and 2022**.
 - Despite China's reduced presence in industries like apparel, leather, textiles, and footwear, countries like Bangladesh, Vietnam, and even advanced economies like Germany and the

Netherlands have benefited from China's shrinking market share.

- **Lack of Skill Development:** Only **16% of India's labour force has received skill training**, resulting in low employability due to insufficient vocational skills and education. The [India Skills Report](#) indicates that **only 45% of graduates** are considered employable.

What Initiatives Have Been Taken to Boost the Manufacturing Sector in India?

- **PM MITRA Parks:** In 2023, the government approved the establishment of 7 [PM Mega Integrated Textile Region and Apparel \(PM MITRA\) Parks](#) with an investment of Rs 4,445 crores to **develop world-class infrastructure in the textile sector**.
- **National Industrial Corridor Development Programme:** The Cabinet Committee on Economic Affairs approved setting up **12 industrial smart cities** with an estimated investment of Rs 28,602 crores, aimed at **enhancing manufacturing capabilities**.
- **Tariff Reductions:** The [Union Budget 2024-25](#) announced **tariff cuts on various items**, including medical equipment and textiles, aiming to reduce production costs and enhance competitiveness.
- **Prime Minister's Employment Generation Programme (PMEGP):** This scheme **supports entrepreneurs in establishing non-farm units**, aiming to create jobs for traditional artisans and unemployed youth in rural and urban areas.
 - From 2018-19 to January 30, 2024, the program has generated an estimated 37.46 lakh jobs.
- **Pradhan Mantri Mudra Yojana (PMMY):** It provides collateral-free loans up to Rs 10 lakh to individuals and micro/small businesses to promote self-employment.
 - As of March 29, 2024, approximately 47.7 crore loans have been sanctioned under the scheme.

Way Forward

- **Decentralised Community Action for Skills Identification:** This approach helps in identifying potential workers and matching them with industries in need of specific skills, thus providing a targeted workforce to the manufacturing sector.
- **Integrated Human Development:** By converging education, health, skills, and employment at the local level, and leveraging women's collectives, you can build a healthier, more skilled workforce, which is crucial for both the productivity and inclusivity of the manufacturing sector.
- **Promote GVC (Global Value Chains) Participation:** By improving integration into GVCs through reduced tariffs and simplified trade, Indian manufacturers can access larger markets, modern technologies, and global networks, making manufacturing more competitive.
 - The [Union Budget 2024-25](#) announced tariff reductions on several key items, but the World Bank suggests that further reductions are necessary to eliminate cost disparities and improve competitiveness.
- **Invest in Skill Development:** Training workers in both high-skilled and low-skilled job sectors is essential to meet the evolving demands of modern manufacturing, particularly as it becomes more technologically driven.

Drishti Mains Question

Q. How has stagnation in India's manufacturing sector affected the job market and what strategies can address this imbalance for more balanced 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

Q1. "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)**

Q2. 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)**