



Navigating India's Economic Development

This editorial is based on [“Reset the Growth Priority”](#) which was published in Indian Express on 04/01/2024. The article discusses the challenges in India’s growth trajectory. In order to create high-value jobs at scale, India needs the combined strength of both the manufacturing and services sectors.

For Prelims: [Gross Domestic Product \(GDP\)](#), [Make in India](#), [Special Economic Zones \(SEZs\)](#), [Budget 2022-23](#), [Faster Adoption and Manufacturing of Hybrid and Electric Vehicle in India \(FAME - India\)](#), [Industry 4.0](#), [Production-Linked Incentive \(PLI\)](#), [PM Gati Shakti- National Master Plan](#), [Bharatmala Project](#), [Sagarmala Project](#).

For Mains: Growth Drivers of the Manufacturing and Services Sectors in India, Challenges Related to These Sectors, Government Initiatives and Required Reforms for Growth of the Industrial Sector in India.

India is currently immersed in discussions regarding its economic trajectory and the strategies required to achieve its development goals. Amidst these conversations, a notable distraction arises as commentators fixate on the ambitious target of India becoming a \$5 trillion economy by 2025. However, this goal, primarily centered around aggregate [Gross Domestic Product \(GDP\)](#), overlooks the critical focus on improving the well-being of the average citizen, emphasizing the need to shift attention to GDP per person.

What are the Current Challenges in India’s Growth Trajectory?

- **Reimagining India’s Economic Future:**
 - Raghuram Rajan and Rohit Lamba's book, "**Breaking the Mould: Reimagining India’s Economic Future**," prompts a critical examination of India's growth model.
 - It questions **whether prioritizing service sector growth over industrial growth can lead to sustainable development**, deviating from the historical patterns observed in developed and industrializing economies.
- **Manufacturing Sector Challenges:**
 - India has faced challenges in expanding its manufacturing sector's share in the economy, **with growth plateauing at or below 20%**.
 - This raises concerns about India bypassing a typical stage in development, **moving from agrarian to a predominantly service-based economy**, and the sustainability of such a transition.
- **Global Business Service Growth Opportunity:**
 - Rajan and Lamba identify an opportunity for India in the **world business service growth** facilitated by the sophistication of information technology.
 - As global firms increasingly outsource business services, India could play a significant role, provided it can address the challenge of scalability.
- **Employment Crisis and Youth Aspirations:**
 - India is experiencing an employment crisis, **particularly among the youth (15-24 age**

group) with an unemployment rate **exceeding 40%**.

- Aspirations of young workers are high, and the country needs expedited measures to incentivize substantial job creation by private employers.

▪ **Service Sector Model Challenges:**

- The current service sector in India, **while experiencing growth in high-tech services, faces a challenge in job creation**, particularly in low value-added, low-skill services.
- The segmentation of the sector raises questions about its ability to generate income streams aligned with the aspirations of the youth.

▪ **Skill Deficit and Higher Education Quality:**

- India's skill deficit poses a significant challenge to the service sector-led model. **Despite producing 2.2 million STEM graduates, a majority are considered unemployable due to inadequate training.**
- Addressing this requires sustained investment in higher education to create a skilled workforce for higher human capital sectors.

▪ **PLI Scheme and Immediate Job Generation:**

- The **Production-Linked Incentive (PLI) scheme** is seen as an attempt to address the immediate jobs challenge by attracting businesses to set up production centers in India.
- However, **concerns exist about the scheme being production-linked rather than employment-linked**, and uncertainties about the longevity of businesses after incentive schemes end.

▪ **Need for Comprehensive Economic Approach:**

- India's jobs problem **requires a comprehensive approach that combines both manufacturing and service sector models.**
- Beyond the PLI schemes, incentivizing private industry to scale up is crucial, and this demands land and labor regulatory reforms. These reforms, while fiscally costless, may face political challenges.

▪ **Urgency in Addressing Demographic Challenges:**

- With a median population age of 28, India's **demographic dividend** could turn into a **curse without prompt and comprehensive action.**
- Combining high value-added job creation, regulatory reforms, and increased investment in higher education is essential to ensure sustainable economic growth.

What are the Growth Drivers of the Manufacturing and Services Sector in India?

▪ **Manufacturing Sector:**

◦ **Government Investment Boost:**

- In the latest budget, the Indian government allocated substantial funds, Rs. 2,403 crore for Electronics and IT Hardware Manufacturing and Rs. 757 crore for **Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME - India)** in 2022-23.
- This strategic investment aims to bolster the manufacturing sector and drive advancements in electric vehicle technology.

◦ **Enhancing Competitiveness:**

- India possesses key factors essential for a significant industrial push, including a large semi-skilled labor force, government initiatives like **Make in India**, substantial investments, and a vast domestic market.
- To further boost competitiveness, the government provides incentives such as **free land for establishing bases** and uninterrupted 24*7 power supply, placing India on a global competitive scale.

◦ **Robust Domestic Demand:**

- With the **Indian middle class projected to contribute 17% to global consumption by 2030**, the domestic market is set for substantial growth.
- The Appliances and Consumer Electronics (ACE) market in India is anticipated to expand from **USD 11 billion in 2019 to USD 21 billion by 2025**, indicating a robust demand for manufactured goods.

◦ **Global Hub Potential in Industry 4.0:**

- India's manufacturing industry is rapidly progressing towards **Industry 4.0**, characterized by interconnected processes and data analytics.

- The country's companies, particularly in sectors like pharmaceuticals and textiles, are already global leaders due to a focus on research and development.
- The emphasis on areas like automation and robotics further positions India with the potential to become a global hub for advanced manufacturing.

▪ **Services Sector:**

◦ **Services Trade Surplus as a Balancing Factor:**

- The persistent surplus in India's services trade has historically **helped offset the substantial deficit in merchandise shipments.**
- In the fiscal year 2020-21, this surplus reached a notable figure of **up to \$89 billion.**
- With strategic government interventions and renewed emphasis, there is potential for further growth in services trade surplus, possibly eliminating the deficit caused by merchandise exports.

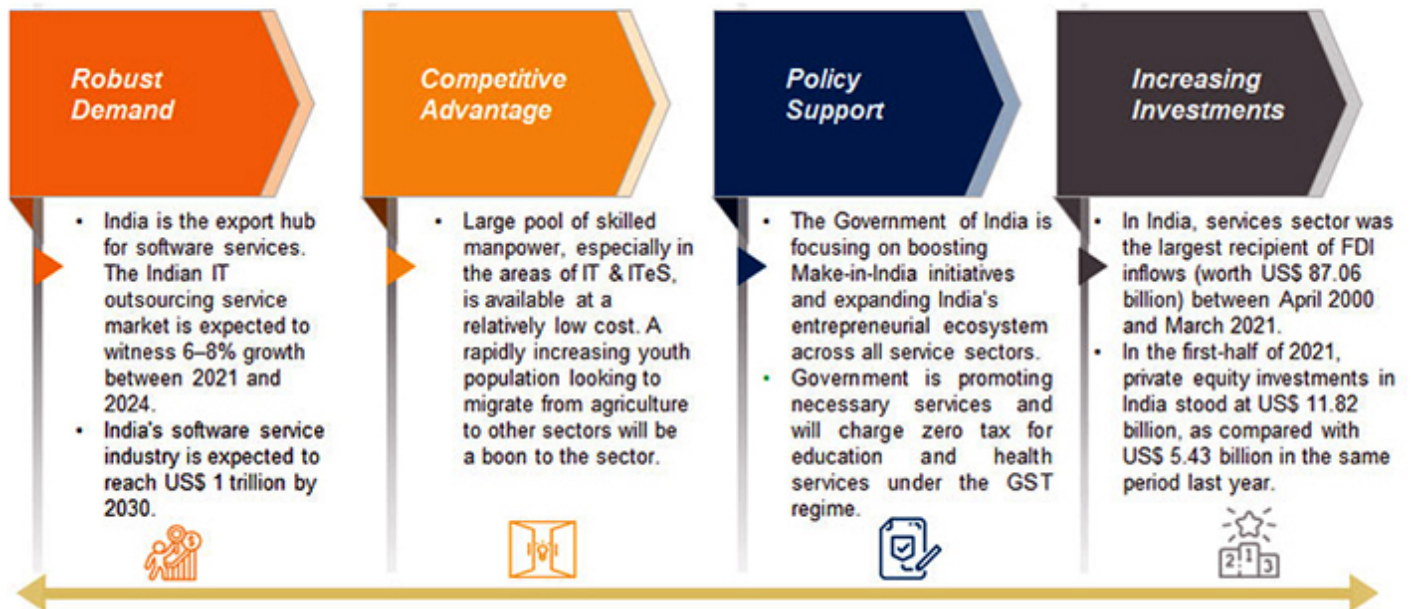
◦ **Driving Transition to a Knowledge-Based Economy:**

- The services sector plays a pivotal role in propelling **India's shift from an 'assembly economy' to a 'knowledge-based economy.'**
- This transition is crucial for the country's economic evolution and global competitiveness.
- The services trade surplus acts as a **significant driver in this transformation,** emphasizing the increasing importance of knowledge-centric activities.

◦ **Skill India Program for Workforce Development:**

- To support the growing services sector and enhance India's global standing, the [Skill India program](#) has been initiated.
- This program aimed to provide comprehensive training in market-relevant skills to over **40 crore youth by 2022.**
- By investing in skill development, **the government aims to create a workforce that aligns with the demands of the evolving services-driven and knowledge-based economy.**

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

- [Production-Linked Incentive \(PLI\)](#) - To scale up domestic manufacturing capability.
- [PM Gati Shakti- National Master Plan](#) - Multimodal connectivity infrastructure project.
- [Bharatmala Project](#) - To Improve connectivity in North East India

- **Start-up India** - To catalyze Startup culture in India
- **Make in India 2.0** - To transform India into a global design and manufacturing hub.
- **Atmanirbhar Bharat Campaign** - To cut down import dependence.

What Steps can be Taken to Make the Growth More Inclusive?

- **Workforce Development and Participation:**
 - India's sizable and youthful population presents an enormous workforce potential. However, realizing this potential requires addressing challenges like **job creation, improving education quality, enhancing skills**, and boosting labor force participation, especially among women.
- **Private Investment for Economic Growth:**
 - Recognizing private investment as a vital driver of economic growth, the Indian government has initiated measures to enhance the **Ease of Doing Business, reduce corporate taxes, offer credit guarantees, and attract foreign direct investment**. Ongoing reforms, particularly in land, labor, and logistics, are essential to further ease business operations.
- **Enhancing Global Competitiveness:**
 - To bolster its competitiveness in the global market, **India must diversify exports, enhance infrastructure, foster innovation and digitalization**, and integrate with regional and global value chains.
 - Despite supportive schemes like **PLI, Phased Manufacturing Program (PMP), and Make in India**, further trade liberalization and regulatory simplification are necessary for fair competition between domestic and foreign enterprises.
- **Environmental Sustainability and Climate Goals:**
 - India has committed to reducing carbon intensity and increasing renewable energy capacity to meet climate change goals.
 - While **green bonds** support eco-friendly projects, addressing environmental challenges like air pollution, water scarcity, waste management, and biodiversity loss requires heightened efforts to safeguard India's growth and well-being.
- **Economic Stability and Financial Development:**
 - Ensuring a stable and low inflation rate fosters confidence and investment in India. Prioritizing **adequate liquidity and credit availability, especially for small and medium enterprises, is crucial**.
 - Further development of financial markets and institutions will facilitate savings and investment.
- **Global Integration and Trade Agreements:**
 - India can strengthen its global economic ties by **reducing trade barriers, diversifying its export portfolio**, and enhancing overall competitiveness.
 - Pursuing **regional and bilateral trade agreements** offers opportunities for market expansion, benefiting Indian products and services.
- **Sectoral Growth and Innovation:**
 - **Promoting growth, employment, and innovation** in key sectors such as manufacturing, services, agriculture, and renewable energy is vital for India's sustained development.
 - Strategic focus on these sectors, supported by proactive policies, can drive economic progress.
- **Diversifying Opportunities in High-Growth Sectors:**
 - To enhance economic prospects, there is a pressing need to explore opportunities **beyond the dominant information technology and IT-enabled services**.
 - For instance, the **opening up of the domestic legal services** sector presents significant benefits for Indian lawyers, providing lucrative opportunities in Europe, Australia, and America.
- **Targeting Promising Service Sectors for Growth:**
 - Emphasizing the importance of diversification, there is a call to concentrate on **promising areas such as higher education, hospitality, and medical tourism**.

- This strategic shift aims to broaden the scope of economic growth beyond the confines of traditional sectors.
- **Encouraging Competitiveness through Subsidy Reform:**
 - The government advocates for the services industry to relinquish dependence on government subsidies, asserting that **this shift will foster competitiveness among firms.**
 - **By redirecting subsidy funds to those in greater need,** the overall economic landscape can be optimized for sustained growth.

Conclusion

In the fiscal year 2023-24, India's economic outlook is optimistic as Government initiatives have formalized the economy and expanded financial access to previously underserved segments. To sustain this positive trajectory, a strategic approach is essential, covering fiscal, monetary, trade, industrial, and institutional policies. Implementing this comprehensive strategy can unlock India's significant economic potential, fostering continued robust growth and advancing the nation towards prosperity.

Drishti Mains Question

In the context of India's economic development, analyze the challenges and opportunities posed by the evolving dynamics of the manufacturing and services sectors. Discuss the role these sectors play in achieving sustainable and inclusive 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)

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)**

