

Critical analysis of Indian Industrial policy in promoting service and manufacturing industry

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Abstract – The liberalisation and reforms process of the 1990s showed a significant structural shift in the economy with the emergence of the services sector. Gradually the economy transitioned to knowledge economy, driven by the services sector, overtaking the intermediate manufacturing sector which used to dominate the economy. This paper has critically analyzed the efforts and arrangements of Industrial policy for promotion of service and manufacturing industry. Need of the hour is to do transformational changes in Industrial policy where service sector & manufacturing sector complement each other and lead to overall industrial growth of India.

Keywords – Service and manufacturing industry, Industrial policy, Industrial growth, Competitive advantage, Policy support.

1 INTRODUCTION :

India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships. India's revenue receipts are estimated to touch Rs 28-30 trillion (US\$ 385-412 billion) by 2019, owing to Government of India's measures to strengthen infrastructure and reforms like demonetization and Goods

and Services Tax (GST). India is expected to be the third largest consumer economy as its consumption may triple to US\$ 4 trillion by 2025, owing to shift in consumer behavior and expenditure pattern, according to a Boston Consulting Group (BCG) report; and is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by the year 2040, according to a report by PricewaterhouseCoopers.

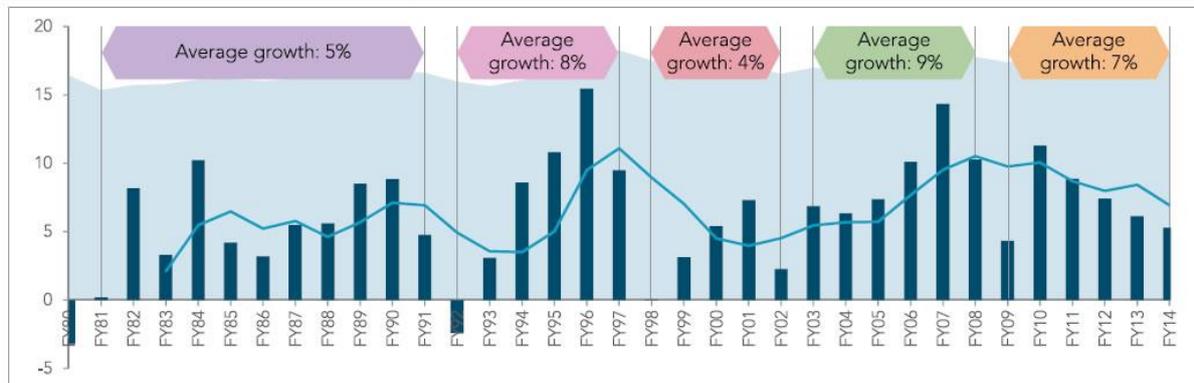
India's gross domestic product (GDP) is expected to reach US\$ 6 trillion by FY27 and achieve upper-middle income status on the back of digitization, globalization, favorable demographics, and reforms. India's GDP is estimated to have increased 6.6 per cent in 2017-18 and is expected to grow 7.3 per cent in 2018-19. During the first half of 2018-19, GDP (at constant 2011-12 prices) grew by 7.6 per cent.

The services sector has been the dominant sector in India's GDP, The sector has contributed 57.12 per cent of India's Gross Value Added at current price in H1 2018-19. The Gross Value Added (GVA) at basic current prices from the

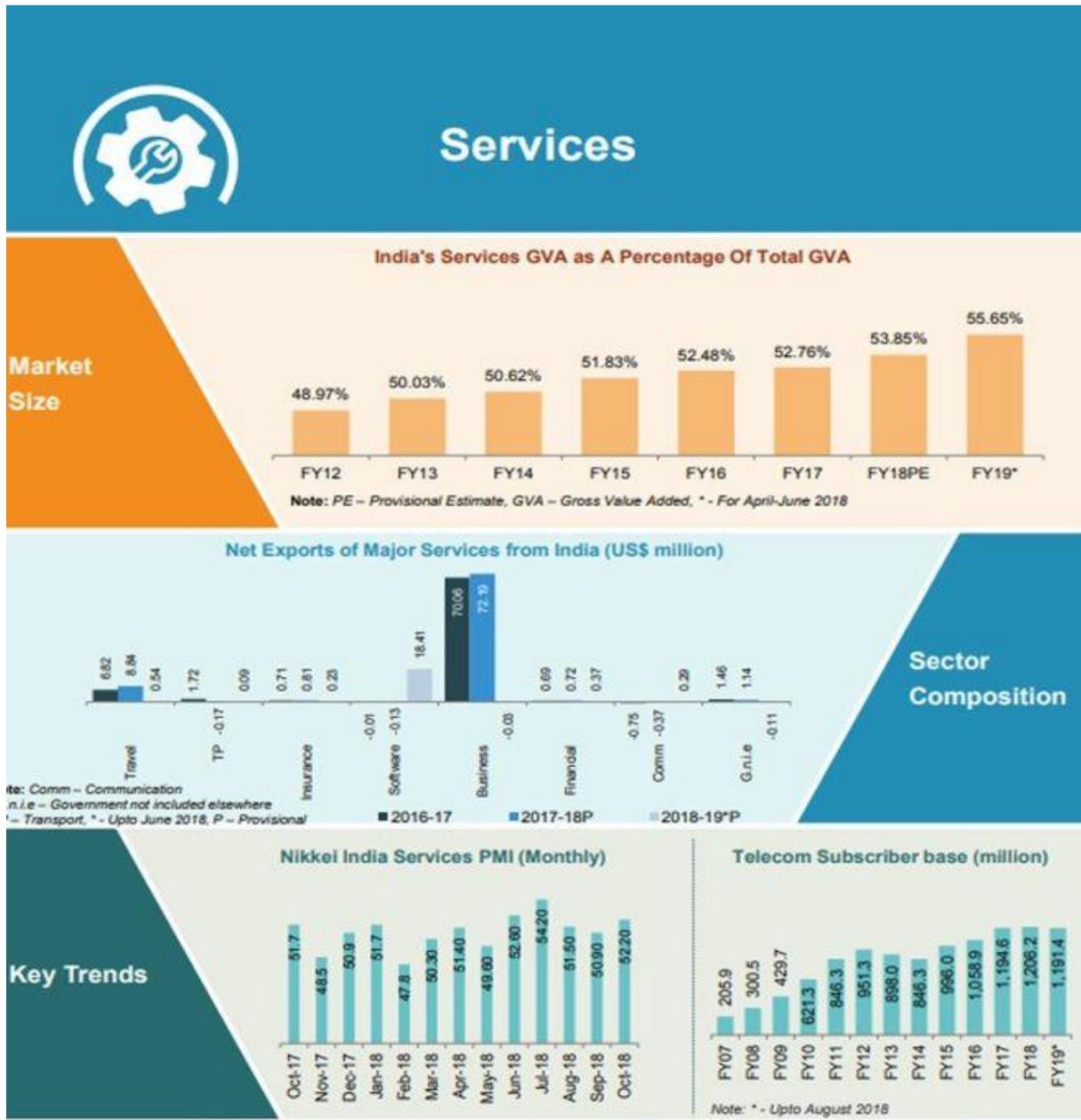
manufacturing sector in India grew at a CAGR of 4.34 per cent during FY12 and FY18 as per the second advance estimates of annual national income published by the Government of India. During April-September 2018, GVA from manufacturing at current prices grew 14.8 per cent year-on-year. It has been observed that the government policies for service sector were more acceptable and friendly in comparison to manufacturing sector.

For overall industrial growth of a country government has to focus on a transformational process where both the sectors are taken care of and include industrial growth is achieved.

Performance of the Manufacturing Sector

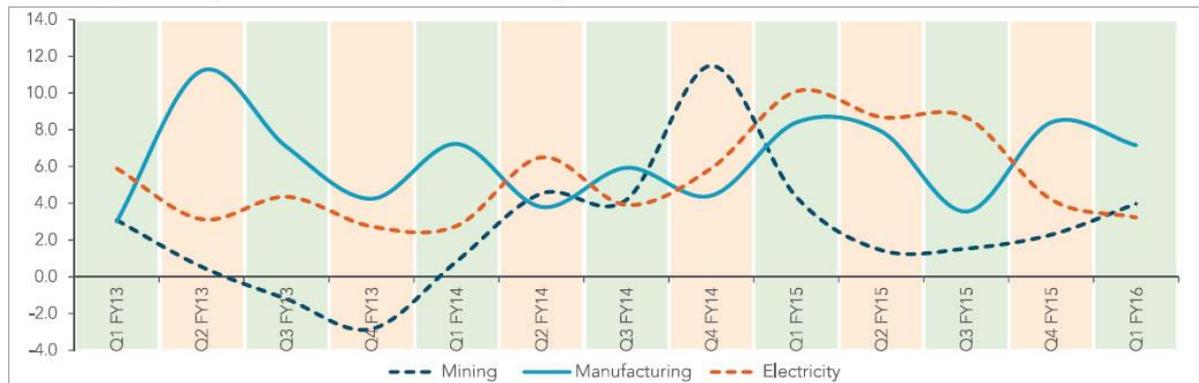


Source: CMIE, D&B Research

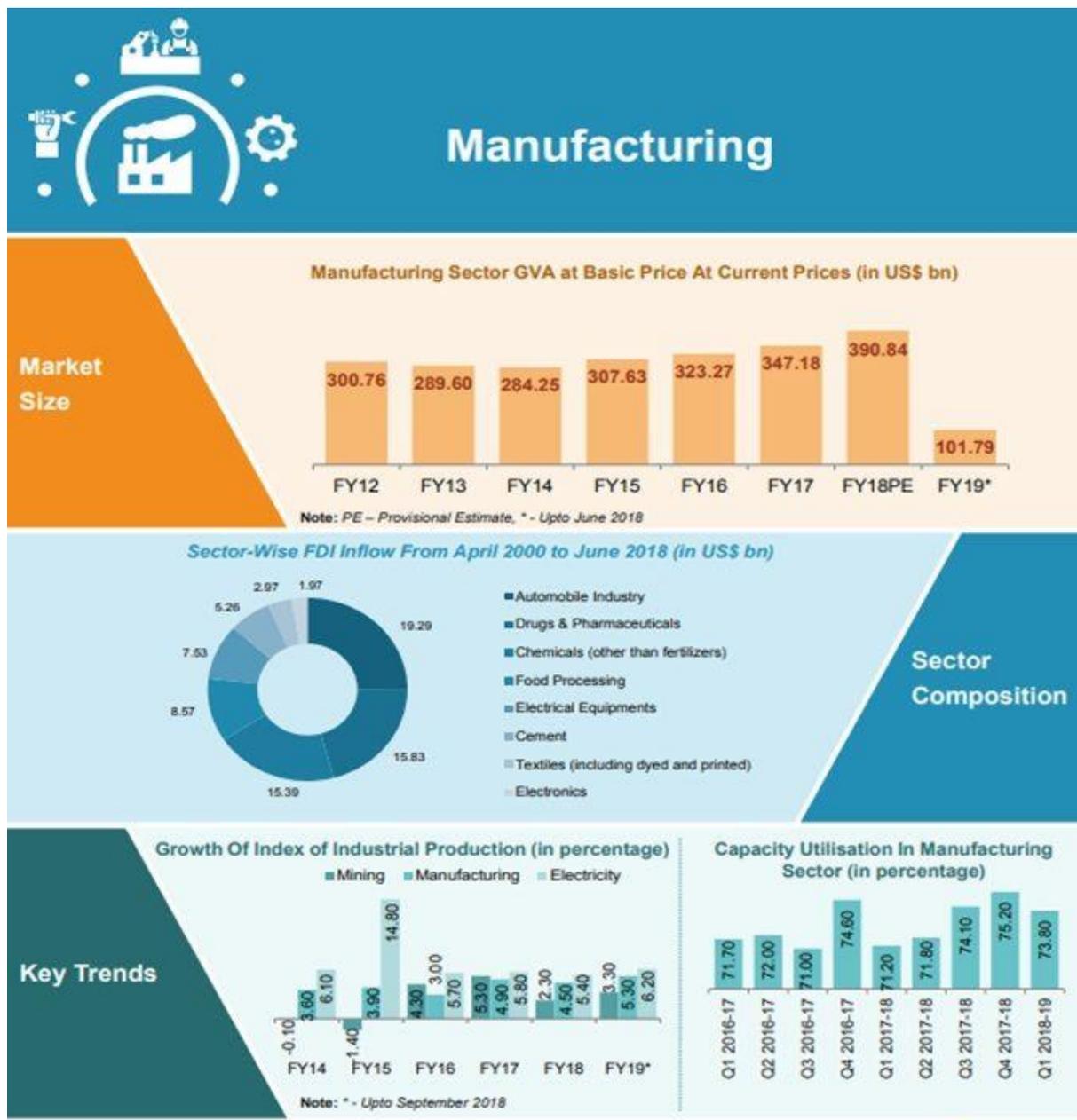


Source:Ibef

Current growth dynamics of the Indian Industry



Source: MOSPI



Source:Ibef

2. REVIEW OF LITERATURE :

Amirapu, Amrit and Arvind Subramanian (2015) According to the classic dualism model (Lewisan model), economic development is by definition a process of shifting resources from low to high productivity sectors, thereby raising economy-wide levels of productivity. The critical drivers of the structural change will involve costs, inclusion of technology at each level of the

value chain, product innovation, resource efficiency and the ability to matching the type of skills to the structure of industry and industrial policies adopted

UNIDO's Strategic Support (2011) Governments should remove obstacles to industrial development and correct market failures. They should not favour specific sector and activities. Achieving sustainable prosperity for all requires a broad consensus about development objectives. The new industrial policy should be interactive. It requires

institutionalized, sustained cooperation among all key stakeholders in industrial development.

Department of Industrial Policy & Promotion (Annual Report 2017-18)

In order to bring qualitative and quantitative change and to provide necessary impetus to manufacturing sector DIPP has notified National Manufacturing policy with objective of enhancing share of manufacturing in GDP to 25% and creating 100 million jobs over a decade.

Ministry of Commerce and Industries GOI (Annual Report 2017-18)

The Group of secretaries on commerce and industries recommended NITI AYOOG to develop a comprehensive national plan for manufacturing clusters in collaboration with respective ministries and states.

Twelfth Five Year Plan, 2012-2017 Economic Sectors, (2013)

Government support is essential to enable a country's industrial ecosystem to gain depth because technological learning takes a long time, requires large investments and is risky. Support to the enterprises should be in such a way that it motivates and enables enterprises to learn and develop complex capabilities and not become complacent and inefficient, which was the outcome of the industrial policy adopted by India until the 1980s.

3. OBJECTIVE

To critically analyse the Indian Industrial policy in promoting service and manufacturing industry.

4. RESEARCH METHODOLOGY :

This research is combination of descriptive and exploratory work. It is set to identify the current performance of service and manufacturing sectors and effect of various strategies and policies formulated by government to promote these sectors for industrial development of the country. It is based on primary data collected from 376 industries and secondary collected from past research, reports from various sources, websites, books, magazines, journals, online publications, newspapers, various government departments and associations.

The data has been collected through self-structured questionnaire based on likert's scale. 5 point likert's scale has been used to record the opinion of the respondents'. The questionnaire has several sections pertaining to various expected outcomes of the industrial development policy by service and manufacturing industries. The reliability of the questionnaire was measured with the help of Cronbach's Alpha statistics

5. RESULTS & FINDINGS :

The current study included 9 different sectors viz. 'Agri & food processing, Automobiles, Real Estate & Infrastructure, Finance & Warehousing, Engineering & Capital Goods, Textile & Apparels,

Healthcare & Pharmaceuticals, IT & ITES. Policy's arrangements or development indicators were measured on these sectors to understand how much each sector is getting benefited from current industrial policy. It also helped to understand the policy's most concerned sector for development.

Based on the parameters 'ease of running business, employment generation, finance & foreign investment, technology innovation, overall industrial development,

geographic development & industrial structure, public sector policy & MRTP act and arrangement for MSMEs. null hypothesis H02 has been framed to evaluate the difference in industrial policy's efforts in promoting service and manufacturing industry.

H02: There is no significant difference in industrial policy's efforts and arrangements for promoting service and manufacturing industry

Table 1.0

Group Statistics

Type of Industry	N	Mean	Std. Deviation	Std. Error Mean
Policy Service Industry	191	2.4421	1.20583	.08725
Manufacturing Industry	185	1.7256	.55608	.04088

The above table 1.0 represents the group statistics of variables viz. 'Service Industry and Manufacturing Industry' used in the study. Service industry has 191 respondents whereas manufacturing industry has 185 respondents. The mean value for 'service and manufacturing' industry has been recorded as 2.4421 & 1.7256 respectively. The mean value of services industry is greater than manufacturing industry, this shows that, policy has greater efforts to promote service industry comparing to manufacturing industry. Industrial policy has emphasised more focus on developing service sector. The reason behind this, is,

India has cost advantage in delivering services than other countries. The countries expert employee fleet with much more economic wage and demand for services in and out of the country is growing rapidly. One more important aspect of service industry is that, it requires one time investment into infrastructure and it starts revenue generation, in short it is an employee centric industry.

On the other hand, manufacturing industry required lots of attention, resources, infrastructure, supplies and capital investments. Apart from this, it also

required other infrastructural development to perform production tasks. Therefore,

government is slow working on it comparing to service sector.

Table 1.1

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Policy	Equal variances assumed	250.010	.000	7.360	374	.000	.71656	.09736	.52512	.90800
	Equal variances not assumed			7.437	269.193	.000	.71656	.09635	.52686	.90626

The above table 4.2h represents the T test statistics.

The null hypothesis H02 is found rejected at 5% level of significance, $t(374) = 7.360$, $p = 0.00$.

The T-test is found significant at 95% level of confidence and null hypothesis stands rejected as the sig. value is found to be $0.00 < 0.05$.

The test reveals that, there is a significant difference in policy's efforts for developing and promoting service and manufacturing industry. The difference is represented by the mean value of the variables viz. Service Industry $M = 2.4421$ and Manufacturing Industry $M = 1.7256$. Both the mean values differ significantly from each other which interpret that, both

the variables (data series) are different in their own. It can also be understand that, industrial policy is putting more efforts in terms of resources development, technology advancement, finance arrangement etc. for service industry comparing to manufacturing industry.

7. SUGGESTIONS :

To bolster the inclusive industrial development, India needs to develop both service and manufacturing sectors including supply side scenario, develop skill level of workers, provide enabling infrastructure, ensure deployment of technology, instill best practices and

strengthen research and development. A productive business environment requires conducive policy framework, financial support, technology readiness, efficient labour, market access, and infrastructure and goods market efficiency.

Policy framework - An enabling policy framework to support both service and manufacturing sector growth is inevitable. The 'Make in India' initiative of the Government thus tries to build the enabling framework for manufacturing sector to become competitive. Make in India was designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property, build best-in-class Manufacturing Infrastructure India needs to bring about structural reforms addressing all the factors of production i.e. land, labour, capital, entrepreneurship and technology.

Ease of doing business: According to World Bank, in 2014 India ranked 142 out of 189 countries in terms of the ease of doing business. India ranks way behind all the BRICs nations. The government has initiated a number measures to facilitate doing business in India. However, a lot more needs to be done to scale up the ranks.

Research & innovation: India's spending on R&D remains abysmally low when compared to the BRICs and the other comparable developing countries The spending on research from present level of

0.81% of GDP to must increase to at least 2% of GDP.

Shift from low value added sectors towards high value added sectors : In order to bring about the structural change in the economy (as envisioned in the transition from a 18% manufacturing share to GDP to a share of 25%), Within industrial sector, there is a need to shift structurally from low value added sectors towards high value added sectors. In order to make this transition, along with spending on R&D, sectors would also require adopting new and advanced manufacturing technologies. Definite policy thrust is required for the development of technology intensive sectors.

Industrial infrastructure: The nation's infrastructure challenges are a major hindrance towards becoming globally competitive. India ranked 54th in the Global Logistic Performance Index in 2014. In order to make the initiatives of the government such as 'Make in India' successful, the infrastructure of the country needs to be overhauled. We hope that the step towards constructing industrial corridors, industrial clusters, smart cities, nurturing innovation and skill development will catalyse the growth of the manufacturing sector going ahead.

Strengthening the SME segment: SMEs in India has not been able to build the competencies to compete with their global

counterparts. The policy initiatives for the small scale industries should aim towards up-scaling them and incentivizing them to become medium and large scale industries.

8. CONCLUSION

Over the last few decades, India's growth performance has been driven by services sector, whereas the growth rate of the manufacturing sector remained lower than that of overall GDP growth rate. As a result, the share of manufacturing in GDP stagnated at around 16%. This has caused perpetuation of structural retrogression. with nearly 50% of the population remaining in the agricultural sector by producing only 17% of GDP.

The service sector revolution has certain limitations on employment front as its basic need is skilled manpower where as rural population in India majorly has unskilled manpower. Macroeconomic importance of manufacturing is that large volume of unskilled employment can be created outside agricultural sector to provide sustainable living opportunities to the expanding population.

In the journey towards achieving sustainable high growth trajectory and inclusive development, the Indian Government needs to give emphasis on skill development. Government's policy focus should be on both manufacturing

and service sector so that our increasing population can get sustainable opportunities and India can attain double digit growth rate.

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