

1. "Decline in manufacturing jobs is not necessarily a cause of concern". Critically examine the issues created due to premature deindustrialization in India and ways to address them. (250 words)

**Answer:**

**Background:-**

- India could serve as growth engines for the world as all of those people creating new households provide almost unlimited consumer demand. But for consumer demand to flourish there must be a strong economy endowing consumers with spending power. History teaches that a strong economy begins with a viable manufacturing base.
- Premature deindustrialization happens as manufacturing shrinks in poor countries that never industrialized much in the first place. India with its armies of low wage workers could have gone on a manufacturing binge like China, but its manufacturing output is actually declining as a percentage of the economy.

**Issues due to premature deindustrialization:-**

- **Lack of infrastructure:-**
  - Manufacturing needs a solid infrastructure to enable efficient transfer of raw materials and shipment of finished goods to market. The roads, rails, ports and air service in India are woefully inadequate.
- **Unskilled labour:-**
  - India like the rest of the world are today flooded with low cost manufactured goods made in China and other Asian nations, and with the advent of the robot age the value of unskilled labour is declining everywhere.

**Why decline in manufacturing sector is not that of concern ?**

- A smaller manufacturing sector implies slower economic growth and a scarcity of well-paying jobs for low- and middle-skilled workers therefore contributing to worsening inequality might not hold true.
- Declining share of manufacturing jobs need not hurt growth or raise inequality, provided the right policies are in place.
- Some services sub-sectors can match the productivity levels of manufacturing.
- Bypassing traditional industrialisation and shift of employment from the agriculture sector directly to the services sector need not hurt growth.

**But this approach is not valid for India:-**

- The share of agriculture in employment has not come down drastically, with the sector still accounting for almost 50% of overall employment.
- In the recent decades, the manufacturing sector has been a laggard in capturing the share in employment and has lost it to the services sector.
- Skewed labour and output distribution has implications for India's labour productivity.
- **Lack of labour productivity:-**
  - Data by the Conference Board the global business membership and research association shows that while India's labour productivity has improved by 70% over

the last decade, the overall productivity levels still lag behind those of other developing Asian economies.

- Average growth in labour productivity at an aggregate level for India during the period 2011-12 to 2015-16 stood at 5.8%, as against 7.4% in the preceding five years.
- While Make-in-India is trying to focus on improving the country's manufacturing base with a special focus on labour-intensive sectors, data shows that labour productivity growth fell during the 2011-12 to 2015-16 period across major manufacturing sectors.
- Barring business services, the growth in labour productivity in the rest of the sectors has remained negative. This essentially means that India kept pushing employment in unproductive sectors. While the country is undergoing a structural transformation, the economy is not benefiting to the full extent.
- Movement of labour from manufacturing and agricultural to services may not be a positive trend for India.
  - In fact, movement to low-skill and low-income services such as security guards and hyperlocal delivery personnel will not benefit India in raising the income levels and labour productivity at an aggregate level in the long run.
- Growth of high productivity sectors can be constrained by skill shortage.

**Ways to address them :-**

- There is a need to re-look at the Make-in-India initiative and realign the focus on manufacturing as well as services.
- Government policy should focus on promoting productivity enhancement across all sectors through technology adoption and skill development.
- The blurring of lines between manufacturing and services sectors further necessitates the need to focus on a broad range of sectors, rather than a few.
- While there is a growing wave of protectionism across the globe, research has shown that increased trade and financial integration can help in faster convergence of sectors.
- Best way forward would be to align "Skill India" and "Make-in-India" with a focus on India's comparative advantage. As mentioned in the IMF WEO and the Economic Survey, a single-minded pursuit of increasing India's manufacturing base might not yield the best results.

## **PRACTICE QUESTIONS**

### **Answer the following Questions**

1. Discuss the reasons behind farmer suicides in some of the agriculturally most productive regions of India like Punjab. (250 words)
2. Discuss whether creation of post poll alliances is in line with the spirit of democracy? (250 words)