

## A new industrial policy for Bharat

A recent report by Deloitte LLP pointed out that India's young population will drive its economic growth to overtake China and other Asian tigers in the next few decades. The potential workforce in India is set to increase from 885 million to 1.08 billion in the next 20 years and hold above the billion mark for 50 years. This potential can only be achieved if enabling conditions for growth are created and sustained.

In this context, the discussion paper on Industrial Policy 2017, released recently by the Department of Industrial Policy and Promotion (DIPP), becomes relevant. The paper reviews the progress made in the last 25 years and provides thoughts on facilitating discussions for the formulation of a new industrial policy aimed at building a globally competitive Indian industry equipped with skill, scale and technology. It recognizes the need to gainfully employ a growing workforce, among others, and lists long-term and medium-term measures and related challenges. The government's initiative on starting a discussion on a future-ready industrial policy is timely and welcome.

In relation to the rising workforce, the Economic Survey 2016-17 pointed out that the richer peninsular states in India will initially witness a sharp increase in working age populations, followed by a sharp decline. In contrast, the poorer hinterland states will remain young and dynamic, characterized by a rising working age population for some time, plateauing towards the middle of the century. The poorer states in the hinterland are characterized by a substantial rural, informal economy where agriculture and allied non-farm activities are the principal sources of livelihood. For India to realize its economic potential, it is this population which needs to be tapped and provided opportunities. Significant migration in search of better sources of livelihood is also being witnessed from such areas towards urban centres, which needs to be carefully managed.

A new industrial policy for India must necessarily discuss ideas for creating jobs *for* and *in* Bharat. Unfortunately, the DIPP discussion paper does not delve into this issue. Perhaps this is the result of a conventional approach which confines the scope of industrial policy to "manufacturing enterprises", distinct from and unrelated to agriculture (including rural non-farm sectors) and the services sectors. In addition, a myopic industrial policy runs the risk of becoming autarkic, in conflict with, and often overriding, trade and competition policy considerations. This can have adverse consequences in the longer term.

However, it is heartening to note that the paper recognizes the importance of competition, enhancing the competitiveness of domestic industry, and strengthening global linkages and value chains. However, it suggests incentives to select sunrise sectors, and possibly enterprises, which could potentially disincentivize competition and innovation, and curb the growth of other sectors. Such a straitjacket sector-specific approach might result in policies soon becoming out of sync with dynamic economic developments and with our World Trade Organization (WTO) obligations. While sectoral policies can be a valuable supplement to an industrial policy, an effective industrial policy cannot be merely a collection of sectoral policies.

Any design of industrial policy must appreciate its linkages and interaction with agriculture and services policies at a granular level, and with trade, competition and sector-specific policies at a broader level. This will not be possible without a systems' view informed by a whole-of-government approach.

A systems' view will treat the economy like a complex human body, composed of many sub-systems, each of which performs a function to enable the entire system to remain healthy and grow. Often, giving medicine to improve the functioning of one sub-system can have side effects

on others and make the whole body unhealthy. Improvements of a part of the system can have unintended consequences for other parts, consequently weakening the system. The Indian economy has suffered from several ill-advised medications in the past, and more recently as well. Such experiments need to be prevented. Therefore, it is essential to understand the functioning of the system as a whole and review the interlinkages among the sub-systems before one fixes the parts.

A whole-of-government approach requires different actors and government departments engaged in specific sub-systems to work with each other. Stakeholders involved in the design of specific policies must interact with each other, align forces, optimize and harmonize the functioning of crucial sub-systems to create an industrial policy. It is important to institutionalize such a whole-of-government approach and authorize a powerful nodal department in the prime minister's office to ensure coherence through coordination with different departments and related stakeholders, and enable swift decision making within predetermined time frames.

A new forward-looking industrial policy for India must have Bharat as its soul. It must prioritize the creation of livelihoods in rural and semi-urban areas, and should recognize the importance of growth in the rural non-farm and agriculture-allied economy for industrial development. A long-term view needs to be taken on competition and trade-related issues, and the industrial policy should avoid the temptation of short-term benefits of over-protectionism.

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