

INDIA NEEDS AN INDUSTRIAL POLICY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector

For India to solve its employment challenge, it needs a big push in manufacturing. This is why the fate of the Make in India initiative is crucial. A study by the ministry of commerce shows that some of the success stories of Make in India could be more optics than concrete gains. Here's one such example. India's import of mobile phones from China came down from \$6.3 billion to \$3.3 billion between 2014 and 2017. This is in keeping with the recent rise in number of mobile phone factories in the country. But the import of telecom parts from China increased from \$1.3 billion to \$9.4 billion during this period.

These statistics capture the harsh reality of manufacturing in the world of globalised supply chains. Large manufacturers strategically spread their production across the globe to maximise their profits at each stage of production. These decisions could be driven by better availability of cheap and skilled work force in a given sector, spill-over of technological knowledge from similar industries working in that country or significant promises of benefits by the host government. While some of these issues are structural in nature and can only be improved in the medium to long term, it is important to understand that a manufacturing take-off and challenges such as improving skill sets and technological knowledge in an economy are a bit like the chicken and egg problem. A big mobile company might not be willing to bring all its manufacturing activity in a country due to lack of skilled workforce. Workers in that country will not become experts in making state of the art mobile phones by spending a few years at a polytechnic.

Politics too plays a role. Ideas such as calling for boycott of Chinese goods to reduce trade deficit are, to put it politely, completely wrong. The report says that only 20% of India's imports from China are consumption goods (which can be boycotted); 60% of Chinese imports are intermediate goods, which are used in manufacturing of so-called Indian products. In an age where big companies go venue shopping to set up factories, increasing a country's share in global value chains cannot be achieved without active state intervention. This needs to be done both at the micro level, such a focusing on a particular cluster or industry, and the macro level, which basically means acknowledging the fact that we need an industrial policy.

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