Q12

"Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far the recent changes is Industrial Policy are capable of increasing the industrial growth rate?

UPSC Civil Services Mains 2017 · GS III · 15 marks · Liberalisation and Industrial Policy

Effects of liberalization on the economy, changes in industrial policy and their effects on industrial growth.

Core demand of the question

- Give reasons why industrial growth lagged overall GDP growth after 1991
- Assess Make in India, National Manufacturing Policy, FDI, GST, IBC, and corridors
- Judge how far recent industrial policy can raise the industrial growth rate

Revision summary

After 1991, services pulled GDP while manufacturing stayed a modest share of output.

Causes include infrastructure, land and labour frictions, inverted duties, Chinese imports, and weak SME credit.

The National Manufacturing Policy already set a 25 per cent-of-GDP ambition that was missed.

Make in India, FDI liberalisation, industrial corridors, GST, and the IBC are the recent toolkit.

They can raise industrial growth only with working tax credit, time-bound insolvency, and real power-and-logistics delivery.

Introduction

After **1991**, India's **Gross Domestic Product** rose mainly on **services**. **Industry**, especially **manufacturing**, grew, but more slowly, so its share of GDP stayed stuck near the mid-teens. That lag is the puzzle in the question. Recent policy - **Make in India**, easier **foreign direct investment**, the **Insolvency and Bankruptcy Code**, and the coming **Goods and Services Tax** - tries to close it. Capacity on paper is not the same as factories that hire.

Body

Why industry lagged GDP after reforms

- **Services** (information technology, finance, telecom) faced fewer land-labour-power knots and rode a world demand boom; factories still needed plots, inspectors, and stable electricity.
- **Infrastructure:** ports, freight, and quality power remained dear; inventory and downtime killed competitiveness against East Asia.
- **Land and labour:** acquisition conflict and rigid industrial-labour law (and a thick inspector raj) pushed capital toward capital-intensive plants or toward services, not mass-employment lines.

- **Inverted duties and cheap imports**, especially from **China** after it joined the World Trade Organization, undercut domestic capital goods and light manufactures.
- **Credit:** small units stayed informal; banks preferred large names or retail; the later **non-performing asset** pile froze new project loans.
- **Skills** did not match shop-floor need; engineers queued for services jobs.
- Public-sector disinvestment was slow; many **Navratna** firms did not become globally aggressive manufacturers.
- The **National Manufacturing Policy (2011)** already admitted the lag and aimed at about **25 per cent** of GDP and 100 million jobs - a target that showed how far the post-reform path had drifted.

Recent industrial-policy changes (mid-2010s)

- **Make in India (2014)** and easier **FDI** caps in defence, railways, construction, and single-brand retail tried to import capital and technology into factories, not only into software.
- **Industrial corridors** (Delhi-Mumbai and others) and **National Investment and Manufacturing Zones** offered plug-and-play land.
- **Ease of Doing Business** (single window, labour compliance easing on paper) cut some entry cost.
- **GST (from July 2017)** promised one market and an end to cascading tax that had punished value-addition in manufacturing.
- **IBC (2016)** aimed to recycle stuck steel and other plants instead of keeping zombie capacity.
- **Start-up India**, **Mudra**, and MSME tax cuts in Budget 2017-18 addressed the small-unit layer.
- **Sector missions:** textiles, electronics (**Phased Manufacturing**), food parks, and defence offsets.
- A **new industrial policy** discussion (Department of Industrial Policy and Promotion, 2017) talked of technology, jobs, and sustainability together - still a draft, not a finished statute.

How far can this raise industrial growth?

- GST plus IBC plus FDI can lift **formal, tradable manufacturing** if implementation is clean: input-tax credit must work, and resolution must be time-bound.
- Corridors help **coastal and hinterland** plants only if power, water, and labour housing arrive with the fence.
- They **cannot** by themselves fix farm-to-factory labour transition, State-level land politics, or a world of cheap Chinese surplus.
- Without cheaper logistics and a skill pipeline, Make in India stays a logo on assembly of imported kits.
- Policy is **capable in direction**, not yet proven in a sustained industrial growth rate above GDP.

Flow diagram

Post-1991 Post-1991 GDP -> Services lead

Post-1991 GDP -> Industry lag

Industry lag -> Land labour power China credit

Make in India GST IBC FDI -> Industry lag

Make in India GST IBC FDI -> If logistics skills States deliver

Conclusion

Industry lagged post-1991 GDP because services were easier, factories faced land, labour, power, China, and credit knots, and manufacturing's GDP share did not rise. Make in India, FDI, corridors, GST, and IBC point the right way. They will raise industrial growth only if the single market, bankrupt-plant recycling, and real infrastructure arrive together - not as separate press notes.

Facts & figures

NMP 2011

National Manufacturing Policy: aimed to raise manufacturing toward about 25 per cent of GDP and create large-scale jobs.

Make in India 2014

Campaign and FDI-easing drive to put India into global manufacturing chains.

GST July 2017

Destination-based indirect tax meant to unify the market and cut cascading taxes that hurt manufacturing value-addition.

IBC 2016

Insolvency and Bankruptcy Code to resolve failed firms and free stuck industrial assets.

DMIC / NIMZ

Delhi-Mumbai Industrial Corridor and National Investment and Manufacturing Zones: planned plug-and-play manufacturing land.