UPSC Syllabus Topic : GS Paper 3 Indian Economy – Changes in industrial policy and their effects on industrial growth.

On Make in India – There is no substitute for an industrial policy

Make in India (MII) is a transformative initiative aimed at positioning India as a global manufacturing hub, differing significantly from past policies. Unlike previous approaches focused on self-sufficiency and import substitution, MII emphasizes competitive manufacturing for global markets.

Key Differences from Past Policies:

- **Shift from Import Substitution:** Unlike earlier strategies that aimed at self-reliance and import substitution, MII focuses on global competitiveness rather than isolating the market.
- **Not Entirely Protectionist:** While implementing some protective measures like increased tariffs, MII aims for a more open trade environment. For instance, a significant portion of products made in India involves imported components, maintaining trade openness.
- **Focus on Job Creation and Economic Growth:** Building upon the National Manufacturing Policy (NMP, 2011), MII aims to boost manufacturing's GDP contribution and create millions of new jobs through an outward-looking, competitive approach.
- **Targeted Modernization via PLI Schemes:** MII implements Production-Linked Incentive (PLI) schemes to enhance efficiency and global competitiveness in specific sectors, differing from previous broad protectionist measures.

Concerns Related to MII:

- **Rising Protectionism:** There's apprehension that MII could lead to increased tariffs, potentially impacting competitiveness and raising costs.
- **Potential Legacy of Past Policies:** Despite its distinct approach, concerns linger about unintended similarities to past eras marked by shortages and market distortions.
- **Need for a Comprehensive Industrial Policy:** MII alone may not address job creation adequately. A broader industrial policy focusing on employment generation is essential.

Recommendations:

- **Balanced Trade Approach:** While protecting nascent industries, India should balance protectionism with open-market policies to promote competitiveness.
- **Focus on Labor-Intensive Manufacturing:** Emphasizing labor-intensive manufacturing sectors can drive job creation, particularly for women.
- **Data-Driven Policy Formulation:** Consistent and comprehensive data collection is vital for informed policymaking, enabling responsive and effective strategies.

Adopting a balanced trade approach, emphasizing labor-intensive manufacturing, and leveraging data-driven policymaking are crucial steps to ensure MII’s success while addressing concerns and facilitating job creation and economic growth in India.

UPSC Syllabus Topic : GS Paper 3 Indian Economy – Indian Economy and issues relating to mobilization of resources, growth.

On Private Investment – Crowd-in must not start crowding investors out

The Credit-to-GDP gap, newly positive after a decade, measures the level of credit compared to the country's GDP. It serves as an indicator of potential economic risks, signaling unusually high credit expansion relative to economic growth, which could lead to financial instability or a future downturn. Conversely, a negative or low gap might limit credit availability, constraining economic growth.

Other Positive Economic Indicators:

1. **Improved Bank Health:** Banks are in a better state than before, with reduced bad loans, implying lowered risk in the banking system.
2. **Credit Growth:** The rate of credit growth has surged to mid-teen levels, indicating increased lending activity.
3. **Enhanced Manufacturing Capacity Utilization:** Manufacturing capacity utilization has surpassed 75%, indicating growing business borrowings for expansion plans.
4. **Consumer Spending:** Post-pandemic, consumer demand's recovery has been uneven, but several sectors have recorded robust sales.
5. **Government Capital Expenditure:** Heavy government spending has boosted post-COVID economic growth.
6. **Crowding-In Effect of Government Spending:** The government's focus on capital expenditure aims to stimulate private investment, which seems to be showing signs of increased traction.

Future Action Needed:

1. **Fiscal Consolidation:** While increased government spending has augmented fiscal deficit, a significant pullback is essential to avoid crowding out private players. A sharper fiscal adjustment beyond the current plan to achieve 4.5% of GDP by 2025-26 is recommended.
2. **Balancing Growth and Fiscal Discipline:** The economy, post-COVID, has recovered swiftly, but a prolonged large fiscal deficit might stifle private investment. Striking a balance between growth and fiscal discipline is crucial for sustainable economic progress.