Can India Achieve Manufacturing-led Growth? Exploring Policy Strategies Using CGE Modelling Analysis

Topic:
Author: Akhilesh Kumar Sharma

Manufacturing has played a significant role in the development process. The growth of the richer countries in the world had been led by the manufacturing sector. However, the sector is shrinking in almost every country in the world indicating premature deindustrialization in the developing countries. The Indian economy has shown a non-traditional growth trajectory in terms of industrialization. Its share of manufacturing in gross domestic product (GDP) has declined to around 16 percent. Given the labour-abundant economy, India can harness the potential of its industrial capabilities by increasing its share of the manufacturing sector in GDP and transform into a developed economy. The present study aims to explore policy strategies for achieving manufacturing-led development in India using a computable general equilibrium modeling framework. Our findings indicate that a sustained comprehensive policy intervention through investment and productivity enhancement in the manufacturing sector as well as production incentives to firms and demand/income incentives to households along with policies for domestic firm protection has the potential to achieve inclusive manufacturing-led growth in India in 6 years. It has a significant positive impact on GDP, income, employment and trade. Its distributive income effect is more in favour of rural areas and the poor. Consequently, manufacturing-led growth has potential to promote inclusive development. Further, policies merely focusing on labour-intensive sectors, protection of domestic industries, or tax incentives may not have desirable results and can be counterproductive also. Therefore, this study suggests that there is a need to adopt a long-term comprehensive industrial policy framework to achieve manufacturing-led growth and SDGs and transform the country into a developed economy. Being first study focusing on exploring alternative policies to promote manufacturing-led growth in India using general equilibrium framework, this study significantly contributes to the policy discourse and existing knowledge.