UPSC & STATE PCS CURRENT AFFAIRS · UJIYARI.COM

EDITORIAL ANALYSIS

The Factory Window: Why India's Manufacturing Moment Needs Factor Reform

BUSINESS STANDARD

5 July 2026 · ECONOMY · GS3

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

The Factory Window: Why India's Manufacturing Moment Needs Factor Reform

Business Standard 5 July 2026 GS3

Source: ujiyari.com — researched, fact-checked & UPSC-mapped

Every fact web-verified against primary sources (https://ujiyari.com/how-we-verify/)

THE LIFT LINE

India has the demand, the demographic dividend (https://ujiyari.com/terms/demographic-dividend/) and a China-plus-one opening all at once, a window East Asia would have seized; but as long as land, labour and capital stay stuck in slow, costly factor markets, incentives like PLI will keep pushing on a jammed door.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Manufacturing is the recurring spine of GS3 growth questions, and the examiner wants candidates who can move past slogans (Make in India) to the binding constraints (factor markets). This editorial gives you a structured, comparative answer that works for Prelims (schemes, targets) and Mains (analysis, way forward) alike.

GS Paper 3: Indian economy and issues relating to planning, mobilisation of resources, growth and development; effects of liberalisation on the economy; changes in industrial policy and their effects on industrial growth; inclusive growth and employment.

It also connects to GS2 (government policies and interventions, land acquisition law) and GS1 (urbanisation, labour migration).

BACKGROUND AND CONTEXT

Manufacturing has stalled at roughly 15 to 17 per cent of India's GDP for decades, well short of the government's 25 per cent aspiration (the National Manufacturing Mission announced in Budget 2025-26 renews this goal, targeting a larger GDP share by 2035). Meanwhile the composition of India's growth has been services-led, leaving a shortage of the mass, formal, factory jobs that lifted East Asia.

The policy response has leaned on incentives. The Production Linked Incentive (PLI) schemes had, by late 2025, catalysed over Rs 2.16 lakh crore of investment and driven incremental (https://ujiyari.com/vocab/incremental/) production above Rs 20 lakh crore, with electronics and mobile assembly the standout successes. A China-plus-one realignment and a FDI wave have added momentum.

Yet India still trails Vietnam, Thailand, Malaysia and Indonesia on several competitiveness measures. Incentives address the symptom (thin margins) not the disease (high friction in the markets for the three factors of production: land, labour and capital).

THE CORE ARGUMENT / ISSUE

The central argument: **subsidies cannot substitute for functioning factor markets.** PLI can tilt a firm's calculus at the margin, but a factory still needs to buy land quickly, hire and adjust its workforce flexibly, and access patient capital. Where those markets are slow and litigious, incentives leak into rent rather than competitiveness.

The three jammed factors

Land. Fragmented records, unclear titles, multiple approving authorities and inconsistent stamp duties make acquisition slow, costly and litigation-prone, deterring the large greenfield (https://ujiyari.com/vocab/greenfield/) plants manufacturing needs.

Labour. The four Labour Codes (https://ujiyari.com/terms/labour-codes/), largely operationalised in late 2025, consolidate 29 laws and promise flexibility, but their real impact depends on state-level rules and genuine ease of adjusting workforces; historically, rigidity kept firms small to stay below regulatory thresholds ("dwarfism").

Capital. Manufacturing needs long-tenor, low-cost credit; a bank-dominated system geared to working capital and a thin corporate-bond market raise the cost of the patient capital factories require.

What the incentives can and cannot do

LEVER	WHAT IT FIXES	WHAT IT CANNOT FIX
PLI / production incentives	Thin margins, scale disadvantage	Slow land, rigid labour, costly capital
Tariff protection	Import competition (short run)	Long-run productivity, export edge
Labour Codes (2025)	Fragmented compliance	Weak enforcement, state-rule delays
National Manufacturing Mission	Coordination, focus	Ground-level factor frictions

The East Asian mirror

Japan, South Korea, China and later Vietnam industrialised by pairing openness with ruthless factor efficiency: cheap, assembled land banks; flexible labour that moved from farm to factory; and directed, patient finance. They rode a demographic (https://ujiyari.com/vocab/demographic/) dividend while it lasted. India's dividend is finite; the working-age share peaks and then declines. That is the "window": a one-time alignment of demography, demand and geopolitics that will not stay open indefinitely.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

The analytical frame is **binding constraint over broad wish-list.** Growth is rarely limited by everything at once; it is limited by the one or two factors that bind hardest. The skilled answer identifies the binding constraint (here, factor-market friction) and asks whether a given policy relaxes it. PLI relaxes a margin constraint, not a land or labour constraint, which is why it works brilliantly in some sectors (electronics assembly) and disappoints in others. Ask of any reform: which constraint does this actually loosen?

THE DIAGRAM IN WORDS

```
Demographic dividend + strong domestic demand + China-plus-one opening = the window -> incentives (PLI, tariffs) tilt margins -> but land (slow, litigious) + labour (rigid, state-rule gaps) + capital (costly, short-tenor) stay jammed -> firms stay small, exports lag Vietnam/Thailand -> if factor reform succeeds: scale, formal jobs, export competitiveness -> if it stalls: window closes as dividend fades -> manufacturing stuck at ~17% of GDP.
```

WAY FORWARD

1. **Digitise and consolidate land.** Complete land-title digitisation, ready industrial land banks with plug-and-play infrastructure, and rationalise stamp duty to cut acquisition time and litigation.
2. **Make the Labour Codes real.** Notify state rules quickly, ensure the flexibility and social-security promises actually reach workers, and dismantle threshold (https://ujiyari.com/vocab/threshold/)-based "dwarfism" incentives.
3. **Deepen patient capital.** Strengthen the corporate-bond market and development finance so factories can borrow long and cheap.
4. **Move up, not just in.** Pair assembly-stage PLI with deeper value addition, components and R&D, so India climbs the value chain rather than staying a final-assembly hub.
5. **Skill for the floor.** Align skilling and apprenticeship with actual factory demand to convert the dividend into productivity.

PYQ LINKAGE AND PRACTICE

UPSC has asked directly on manufacturing and industrial policy, for example on “Make in India” as a lever for jobs and growth, on the effects of liberalisation on industry, and on why India’s manufacturing share has stagnated. The fresh angle is factor markets as the binding constraint and the finite demographic window.

Practice Mains question (GS3, 250 words, 15 marks): “Production incentives can widen margins but cannot fix factor markets.” Critically examine why, despite Make in India and PLI, manufacturing has stagnated as a share of India’s GDP, and suggest factor-market reforms in land, labour and capital, drawing lessons from East Asia.

Sources: Business Standard (https://www.business-standard.com/opinion)

RELATED DAILY ARTICLES

5 Jul Current Affairs Today, July 5, 2026

5 Jul ACME's Green Ammonia and Methanol Deals with Japan

4 Jul Current Affairs Today, July 4, 2026

3 Jul RBI Rolls Out the Integrated Ombudsman Scheme 2026

Ujiyari Current Affairs · ujiyari.com · Free Daily Current Affairs for UPSC & State PCS

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

📖 Read Full Article on Ujiyari →

https://ujiyari.com/editorials/2026/07/bs-manufacturing-reform-window-2026/