

Govt plans new clusters to fire up manufacturing

Tax sops, road map to build factories along infra projects likely in budget

Rhik Kundu & Subhash Narayan

rhik.kundu@livemint.com

NEW DELHI: The Union government is looking to fire up manufacturing activity—a crucial engine of economic growth that has significantly slowed—by announcing factory clusters near major infrastructure projects and changes to tax and customs duties in the upcoming budget.

Two officials familiar with the government's thinking said the manufacturing clusters would strategically align with key infrastructure projects in logistics sectors such as roads, railways and ports, generating significant employment. These hubs are meant to enhance manufacturing's contribution to India's overall gross domestic product, they said, declining to be identified.

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of the country's GDP, is expected to grow at a modest pace of 5.3% year-on-year in 2024-25, down from 9.9% in FY24, according to the first advance estimate released by the statistics ministry on Tuesday.

"There have been discussions on boosting the manufacturing sector, with plans for strategically placed clusters near infrastructure hubs, not only creating jobs but also positioning the country as a global manufacturing hub," one of the officials cited above said.

"By aligning manufacturing

clusters with key infrastructure projects, the aim is to create seamless value chains that can attract both domestic and foreign investments, giving a significant boost to the economy," the official added.

The second official said the government may also look to ease procedural hurdles, rectify tax anomalies, and recalibrate customs duties in the budget for 2025-26. "The government is looking into measures (from a policy perspective) to help expand and deepen domestic production, reduce reliance on

imports, and promote value addition in sectors currently dominated by assembling imported components, aligning with the broader push to strengthen India's manufacturing ecosystem," this official said.

Reviving manufacturing activity—which fell to a 12-month low in December—is crucial to revitalizing India's economic growth. The government expects India's GDP growth to decelerate to 6.4% in FY25—the slowest in four years—from FY24's blistering pace of 8.2%.

The production-linked incentive (PLI) scheme—one of the government's key initiatives to boost domestic manufacturing apart from Make in India—faces a slowdown, with companies struggling to meet production targets that will entitle them to receive the benefits.

A cluster approach to manufacturing where firms and industries are part of a holistic system has strong theoretical underpinning and robust cross-country empirical evidence, said an industry expert, adding that micro, small, and medium enterprises (MSME) would benefit the most.