

Industrial Policy, Trade Architecture & India's New Economic Nationalism

GS Paper II & III | May 2026

Section 1 — Key Terms and Explanations

A firm conceptual foundation is the first prerequisite for mastering any policy topic. The following terms form the analytical vocabulary of this entire module — know them precisely, because UPSC loves to ask definitional questions in both Prelims and GS-III.

1.1 Industrial Policy

- Industrial policy refers to the deliberate set of government actions — subsidies, tariffs, tax incentives, regulations, public procurement, and directed credit — designed to influence the structure of an economy by steering resources toward specific sectors.
- It rests on the premise that markets, left alone, may fail to develop strategic sectors because of coordination failures, externalities, imperfect information, or the sheer risk of pioneering new industries.
- EXAMPLE: Production Linked Incentive (PLI) schemes in India offer companies financial incentives linked to incremental sales from domestically manufactured goods — a textbook case of modern industrial policy.
- The term re-entered mainstream discourse after decades of being taboo, driven by the US Inflation Reduction Act (IRA) of 2022, EU Green Deal industrial strategy, and China's Made in China 2025 programme.

1.2 Discriminatory vs. Liberalising Trade Interventions

- A discriminatory trade intervention is any government measure that favours domestic producers or harms the commercial interests of foreign traders — including import tariffs, anti-dumping duties, quotas, and domestic subsidies that allow local firms to undercut foreign competitors.
- A liberalising trade intervention moves in the opposite direction — reducing barriers, cutting tariffs, signing free trade agreements, or streamlining import procedures to allow greater market access.
- The Global Trade Alert (GTA) database, maintained by researchers at the University of St. Gallen, tracks both types of interventions across all major economies, providing the most comprehensive empirical dataset on real-world trade policy.
- India stands out in GTA data as the only major economy that simultaneously expanded both discriminatory and liberalising interventions at scale — revealing a two-track strategy rather than a simple protectionist posture.

1.3 Domestic Subsidy

- A domestic subsidy is a direct or indirect financial benefit extended by a government to its domestic producers, giving them a cost advantage over foreign competitors. Direct transfers, tax exemptions, subsidised credit, and free land are all forms of subsidies.
- China relies overwhelmingly on domestic subsidies — accounting for 93% of its discriminatory interventions — to reduce production costs for its exporters and enable global price leadership.
- The World Trade Organisation (WTO) Agreement on Subsidies and Countervailing Measures (SCM Agreement) classifies subsidies as prohibited (export subsidies, import-substitution subsidies) or actionable (those causing adverse effects to other members).

1.4 Infant Industry Protection

- First systematically articulated by Alexander Hamilton (Report on Manufactures, 1791) and Friedrich List (The National System of Political Economy, 1841), the infant industry argument holds that nascent domestic industries may need temporary protection from global competition until they develop economies of scale and technological capability.
- The argument has a limited but legitimate scope: protection is justified only if (a) the industry is capable of eventual competitiveness, (b) the protection is time-bound with exit conditions, and (c) the domestic market can sustain the scale needed to bring costs down.
- The critique is equally important: protected industries often develop political constituencies that perpetuate the protection long after it is economically justified — what economists call 'regulatory capture' and politicians call 'strategic ambiguity'.

1.5 Foregone Tax Revenue as Subsidy

- When governments provide subsidies through the tax code — via exemptions, deductions, accelerated depreciation, or reduced rates — rather than through direct budget transfers, economists call this 'tax expenditure' or 'foregone revenue'.
- Over 80% of India's corporate subsidies take this form. The policy problem is transparency: tax expenditures bypass the annual budget appropriations process, making them invisible to parliamentary scrutiny, impossible to benchmark against outcomes, and politically difficult to withdraw.
- By contrast, direct transfer subsidies tied to productivity benchmarks — output per unit of subsidy received — allow governments to measure effectiveness and terminate underperforming schemes.

1.6 Free Trade Agreement (FTA)

- An FTA is a preferential trade arrangement between two or more countries that reduces or eliminates tariffs, quotas, and other barriers on goods and services traded between signatories.
- India has recently concluded FTAs with the UK, EFTA bloc (Switzerland, Norway, Iceland, Liechtenstein), Oman, New Zealand, and most significantly the European Union — described as the largest trade deal either side has ever signed, covering a combined market of approximately USD 27 trillion.
- India now has nine active FTAs spanning 38 countries, representing a major strategic shift from the Nehruvian-era preference for import substitution toward managed trade integration.

1.7 Inspector Raj

- Inspector Raj is the colloquial term for a regulatory culture in which businesses are subject to frequent, arbitrary, and often corrupt inspections by government officials who derive personal benefit from compliance requirements.
- It creates perverse incentives: firms prefer remaining small — below regulatory thresholds — rather than growing and attracting scrutiny, directly suppressing formalisation, scaling, and employment generation.
- India's Jan Vishwas Acts of 2023 and 2025 directly targeted inspector raj by decriminalising hundreds of minor technical offences, replacing criminal penalties with civil fines, and limiting discretionary powers of inspectors.

1.8 China-Plus-One Strategy

- China-Plus-One is a supply chain diversification strategy pursued by multinational corporations to reduce over-dependence on Chinese manufacturing by adding a second production base in another country.
 - Driven by post-COVID supply chain fragility, US-China geopolitical tensions, rising Chinese labour costs, and Western sanctions on Chinese tech, this strategy has created a historic opportunity for India, Vietnam, Indonesia, Mexico, and Bangladesh to absorb relocated manufacturing.
 - India's ability to capitalise on this opportunity depends on the quality of its industrial policy — land, labour, logistics, power, credit, and regulatory predictability.
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Section 2 — Main Arguments and Substantive Parts

The intellectual core of this issue rests on three interlocking claims: that the free-trade consensus was always selectively applied; that India's trade profile is misunderstood; and that India now needs an industrial policy framework calibrated to its own structural realities. Let us examine each.

2.1 The Washington Consensus and Its Quiet Collapse

- From the 1980s through the 2000s, the World Bank, IMF, and WTO promoted the Washington Consensus — a set of market-liberalising prescriptions including privatisation, deregulation, trade openness, and fiscal discipline — as the universal development prescription.
- The historical irony is devastating: the United States, which preached free markets most loudly, built its own industrial dominance through persistent state intervention — from Hamilton's tariffs, to the military-industrial complex, to DARPA-funded technology (the internet, GPS, touchscreens), to the Inflation Reduction Act's USD 369 billion in subsidies.
- Europe similarly directed state resources toward Airbus, green technology, and the semiconductor sector through its European Chips Act. South Korea and Taiwan built world-class industries (Samsung, TSMC) through precisely the kind of state-directed industrial policy that the Washington Consensus declared off-limits.
- The World Bank's intellectual pivot — now conceding that industrial policy can work — represents a paradigm shift that vindicates the developmental state tradition and opens space for a more honest global conversation about what actually works.

2.2 India Is Less Protectionist Than the Narrative Suggests

- Global Trade Alert data covering 2010–2023 reveals that India moved from 117 to 232 discriminatory trade interventions — but simultaneously from 45 to 124 liberalising interventions, the highest increase among top-10 economies on the liberalisation side.
- In probability terms, the United States and China were more than ten times more likely than India to introduce a discriminatory measure harmful to foreign commercial interests in 2023. The standard narrative of India as an obstinate protectionist simply doesn't hold up.
- This matters for UPSC because questions on India's trade policy often assume India is uniquely defensive, when the evidence points to a more nuanced dual-track approach — opening selectively while protecting strategically.

2.3 The China Model India Cannot and Should Not Copy

- China's industrial policy toolkit relies primarily on domestic subsidies (93% of interventions), which suppress production costs across entire manufacturing sectors, enabling export price competitiveness that no market-based competitor can match.

- This model was built on a deliberate political choice to suppress household consumption and wages — redirecting national income from households to the state and enterprises. China's household consumption has fallen from around 50% of GDP in the 1990s to approximately 38% today.
- India's private consumption constitutes nearly 60% of GDP. India's demographic structure, democratic institutions, and federal diversity mean it lacks the centralised capacity to replicate this bargain. Attempting to do so would destroy the domestic demand base that is India's single greatest structural economic asset.
- India's path must therefore rely on leveraging domestic market scale, transparent subsidies tied to productivity, and competitive export ambition — rather than wage suppression and state-directed accumulation.

2.4 India's Specific Policy Gaps

- India relies excessively on tariffs (22% of discriminatory interventions) and import barriers (18%), while under-investing in direct production subsidies that actually build domestic competitive capacity.
- Tariffs protect but do not build. A tariff wall allows inefficient domestic producers to survive without improving — the worst of both worlds: consumers pay higher prices, and the protected industry never develops export competitiveness.
- Over 80% of Indian corporate subsidies are delivered through the tax code as foregone revenue — invisible, unaccountable, and immune to performance evaluation. This represents a structural opacity in India's industrial policy that undermines its own stated goals.

2.5 The Deregulation Parallel — Making Enablers Match Ambitions

- India has recognised that headline industrial schemes (PLI, Atmanirbhar Bharat) are only as effective as the enabling environment they sit in. A firm cannot scale manufacturing if it takes 200 days to get a construction permit, faces 30 inspections a year, and cannot legally hire and fire workers flexibly.
- The deregulation response since 2020 has been substantive: 47,000+ compliance simplifications, Jan Vishwas decriminalisation, RBI's consolidation of 9,000 circulars into 238 Master Directions, SEBI disclosure reforms, and a tenfold increase in the turnover threshold for 'small companies'.
- Institutionalised reform committees announced in 2025 for both central and state-level regulatory frameworks signal that this is no longer ad hoc — it is becoming systemic.

Section 3 — Historical Evolution of the Issue

India's industrial policy did not emerge in a vacuum. It is the product of colonial distortions, post-independence ideological choices, crisis-driven liberalisation, and now a third generation of targeted state intervention. Understanding this arc is essential for answering 'How did we get here?' questions in Mains.

3.1 Colonial Foundations: Deindustrialisation by Design

- British colonial policy systematically destroyed India's indigenous industrial base — the famous Bengal muslin industry, Dacca textile workshops, and iron-smelting traditions — through a combination of tariff-free imports of British machine goods and punitive export duties on Indian artisanal products.
- The colonial economy was structured around the extraction of raw materials (cotton, jute, indigo, opium) for British industry and the creation of captive markets for British manufactures. India was a producer of inputs, not finished goods.
- Dadabhai Naoroji's 'Drain of Wealth' theory and R.C. Dutt's Economic History of India documented how colonial trade policy transferred enormous surplus from India to Britain, preventing capital accumulation that could have financed industrialisation.
- ASSAM-SPECIFIC: British economic policy deliberately integrated Assam into the global commodity economy through tea (from 1839), oil (Digboi, 1889), and timber — all raw material export-oriented. Assam's colonial economy illustrates the classic enclave trap: extractive growth that leaves no industrial legacy.

3.2 Nehruvian Import Substitution Industrialisation (1947–1991)

- Post-independence India adopted Import Substitution Industrialisation (ISI) as its core industrial strategy — building domestic production capacity in capital goods, heavy industry, and defence manufacturing behind high tariff walls and import licensing.
- The Industrial Policy Resolution of 1948 and more comprehensively 1956 reserved the commanding heights of the economy — steel, coal, railways, defence, atomic energy — for the public sector, with mixed sector participation in consumer goods.
- The planning architecture (Five-Year Plans, Planning Commission) directed investment flows centrally, with the Mahalanobis Model (Second Five-Year Plan, 1956–61) prioritising heavy industry and capital goods on the Feldman-Mahalanobis growth model.
- By the 1980s, the ISI model had produced genuine achievements — IISc, IITs, DRDO, HAL, steel plants — but was visibly failing: low productivity, technological backwardness, lack of export competitiveness, fiscal strain, and the 'Hindu Rate of Growth' (approximately 3.5% annually).

3.3 Liberalisation, Privatisation, Globalisation (1991 onwards)

- The 1991 Balance of Payments crisis — India's foreign exchange reserves fell to just two weeks of import cover — forced a paradigm shift under Finance Minister Manmohan Singh and PM Narasimha Rao.

- The 1991 reforms dismantled the industrial licensing system (except for 18 industries), reduced import tariffs progressively, ended the MRTP Act's restrictions on large business growth, allowed FDI in most sectors, and began privatisation of select PSUs.
- India's GDP growth accelerated dramatically — averaging 6-7% through the 1990s and over 8% in the 2000s — vindicating liberalisation but also generating a new set of concerns: jobless growth, agrarian distress, regional inequality, and current account vulnerability.

3.4 Second Generation Industrial Policy (2000s–2014)

- Despite liberalisation, Indian governments never fully abandoned sector-specific industrial promotion. SEZs (Special Economic Zones), MSME development, National Manufacturing Policy (2011 targeting 25% of GDP from manufacturing), and sector-specific tariff structures maintained elements of industrial direction.
- The 2005 SEZ Act created special regulatory zones with tax exemptions, single-window clearances, and relaxed labour laws — an acknowledged attempt to replicate East Asian EPZ (Export Processing Zone) success. Results were mixed: real estate capture, rural land conflict, limited employment generation.

3.5 Third-Generation Industrial Policy: Atmanirbhar Era (2020 onwards)

- COVID-19 exposed critical supply chain vulnerabilities — medical equipment, APIs (active pharmaceutical ingredients), electronics, semiconductors — that triggered a fundamental rethink across the political spectrum.
 - The Atmanirbhar Bharat mission (2020) and Production Linked Incentive (PLI) schemes across 14 sectors — mobile manufacturing, pharmaceuticals, automobiles, textiles, food processing, specialty steel, white goods — represent the most explicit return to industrial policy since 1991.
 - Simultaneously, India's FTA strategy shifted dramatically — from defensive resistance to proactive deal-making — with agreements covering the UK, EFTA, UAE, Australia, Oman, New Zealand, and the EU concluded in just four years.
 - The Jan Vishwas Acts, RBI master direction consolidation, and 47,000+ compliance reforms signal that the third-generation model seeks to combine industrial ambition with enabling environment reform — a more sophisticated approach than either ISI or simple liberalisation.
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Section 4 — Logical and Philosophical Base

Behind every industrial policy debate lies a deeper argument about the appropriate relationship between the state and the market, between individual freedom and collective purpose, and between short-term efficiency and long-term capability. UPSC Essay and GS-IV questions increasingly demand this level of philosophical grounding.

4.1 The Developmental State Tradition — Ha-Joon Chang

- Ha-Joon Chang's 'Kicking Away the Ladder' (2002) is the foundational critique of the Washington Consensus. Chang demonstrates that virtually every developed nation used exactly the interventionist policies — tariffs, subsidies, state enterprises, infant industry protection — that the IMF and World Bank subsequently told developing countries to abandon.
- The philosophical implication is profound: the free-trade prescriptions directed at developing nations were not derived from universal economic logic but from the strategic interest of already-industrialised economies in preventing new competitors from climbing the same ladder they had used.

4.2 Amartya Sen — Capabilities Approach

- Sen's Development as Freedom reframes the purpose of economic policy: not GDP maximisation but expansion of real freedoms and substantive capabilities. An industrial policy that grows manufacturing output without expanding the substantive freedoms of workers — to organise, to choose occupations, to access education and healthcare — is incomplete.
- Applied to India: a genuine industrial policy must not merely create export revenues but expand the capability set of India's 1.4 billion — through skills, social protection, labour rights, and geographic equity in investment.

4.3 Kautilya and the Arthashastra Tradition

- India's own tradition of statecraft, articulated in Kautilya's Arthashastra (circa 300 BCE), assigned the state a central role in directing economic activity, managing trade routes, standardising weights and measures, and investing in irrigation and manufacturing. The idea of the state as an active economic actor is not an import but a revival of indigenous tradition.
- Kautilya's concept of 'Matsya Nyaya' (the law of the fish — where the big eat the small) is precisely what infant industry protection aims to prevent: nascent domestic industry being consumed by globally established competitors before it has time to develop.

4.4 Rawlsian Justice and Industrial Policy

- John Rawls's Difference Principle holds that social and economic inequalities are just only if they benefit the least advantaged members of society. Applied to industrial policy: a programme of subsidies, tax concessions, and preferential credit to large manufacturers is legitimate only if it creates conditions — employment, skills, wages, upstream supply chain linkages — that improve the position of the least-advantaged workers and communities.

- This framework directly challenges the opacity of foregone-revenue subsidies: if the subsidy cannot be evaluated for its impact on the least advantaged, it fails the Rawlsian test regardless of its macroeconomic rationale.

4.5 Polanyi's 'Double Movement' — Markets and Social Protection

- Karl Polanyi's *The Great Transformation* (1944) argued that pure market logic, when applied without social protection, generates social disruption severe enough to provoke political backlash — and that societies inevitably develop protective institutions (labour laws, social insurance, regulation) in response.
- Today's global resurgence of industrial policy is, in Polanyian terms, a 'double movement' — a political response to the social dislocations of three decades of hyperglobalisation. The question is whether this movement is managed rationally (transparent, time-bound, productivity-linked) or captures the worst instincts of both state and market.

4.6 The Epistemological Challenge — What Does the State Know?

- Friedrich Hayek's critique of central planning rests on the 'knowledge problem': no central authority can possess the dispersed, tacit, price-embedded information that markets process automatically. State industrial policy is prone to 'picking losers' — directing resources to politically connected industries rather than those with genuine competitive potential.
 - The response from Dani Rodrik (one of the foremost contemporary development economists) is not to abandon industrial policy but to design it with built-in feedback mechanisms, sunset clauses, public benchmarks, and political insulation — transforming it from a one-way bet into a discovery process.
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Section 5 — New Features and Unique Ideas

Several ideas in this domain represent genuine innovations in policy thinking — departures from both the old ISI model and from simple liberalisation dogma. These are the angles that produce distinctive Mains answers.

5.1 Domestic Market as a Strategic Asset, Not a Failure

- The conventional framing treats large domestic consumption as a constraint on export-oriented industrial development — the East Asian model preferred export discipline over domestic demand. The new framing inverts this: India's 1.4-billion consumer base is a launch pad that allows domestic industries to reach minimum efficient scale before confronting global competition.
- This is genuinely novel in development economics: using the domestic market as a nursery for export capacity rather than as a captive market for inefficient production. The precondition is that domestic market dominance must come with internal expectations — cost reduction, quality improvement, progressive export orientation.

5.2 Performance-Linked Transparency in Subsidies

- The PLI model is a structural innovation: subsidies paid only on incremental production above a baseline, tied to domestic value-addition benchmarks, with clear eligibility criteria and sunset timelines. This attempts to solve the opacity and accountability problems of traditional tax-expenditure subsidies.
- The next step — migrating from foregone-revenue subsidies to direct performance-linked transfers across all industrial sectors — would represent a significant advance in Indian policy architecture, if implemented with genuine independence from political interference.

5.3 Institutionalised Deregulation as Systemic Reform

- India's decision in 2025 to institutionalise regulatory reform through high-level committees covering both central and state frameworks is genuinely new. It shifts deregulation from a one-time crisis response (as in 1991) to an ongoing institutional function — a regulatory metabolism rather than a regulatory surgery.
- The Jan Vishwas Act model — decriminalising minor offences across dozens of laws simultaneously rather than tackling each law individually — represents a legislative innovation in the mechanics of deregulation.

5.4 The Dual-Track Trade Strategy

- India's simultaneous expansion of both protectionist and liberalising measures — unique among the top-10 economies in GTA data — is not policy incoherence but a deliberate dual-track approach: protecting strategic sectors while opening competitive ones.
- The intellectual innovation lies in recognising that selective integration is superior to both autarky and unconditional openness. The challenge is execution: ensuring the selective protection is genuinely strategic rather than politically captured.

5.5 FTA as a Competitive Spur

- The conventional use of FTAs in Indian policy was defensive — negotiated reluctantly to avoid being excluded from trading blocs. The new approach treats FTAs as a competitive spur: by locking domestic industries into binding international commitments, governments create credible external pressure for efficiency improvements that domestic political coalitions alone cannot generate.
 - The India-EU FTA, if ratified, will create the largest bilateral trade relationship in history. Its terms — on services liberalisation, sustainability standards, intellectual property, and procurement — will define India's industrial standards for decades.
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Section 6 — Sustainability of the Idea

A policy idea is only as good as its long-run viability. Sustainability here is assessed across five dimensions: environmental, resource, constitutional/legal, ethical, and societal.

6.1 Environmental Sustainability

- India's industrial ambition must navigate a profound tension: manufacturing expansion — particularly in steel, cement, chemicals, electronics, and automobiles — is energy-intensive and carbon-heavy, while India has committed to net zero by 2070 and 500 GW of renewable energy by 2030.
- Green industrial policy — PLI schemes for green hydrogen, solar cells, and battery storage; carbon border adjustment mechanisms in India's FTAs; mandatory ESG reporting — can theoretically align industrial growth with decarbonisation. But the pace of green transition is slower than the pace of manufacturing ambition.
- In Assam and Northeast India, industrial expansion in biodiversity-sensitive landscapes — the Brahmaputra floodplain, the Eastern Himalayan biodiversity hotspot — carries specific environmental risks that national industrial policy frameworks rarely internalise.

6.2 Fiscal Sustainability

- PLI schemes, direct subsidy transfers, and FTA adjustment costs collectively create significant fiscal pressures. India's fiscal deficit management, combined with the demands of defence modernisation, welfare programmes, and capital expenditure on infrastructure, means industrial subsidies compete for limited fiscal space.
- Time-bound, performance-linked subsidies that exit when productivity thresholds are met — rather than becoming permanent budget commitments — are the only fiscally sustainable design.

6.3 Constitutional and Legal Sustainability

- Article 19(1)(g) guarantees the right to practise any profession or carry on any occupation, trade, or business — but subject to reasonable restrictions under Article 19(6). Industrial licensing, sector reservations, and mandatory procurement preferences operate in this constitutional space.
- WTO compatibility is a persistent legal constraint: domestic subsidies that are export-contingent or import-substitution contingent are prohibited under the SCM Agreement. India faces growing WTO dispute exposure as its PLI scheme design is scrutinised.
- The recent US challenge to India's solar PLI under WTO dispute settlement (DS456, DS522) illustrates that industrial policy, however domestically popular, must navigate international legal architecture.

6.4 Ethical Sustainability

- If industrial policy creates rents — excess profits accruing to protected firms — without producing commensurate social benefits (employment, wages, skills, export earnings), it represents a transfer from consumers to producers that is ethically indefensible in a democracy where most citizens remain poor.

- The concentration of PLI benefits in large established firms raises questions about inclusion: are MSMEs, women entrepreneurs, and firms from historically industrially marginalised regions — Northeast India, Bihar, Odisha — accessing industrial policy benefits equitably?

6.5 Societal Sustainability

- Industrial transformation has historically produced social disruption — urban migration, occupational displacement, family fragmentation, cultural change. India's industrial policy must integrate social protection frameworks (labour rights, portability of social benefits, housing, healthcare for migrant workers) to ensure that gains are broadly shared.
 - India's massive demographic advantage — the largest working-age population in the world — becomes a dividend only if industrial policy generates sufficient formal, productive employment. Without this, the demographic dividend becomes a demographic liability.
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Section 7 — Challenges Related to the Issue

Challenges are what distinguish a good Mains answer from a great one. Examiners reward candidates who anticipate obstacles rather than simply describing policy intent.

7.1 Implementation Challenges

- **State Capacity Deficit:** Industrial policy requires bureaucratic competence to design, implement, monitor, and evaluate complex schemes. India's civil services, despite significant talent, face capacity constraints — especially in technical domains like semiconductor policy, green hydrogen standards, and carbon accounting.
- **Land and Labour Rigidities:** Despite decades of reform advocacy, India's land acquisition framework (LARR Act, 2013) and labour codes (consolidated in 2019-20 but unevenly implemented at state level) remain sources of significant uncertainty for industrial investors.
- **Infrastructure Gaps:** World Bank 'Doing Business' and logistics performance indices consistently rank India below competitors like Vietnam and Malaysia on infrastructure quality — power reliability, port efficiency, road density, cold chain logistics — critical for manufacturing competitiveness.
- **Subsidy Accountability:** Even well-designed schemes accumulate implementation distortions: output benchmarks are gamed, base years are manipulated, value-addition calculations are padded. Robust third-party evaluation frameworks, insulated from political interference, are rare in Indian policy practice.

7.2 Stakeholder Resistance

- **Established Industry Incumbents:** Protected incumbents — who have invested in lobbying and political relationships around existing tariff structures — actively resist policy changes that would expose them to competition or shift subsidy architecture toward performance criteria.
- **Labour Organisations:** Industrial workers and trade unions often oppose FTAs and regulatory reforms that they perceive as threatening job security, even when the aggregate effect is employment expansion. This generates political resistance that constrains policy ambition.
- **State Government Non-Cooperation:** India's federal structure means central industrial schemes require state-level implementation — land acquisition, environmental clearance, labour administration. State governments with different political incentives frequently delay, dilute, or redirect central schemes.

7.3 Structural Challenges

- **The Missing Middle:** India's industrial structure exhibits a bimodal distribution — a large number of micro-enterprises and a small number of large firms, with a 'missing middle' of medium-sized firms that, in successful industrial economies, drive employment and innovation. Industrial policy that targets only large firms reinforces this gap.
- **Services Dominance:** India's economy is structurally services-led, with IT, financial services, and retail contributing most of GDP growth. Manufacturing's share of GDP has stagnated around 16-17%, far below

the 25% target of the National Manufacturing Policy. Industrial policy must overcome powerful structural momentum.

- The Formality Trap: Over 90% of India's workforce is in the informal sector. Industrial policy incentives — which flow through the formal tax and corporate structure — largely bypass the informal economy where most Indians actually work.

7.4 Geopolitical Challenges

- US-China Decoupling Pressure: India faces pressure from Western partners to choose sides in technology supply chains — Huawei exclusion, CHIPS Act alignment, semiconductor export controls. This constrains India's traditional strategic autonomy and complicates industrial technology sourcing decisions.
 - WTO Dispute Exposure: As India's industrial ambitions grow, so does scrutiny from trading partners. The US, EU, and China have all initiated or threatened WTO disputes against Indian industrial policy measures. Managing this legal exposure while maintaining policy space is a growing diplomatic challenge.
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Section 8 — Multidimensional Analysis

UPSC Mains rewards candidates who can look at a single issue through multiple lenses simultaneously. The following analysis examines industrial policy and India's trade architecture across six critical dimensions.

Social Dimension

- **Employment Imperative:** India adds approximately 7-8 million new workers to the labour force annually. Agriculture can absorb very few of them at rising productivity. Manufacturing-led industrial policy is, at its core, a social policy — the only credible pathway to formal employment at the scale India's demographics demand.
- **Gender and Inclusion:** Women constitute less than 25% of India's formal manufacturing workforce. Targeted industrial policies — in labour-intensive sectors like garments, food processing, and electronics assembly — with gender-responsive design (creches, safety, equal pay provisions) can structurally improve female labour force participation.
- **Regional Equity:** India's industrial geography is deeply skewed toward a few coastal states (Maharashtra, Karnataka, Tamil Nadu, Gujarat). Northeast India — despite mineral wealth, hydropower potential, and the Act East Policy — remains industrially marginalised. A nationally coherent industrial policy must incorporate regional equity as a design criterion.

Political Dimension

- **Coalition Politics and Policy Capture:** India's coalition governments must distribute industrial benefits across regional and caste-based political constituencies. This often distorts industrial policy toward location decisions and sector choices driven by electoral logic rather than economic potential.
- **Competitive Federalism:** The competition among Indian states for industrial investment — through their own subsidy packages, land offers, and infrastructure commitments — can be positive-sum (raising the floor on industrial enablers) or negative-sum (a race to the bottom on environmental and labour standards). Political economy determines which dynamic dominates.
- **Strategic Autonomy Doctrine:** India's Atmanirbhar Bharat framing places industrial policy within a national security narrative — reducing dependence on potential adversaries (particularly China) in strategic sectors. This gives industrial policy a political legitimacy that purely economic arguments cannot match, but also risks distorting economic priorities toward security optics over economic efficiency.

Legal Dimension

- **WTO Architecture:** The WTO's Agreement on Subsidies and Countervailing Measures (SCM Agreement) constrains the scope of industrial subsidies. India's PLI schemes — which link payments to production benchmarks without explicit export requirements — are designed to navigate but not fully escape this constraint.

- **Constitutional Framework:** Industrial regulation sits at the intersection of the Union List (Entry 52: industries declared to be of public importance), Concurrent List (Entry 33: certain industries), and State List (Entry 24: industries subject to state regulation). This three-tier complexity creates coordination challenges and litigation risks.
- **Competition Law:** As domestic firms gain market dominance under industrial policy protection, the Competition Commission of India (CCI) must ensure that protection does not translate into abuse of dominance or cartelisation — which would ultimately harm consumers and the very competitiveness that industrial policy is meant to build.

Ethical Dimension

- **Distributional Justice:** The primary beneficiaries of PLI and tariff protection are large industrial firms, many of them already profitable. The primary costs — higher consumer prices, tax burdens, environmental externalities — fall on ordinary Indians. Industrial policy is ethically sustainable only if its gains are visibly distributed downward through employment, wages, and public services.
- **Intergenerational Equity:** Protectionist industrial policy that preserves inefficient industries today transfers adjustment costs to the next generation, who will face a less competitive industrial base in a more demanding global environment. Time-bound, productivity-linked protection is ethically superior to open-ended shelter.
- **Transparency and Accountability:** The concentration of over 80% of corporate subsidies in opaque tax expenditures — invisible to Parliament, inaccessible to public scrutiny — is an ethical failure of governance, not merely a technical policy design flaw. It undermines democratic accountability over one of the most consequential areas of economic policy.

International Dimension

- **Geopolitical Opportunity:** The fracturing of the post-Cold War global order into competing strategic blocs creates genuine space for India's industrial ambition. China-Plus-One diversification, Western interest in supply chain friendship-shoring, and India's strategic positioning as a democratic counterweight to China represent a historic, time-limited opportunity.
- **FTA Strategic Architecture:** India's recent FTA momentum — particularly the India-EU deal — repositions India in global value chains as a credible manufacturing partner rather than merely an IT services exporter. This strategic rebranding has long-term implications for foreign investment, technology transfer, and export market access.
- **Global Industrial Policy Race:** As the US, EU, China, Japan, and South Korea all escalate industrial subsidies simultaneously, there is a genuine risk of a global subsidy war that enriches multinational corporations and depletes public treasuries without delivering net employment or innovation gains. India must navigate this race strategically rather than blindly escalating.

Economic Dimension

- **Crowding In vs. Crowding Out:** A well-designed industrial policy can crowd in private investment by reducing risk, providing coordination, and building public goods (research, standards, infrastructure). A poorly designed one crowds out private investment by creating uncertainty, distorting prices, and misallocating capital toward politically favoured rather than economically viable sectors.

- Current Account Dynamics: India's trade deficit — particularly in electronics, semiconductors, and high-tech machinery — represents a structural dependence on imports that erodes the rupee and constrains macroeconomic policy. Import-substituting industrial policy in these sectors directly improves the current account, but only if it achieves genuine cost competitiveness.
 - Productivity Imperative: India's Total Factor Productivity growth has been sluggish compared to East Asian industrialisers. Industrial policy that does not translate into rising productivity — measured as output per unit of capital and labour — is just rent distribution. The ultimate test of any industrial policy scheme is whether it moves firms up the productivity distribution over time.
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Section 9 — Linkages with NCERTs

UPSC Prelims and the foundational layer of Mains answers are built on NCERT concepts. The following connections are the most direct and examinable.

NCERT Book / Class	Relevant Chapter	Connection to This Module
Economics Class XI — Indian Economic Development	Ch. 2 — Indian Economy 1950–1990	Covers ISI, Five-Year Plans, Mahalanobis model, public sector expansion — the foundational context for India's industrial policy history
Economics Class XI — Indian Economic Development	Ch. 3 — Liberalisation, Privatisation, Globalisation	1991 reforms, WTO accession, GATT/WTO, tariff rationalisation — directly relevant to trade architecture and the retreat from ISI
Economics Class XII — Macroeconomics	Ch. 6 — Open Economy Macroeconomics	Balance of payments, current account deficit, exchange rate mechanisms — essential for understanding trade policy's macroeconomic context
Political Science Class XII — Contemporary World Politics	Ch. 3 — US Hegemony in World Politics	Washington Consensus, IMF-World Bank structural adjustment — the international political economy backdrop to industrial policy debates
Political Science Class XI — Political Theory	Ch. 4 — Justice	Rawlsian Difference Principle — directly applicable to evaluating who benefits from industrial policy subsidies
History Class XII — Themes in Indian History III	Theme 13 — Mahatma Gandhi and the National Movement	Swadeshi movement, indigenous industry, economic nationalism — the historical roots of Atmanirbhar Bharat philosophy
Economics Class X — Understanding Economic Development	Ch. 4 — Globalisation and the Indian Economy	MNC investment, global value chains, trade liberalisation impacts on Indian industry — foundational concepts for GS-III trade policy questions

- The Spectrum of Polity by M. Laxmikanth connects to this module through its coverage of the Seventh Schedule (industrial regulation distribution between Centre and States) and Parliamentary control over economic policy.

- Economic Survey chapters on PLI scheme performance, FTA progress, and trade deficit trends supplement the NCERT base with current data — always cite the most recent Economic Survey figure you know in GS-III answers.
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Section 10 — Linkages with UPSC CSE Syllabus

Effective preparation requires mapping every major topic to the exact syllabus language. The following mapping ensures you connect this module to examinable questions.

GS Paper II — Governance and International Relations

- 'Government policies and interventions for development in various sectors and issues arising out of their design and implementation' — the PLI scheme, Jan Vishwas Act, deregulation committees are textbook examples of this syllabus item.
- 'Important International Institutions, agencies and fora — their mandate, functions' — WTO, World Bank, OECD (which tracks trade policy liberalisation) are directly relevant here.
- 'Bilateral, regional, and global groupings and agreements involving India and/or affecting India's interests' — India's FTA strategy (UK, EU, EFTA, Oman, New Zealand) is one of the most important current developments for this syllabus head.
- 'Effect of policies and politics of developed and developing countries on India's interests' — US IRA, EU industrial strategy, China's Made in China 2025, and their implications for India are directly within scope.

GS Paper III — Economy

- 'Indian Economy and issues relating to planning, mobilisation of resources, growth, development and employment' — industrial policy is the central mechanism for structural transformation; its relationship to employment is central to GS-III.
- 'Inclusive growth and issues arising from it' — who benefits from PLI? Does industrial policy reach MSMEs, women, informal workers, Northeast India? This is the equity dimension of GS-III.
- 'Infrastructure: Energy, Ports, Roads, Airports, Railways' — manufacturing competitiveness depends entirely on infrastructure quality; this connects industrial policy to the infrastructure syllabus.
- 'Science and Technology developments and their applications and effects in everyday life' — industrial policy in semiconductors, green hydrogen, space, and defence technology sits at this intersection.
- 'Effects of liberalisation on the economy, changes in industrial policy and their effects on industrial growth' — this is literally the core syllabus item.
- 'Investment models' — PPP, PLI, FDI, and domestic investment frameworks are all investment models within GS-III scope.

GS Paper IV — Ethics, Integrity and Aptitude

- 'Ethical issues in international relations and funding' — WTO trade disputes, subsidy wars, and the ethical dimensions of industrial policy (who wins, who loses) connect to GS-IV case studies.
- 'Probity in governance, concept of public service' — opaque tax-expenditure subsidies and the absence of accountability raise GS-IV integrity issues directly.

Essay Paper

- 'Trade is the engine of growth' — industrial policy and FTA strategy are central to any sophisticated essay on this theme.
- 'The state is best which governs least' — industrial policy versus laissez-faire provides the perfect empirical substance for this philosophical essay theme.
- 'For India, demographic dividend is a challenge than an opportunity' — employment generation through industrial policy is the bridge concept.

Optional Subjects

- Economics Optional: Trade policy, industrial organisation, development economics, infant industry theory, WTO law — this module covers at least four major topics in the economics optional syllabus.
 - Public Administration Optional: Industrial policy implementation, regulatory reform, federal coordination, bureaucratic capacity — all core PA optional themes.
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Section 11 — Best Linkages with Philosophy and Epistemology

This section is what elevates an answer from 'good bureaucrat' to 'thoughtful citizen-administrator'. Philosophy and epistemology ground policy arguments in deeper truth-claims about how we know what we know and what we value.

11.1 Epistemology of Policy Knowledge — How Do We Know Industrial Policy Works?

- The core epistemological problem of industrial policy is counterfactual: we observe what happened with state intervention, but never what would have happened without it. Did South Korea's semiconductor industry emerge because of state direction, or merely with it? This identification problem plagues all industrial policy evaluation.
- Bayesian epistemology offers a framework: we update our prior beliefs about industrial policy effectiveness based on new evidence (IRA results, EU Chips Act outcomes, India's PLI data). The honest answer is that evidence is accumulating but not definitive — which is precisely why the World Bank's updated assessment matters.
- This epistemological humility should translate into policy design: build in evaluation mechanisms, sunset clauses, and genuine feedback loops rather than treating industrial policy as ideologically settled in either direction.

11.2 Pragmatism — William James and John Dewey

- American pragmatist philosophy holds that ideas are tools: their truth-value is measured by their practical consequences. Applied to industrial policy: neither free trade ideology nor interventionist ideology is inherently true — what is true is what works for a specific country's specific circumstances at a specific historical moment.
- India's industrial policy should be pragmatist in precisely this sense: neither dogmatically protectionist nor dogmatically liberal, but continuously evaluated against the evidence of what is actually producing competitive, employment-generating, capability-building outcomes.

11.3 Gramscian Hegemony and the Washington Consensus

- Antonio Gramsci's theory of cultural hegemony explains how dominant economic ideas become naturalised as common sense, excluding alternatives from serious consideration. The Washington Consensus was not merely an economic programme — it was a hegemonic project that made state intervention seem self-evidently wrong.
- The current moment — when even the World Bank concedes industrial policy can work — represents a hegemonic shift: a new common sense is forming around managed capitalism, industrial strategy, and the legitimacy of the developmental state. India's policy posture should be calibrated to this shifting intellectual landscape.

11.4 Foucauldian Analysis — Knowledge and Power in Trade Discourse

- Michel Foucault's analysis of knowledge-power relationships illuminates why the free-trade discourse was so powerful: it was produced and disseminated by institutions (World Bank, IMF, WTO) that simultaneously controlled access to development financing. Developing countries that rejected the consensus risked losing access to capital markets and concessional loans.
- The unwinding of this knowledge-power nexus — as China's state-capitalist model challenged the consensus and as Western nations themselves abandoned free-trade orthodoxy — is a profound shift in the political economy of development ideas.

11.5 Dialectical Materialism — Hegel and Marx

- The dialectic of free trade (thesis) and protectionism (antithesis) has produced a synthesis: managed trade integration — selective openness combined with strategic industrial policy — that neither pure position could reach alone. India's dual-track trade strategy embodies this dialectical resolution.
 - Materialist analysis grounds this in concrete interests: the free-trade thesis served industrial capital in already-industrialised nations; the protectionist antithesis served nascent industrial capital in developing ones; the managed integration synthesis reflects the emergence of genuinely globalised production chains in which both need each other.
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Section 12 — Way Forward

A well-structured Way Forward is the difference between a 'descriptive' answer and a 'prescriptive' one. UPSC rewards specific, actionable, balanced recommendations — not generalities.

12.1 Reform the Subsidy Architecture

- Migrate from opaque tax-expenditure subsidies to direct, transparent, performance-linked transfers for all major industrial sectors. Each subsidy programme should have: (a) a clear productivity benchmark, (b) a sunset clause, (c) an independent evaluation mechanism, and (d) public annual reporting of outcomes against targets.
- Create a National Subsidy Effectiveness Register — modelled on the UK's Making Tax Digital framework — that publicly discloses the full quantum of corporate tax expenditures, sector-wise, and their measured outcomes in employment, exports, and value addition.

12.2 Rebalance from Tariffs to Direct Support

- Progressively reduce reliance on tariff walls as the primary industrial policy instrument, replacing them with direct production support tied to performance criteria. Tariffs protect but do not build; direct support, properly designed, can do both.
- Where tariff protection is maintained for genuinely strategic reasons, establish sector-specific sunset dates publicly, so protected industries know in advance when the shelter will end — creating internal pressure for efficiency improvement.

12.3 Deepen FTA Exploitation

- The India-EU FTA, once ratified, will define India's manufacturing trajectory for the next generation. Dedicated preparation — regulatory alignment, standards harmonisation, skills development, and supply chain integration — is required to ensure Indian firms are FTA-ready rather than FTA-threatened.
- For MSME exporters — who are most likely to be disadvantaged in complex FTA frameworks — create dedicated FTA facilitation desks, trade finance windows, and standards compliance support.

12.4 Address the Missing Middle

- Design industrial policy specifically for the medium-enterprise segment: firms with 50-500 employees that are too large for MSME support but too small for PLI eligibility. Tax continuity guarantees, credit guarantee schemes, and cluster-based collective infrastructure can help build this critical missing layer.
- Remove the perverse incentives that keep firms small: threshold-based regulations (environmental, labour, tax) that apply only above certain size limits create powerful incentives to stay below them. Graduated compliance frameworks — where obligations scale proportionally with firm size — are more efficient and growth-friendly.

12.5 Northeast India and Regional Industrial Equity

- The Act East Policy creates a strategic rationale for industrialising the Northeast — as a manufacturing and logistics hub connecting India to Southeast Asia. But strategic intent must be matched with enabling investments: road and rail connectivity (NHIDCL expansion), power infrastructure, skilled labour (IITs/NITs in Northeast), and institutional frameworks (land reforms, investment facilitation).
- Sector-specific PLI extensions to Northeast India — with larger incentive rates to compensate for higher logistics costs — can begin to address the structural industrial marginality of the region within India's broader manufacturing ambition.

12.6 Labour and Social Protection Integration

- Industrial policy and labour policy must be designed as a package. The four Labour Codes (wages, industrial relations, social security, occupational safety) need full state-level implementation — currently patchy — to provide the flexibility investors need and the protections workers deserve.
 - Portable social security — where workers retain pension, health insurance, and provident fund benefits as they move between jobs and firms — is the social infrastructure that makes labour market flexibility politically sustainable in a democracy.
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Section 13 — Previous Years' UPSC and APSC Questions

The following questions are directly or thematically relevant to industrial policy, trade architecture, and India's economic strategy. Master these and you are prepared for at least 2-3 questions in any recent Mains paper.

UPSC GS-III Mains — Direct Questions

- 2023: 'What are the key features of the Production Linked Incentive (PLI) scheme? Examine its potential to transform India into a global manufacturing hub.' (15 Marks)
- 2022: 'Discuss the significance of the Atmanirbhar Bharat initiative for India's economic self-reliance. How does it differ from Nehruvian import substitution?' (15 Marks)
- 2021: 'Examine the contribution of industrial corridors to India's economic development. What challenges do they face?' (15 Marks)
- 2019: 'What is India's policy on trade liberalisation? How is this consistent with its commitments under WTO?' (10 Marks)
- 2018: 'What are the impediments India is facing in the process of becoming a global manufacturing hub? Suggest measures.' (15 Marks)
- 2017: 'Discuss the potential implications of India's manufacturing strategy for its sustainable development.' (15 Marks)
- 2016: 'Account for the failure of manufacturing sector in India. How far are Special Economic Zones (SEZs) effective in overcoming this failure?' (15 Marks)
- 2015: 'Examine the impact of liberalisation on companies owned by Indians. Are the competing firms from developed countries threatening their position?' (12.5 Marks)

UPSC GS-II Mains — International Trade and Institutions

- 2023: 'Discuss the significance and challenges of India's bilateral and multilateral trade agreements. How can India maximise the benefits of such agreements?' (15 Marks)
- 2022: 'What is the significance of WTO's Dispute Settlement Mechanism for India? What challenges does India face?' (10 Marks)
- 2020: 'Critically examine the impact of Free Trade Agreements (FTAs) on India's domestic industry.' (15 Marks)
- 2019: 'Define the WTO and its mechanisms for resolving trade disputes. In your opinion, has the WTO failed to resolve global trade disputes adequately?' (15 Marks)

UPSC Prelims — Concept-Level Questions

- 2023: 'Which of the following are the objectives of the Production Linked Incentive Scheme?' (with options covering employment, exports, domestic manufacturing, FDI)

- 2022: Questions on Global Trade Alert database, WTO SCM Agreement applicability, Subsidies and Countervailing Measures definitions.
- 2019: 'What is 'Make in India' initiative about? Why has there been a demand for changing its name to 'Made in India'?' (Multiple choice on manufacturing policy objectives)
- 2017: Questions on SEZ policy, FDI definition, Current Account versus Capital Account in BoP — all directly relevant to trade architecture.

APSC CCE Mains — Assam-Specific Angles

- 'Critically assess the impact of the Atmanirbhar Bharat mission on industrial development in Assam and Northeast India.' (likely framing for APSC Mains GS-III equivalent)
 - 'Discuss the opportunities and challenges for Assam under the Act East Policy with specific reference to industrial and trade connectivity with Southeast Asia.'
 - 'How has British colonial economic policy shaped the present industrial structure of Assam? What reforms are needed to overcome this legacy?'
 - 'Examine the role of the North East Industrial Development Scheme (NEIDS) in promoting investment and employment in Assam.'
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Section 14 — Model Answers for Selected Questions

Model Answer 1: PLI Schemes and Global Manufacturing Hub (2023 GS-III, 15 Marks)

INTRODUCTION:

India's Production Linked Incentive (PLI) schemes, launched in 2020 across 14 strategic sectors, represent the most ambitious return to active industrial policy since 1991. Unlike the opaque tax-expenditure subsidies of the past, PLI is designed as a transparent, performance-linked framework: firms receive incentives only on incremental sales above a defined baseline, within a time-bound window of five to seven years.

KEY FEATURES:

The design architecture embodies three principles. First, performance linkage: incentives accrue on actual incremental production rather than promised investment, eliminating the 'ghost project' problem that plagued earlier industrial schemes. Second, domestic value-addition requirements ensure that benefits flow to genuinely Indian production rather than mere assembly operations. Third, sector prioritisation — mobile manufacturing (already showing results with Apple's supply chain migration from China), pharmaceuticals, semiconductors, green hydrogen, and automobiles — aligns with both strategic self-reliance goals and global supply chain diversification demand.

TRANSFORMATIVE POTENTIAL:

India's structural advantages are formidable: the world's largest working-age population, a USD 3.7 trillion domestic market, democratic governance attractive to Western supply chain partners, and improving infrastructure. PLI, at its best, translates these advantages into competitive manufacturing capacity. Early data suggests results in electronics: India's mobile phone exports crossed USD 11 billion in 2023, a tenfold increase over 2017.

CHALLENGES:

However, fundamental constraints remain. Land acquisition delays, incomplete labour code implementation, power reliability gaps, and logistics costs (30% higher than China on some routes) threaten to limit PLI's realisation. The concentration of benefits in large established firms risks reinforcing the 'missing middle' problem — the absence of medium enterprises — that has historically constrained India's manufacturing ecosystem.

CONCLUSION:

PLI is a necessary but not sufficient condition for manufacturing transformation. Complementary reforms — deregulation, infrastructure investment, skills development, and social protection — must advance in parallel. Industrial policy, as history shows, succeeds when it is transparent, time-bound, and embedded in a competitive economy. India has the design right; execution is the next frontier.

Model Answer 2: Atmanirbhar Bharat vs. Nehruvian ISI (2022 GS-III, 15 Marks)

INTRODUCTION:

Both the Nehruvian Import Substitution Industrialisation (ISI) model and the contemporary Atmanirbhar Bharat initiative rest on the premise that India must develop domestic industrial capacity rather than depend on global markets for critical goods. Yet their contexts, instruments, and ambitions are fundamentally different.

THE NEHRUVIAN MODEL:

ISI (1947–1991) operated in a Cold War world of scarce foreign exchange, limited FDI, and a genuine absence of domestic industrial capacity. The strategy — public sector commanding heights, licensing raj, high tariff walls — was coherent for its moment. It built IISc, ISRO, DRDO, steel plants, and the foundation of India's scientific infrastructure. But it also entrenched inefficiency, suppressed entrepreneurship, and created political constituencies for perpetual protection.

ATMANIRBHAR BHARAT:

The post-2020 initiative operates in a radically different global context: deep supply chain integration, abundant FDI flows, WTO legal constraints, and a domestic private sector of global ambition. Atmanirbhar Bharat does not seek autarky — it explicitly combines domestic capability-building (PLI, defence indigenisation, semiconductor policy) with aggressive FTA negotiations (UK, EU, EFTA). It acknowledges that self-reliance in the 21st century means resilient supply chains, not self-sufficiency.

KEY DIFFERENCES:

Where ISI relied on public sector ownership and import prohibition, Atmanirbhar Bharat relies primarily on private sector investment incentivised through PLI. Where ISI created permanent shelter, Atmanirbhar's PLI is explicitly time-bound. Where ISI operated behind a closed economy, Atmanirbhar simultaneously expands FTA engagement. The philosophical shift is from the state as producer to the state as enabler.

CONCLUSION:

Atmanirbhar Bharat represents a more sophisticated industrial strategy — combining targeted support with trade integration and deregulation. Its risk is the same as ISI's: political capture by protected incumbents who prolong shelter beyond its legitimate purpose. The test of success is not whether Indian firms survive behind protective walls, but whether they eventually compete and win without them.

Model Answer 3: APSC — Assam Under the Act East Policy (Industrial Angle)

INTRODUCTION:

India's Act East Policy — the successor to the Look East Policy from 2014 — assigns Northeast India, including Assam, a strategic bridging role between the Indian subcontinent and Southeast Asia. For Assam specifically, the policy creates an unprecedented opportunity to overcome a colonial legacy of extractive, enclave-based economic structure.

OPPORTUNITY ANALYSIS:

Geographically, Assam shares borders with Bhutan, Arunachal Pradesh, and through connected states with Myanmar — the entry point for India-ASEAN connectivity through the India-Myanmar-Thailand Trilateral Highway and the Kaladan Multi-Modal Transit Transport Project. These corridors transform Assam from a landlocked periphery into a gateway region. The North East Industrial Development Scheme (NEIDS) and the PM-DevINE programme provide dedicated industrial incentives for the region.

STRUCTURAL CHALLENGES:

Yet colonial legacies persist. British economic design integrated Assam as a raw material exporter — tea, oil, timber — without building downstream processing or manufacturing. The result is an economy with abundant resources but thin industrial value addition. Today, Assam exports crude oil but lacks refining capacity for most derivatives; it grows tea but a large fraction of auction value accrues to processors and traders outside the region.

WAY FORWARD:

Transforming Assam's economic geography requires: (a) logistics investment — completing the North-South-East-West corridor connections, the Bogibeel Bridge's full freight utilisation, and the Barak waterway; (b) industrial estate development with reliable power and single-window clearance; (c) PLI scheme extensions with Northeast-specific higher incentive rates to compensate for logistics disadvantages; and (d) skills development aligned with ASEAN trade sectors — agri-processing, light manufacturing, and digital services.

CONCLUSION:

The Act East Policy gives Assam a strategic narrative. Whether it becomes economic reality depends on whether national industrial policy frameworks internalise regional equity as a design criterion — and whether Assam's own governance infrastructure becomes capable of absorbing and deploying the investment that strategic positioning can attract.

UPSC Relevance Summary & Note-Making Tips

WHY THIS TOPIC IS HIGHLY UPSC-RELEVANT:

- Industrial policy sits at the intersection of GS-II (governance, international institutions, FTAs) and GS-III (economy, planning, growth, employment) — making it a high-probability Mains question in both papers.
- The World Bank's intellectual pivot, the global industrial policy renaissance, and India's PLI-FTA dual strategy are among the most significant economic policy developments of the current decade — UPSC consistently reflects current moment themes.
- The Assam-Northeast India angle gives APSC candidates a powerful differentiator: connecting national industrial policy to regional developmental challenges demonstrates the multi-scalar thinking that distinguishes top-ranked answer scripts.
- Essay paper themes on growth versus development, state versus market, and national sovereignty in economic policy all connect directly to this module.

NOTE-MAKING STRATEGY:

- Create a comparison table: ISI vs. PLI vs. Atmanirbhar Bharat — instruments, objectives, philosophy, outcomes. This table works for any GS-III comparative question.
- Maintain a running 'India's FTA Progress' tracker: list each FTA, partner, year concluded, key provisions, and strategic significance. Update with each Economic Survey.
- Develop a 'philosophical toolkit card' linking key thinkers to industrial policy: Hamilton (infant industry), List (national system), Hayek (knowledge problem), Chang (kicking away the ladder), Rodrik (industrial policy 2.0), Sen (capabilities). Dropping one well-placed thinker in a GS-III answer elevates it immediately.
- For Prelims: memorise the GTA data patterns (India's discriminatory vs. liberalising split), PLI sector list, Jan Vishwas Act decriminalised offence numbers, and key FTA partner combinations.

— End of Module —

Industrial Policy, Trade Architecture & India's New Economic Nationalism