



## Cluster Approach to Inclusive Growth and Economic Development in India: An Over View

B. Sandeep , Manager, Punjab National Bank, Bangalore , Karnataka

**Abstract:** In a democratic country India, majority of population living in rural India and to bringing them into the mainstream is main concern. The challenge for Indian government is to take the levels of growth to all section of the society and to all parts of the country. The best way to realise inclusive growth is through developing people's talents. It is said by government authorities that a multidimensional approach towards education and skills development is essential to achieve growth. The challenge of skills shortage can be addressed through public private partnership. Since independence, noteworthy improvement in India's economic and social development made the nation to grow strongly in the 21st century.

**Key words:** skills shortage, partnership, rural India

### Introduction

India achieved a commendable economic growth (6.5% - 7.0 %) in the recent past through its meticulous planned initiatives towards creation of sustainable returns from the investments in both public and private sector undertakings. Today it has proved to be the third largest growing economy in the world albeit a large number of people without sustainable livelihoods have developed dependency syndrome over a period of time. The people from low income category virtually cannot invest on basic amenities and thereby, they continue to depend on government or private investment in creation of basic amenities/infrastructure. The false promises of politicians in the their election manifesto such as providing free things have developed a dependency syndrome among certain people and gradually such people expect government to take care of their needs. This paper seeks to highlight the importance of cluster approach to inclusive growth and economic development in general, and it

further provides deeper insights in to the ground realities through case studies captured in Uttar Pradesh and Assam. Finally , it reflects on the need for enhancement of sustainable livelihood opportunities in the local areas through cluster approach for gradual socio-economic transformation and enabling environment for self-reliance.

### Inclusive Growth and Inclusive Development:

Inclusive growth is a concept that advances equitable opportunities for economic participants during economic growth with benefits incurred by every section of society.

Inclusive development consists of ensuring that all marginalized and excluded groups are stakeholders in development processes. There is no agreed and common definition of inclusive growth or inclusive development, the term is understood to refer to 'growth coupled with equal opportunities', and consisting of economic, social and institutional



dimensions. Among the major recommendations of the ADB literature are that efforts to achieve inclusive growth and inclusive development should involve a combination of mutually reinforcing measures including: (1) promoting efficient and sustainable economic growth, (2) ensuring a level political playing field and (3) strengthening capacities and providing for social safety nets.

### **Inclusive Growth:**

Over the past two decades, India's contribution to global economic growth has doubled to almost 15 percent. Further, income poverty levels have declined, resulting in 133 million people being lifted out of poverty in the past 20 years.

However, nearly 300 million people still live in extreme poverty. UNDP supports government efforts to reduce poverty and achieve sustainable development that leads to transformational change, bringing about real improvements in people's lives and leaving no one behind.

Our programmes aim to secure livelihoods through skills trainings, support protective legislations and access to entitlements, provide policy research and evidence, build capacity and promote South-South cooperation to eradicate poverty, and ensure government's anti-poverty policies are more inclusive.

**India's economy** continues to grow at an impressive rate, with projected annual GDP growth of 7.5% in 2017-18. India will thus remain the fastest-growing G20 economy. Unprecedented growth in exports in services since the 1990s has made India a global leader in this sector. Inflows of foreign direct investment

(FDI) grew at three times the annual world average rate in the last decade, reflecting the success of efforts to attract international investment and gradually loosen restrictions to foreign investment. India's economic successes are being translated into increased well-being for its population. As GDP per capita has more than doubled in ten years, extreme poverty has declined substantially. Access to education has steadily improved, and life expectancy has risen. Multiple opportunities present themselves for India, and the right mix of policies is needed to take advantage of them. India has made advances in integrating in global value chains and developing a competitive advantage in fields such as information and communication technology. Now is the time to secure continued progress by boosting competition and further lowering barriers to trade and investment. Looking to the future, it will be vital to fully tap into the potential offered by India's young population. This means investing in the large numbers of young people entering the labour market. Likewise, the rapid pace of development must be matched with the upgrades to infrastructure necessary to support it.

### **Inclusive growth and issues arising from it:**

Inclusive growth entails comprehensive growth, shared growth, and pro-poor growth. It lessens the fast growth rate of poverty in a country and upsurges the participation of people into the development of the country. Inclusive growth infers an impartial allocation of resources with benefits incurred to every section of the society. But the allocation of resources must be focused on the intended short and long term benefits of the society such as availability of



consumer goods, people access, employment, standard of living etc. Rapid and sustained poverty reduction requires inclusive growth that permits people to contribute to and benefit from economic growth. Rapid growth is necessary to reduce poverty but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country's labour force. This explanation of inclusive growth implies a direct link between the macro and micro determinants of growth. The micro dimension denotes the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms. Inclusive growth is defined by many academicians as the pace and pattern of growth, which are considered interlinked, and therefore in need to be addressed together.

**UNDP has described inclusive growth as “the process and the outcome where all groups of people have participated in growth and have benefited equitably from it”. This inferred that inclusive growth should include all sections as recipients as well as partners in growth and that inclusion of the excluded should be embodied in the growth process. According to Basely et al (2007), inclusive growth is the “growth that has a high elasticity of poverty reduction”, i.e. It should have a higher reduction in poverty per unit of growth.**

#### **Reason for India to embrace Inclusive Growth:**

The recognition of the significance of inclusive growth in developing Asia have been generated by a rising concern that the benefits of remarkable economic growth have not been equitably shared (Ali 2007). Developing India experienced

rapid economic growth during the last two decades. Asia's rapid growth has led to dramatic reduction in the level of extreme poverty. Using the \$1-a-day poverty line established by the World Bank in 1990, the incidence of extreme income poverty declined from 43.5% to 35.00% between 1990 and 2005, with each percentage point of growth related with an almost 2-percentage point decline in poverty incidence on average (ADB 2004c). Most Asian countries accomplished the income poverty target of the Millennium Development Goals (MDGs) by 2005 for except those in South Asia.

#### **Need for Inclusive Growth in India:**

Many intellectuals and government executives accentuated that inclusive growth is required for sustainable development and impartial distribution of wealth. For India, it is a tough task to accomplish inclusive growth. In a democratic country India, majority of population living in rural India and to bringing them into the mainstream is main concern. The challenge for Indian government is to take the levels of growth to all section of the society and to all parts of the country. The best way to realise inclusive growth is through developing people's talents. It is said by government authorities that a multidimensional approach towards education and skills development is essential to achieve growth. The challenge of skills shortage can be addressed through public private partnership. Since independence, noteworthy improvement in India's economic and social development made the nation to grow strongly in the 21st century. The following factors enable the India to focus on inclusive growth.



- i. India is the 7th major country by area and 2nd by population. It is the 12th largest economy at market exchange rate. Yet, development is not visible in India and it's the neighbourhood nation, i.e., China is progressing at speedy rate.
- ii. The exclusion in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and socialine qualities, and regional disparities etc. are the problems for the nation.
- iii. Decreasing of poverty and other disparities and raising of economic growth are major objectives of the nation through inclusive growth.
- iv. Political leadership in the country plays a vital role in the overall development of the country. But, the study has found that politicians in India have a very low level of scientific literacy.
- v. Studies assessed that the cost of corruption in India amounts to over 10% of GDP. Corruption is one of the ills that prevent inclusive growth.
- vi. Though child labour has been banned by the law in India and there are stringent provisions to deter this inhuman practice. Still, many children in India are unaware of education as their lives are spoiled to labour work.
- vii. Literacy levels have to rise to provide the skilled workforce required for higher growth.
- viii. Economic improvements in the country are overwhelmed by out dated philosophies and allegations by the politicians and opposition parties in India.
- ix. Achievement of 9% of GDP growth for country as a whole is one of the boosting factor which gives the importance to the Inclusive growth in India.
- x. Inclusiveness benchmarked against achievement of monitor-able targets related to
- Income & Poverty
  - Education
  - Health
  - Women & children,
  - Infrastructure
  - Environment
- xi. At global scale, there is a concern about dissimilarities and exclusion and now they are also taking about inclusive approach for development.

**Elements of Inclusive Growth:**

Major components of the inclusive growth strategy included a sharp upsurge in investment in rural areas, rural infrastructure and agriculture spurt in credit for farmers, increase in rural employment through a unique social safety net and a sharp increase in public spending on education and healthcare.

There are several interrelated elements of inclusive growth:

- Poverty Reduction
- Employment generation and Increase in quantity & quality of employment.
- Agriculture Development
- Industrial Development
- Social Sector Development
- Reduction in regional disparities



- Protecting the environment.
- Equal distribution of income

**Major elements of Inclusive Growth:**

- Agriculture Development
- Industrial Development
- Environment
- Protection
- Poverty Reduction
- Employment
- Generation
- Reduction in
- Regional Disparities
- Equal distribution of income
- Social Sector Development

**Challenges of Inclusive Growth in India:**

India is expanding business at global scale. The economy growing at a remarkable rate, combined with a booming democracy is making people sit up and take notice across the world. Still, India is far from reaching its true potential. The country remains shackled in dishonesty, red tape, traditional social hurdles and a bewildering lack of transparency. It is witnessed that growth is not uniform across sectors and large cross-sections of the population remain outside its purview. Numerous social, political and economic factors need to be tackled for sustaining a high rate of growth, as well as to make this growth inclusive. Indian society has to seriously introspect major issues such as eradication of child labour, women empowerment, removal of caste barriers and an improvement in work culture. Tackling corruption in high places, removing the ills of the electoral system,

snubbing politics of agitations and keeping national interest above petty politics may not be too much to ask to the country's policy makers. In order to accomplish major objectives for progression Indian government must focus on rapid growth in the rural economy, well planned and targeted urban growth, infrastructure development, reforms in education, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, making all sections of society equal stakeholders in growth, and above all good governance.

The social limits of Indian democratic politics: In top business person around the globe, many Indian entrepreneurs are listed but the sarcasm still remains that there is a marginal farmer in many states of India who is struggling to feed his five children, the youngest of whom is a son, uneducated and unemployed, and the farmer cannot afford her daughter's marriage. There are jobs escalating in the IT sector in big cities like Bangalore and Hyderabad, disposable income for the 'Call Centre' crowd, that is spurring on the foray of several luxury goods never before seen in the nation, is becoming all the more accessible but the poor are still poor even though the rich have become super rich and the previously not so rich.

**Inclusive growth has many positive aspects:**

- Lower incidence of poverty.
- Broad-based and significant improvement in health outcomes.
- Universal access for children to school.
- Increased access to higher education and improved standards of education, including skill development.



- Better opportunities for both wage employment and livelihood.
- Improvement in provision of basic amenities like water, electricity, roads, sanitation and housing.

For good inclusive growth there is a need of the SC/ST and OBC population. Women and children constitute 70% of the population and deserve special attention in terms of the reach of relevant schemes in many sectors. Physically challenged / minorities and other excluded groups also need special programmes to bring them into the mainstream. Accomplishment of inclusiveness in all these dimensions requires multiple interventions, and success depends not only on introducing new policies and government programmes, but also on institutional and attitudinal changes. System is continually changing. It is encouraging to observe that planners become conscious of the need for inclusive development. The approach paper on the eleventh five year plan is titled "Towards faster and more inclusive growth". It reveals the need to make growth more inclusive in terms of benefits flowing through more employment and income to those sections of society which have been left out of the economic growth witnessed in recent years. In previous years, there was an attempt on the part of the Planning Commission to seek some inclusiveness, when in the mid-term appraisal of the 10th five year plan (2002-2007), it devoted nearly 100 pages to 'human development'. It also contained an appendix on the Millennium Development Goals (MDGs) adopted by all U.N. member states, including India, at the Millennium Summit in 2000. The Eleventh Plan gave a special push to several programmes aimed at building

rural and urban infrastructure and providing basic services with the objective of increasing inclusiveness and reducing poverty. Some of these programmes were new, while others augmented existing initiatives.

#### **Major causes for less inclusive growth:**

There are several reasons for disrupting inclusive growth. Firstly, growth has been jobless, and the employment growth has declined for the same level of economic growth. Despite of remarkable growth which has made India the world's fourth biggest economy, "employment in different sectors has not been rising. This jobless growth in recent years has been accompanied by growth in casualization".

Secondly, growth has been uneven across sectors and locations. For instance, agriculture has been lagging behind and in countries such as India and China, some regions have advanced faster than others. Policies are also relatively ignored the agriculture sector.

Third is the rapid rate of globalisation. Due to trade competitiveness, foreign direct investment and new technologies has demanded skilled labour. In some cases, labour laws also often discriminate against formal employment and encourage 'casualization' of labour.

In India, there is need to create large-scale job otherwise growth becomes, lower down. Millions of people are looking for structured work and unable to find it. The problem becomes more persistent when one factors in India's prospective demographic "bulge" in the coming decades, as ever-increasing numbers of young people join the workforce every year before fertility rates fall and the population stabilizes around 2040 at about 1.5 billion. Economists



project is as a "demographic dividend" could turn out to be a period of crisis marked by sheer unemployment and rising social turbulence.

In Indian land, 60% of population is directly or indirectly dependent on agriculture. But growth rate of agriculture is miserable, just 2%. Policy makers and government officials need to work on agriculture productivity, in order to be more inclusive. Lack of access to credit for agriculture and small and medium enterprises and lack of social protection have all contributed to the exclusion of deprived groups from the growth scenario.

A major weakness in the Indian economy is that the growth is not perceived as being adequately inclusive for many groups, especially Scheduled Castes (SCs), Scheduled Tribes (STs), and weaker section. Gender inequality is also a major problem and some of the structural changes taking place have an adverse effect on women. Growth will not be inclusive if some groups are discriminated against, overtly or covertly. Empirical evidence across the world designates that group discrimination is largely on the basis of caste, ethnicity, gender and religion. These groups cannot be ignored for good inclusive growth of country.

This huge task cannot be done by government alone. Industry and civil society must partner with government to drive inclusive growth. Issues like income disparities and growing aspirations of the people must be collectively resolved by the government and society.

#### **Need for Cluster Approach to Economic Development:**

#### **What are Clusters?**

Clusters are defined broadly as geographic concentrations of interrelated, competitive firms and related institutions that are of sufficient scale to generate external economies that are not found in regions lacking such concentrations. External economies are the tangible (e.g., reduced costs) and intangible (e.g., faster innovation) benefits generated either by the high relative concentration of a particular kind of economic activity in a region, or through firms' deliberate decisions to work together to pursue advantages that they cannot achieve on their own (e.g., economies of scale, acquisition of common resources).

Cluster concept suggest that connection and association of firms are linked vertically and horizontally through their commonalities and complementariness in products, services, inputs, technologies, transportation warehouse and communication (Porter, 1998)

Rural Artisan Cluster is "a geographically concentrated household units producing handicrafts/handloom products often belong to a traditional community producing the long-established products for generations and the skill of centuries old"

#### **Types of Clusters:**

There are three fundamental reasons that economic development practitioners pay attention to clusters: clusters generate wealth in a region, clusters give a region a competitive advantage, and clusters can provide the basis for cost-effective economic development strategies. In general, clusters may fall into any of the following categories:

- Emerging (low scale; high growth)
- Competitive (high scale; growing)



- Mature (high scale; stable or declining)
- Stabilizing (diversifying)
- Strategic (based on the plans and/or needs of public sector actors rather than on current business performance)
- Potential (pinned on hopes and dreams).

#### **Need for Cluster Approach to Small and Medium Enterprises:**

- Population dependency and engagement in agriculture sector has been decreasing for the last two decades
- Contribution of agriculture to GDP has come down to only 18%
- Per capita availability of cultivable land has been declining
- In drought and desert-prone areas people depend on employment in non-farm sector. In N.E region agriculture is underdeveloped and subsistence in nature and people are compelled to take up some activities based on their natural resources and traditional skills
- SME contributes 40% of industrial production
- SME contributes 35% of manufacturing exports
- SME provides employment to about 24 million people in 13 million units

#### **Policy Initiatives:**

Government of India over a period of time launched plethora of schemes/projects such as product-specific industrial parks for textiles and food processing units, information technology hubs, industrial estates, special economic zones to create more employment opportunities for educated unemployed

youth and rural poor, but their impact has not been to the desired extent due to misappropriation of resources, lack of effective managerial capabilities, low level of competence and commitment at different levels of functionaries. In order to overcome some of the problems/limitations, the Government of India with the support of United Nations Industrial Development Organization (UNIDO) adopted the Cluster Development Scheme in 1997 as a pilot project for the development of rural household industries.

#### **Expected Advantages of Cluster:**

- Provides opportunities to its members for work and grow in their host place
- It attracts new customers and public investment by providing high quality products and services
- Provides an opportunity for innovation, skill up-gradation, entering in to new local and regional markets
- It provides an identity to the firms in the cluster
- It strengthens the bargaining power of firms with the suppliers and buyers
- It helps the growth of regions economics through maximum utilization of local resources-- human, forest and natural resources
- It helps in pro-poor growth in different parts of India in general and N.E region in particular
- Sustainable community and rural development possible only through small and micro enterprises

#### **Success Stories:**

Study on Rural Cluster Development in Uttar Pradesh by Society for Economic





and Social Transition (SEST) at the instance of Planning Commission (2006)

1. Unnao District:  
2,425 units under KVIC in leather, handicrafts, engines and chemical industries provided employment for 700 persons
2. Barabanki District:  
4,462 SSIs and 176 KVIC units provided employment for 6,000 persons in handicrafts, fabrication, tractor trolleys and wooden furniture
3. Hardoi District:  
75 SSIs and 50 KVIC units in carpets, zari, chikan work, shoes and fabrication work provided employment for 760 persons
4. Gorakpur District:  
466 SSIs provided employment for 1662 persons and 126 KVIC units provided employment for 925 persons in hand loom, handicrafts, light engineering goods, paints, shoes and furniture

**Success Story of Cane and Bamboo Cluster in Assam documented by Rinku Das and Ashim Kumar Das (2011)**

Cluster Area : Barpeta District 90 K.M from Guwahati

Villages Covered: Five villages - Raipur, Bhaluki, Dhupguri, Joshihatigaon and Joshihatichar

Facilitator and Promoter:

Anchalik Gram Unnayan Parishad (AGUP) under Scheme of Fund for Regeneration of Traditional Industries (SFURTI) an innovative cluster development programme introduced by Ministry of MSME, Govt. of India which was entrusted to KVIC for implementation as a nodal agency.

Technical Guidance Quality Control: IIT Guwahati, Assam

Impact of Interventions by AGUP:

- Provided new design
- Provided access to markets and strengthening supply chain
- Set up Common Facility Centre (CFC)
- Provided direct links with the foreign buyers
- helped to participate in different exhibitions, trade fairs etc;
- 650 artisans directly engaged as full time workers in cane and bamboo based industry
- their income has increase to Rs. 4,500/- PM from the earlier income of Rs. 700/- PM
- CFC introduced new advanced machines for the benefit of the entire cluster
- Production increase with international standards in design and look
- Supplied tool kits to 100 artisans in addition to the existing members
- Organized awareness and capacity building training programmes on cluster approach
- Provided social security by covering the artisans under insurance scheme

**Conclusion:**

The cluster approach to inclusive growth has proved to be a successful development model though implemented on pilot basis; such models can be replicated in other clusters keeping in view the resource potential and availability of local skills/artisans. The success of this model depends to a greater extent upon the political commitment and promotion of global networking for marketing of inputs and outputs at competitive prices. The local initiatives



towards promotion of value addition technologies for improvement of the quality of the traditional artisan products and periodic skill up-gradation would become necessary for ensuring sustainable livelihoods and achieving UN Sustainable Development Goals (2015)

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