

Making India a Manufacturing Hub: RSTV- Big Picture

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Guests:

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What's in the news?

- Prime Minister Modi in a virtual interaction with ministers has called for suggestions to help put Indian economy on a growth trajectory. The discussion was mainly about the China situation and the manufacturing challenges faced by India.
- The PM discussed ideas that could transform India into a global manufacturing hub.
- The Prime Minister has laid emphasis on the mantra “**vocal for local**” during his address to the nation. He further stated that the brands which are global today were once local.

China's journey as a global manufacturing hub:

- In the 1980s, China began as a producer of low-end products and in 2010, it became the largest manufacturer in the world, surpassing the US in all the sectors ranging from drugs to electronics.
- In 2018, as per UN data, China accounted for 28% of the global manufacturing output.

What is the status of Indian manufacturing industry today?

- In the last few years small manufacturers have metamorphosed to become traders.
- Due to tough labour laws, expensive credit, expensive or inadequate power availability, they find it more profitable to import from China or other countries and market these goods domestically.
- Ministry of Micro, Small and Medium Enterprises (MSMEs) account for 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities. They contribute 33.4% to India's manufacturing output. The MSME sector needs a push, as the major market lies here.
- Indian manufacturers have lost space to lots of imports which are cheaper, better looking and fast rolling, the major reason being, lack of market feedback for their product, lack of modification and dearth of better technology in their products.

India's Progress:

- Assembly in electronics in the mobile sector has taken a leap.
- Steel manufacturing has witnessed a boom as India became the second largest steel producer, globally.
- India is among the top three aluminium producing nations and ranks second in global cement manufacturing.

Achievements in the Manufacturing sector:

- India has won the largest number of Deming Awards outside of Japan.
- The Indian automobile industry is the fourth largest in the world with an annual turnover of \$100 billion.
- Indian small car manufacturing sector is emerging as a major exporter.

How can India become a global manufacturing hub?

- In 2011, the Government of India has announced a **national manufacturing policy** with the objective of enhancing the share of manufacturing in GDP to 25% within a decade and creating 100 million jobs.
- However, the share of manufacturing in India's GDP continues to remain at 16- 17%. Even in 1991, this number was the same.
- Learning from success stories of other countries:
 - Vietnam, the country of 100 million people, began manufacturing only ten to twelve years ago at a low base in a variety of sectors like garments, electronics and assembly.
 - It has now had a sustained growth of 12-14%.
- Four critical steps India needs to take:
- India needs to make mega industrial clusters near its ports, which should leverage on labour-intensive manufacturing industries.
- India must aggressively work on policy matters related to – logistics, costs, moving stock by road or rail, loading-unloading time (trade facilitation).
- Manufacturing cannot be successful without boosting export potential. Indian exchange rate policy is a huge handicap because the exchange rate is somewhat overvalued. This causes disadvantage to Indian exporters and industry at large, as Industry has to reckon with cheap imports (If the exchange rate is strong then imports look cheaper than domestic goods).

- Increasing market access. In the present time, trade blocs are more popular than multilateral policies under the World Trade Organisation. India should sign an FTA (Free Trade Agreement) with the European Union that will help in the long run in promoting market access and huge opportunities. Same should be considered with the US as well.

Huge success model of Indian two wheeler segment:

- India became the largest manufacturer of two wheelers in the world due to the availability of skilled labour at low cost, robust R&D centres, and low-cost steel availability.
- India has a massive two wheeler consumer base in rural and urban regions.
- Two wheelers have a great affordability rate creating a huge market within the country.
- Leaders in that sector have been innovative in maintaining the entire supply chain right, from procuring steel to product designing.
- Automobile industry, overall, has seen lots of FDI inflows.
- Japan is one of the major investors in Indian automobile industry.
- Similarly, the small cars manufacturing sector in India successfully built a huge supply chain owing to many factors like- locational advantage, ease of doing business, as they were given large lands in Southern India, near the ports. Example: Hyundai and Maruti.

Challenges for MSMEs:

- Apart from fundamental challenges related to land, labour and capital there are legal challenges and regulatory roadblocks in expanding business for most MSMEs-
 - Many archaic labour, taxation and registration laws that Federation of Indian Chambers of Commerce & Industry FICCI has often complained about still persist.
 - Average Indian company has to go through several government compliances within a financial year as compared to its compatriots operating from Vietnam or Thailand.
- Lack of ease of doing business: Small players usually do not have the required documents or the money needed for hiring expert legal services for complicated registration and taxation purposes.
- Most garment manufacturers shifted operations to Bangladesh.
- Very few companies actually moved out of China despite the COVID-19 scenario. Those which did preferred to relocate to Vietnam.

- This is due to the relaxed nature of regulations and understandable laws existing in these countries as compared to India.
- Credit crunch: Access to finance continues to remain the biggest challenge for MSMEs as the loans sanctioned by the Government are not disbursed properly. Banks and Non-Banking Finance Companies (NBFCs) have been reluctant to lend collateral free loans to MSMEs with the fear of no repayment.
- There exists a lack of access to new technologies for modernizing the manufacturing process.
- Absence of ecosystem for scaling operations.
- Difficulty in procurement of raw material due to poor infrastructure in the country.

How to ensure competitiveness of Indian products against foreign goods?

- Better Research & Development (R&D) –
- A sound R&D is not only the responsibility of the Government and public sector units but also the private sector companies .
- India's R&D expenditure in industry is only 0.7% of the GDP. This needs to increase manifold.
- This is way below countries such as the US (2.8 per cent), China (2.1 per cent) and Israel (4.3 per cent) .
- Research at educational level has to be encouraged. More academia and industry partnership is required in various industrial projects.
- To promote exports, a three way partnership is needed-
- Diplomatic missions abroad must reach out to investors in foreign countries who are interested in setting up R&D in India.
- The Ministry of Commerce & Industry along with inter-ministerial groups should take the lead towards promoting R&D.
- Industry chambers like FICCI and CII, should connect small -medium enterprises and companies to this initiative.
- Prime Minister's economic advisory council has announced the setting up of 3500 export oriented R&D hubs across the country.

Do we need major labour reforms to become a manufacturing hub?

- Restrictive labour regulations have prevented companies in India from reaping the full benefits in output, productivity and employment.
- Potential Solutions:

- Fixed employment policy is a helpful move. It gives flexibility to industries to hire workers for assignments that are based on duration of the project. It also provides flexibility to terminate such workers post the completion of such assignments. It gives flexibility to upscale or downscale workforce as per need, without significantly compromising on labour interests.
- Labour laws within industrial clusters must be made less complex to give more decision making autonomy to manufacturing units.
- Changes must be made in Factories Act 1948, many provisions of which are obsolete, full of absurdities and infirmities in terms of labour laws.
- To develop a culture of trust and transparency, monthly and quarterly inspections or approvals for companies by the Government authorities should be replaced by a self-certification norm. Defaulters should be thoroughly penalised.

What's the best way forward?

- MSMEs should be included in the industrial clusters and given more Government support such as market facilitation, boosting technology-based production activity, and simplification of compliance norms.
- There is a need to lay focus on the 'Atma Nirbhar Bharat' initiative for developing self-reliance across various sectors.
 - For instance, despite having rich coal reserves, India is dependent on coal imports. The coal sector must be given due attention.
- There is a need for more government initiatives like the Udyam Registration Portal created in June 2020 to help enterprises avail the benefits and exemptions available to the MSME sector.