



RSTV Summary: The Big Picture: Making India a Manufacturing Hub

Context

- Prime Minister Modi in a virtual interaction with ministers has called for suggestions to help put Indian economy on a growth trajectory.
- 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.

Journey of China towards a global manufacturing hub

- In 2010, China overtook the US to emerge as the world’s largest manufacturing sector.
- However, the rise of China as the world’s factory began way back in the 1980s initially as a producer of low-end products which gradually rose to become a manufacturing hub of everything under the sun – from drugs to electronic gadgets.
- According to estimates of the UN Statistics Division, China accounted for 28 percent of global manufacturing output in 2018.

Status of Indian manufacturing industry today

- In the last few years earlier small manufacturers have now just become traders.
- Tough labour laws, expensive credit, costly or inadequate power supply make import from China and selling in India more profitable than producing these goods domestically.
- MSMEs sector accounts for around 6% of the manufacturing GDP and around 25% of the service sector GDP and contributes to around 33% to India’s manufacturing output.
- Indian manufacturers lost space to imports that were cheaper, better looking and fast rolling mainly because of lack of market feedback, lack of modification and dearth of novel technology.

Progress of India in manufacturing

- Assembly in electronics in the mobile sector has taken a quantum jump.
- India became the second largest steel producer in the world.
- India ranks second largest cement producer in the world.
- India is also among the top three aluminium producing countries in the world.
- India has won the largest number of Deming Awards outside of Japan which is awarded for quality in manufacturing.
- Success model of Indian two wheeler segment and small car segment.
 - India is the largest manufacturer of two wheelers in the world because of
 - India has a massive two wheeler consumer base in rural and urban regions and the consumer base for small segment cars is ever increasing.
 - 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.
- The small cars sector in India successfully built a huge supply chain owing to factors such as locational advantage, ease of doing business, intensive and support given such as allotting land in Southern India, near the ports. Example: Hyundai and Maruti.

How can India become a global manufacturing hub?

- The National manufacturing policy announced by the government in 2011 aims to enhance the share of manufacturing in GDP to 25% and creating 100 million jobs within a decade.
- However, the share of manufacturing in India's GDP continues to remain at 16- 17% which is the same as in 1991.
- **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%.
- **Five critical steps India needs to take:**
 1. **Labor-intensive sectors:** We need to recognize that our strength lies in labor, cost and productivity skills so we need to make mega industrial clusters preferably near its ports, which leverage on labor-intensive sectors.
 2. **Ease of doing business:** We must aggressively work on policy matters related to logistics costs, loading-unloading time, moving stock by road or rail etc.
 3. **Boosting export:** Manufacturing is closely related to export. We cannot be successful in manufacturing unless we are also successful in exports.
 4. **Correcting the exchange rate:** One of the handicaps in manufacturing is our exchange policy because the exchange rate is somewhat overvalued. This causes disadvantage to Indian exporters and also Indian industry, as Industry has to reckon with cheap imports. If the exchange rate is strong then imports look cheaper than domestic goods.
 5. **Increasing market access:** In the present time, trade blocs are more popular than multilateral policies under the WTO. India should sign an FTA with the European Union and US that will help in the long run in promoting market access and huge opportunities.

How to ensure that Indian products are competitive against foreign goods?

- Research & Development (R&D): R&D is not merely the responsibility of the Government and public sector units but also that of private sector companies.
- India's R&D spend is only 0.7% of the GDP which is even less than then our peer countries such as Vietnam (2%) – it needs to be double and triple.
- R&D in our educational institution must be encouraged. More academia and industry partnership is required to boost R&D.
- To promote exports, a three way partnership is needed-
 - Diplomatic missions abroad must reach out to investors in those countries who are interested in setting up R&D facilities in India.



- The Ministry of Commerce & Industry should take the lead towards promoting R&D.
- Industry associations and chambers like FICCI and CII, should connect small -medium enterprises and companies to this initiative.
- The Prime Minister's economic advisory council has recommended the setting up of 3500 export oriented R&D hubs in the country.

Do we need major labor reforms to become a global manufacturing hub?

- Restrictive labor laws have prevented companies in India from reaping the full benefits in output, productivity and employment and export.
- **Reforms needed:**
 - **Fixed employment policy:** It gives flexibility to industries to hire and fire the workers or upscale or downscale workforce as per need, without significantly compromising on labor interest.
 - **Simple labor laws:** labor laws must be made less complex to give more decision making autonomy to manufacturing units.
 - **Amend Factories Act 1948:** many provisions are obsolete which must be removed.
 - **Self-certification:** To develop a culture of trust and transparency, monthly and quarterly inspections by the Government authorities should be replaced by a self-certification norm and defaulters should be strictly penalized.

Way forward

- Boost spending on research and development to at least 2% of the GDP.
- Eliminate exemptions on countervailing duties on imports as the duty exemptions are favoring foreign producers over domestically made goods
- Monetize the land owned by public sector companies which could be used to develop eco-systems to nurture start-ups and develop sites for industrial clusters.
- Allow industries to buy electricity directly from the markets.
- Rationalizing labor laws to promote big industries rather than small and dwarf industries.
- Government should refrain from frequent policy twisting as it deter investment due to policy uncertainty.
- Improving infrastructure from transport systems to the power sector to reduce logistic cost and power outage.
- Improve access to finance for MSMEs sectors as most are facing financial crunch.
- Overhauling school and college curriculum to impart market relevant skills to youth.
- MSMEs should be included in the industrial clusters and given more Government support such as market facilitation, technology support, simplification of compliance norms etc.
- There must be mission mode in a targeted manner to achieve the goal of manufacturing hub.
- 'Atma Nirbhar Bharat' initiative must be given more focus for developing self-reliance across various sectors. For instance, despite having rich coal reserves, India is dependent on coal imports- this should be given proper attention.

Source:



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