GENERAL MANAGEMENT

"MANUFACTURING SECTOR - CALL FOR ACTION"

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1. INTRODUCTION

The policies of Indian government with regards to industry, foreign investment and trade have been developing over the years. The focus of the Indian government in 1950s was on attaining self-sufficiency in all sectors of the economy, generating employment, promoting small industries and preventing private sector monopolies. In state owned enterprises and government ownership, the bureaucratic system delayed in decision-making process. The compulsory licensing for all the industries, price controls and subsidies removed motivation to improve performance. Over the years, these policies had detrimental effect on productivity and caused lack of professional management in most of the Indian firms.

Manufacturing growth accelerated in 1990s .The key reasons for increasing growth was investment in public infrastructure, gradual reduction in government controls and higher inflow in private investment. After the 1991 reforms, Indian manufacturing has been opened out to competition from global players.

Manufacturing plays an important role in any country's economy. Manufacturing holds a key position in the Indian economy, accounting for nearly 16 per cent of real GDP in FY14 and employing about 12.0 per cent of India's labour force. It constitutes nearly one fifth of the economy. It employs nearly 6 million people.

At present, International manufacturing statistics show the dominant position of the US, China, and to a lesser extent Japan, as the manufacturers of the World.

According to the 2010 United Nations (UN) data, the US is still the largest manufacturer in the world, with a share of 20.2% of the world's manufacturing, closely followed by China at 18.9%. Japan is third with 11.1% of manufacturing and Germany fourth with 6.4%. India is 9th producing 2% of world's manufacturing output.

China has increased its manufacturing output from $153.2 billion in 1990 to $1.6 trillion in 2010 (in constant 2005 prices). This is an increase from 3% of total world manufacturing in 1990 to 18.9% in 2010.

Indian manufacturing faces stiff competition from other developing economies in Asia and elsewhere both in domestic as well as global markets. India has also increased its manufacturing output in dollar terms from $49 billion in 1990 to $188 billion in 2010 (in constant 2005 prices) but it is not as significant as that of China. India's international manufacturing output, as a percentage of total world manufacturing output has increased from 1.1 % in 1990 to merely 2.2 % in 2010. Manufacturing output as percentage of national output has decreased from 17% in 1990 to 14% in 2011. This indicates the need to strengthen India's manufacturing position, given the potential for employment creation, economic growth and export earnings.

Industrial Production in India decreased 0.50 percent in March of 2014 over the same month in the previous year. Industrial Production in India averaged 6.73 Percent from 1994 until 2014, reaching an all time high of 20 Percent in November of 2006 and a record low of -7.20 Percent in February of 2009.

According to the latest estimates available on the Index of Industrial Production (IIP) the index of mining, manufacturing and electricity, registered growth rates of -4.5 per cent, -1.2 per cent and 3.5 per cent, respectively during Q1 of 2013-14, as compared to the growth rates of -1.6 per cent, -0.8 per cent and 6.4 per cent in these sectors during Q1 of 2012-13.

Industrial growth has remained subdued since July 2011 due to weak global demand, weak supply linkages, high import costs, and sluggish investment activities. The lacklustre performance of manufacturing sector has been driven by industries dependent on domestic demand. It spread across many sectors, from metals and automobiles to capital goods and consumer durables. High interest rates capped consumer spending while slow decision-making by the government and land acquisition issues stalled projects and held back capital expenditure in the sector.

Government of India has set up the National Manufacturing Competitiveness Council (NMCC) to develop a coherent strategy for developing manufacturing sector. The role of the NMCC is to propose measures to increase the global competitiveness of the sector. Consequently National Manufacturing Policy (NMP) has been framed by NMCC in coordination with the Department of Industrial Policy and Promotion, and the Planning Commission. Key objectives of the NMP include -

- Raise the manufacturing sector's contribution to GDP to 25 per cent by 2025 from the current share of 16 per cent.
- Encourage investments and competitiveness to make the country a global Manufacturing hub.
- Double employment generation in the sector from its current levels.

In keeping with the objectives of the NMCC, the government is also planning to set up National Manufacturing and Investment Zones (NMIZs) to encourage investments and thereby boost the share of manufacturing in GDP to 25 per cent by 2022. The NIMZs will be mega investment projects involving state-of-the-art infrastructure. Other policy measure includes encouraging FDI, providing fiscal support for development of indigenous technology, training programs for skill development, and labour reforms. But the Performance of Indian manufacturing over last two years has not been in line with aspiration set by NMP.

Following are the key factors which need to be addressed in order to boost the growth of manufacturing sector in India :

2. KEY FACTORS

2.1 LABOUR REFORMS

India has large number of labour laws dealing with trade unions, provident funds, industrial disputes and industrial establishments. Lack of flexibility in labour laws, increasing demand supply gap for skilled labour, deplorable living conditions for workers are major issues. The mutually reinforcing phenomena of low productivity in manufacturing sector are the cause for low income. Low income in turn leads to low standards of living, which constitute the root cause for poverty and unemployment in the country.

Manufacturing has large stakes involved, not just because the sector employs 25 per cent of the non-agricultural workforce in India, but also because of its contribution to the overall economy. Even though agriculture supports 47.20% of the working population, it contributes only 17.39% of the country's gross domestic product. This mismatch between distribution of workforce and value added in agriculture is one of the main reasons for the large number of poor. Industry accounts for 25.75% of GDP and employs 24.70% of the population. Against this background, only a sharp increase in the Indian manufacturing sector workforce will increase overall income levels of the country.

In order to realize the demographic dividend going to be reaped by India, productive labour and harmonious labour relationships are utmost important. Flexible labour laws will help both organised and unorganised sector. Labour policy should allow companies to downsize number of employees in more transparent manner. There should be mass skill development programs to develop more efficient labour market.

The government should find out proper action in order to enhance the productivity, which will accelerate the growth process and competitiveness of the economy. The government need to create a policy framework with incentives to promote development of large scale worker colonies with suitable amenities near every industrial cluster.

2.2 INFRASTRUCTURE BOTTLENECKS

Apart from weak investment climate, industrial sector performance remained subdued due to infrastructure bottlenecks. Industrial growth rate moderated due to sharp decline in output of natural gas; subdued performance of the coal sector and its resultant impact on thermal power generation; and slow pace of project implementation in rail, road, and ports sectors. It is therefore crucial to accelerate the output of core sectors and speed up implementation of large projects.

The role of infrastructure development is pivotal in the current economic scenario. Extensive and efficient infrastructure network is important for sustainable and inclusive economic growth. Building a high class infrastructure is vital for the effective functioning of the industrial sector, especially for the manufacturing competitiveness. As the key driver of the economy, it forms the basic foundation of its growth and the sustained development in infrastructure is a pre requisite for the progress of all the sectors of the economy. Ensuring regular power supply to industries, secure fuel availability to power plants, improve rails, road infrastructure, easy availability of raw material are the solution to the problem.

2.3 REGULATORY BURDEN

India has not improved significantly in terms of the ease of doing business and ranks very low in comparison to other industrial peers. The higher input costs for the Indian manufacturing sector as a result of cascading effect of indirect taxes on selling prices of commodities, higher cost of utilities like power, railway transport, water, higher cost of finance and high transactions costs puts the sector at a severe disadvantage as compared to its Asian counterparts.

The manufacturing sector faces multiple approval and operational restrictions. The process of setting up and exiting business is time consuming and complicated requiring expensive third party assistance. Since states have the major role in administering the manufacturing sector, the prevailing ecosystem therefore varies from state to state. Exit rules as per the Companies Act, 1956 are complex and costly and do not permit reaping the benefits from reallocation of resources. Sourcing of finance at competitive cost is another major constraint for both the organized and the unorganized enterprises. Financing other than internal accruals is costly and prohibitive.

The national manufacturing policy should be implemented to have the impact for which it is created. Strong political will is required to take decision and implement that decision, cutting the lines of various departments. An agency which involves representative from government and industry should be set up, which will be accountable for industrial policy implementation at ground level and resolution of conflicts between various departments. More clarity on industrial polices is needed and formalities need to be simplified. There needs to be time-bound approvals to projects.

2.4 LAND ACQUISITION

Land acquisition is significant to country's growth. Land acquisition laws depicts absolute example of public policy paralysis because of its complexity.

The core issues that surround the acquisition of land in India are more complex than those related to built-up property. These relate to land ceiling laws, resettlement and rehabilitation laws, difficulty in obtaining contiguous land, fragmented holdings, multiple sales which have not been properly recorded, pledging of land to local money lenders, litigations due to inheritance.

In order to make acquiring land in India easier and more beneficial, the Government needs to make more proactive laws for the process of acquisition, as well as for resettlement and rehabilitation. The Government should devise a mode to provide title security, and laws need to be made in a manner that ensures that old laws do not have an overhang on the land. Land zoning and identification of land for different purposes should be done by government in a transparent manner. Land lying waste in prime areas due to closure of factories should be correctly estimated and auctioned quickly. The land owner can become stake holder in the industrial entity in ratio of their land involved in the entity. An approach which can be a win win situation for both land owner and land user for industry should be created.

3. CONCLUSION

The progress of manufacturing sets the tone for the overall business cycle and the health of this sector is very much at the core of India's socio-economic fabric. Over dependence on agriculture for livelihood causes disguised unemployment. Since only 12% of population is dependant on manufacturing industry, there exists a wide scope to divert the excess burden of farm sector to the manufacturing sector. Hence, for a country with the largest young population in the world, this creates a challenge of significant magnitude. This indicates the need to strengthen India's manufacturing position, given the potential for employment creation, economic growth and export earnings.

The manufacturing sector is declining due to higher labour and production costs. Certain goods are cheaper to import and retail, rather than produce locally. India's manufacturing sector therefore needs to acquire dynamism and technological sophistication to become one of the leading manufacturers. From the long term point of view, low level of R&D and inadequate availability of skilled manpower would adversely affect India's competitiveness and the manufacturing growth.

There exists a need for a central management or support agency that will have the capability to assist government with translating their policy documents into actions. Government needs to invest more in research and development to ensure that opportunities are well researched before implemention.There should be alignment of national programs and interventions on skills development to the needs of the manufacturing sector. There is a need to encourage and facilitate specific manufacturing human resource development through the identification and development of core capabilities, technology. The development of supply chain measures is required to create viable local industries.

There is a need to facilitate diversification beyond current reliance on traditional commodities through the promotion of increased value-add characterised particularly by movement into non-traditional tradable goods and services that compete in export markets as well as against imports. For the long-term intensification of India's industrialisation process and movement towards a knowledge economy, the promotion of a more labour-absorbing industrialisation path that catalyses employment creation, is needed.

The promotion of a broader-based industrialisation path characterised by the increased participation of historically disadvantaged people and marginalized regions in the mainstream of the industrial economy is required. India has a great potential for investment, but we have to work hard to create a conducive environment for that.

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