INSIGHT

The symbolic lion at the Mahatma Mandir in Gandhinagar, Gujarat.

Let the **Lion Roar!**

Industry must continue to engage with Government to push for reforms and at the same time work tirelessly to improve its own expertise.

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The clarion call to boost development and script India's growth story resonated through the Make in India campaign. Aimed at making India a manufacturing hub, the campaign got (read with the backing and presence of all big Indian Industrialists) launched two-years back. While the initiative - which is much lauded and acclaimed within the country and globally - did open up opportunities to attract foreign investment, there is still a lot of ground that needs to be covered.

Mere policy framework cannot be successful alone unless ably supported by a favorable regulatory framework and improved infrastructure. It is equally important for industry to look within and ensure that through cost competitiveness, innovation and quality, it meets the demands of both domestic and international customers.

For a country that has aspirations to become a global economic power, it is imperative to make its manufacturing sector the driving force behind bringing the change. Manufacturing in India brings employment for the younger generation, prevents vulnerability to imports, increase value addition within the country, and provides technology transfer among other notable benefits. Yet, as a country it has been difficult for manufacturing growth at the much-needed pace. In fact numbers indicate that manufacturing share is stubbornly stuck at around 15 per cent of GDP (compared to the target of 25 per cent).

The progress so far

Both Government and the Private sector have to play their respective roles. A lot has already been done by the government and it is ceased of what else needs to be done. At this stage it will be worth looking at what are some of the major initiatives already implemented. The 25 key sectors of the economy, including automobiles, aviation, biotechnology, defence manufacturing, electrical machinery, food processing, and pharmaceuticals, amongst others will be the focus areas.

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Increase in FDI is most encouraging, with inflow into India increasing by approximately 80 percent when FDI across the world has fallen by around 16 percent. Ten reform areas that need special mention are:

1. Parliament has passed the Insolvency and Bankruptcy Code 2015, which provides a strict timeline for insolvency proceedings.
2. Most of the railways sector is now open to 100 percent FDI and there has been a substantial increase in commissioning of new lines.
3. Power Deficit is down from 4.2 percent to 2.1 percent

4. Road projects over Rs 3 lakh crore have taken off; currently building 21 km per day from a 2 km per day in 2014. Ports and shipping are a focus area with investments of Rs 70,000 crore.
5. Launch of National Capital Goods policy
6. Rapid progress towards digitization and e-governance.
7. In Defence, Government has allowed 51 percent foreign ownership and list of items needing industrial license have been reduced by 60 percent.
8. Civil Aviation policy allows for 100 percent FDI under automatic route in Greenfield Projects.
9. Mining has been opened to the private sector, including foreign investments
10. Government is focused on ease of doing business. A sample of steps taken:
    a. Online Governance: 14 services delivered by e-Biz single window.
    b. Easier Labor Laws and combined returns.
    c. Faster online clearances of environment and forest applications.
    d. Investor Facilitation Cell by DIPP, including country specific desks.
    e. Healthy competition amongst States to improve their ranking for the ease of doing business index.

The Impact

Parameter	FY 2014	FY 2016
GDP Growth	6.6percent	7.6
Avg. Consumer Inflation	9.46percent	4.91percent
Industrial production growth	-0.10percent	2.4percent
Fiscal Deficit as percent of GDP	4.4percent	3.9percent
Foreign Direct Investment	US$ 24.3 Billion	US$ 40 Billion

The numbers speak about the impact as indicated in the above table.

Reality Check

The on-ground reality brings out numerous caveats. Land, a primary resource to draw industries is difficult to acquire, or it is at a price that is disproportionate to the international industry structure. Capital is expensive and often used unproductively. Standby facility due to unreliable power is a typical example of what adds to capital cost. Labour is one factor of production that is cheap, but the low skills level takes away majority of the advantage. Further despite government's sincere efforts to improve the business regulation scenario our ranking in the ease of doing business continues to be very low, currently standing at 130.

Our energy cost is amongst the highest in the world. We remain vulnerable to international crude prices as well high electricity costs from electricity boards. Cost of basic infrastructure in terms of roads, rail and ports are comparatively more expensive when compared to China, Singapore etc. Given the time required to start and operate businesses, viability often becomes a casualty. Correcting some of these challenges will take time. In fact we may be a bit disappointed that the Make in India mission is not picking up the desired pace, however directionally we are moving in the right manner.

The road ahead

India's rapidly expanding economy, which has grown by 7 percent a year over the past decade, gives the country's manufacturers a huge opportunity. As incomes rise, the demand for consumer goods skyrockets. And many of India's consumption sectors—including food and beverages, textiles and apparel, and electrical equipment and machinery—have reached this inflection point.

To seize the opportunities, industry must dramatically increase the productivity of their labor and capital. Some action areas are:

1. Need for smarter ways of manufacturing. Processes around the world are becoming more efficient yet at the same time requiring fewer resources. India need to imbibe smart manufacturing practices.
2. Advanced manufacturing; composites, 3D printing, robotics, carbon fibre etc. are going to become the norm in the future. Companies need to invest in these materials and processes today to be able to efficiently manufacturing tomorrow.
3. A McKinsey benchmarking study of 75 Indian manufacturers shows that Indian manufacturers lag behind their global peers in production planning, supply chain management, quality, and maintenance resulting in lower productivity. Consequently, workers in India's manufacturing sector are almost four and five times less productive, on average, than their counterparts in Thailand and China, respectively. Of course many Indian companies are making strides.
4. India's manufacturers must also improve the productivity of their capital, in some cases by 50 percent or more.

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While such improvements are challenging, they are possible if companies set bold targets. The McKinsey study indicates that many Indian companies are assessing the technical design of their capital equipment to make trade-offs between capital expenditures and life cycle expectations for reliability—essentially "Indianising" the specifications.

5. India's manufacturers could learn a lot from the IT sector's experience in promoting the large-scale development of skills. A key factor in this success was the early recognition among Indian IT companies, that the number of engineering graduates in computer sciences wouldn't meet the needs of the country's burgeoning IT sector. In response, companies began hiring graduates from all engineering disciplines and using in-house curricula to build skills. India's manufacturers should follow a similar path by establishing in-house training centers to promote vital manufacturing roles. Some Indian companies are already taking matters into their own hands. For example, Maruti Suzuki, has adopted six technical institutes across the country and by using the company's own managers as faculty, Maruti inculcates trainees with a strong feel for its culture as well.

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6. As the economy develops, manufacturing moves into more sophisticated sectors and progressively starts investing in R&D. This was the pattern in Japan, followed by Korea and now China. To put this in perspective, India spends 0.9 percent of GDP on R&D and of this Industry spends 35 percent. In Korea R&D spend is 4.2 percent of GDP and Industry share is 78 percent. So Korean Industry gets the multiplier benefit of both these percentages. India needs to do the same. A hundred Indian firms must match what GE and Bosch and Emerson do in India, each employing thousands of engineers in R&D. Our manufacturing companies will then deliver on India's growth aspiration.

In conclusion, industry must continue to engage with Government to push for reforms and at the same time work tirelessly to improve its own expertise. India must not be complacent about having a competitive advantage in labour intensive industries or about its demographic dividend. Advances in technology can have dramatic impact on manpower requirement. The day robots start stitching shirts and artificial intelligence starts interpreting medical reports is not too far. In the long run, competitiveness and R&D is the only way to keep abreast and generate jobs.