Unleashing the potential of India's manufacturing Sector- A Strategic Outlook

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Abstract Manufacturing sector is the backbone of any economy owing to its significant contribution towards economic growth, productivity and employment as well as nourishing the other segments of the economy. Although India is emerging as growing major economy in the world but still India need to tap its potential by enhancing manufacturing competitiveness and removing bottlenecks both at administrative and operational levels. The government measures in this context proving to be inadequate. The decline in the performance of the manufacturing sector is a serious issue of concern. In this perspective, the present paper focuses on the key constraints and policy implications for rebooting the Indian manufacturing sector.

Key Words: Manufacturing Sector, Competitiveness, Economic Growth

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Introduction

The performance of manufacturing sector is a barometer of the health of economy owing to the association between the sector and the rest of the economy. The growth of manufacturing sector is essential for economic development of a nation. The development in manufacturing is associated to rising per capita income. The most advantageous industrial structure of a country vary according to its phase of growth and its given characteristics (Lin, 2010). The liberalization of the Indian economy has opened vast opportunities for manufacturing sector. However, the state of affairs of the manufacturing sector in India is below potential on comparing with other Asian countries in similar stages of development such as Thailand's manufacturing sector share in GDP is around 34%, China 32%, South Korea 31%, Indonesia 24% and Germany 22% in comparison to India's 16%.

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The main reason for such condition is the incapability to create and maintain competitiveness needed to meet the global challenges despite of the comparative advantages in diverse areas like experienced work force, reasonable endowment of natural resources and a large domestic market. Moreover, India is not the easiest country to do business owing to its complex regulatory mechanism. The release of the 2015 Doing Business rankings by the World Bank show India notably uneasy, at a depressing 142 out of 189 countries ranked, having actually slipped two ranks (140) from the previous year (PHDCCI, 2014).

India is one of the fastest growing economies in the world with the potential to emerge as a world class manufacturing hub which is possible with improvement in the industrial competitiveness. Thus, competitiveness is central to healthy growth of the manufacturing sector. In the framework of above discussion, the present paper focuses on potential of Indian manufacturing sector as well as challenges in realizing the potential to emerge as a global competitive sector. Besides introduction in Section I, industrial policy framework of the Indian industrial sector has been discussed in Section II. Section III presents the State of Indian manufacturing sector. The key issues of concerns and challenges have been incorporated in Section IV. Section V of the paper elucidates the conclusions and suggestions.

Industrial Reform Measures in India

India adopted planned development strategy for industrial development by assigning significant role to the public sector since independence. The government regulated various aspects related to investment, production and trade by the private sector through industrial licensing and other controls and measures. However, these policies proved detrimental for the industrial efficiency and competitiveness due to lack of competition. A process of re-orientation of the policy framework began in the late 1970s, which gained momentum in the 1980s. These measures included industrial de-licensing, softening of restrictions on monopolies, liberalisation of capital goods imports with a view of technological up-gradation and modernisation of industry. However major reforms were undertaken in 1991 largely guided by the need to improve the competitiveness of Indian industry The main thrust of new economic reforms was to promote competition to enhance competitiveness i.e. ability to compete. It was recognized that competition puts pressure on producers to improve. The New Economic Policy introduced radical changes to unshackle the industrial economy from cobwebs of a plethora of unnecessary controls. The objective of these reforms is to stimulate competition between firms in both the domestic and external markets. This, it was believed, would help in augmenting the competitiveness of the Indian industry (Rao, 1993 and Chadha, 2004).

The lack of technological dynamism, the absence of competition and the protection of markets drastically restricted the development of a competitive industrial sector in India (Arun and Nixson, 2001). The new economic policies introduced since 1991 marked a fundamental break with the past and drastically reduced the degree of state regulation. The opening up of economy has provided the avenues for India to be part of global economy and compete in the international market. India's economic policy reforms have played a critical role in the performance of the Indian economy since 1991. The reforms have involved opening of the economy, making it more competitive, getting the government out of the huge morass of regulation. Since 1991, the Government of India has introduced a series of economic reforms, including policies of liberalisation; deregulation; disinvestments and privatisation (Kapila and Kapila, 2002). The seriousness of macroeconomic imbalances and unanimity among political parties towards reform made this possible. The broad thrust of the new policies was a move away from the centralised allocation of resources in some key factors by the government to allocation by market forces. Private participation in economic development has emerged as an alternative to the state owned-oriented development strategy in the reform period. The liberalisation of the Indian economy included changes in different spheres of the government economic policy resulting in lessening government controls and permitting a greater leeway to market forces.

Since 1991 the efforts in India concentrated on dismantling the excessive role of government in terms of controls and high tariffs etc. The focus was on improving efficiency and overall economic growth and not particularly on the manufacturing sector. There was greater emphasis on allowing industry to operate in a relatively free market and ensure that the economy reaped the benefits of competition. However, during the process of liberalization and globalization in this period, the trade and FDI policies were not adequately leveraged to strengthen manufacturing. It appeared as though government policy pendulum may have swung from one extreme of excessive controls to the other of abandonment or minimizing the role of the state in so far as the manufacturing sector is concerned. The role of the State in respect of the sectors that have been liberalized has not been clear. Similarly, the role of the public sector, which has a very sizeable manufacturing capacity, was also not clearly defined (GOI, 2008).

Further, recognising the importance of manufacturing industrial sector in overall economic growth of a country and the need for enhancing its productivity and competitiveness the government has set up the National Manufacturing Competitiveness Council (NMCC) on 6th October 2004 which is an interdisciplinary and autonomous body to serve as a policy forum for credible and coherent policy initiatives for enhancing competitiveness of the Indian manufacturing industry. The National Strategy for Manufacturing (NMS), 2006 prepared by the National Manufacturing Competitiveness Council (NMCC) had considered all the aspects which required attention for improving the competitiveness of the Indian manufacturing industrial sector. In another significant move, the government enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 for facilitating promotion and development as well as enhancing the competitiveness of micro, small and medium enterprises became operational from October 2, 2006 (GOI, 2008).

The need to raise the international competitiveness of the Indian manufacturing sector is crucial for the country's long term-growth. In order to create a paradigm shift in the manufacturing sector, it is essential to consider the objectives over a longer timeframe, such as 15 years. The National Manufacturing Policy (NMP), which was introduced in 2011, is by far the most inclusive and important policy program taken by the Government. The policy is the first of its kind for the manufacturing sector as it addresses areas of regulation, infrastructure, skill development, technology, availability of finance, exit mechanism and other pertinent factors related to the growth of the sector. The Policy envisaged an increase in manufacturing sector growth to 12-14 per cent per annum over the medium term; an increase in the share of manufacturing in the country's Gross Domestic Product from 16 per cent to 25 per cent by 2022. Recently, The Make in India initiative was launched on 25th September 2014. Several new initiatives designed to facilitate investment, foster innovation, protect intellectual property and build best-in-class manufacturing infrastructure have been put in place under the "Make in India" initiative. The key purpose is to make India manufacturing hub for domestic and foreign companies to help create jobs and boost economic growth within the country by increasing the share of manufacturing in the GDP of the country.

Present State of the Indian Manufacturing Sector

There was a substantial diversification of the Indian manufacturing as results of policy measures as discussed in the previous section. The import substitution strategy and encouragement of public sector investment were the key focus areas. The mid-60s and mid-70s witnessed stagnation in industrial growth, particularly the manufacturing sector owing to the slow growth of agricultural incomes; the slow-down in public and infrastructural investment and high cost industrial structure in the economy (Ahluwalia, 1985). Further, the process of import substitution was performed inefficiently. There was no phasing out of import substitution for any specific industries, the process of granting import substitution was not systematic. The setting up of indigenous capacity was considered as a sufficient condition for import substitution irrespective of cost and quality considerations. This resulted in high cost industrial structure incapable of surviving without high protection. This totally discouraged foreign as well as domestic competition. The reforms of the 1990s as considered being pro-market in orientation which included the abolition of industrial licensing; liberalization of inward foreign direct and portfolio investment; major financial sector liberalization, including the removal of capital controls on capital issues, liberalization of investment and trade in important services. However, there are some areas remained untouched by reforms in the 1990s were the labour market, small-scale reservations and agricultural reforms. Some these sectoral reforms were undertaken in a gradual manner at the latter stage. However, the labour reforms were remained untouched to a large extent. (Bhat, 2014).

Table 1 presents growth rate of the Indian manufacturing sector for the period from 2000-01 to 2013-14 with 2004-05 as base year. The growth rate in 2000-01 was 7.30 percent and remained around this figure except in 2001-02. It grew in 2005-06 to 10.10 percent, 14.32 in 2006-07 and thereafter declined to 1.14 percent in 2012-13 and -0.71 percent in 2013-14. It clearly shows inconsistent growth as well as negative growth of the sector.

Table 1 Growth Rate of Manufacturing Sector (at 2004-05 Prices)

Year	**Growth Rate**
2000-01	7.30
2001-02	2.27
2002-03	6.87
2003-04	6.34
2004-05	7.38
2005-06	10.10
2006-07	14.32
2007-08	10.28

2008-09	4.33
2009-10	11.30
2010-11	8.86
2011-12	7.41
2012-13	1.14
2013-14	-0.71

Source: Central Statistical Organisation

Table 2 depicts growth rate of Index of Industrial Production (IIP) of the Indian manufacturing sector for the period from 2006-07 to 2013-14 with base year of 2004-05.

IIP is one of the prime indicators of economic development which represents the status of production in the industrial sector for a given period of time with reference to a base period. The growth rate of IIP declined sharply from 2007-08 i.e. from 18.4% to 2.5% in 2008-09 and similarly 1.3% in 2012-13 and negatively -0.8% in 2013-14. Such state of manufacturing sector is a serious issue of concern as well deterrent on the potential perspective of the sector.

Table 2 Index Numbers of Industrial Production –Manufacturing Sector (Growth Rate – Base: 2004-05)

Year	Growth Rate
2006-07	15.0
2007-08	18.4
2008-09	2.5
2009-10	4.8
2010-11	9.0
2011-12	3.0
2012-13	1.3
2013-14	-0.8

Source: Central Statistical Organisation

Table 3 exhibits share of manufactured exports in the total exports of India. India's economic reforms initiated in 1991 focused on trade policy reforms. The earlier restrictive and inward looking import substitution-oriented policy regime created an anti-export bias. The reforms aimed at introducing competition both through liberalizing imports and changing the industrial licensing procedure. The liberalisation of trade and tariff policies for manufacturers accompanied by rationalisation of export incentives and liberalisation of export policy led to a major transformation of the trade policy regime from a highly restricted to open in India. The share of exports of manufactured goods to total exports which was 77% in 2000-01 started to decline thereafter i.e. 70% in 2005-06 and around 60 percent in 2013-14. It indicates decrease in manufacturing exports owing to the low level of competitiveness at the global level.

Table 3: Share of Manufacturing Exports in Total Exports

Year	**%**
2000-01	77
2001-02	76
2002-03	76
2003-04	75
2004-05	72
2005-06	70
2006-07	67
2007-08	63
2008-09	67
2009-10	64
2010-11	62
2011-12	60
2012-13	61
2013-14	61

Source: RBI, 2014

Table 4 presents India's ranking in Ease of Doing Business by World Bank. It covers 189 countries and 10 parameters are observed in respect of each country that includes starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. India ranks 134^{th} in 2011, 132^{nd} in 2012 and 2013. It was140 in 2014 and 142 in 2015. This ranking presents a dismal position of India as far as business climate is concerned.

Table 4: Ease of Doing Business in India

Year	Rank
2011	134
2012	132
2013	132
2014	140
2015	142

Source: www.doingbusiness.com

Reasons of Dismal Performance of Indian manufacturing Sector

There are various factors responsible for the poor state of the Indian manufacturing sector as explained above. The followings are the key constraints to industrial competitiveness as well as limitations of policy issues both at national and international levels:-

Lack of access to global markets – With the liberalisation and globalisation of the Indian economy, the Indian industry has unprecedented opportunities to enter into the global market. While access to global market has offered a host of business opportunities and at the same time there are challenges in exploiting international market due to scale of operation, technological obsolescence, inability to access institutional credit and intense competition in marketing (Lall, 2001).

Lack of Skilled Manpower – Human capital is also a big challenge facing the manufacturing sector. Although India has the advantage of a large pool of human resources, the industry continues to face deficit in manpower with skills set required for manufacturing sector. Skill building is required at all levels, from the level of vocational training to those requiring higher technical and managerial skills. Competitiveness of the industry depends upon the skill work force for effective use of technologies. The recent spurt in growth of the economy has exposed the widening skill deficit confronting the industry (Kim and Nelson, 2000)

Inadequate Infrastructure – The quality of infrastructure of a country has a direct bearing on several key elements of competitiveness of the manufacturing sector. To ensure competitiveness of the industrial sector, it is essential that the availability of infrastructure is in tune with the global trends. The state of infrastructure especially export infrastructure for the industrial sector is poor and unreliable. Several studies like the IMD World Competitiveness survey have ranked India a lowly 54th among 57 countries on infrastructure facilities (Lakshmanan et al., 2007 and Bhattacharya et al., 2010).

Inadequate R&D Efforts – Technology is an important tool which could cause fundamental changes in the level of competitiveness. R&D expenditure is an important part of the competitive strategy of the business as it helps in assimilation and adaptation of foreign technology and making it suitable for indigenous use. The industrial sector in India, with some exceptions is characterised by low technology levels, which acts as a handicap in the emerging global market. The R&D efforts in respect of industrial innovation and development are inadequate (Wignaraja, 2003).

Administrative Bottlenecks – The government procedures and policies play an important role in defining the attractiveness of a country as industrial destination. The procedural and regulatory hassles have inhibited the industrial competitiveness. The procedural delays in the administrative practices have adverse impact on the implementation of the decisions that are important for the industrial growth. A number of studies have been made both by the industry and the government regarding the adverse impact of the delays due to complex procedures. India is still rated a difficult place to set up a new business in terms of procedures and clearance required, the time to make things happen and the resultant cost of doing so.

Pressure of Competition from MNCs – Liberalisation of FDI policy has allowed entry of foreign firms and increased the extent of competition in Indian markets. The new entry of firms increases the toughness of competition by bringing in new technology and low costs of production. Trade liberalisation has increased the imports that compete with domestically produced products. These imports are cheaper and of superior quality. It is a great challenge for the domestic players to equip themselves to survive in the competitive environment by reducing their own cost and improvement in the quality of the products (Ramaswamy, 2006).

FDI policies – Policies regarding FDI which is another vital source of competition and competitiveness are still discretionary and restrictive. International comparisons in this respect placed India in the category of under performers with low inward FDI performance and low inward FDI potential (Bhavani and Bhanumurthy, 2007).

Anti- Competitive Practices - Anti competitive agreements are agreements in respect of production, supply, distribution, shortage etc. which has harmful effects on competition. Such practices in developing countries affect the supply of intermediate products used as industrial inputs, thus impeding the development and the competitiveness of local production in developing countries. Anti-competitive practices like cartelisation and abuse of dominance and anti-competitive mergers are getting globalised to take advantage of the absence of effective reach of competition authorities across borders (Bilal and Olarreaga, 1988; Scherer, 1994 and Peter, 2010).

Conclusions and Suggestions

To tap the potential of Indian manufacturing sector, there is need of macroeconomic stability through a macroeconomic framework which includes monetary and fiscal policies as well as sound public finances based on the principles of transparency, responsibility and accountability. It is the pre-requisite for the competitive strength of industries for the long term and help to raise productivity and sustainable growth in the industrial sector (Bhavani and Bhanumurthy, 2007).

The manufacturing sector is significantly dependent on the infrastructure facilities. Poor infrastructure is a major constraint in the growth and competitiveness of the manufacturing sector. Therefore adequate provision of these facilities should be urgently taken to enhance the competitiveness of the industrial sector. Skill development is also essential for the development of the industrial sector. The Indian industrial sector needs to attract the best brains to become globally competitive. Any effort to improve human capital has to take into account the needs of not only the domestic market but also the increasing opportunities in the global market. The upgradation of the industrial training institutes should therefore be pursued vigorously through public-private partnerships. Conditions of service in the industrial sector would need to be improved to attract better candidates to this sector. The availability of technically skilled personnel can be possible by providing professional industrial training to meet the emerging needs of the industry. It becomes also important to carry out labour reforms in order to accelerate investment, productivity, employment generation and competitiveness (Lakshmanan et al., 2007).

Adoption of global best practices in manufacturing is another area which requires attention for ensuring sustainable competitiveness. Benchmarking and standard setting has to begin from building the human resource and extended to the entire value chain. A paradigm shift in manufacturing sector can be achieved, if manufacturing is not just viewed as a process in the factory, preceded by design and followed by sales but as a new way where R&D is considered as a critical component of product design to supply chain management and customer relations (GOI, 2008).

Points of Action

1. Sound regulatory regimes increase competition, encourage efficiency and also enhance competitiveness. The regulatory framework should ensure fair competition, better access to markets and level playing field for domestic manufacturers. Government has a major role to

play in providing the right market framework and regulatory environment as these provide invaluable impetus to the industrial competitiveness.

2. There must be concerted efforts to augment the export competitiveness of the Indian manufacturing industry through tax/tariff reforms. There is considerable scope for diversification of manufacturing exports to improve its competitiveness.

3. Efforts should be made to maximise operational efficiency and adoption of measures to minimise the cost and improving quality in order to become cost competitive in the domestic and international markets. Indian manufacturing would be competitive only when the cost of manufacturing is low.

4. Innovation is the key for enhancing productivity to maintain the industrial competitiveness. Investing in R&D for innovative technology by the industry is necessary and should be encouraged and steps should be taken to encourage better coordination of efforts with greater focus on innovation and productivity enhancing technologies. In addition to tax relief measures on R&D expenditure, government funding of R&D should be enhanced to support the efforts of the manufacturing sector.

5. In order to make Indian industry globally competitive, more structural reforms are required particularly in the areas of industry deregulation.

6. More steps are required to be taken for the human capital development for ensuring professionalism in the management practices.

So, with above mentioned measures, the potential of manufacturing sector can be exploited in the competition regime both in domestic and international markets to a great extent.

To Sum up, India is one of the fastest growing economies in the world with the potential to emerge as a world class manufacturing hub which is possible with improvement in the industrial competitiveness. Thus, competitiveness is central to healthy growth of the manufacturing sector. While industry has to grapple with problems within the Industry to maintain a competitive edge in a global environment, the government will have to create conditions that foster a healthy and competitive manufacturing sector. This would involve among others improved infrastructure and substantial additional investments for creating capacities to meet the growing needs and for the modernization of the Industry. Moreover, India’s ability to sustain the world economy’s primary growth engine will largely depend on the manufacturing sector’s turnaround.

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