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PERSPECTIVES

Give manufacturing policy a chance

Chandrajit Banerjee

THE rather low intensity of media debate and discussions on the proposed new manufacturing policy is a little surprising, considering the importance of the issue. The Confederation of Indian Industry (CII) and its members have been arguing for a comprehensive manufacturing policy for some time and are excited about the outcome. The draft policy provides a clear roadmap for manufacturing sector to serve as an engine of economic growth with inclusiveness. By proposing to develop quality infrastructure, a progressive exit policy, structure to support green technologies, appropriate investment incentives and business-friendly approval mechanisms, it aims at addressing some of the more sticky issues for the sector.

India's strong economic growth since the 1990s has been driven by the services sector, manufacturing at best keeping pace with the expansion of overall economy. The share of manufacturing in GDP has continued to hang around 16% for two decades now, limiting employment creation. This is a matter of concern, given the size of India's workforce at 650 million. It is estimated that an additional 200 million Indians will enter the job market in the next 15 years. Inclusive growth will be possible only if all workers have access to opportunities for employment and entrepreneurship.

As the share of agriculture shrinks, it is incumbent on the manufacturing sector to open up job opportunities for less-skilled workers who cannot be absorbed in the services sector. Second, a healthy growth of manufacturing is critical for creating a large production and consumption base. Also, as productivity of manufacturing is higher than agriculture's, facilitating the shift of workers to the sector will propel growth too. In this backdrop, the discussion paper proposes to push up the share of manufacturing in GDP to 25% and double employment in the sector by 2022. Without a focused policy, it would be nearly impossible to raise the manufacturing share in GDP in a short time.

According to a CII-BCG report, India's manufacturing growth has been driven primarily by domestic consumption. In the last decade, manufacturing GDP grew by 6.8% and exports grew by 11%. As manufacturing growth is closely related to GDP growth and export growth among major economies, India needs to accord higher significance to export-driven manufacturing growth. For manufacturing to expand by 11%, exports would have to grow by 15-20% annually.

Transiting to higher export orientation will imply shifting to an investment- and innovation-driven model from the current factor-cost arbitration model. A facilitative policy environment will be needed, including addressing global markets and domestic challenges. Finally, India would need to produce more world-beaters through visionary leadership and management talent.

The draft manufacturing policy will free manufacturing units in NMIZs from restrictions and reduce transaction costs, offering manufacturing a chance to raise employment

The report estimates that investment in fixed assets to meet the 11-12% long-term average growth target would be Rs 12-15 lakh crore. Significant efforts will also have to be made for raising skill levels and to facilitate migration from rural to urban areas. The challenges facing the sector are many and to redress them in a meaningful manner may take years. The three most severe challenges to the sector relate to infrastructural bottlenecks, procedural issues and labour laws. Lack of quality and quantity of infrastructure affects our cost competitiveness adversely vis-a-vis our competitors.

The cumbersome procedures that manufacturing has to contend with today impose heavy transaction costs. According to a World Bank report, starting a business in India, on an average, requires 12 procedures and 34 days, whereas in New Zealand, it would have been done in a day with just one procedure. Rigidity in labour laws has restricted development of a mass manufacturing base that can provide millions of job opportunities for the less-skilled. Complexities in laying-off excess labour during slack time have encouraged outsourcing to the informal sector. Manufacturing is gradually shifting to capital-intensive rather than labour-intensive production, unable to utilise India's biggest asset. While the consequences of rigid labour laws on manufacturing growth as well as employment are well understood, modifications have eluded the nation for long.

The proposed manufacturing policy is an endeavour to free manufacturing units in National Manufacturing and Investment Zone (NMIZ) from above-mentioned restrictions and reduce transaction costs, offering Indian manufacturing a chance to raise employment in the organised sector. While proposing to ease the labour laws within the specified zones, the discussion paper emphasises a safety net to protect the interests of workers. At the time of the closure of the unit, for instance, a mandatory requirement is proposed under the Industrial Disputes Act to pay compensation equivalent to 15 days' average pay for every completed year of continuous service or part thereof in excess of six months. The paper also proposes several measures to ease the process of closure of a unit in NMIZ. Reflecting a forward-looking approach, the discussion paper lists numerous measures for developing green technology, such as low interest loans, research support, etc, that can enable India to become a global leader in green products.

One may argue why such benefits should be limited to units located only in zones and not to others. Though it's desirable to have such facility pan out at the country level, it may not be readily feasible. In India, we are still spending a low proportion of GDP on infrastructure, and the state of infrastructure is far below global standards. Raising infrastructure standards across the country would take years. It is, however, easier to do so in select pockets, especially when the state governments themselves have shown interest. Similar challenges would arise with respect to addressing other issues like procedural delays, labour laws, water shortages, etc.

This approach, successful in other emerging economies such as China and Vietnam, can succeed in India too, if implemented and directed properly.

(The author is director general of the CII)