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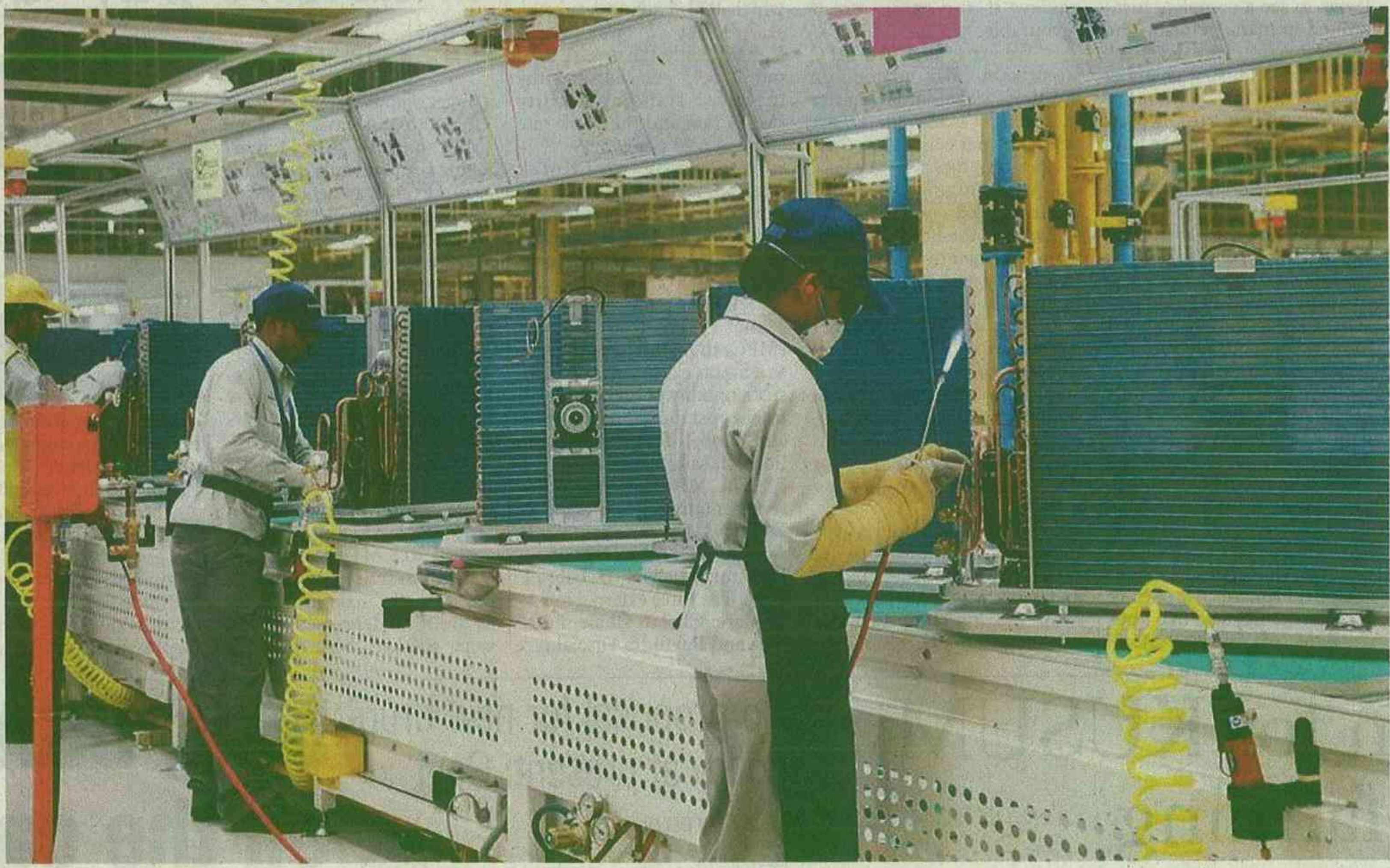
New visions in Make in India

That the country through the Make in India initiative is recording impressive growth in manufacturing smart phones is welcome. But there's a long way before we can tap the potential for growth

HIMA
BINDU KOTA



The news shared by the Indian Cellular Association (ICA) about India replacing Vietnam to become the world's second largest mobile phone producer in the world in 2017 by accounting for 11 per cent of the global mobile production — up from three per cent in 2014 — may just be the beginning of new and exciting trends in India's growth as a manufacturing hub. Much of the success can be attributed to Government's singular focus to promote the manufacturing sector in the country through its flagship programme, Make in India, to make India a global hub for manufacturing, research and innovation and an integral part of the global supply chain.

As it is known that economic growth and enhanced standards of living are positively correlated with national industrial activity and that growth in gross domestic product (GDP) is positively related to the growth of the nation's manufacturing sector, India's quest to increase the share of manufacturing in its GDP from the current 16 per cent to 25 per cent by 2025 is moving in the right direction. However, there's still a long way to go before we start investing strategically in technical education, training and skill development; devise favourable policies and allow access to cheap capital to attract global manufacturing giants to set up their bases in India.

Average wages in China have risen by 80 per cent since 2010, thereby making manufacturing of goods four per cent cheaper than in the US; forcing the country to abdicate low-cost manufacturing and move into medium to high-tech manufacturing — such moves are backed by the Chinese Government. This transition of China has opened spaces for other countries like Malaysia, India, Thailand, Indonesia and Vietnam, collectively known as MITI-V, to move into its shoes and take its position as a low-cost manufacturer.

India, in particular, is a strong contender to be the next top hub for low-cost manufacturing due to its manufacturing competitiveness like young population, low labour costs, a supportive policy environment, good quality infrastructure, availability of engineers, minimum level of education for all workers, economic growth and large internal market of 1.2 billion consumers. Since the launch of Make in India, several companies have set up their manufacturing base in India, like Chinese electronics giant Huawei that has started manufacturing at a facility in Tamil Nadu and Foxconn, the Apple supplier, which is opening a $10 billion iPhone manufacturing plant in India.

India should quickly move to establish itself as a global manufacturing hub. First, policies in the country have to be favourable to give a boost to Make in India initiative. The framework for special economic zones (SEZs) have to be completely revamped to make the entry, exit and operations with the SEZ easier, including exemption from the minimum alternate tax (MAT) for industries in these zones and boosting exports by simplifying the procedures. Recent efforts to reduce the minimum area required from 25 hectares to four hectares for the establishment of sector-specific SEZs, such as biotechnology, non-conventional energy equipment, agro-based food processing and services in the North-Eastern States, Goa, Jammu & Kashmir, Uttarakhand and the Union Territories is also a welcome move.

The 2018 Budget, which saw a rise in customs duty rates for many items, in addition to a new surcharge referred to as 'social welfare surcharge' on imported goods, which is levied at 10 per cent on basic customs duties, shows a clear policy shift to incentivise domestic manufacturing. With this new levy, the decade-old education cess has been abolished and the cumulative customs duty rate for standard goods has gone up from 30.15 per cent to 30.98 per cent. Basic custom duty on many goods, including mobile phones, car, television and packaged foods, basic customs duty has been increased by five per cent to 10 per cent, in a move to make manufacturing in India more lucrative for businesses especially in certain sectors like food processing, electronics, auto components, footwear and furniture. Make in India and ease of doing business are two initiatives that are inseparable.

In order to make India a manufacturing hub, trade facilitation, automation and digitisation should be enhanced by the Government. The Finance Minister has empowered the board to provide specific relaxation to a specified class of importers/exporters/ goods in the arena of digital documentation, expeditious customs clearance to reduce the time and cost of clearance of goods.

> GROWTH IN MANUFACTURING IS CRUCIAL FOR INDIA'S ECONOMIC DEVELOPMENT. WE HAVE TO CREATE A MANUFACTURING SECTOR WITH THE CAPABILITY TO GENERATE LARGE-SCALE EMPLOYMENT TO CATER TO OUR GROWING YOUNG POPULATION

Second, the success of Make in India depends on skilling India to a large extent. The unbeatable advantage of demographic dividend, where more than half of its population is below 25 years of age, can be realised if the youth have the skills to be employed. It is a huge challenge for the Government to develop skill-based workforce to drive the Make in India initiative and create a dedicated Ministry of Skill Development & Entrepreneurship to restructure vocational training structure.

The Government has set a target to skill 500 million people by 2022. We can learn from Malaysia, China and Singapore, where the workforce was skilled to cater to the requirements for the nations' economic development through strategic Government interventions. As a solution, the industry should come forward and involve themselves with vocational training colleges to develop a skilled labour pool by engaging in setting standards for curriculum and certification testing which will ensure that all entry-level workers have the skill needed to perform the job.

Third, the Indian manufacturing is labour intensive and lacks automation. Relying on labour and using non-standard automation leads to more labour issues and lower quality levels. To gain global recognition in manufacturing, steps should be taken to improve productivity. A 15-20 per cent productivity can be achieved by redefining the processes like changes in the plant layout, de-bottlenecking and efficient line balancing and another 15-20 per cent productivity can be accomplished by structural changes in smart automation.

Fourt, supply chains in our country are largely inefficient. An array of infrastructure and transportation bottlenecks lead to an increased inventory across the value chain. This is also the reason why many Western companies do not integrate their Indian plants into their global networks and use them mainly to serve domestic markets. India should take help of its highly evolved IT industry to build custommade enterprise resource planning tools cost-effectively to manage complex supply chains, reduce inventory and become more lean.

Finally, Indian small and medium-sized suppliers, many times, with limited engineering and process capabilities, fail to provide high-quality products. The Government should provide incentives to original equipment manufacturers to build quality into their designs. Growth in manufacturing is crucial for India's economic development. India has to create a manufacturing sector with the capability to generate large-scale employment to cater to its growing young population.

The Government has to focus on removing the challenges affecting the Indian manufacturing industry and develop robust infrastructure and policies which will have a positive impact on the factors of production like land, labour, electricity, technology, transport, cost of capital and cost of borrowing to make Make in India initiative successful.

(The writer is Assistant Professor, Amity University)