



## Changing Manufacture Sector: An Overview

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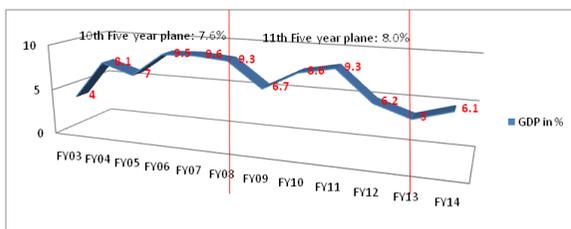
### ABSTRACT

World economy is recovering from global economic crises, all countries are back to the starting point and new race as began. Out of which, India is one of the fastest growing economies. This growth is mainly leveraged by 1991 economic reforms. But presently economy is experiencing lack of momentum due to several reasons. A major reform is critical for future growth. Manufacturing sector is lagging behind in comparison with other sectors and as well as in comparison with emerging economies. This issue needs immediate address and major icebreaking reform is requires. The new government has taken up such steps in the form of 'Make in India' campaign. This paper analysis the present status of overall economy, manufacturing sector, Make in India campaign, and Make in India issues and challenges.

**KEYWORDS :** Make in India, Manufacturing Sector.

### I. INTRODUCTION

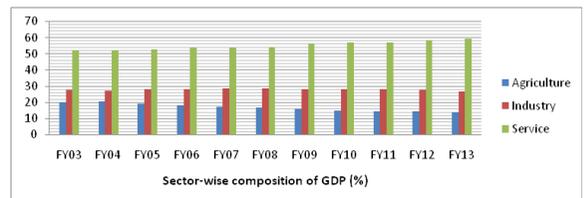
World economy is recovering from global economic crises, all countries are back to the starting point and new race as began. All countries are expected to come up with new strategies for growth. The world is changing with a rebalancing of manufacturing weight across the developed and developing economies. With this change in economy India is set to seek global leadership in manufacturing, the first step has initiated in the form of 'Make in India' campaign. The leverage from the 1991 economic reforms has greatly contributed for global recognition of India as a major economic power. India has been able to unleash its economic power after the 1991 reforms (Somalkar, 2012) and to sustain that growth till now. Traditionally until 1990s Indian economic policy was to protect its market from foreign competition (Henry, 2008). The aim of this was to ensure the countries independent development (the Swadeshi principle). The major policy initiatives of 1991 reforms famously known as liberalization, privatization and globalization have immensely contributed for the present economic growth (Ramsundar and Kumar, 2014). The harvests of the 1991 reforms were taken up from 2003 to 2009. Some of the significant changes are growth of service sector, dependency on domestic consumption, high investment, growing infrastructure. Indian economy at present is experiencing the lack of momentum due to several reasons. This is accompanied by decreasing GDP numbers from average 7-8% in the period 2003-2008 to 5-6% in to period 2009-2014. The future ahead indicates more challenges and need further boost to sustain the growth. Some of the major challenges are effects of global economic slowdown and high inflation in the domestic market. A major reform and boost is critical for future growth. The paper discuss about the overview of Indian economy, status of manufacturing sector and the issues and challenges of 'Make in India'. The stage is set for India to re-introduce its manufacturing sector to world. This paper aims to analyze the Indian economic overview, status of manufacturing sector, and Make in India Issues and Challenges.



**Source: KPMG India in Business Indian Economy: Overview**

India stepped towards high growth trajectory from earlier 2000. India is one of the few fastest growing economies, having recorded an average GDP of 7.8 percent in the last decade from FY03 to FY12. It started in this high growth trajectory during the 10th five year plane

with an impressive growth rate of plus 8 percent in FY04 and reached a peak of 9.6 percent in FY07. The 11th five year plane from FY08 to FY12 has recorded highest average five year plane growth ever in India. The economy has slow down due to global economic crisis indicating a reduction in growth rate of 6.7 in FY09 and quickly recovered back. This growth is characterized by increasing service sector contribution, domestic demand, improving infrastructure and increased government investment. Growth in service sector is the most significant aspect of change, with increasing composition of service sectors contribution to GDP. The contribution of service sector has increased from 52.5 percent in FY04 to 59 percent in FY13.



Source: Various press notes on National Income Accounts, Central Statistics Office, Gol; "Handbook of Statistics,"

The service sector has also attracted high foreign investment, accounting for more than 19 percent of total FDI inflow between April 2000 to June 2013. India is becoming pioneer in knowledge and technology oriented service in the global stage. The major contributors among service sector are trade, hotels, transport, communication and banking. High domestic demand is another contributor for the growth and to sustain it. The home demand has supported strongly against the global economic slowdown and helped to recover quickly.

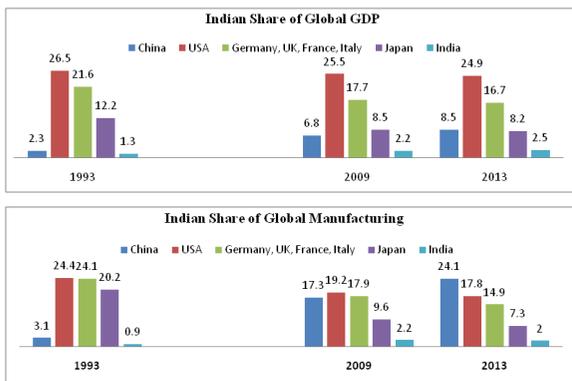
The changing infrastructure is the key highlight of the growth story. Some of the changes are Indian domestic telecom network is the second largest in world next to china (TRAI, 2013). Improvement in transportation and connectivity is well seen in both rural and urban places.

Increase in government support is playing the critical role in the growth. The government spending has significantly increased in the last decade. A substantial increase in the gross budget for infrastructure development is observed in 12th five year plane accounting for \$656 billion against \$350 billion in the 11th five year plane.

### II. MANUFACTURING SECTOR OUT LOOK

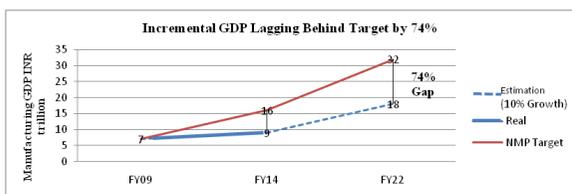
Indian manufacturing sector is a classic example of an industry that has great potential, but one that has been systematically done in by political ineffectiveness, entrepreneurial myopia and sheer ignorance of what it takes to success. Over the last two decades the manufacturing sector grew in parallel with GDP. India's global manufacturing share has grown from 0.9 to 2.0 percent while GDP share has grown

from 1.2 to 2.5 percent. The manufacturing sector accounted for 15 percent of GDP in 1993 and remained same till date. When compared with service sector contribution to GDP (60 percent as of 2013), we still see large gap. In contrast to this the jobs created in the sector over the last twenty years are low, with an increase from 37 to 53 million jobs at the rate of 1.8 percent per year. In the same period service sector has made remarkable change in job creation, with an increase from 80 to 150 million at the rate of 6.5 percent per year. The emerging economies manufacturing sector contribution to GDP as of 2012 in Thailand 34 percent, China 32 percent, Philippines 31 percent, Malaysia 24 percent and Indonesia 24 percent. India clearly lags behind and stands far away from these countries in manufacturing performance.



**Source: World Bank Report**

Export is another indicator of the manufacturing performance. India's performance has improved with its global share of merchandise export, an increase from 0.5 to 1.7 percent over the last two decades. But this remains modest compared against China's export performance. China has recorded an astonishing rise in total merchandise export from 2.4 to 11.5 percent of global export. At this present speed the manufacturing sector may fall short of the target set by National Manufacturing Policy of 2012. While the policy plane for the sector to reach 25 percent of GDP and create 100 million additional jobs by 2022. BCG report on manufacturing sector predicts that with the present growth the sector may fall behind the target by 74% against NMP numbers.



**Source: BCG report**

The reforms to push manufacturing sector, at 10 percent per year has been initiation by 'Make in India' campaign. The above data gives a brief picture about the status of manufacturing sector in India.

**III. CHANGING MANUFACTURING SECTOR**

Globalization has opened the doors for trade and business activities worldwide. Globalization is providing multiple options for manufacturers to handle adverse business environment. This is leading to evolution of global manufacturing hubs all over the world. Developing such global manufacturing hubs with competitive advantage is the key for success and help countries in growth and development. The new NDA government in India is mainly stressing on developing India as global manufacturing hub. The campaign launched to promote is famously known as 'Make in India' and is personally endorsed by Prime Minister Narendra Modi. This campaign is accompanied with initiatives announced in the 2014 budget are.

- Investment to initiate innovation and development of new technology, including \$1.2 billion investment to build smart cities and creation of \$16 million development fund.
- Easing the facilitation of foreign fund flow through increasing the FDI cap to 100 percent in retail and to 49 percent in railway and insurance.

- Action to speed up project execution, including easing of approval and clearance mechanism.
- New policy to promote and develop Micro, Small, Medium Enterprises (MSME), including launch of Rs 10000 cr venture capital fund dedicated to MSMEs.
- Initiatives to nurture skill development and job creation in leading manufacturing sectors like automobile, textile, chemicals and jewellery.
- The government has also made strategic visit, to attract funds and bring foreign companies to participate in Make in India. This including visit to Japan, where Japan as committed to invest \$35 billion and US has committed to invest \$42 billion in next three years.

**Future: Issues and Challenges**

To accomplish future goal i.e. 'Make in India' we should also concentrate on the issues and challenges need to be faced. In spite of the domestic demand, strong labour force and other positive aspects there are some major fundamental hurdles need to be addressed. Some of the major obstacles need immediate addresses are infrastructure, labour reform and ease of doing business.

Infrastructure – Manufacturing activities are infrastructure demanding activities, this include better freight corridor supported by train and road network, modernize port and airport, improvised communication system, source of energy and electricity availability, storage facilities and many more. India clearly lacks in providing major support for manufacturing sector. It was estimated, as of 2013 INR 22 trillion worth of projects were facing execution delay. Center for Monitoring Indian Economy (CMIE) report status that highway and road projects worth of INR 1 trillion are delayed due to land acquisition issues. National Highway Authority of India (NHAI) has received environmental clearance for only 2 projects out of 66. Power sector has realized less than 65 percent of the last four capacity expansion planes from 1992 to 2012. The reason for the delay are, delay in getting necessary clearances, land acquisition problems, poor planning and implantation.

Labour Reform- With the advantage of the strong population numbers India need to structure its labour force with skill development and regulatory reforms. Availability of skilled labour is one of the key factors for growth of manufacturing sector. Government has done very less for developing skilled labour force. Such reforms need to be initiated for attracting global manufacturing firms. Another area of concern related to labour is the regulatory framework. Issues related to labour maintenance and dispute settlement need to be addressed, India has four regulations prior to arbitration as compared to only one level of mediation in Indonesia and US.

Ease of doing business- Complex procedure in all stages, starting from setup of business is a major hurdle growth of manufacturing industries in India. The effort for setting up business in India mainly focus in getting permits, registration, gaining access to electricity, and paying taxes. A study from World Bank on 'Ease of doing business', India stands at the bottom of the table at 142 ranks. The process of getting approvals for exports in India is outdated and time consuming. The cost involved in the process is also high. According to the CII-BCG Leadership Survey 2014, 84 percent of CEO's responded about the difficulty in doing business and told that significant change would be required both in policy conceptualization and implementation to support manufacturing growth.

Even as India proceeds to fix these issues, developing its core manufacturing capabilities is critical challenge for steady focus on achieving the next phase of growth. It is difficult to attract global manufacturing firms with very little to offer, so policy makers should think differently in order to develop India as manufacturing hub. The growth in manufacturing can be achieved through an increase in our share of global export from 1.6 percent to 5 to 6 percent by 2030. It is possible by fundamentally re-think our attractiveness in the eyes of international investors. These is possible by developing an export-oriented infrastructure, and attract more foreign investment through structured changes. Technology plays a critical role in success of manufacturing sector in which India is lacking behind. The government and private institutions need to build new competency through innovation. The R&D spending in India only accounts for 0.8 percent of GDP in 2011, as compared to 3.4 in Japan, 2.9 in US and 1.8 percent

in China. Moving forward India should also aim at building new international standards and become the reference in terms of product quality and innovation.

#### IV. CONCLUSION

“Change is constant” is the slogan applicable for all areas, industries, and disciplines. Coping up with the change is critical for success. India to achieve its future visions, to be a global economic powerhouse needs a 1991's LPG type massive icebreaking policy initiative. Identifying potentials and anticipating the challenges to our future progress in manufacturing sector is the key for the success. We have strong pro-industrial government, global economy is picking up and our core advantages are still strong. A good start has been made with small changes in manufacturing sector, the coming years are crucial in bringing major changes and implementation of those changes.

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