Industrial Scenario- Make in India – MSMEs and the Indian Manufacturing Sector

Dr U.Subrahmanyam

The 21st century placed India in the third position in the world economy on purchase power parity and sixth largest economy in terms of Nominal GDP.. The proactive and cautious gradualist policy approach in addressing the economic problems brought significant recognition to the nation in the global arena. In a race towards becoming an economically powerful nation, the onerous has certainly been laid upon even on states. For instance, to spur industrial growth, in recent years, while the centre's focus lies on giving macro clearances for certain industrial activities, the states are asked to provide infrastructural support and other related activities. In such situation, the competent and capable states would be able to attract more investors both foreign and domestic.

International experience suggests that expansion of manufacturing activity would definitely scale up the process of development. "Labour intensive manufacturing-based development in any nation creates jobs and, in countries with strongly growing manufacturing sectors, such expansion can be spectacular. Ordinary people benefit both through opportunities for formal wage employment and through rising wages. Typically, formal wage jobs are more secure and better paid, and offer greater scope for skill accumulation than either self-employment or informal wage work. This may be particularly important for gender equity as labour-intensive manufacturing is a key source of wage employment for women" (IDR 2009).

In the previous five years prior to 2017-18, the GDP of India has grown an average growth rate of 7.1 per cent. The growth rate has drastically come down especially in the years 2013-14 and 2017-18, owing to the economic slowdown. The slowdown in 2019-20 is mainly attributed to the Post Demonetization effect and in implementation of GST and the higher Food Inflation in the 3rd quarter of 2019-20, owing to floods and adverse weather conditions. .

Table: Macro -economic Overview

Year	2016-17	2017-18	2018-19
GDP	8.3	7.0	6.1
Gross Capital Formation	32%	34.2%	32.2%
Gross Savings	31.3%	32.4%	30.1%

(Source: Ministry of Finance)

Sectoral development:

- The share of Agriculture sector has been contracted from 18.3 in 2009-14 to 13.9 per cent of total GDP in 2019-20(H1).
- The share of Industrial sector has been reduced from 32.3 per cent of GVA in 2009-14 to 29.6 per cent in 2018-19 and further reduced to 28.3 per cent in 2019-20(H1)
- The reduction in the Manufacturing sector share in the Gross Value Added (GVA) has come down from 17.5 per cent in 2009-14 to 15.4 per cent during the last 6 years is a matter of concern.
- The IIP (Index of Industrial Production) registered a growth of 0.6 per cent for 2019-20 (8 Months) as compared to 5 per cent in 2018-19.
- The growth of Manufacturing sector was down to 0.9 per cent as compared to 4.9 per cent in the previous year (2018-19).
- The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40.27 per cent in the IIP, registered a cumulative growth of just 1 per cent per cent in 2019-20 and during the corresponding period of the previous year , these imdustries grew at 5.3 per cent. .

Table 5: Sectoral shares in GVA (per cent)

	2009-10 to 2013-14	2014-15 to 2018-19	2018-19	H1: 2019-20
Agriculture, forestry & fishing	18.3	17.4	16.1	13.9
Industry	32.3	29.6	29.6	28.3
Mining & Quarrying	3.2	2.4	2.4	2.1
Manufacturing	17.5	16.6	16.4	15.4
Electricity, Gas, Water supply & other utility Services	2.4	2.6	2.8	2.9
Construction	9.2	8.0	8.0	8.0
Services	49.4	52.9	54.3	57.8

(Source: Economic Survey 2019-20)

The over all performance of Industrial sector in 2019-20 is very discouraging , and it will be further down owing to the lock down of Corona effect

Various reforms taken by the Government of India have led to increase in India's ranking in the World Bank's Ease of Doing Business Index from 130th rank in 2017 to 63rd rank in 2020 in its Report.

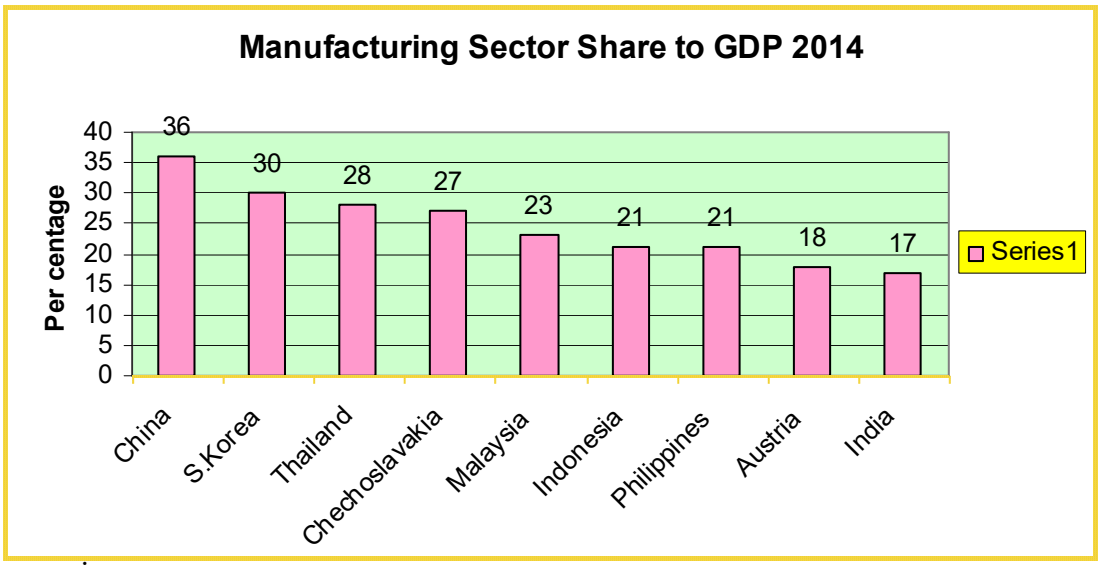
- India Tax- GDP ratio fell to 10.9 per cent in 2018-19 on account of lower than the estimated GST collections compared to China 20.1 , USA 27.1 and U.K. 34.4
- The Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Act, 2015 have been passed while intra-government litigation has been reduced.
- The National Judicial Data Grid (NJDG) is being expanded under which every high court in the country will be digitized very soon. The same was recognized in the rankings by the World Bank.
- **Base year:** The Central Statistical Organisation CSO had revised the base year of the IIP from 2004-05 to 2011-12 in May 2017 to capture structural changes in the economy and improves the quality and representativeness of the indices. The revised IIP (2011-12) reflects the changes in the industrial sector and also aligns it with base year of other macroeconomic indicators like the Wholesale Price Index (WPI) and Gross Domestic Product (GDP).
- **Sector wise items and weightages:** It covers 407 item groups. *Sector wise, the items included falls into 3 categories viz. Manufacturing (405 items), Mining (1 item) & Electricity (1 item)*. The weights of the three sectors are 77.63%, 14.37%, 7.9% respectively. The revised 8 core Industries have combined weightage of 40.27% in IIP.

National Manufacturing Policy :

India's National Policy on Manufacturing Sector was formulated by the Department of Policy and Promotion which seeks to achieve inclusive growth of Indian economy. **The policy envisages increasing the manufacturing sector to 25 per cent of GDP by 2022,** doubling of employment by increasing the competitiveness and making India a global manufacturing hub.

Besides, it has been felt that FDI flows and suitable trade policies need to be tuned up to attract quality investment in critical areas. The sectors that are identified includes: a) textiles & garments, b) leather & footwear, c) gems & Jewellery and d) food processing industry that have large employment potential. The percentage of growth of manufacturing sector has sided down from 9.7 per cent in 2010-11. whereas the ratio of Manufacturing sector share to total GVA is 17.5 per cent for 2014-15, according to 2011-12 series(CSO) has come down to 15.4 per cent in 2019-20

Chart: Share of Manufacturing Sector to GDP of India compared to other countries .



National Investment and Manufacturing Zones (NIMZ) :

The NMP for the developing of NIMZs as integrated industrial township with state-of-the-art infrastructure and land use on the basis of zoning; learn and energy-efficient technology; necessary social infrastructure and skill development facilities to provide a productive environment to persons transmitting from the primary sector to the secondary and tertiary sectors.

Key features of the proposed NIMZs are as follows:

- The State government would be responsible for the section of suitable land having an area of 5,000 hectares in size.
- At least 30 per cent of the total area proposed under NIMZs will be utilized for location of manufacturing units.
- A special purpose vehicle (SPV) will be constituted to discharge the affairs of the NIMZ.
- The state government would facilitate the provisioning of water, power connectivity, and other infrastructure and utilities linkages.
- The Central government will bear the cost of master planning will improve/provide external physical infrastructure linkages to NIMZs including rail, road (national highways), airport, and telecommunications in time-bound manner.
- The Central government will provide financial support in the form of viability gap funding (VGF) not exceeding 20 per cent of project costs.
- Soft loans from multilateral financial institutions will be explored and the

developers of NIMZs will be allowed to raise external commercial borrowings (ECBs) for developing internal infrastructure of the NIMZs.

- The NMP provides for promotion of clusters and aggregation especially through the creation of national investment and manufacturing zones (NIMZs). Out of twelve

NIMZs so far announced, eight are along the DMIC. besides, four other NIMZs have been given in-principle approval

(i) Nagpur in Maharashtra,

(ii) Tumkur in Karnakataka,

(iii) Chittoor district in Andhra Pradesh on Chennai- Bangalore Highway,

(iv) Medak district in Telangana &

(v) Coastal corridor from Visakhapatnam to Chennai

DMIC Project

Industrial development initiatives under DMIC project presently cover eight industrial cities that are proposed to be developed along the railway corridor. The master planning for the investment regions and industrial areas taken up initially to be developed as new cities in Gujarat, Madhya Pradesh, Haryana, Rajasthan and Maharashtra have been completed and master planning in Utter Pradesh has started. The state governments have initiated the process of obtaining land for the new industrial regions /areas as well as for the Early Bird Projects. Environmental impact assessment (EIA) studies have been initiated for five industrial cities. challenge to the sector relates to infrastructural bottlenecks, procedural issues, and labour laws. Lack of quality and quantity infrastructural facilities is an issue affecting our cost-competitiveness vis-a-vis our competitors. While effort is being made to improve the state of infrastructure in the country, shortfalls continue to persist especially in sectors such as power, roads and water. In the case of power, for instance, uninterrupted and sufficient power supply at responsible rates continues to remain a dream for a majority of the manufactures.

The major policy tool to be deployed in the NMP is the establishment of National Investment and Manufacturing Zones. Leveraging the advantages of clustering and agglomeration, these are envisaged as Greenfield industrial townships that will be manufacturing hubs comparable to the best in the world. To be of minimum 5,000 hectares each, NIMZ would offer a complete eco-system for manufacturing, including world-class infrastructure , appropriate clean technologies, skill development facilities, social

infrastructure, and supportive institution for testing and standards.

A Special purpose vehicles (SPV) will be constituted to manage the NIMZ, consisting of representatives from the Union Government, State Government and private developers and headed by a senior central/State Government official. The SPV would undertake master planning and strategies, select developers, formulate procedures and enforce them, obtain environmental clearances, levy charges for infrastructure, promote investments and implement the resettlement and rehabilitation package. It would be the responsibility of the State government to provide land, water, power, and infrastructure, while the Central Government would bear the cost of master planning, improving external infrastructure and linkages and providing quality, design and skill development facilities.

Make in India

The programme was launched by the Government of India on 25 September 2014 to encourage companies to manufacture their products in India. As per the current policy, 100% FDI (Foreign_Direct_Investment) permitted in all the 25 sectors, except for space (74%), defence (49%) and news media (26%). Japan and India announced a US$12 billion "Japan-India Make-in-India Special Finance Facility" fund

The objectives of the Government in introducing the Make-in-India concept are as follows:

- India to become Manufacturing Hub of the World
- Aim to Create 100 Million Jobs by 2022
- Labour Intensive Manufacturing is Important (India Emp Report)
- An Investor Facilitation Cell has been created in “Invest India” to guide, assistand handhold investors.

E-Biz Project::

- Under the Project a Government Business (G2B(would be set up to serve as a one stop shop for delivery of services to the Investors and address the needs of the business and Industryfrom inception through the entire life cycle of the business.
- The process of applying for industrial licence and industrial entrepreneur Memorandum (IEM) has been made online and the service is now available to entrepreneur on 24 X 7 basis at E-Biz site.

Sector Wise Analysis of Industry:

1. **Textiles & Garments Industry**: This sector has the highest employment potential, especially for semiskilled and unskilled rural youth. At present India exports raw material like cotton and yarn to China and other countries. India imports finished cloth and export ready made garments. India has the capacity to manufacture cloth and manufacture garments. We should adopt policy of establishing Industrial clusters, in which cotton, yarn, cloth, garments, Industrial machinery to produce yarn, cloth, packing material etc. should be available in a cluster all produced indiginously.
2. **Automobiles and components:** In the next10 to 20 years, the number of automobiles in India will be going to increase from the present 20 per cent to 80 per cent. In other parts of the world including China, saturation point in automobile has already been achieved. India is the most promising country for production of automobiles in coming 2 decades.
3. **Steel Industry**

   India emerged as second largest steel producer.India witnessed rising imports of cheap steel from countries like China and South Korea and Ukraine due to slowing world economy and over capacity in steel productionwhich adversely affected domestic producers. However they saw a reversal in its growth with introduction of new Steel Policy 2017 and implementation of Policy on preference to domestically manufactured select iron & steel products along with imposition of anti-dumping dut, Minimum Import Price and Countervailing duty on imports.
4. **Railways- Modernization of Rail coaches, Engines, Metro Rail coaches and other componentsetc.**
5. **Pharmaceuticals & Chemicals: India has already captured world market. can further improve.**
6. **Indigenous production of Solar Energy components, Photo Voltaic cells and other Renewable energy components**
7. **Modernizing Shipping and Ports**
8. **Food processing & Agro-Indutries;** This will reduce wastage of perishable food items
9. **Defense manufacturing, Aviation,war ships and submarines etc.**

10. **Construction and related Industries.** Construction activity in private and Government housing can induce higher production of Cement, steel and many other components required for housing etc**.**

11. **Tourism infrastructure:** Development of 2 and 3 star accommodation near tourist spots, adequate transport and parking area development, maintenance of cleanliness and health care facilities, Catering, mementoe shops, availability of tourist maps in hotels and shops in every tourist area etc.

12. **I.T. & Business processing**

13. **Electrical machinery**

14. **Leather Goods manufacturing, shoes leather bags etc.**

15. **Revival of SEZs and Infrastructure for Industrial corridors**, Clusters with focus on Multi-Product Industries

16. **Development of Industrial Corridors along with Golden Quadrilateral** and develop small Industrial townships of about 5 lakh population in 10 to 20 year period to reduce migrants to mega cities for employment

16. ISRO to be strengthened

Country	Period	GDP (Share)	Emtploymen
Japan	**1970**	**36**	**27**
China	**2005**	**32.3**	**15.9**
Taiwan	**1990**	**33.3**	**32.0**
Indonesia	**2004**	**28.1**	**11.8**
South Korea	**2000**	**29**	**23.3**
Thailand	**2007**	**35.6**	**15.1**
India	**2011-12**	**15.7**	**12.8**

Growth of Micro & Small-Scale Sector:

The micro and small-scale sector in the country has seen a phenomenal growth during the last 4 decades. The number of units increased from just 6195 (1956) to 1.58 laths by 2009.

The number of small-scale industries has growth 20-fold during the 40 years from 1956. A corresponding increase in investment and employment by the sector is that the average investment per unit in this sector has been rising whereas, the average employment provided by the sector has been coming down. The major reason that can be attributed to this trend is the advent of new technology and consequent increase in production. With the increase of bigger units, due to the revised definition, more capital-intensive units will be included in this sector, the average investment per unit has risen to a much higher level.

Role of MSME in Economy:

A comprehensive Micro, Small and medium Enterprises Act 2006 aimed at facilitating the growth of small enterprises that they graduate to medium enterprises improving their competitive strength. The three categories have been defined and it is proposed to amend the MSME act for enhancing the financial limits basing on annual turnover of the Unit.

The Small-scale industry plays a pivotal role in Indian economy in terms of employment and growth. There are about 322.3 lakh units of SMEs by 2007-08 which provide employment to nearly 730 lakhs all over India. Employment provided by MSME sector is much higher compared to the employment generated by Major industry inspire of much higher investments.

MSME Sector

Classification of MSMEs

S.No	MSME (Type)	Existing Limit (Plant & Machinery)
1	Micro Enterprises	Rs 25 Lakhs
2	Small Scale Enterprises	Rs 25 Lakhs above to Rs 5 Crore
3	Medium Enterprise	Rs 5 Crore+ to Rs 10 Crore

A glance over product wise distribution of MSMEs reveals interesting insights. Maximum number of units found in the food processing sector. Repairing sector and mineral products industry occupy the 2nd and 3rd positions. Even in terms of Investments, food processing sector is on the top providing highest employment in the

state. From this one can understand that this industry needs further boost with appropriate policy measures.

"In Andhra Pradesh & Telangana, a policy framework aimed at invigorating the MSME sector is geared towards attracting green energy investments. With readily available resources, prominence in A.P. has been laid on small scale industries that generate employment. It is hoped that the annual growth rate for the MSME sector attains a 12 to 15 sustainable growth.

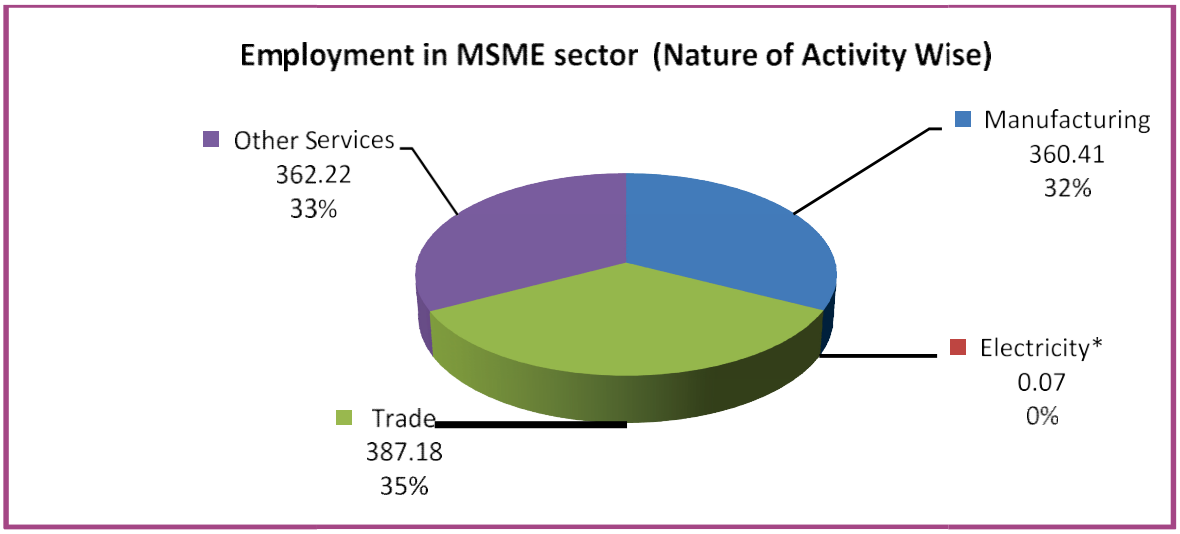
But the growth story of MSME sector was being limited by several roadblocks including a disjoint between the local industry and educational institutions that could not cater to its needs.

Just with adequate finance and market demand the SMEs cannot grow, there should be a "conducive ecological system" for them to grow in the form of government policies.

Table: **Estimated Employment in MSME Sector (Broad Activity Category Wise)**

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	**32**
Trade	160.64	226.54	387.18	**35**
Other Services	150.53	211.69	362.22	**33**
Electricity*	0.06	0.02	0.07	**0**
All	**497.78**	**612.10**	**1109.89**	**100**

*Non-captive electricity generation and transmission



Bottlenecks for MSMEs:

a) **Inadequate infrastructure**: Physical infrastructure in India suffers from substantial deficit

in terms of capacities as well as efficiencies. Rapid growth of the economy has put further stress on infrastructure. Lack of quality industrial infrastructure has resulted in high logistics cost and has in turn affected cost competitiveness of Indian goods in global markets.

b) **Restrictive labour laws**: The tenor of labour laws has been overly protective of labour force in the formal sector. Though labour protection and security are required, the flipside is that it discourages employers from hiring workers on a regular basis. It has probably also led to entrepreneurs choosing to stay away from labour intensive sectors and opt for highly capital or skilled-labour intensive technologies sectors.

c) **Complicated business environment**: Complex and time taking business processes and clearances have been a disincentive for businesses. India also suffered from a complex multi-layered tax system, which with its high compliance costs and its cascading effects adversely affects competitiveness of manufacturing.

d) **Slow technology adoption**: Indian industry has been a slow adopter of new and advanced technologies. Inefficient technologies led to low productivity and higher costs adding to the disadvantage of Indian products in international markets.

e) **Low productivity**: Productivity as measured by value added per worker and average wages in manufacturing in India are only one-third of that in China. Differences in productivities across sectors and across firms within the same sector make matters worse. Workers in India are overwhelmingly employed in low productivity and low wage activities.

f) **Challenges for trade**: Manufacturing sector especially exporters are facing challenges of stagnant/shrinking global demand and rising protectionist tendencies around the world. Indian MSME sector is particularly facing tough competition from cheap imports from China and FTA countries.

g) **Inadequate expenditure on R&D** and Innovation: Investments in these areas is essential to ensure growth in industry. Public investments have been constrained by the demands from other public service demands and private investment is not forthcoming as these involve long gestation periods and uncertain returns.

h) Lack of Employable skilled Personnel:

No doubt country has good number of educational (technical and non-technical) institutions, but quite a number of youngsters trained here are not employable or do not possess the expertise needed by the industrial sector. There is a mismatch between the skilled technicians and the actual requirement by the Industry

Challenges of MSME Sector:

- "Volume of credit flow to MSMEs continues to be an area of concern. Bankers have maintained that MSME lending is growing at 20-22% year-on-year, even though the overall demand for credit far outstrips the credit flow.
- Source of finance for MSMEs should be thoroughly explored.
- Technology adoption-Need for setting up a technology acquisition fund of sizeable order.
- There should have a great thrust on innovation. For this an innovation fund could be created with government providing the corpus which may be managed by a team of professionals.
- Marketing-Sector should make use of information technology to build market access.
- Physical infrastructure SME clusters worked well. The State governments have key role in strengthening these clusters. Therefore, opportunity of promoting private clusters should be looked into just as private SEZs are sanctioned.
- Skills development –Current activities are relatively diffused and emphasized the need for standardization and certification of the ongoing skills development programmes, such that they become more relevant to the industry. At the same time, the skills development infrastructure itself requires to be expanded in a big way to match the current and future needs".

Steps required to meet the Challenges:

Insufficient Market Research, Linkages and Design inputs:

- Most MSMEs do not have money to invest in market research and are unable to carry out design and technical improvement to keep up with market demands. Unlike the big business and industrial units, they cannot invest in advertising and packaging. This limits their ability to tap markets and attract consumers. Many MSME units have to increasingly depend in middlemen, petty trade and big business to market their products. This has reduced the daily wage of workers and affect the viability of these units.

1. Skill Development :

Based on the employability of resources and the demand for skilled workforce, it is required

to create educational infrastructure support systems for the vocational/skills improvement courses capable of training a large group consisting of 3 to 4 million candidates within a period of next five years. Keeping in view the growing demand for trained personnel, a significant number of the institution support systems needs to be managed through Public Private Partnerships. The quality and quantity of output from such institution support systems to be monitored closely

i) Specialized Industry Specific Training in ITI s:

Gujarat State has introduced a system of industry specific training in ITI in the state. Efforts were made to identify institution wise industry that has been tagged or to these ITIs very reputed industries like Toyota, Kirloskar, L& T Ltd., L.G. Electronics, Eicher, Adani Group, General Motors, Microsoft India Ltd. Batliboi Jindal etc., have been involved in the process.

ii) Initiatives for Improving Employment of Unskilled Labour:

Sustenance Training and Employability Program: (STEP) has to be targeted at the large pool of minimal educated, but skilled workforce. A large-scale development initiative covering around 5 lakh people annually in the state, seeking to import basic training to unskilled labour especially those dependent on seasonal agriculture operations so that they can take up jobs in the state's industrial and service sector units. This will ultimately reduce the burden on NREGS.

2. Power Sector Issues:

The installed capacity of power in India is 364.96 G.Watts (Oct.2019), of which themal energy constitutes 62.9%, Renewable 35.9% and Nuclear Energy 1.9%.

The Road Ahead

The Government of India has released its roadmap to achieve 175 GW capacity in renewable energy by 2022, which includes 100 GW of solar power and 60 GW of wind power. The Union Government of India is preparing a 'rent a roof' policy for supporting its target of generating 40 gigawatts (GW) of power through solar rooftop projects by 2022.

Coal-based power generation capacity in India, which currently stands at 229.40 (As of October 2019) GW is expected to reach 330-441 GW by 2040.

India could become the world's first country to use LEDs for all lighting needs by 2019, thereby saving Rs 40,000 crore (US$ 6.23 billion) on an annual basis.

All the states and union territories of India are on board to fulfil the Government of India's vision of ensuring 24x7 affordable and quality power for all by March 2019, as per the Ministry of Power and New & Renewable Energy, Government of India.

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