What it'll take to make India a manufacturing hub

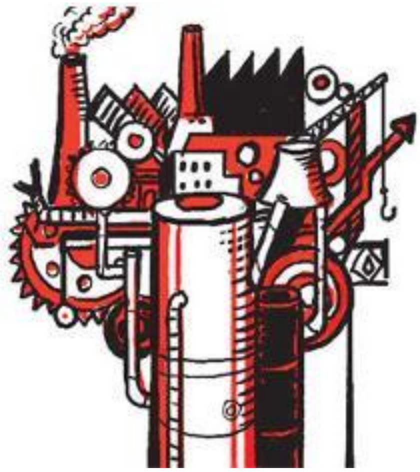
In his first Independence Day address, Prime Minister Narendra Modi said that he wanted companies to make things in India, rather than have us import manufactured goods from overseas. This can be interpreted as a return to good old "import substitution". But that didn't work. India's share of manufacturing in gross domestic product is around 16 per cent, compared to China's 34 per cent and South Korea's 31 per cent. What will it take to get investors to make things in India?

It is easy to blame land acquisition rules, environmental clearances, labour laws and corrupt administrative clearance/inspection for the relative decline of manufacturing. The reality is more complex. Most regulations are administered by state governments and New Delhi has little say over that. We have had success stories. By the mid-1990s, our policies encouraged global carmakers to invest locally. The old, sclerotic industry was soon replaced by local versions of cars sold all over the world. This was supported by a strong ecosystem of component makers. Yet, over time, the car making hubs around Delhi and Tamil Nadu have been marked by periodic labour unrest, as aspirations of workers collide with what industry is willing to offer. Most of the workforce is contractual, earning a fraction of what a proper blue-collar worker would earn, with few, if any, privileges of leave, insurance and medical assistance. These things have to change if manufacturing has to generate consumer demand as well.

Henry Ford used to say that his workers should be paid enough to afford a house with a garage — where a Ford car would fit nicely. That should be the ideal for all manufacturing investors in India: to create a satisfied, well-paid workforce that can afford to buy the things that are made in India. Cutting corners on this is no longer an option.

Industrial growth appears to be on the verge of strong revival

Quick estimates of industrial growth for June actually suggest strong revival of growth in the offing that is investment-led and focused on producer goods. And to keep up the momentum, the Centre needs to chalk out proactive policy to boost manufacturing in such high-growth potential sectors as telecom equipment and silicon chip fabrication plants. True, overall industrial production has risen by a lack lustre 3.4 per cent (over that in June last year).
And manufactures, which have over 75 per cent weight in the industrial index, have posted a lowly 1.8 per cent growth. However, it is entirely possible that the index, which is largely a volume-based measure, may be underestimating value-added in the form of quality improvements.



Besides, disaggregated figures in the index reveal a positive trend. Capital goods production has surged 23 per cent, no doubt aided by a marked upsurge in particular segments like electrical machinery, which has posted a phenomenal 69.2 per cent rise in output. It is true that the seeming uptick in capital goods output is on a very low base, and lumpy equipment, which may take several months to produce, can periodically lead to spikes in output. However, the figures do reveal that capital goods output during April-June has gone up by a credible 13.9 per cent. And first-quarter company results do seem to corroborate turnaround performance quite across the board.

Note also that the latest industrial figures show that electricity output, with over 10 per cent weight in the index, has revved up a commendable 15.7 per cent. It may well have shored up output in services, but we have no way of knowing by how much as the Central Statistics Office does not put out figures pertaining to a regular index of services output. The industrial index itself needs to be revamped, for instance, by having value-based measures for long-gestation goods so as to smoothen the production curve. More important, instead of the dated year-on-year measure, we do need month-on-month figures as is the global norm, seasonally adjusted, to keep better track of the industrial economy.

Finance Ministry working on proposal to revive SEZs

NEW DELHI: The government is working out a package of tax and non-tax incentive to revive the Special Economic Zones (SEZs) and a final view is expected to be taken shortly, a finance ministry official said.

"We are discussing with the Commerce Ministry and working out an overall package of tax and non-tax issues," a senior finance ministry official said, adding a decision will be taken soon. The SEZ policy, which was initiated with a bang by the previous UPA government, ran into rough weather with the Finance Ministry withdrawing the tax incentives available to SEZ developers and the units there in. Of the 566 formally approved SEZs, only 185 are in operation.

Many of them could not come up because of the decision of the government to impose Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) in 2012. "Reviving SEZ will give a boost to the manufacturing sector, which has registered near zero growth in last two financial years," the official added.

SEZs, which are major export hubs, contribute about one-third to the country?s total exports. They provide employment to about 15 lakh persons. Exports from these zones increased from Rs 22,840 crore in 2005-06 to Rs 4.94 lakh crore in 2013-14. As per the original provisions of the Special Economic Zones Act, 2005 and Rules, 2006, SEZ developers and units were exempted from MAT. But in 2012, government imposed 18.5 per cent MAT on the book profits on SEZ developers and units. The industry has been complaining that Minimum Alternate Tax and the DDT on SEZs have dented the investor sentiment.

Voicing concern at a large number of stalled SEZ projects across the country, Prime Minister Narendra Modi has said a high-level team has been constituted to review the problems and resolve them at the earliest.

"In the PMO, there is a special team to look into why SEZs are not finding takers and to suggest solutions for the benefit of the entire country," he has said. Even in his Independence Day address, Modi pressed for giving a boost to manufacturing sector and asked foreign companies to "come and make in India".