



PROGRESS HARMONY DEVELOPMENT

Estd. - 1905

Make in India

Bolstering Manufacturing Sector

October 2014

PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, August Kranti Marg, New Delhi – 110016

Phone: 91-11-49545454, Fax 91 11 49545451,

Email phdcci@phdcci.in , Website www.phdcci.in



Sharad Jaipuria

From President's Desk

Manufacturing sector is the backbone of any economy as it fuels growth, productivity, employment, and strengthens other sectors of the economy. The situation of manufacturing sector in India is a cause of concern especially when seen in comparison to the massive transformation registered in this sector by other Asian countries in similar stages of development. At around 16% value added of manufacturing to India's GDP, the sector does not seem representative of its potential which should have been 25%.

The launch of Make in India programme would go a long way to establish India as a major manufacturing hub that will generate millions of employment opportunities and push India on a high and sustainable growth trajectory in the coming times.

Measures such as improvement in the ease of doing business, manufacturing competitiveness, infrastructure, availability of power and land, reforms in labor laws, simplification of tax structure, addressing the anomalies in FTAs, good governance, conducive policy regime for SEZs and focus on massive skill development and macro-economic stability would be critical to Make in India a success mantra to turnaround India's growth story.

R&D activity should also be promoted at large, as it helps in strengthening global competitiveness with productivity improvements and product innovations. Manufacturing sector competitiveness in technology intensive industries cannot be secured on the basis of import of technology alone. Therefore, technological upgrading of India's manufacturing sector will not be possible without a considerable emphasis by the corporate sector to in-house R&D activity aimed at efficiency seeking process innovations and new product developments.

We believe that there exist much potential to re-embark on the path of accelerated manufacturing growth supported with effective and strong manufacturing reforms.

ACKNOWLEDGEMENTS

With an objective to boost India's manufacturing sector, the launch of “Make in India” programme by our Hon’ble Prime minister is inspiring as it intends to facilitate investments, foster innovation and build best-in-class manufacturing infrastructure.

PHD Chamber has come up with a report on ‘Make in India: Bolstering Manufacturing Sector’. This report is the outcome of various deliberations of the High Level Core Committee which provided suggestions to the Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry, Government of India for strengthening the manufacturing sector.

We would like to place on record the invaluable inputs provided by Shri D.K. Mittal, Former Secretary, Financial Services, Government of India. We appreciate the support provided by Shri T C A Ranganathan, Former Chairman & Managing Director, EXIM Bank, Shri T K Arun, Editor, The Economic Times and Dr. J P Gupta, Advisor, PHD Chamber in compiling the report.

We take this opportunity to express our gratitude and respect to our office bearers Shri Sharad Jaipuria, President, Shri Alok B Shriram, Senior Vice President and Shri Mahesh Gupta, Vice President for their constant support in formulating suggestions to bolster India’s manufacturing sector.

We express our sincere thanks to the Former Presidents of PHD Chamber Dr. Raghupati Singhania, Shri Sanjay Bhatia and Shri Ashok Kajaria for their profound suggestions.

We are thankful to Shri Sanjeev Gupta, Chairman, Banking Financial Services Committee for providing suggestions on various financial aspects of reviving the manufacturing sector. Shri Anil Khaitan, Chairman, Industry Affairs Committee for providing critical growth drivers of the industrial sector and Shri Sanjeev Shriya, Co-Chairman, ICT Committee for providing immense support in formulating suggestions to boost up domestic manufacturing of electronics goods.

Last but not the least, we like to appreciate the efforts of team PHD Research Bureau, the Industry Affairs Committee and State Committees of PHD Chamber for preparing and compiling the inputs.

Saurabh Sanyal
Executive Director
PHD Chamber

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Abbreviations

APMC	Agricultural Produce Market Committee
ASEAN	Association of Southeast Asian Nations
CAPEX	Capital Expenditure
DDT	Dividend Distribution Tax
DIPP	Department of Industrial Policy & Promotion
DTA	Domestic Tariff Area
ESDM	Electronic System Design and Manufacturing
FDI	Foreign Direct Investment
FTAs	Free Trade Arrangements
GDP	Gross Domestic Product
GMCI	Global Manufacturing Competitiveness Index
GOI	Government of India
GST	Goods & Services Tax
IFC	International Finance Corporation
IIP	Index of Industrial Production
ITES	Information Technology Enabled Services
MAT	Minimum Alternate Tax
MSMEs	Micro, Small and Medium Enterprises
ODM	Original Design Manufacturer
OEM	Original Equipment Manufacturer
OPEX	Operational Expenditure
PSU	Public Sector Units
PTAs	Preferential Trade Arrangements
R&D	Research and Development
SAFTA	South Asian Free Trade Area
SEZ	Special Economic Zone
SMZ	Special Manufacturing Zones
SPV	Special Purpose Vehicle
VAT	Value Added Tax
VGF	Viability Gap Funding
WPI	Wholesale Price Index

Executive Summary

The situation of the manufacturing sector in India is a cause of concern especially when seen in comparison to the massive transformation registered in this sector by other Asian countries in similar stages of development such as Thailand's manufacturing sector value added to GDP is around 34%, China 32%, South Korea 31%, Indonesia 24% and Germany 22% in comparison to India's 16%. India is rated at 134th out of 189 economies on Doing Business Index 2014 by World Bank and IFC. According to '2013 Global Manufacturing Competitiveness Index (GMCI)', India's ranking slipped to 4th from 2nd rank in the 2009-10 Global manufacturing competitiveness Index after China. However, according to the projections for 2017-18, India is expected to register an index of 8.49 and reach 2nd rank after China.

The Hon'ble Prime Minister, Shri Narendra Modi envisions a breakthrough in the manufacturing sector. He talked about a concept of 'Make in India' as a major indication of his focus to drive the manufacturing sector in his speech on Independence Day. The Hon'ble Prime Minister of India formally launched the campaign 'Make in India' on 25th September 2014 at Vigyan Bhawan, New Delhi.

The launch of Make in India is expected to turnaround India's growth story by facilitating the inflow of new technology and capital, while creating millions of jobs and putting India prominently on the global manufacturing map. The "Make in India" program has come up with new initiatives intended to facilitate investment, foster innovation and build best-in-class manufacturing infrastructure. The program is expected to inspire the investors to look at India for their future investments.

PHD Chamber suggests few measures to enhance growth and productivity of manufacturing sector and to increase its share in GDP. Improvement in the ease of doing business; manufacturing competitiveness; state of the art infrastructure including rail, road, port and airport; availability of power; availability of land; reforms in labor laws; simplification of tax structure; addressing the anomalies in Free Trade Agreements; good governance with digitization- electronic filing; conducive policy regime for SEZs and focus on massive skill development and macro-economic stability would be critical to Make in India a success mantra to turnaround India Growth Story.

PHD Chamber recommends aggressive strategies to ensure de-bottlenecking and rapid progress in all these areas. PHD Chamber offers its relentless passion and dedication to build India into a global manufacturing hub as also one of the fastest growing global economies.

Background

The Indian industrial sector is important for country's economic progress. The sector facilitates not only in meeting domestic demand but also reducing import dependence and providing employment opportunities to millions of people. Though the industrial sector registered growth of -0.1% in FY2014, growth has picked up in the recent times with industrial sector registering an average growth of 3.3% during the period April-July 2014-15. The recent measures announced by the new government such as the focus on clearing stalled projects, new institute to replace Planning Commission and amendments in labor laws would be instrumental in fostering growth, going ahead.

However, the situation of the manufacturing sector in India is a cause of concern especially when seen in comparison to the massive transformation registered in this sector by other Asian countries in similar stages of development. At 16% value added to GDP, the manufacturing sector in India does not seem representative of its potential which should have been 25%.

Our Hon'ble Prime Minister Shri Narendra Modi talked about a concept of 'Make in India' as a major indication of his focus to drive the Manufacturing Sector. The Hon'ble Prime Minister of India formally launched the campaign 'Make in India' on 25th September 2014 at Vigyan Bhawan, New Delhi.

The Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry, Government of India invited the Chamber to be partner in this initiative of the Hon'ble Prime Minister. The President alongwith senior members of the chamber held a meeting with Mr. Amitabh Kant, Secretary, DIPP, Government of India on 12th September 2014. Consequent to the meeting, a Core Committee was formed to discuss and deliberate on recommendations for bolstering the manufacturing sector and making India a Manufacturing Hub as per the PM's vision.

DIPP has identified the following main pillars for bringing about transformation in manufacturing:

- a) Measures to improving Business Environment
 - Ease of Doing Business- simplification of rules and procedures
 - De-Licensing & Deregulation
- b) Strategies for enabling manufacturing through each of the following:
 - Industrial Corridors
 - Industrial Clusters
 - Smart Cities
 - Nurturing Innovation
 - Skill Development
 - No Defect, No Effect Policy so as to provide an impetus to high quality and environment friendly manufacturing
- c) Further liberalization of our Foreign Direct Investment regime to encourage manufacturing including in sectors like Defence, construction, civil aviation, and Railways.
- d) Any other macro-economic policies

1. Make in India¹

1.1 Enhancing GDP growth rate

We believe enhancing the demand scenario with job creation would be critical to boost our economic growth trajectory in the coming times.

1.1.1 Enhancing the demand -- Large spendings are essential to build demand. Infrastructure is the only sector which can absorb large spendings without heating the economy. However, the ESSENCE is to achieve this without upfront cash outlays. PHD Chamber recommends the Government to consider annuity (for roads and highways) and PPAs (Power and such models) rather than VGF or other CAPEX substitution model for building infrastructure in the country. The salient features are:

- No upfront cash outflows by the government
- Ownership driven models where private sector is catalysed to build Quality infrastructure with a long term outlook.
- The annuities or PPA payments (cash flows) would take say 3-5 years to arise and become liability on the government. Economies both domestic and global could be ignited within this time frame.
- The amounts and the rates etc being determined today itself, chances of upsides etc causing additional costs to the Government are minimal.
- The funding of such annuities or PPA backed projects could be quite attractive being the government as the off-taker providing assurance of long term revenue generation.
- The requirement of Equity could be lower due to the same reason and hence shall find attractiveness amongst Investors and Developers- old and new.

1.1.2 Job creation-- PHD Chamber identifies following services as the fastest job creators in the country-

- Financial Services
- Information Technology
- Innovation Centres
- Import substitution of electronics goods - increase the domestic manufacturing of electronics goods

¹ This report is drafted on the basis of inputs received from the meeting of **Core Committee** held on 19 September 2014 formed by President, PHD Chamber (list of members annexed) for providing recommendations to Department of Industrial Policy & Promotion (DIPP) for **Bolstering the Manufacturing Sector** and making India a Manufacturing Hub.

1.2 Improve the ease of doing business

India is rated at 134th out of 189 economies on Doing Business Index 2014 by World Bank and IFC (consisting of 10 parameters). PHD Chamber has studied all of these 10 parameters in detail and a point-wise deliberation is enclosed herewith. However, the key strategy which PHD Chamber has focused on is changing India's 134th position to amongst the top 10 countries in the world by using success strategies outlined below:

1.2.1 Setting up Special Manufacturing Zones with all the requirements of ease of doing business provided for the zone for all the units being set up in that zone.

1.2.2 Land availability

- The problem of land acquisition being acute and time consuming, PHD Chamber proposes the ownership of land to remain with farmers.
- However, these farmers would pool in their lands for the purpose of leasing the same out to the manufacturing units through the State Development Corporation which already exists in all states.
- The lease rental would be determined by State Development Corporation in consultation with the landowners such that the landowners are not at an opportunity loss of cultivating the land. To further illustrate, the lease rental would be kept higher than the realizable revenue per acre of the land.
- The lease rental would remain indexed to inflation and renewable every 3-5 years.
- Further, the existing industrial clusters could also be upgraded to SMZ(s) through SDC with appropriate infrastructure upgrades.

With this, PHD Chamber proposes to address the land issues once and for all.

NOTE: As in many other suggestions herewith, PHD Chamber suggests implementation to commence by the centre in the 7 Union territories and 8 BJP governed/ influenced states.

1.2.3 SMZs-Special benefit zones: For the Special Manufacturing Zones, the central government is requested to issue specifically applicable regulation granting all permissions and resolving all issues related to ease of doing business immediately on the approval of the SMZs by the Central Government.

1.2.4 Digitization—The central government while granting the SMZs status shall through the use of digital platform invite the participation of all the stakeholders (Day Electricity Boards, Taxation authorities etc) giving related permissions and approvals in one go. Thus, any incoming manufacturer/SPV shall be assured of getting all clearances by the SMZs (*unless they have been advised of any challenges/ issues within pre-defined time.*)

We recommend the following timelines:

- Electronic filing and disposal of all government application forms etc could be implemented at least in the BJP influenced Union Territories and states within a period of 45 to 60 days.
- In the banking sector, e-payments are at times being charged vs. no charge for a cheque payment. Identification and rectification of all such anomalies is requested on a very urgent basis.

1.2.5 Tax rationalization—PHD Chamber recommends that tax rationalization at least within 7 Union Territories and 8 BJP governed states to be reformed and rationalized within 40 to 45 days setting examples such that various anomalies related to interstate tax issues and centre-state tax issues are resolved at least in this influence area. PHD Chamber feels that this one step could explain to masses the intent of government and the importance of having a progressive government in their own states too.

1.2.6 Ease of Exit—The units in these SMZs should be specifically permitted ‘Ease of Exit’ for which detailed norms should be defined as per their organization structure and status as per their best global practices.

1.3 Agriculture growth

Keeping in view the immense significance of the agriculture sector to improve supply side bottlenecks, we believe following suggestions will improve the growth and productivity of the sector.

- Minimize the wastages by augmenting storage capacities, modernizing/ upgrading the godowns. Reform the APMC Act to liberate the farmers from the shackles of middlemen.
- Set up agro food processing clusters with high value, export-quality and vacuum packed food processing facilities. Attract private sector in food processing to enhance capacity building in the value chain and technological innovations.
- Technology to improve the yield/productivity along with expanded irrigation facilities and fertilizers availability. Spread high productivity states’ farm pattern & technologies across the states to increase overall farm productivity of the country.
- Enhance public investments in agriculture sector to improve agriculture infrastructure. Ensure a 4% agriculture growth (YoY) on sustainable basis factoring bad monsoon behaviour vis-à-vis increased irrigation facilities.

1.4 Improve India's global ratings

We believe stability in macroeconomic scenario would pave the way for improvements in India's global ratings. Fiscal scenario needs to be improved further with pruning the subsidies in fuel and fertilizers and improving the quality of expenditure with defined outcomes of social sector schemes.

To control inflation, PHD Chamber identifies around 6 important commodities (Pulses, Potato, Fruits, Milk, Oil Seeds and High speed diesel) which contribute to inflation in the most significant manner. We suggest core committee to be formed around each one of the commodity, devising clear strategies to curb any possible rise in these prices.

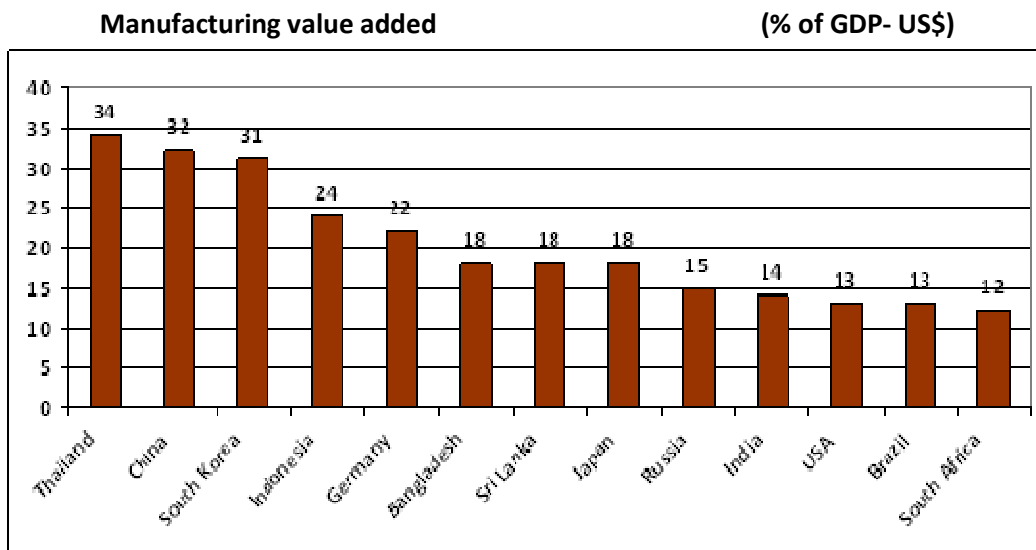
Decline in inflation on sustainable basis will set up room for soft monetary policy and decline in borrowing costs in the coming times.

In a nutshell, PHD Chamber recommends aggressive strategies to ensure de-bottlenecking and rapid progress in all these 4 sectors with digital platforms ensuring speedy resolution of all related issues. If required, the Hon'ble PM may consider having a special advisor on each of these 4 services in his office who could chair and monitor the progress in all these 4 sectors.

PHD Chamber offers its relentless passion and dedication to build India into a global manufacturing hub as also one of the fastest growing global economies.

2. Bolstering Manufacturing Sector

The situation of the manufacturing sector in India is a cause of concern especially when seen in comparison to the massive transformation registered in this sector by other Asian countries in similar stages of development. At 16% value added to GDP, the sector does not seem representative of its potential which should have been 25%. In most rapidly developing economies, manufacturing sector contributes 25-40% to the GDP such as Thailand's manufacturing sector value added to GDP is around 34%, China 32%, South Korea 31%, Indonesia 24% and Germany 22%. The gap in the share of the manufacturing sector, between India and these economies indicate that the manufacturing sector has not been able to fully leverage the opportunities provided by the dynamics of globalization.



Source: PHD Research Bureau, compiled from World Bank and Trading economics,
Note: Data pertains to 2012

PM Shri Narendra Modi envision a breakthrough in manufacturing sector

Our Hon'ble Prime Minister Shri Narendra Modi talked about a concept of '**Make in India**' as a major indication of his focus to drive the Manufacturing Sector.

“We have skill, talent and discipline and a will to perform. We want to give a collective opportunity to the world.Come, make in India, we have the strength, come to our country, I invite you”.

Shri Narendra Modi, Hon'ble Prime Minister of India, August 15, 2014

We believe the **Make in India** programme would go a long way to establish India as a major manufacturing hub that will generate millions of employment opportunities and push India on a high and sustainable growth trajectory in the coming times.

Against this backdrop the PHD Chamber suggests few measures to enhance growth and productivity of manufacturing sector and to increase its share in GDP. We believe improvement in the ease of doing business; manufacturing competitiveness; state of the art infrastructure including rail, road, port and airport; availability of power; availability of land; reforms in labor laws; simplification of tax structure; addressing the anomalies in Free Trade Agreements; good governance with digitization- electronic filing; conducive policy regime for SEZs and focus on massive skill development and macro-economic stability would be critical to **Make in India** a success mantra to turnaround **India Growth Story**.

2.1 Improve the Ease of Doing Business

India has been placed at 134th position in **Doing Business Index 2014 by World Bank and IFC** while it stands at 179 in the ranking of 189 economies on the ease of starting a business which is below those of the neighbors like Sri Lanka at 85th position, Nepal at 105th, Pakistan at 110th and Bangladesh at 130th. These rankings indicate that we have immense scope to improve the corporate sector performance by reducing the costs of doing business and improving institutions. We believe these rankings should improve in the coming times. Improvement in rankings will not only reduce the costs of doing business but also attract global investors to come and invest in India.

2.1.1 Common factors which impact the ease of doing business

- Delays in land acquisition, municipal permission, supply of materials, award of work, operational issues, drag down implementation of the projects.
- Complex and prolonged clearance mechanism for projects pertaining to the environment.
- Project moves through multiple departments and processes at the state and Central levels, which considerably delays the processes.
- Multiple agencies are involved and various approvals required across different stages of the project cycle.

2.1.2 Common solutions which will improve the ease of doing business

- Single window clearances with effective coordination between centre and state governments.
- In some states such as Tamil Nadu, there are single window clearances, similar model should be adopted by different states across the country as well.

- Digitization of all the departments of the Government of India with electronic filing and fulfillment of procedures.
- Create a central cloud where all States should have access and all approvals should be done electronically.

2.1.3 Components of ease of doing business

There are ten components of ease of doing business including starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. India is comparatively good in getting credit, protecting investors and registering property. We have drafted few suggestions to improve the rankings of these components-

Ease of Doing Business

Sr. No.	Category	India's Rank 2014	Components	Minimum formalities	PHD Chamber Suggestions to improve the rankings
1	Starting a business	179	Procedures (number)	12	<ul style="list-style-type: none"> • Single window clearances • Simplify pre-registration and registration formalities • Easy and early availability of land and finances • Reducing the time and costs to meet necessary procedures
			Time (days)	27	
			Cost (% of income per capita)	47.3	
			Minimum capital (% of income per capita)	124.4	
2	Dealing with construction permits	182	Procedures (number)	35	<ul style="list-style-type: none"> • Single window clearances • Reduce time for processing permit applications • Rationalise Environmental and Labour laws • Easy & early availability of land, raw materials and finances
			Time (days)	168	
			Cost (% of income per capita)	2,640.40	
3	Getting electricity	111	Procedures (number)	7	<ul style="list-style-type: none"> • Improve regulation of connection processes and costs • Harness potential of renewable sources of energy including solar, wind, hydel and biomass • Develop energy infrastructure • Rationalize energy pricing mechanism • Avoid over-dependence on any one fuel • Develop indigenous capacities to meet the emerging needs
			Time (days)	67	
			Cost (% of income per capita)	230.7	

4	Registering property	92	Procedures (number)	5	<ul style="list-style-type: none"> Increasing administrative efficiency Effective property registration system through online fast track procedures Reduce taxes or fees
			Time (days)	44	
			Cost (% of property value)	7	
5	Getting credit	28	Strength of legal rights index (0–10)	8	<ul style="list-style-type: none"> Flexible and tailor made working capital solutions Access to foreign funds at cheaper rates Controlling relentless, upward revision of interest rates by Banks & Institutions Strengthen rights of secured creditors during reorganization procedures
			Depth of credit information index (0–6)	5	
			Public registry coverage (% of adults)	0	
			Private bureau coverage (% of adults)	19.8	
6	Protecting investors	34	Extent of disclosure index (0–10)	7	<ul style="list-style-type: none"> Timely and adequate disclosure of relevant information, increased disclosure requirements Strong and clear investor protection laws Frequent investment alerts by companies Increased access to corporate information
			Extent of director liability index (0–10)	4	
			Ease of shareholder suits index (0–10)	8	
			Strength of investor protection index (0–10)	6.3	
7	Paying taxes	158	Payments (number per year)	33	<ul style="list-style-type: none"> Simplify and rationalize complex tax process—implement GST at utmost priority Adopt global best practices in tax administration Introduced or enhanced electronic tax filing systems Abolish Dividend Distribution Tax (DDT) as companies are already paying income tax
			Time (hours per year)	243	
			Total tax rate (% of profit)	62.8	
8	Trading across borders	132	Documents to export (number)	9	<ul style="list-style-type: none"> Set up trade and investment facilitation centers across the States Spread awareness about export Promotion Schemes Develop web portals of destination countries in terms of
			Time to export (days)	16	
			Cost to export (US\$ per container)	1,170	
			Documents to	11	

			import (number)		their economy, trade and investments <ul style="list-style-type: none"> • Simplify customs procedures and spread awareness about customs procedures • Retaining the confidence of foreign investors • Improve export infrastructure in terms of rail, road, port and airport
			Time to import (days)	20	
			Cost to import (US\$ per container)	1,250	
9	Enforcing contracts	186	Procedures (number)	46	<ul style="list-style-type: none"> • Good enforcement procedures and effective contract enforcement • Efficient judicial system in resolving commercial disputes • Enhance predictability in commercial relationships • Alternative dispute settlement process in a timely and cost effective manner
			Time (days)	1,420	
			Cost (% of claim)	39.6	
10	Resolving insolvency	121	Time (years)	4.3	<ul style="list-style-type: none"> • Effective insolvency regimes • Framework for strengthening protection of creditors • Fast, inexpensive and transparent procedures for debt repayment • Debt restructuring and reorganization
			Cost (% of estate)	9	
			Recovery rate (cents on the dollar)	25.6	

Source: PHD Research Bureau, compiled from Doing Business Index 2014 by World Bank and IFC and suggestions of the core committee on manufacturing sector of PHD Chamber.

2.2 Improve manufacturing competitiveness

According to '2013 Global Manufacturing Competitiveness Index (GMCI)', by Deloitte and the U.S. Council on Competitiveness, India's ranking slipped to 4th from 2nd rank in the 2009-10 Global manufacturing competitiveness Index after China. However, according to the projections for 2017-18, India is expected to register an index of 8.49 and reach 2nd rank after China.

Global Manufacturing Competitiveness Index

2009-10			2012-13			2017-18		
Rank	Country	Index Score	Rank	Country	Index Score	Rank	Country	Index Score
		10=High 1=Low			10=High 1=Low			10=High 1=Low
1	China	10	1	China	10	1	China	10
2	India	8.15	2	Germany	7.98	2	India	8.49
3	South Korea	6.79	3	USA	7.84	3	Brazil	7.89
4	USA	5.84	4	India	7.65	4	Germany	7.82
5	Brazil	5.41	5	South Korea	7.59	5	USA	7.69
6	Japan	5.11	6	Taiwan	7.57	6	South Korea	7.63
7	Mexico	4.84	7	Canada	7.24	7	Taiwan	7.18
8	Germany	4.8	8	Brazil	7.13	8	Canada	6.99
9	Singapore	4.69	9	Singapore	6.64	9	Singapore	6.64
10	Poland	4.49	10	Japan	6.6	10	Vietnam	6.5

Source: 2010 and 2013 Global Manufacturing Competitiveness Index

So to regain the improved ranking in global competitiveness index and to attract foreign investments in the sector we need to focus on enhanced R&D activity, improved MSMEs competitiveness and reducing the imports of electronics.

2.2.1 Enhance R&D activity

- India spends less than 1% on R&D which is much lower in comparison to 3.5% for Japan, 3.5% for South Korea, 2.7% for the US, and 1.6% for China.
- Even with its large population, which is estimated to become the largest in the world by 2025, there is an estimated 25% shortage of engineers in the country.
- This is different than China and South Korea that produce large number of engineers each year, more than any other country in the world.

Suggestions

- The R&D activity helps in strengthening global competitiveness with productivity improvements and product innovations. We believe manufacturing sector competitiveness in technology intensive industries cannot be secured on the basis of import of technology alone. Therefore, technological upgrading of India's manufacturing sector will not be possible without a considerable emphasis by the corporate sector to in-house R&D activity aimed at efficiency seeking process innovations and new product developments.

- We believe the government also needs to review, strengthen and consolidate the incentive structure for corporate R&D activity in the country. In particular, there is need to examine the desirability of more direct incentives to R&D activity which have been adopted by the advanced industrialized countries to further the international competitiveness of national enterprises as a part of strategic trade policy.

2.2.2 Improve MSMEs' competitiveness

The financial and manpower definition of MSMEs is far away from the global standards. We believe that could be one of the reasons that MSMEs contribution towards economy is not that much significant as has been observed in many advanced, emerging and developing economies. We have few suggestions to improve the competitiveness of the MSMEs sector with its increased participation in the economic system.

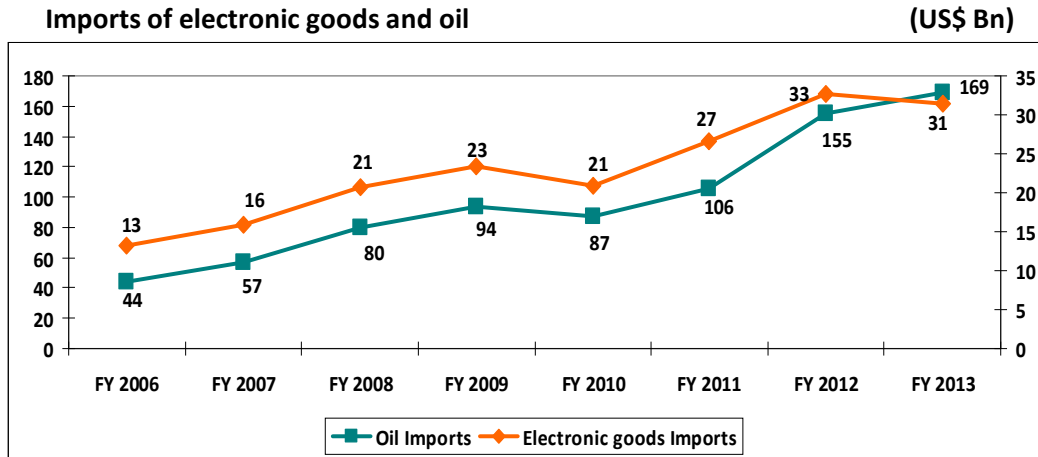
Suggestions

- MSMEs scale should be increased manifold in terms of financials and manpower so that more and more companies come under MSMEs and existing MSMEs are also able to expand their capital base. It should be comparable with the global standards.
- The new companies act has been observed a deterrent to the competitiveness of the MSMEs sector as the sector may not be able to comply with the provisions made in the act. It can have impact on the ease of doing business which is already in weak trajectory. So, the new companies act needs to be revisited in consideration with the various issues and challenges to the small scale sector.
- Apprenticeship Act needs to be amended to facilitate the employment scenario. Each factory should be considered as a skill development centre with the enhanced limit of apprentices.

2.2.3 Reduce the imports of electronic goods

The demand for electronic consumer goods in India is sky-rocketing. The demand for electronics hardware in India is projected to increase from USD45 billion in 2009 to USD400 billion by 2020. We are buying smartphones, tablets, laptops, TVs, cameras and etc. in record numbers. This has been fueled by the rising per capita income of 1.3 billion people due to record high GDP growth in last decade.

Most of the current and future demand is expected to be met by imports, due to inadequate domestic design and manufacturing setup and insufficient attention to promote in-country manufacturing. This large dependence on imports (primarily from China and Taiwan) is creating a serious foreign currency issue and economic concern for India.

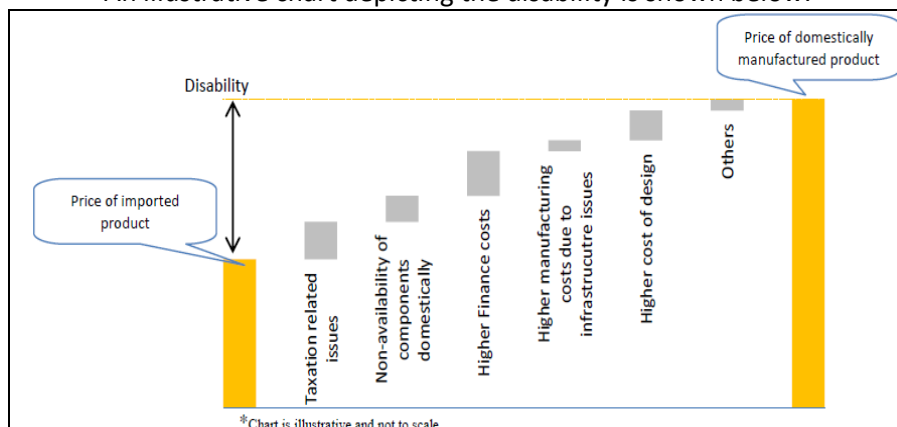


Source: PHD Research Bureau compiled from Ministry of Commerce, Government of India

A big percentage of electronic goods in the global market are designed and manufactured by Taiwanese ODMs (original design manufacturers). The ODMs design and manufacture a product specified and eventually branded by another firm for sale (called OEM’s). The ODMs allow the brand firm to market the product under their label without having a large design organization or running a factory. Today, the Taiwanese ODMs design their products in Taiwan and mostly manufacture in China. Due to the rising cost of labor in China and availability of design (hardware and software) talent in India, the Taiwanese ODMs are desiring to be part of India’s design and manufacturing landscape. However, they still see a great risk to move operations to India, due to a number of political/ economic reasons.

According to a study conducted by E&Y, “**Indian Electronics System Design and manufacturing Disability Identification Study**”, disability due to the business environment includes disabilities due to factors including inventory-carrying costs, other working capital costs, freight costs, electricity costs, real estate costs, etc.

An illustrative chart depicting the disability is shown below.



Source: E&Y

At this backdrop, it is high time that a world class ODM is setup in India which will design and manufacture in India for customers like Sony, Dell etc for both Indian market as well as for the export market.

Problems

- The current policies of GOI insufficiently address the problem. The incentives for in-country manufacturing need to address operational disabilities and high costs and should be OPEX based – and not CAPEX based.
- Other countries like Brazil have in the recent years addressed this with a twin carrot and stick approach, thus causing a flood of global investment dollars in Electronics Manufacturing to pour in.
- If India does not make a change in policies now, we will once again lose the traction and Brazil and other countries will move in and seize the opportunity, as happened earlier with China.

Key Suggestions to spur ESDM

- Comprehensive policy covering Commerce, Electronics, Finance and Infrastructure issues. The current approach is disaggregated.
- Sticks
 - Ring-fence domestic market from imports of electronic products (Brazilian example); refund excise duties on in-country production in new “qualified mega units” to make imports costlier
 - Implement PMA on Government, Telecom (licensed activity) and Security products
 - In-country certification mandatory for key products (security context)
- Carrots
 - Eliminate VAT on local manufacturing
 - OPEX based subsidy (rather than the capex based model currently)
 - Special Incentive to R&D for ESDM (Malaysia and Singapore example)
 - Land lease model – eliminate hoarding of land
 - Fund / Loan interest subsidy

2.3 Upgrade infrastructure

Building a high class infrastructure is crucial for the effective functioning of the industrial sector especially for the manufacturing competitiveness. It is widely acknowledged that infrastructure deficit is by far one of the most binding constraints to accelerating manufacturing sector

growth. Even so, our efforts to bridge the deficit have fallen way short of the task. We have few suggestions to improve current state of the art infrastructure that would be critical to fasten the industrialization process.

2.3.1 Rail

- Increase the capacity of railways with modernization through state of the art technology
- Dedicated freight corridors, segregated freight and passenger lines should be constructed as they provide improved connectivity to industry and ports etc.
- Resolve regulatory issues including land acquisition, approvals from state governments and provide model concession agreements to put various PPP projects on fast track.

2.3.2 Road

- Build more and more extensive highways and expressways to prevent roads from becoming bottlenecks to manufacturing growth.
- Facilitate land acquisition, environment clearances, efficient contractors and engineers, adequate skilled and unskilled labour force and availability of finances to the contractors.

2.3.3 Port

- Extensive capacity addition is needed at major ports to meet growing trade volumes.
- Cargo handling at major ports should be increased.
- Facilitate connectivity to hinterlands.
- Custom procedures needed to be simplified
- Build integrated public transport projects including roadways, railways and waterways.

2.3.4 Airport

- Encouraging global airport acquisition by established Indian Airport Operators
- Evolving innovative funding solutions for Airport development.
- Enhanced Regional connectivity in tier 2 and tier 3 cities.
- Dispensing the existing land use restrictions in Brownfield airports in line with Greenfield airports.
- Tax incentives and re-structuring of aviation taxes.

2.4 Reforms in Power sector

Availability of power is a major issue in almost all states of northern India and should be addressed by the government. To match the demand-supply gap of energy requirement,

reforms in coal sector is essential to take our country forward. Coal plays significant role in India's industrial output growth, as our industries are largely dependent on indigenous coal production and around 66% of India's power generation is coal based.

There is enormous potential for coal exploration in India, but the resources are largely untapped while many projects remain under implemented due to procedural hassles. Thus the coal sector in India promises tremendous avenues for investors which could be harnessed to pave the way towards a sustainable and environment friendly economic growth.

Twelfth plan aims to add 80,000MW and half of the generated capacity is expected from the private sector. However, resources currently allocated to energy supply are not sufficient.

Suggestions

- Energy infrastructure should be developed with upgradation of technology and strengthening of high capacity national transmission grid.
- Transportation of power is far cheaper than transportation of coal. As 53% of railway freight is used in transportation of coal, new power plants should be located within the radius of 50 to 100 km of coal pits
- Availability of power and reduced power rates
- Idle Power generation capacity should be utilized
- Restructuring of discoms need to be implemented in spirit
- Drip irrigation has to be given top most priority to save 15% power and saving of precious water.

2.5 Availability of land

The cost of acquiring land is increasing affecting the viability of industrial projects. High consent rates will also make acquisitions very difficult thereby eroding the competitiveness of Indian manufacturing sector.

Suggestions

- The Land Acquisition Act should be revisited. The time schedule of a minimum of 50 months or 5 years for land acquisition which cause delays should be scrapped.
- To tackle the problem of land acquisition, there should be creation of land banks at the State level which is similar to clusters approach of the government.
- Gujarat model of land acquisition can be followed.

2.6. Reforms in labor laws

The current market scenario demands flexible form of employment and flexibility in handling workforce to address sudden upsurge and downturn in the cyclic demands of the market, as well as, hiring manpower to execute time bound projects/export commitments. Rigidity in labour laws in India does not allow flexibility as a result; industry is inclined to take capital intensive routes to production and services, which is not in the socio-economic interest of the country as we have a backlog of 40mn unemployment which is further added by 13mn youth joining the labour force every year.

Suggestions

- Repeal the existing labour laws which put unnecessary regulatory burden on businesses.
- Simplify the exit rules for Indian and foreign entities
- Single comprehensive law related to labour's safety, welfare and rights would be critical to industrial expansion and job creation.
- The Contract Labour (Regulation & Abolition) Act, 1970 puts a number of conditions on industry's demand for hiring contract labour. To enable industry to engage contract labour freely, Section 10 of the act needs to be deleted.

2.6.1 Impact of stringent labour laws on employment

A Report of the World Bank² notes that by imposing excess rigidity in the formal manufacturing labour market, the labour regulation has created disincentives for employers to create jobs. The Report presents an estimate according to which the Industrial Disputes Act has caused about three million less jobs to be created in formal sector manufacturing.

The formal or organized sector of manufacturing provided about 9 million jobs. This would have been 12 million if three million jobs were not lost. Thus, going by the estimates presented in the World Bank study, the Industrial Disputes Act has lowered employment in organized manufacturing by about 25%.

Besides affecting the quantity of employment generated in organized manufacturing, labour market regulations have also affected the quality of employment. There has been growing use of contract labour in organized manufacturing. The contract workers as percentage of total workers employed in organized manufacturing has increased from 14% in 1995-96 to 31% in 2007-08, and further to 34% in 2010-11.

² India's Employment Challenge: Creating Jobs, Helping Workers, Oxford University Press, New Delhi, 2010

2.7 Addressing the tax concerns

Taxation in India needs structural, operational and administrative reforms as the Indian tax regime is not conducive to fostering growth. According to World Bank, India ranks 158 in terms of overall ease in tax payment out of 189 countries.

Suggestions

- Simplified, rationalized and long term stable taxation system is required.
- The implementation of GST will also provide a more enabling environment for India's trade and industry and lead to a single common market across the Indian states.

2.8. Addressing the anomalies in Free Trade Agreements

India has become (near to become) part of many reciprocal/unilateral Preferential Trade Arrangements (PTAs) and Free Trade Arrangements (FTAs) such as ASEAN, SAFTA etc. However most of the countries with which FTAs have been signed have significantly higher ease of doing businesses and costs of doing businesses. So, going ahead, signing of FTAs needs to be revisited with an in-depth consultation with industry.

Suggestions

- Look into the inverted duty structure and remove anomalies in the import tariff structure where duties on imports of raw materials are higher than the duties on finished products.
- There should be minimum 30% value addition (Rules of Origin) across the FTAs signed and yet to be signed.

2.9. Conducive policy regime for SEZs

Operating in Domestic Tariff Area (DTA) has become more beneficial as compared to operating within SEZs especially after withdrawal of exemption for Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) for the SEZs. Signing of more Free Trade Agreements (FTAs) by India which enabled Indian exporters outside the SEZs to import duty free imports of inputs also acted as a disincentive for exporters operating within SEZ.

Suggestions

The government should undertake sound policy measures to regain the confidence of SEZ's units/developer's. Export benefits accrue to DTA units should also be extended to SEZ units, re-imposition of MAT/DDT should be re-considered and some additional benefits such as period for 100% tax exemption should be increased to 10 to 15 years from 5 years presently.

Procedures relating to exit mechanism should be speedy, clear and transparent and should be devised so as to tackle the exit cases effectively. Establish sector specific economic zones for providing conducive milieu to industrial units as it is a sustainable, cost effective and inclusive.

2.10 Improving governance with digitization- electronic filing

There should be digitization in all departments of the government with electronic filing. There is a need for creation of a central cloud where all states should have access and all approvals should be done electronically. Information technology in public service delivery should be promoted as this will ensure greater accountability and transparency in the service delivery mechanism. There is a need for minimising discretionary interface/interpretation in the government. The contracts already entered into with PSUs, submission of execution reports and request for payments due should be brought into e-governance mode.

2.11 Skill Development

Improving factor productivity depends significantly on raising the skill endowment of the labour force. The skills gap is no longer just a handicap; it is turning out to be a crisis. Our industry is facing an acute shortage of skilled manpower in various sectors including ITES, biotechnology, healthcare, food processing and construction, among others.

Suggestions

- Encourage private sector to have approved training programs.
- National campaign on skill development by increasing the centers from 9500 to minimum 1,00,000 in 3 years

2.12 Macro-economic stability

Improvement in macroeconomic indicators is inspiring and hopefully will strengthen in the coming times too. Real GDP has improved from 4.7% in 2013-14 to 5.7% in Q1 2014-15. IIP has increased from (-) 0.1% 2013-14 to 3.3% during the period April- July, 2014-15. Exports have increased from 4% in 2013-14 to 7.3% in during the period April- August, 2014-15. FDI inflows increased from 8% in 2013-14 to 34% in Q1 2014-15. WPI Inflation has declined from 6% in 2013-14 to 5.3% during the period April- August, 2014-15.

We believe stability in inflation scenario would pave the way for soft monetary policy and decline in borrowing costs in the coming times. The recent measures announced by the new government such as the focus on clearing stalled projects, new institute to replace Planning Commission, amendments in labor laws and opening up FDIs in various new areas would be instrumental in fostering growth, going ahead.

2.13 Manufacturing growth amongst Indian states

Growth of manufacturing sector is significantly better in the states of Himachal Pradesh (12%), Uttarakhand (11.7%), Tamil Nadu (9.7%), Gujarat (8%) and Assam (7.7%) as compared to the states experiencing low growth in the manufacturing sector namely Jammu & Kashmir (4.3%), Chandigarh (3.3%), Bihar (3%), Rajasthan (2.5%), Madhya Pradesh (2.4%) and Chhattisgarh (-3.4%).

Average Manufacturing Growth from FY2009 to FY 2014 (In %)

S.No.	States	Average Manufacturing growth (%) from FY2009-14
1	Himachal Pradesh	12.0
2	Uttarakhand	11.7
3	Tamil Nadu	9.7
4	Gujarat *	8.0
5	Assam	7.7
6	Andhra Pradesh	6.9
7	Punjab	6.0
8	Odisha	5.8
9	Haryana	5.6
10	Kerala *	5.5
11	West Bengal	5.4
12	Jharkhand	4.8
13	Maharashtra	4.7
14	Uttar Pradesh	4.6
15	Jammu & Kashmir	4.3
16	Arunachal Pradesh	4.2
17	Chandigarh	3.3
18	Puducherry	3.1
19	Bihar	3.0
20	Rajasthan	2.5
21	Madhya Pradesh	2.4
22	Karnataka	1.4
23	Andaman & Nicobar	0.6
24	Chhattisgarh	-3.4

Source: PHD Research Bureau, compiled from CSO, MOSPI, Government of India

Note: Data for the states of Gujarat and Kerala is available till FY2013

Suggestions

The states witnessing higher growth in the manufacturing sector should be considered as model states and the growth strategies followed by these states should be adopted by other states also in order to boost growth of the manufacturing sector.

Annexure 1

The eminent members of the Committee who provided their inputs for the report are:

1. Shri Sharad Jaipuria, President, PHD Chamber
2. Shri Alok B Shriram, Senior Vice President, PHD Chamber
3. Shri Mahesh Gupta, Vice President, PHD Chamber
4. Dr. Raghupati Singhania, Former President, PHD Chamber
5. Shri Sanjay Bhatia, Former President, PHD Chamber
6. Shri Ashok Kajaria, Former President, PHD Chamber
7. Shri Sanjeev Gupta, Chairman, Banking Financial Services Committee, PHD Chamber
8. Shri Anil Khaitan, Chairman, Industry Affairs Committee, PHD Chamber
9. Shri Sanjeev Shriya, Co-Chairman, ICT Committee, PHD Chamber

The eminent experts:

1. Shri D K Mittal, Former Secretary, Financial Services, Govt. of India
2. Shri T C A Ranganathan, Former Chairman & Mg. Director, EXIM Bank
3. Shri T K Arun, Editor, The Economic Times
4. Dr. J P Gupta, Advisor, PHD Chamber

Secretariat

1. Shri Saurabh Sanyal, Executive Director, PHD Chamber
2. Dr. S P Sharma, Chief Economist, PHD Chamber
3. Shri Debjit Talapatra, Director, PHD Chamber
4. Shri Vivek Seigell, Senior Secretary, PHD Chamber

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The Research Bureau has been instrumental in forecasting various lead economic indicators national and sub-national. Many of its research reports have been widely covered by media and leading newspapers.

Dr. S P Sharma
Chief Economist & Director of Research

Ms. Megha Kaul
Sr. Research Officer

Ms. Rashmi Taneja
Sr. Research Officer

Ms. Surbhi Sharma
Research Officer

Ms. Nidhi Gautam
Research Associate

Ms. Pallavi Mehta
Research Assistant

Ms. Bhawana Sharma
Research Associate

Ms. Ekta Goel
Research Assistant

Ms. Sunita Gosain
Secretarial Assistant

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