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MANUFACTURING COMPETITIVENESS –

Progress of the work done by the

National Manufacturing Competitiveness Council (NMCC)

NOTE FOR THE NATIONAL ADVISORY COUNCIL

- The National Common Minimum Programme had identified the need to have a continuing forum consisting of representatives from Government, the Industry and the Academia for policy dialogue to energize and sustain the growth of the manufacturing industry. Food processing, Textiles and Garments, Engineering, Consumer goods, Pharmaceuticals, Capital goods, Leather and IT hardware are among the priority items specifically mentioned in the Common Minimum Programme.
- Since 1991, the Indian economy is being progressively liberalized and its integration to the global economy is deepening. On the one hand the liberalization and globalisation have provided unprecedented opportunity for the growth and expansion of the industry in general and the manufacturing in particular. On the other hand the Indian industry has to not only face stiff competition from free imports but also has to continue its efforts to grow its export capability through competitiveness. There is a continuous need to benchmark the Indian manufacturing sector against the best in the world and enhance competitiveness of the manufacturing sector while ensuring that jobs are created adequately for the millions joining the workforce annually.
- Globally the manufacturing activities are now acquiring a new dimension. The trend is to source products from Low Cost Countries (LCCs). This is gaining momentum. India with its past experience, large pool of skilled manpower, established raw material and supply base and growing domestic volumes has the potential to emerge as major manufacturing hub for the global market. To harness the opportunities and the potential, appropriate sector specific interventions with special focus is the need of the

hour. Sectors like Textiles, Chemicals and Pharmaceuticals, Electrical and Electronics, Food processing and Leather and Handicrafts are some examples which offer immediate opportunities to garner a major share of the global market.

- The average annual growth in GDP increased from 5.8% during 1980s to more than 6% during the nineties. Industry contributes about 27% of GDP. The share of services is increasing from 42% in 1991 to 51% in 2003 while the share of agriculture is decreasing from 31% in 1991 to 22% in 2003. Manufacturing sector which is a part of the industry accounts for about 17% in India's GDP with a share of 12% in total employment (48 million persons). More than 75% share in India's total exports comes from manufacturing sector. The manufacturing sector grew at an average of 6.3% during 1991 to 2003. East Asian economies, e.g., China (35%), Indonesia (25%), Malaysia (31%) and Thailand (34%) have a much higher contribution of manufacturing in their GDP.
- India's share in the global trade is less than 1%, which is much below the potential. Five sectors viz., gems and jewellery, textiles, engineering goods, chemicals, leather and leather goods account for 75% of the India's exports. The two trading blocks, US and EU, receive more than 50% of exports from India.
- Attaining competitive edge in 'manufacturing' depends critically on mitigating constraints; both the general constraints such as infrastructure, transaction cost, higher interest, power and regulatory issues as well as sector specific constraints such as technology upgradation, market access, duty structure, managerial practices and competitive scales etc. Resolution of these constraints necessitates focused attention and action involving not only inter-Ministerial/Departmental co-ordination but also closer interaction amongst stakeholders viz; industry, input providers, financial institutions, education, research and management institutions.

- Recognizing the importance of manufacturing in over-all economic growth of a country and the need for enhancing its productivity, competitiveness and employment generation many countries have initiated institutional mechanism for a national approach on manufacturing.
- In the above background and in line with the priorities laid down in the National Common Minimum Programme the Government has set up the National Manufacturing Competitiveness Council. This is an inter-disciplinary and autonomous body at the highest level to serve as a policy forum for credible and coherent policy initiatives. The council will also help in implementation without any delay. The role, functions, and composition of the council as given the notification of the Government is as below:

Role

- Identification of manufacturing sectors having potential for global competitiveness, and problems and constraints in such sectors with respect to structure and size of industry, technology gaps, modernization needs etc.,
- Evolving sector specific strategies for enhancing competitiveness of manufacturing sectors.
- Recommending measures to create common infrastructure and facilities such as testing, quality, design, HRD, skills, training institutes etc.
- Providing forum for dialogue between the public and private sectors, labour and academic sectors.

Functions

The Council would look at industry and sector specific initiatives that may be required. Functions would, *inter alia* include:

- Sectoral and enterprise level initiatives
- Innovation and technology development(R&D)
- Entrepreneurship promotion
- Infrastructure and enabling facilities
- Trade and fiscal policies
- Employment generation

Based on the experience gained by the NMCC since its inception, NMCC has worked out the revised role and functions which would make it an effective agency for overarching coordination of various sub-sectors of manufacturing as well as to enable it to function as a review mechanism for suggesting policy and implementation measures. This is under consideration of the Government.

Composition:

The Council is headed by Dr. V. Krishnamurthy and comprises of 25 members which include noted industrialists, economists and representatives from industry associations and Government. The list of members of the Council is annexed. The NMCC secretariat consists of the Member Secretary and a Director level officer with skeletal support staff at this moment. However, some more posts at the senior level have been recently approved and the process of filling up has began.

Work done so far:

Realizing that various issues confront the manufacturing sector and involve entire gamut of Indian economy, the NMCC is adopting the twin approach of drawing up a National Strategy for Manufacturing to identify the areas of policy interventions and outlines the strategic directions that need to be pursued in order to realize higher levels of growth and employment. Parallely, NMCC has also taken up certain sub-sectors of manufacturing where immediate policy interventions can unleash higher growth rates along with provision of substantial employment. In the “National Strategy for Manufacturing”, the NMCC has recommended national level as well as sector/industry level specific policy initiatives required for augmenting the growth of the manufacturing sector. The NMCC is also helping Government in the implementation of the Strategy.

National Strategy for Manufacturing

'The National Strategy for Manufacturing' has identified the areas of policy requiring attention and outlines the strategic directions that need to be pursued in order to realize higher levels of growth and employment. India has to aim at achieving a long term GDP growth rate of 8 to 10 percent to substantially improve the living conditions of its people. In order to attain these growth rates the manufacturing sector has to grow at an average rate of over 12% per annum as against about 7% p.a. achieved during 1995-2004. The paper identified the series of action which the Government and Industry should take in order to increase the manufacturing growth to over 12%.

The "National strategy for manufacturing" was taken up for detailed discussion in the meetings of the council. As suggested in the meeting the strategy paper was hosted on the website seeking views, comments and opinion from general public. Comments were also sought formally from various Ministries/Departments of Government of India and also from State Governments.

The draft strategy paper was presented to editors from various national, international papers and magazines to seek their views, opinions and comments on content of report. A presentation of the report was made to Deputy Chairman and Members of the Planning Commission as well to the Economic Advisory Council of the Prime Minister to seek their views opinions and comments on draft strategy paper. They have generally agreed with the thrust of NMCC views. The Planning Commission has agreed that importance of robust growth of the Manufacturing sector would be reflected suitably in the 11th approach paper. In response to 'draft national strategy paper' hosted on the web, the NMCC has received a number of suggestions. Taking into account the comments and suggestions received from a wide cross section of people and the members of the Council, the National Strategy paper has been recast. A copy of the 'National Strategy for Manufacturing' as finalized is enclosed.

Some of the important issues identified in the strategic paper are

- (i) Infrastructure – particularly Power. In terms of Power our rough calculations show that the GDP growth would be higher by at least one percent if adequate and quality Power is available to manufacturing.
- (ii) Need for skill building; upgrading vocational training; Industry will face shortage of trained manpower.
- (iii) Assistance to small & Medium Industries – Help them to become competitive and help them to grow larger.
- (iv) Funds to acquire high technology.
- (v) Taxation – More of rationalisation – NMCC don't argue for subsidy or protection. The aim is to gradually reduce an estimated 15% disability faced by Indian Manufacturers.
- (vi) Simplification of Procedures and reducing the Inspectors.
- (vii) Labour welfare and labour flexibility; Both go together
- (viii) Realising the optimum potential of Public Sector manufacturing enterprises.
- (ix) Getting State Govts. on board on specific programmes.
- (x) Securing additional investment needed for modernisation and creation of capacities.

Sub-sector engagements

As a part of enhancing overall approach towards enhancing competitiveness in manufacturing sector it becomes imperative to focus on sub-sector interventions because of their own characteristic requirements. It is expected that even as broad strategy is being evolved cutting across various sectors there would be certain sectors which could emerge in the forefront of growth and employment because of unique opportunities they enjoy at the present time and inherent comparative advantage which can be realized quickly. Each element of value chain within a sub-sector would need to be examined and propose action implemented in order to make the value chain competitive. Certain sectors emerge in the forefront of growth and employment because of unique opportunities they enjoy at the present time. Certain sectors emerge in the forefront of growth and employment because of unique opportunities they enjoy at the present time. Textiles & Garments, Leather & Leather products, Auto Components, Drugs & pharmaceuticals, Food Processing, Telecom equipment, Handicrafts, Chemicals & Petrochemicals and IT hardware select themselves at this point in time. The NMCC has studied these sub-sectors regarding their present status, their potential growth possibilities and the actions that are required to be taken which are specific to the sub-sector concerned. In addition to the mentioned sub-sectors' NMCC would be initiating further discussions in respect of the following sub-sectors, among others, Biotechnology, Cement, Fertilizer, Gems & Jewellery, Minerals/Metals and steel. Sub-sector wise engagements are a part of the national strategy for enhancing competitiveness of manufacturing sector and will fit into overall manufacturing strategy appropriately. The sub-sector monitoring would be carried out on a dynamic basis keeping in mind the global developments and their implication for competitiveness of the manufacturing sector.

In sum:

- Our studies indicate that it is possible to achieve competitiveness and growth provided certain actions are taken/diligently and speedily implemented. Even if we consistently grow at this rate of 12 percent – Manufacturing would contribute only 23 to 25 percent of the GDP in 2015. The desirable level is somewhere around 30%.
- The good thing that has happened in the last one year is the general acceptance at all levels and in all forums that manufacturing should be brought to the fore in the scheme of national priorities and that it will increase opportunities for employment; It will provide a balanced growth of Indian Economy and involving all regions – all sections of the society;
- It will help India increase exports and to play a greater role in the global economy.
- As stated earlier, we had also studied about 12 sub-sectors regarding their present status, potential growth possibilities and the actions that are required to be taken which are specific to the sub-sector concerned. We have to enable them to realize their full potential. We are in close touch with the respective Ministries/Industry Associations and have assisted them to the extent possible.
- It is clear to us that the existing way of handling manufacturing sub-sectors requires a change. There is no focus or continuity in terms of goals and implementation. In order to ensure this, NMCC would suggest “Mission Mode” of functioning in respect of at least the important sub-sectors where we are hoping to get a break-through. The Mission should have clear goals and necessary delegated powers to achieve the goals. The Mission Leader should have tenure of at least five years and should be made accountable to achieve these goals.

- The NMCC will endeavour to study all the sub-sectors of the Industry. Because of the backlog, it may be necessary for us to prioritise and take up in the first phase those which have strong backward linkages and where employment possibilities are the highest. Thus, the sub-sectors need to be selected carefully on the basis of certain criteria such as-
 - The growth potential
 - Impact on employment and
 - Their spread effect.
 - The chosen sub-sectors need to be given special emphasis by the Government as a whole.
 - In this context the role of the NMCC as a coordinator needs to be recognized. Herein lies the future role of the NMCC: a role which is more to do with achieving results.
 - In respect of the selected sectors the idea is to try and cover all aspects of required actions – carpet bombing as they call it - for improving competitiveness. In this process all the concerned stakeholders would need to put in their full efforts. They would include the Planning Commission, the Finance Ministry, the concerned Department dealing with the sub-sector, the State Governments and the Industry. They will have to be integrated in the Plan documents and in the Budget.
 - At present there is no mechanism in place which would be able to undertake this sort of coordination for implementation in respect of all the manufacturing sub-sectors. The role of NMCC should fill this void in assisting in the implementation of the programmes for getting visible results in the next two years.

- In order to give the necessary overall guidance and the impetus needed, it would be helpful if periodically the progress of implementation is reviewed at the highest level – by the Prime Minister in a Committee similar to the TERC where Finance Minister, Commerce & Industry Minister and Deputy Chairman, Planning Commission are also represented. It would sort out any outstanding issues that require attention at that level.

Decisions taken so far

Hon'ble Prime Minister reviewed the progress of the work of the NMCC on the 13th January, 2006 at which all the Members of the NMCC were also present. There was a detailed discussion on “the National Strategy for Manufacturing” prepared by the NMCC and the following important suggestions of the Council were approved by Hon'ble Prime Minister at the meeting and were announced.

1. A ten-year National Manufacturing Initiative will be launched with a focus on firm level and macro economic initiatives required to make domestic industry competitive.
2. The time-bound implementation of the recommendations of the NMCC will be done through a Mission mode. A Manufacturing Competitiveness Mission will be launched to ensure implementation of policies recommended by the NMCC by relevant ministries.
3. The NMCC will review periodically the implementation of its recommendations by various stakeholders.
4. The policy work of various ministries related with manufacturing sector will be coordinated through an apex mechanism on the lines of the existing Trade and Economic Relations Committee.
5. The Government of India will take up on a priority basis with State Governments the issue of upgrading and increasing training institutions for blue-collar, skilled and semi-skilled workers. The meeting recognized the urgent need to quantitatively and qualitatively improve the

supply of labour force in a wide range of industries. State Governments will be encouraged to promote public-private partnership in the management of industrial training institutes (it is).

The NMCC would be following up on the other recommendations contained in the National Strategy for manufacturing with the concerned.

**NATIONAL MANUFACTURING COMPETITIVENESS COUNCIL:
COMPOSITION**

| | | | |
|------------|---|--|----------|
| I | Chairman of NMCC | | |
| 1 | Dr. V. Krishnamurthy | | Chairman |
| II | Member Secretary | | |
| 2 | Mr. V. Govindarajan | | |
| III | Ex-Officio Members | | |
| (a) | Government of India | | |
| 3 | Member-Industry, Planning Commission. | | Member |
| 4 | Secretary/ Dept. of Industrial Policy & Promotion | | Member |
| 5 | Secretary/ Finance | | Member |
| 6 | Secretary/ HI&PE | | Member |
| 7 | Secretary/ Small Scale Industries | | Member |
| 8 | Director General, Council of Scientific and Industrial Research | | Member |
| (b) | Apex Industrial Organisations | | |
| 9 | President-FICCI | | Member |
| 10 | President-CII | | Member |
| 11 | President-ASSOCHAM | | Member |
| IV | Professional & Expert Members | | |
| (a) | Management & Technical Institutions | | |
| 12 | Dr. Shekhar Chaudhuri | Director, IIM, Kolkata | Member |
| 13 | Prof. M S Ananth | Director, IIT, Chennai | Member |
| (b) | Economists | | |
| 14 | Dr. Bibek Debroy | SG- PHDCCI | Member |
| 15 | Dr. Isher Judge Ahluwalia | Director & Chief Executive, ICRIER | Member |
| (c) | Representatives of various industrial sectors | | |
| 16 | Mr. Ratan Tata | Chairman, Tata Group of Companies | Member |
| 17 | Mr. Venu Srinivasan | CMD, TVS Motor | Member |
| 18 | Mr. Mukul Kasliwal | Chairman, S Kumars Group | Member |
| 19 | Mr. AM Naik | CMD, L&T | Member |
| 20 | Mr. YC Deveshwar | CMD, ITC | Member |
| 21 | Mr. Jamshyd N. Godrej | MD, Godrej & Boyce Mfg.Co. | Member |
| 22 | Mr. Baba N. Kalyani | CMD, Bharat Forge Ltd. | Member |
| 23 | Mr. Suresh Neotia | CMD, Gujrat Ambuja Cements Ltd. | Member |
| 24 | Mr. Habil Khorakiwala | CMD, Wockhardt | Member |
| 25 | Dr. Surinder Kapur | CMD, Sona Koya Steering Systems Ltd. | Member |
| 26 | Ms. Uma Reddy | Chief Executive, Hitech Magnetics, Bangalore | Member |