



Magnets for Manufacturing

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This editorial analysis is based on the article **Magnets For Manufacturing** which was published in The Hindu on 26th of August 2020. It analyses the prospects of several manufacturing companies moving out of China and shifting to India.

Many American, Japanese, and South Korean manufacturing companies operating from China are planning to relocate their manufacturing bases to other destinations among which India is one of the destinations.

The real question now for India is, can it succeed in attracting manufacturing firms and jobs from China? This article analyses the prospects and challenges of the manufacturing Industries in India and the role of states in this regard.

Reasons For Moving Out

These companies are planning to exit China due to three primary reasons.

- **Supply Chain Disruptions:** There is a realisation that relying heavily on China for building capacities and sourcing manufacturing goods is not an ideal business strategy due to supply chain disruptions in the country caused by **Covid-19**.
Decline in production and trade seen in China will have a strong impact on countries further up and down the supply chain since most of the countries have now imposed restrictions on movements to combat the spread of the virus.
- **Chinese Dominance Over Essential Goods:** There is a fear of Chinese dominance over the supply of essential industrial goods. This is an alarming situation for any country and its industry as this puts their independence and autonomy in peril.
- **Trade War:** The growing risk and uncertainty involved in operating from or dealing with China in the light of geopolitical and trade conflicts between China and other countries, particularly the U.S. has further eroded Chinese potential.

Indian Situation

- India lags far behind China in manufacturing prowess. China ranks first in contribution to world manufacturing output, while India ranks sixth.
- Against India's target of pulling up the share of manufacturing in Gross Domestic Product (GDP) to 25% by 2022, its share stood at 15% in 2018, only half of China's figure.
- Industry value added grew at an average annual rate of 10.68% since China opened up its economy in 1978. In contrast, against the target of 12%, the manufacturing sector has grown at 7% after India opened up its economy.
- Next to the European Union, China was the largest exporter of manufactured goods in 2018, with an 18% world share. India is not a part of the top 10 exporters who accounted for 83% of world manufacturing exports in 2018.

Issues With Indian Manufacturing Industries

- **Stringent Labor Laws:** The labour laws in India are extremely complicated. e.g, Industrial Disputes Act-1947 provides that if you are a manufacturing firm with 100 workers or more, you cannot dismiss any of them under any circumstances unless you get prior approval from the government which is rarely given.
The law is mandated even if the industry is going bankrupt. Thus, the investors are not willing to enter into this sector.
- **Inadequate Skilled Workforce:** The manufacturing sector, for it to grow, requires an educated workforce with the necessary skills and training. India's skill ecosystem needs to be fixed.
- **Basic Infrastructure:** Roads, connectivity and transportation are slow and costly when compared to developed nations which is a huge deterrence to Industries. Uninterrupted power supply is another challenge.
- **Small Size:** Small enterprises, because of their smaller size, suffer from low productivity, preventing them from achieving economies of scale.
- **Low Spending On R&D:** Currently, India spends about 0.7% of GDP on research and development, a considerably small amount when compared with other developed nations. This prevents the sector to evolve, innovate and grow.

Role of states

- **Policy Coordination:** Since India follows a federal government system, a lasting solution to these constraints cannot be possible without the active participation of State governments and effective policy coordination between the Centre and the States.

- **State Specific Plans:** Currently, manufacturing is mainly concentrated in few states like Maharashtra and Gujarat which cover a substantial portion of India's geographical area.
 - States like Andhra Pradesh, Bihar, Chhattisgarh, Madhya Pradesh, Odisha, Rajasthan, Telangana, and West Bengal also have large land areas that can contribute to the success stories of Indian Manufacturing.
 - The reasons for less manufacturing activity in these States have to be carefully examined, and based on this, state specific industrialisation strategies need to be devised and implemented in a mission mode with active hand holding by the Central government.
- **Implementation:** Strong and carefully designed policy implementation on the part of individual States would improve India's overall investment climate, thereby boosting investments, jobs, and economic growth.

Way Forward

- **Reforming Labor Laws:** Reforming of the existing labour laws must be prioritised to make them simplified and flexible. They must be reformed in a way that will promote investment and ease of doing business within the sector.
- **Imparting Skill:** The quality of teaching in schools and colleges must be improved. The high-quality vocational training must be provided within the education system. India's labour productivity, though increased in the last decade, is lower than that of China. This should be addressed to compete in the global market. Introduction of vocational courses under **New Education Policy 2020** is a welcome step.
- **Stable Power Supply:** Stable, low cost and uninterrupted power is vital to promote the growth of the industries. Though the availability of Power has improved to a great extent but India must ensure this as soon as possible on industrial level to reap the benefits of manufacturing growth.
- **Reducing Logistic Cost:** The logistics cost in India is estimated to be almost double of the developed countries. In India, nearly 60% of cargo travels by road.
 - This is because of the overconsumption of the railway networks, high rail freights, long transit times, inadequate port depths, high turnaround time at ports and poor warehousing facilities. Addressing these issues can promote the growth of the manufacturing sector.
 - Cheap, fast and easy transportation is the basic requirement for booming industries.
- **More Spending On R&D:** As India is spending very less on Research & Development, it must improve its spending on it. India's spending is much less than the developed nations which spent between 3-4% of their GDPs.

Conclusion

- The policy actions of the Centre and the States must be well coordinated.
- In this context, a suggestion put forth by the Union Minister is worth attempting. To promote electronic manufacturing, he suggested forming a Strategy Group consisting of representatives from the Central and State governments along with top industry executives.
- The purpose is to instil teamwork and leverage ideas through sharing the best practices of the Centre and States. A similar approach is needed for developing the whole manufacturing sector.



Drishti Mains Question

Critically analyse the prospects of India becoming the new manufacturing hub of the world and the role of states in this regard.



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<https://youtu.be/C69UAs7hZio>

This editorial is based on **“Announce another fiscal stimulus”** which was published in The Hindustan Times on August 24th, 2020. Now watch this on our Youtube channel.
