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National investment and manufacturing zones need reinvigoration

Manufacturing is linked to trade and investment policy and sustainability of manufacturing is built on competitiveness.

On 15 August 2014, manufacturing was finally given the primacy it deserved. The prime minister's call from the ramparts of Red Fort to 'Make in India' finally brought manufacturing centre stage. A place it should have necessarily got in the 1990s, when India made its tryst with liberalisation and globalisation. Along with delicensing, a comprehensive package was required to make the hitherto protected domestic manufacturing globally competitive. The reformers' belief that industrial delicensing was in itself a sufficient condition to boost manufacturing expectedly remained an unfulfilled expectation.

Neglect of manufacturing has cost the country dear. Manufacturing was and is the anchor solution to the unemployment problem. For decades, the share of manufacturing has hovered around 15-16% of the gross domestic product (GDP). For comparable Asian economies, it has ranged between 25% and 30%-plus. A sub-par manufacturing growth rate, along with lack of depth in manufacturing, has also added to the country's current account deficit woes by failing to boost exports and reduce imports of manufactured goods. The announcement of the National Manufacturing Policy (NMP) in 2011 was the first step in the right direction. However, it failed to gain traction in the absence of its whole-hearted endorsement by the then-government. NMP had to remain content with getting reduced as a priority of the then-ministry of commerce and industry.

Five years after the announcement of NMP and two years of the Make in India initiative, a lower-than-envisaged manufacturing growth rate (12^{th} Plan growth rate target for GDP and manufacturing were 8% and 10%, respectively), remains an area of concern. To reach the annual growth level of 12-14% envisaged in the NMP, speeding up the setting of 22 national investment and manufacturing zones (NIMZs), industrial corridors and recognition of certain basic aspects of manufacturing is an imperative.

Manufacturing is an outcome. It is inextricably linked to trade and investment policy and sustainability of manufacturing is built on competitiveness. A manufacturing trade deficit of almost $45 billion with China is indicative of the urgency to raise the competitive edge of Indian manufacturing. In the 1990s, the per capita GDP of India and China were comparable. Since then, driven largely by manufacturing, the per capita GDP of China has become almost four times that of India.

Competitiveness is a result of interplay of factors of production and fulfillment of enabling conditions. The National Manufacturing Competitiveness Council set up by the United Progressive Alliance government to increase the competitiveness of Indian manufacturing achieved little on account of its failure to recognise and address fundamental problems plaguing domestic manufacturing.

Manufacturing has to be driven and led by infrastructure and not vice versa. Building of infrastructure has to precede the industrialization process, failing which competitiveness would be a big casualty.

Manufacturing competitiveness is primarily determined by efficiency of production, which in turn requires development and adoption of new technologies. Neither a knowledge-based nor a predominantly service sector economy is sustainable in the long run unless it is backed by a growing manufacturing base. Growth is a function of game-changing technologies—steam engines, railways, steel manufacturing, electricity generation, production of chemicals and petro-chemicals, manufacturing of automobiles and information technology, to name a few.

Manufacturing requires a synergistic relationship and meeting of the minds of the federal and state governments as action is in the states. Industry is primarily a state subject. The Centre is tasked with control of only those industries which are required for purposes of defence and conduct of war, and those which are expedient in public interest. This delicate relationship has to be nurtured with great care.

NMP was a comprehensive effort to identify and remove the roadblocks obstructing the progress of the industrial juggernaut. It sought to address issues related to land, labour, capital energy, infrastructure innovation and regulatory burden in a holistic manner.

NIMZs are the showstoppers of NMP—'green-field industrial townships, benchmarked with the best manufacturing hubs in the world'. Envisaged to be built on the time-tested principles of clusterisation and agglomeration, with 'state of the art' infrastructure, NIMZs have been conceptualized to create gainful employment opportunities on a large scale. These zones are to be managed by a special purpose vehicle (SPV) which will be entrusted with the mandate to plan, develop, operate and regulate the zone. A host of benefits are available specific to units being set up in NIMZs—prior environment clearance for the zone, lower regulatory burden, expeditious exit mechanism with provision for asset redeployment, incentives to promote adoption of green technologies and measures for industrial training and skill upgradation including setting up of Industrial Training Institutes and polytechnics. These benefits are also available to industrial clusters which adopt a model of self-regulation as laid down in NMP. Leveraging the infrastructure deficit and government procurement with the stipulation of minimum local value addition, improving access of SMEs to finance, creation of a patent pool, interest reimbursement and capital subsidy for production of equipment for reducing pollution, water and energy consumption are some of the other policy measures in NMP.

The 14 NIMZs outside the Delhi Mumbai Industrial Corridor (DMIC) region are still on the drawing board. Unlike those within the DMIC region, the entire trunk infrastructure within these 14 zones is envisaged to be funded either in the public private partnership (PPP) mode with viability gap funding or through long-term loans from multilateral financial institutions and external commercial borrowings. In contrast, the government of India is committed to providing Rs.17,500 crore for infrastructure projects which cannot be executed through PPP in seven DMIC nodal cities, subject to a maximum of Rs.3,000 crore for each city. In pursuance of this, work on building the trunk infrastructure for phase I in two DMIC nodal cities, Dholera and Shendra-Bidkin, has started.

To date, NIMZs are the biggest policy levers to increase the share of manufacturing in the GDP. They cannot be allowed to languish. Taking a leaf out of the DMIC experience, state funding of the portion of the trunk infrastructure projects that cannot be executed through the PPP route is a necessary condition to bring them to the take-off stage. It is time for the policymakers to smell the coffee, modify NMP and make adequate budgetary provisions to reinvigorate infrastructure-led development of competitive manufacturing—the need of the hour.

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