



## The Making of A Manufacturing Hub

*This editorial is based on [“How to Give Manufacturing a Leg-up”](#) which was published in *The Hindu BusinessLine* on 10/05/2022. It talks about the measures that can be taken to boost the manufacturing sector of India thus making it a future manufacturing hub.*

**For Prelims:** Make in India, Atma Nirbhar Bharat, PLI Schemes, National Infrastructure Pipeline, CBIC, National Industrial Corridor Development Programme, Bonded Manufacturing Scheme.

**For Mains:** India's Manufacturing Sector - growth, initiatives, challenges and significance.

In 2014, the Government of India launched its '[Make in India](#)' initiative as a part of India's renewed focus on manufacturing. A slew of reforms were taken to boost manufacturing, design, innovation, and startups in India.

The "[Atma Nirbhar Bharat](#)" campaign announced in 2020 was also intended to further boost local manufacturing under its stated goal of making India economically self-sufficient.

India has a **great scope and potential in manufacturing, given its demographic dividend** and reasonably cheap labour. However, larger investments, upskilling of workforce and upgrading infrastructure are some of the areas where more work must be done.

### What is the Scenario of India's Manufacturing Sector?

- Manufacturing is among the major economic activities that involves value addition that has consequential positive multiplier effects in the economy. **India has the fifth largest manufacturing base in the world.**
- As per the [second quarter report of the Quarterly Employment Survey](#) conducted by the Union Ministry of Labour, the **manufacturing sector accounted for nearly 39% of all the employment generated** in the selected nine sectors.
- More than **45% of the manufacturing output is obtained from the MSME sector** in India.
  - The vast pool of human capital available in India at various skill levels offers a distinct competitive advantage to firms that conduct manufacturing activities within India.
- Over the years, there are certainly a handful of domains where **India has carved a position of manufacturing leadership** such as **apparel & accessories, textiles, drugs & pharmaceuticals, petroleum products and motor vehicles.**
  - However, we still have a long way to go before our manufacturing can match the success of our services exports.

### What Impetus has been Given to Manufacturing in India?

- **Infra Development Projects:** For instance, the [National Infrastructure Pipeline \(NIP\)](#) built on a whole-of-government approach, is already in place covering the FYs 2019-20 to 2024-25.
  - The statistics available on [India Investment Grid](#) reveal that there are 15,454 projects available involving a total project cost of \$1,981.83 billion as on May 5, 2022.
  - The [National Industrial Corridor Development Programme](#) was launched to facilitate the integrated development of industrial smart cities having plug and play infrastructure along with multi-modal connectivity.
  - Also, a number of [Production-Linked Incentive \(PLI\) schemes](#) have been announced since 2020 for various sectors that incentivise manufacturing with a goal to achieve 'Atma Nirbhar Bharat'.
- **Manufacturing in Warehouses:** [The Central Board of Indirect Taxes and Customs \(CBIC\)](#) has brought forward a new and improved version of the programme focused on manufacturing and other operations in bonded warehouses
  - Manufacturing in warehouses **results in saving working capital**, which is usually scarce in case of small enterprises and helping in **better positioning of MSMEs in the international market** by shortening the delivery schedule in the global supply chain.
  - The **Bonded Manufacturing Scheme** has been **revamped by CBIC** to enable organisations gain competitive advantage.
- **Custom Rules:** Domestic manufacturing within India is also being encouraged through **statutory measures like the Customs (Import of Goods at Concessional Rate of Duty) Rules**, which has also been amended from time to time to take into account the dynamic needs of the industry and trade.

## What is the Bonded Manufacturing Scheme?

- To support the **"Make in India"** program, the CBIC launched the Bonded Manufacturing Scheme under the **Customs Act, 1962**.
- Under this programme, a manufacturing unit can import goods (both inputs and capital goods) under Customs duty deferment with **no interest liability**.
- The scheme has **no investment threshold and export obligations**.
- The **duties are fully remitted** if the goods resulting from such manufacturing operations done in bonded warehouses are exported.
  - The import duty is payable only in the event where the finished goods or the imported goods are cleared in the domestic market (ex-bonding).
- The onboarding to the bonded manufacturing programme is **fully digital** and the microsite for the same is available on **'Invest India' portal**.

## What are the Challenges Pertaining to the Manufacturing Sector?

- **Lack of Certified Factories:** Corporations around the world increasingly prefer to source goods from factories that are ISO or BSI certified.
  - In China, a huge majority of factories are ISO or BSI certified, but finding **similar operations in India can prove to be an uphill task**. Majority of them **do not even meet any basic inspection standards**.
  - Practical issues like these are enough to **discourage serious international buyers** from considering India as a sourcing destination.
- **Underdeveloped Manufacturing Sector:** While the neighbouring as well as competitor nation China is currently in the midst of a 10-year transformational campaign - 'Made in China 2025' to move the country beyond labour-intensive manufacturing and into cutting-edge sectors like robotics and aerospace, **India in contrast is still aiming to bring old-school, labour-intensive manufacturing** to an economy that desperately needs to create millions of new jobs.
  - Even this low-end goal has been **hit by a faltering economy** over the last two years.
- **Weak Infrastructure:** India's weak infrastructure continues to be a fatal flaw for the manufacturing sector.
  - **India uses only 3% of its GDP for infrastructure construction** each year, as compared to China's 20% of its GDP.
  - Even today, India's surface **transportation systems cannot meet the expectations of modern high-speed logistics** - the backbone of efficient manufacturing.
- **Inadequate Power Supply:** Poor and erratic electricity supply is yet another drawback that puts

the country's manufacturers at a distinct disadvantage.

- India's annual power gap is more than 10% and it has among the lowest per capita power consumption around the world.

▪ **Impact of Abundant Schemes:** The announcements had two major lacunae.

- First, the bulk of the manufacturing related schemes **relied too much on foreign capital for investments** and global markets for produce.
  - This created an inbuilt uncertainty, as domestic production had to be planned according to the demand and supply conditions elsewhere.
- Second, policymakers **neglected the third deficit in the economy, which is implementation.**

## What can be Done to Boost Manufacturing in India?

- **Infrastructure Investments:** A multi-pronged approach should be adopted to support manufacturing with the **focus largely on large-scale infrastructure investments** as it will itself create enormous growth opportunities.
  - Research has shown that **investment in hard infrastructure also results in reduction of logistics cost** of manufacturing.
- **Policy Interventions:** A final conceptual piece of India's manufacturing strategy has to be the **design of policies to increase worker skills**, and to **increase access to finance for its firms.**
  - The latter is a general need across the economy, but manufacturing firms are more likely to require fixed capital investments, and are hurt more by lack of adequate finance for expansion, upgrading, or working capital.
- **Judicious Import Policy:** Through judicious use of import policy, production within the country can be regulated with the **objective of generating greater employment** in the economy.
  - **Exports to international markets, facilitated by Customs**, can also be boosted from the domestic surplus generated from the manufacturing capability within the country.
- **Eliminating 'Policy Casualness':** The **spate of policy announcements without having the preparedness to implement them** is 'policy casualness'. The government needs to **take into account the implications of implementation deficit** in its decisions.
  - Strong and carefully designed policy implementation would improve India's overall investment climate, thereby boosting investments, jobs, and economic growth.
- **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.
- **State Specific Plans:** Currently, manufacturing is mainly concentrated in a 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.**
- **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.

### ***Drishti Mains Question***

"The policy approach for India's manufacturing sector needs to create a conducive environment for investments, develop modern and efficient infrastructure, and open up new sectors for foreign capital".  
Comment.

**Q. Recently, India's first 'National Investment and Manufacturing Zone' was proposed to be set up in (2016)**

- (a) Andhra Pradesh
- (b) Gujarat
- (c) Maharashtra
- (d) Uttar Pradesh

**Ans: (a)**

**Q. What is/are the recent policy initiative(s) of Government of India to promote the growth of manufacturing sector? (2012)**

- (1) Setting up of National Investment and Manufacturing Zones
- (2) Providing the benefit of 'single window clearance'
- (3) Establishing the Technology Acquisition and Development Fund

**Select the correct answer using the codes given below:**

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**Ans: (d)**