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Indian Manufacturing Sector: A Review on the Problems & Declining Scenario of Indian Industries

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Abstract: ***Industries are the backbone of any growing economy and things go worst when the same is on decline. As our topic lies, Indian industries are not registering substantial growth or are on a far decline in this behalf. Considering to the north-west region of India, industries are not a much even started or have been in their shut down stage at large, with some opposite positive instances in the state of Punjab and Rajasthan. Still in these clusters too, in the state of Punjab particularly, industries are feeling heats out of non-responsive state policies, well visible in days-to-day regional news. Except a few Industrial Clusters in India, Else regions are well away from the age of industrialisation and are facing challenges in their growth there by. In this research we have afforded out to address out the same with the help of existing available literature and research work as well as other secondary data available on industries. We have defined out some areas and goals where industry as well as concerned governments need to focus upon. It is also tried define out the research grey area, in order to let the researchers work ahead for the discovery of the same.***

Keywords: Industrial growth, Indian industry & their problems, Regional Problems, Ways to recover up, Research ahead

1. Introduction

When India achieved Independence in 1947, the national consensus was in favour of rapid industrialization of the economy which was seen not only as the key to economic development but also to economic sovereignty. Specific priorities for industrial development were also laid down in the successive Five Year Plans. The Industrial Policy Resolution 1956 widened the scope of the public sector. It classified the industries into three categories - 17 Government industries, 12 progressively State owned industries, and the private sector. In 1969, the monopolies and restrictive Trade Practices (MRTP) Act was introduced to enable the Government to effectively control concentration of economic power, in consonance to the recommendations of Monopolies Inquiry Commission (MIC) 1964 and Industrial Licensing Policy Inquiry Committee (Dutt Committee) 1967. The industrial licensing policy of 1970 confined the role of large business houses and foreign companies to the core, heavy and export oriented sectors. The Industrial Policy Statement 1973 with a view to prevent excessive concentration of industrial activity in the large industrial houses, this Statement gave preference to small and medium entrepreneurs over the large houses and foreign companies in setting up of new capacity particularly in the production of mass consumption goods. The Industrial Policy Statement 1977 emphasized decentralization of industrial sector with increased role for small scale, tiny and cottage industries. Highest priority was accorded to power generation and transmission. Industrial Policy Statement 1980 placed accent on promotion of competition in domestic market, technological upgradation and modernization.

1.1 Industrial Policy Measures during the 1980s

A number of measures initiated towards technological and managerial modernization to improve productivity, quality and to reduce cost of production. In 1988, all industries, excepting 26 industries specified in the negative list, were exempted from licensing. In the Industrial Policy Statement 1991, the focus of policy was to unshackle the Indian industry from bureaucratic controls. FDI up to 51 per cent foreign equity in high priority industries requiring large investments and advanced technology permitted. Major initiatives were taken towards the restructuring of PSUs, with the advent of BIFR.

1.2 Industrial Policy Measures Since 1991

Promotion of foreign direct investment has been an integral part of India's economic policy. Competition Commission of India was set up in 2003 so as to prevent practices having adverse impact on competition in markets. To mitigate regional imbalances, the Government announced North-East Industrial Policy in December 1997 for promoting industrialization in the North-Eastern region. The focus of disinvestment process of PSUs has shifted from sale of minority stakes to strategic sales. Up to December 2004, PSUs have been divested to an extent of Rs.478 billion (Ahluwalia, 1991, GoI Annual Report, 2003-04, Handbook of Industrial Policy and Statistics, and Economic Survey, 2004-05).

2. Documental Review

Indian industry has had a very restrictive trade regime from the late 1950s. Up to the 1970s the focus of trade policy was on regulating the utilization of foreign exchange through the use of quantitative restrictions. The industrial stagnation that marked the period from the mid-1960s to the late 70s led to rethinking on the role of trade-policy in India (Alexander, 1977, Hussain, 1984 and Narasimhan, 1985). Thus the 1980s witnessed changes taking place in the trade regime with regard to imports of intermediate inputs and capital goods with many items of intermediate inputs and capital goods being brought under the open general licensing (OGL). The 1982-83 trade policy allowed imports to promote technological up-gradation and modernization of Indian industry. The reforms initiated in 1985 made an attempt to bring stability and continuity in the external sector by spelling out a three-year trade policy (1985-88). A

significant feature of the 1988-91 export-import policy was the provision for 'flexibility' in regard to the Replenishment (REP) license, which continues to be freely transferable. The major change in the trade policy of 1992-97 is a negative list of products banned due to health, defence and environmental concerns. Except for consumer goods, all items of capital and intermediate goods can be freely imported subject to tariffs. The removal of quantitative restrictions on imports was accompanied by a gradual lowering of customs duties from 1991 onwards. Research work found in this behalf is as follows:

Goldar, Narayana and Hasheem (1992) examined the pattern of tariff realized during the 1980s at the level of broad groups and detailed product classes whereas Mehta (1999) documents the tariff rates for the 1990s by different sections. The level and structure of inter-industry protection have been examined using both nominal tariffs and effective rates of protection (World Bank, 1989, Aksoy, 1991, Aksoy and Ettori, 1992, Goldar and Hasheem, 1992, Gang and Pandey, 1998 and Hasheem, 2001). Despite attempts to liberalize India's import trade regime, the structure of import licensing has remained restrictive and complex. There have however been a few attempts to quantify non-tariff barriers according to the manufacturing sectors (Aksoy, 1991, Mehta, 1997, Pandey, 1999 and Hasheem, 2001).

Majority of the studies has estimated nominal as well as effective rate of protection. The Corden measure of ERP is used very widely (Goldar and Hasheem, 1992b, Gang and Pandey, 1998, Mehta, 1997 and Hasheem, 2001). The popularity of the Corden's measure is reflective of the fact that it takes into account both the direct and indirect value added, while the Balassa measure accounts for only the direct value added. A Majority of the studies computed either the frequency ratio or the import coverage ratio. Mehta and Mohanty (1997) and Pandey (1999) compute the NTB indices for the use-based sectors, whereas Aksoy (1991) and Hasheem (2001) provide estimates of share of imports according to licensing categories for broad manufacturing sub-sectors. The review of the empirical findings points towards substantial reduction in the NTB levels across manufacturing sectors in the 1990s as compared to 1980s. Findings of Balassa (1982) and Krueger (1981) confirm that the use of NTBs is more pervasive in developing countries than in developed countries.

3. Recent Past

In 1990, India and China had almost the same GDP per capita. Since then, driven by its manufacturing sector, China's economy has grown much faster than has India's and its GDP per capita on a PPP basis is 90% higher than India's GDP per capita. To achieve faster rates of economic growth India urgently needs to strengthen its own manufacturing sector. The liberalization of the economy has opened new windows of opportunity for manufacturing sector. Increasingly the success of manufacturing industries is dependent on innovations, research and development. The primary reason for Indian manufacturing not being competitive enough is the significant presence of small-scale unregistered manufacturing units. The other important reasons include Poor transport infrastructure and High cost of power & capital. The Government has to play a crucial role in providing the industry with a favourable investment climate in terms of better infrastructure support, institutional finance at affordable rates of interest, and designing fiscal policies aimed at promoting accelerated growth of the manufacturing sector. Same time, the manufacturing firms should concentrate on internal changes aimed at improving efficiency and reducing costs.

3.1 India: Global R&D Hub

The Indian government has put in significant effort in last 50 years to develop the scientific and technical infrastructure of the country. In January 1983, the government announced the Technology Policy Statement (TPS), with the objective of attaining technological competence and self-reliance, providing gainful employment, modernizing equipment and technology, conserving energy and ensuring harmony with the environment. The combination of state-of-the-art infrastructure and highly qualified manpower ensures that India is poised to be the next Global R&D hub. Large MNCs including GE, Microsoft, Bell Labs etc have opened there R&D Centres in India – a first outside US for most of these companies. The cost arbitrage provides immediate incentives for corporations to source high quality research output from India (Indian Manufacturing Industry: Technology Status and Prospects, 2006).

4. The Present Scenario

After recovering to a growth of 9.2 per cent in 2009-10 and 2010-11, growth of value added in industrial sector, comprising manufacturing, mining, electricity and construction sectors, slowed to 3.5 per cent in 2011-12 and to 3.1 percent in the current year. Overall industrial performance, as per IIP, continued to moderate from Q1 of 2011-12 with growth turning negative in Q1 of 2012-13, before improving to 2.1 per cent in Q3 of 2012-13. Manufacturing, which is the dominant sector in industry, also witnessed deceleration in growth, as did the electricity sector. Growth turned negative in November and December, 2012 (Economic Survey, 2012-13). The growth of Eight Core Industries has declined from 6.6 % in 2009-10 to 4.1 in 2014-15, which is a matter of concern ahead. Monthly growth of the industries also declined from 3.7 % in Jan 14 to 1.8 in Jan 15, which needs to be tackled in order to ensure our long run industrial sustainability (Office of Economic Advisor, 2015).

4.1 Comparative Picture of India and World Manufacturing Production

India is one of the top ten manufacturing countries though its share in total manufacturing value added (MVA) is only about 1.8 per cent. The impact of the post-crisis slowdown on industrial growth has been relatively mild on developing countries including India yet the downward trend in MVA has been significant. The growth rate of world MVA had declined from 5.4 per cent in Q1 of 2011-12 to 2.2 per cent in Q2 of 2012-13. During the same period China's MVA growth rate declined from 14.3 per cent to 7.3 per cent but the deceleration rate has been sharper in the case of India as the rate of growth dipped from 7.3 per cent to 0.2 per cent.

The reason is India's competitive disadvantage owing to low-level technology, higher input costs and poor quality infrastructure. It has fared better in medium-low technology products in labour-intensive sectors such as textiles, wearing apparel and leather products. The latest competitive industrial performance index (CIP) compiled by the United Nations Industrial Development Organization (UNIDO), ranks India 42nd out of 118 countries the same as in 2005.

4.2 Government's key initiatives to Boost Manufacturing

The 12th FYP lays down broad strategies for spurring industrial growth and recommends sector specific measures. Major initiatives that can change the manufacturing landscape of the country are: National Manufacturing Policy (NMP), DMIC Project, FDI Policy initiatives, and Setting up of the e-Biz Project.

5. Challenges and Outlook

As per the latest first revised estimates of GDP, gross capital formation in the manufacturing sector in 2011-12 (at 2004-05 prices) had declined by 18.8 per cent as compared to 2010-11. Lower foreign direct investment inflows in key industry and infrastructure sectors during April-October 2012 at $ 6.19 billion as against the inflow of $18.66 billion during the same period of the previous year have further constrained investment in these sectors. Investment intentions indicated in the industrial entrepreneur memorandum (IEMs) filed, which are lead indicators of likely investment flows to industry, also declined in 2011 and 2012. Notwithstanding a marginal pickup in the gross bank credit deployment into industrial sector in recent months, year on year increase in gross bank credit deployment as on end December 2012 has been 13.8 per cent as compared to 19.8 per cent a year ago. India's manufacturing value-added (MVA) as share of GDP, has remained sticky at around 15 per cent. As per the latest competitive industrial performance index (CIP) compiled by UNIDO for the year 2009, India was placed 42nd out of the 118 countries. India's manufacturing sector therefore needs to acquire dynamism and technological sophistication to become one of the leading manufacturers. From the long term point of view, low level of R&D and inadequate availability of skilled manpower would adversely affect India's competitiveness and the manufacturing growth (Economic Survey, 2012-13).

6. The Way Ahead: Technology

Technology can play a pivotal role in increasing growth, reducing costs of operations, enhancing user productivity and building a sustainable competitive advantage. Leaders are now increasingly confident that strategically leveraging technology adoption will help them stay at par with their global counterparts and significantly enhance their ability to deliver in the international market. However, while the role of IT has been acknowledged as the driver for innovation and business transformation, there are several hurdles in the way of Indian companies before they can fully embrace the value that technology has to offer. To alleviate this, the government of India has set out a roadmap outlining policies to encourage enterprises to be able to invest more in R&D and to create a pool of qualified and skilled workforce. Industry leaders, too, are going all out to implement newer technological solutions that can help improve productivity, drive efficiency and profitability in their own organisations. The global economy may be recovering slowly, but with immediate pressures easing, CEOs across the world are now more optimistic and are making the transition from survival mode to growth mode. As per PwC's *17th Annual Global CEO Survey,* the number of CEOs who believe that the global economy will improve over the next 12 months has doubled to 44%, compared to the previous year. On the other hand, only 7% of CEOs, compared with 28% last year, think that things will get worse towards the year ahead. Additionally, CEOs are feeling better about their own companies' prospects, with 39% now very confident of revenue growth in 2014. This confidence is evident among India CEOs as well who are counting on domestic demand as well as their ability to deliver profitable growth in India and abroad. They are also aware of the huge market potential that India's middle class and the 'emerging middle' that lies just below, are creating for them. They are increasingly recognising how these trends are interacting with each other to change consumers, the workforce as well as the operating environment.

7. Summary, Conclusion & Recommendations

The competing imports of products, increasingly allowed on quality and cost considerations, have led to a greater consciousness of quality and costs on the part of domestic manufacturers. The more liberalized technology import policy is also helping to bridge the technology gap. All these factors are putting pressures on the organizations to develop best-practice technology, either by importing or by generating their own. The role of government in enhancing technological competitiveness is critical to make this happen. India has achieved great success in developing and educating a significant chunk of human resources. The technical capabilities of these resources are well and truly recognized the world over. However, there have been institutional gaps leading to poor industry-academia interaction. The outcome has been low practical orientation of Indian research and lack of technology inputs to industry. India has taken initial steps in rectifying this situation by redefining its Science and Technology policy, increasing spends on R&D, establishment of mission mode projects and enforcing interactions between research institutions and industry. However, it still has a long way to go in catching up with the developed world and investing 2-3% of GNP in R&D, protecting Intellectual Property and establishing product innovation culture.

Sectoral view

The food processing sector is a high priority sector that is poised to grown significantly in the next 10-15 years. However, the technological capabilities and technology adoption in Indian organizations is very low. India would require extensive technology development and import initiatives to realise its goals of being an export powerhouse and improving efficiencies in food sector. The Indian machine tools industry has poor technology competence due

to the inward looking economic policies and dominance of public sector organizations.

Today India's competence is primarily in design and tooling industry due to availability of low-cost skilled manpower. The Indian pharmaceutical industry developed excellent process skills due to reverse engineering focus pre 2005. Additionally, it is using low cost advantage in capturing significant share of global generics market. Finally, it has also started to acquire organizations in other countries as well as getting into technology partnerships with MNCs. Indian Auto component industry was one of first to get exposed to global competition in early 1990s during the first phase of liberalization. Over last decade the industry has responded very well by acquiring both managerial and technical competencies.

8. Conclusion / Recommendations

The main reason for the poor industrial performance with respect to growth and productivity can be attributed to the policy regime facing the manufacturing sector. In particular, protection from foreign competition and absence of a competitive domestic industrial environment has resulted in inefficient, high cost and low quality manufacturing industries. Besides, lack of Business literacy, Technical backwardness, Initiative Adverse Mentality & Environment are among some of other regional factors leading to the decline as well as low growth of Indian industry and Effective initiative towards these ends can bring out wonders.

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