Reviving the Manufacturing Sector

What is the issue?

- The growth rate in manufacturing sector has been stagnant for a while, despite efforts at revival.
- Addressing the credit needs of MSMEs and hiking public investments are crucial for the revival of manufacturing in the country.

How is the manufacturing sector performing?

- The manufacturing sector is critical for addressing the steep rise in unemployment growth in recent years.
- However, India's manufacturing sector is fighting an existential battle.
- The share of the manufacturing sector in GDP has remained almost stagnant during the past 5 years.
- The key industries like textiles and clothing has fallen behind in global markets.
- They are also finding it difficult to survive in the domestic market in the face of import competition.
- A key challenge for Modi government in the second term is to find credible ways of getting this sector back on track.

How has the policy approach been?

- In Union Budget 2018-19, it was announced to make "a calibrated departure" from the past policy, by increasing customs duties on mobile phones and some electronic components.
- The reason was to incentivise domestic value addition and to further the objectives of Make in India.
- In the Union budget 2019 too, the same policy has been adopted.
- It is decided to increase the customs duties to protect the interests of domestic players.
- This applies to production of cashew kernels, PVC, auto parts, synthetic rubbers and a range of electronic products, among others.
- It is to be pointed out that the government's policy of import protection can

provide only temporary relief to the industries.

What are the policy shortfalls?

- **MSMEs** - Domestic value addition can be effectively incentivised by providing necessary conditions for the expansion of micro, small and medium enterprises (MSMEs).
- MSMEs can play a catalyzing role as well as help expand both manufacturing capacities and job creation.
- But, despite the significance of this sector, successive governments have fallen short of meeting the critical needs of these enterprises.
- **Credit needs** - The present Finance Minister Nirmala Sitharaman, too, has only announced the establishment of a Credit Guarantee Enhancement Corporation.
- But India urgently needs development finance institutions geared to meeting the critical needs of MSMEs.
- Unfortunately, such an institution has not figured in the priorities of the Finance Minister yet again.
- Availability of finance for putting the manufacturing sector on the rails is certainly a problem area.
- **Investments** - The government's response has been to put the onus on private investment, both Indian and foreign.
- The government expects foreign direct investment (FDI) to turnaround India's manufacturing sector.
- However, recent evidences show that these expectations seem exaggerated.
- E.g. In 2018-19, manufacturing sector's share in total FDI inflows was just 20%
- Service sectors like information technology services, e-commerce and retail and wholesale trade accounted for most of the inflows.
- Clearly, FDI did not meaningfully contribute to the implementation of "Make in India."

What lies ahead?

- The financing model is essential for the revival of manufacturing.
- Notably, in all successful countries, private investment has mostly followed the public investment.
- The efforts now should be to adopt a public investment-led financing model for development.
- This would also trigger the revival of investor sentiments in general, which has been at unacceptably low levels in the past few years.

Source: Business Line

Quick Facts

Credit Guarantee Enhancement Corporation

- It was recently announced that the Central Government would set up the Credit Guarantee Enhancement Corporation in the current financial year 2019-20.
- This objective is to enhance sources of capital for infrastructure financing.
- The regulations for setting up a Credit Guarantee Enhancement Corporation have been notified by the RBI.