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.