THE INDIAN MANUFACTURING STORY: A POLICY PERSPECTIVE

THE ECONOMICS SOCIETY, SRCC

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INTRODUCTION

Manufacturing has always been the backbone of all developed and developing nations. It provides an impetus for research and development, an outlet to explore new technologies and drives overall growth in the country.

Manufacturing also creates many jobs at all levels. It is an important employment generator, given the various forward and backward linkages of this sector coupled with its induced effects on demand and supply. Among all sectors, manufacturing is the one that leads to an equitable distribution of wealth among the work-force. Hence it is a key factor to pull people out of poverty. There is enough evidence of the correlation between the level of industrialization in a developing economy and per capita income. For instance, in fast developing Asian countries such as Thailand, Indonesia, Malaysia, Taiwan, Philippines, Korea and China, manufacturing has contributed 30 to 50 per cent of GDP, and thus has helped in eradicating poverty and spurring growth. For advanced and developed nations like Germany, US, South Korea and Japan, the similar figures are 19%, 11%, 25% and 21%, respectively.

On the other hand, the Indian manufacturing sector's contribution to GDP has moved just from 16% to 18.32% in the last 10 years. The thrust on product development by developing new technologies and new processes for a large group of manufacturers paved the way for the simple task of assembling the parts imported from abroad instead of innovation and homemade products. An average manufacturing company in India has not yet even adapted itself to the world class manufacturing practices and lacks competitive advantage.

Global manufacturers have initiated talks with Indian firms to explore the possibility of shifting a part of their supply chains from China as they seek to diversify their operations following the COVID-19 outbreak. Most of these multinationals have suffered widespread disruptions to their businesses as authorities enforced strict lockdown measures to contain the pandemic, which originated in Wuhan city in China's Hubei province. Wuhan is one of China's so-called "motor cities", housing several automotive factories. It was also reported in May that India has identified a land pool of 4.62 hectares to lure businesses from China. Some 1,000 US firms were approached with incentives for shifting their manufacturing plants in India. Some States- such as Uttar Pradesh- formed a special task force for this purpose and also announced changes in labour laws, drawing jibes from Chinese Communist Party's mouthpiece, *Global Times*.

However, the companies that are moving are not heading towards India. According to a study by Japanese financial group Nomura, the destination for these companies remains in the East and South-East Asian regions.

Nomura found that 56 companies moved their bases from China in 2018-19, Vietnam got 26 of them, Taiwan got 11 and Thailand got 8. Only 3 companies came to India. China offers integrated infrastructure like large ports and highways, top quality labour and sophisticated logistics, all of which are critical factors to meet strict deadlines that international companies operate on. India doesn't offer the same. Another reason India might not be the obvious choice for global multinationals is because it isn't well integrated with major global supply chains. India's volatile relationship with foreign direct investment (FDI) and uneven regulation is also something that continues to bother global companies.

From prohibiting e-commerce companies from selling non-essential items and tweaking FDI rules to disallow easier capital flows from neighbouring countries, the fear is that India has used the pandemic to build protectionist walls around itself. All in all, the manufacturing sector of India has not been able to make best use of China's weak position due to the COVID-19 pandemic.

Historically manufacturing sector has gone through various phases from License Raj to Liberalization. From fiscal year 2006 to fiscal year 2012, India's manufacturing-sector GDP grew by an average of 9.5 percent per year. Then, for the next six years, the growth declined to 7.4 percent.

Manufacturing sector plays an indispensable role in driving growth in any industrialised country. With $3.1 trillion in GDP, India is one of the world's largest economies. Yet manufacturing accounts for only 17.42% of the country's GDP (2021, constant prices). When compared with the other sectors the statistics of manufacturing are really disappointing. Indian manufacturing represents only 2 percent of the world's manufacturing output, which is only a tenth of what China contributes. Clearly, India is lacking behind in manufacturing. Developing countries with higher shares of manufacturing and lower shares of services will show faster growth than countries with higher share in the service sector. This is because of benefits of the structural change.

Growth in manufacturing is an important step for economic development in India. In order to capitalize on the demographic dividend, India must create approximately one million jobs per month over the next decade. This target can be achieved only through growth in the manufacturing sector. Manufacturing sector in India has the potential to create jobs for the young population in India and pull people out of poverty. The COVID-19 pandemic has laid bare the fragility of the world's supply chains. Certain companies have started changing their manufacturing footprints for greater reliability and resilience. However, India has not yet started taking full advantage of these shifts.

This policy report aims at finding out the impediments in the way of India towards becoming a manufacturing hub. It further breaks down and analyses the various policies for promoting manufacturing sector while giving recommendations for further improvement.

IMPEDIMENTS TO INDIA'S GROWTH

There are a number of impediments to India’s growth. They have been there for a long time and there have been attempts to eradicate these, to some extent, but most of the adopted strategies have failed and these barriers continue to haunt India’s growth trajectory. Infrastructure is at the center of problems where India hasn’t been able to deliver in many places including health, education, agriculture, manufacturing, etc.

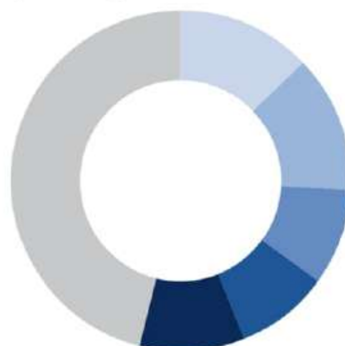
A significant point to note here is that these obstacles can never be eliminated completely, and can only be reduced to a great extent through proper policy interventions.

MANUFACTURING SECTOR

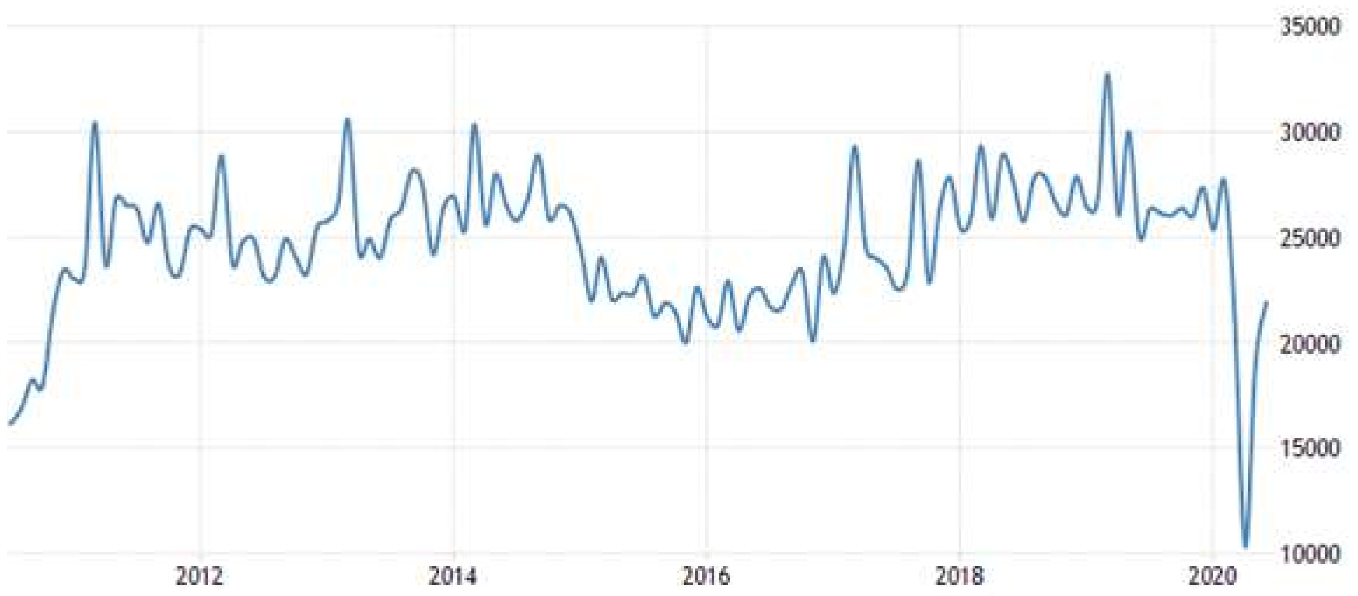
The problems in the manufacturing sector can be linked to the other problems India faces.

- Investment is the biggest problem this sector faces. Banks are hesitant to lend to MSMEs due to a lack of certainty.
- There is also an urgent need to nudge our young labour force into scientific research and development, capialising on the demographic dividend.
- Labour productivity in India is another issue that affects the manufacturing sector. The prominence of small firms with limited ability to achieve economies of scale is often touted as the main cause of the low productivity.
- This sector requires strong infrastructure to build upon, which is a major issue in India. Transportation and logistical issues are the most prominent among them.
- India needs to be labour-intensive for the growth of the manufacturing sector but umpteen factors prevent it from realising its potential. India has more than 200 labour laws. Many of these laws stop firms from going labour-intensive. Some laws require the firms to seek permission from the Government for the smallest of decisions regarding workers. Any seven employees can create a union which again becomes a headache for firms.
- The right to education helps people acquire the skills required to work in this sector. This leads to better efficiency as well. However, India's education and related schemes are not up to the mark.
- Health and productivity are directly proportional. The poor health of workers is an impediment to the growth of this sector.

India's manufacturing
The chart below show ... eskilling by 2022 to
meet future demand.



India needs to act fast to grab the opportunity to become the world's manufacturing hub by easing regulations so that investment floods into the country and global companies start setting up factories here. The export data for the past 10 years has remained at similar levels, though with some fluctuations. India has not been able to significantly improve its export performance in the past few years. There are a number of reasons for this. Even after the 1991 liberalization policies, the economy is still too restrictive in the sense that the procedure is too long and demotivating for the traders to get into the field. Apart from this, there are a large number of recorded frauds in the sector along with many unrecorded ones which disincentivize the small and medium scale traders and manufacturers to export goods. Another problem is the inconsistency in trade policies with international trade policies. Many international traders see India as a complex market to trade with. The center to all of the impediments to India's growth is the lack of infrastructure and it's the same for the export sector. India has also failed to make investments in R&D and technology due to which the Indian manufacturing sector is not globally competitive. Policies like 'Make in India', 'Digital India', 'One Country, One tax' did little help to the sector.



LABOUR MARKET

India grew faster than most other developing countries in the past decade, reporting growth rates of 6-8%. However, the number of jobs created during this phenomenal growth period remained significantly low. How could an economy grow so fast and not create a proportionate amount of job opportunities? Despite strong growth throughout these years, India's labor market has lagged economic performance. With the second wave of the COVID-19 Pandemic, the Indian labour market will suffer more.

INDIA'S LABOUR MARKET POST COVID 19

The widespread outbreak of the COVID-19 virus poses an unprecedented challenge globally. It has not only created a public health crisis but also an economic crisis as countries across the world have adopted containment policies, in particular physical distancing measures, to reduce COVID-19 transmissions. The cessation of economic activity that has followed has presented an unexampled shock to labour markets and levels of unemployment have surged. In India, estimates from the Centre for Monitoring the Indian Economy (CMIE), a private organization, which provides high frequency employment-unemployment statistics based on a large household survey shows that unemployment rates in the months of April and May stood at over 23%, a three fold increase from a rate of 7% at the same time last year. This may well be just the tip of the iceberg as India's dualistic labour markets- where a disproportionately large proportion of workforce is engaged in informal work arrangements- are woefully ill-equipped to cope with a shock of this magnitude.

VULNERABILITY OF INDIA'S WORKFORCE:

Examining the vulnerability of India's workforce requires us to understand the structure of the country's workforce. We attempt to do so through two lenses using the unit level data from the Periodic Labour Force Survey (PLFS, 2018-19). One, the nature of employment arrangements and whether workers in different employment arrangements have access to social security and/or written contracts. Two, given the asymmetric effect of COVID-19 on different sectors, we examine the vulnerability of the workforce by studying the sectoral composition of employment.

Although they have some degree of income stability, which makes them better off than casual workers, they too do not always have access to social security benefits or secure job contracts. Data from the PLFS shows that in 2018-19, the proportion of RWS workers who had access to at least one social security benefit (Provident Fund / pension, gratuity, health care & maternity benefits) and therefore a minimal degree of social protection was a mere 40.6%. These workers referred to as regular formal workers accounted for a mere 9.6% of the total workforce. It needs to be noted that the definition of formal employment based on having access to just one social security benefit is a fairly relaxed one. If we move to a more stringent criteria and examine the share of RWS workers who have access to all available forms of social security cover, the proportion stood at 17.7% . This in turns means that a mere 4.2% of the workforce had jobs which offered them the maximum possible degree of protection and would therefore fit the criteria of what is often described as a 'good job' or 'decent work'.

UPSS Workers Status	Male	Female	Total
Self Employed	**51.62**	**53.34**	**52.04**
Own Account Workers	41.32	21.90	36.58
Employers	2.76	0.67	2.25
Unpaid Family Workers	7.55	30.77	13.21
Regular Wage Salaried (RWS) Workers	**24.41**	**21.91**	**23.80**
RWS workers having at least one social security benefit (Regular Formal)	10.08	8.39	9.66
RWS workers eligible for all social security benefits (PF/pension,gratuity, health care & maternity benefits)	4.41	3.68	4.23
RWS workers eligible for all social security benefits and having a written job contracts of more than 3 years	2.33	1.84	2.21
RWS workers not eligible for any social security benefit (Regular Informal)	14.33	13.52	14.13
Casual Workers	**23.97**	**24.74**	**24.16**
Casual Public Works	0.25	2.73	0.86
Casual Other Works	23.71	22.01	23.30

Source: PLFS unit data (2018-19)

SECTORAL COMPOSITION OF THE WORKFORCE: MANUFACTURING SECTOR

This sector has been hit by multiple shocks concomitantly (Baldwin, 2020). The first shock came from containment measures as factories were closed. The second shock to the sector has come from disruptions in global supply chains which have hindered access to imported inputs14. India's manufacturing sector has a high dependence on inputs and this dependence has in fact increased over time (Ghose, 2016). It is worth noting that breaks in supply chains are likely to occur not only because of difficulties in procuring imports from other countries, but also because of disruptions in domestic supply chain as inter-state movement of goods has slowed down an different regions in the countries are likely to witness easing of lockdown restrictions at a differential pace. With the exodus of migrant labour from cities, factories are also likely to face labour shortages in the immediate term.

Eligibility of Social Security Benefits	No written job contract	Written job contract: for 1 year or less	Written job contract: more than 1 year to 3 years	Written job contract: more than 3 years	Missing /not applicable	Total
eligible for: only PF/ pension (i.e., GPF, CPF, PPF, pension, etc.)	7.36	14.43	21.17	20.92	0.00	10.96
only gratuity	0.64	1.31	0.51	0.65	0.00	0.66
only health care & maternity benefits	0.54	2.41	1.66	1.52	0.00	0.87
only PF/ pension and gratuity	3.13	5.89	5.99	4.88	0.00	3.69
only PF/ pension and health care & maternity benefits	2.99	10.99	14.95	10.81	0.00	5.42
only gratuity and health care & maternity benefits	0.87	2.61	2.57	1.97	0.00	1.23
PF/ pension, gratuity, health care & maternity benefits	10.25	11.55	23.22	44.07	0.00	17.78
eligible for atleast one social security benefits	25.77	49.19	70.06	84.82	0.00	40.61
not eligible for any of above social security benefits	66.70	44.13	26.98	12.58	0.00	51.70
not known	7.53	6.67	2.96	2.60	0.00	6.16
missing	0.00	0.00	0.00	0.00	100.00	1.54
Total	**100**	**100**	**100**	**100**	**100**	**100**
Distribution of all RWS workers by type of contract	68.88	4.70	3.81	21.08	1.54	100

Source: PLFS unit data (2018-19)

INDUSTRIAL CODES, 2020

As job losses mount and earnings dwindle, the demand for manufacturing goods is likely to decline. This is particularly true for goods such as automobiles, clothing and footwear which are non-essential in nature and whose purchase can be easily postponed. We can expect to see not just a decline in output but also employment in the manufacturing sector as a consequence of these multiple shocks. That 83.5% of the manufacturing workforce is in informal work arrangements in India makes them particularly susceptible to layoffs.

ANALYSING THE INDUSTRIAL CODES 2020

Parliament has recently passed three labour code bills - Industrial Relations Code, Code on Occupational Safety, Health & Working Conditions Code, and Social Security Code,

IMPORTANT FEATURES OF CODE ON INDUSTRIAL RELATIONS, 2020

- The Industrial Relations Code amalgamates the features of three laws namely: the Trade Unions Act, 1926, the Industrial Employment (Standing Orders) Act, 1946, and the Industrial Disputes Act, 1947.
- According to the Code on Industrial Relations the term 'workers' consists of all persons beside employed in a skilled or unskilled, manual, technical, operational and clerical capacity, supervisory staff drawing up to ₹18,000 a month as salary. It presents 'fixed-term employment', which aims to give employers the flexibility to hire workers based on requirements through a written contract.
- The new Code states, any establishment that employs 300 or more workers must prepare standing orders relating to categories of workers, manner of allotting them time slots and hours of work, holidays, paydays, etc., shifts, attendance, conditions for leave, termination of employment, or suspension, besides the means available for the redress of grievances. Earlier, the 2019 Bill applied this to units with 100 employees or more, which now has been raised to 300 in the 2020 Code.
- Where there exists more than one trade union in an establishment, the sole negotiating union status will be given to the one that has 51% of the employees as its members. The 2020 Bill provides that a negotiating council will be formed consisting of representatives of unions that have at least 20% of the workers as members, in case no trade union is eligible as sole negotiating union.
- The Code prohibits strikes and lock-outs in all industrial establishments without notice.

Therefore, no unit shall go on strike in breach of contract without giving notice 60 days before the strike, or within 14 days of giving such a notice, or before the expiry of any date given in the notice for the strike. Further, there should be no strike during any conciliation proceedings or within seven days of the conclusion of such proceedings; or during proceedings before an industrial tribunal or 60 days after their conclusion or during arbitration proceedings.

ANALYSIS OF THESE FEATURES AND THEIR IMPACTS

- It is well-established that the probability of union presence rises as the size of employment in a firm increases. Hence, union presence is less likely in the 90% of establishments that employ less than 300 workers. Then, the Bill informalises hitherto formal enterprises and workers. In other words, workers in smaller enterprises are not likely to have protection from either trade unions or laws. They will become informal and precarious workers. The duty on the employer to furnish a written contract in the Occupational Safety and Health Code (OSHC) will not be helpful, as it carries no specific penal clauses for non-compliance such as those existing in China.
- Workers cannot strike without 14 days notice, during conciliation proceedings and seven days after their conclusion, during adjudication proceedings and three months after their conclusion. Assuming super-efficiency on part of all agencies in the industrial relations system, workers will not be able to strike legally for at least 150 days (14 days' notice+45 in conciliation+90 days of adjudication)

INVESTMENT

India’s economic growth was driven by investment and consumption. After the 1991 reforms, huge investments came in and many entrepreneurial ventures emerged. The supply and demand for investment were just optimal. Investments and economic growth were accelerated by the IT sector. Foreign investors started seeing India as a software powerhouse and invested millions of dollars in India. From 2000-2010, India saw a growth rate of 7%, in spite of The Global Financial Crisis. Even the rural population saw an increase in income along with the urban population, which drove consumption higher and thus, rose the economy. This was going well until 2010 when crony capitalism and many other factors hit the Indian economy badly. Investments started falling, bad debts started soaring and the financial sector came under heavy stress. A vicious sequence of events followed: huge scams started getting exposed, many projects in which the investors' monies were locked in began getting delayed, corporates started defaulting on loans, which thereby affected the balance sheets of both, corporates and the banks leading to the ‘twin balance sheet problem’. The result of all these problems was that there was uncertainty in the economy which dissuaded investors from investing. Investments began falling, which vouches for the fact that India’s growth being solely driven by consumption.

While investment and consumption are largely interdependent, consumption in India did survive low investments for a good time but when the savings of households all dried up, they started borrowing, mainly from Non-Banking Finance Companies (NBFCs). India’s consumption became credit-driven. How long can a credit-driven consumption run the economy for? Not for long. It all stopped after IL&FS, a large NBFC collapsed in 2018, which smothered the NBFC credit channel. This affected the consumption demand and led to an adverse economic slowdown in India followed by the advent of Covid-19 which just adds to the Indian economic misery. To induce consumption, the government also started lowering interest rates but that didn’t help because banks were scared to cut down their lending rates. While solving the twin balance sheet problem is a necessity, it is not sufficient to turn around the economy. The Government has to implement structural policy reforms to get things right from the very foundation. For a sustained turnaround, the Government needs to implement policies that create an environment for the private investment to kick start and maintain the chain link of investment and consumption to drive growth.

We will discuss this issue and what it entails for the manufacturing sector in a much greater detail in the later chapters.

EDUCATION

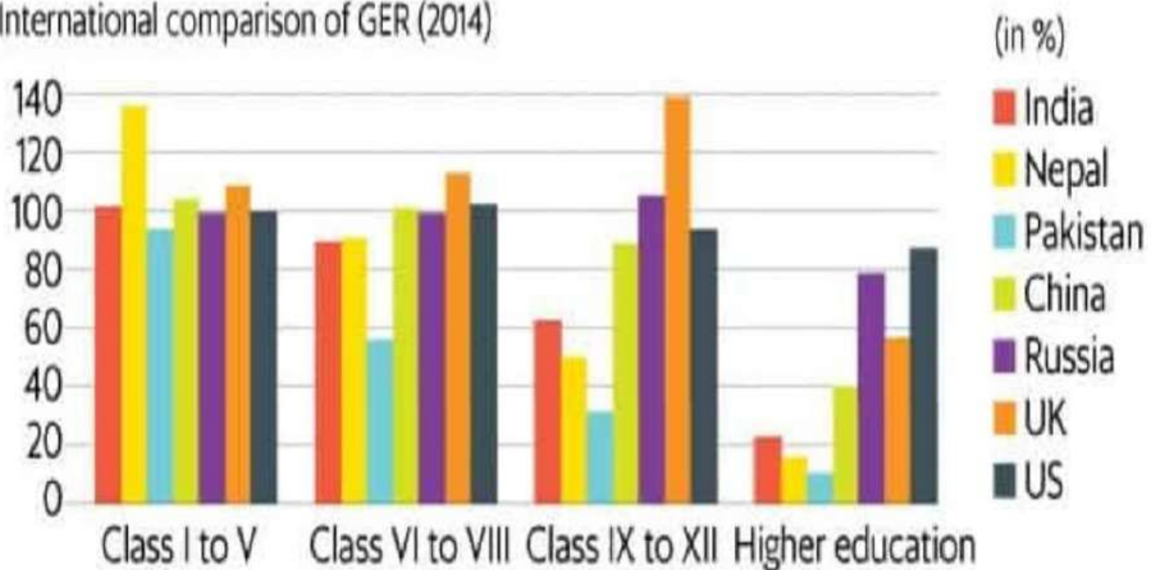
India has the world's largest population (500 million) in the age bracket of 5-24 years, which outlines a good prospect for the education sector. The education sector in India was estimated at US$ 91.7 billion in FY18 and is expected to reach US$ 101.1 billion in FY19. The education system in India undoubtedly faces many challenges and though the recent National Education Policy (NEP) 2020 has brought great hopes of change ; it lacks on a lot of fronts. The extension of free and compulsory education from grades 1-8 to even preschool and secondary levels is a welcome move under NEP (National Education Policy) but how will the costs of this will be met. Furthermore, with the advent of technology leading to easy access to information, the policy should have focused more on the way of teaching and not only on what to teach.

Education has a positive correlation with human capital development. The problems in India's education comes from the grassroot level. The Government has failed to deliver quality education to the rural population that can't afford private schooling. Government schools have the quality of education so low that poor families take loans to send their children to private schools even when they have the opportunity to educate their children for free. Apart from this, the private education system has made the whole idea of education, a highly profitable business where the Government has failed to stop this exploitation. With all these bottlenecks, an individual cannot exercise his/her basic educational rights which affect his/her development as an individual and hence they find it difficult to be employed.

According to the Annual Status of Education Report (ASER) 2017, only 17 percent of Indians are capable of employment. India's education system hasn't focused on a practical approach that significantly restricts a student's capabilities. With greater focus on the theoretical aspects and the grades, students are never taught about the applicability of the concepts or the employable skills .But how does education drive growth in the manufacturing sector? A student today would be a part of workforce in the future. Thus, the capabilities and skills of students determines the quality of workforce and thus, the productivity of manufacturing sector. One reason for underperformance of the manufacturing sector is that our manufacturing education system is stuck in the old Industrial Age of metalworking and welding.

It is not evolving and does not place enough emphasis on smart, connected product manufacturing, advanced material development and digital design integration. In an influential World Bank report about the best approaches to robust economic growth, it was concluded that "every country that sustained high growth for long periods put substantial effort into educating its citizens and deepening its human capital.". The pandemic has given a different turn to education in our country. Most private schools in urban India started online classes that facilitated student-teacher interaction on a real-time basis.

Unfortunately, government-aided schools and low-fee category educational institutions have limited resources and could not offer the same to their students. The launch of PM e-Vidya scheme for multi-mode access to digital/online education through dedicated introduction of DTH channels is a step forward in e-learning process during the time of a crisis but this crisis has brought to light the existing digital divide and inadequacies in infrastructure. Long back, India was the first country to use satellite teaching modes. Similarly, a larger room has to be provided for innovation where the mix of digital India and academia is smooth.



MAKE IN INDIA 1.0

When the Make in India scheme was launched in September 2014 by Prime Minister Narendra Modi, it had an ambitious target of incentivising both local and foreign companies to set up manufacturing units in India. Initially, 16 sectors (later increased to 25) were taken under the ambit of the scheme with an objective of increasing the share of manufacturing in the GDP of India to 25% by 2022 (later revised to 2025). This flagship scheme aimed to promote job creation, innovation and skill development in the manufacturing sector, the absence of which had been hindering the growth of the sector for many years. But almost six years down the line, the dream of making India a manufacturing hub is still a work in progress and that too by a long shot.

Multiple policy decisions have been taken over the years in order to achieve the objectives of the scheme, which eventually boil down to building a favourable environment for manufacturers in India. The National Intellectual Property Rights Policy was one such move which aimed to strengthen the IPRs in the country. Although this didn't lead to any significant improvement in the ranking of India in the Intellectual Property Index, it was a move in the right direction and if implemented properly, it can encourage many companies to move to India as an alternative to China, where intellectual property theft is rampant. Another major step was to set up five major industrial corridors across the country in an attempt to replicate the success of China's mega cities. Major fiscal push was given to such projects over the years. In addition to this, the Foreign Direct Investment limits were increased sector by sector multiple times over a period of five years to encourage foreign companies to invest in the country.

The importance of manufacturing for India

Manufacturing sector holds a very crucial place in the Indian economy. The Indian government had set up a target of creating 100 million jobs in the manufacturing sector under the Make in India scheme. These jobs are extremely important because in India the proportion of formally skilled workers is extremely low at only 4.6 percent as compared to 24 percent in China and 52 percent in the US. Majority of the Indian labour force belongs to the Level 1 and Level 2 skill set which include operation of machinery and simple and routine tasks. These skills are the most suitable for agriculture and manufacturing but as we know the agricultural sector is already over-saturated employing about 43 percent of the Indian workforce. Hence, the manufacturing jobs are an extremely important tool to generate employment opportunities in a relatively young nation like India.

ANALYSING MAKE IN INDIA

Make in India was launched by Mr. Narendra Modi in 2014. It was launched with the aim of facilitating innovation and giving a boost to the manufacturing sector of India. The following goals were outlined in the form of three concrete objectives to be achieved.
These objectives were as follows:

- To enhance the growth of the manufacturing sector of India by 12-14% annually.
- To create 100 million additional manufacturing jobs in the Indian economy by 2022.
- To ensure that the contribution of the manufacturing sector in GDP is increased by 25% by 2022.(Now revised to 2025)

The Make in India project was meant to enhance growth in the 3 key variables of the economy namely - Investment, Output and Employment. Hence, taking a look at the progress made towards these indicators would be a good way of gauging the success of the Make in India programme.

Investment

After the lapse of five years of the initiation of the Make in India programme the investment in the economy witnessed a slowdown. Slowdown was more prominent in capital investments in the manufacturing sector.
According to the Economic Survey 2018-19, Gross fixed capital formation of the private sector witnessed a decline of 2.7% from 2013-14 to 2018-19.
There has been a steady increase in the FDI (Foreign Direct Investment) in India after the launch of this program. FDI inflow from April 2014 to March 2019 is 46.94% of the overall FDI received in the country since April 2000. For the 1st time, India crossed the $60 Bn mark in FY 2017-18 with $55.55 Bn in FDI. This led to an increase in investments in the industries of automotives and electronic manufacturing.
However, though there has been a striking rise in Foreign Direct Investment in India much of this investment is directed towards the capital markets which still account for a large share

in the FDI.The flow of FDI into the manufacturing sector accounted for less than a quarter of the total inflows. E-commerce which occupies a key share of the FDI inflow has nothing to do with the Make in India initiative .

Employment

Four years after the initiation of the Make in India programme the unemployment rate rose to 7.2 percent in 2019 from 5.9 percent in 2018, according to data compiled by the Centre for Monitoring Indian Economy (CMIE) think tank. With the advent of the Coronavirus pandemic the situation has become a lot worse. The employment rate is one of the major indicators of the growth of the economy. According to the recent report released by CMIE The employment rate was 39.4% in 2019-20 which dropped to 27.2% in April 2021.
The increasing automation of the industry,the mismatch between the demand and supply of the new entrants in the job market, and the regulatory hurdles and red tape that companies still face if they want to set up shop in India, are all still a prominent hurdle in the way of Make in India.

The manufacturing boom that helped China achieve great heights might not be the answer to the problems India faces. Companies around the world now don't just look for cheap labour but skilled labour who can keep up with the pace of technological changes and increase productivity. The current demographic of India lacks employable skills. Employers often complain about the lack of skilled labourers in India.

Output

India is ranked at 63 out of 190 countries in the Ease of Doing Business Index according to the recent ‘Doing Business 2020’ Report. However, there is an investment crunch. Thus, even though the ease of doing business index jumped, investment in the manufacturing industry is yet to come. Hence, the industrial output of the country fell the most in nearly eight years. This is a clear indicator that there has been a contraction in the output of the country over years. Manufacturing output contracted by 3.9 per cent in September 2019. Thus, the objective of achieving 12-14% and expanding its contribution to 25% in GDP seems to be a far fetched objective.

WHAT WENT WRONG IN THE MII INITIATIVE ?

The Make in India initiative was a well thought-out and well- timed policy. However, even after ticking almost all the boxes it had some loopholes that stopped it from achieving its objectives.

The following were the loopholes in the Make in India

Implementation deficit :

While there was a lot of effort given in ideating and launching, India was far behind when it came to implementing the Make in India initiative. Many of the policy initiatives and announcements were launched without much preparation. For example, the GST programme was launched with an aim of reducing the complex indirect tax regime into a simplified unified one. The program was aimed to assist the Make in India project by making tax regulation simpler. However, GST was not implemented with preparation which led to poor implementation. Hence, the policy initiative was not able to achieve its full potential. This "policy casualness" proved to be detrimental for the initiative. Further, the initiative focused on a lot of sectors rather than focusing on some core sectors. This led to a loss of policy focus. Moreover, the majority of sectors covered under the initiative lack comparative advantages for the domestic economy.

Too much reliance on foreign capital :

The Make in India initiative relied too heavily on foreign capital for investment and global market for sale of the produce. Thus, the domestic production had to be done keeping in mind the requirements of the global market. There wasn't enough initiative taken to develop the domestic market or expand them so as to enhance the domestic demand. This led to an investment crunch where even though the ease of doing business index came down, there was no real investment into the economy as such. Further, the uncertainties of the global economy

and rising trade protectionism acted as an impediment in the success of Make in India . Even though India is among the world's top FDI destinations, garnering inflows of $49 billion in 2019 but majority of the FDI inflows are directed towards the capital markets. Manufacturing FDI was only around $8 billion in 2019.

Lack of proper infrastructure :

The current infrastructure in place in India is not at par with its counterparts. Bureaucratic red tapes and rampant corruption continue to make India a less attractive place for investors. The electricity cost is about the same in India and China. Inconvenient transportation is another prominent reason for the failure of this initiative. It takes much more time for transportation in India thus adding to the costs of the manufacturer. All these hindrances make India a less attractive avenue for investment for the manufacturers. With no proper infrastructure to support the growth, the target of achieving 12-14% growth seemed a little too ambitious. Historically, India has never achieved such tremendous growth and the growth percentage was too big for the current manufacturing infrastructure to digest.

Lack of skilled labourers :

Due to the insufficient skills, Indian workers are four to five times less productive than their counterparts in Thailand and China. With the world ushering in a new technological era, companies don't just look for cheap labour but skilled labour. India still lacks on this front. Graduates fresh out of colleges/institutions do not possess the job skills which makes firms apprehensive about hiring them. There is a greater need for imparting employable skills. Half of the engineering graduates out of Engineering colleges lack technical skills.

BUDGET 2021 AND MAKE IN INDIA

Budget 2021 has outlined many policies to reinforce the Make in India Initiative-

The Budget has outlined schemes to incentivise the startup ecosystem. One of the major relief is the extension of tax holidays for one more year till March 31, 2022. Given that startups were hit hard by the coronavirus pandemic, this would really help them in gaining back the momentum. In addition to the above mentioned initiative, to accelerate startup funding, the finance minister proposed to extend the capital gains exemption by one more year.

Another point in the budget was promoting one person companies (OPC). Till now only Indian residents could set up OPCs, but now even non resident Indians can set up OPCs. This will lead to an increase in the number of startups considering that NRIs are now allowed to set up OPCs, there is no need to find a co-founder, and they can easily raise money.

The budget has even outlined an increase in the foreign direct investment in the insurance sector from 49 per cent to 74 percent, thus promoting startups in the field of insurance
The Finance Minister's proposal for a 100 percent tax exemption on income, dividends, and capital gains for foreign investment in the Indian infrastructure sector would also have a positive impact on the automobile industry. The government has proposed a sharp increase in capital expenditure at 5.54 lakh crore, from Rs 4.39 lakh crore in 2021. Even the National Infrastructure Pipeline has been expanded to 7,400 projects. These allocations for budget in infrastructure fall in line with the election promise of the government of Rs 100 trillion investment in the infrastructure sector by 2024.

The above mentioned budget proposals would definitely transform the Indian startup ecosystem, inducing foreign and Indian investors to invest in the Indian startup ecosystem and helping to accelerate the Make in India initiative.

HOW CAN WE MAKE THE MII WORK?

Breaking the budget initiative (Loopholes and suggestions)

The insurance sector in India has several other problems that do not get resolved by just increasing the FDI cap. The FDI limit was increased to 49% in 2015 but the insurance penetration as a percentage of GDP has increased only by 0.26% from 2015 to 2018. This shows that the foreign investors aren't willing to invest in India, and most of the insurance companies in India do not even have upto 49% FDI which was the previous cap. One of the reasons could be the way insurance sectors are regulated in India. The insurance companies in India mainly compete on the basis of premium and not the products offered which goes against the interest of the foreign investors. The new products undergo a lot of evaluation by the IRDAI before approval. In order to increase investment in Indian insurance market, the government needs to relax a few of these regulations to make investing in the market easier.

Though the startup ecosystem has been provided with exemptions to push their growth, the efficiency of this policy would depend on implementation of the same.Hence, there is a greater need of reforms in the IMB process to avail the tax exemptions in order for it to live up to its full potential and promote startups. Further assistance should be provided to startups so that they are able to sustain themselves

The budget has given the much needed boost to infrastructure development which could reduce transaction costs and increase factor productivity. Moreover, the focus on improving transportation will create a unified market in India for movement of resources. Though this is a welcome move and seems perfect on the papers, the real test lies in the timely and effective implementation of the same.

How Can We Make the 'Make in India' work ?

There are four key drivers that would spur corporates from around the world to come and invest in India. These drivers can be listed as :

- An ever expanding market
- Technological advancement
- Skilled labour
- Ease of doing business

hus in order to make Make in India a success the government needs to work on the following indicators :

Work on imparting skills: We, as a nation, need graduates who have employable skills and are not just degree holders. We require programs that would equip the youth with vocational and soft skills that would help them to acquire jobs. The skilled labour would in turn attract companies to invest in India. Promoting think labs, applied math and technology clubs, leadership mentoring, career counselling and fostering discussion are some steps to promote early adoption of technological advancement

Invest in Infrastructure: The government should invest in the transportation sector and other infrastructure related to manufacturing so as to remove obstacles in the path of making India an attractive avenue for investments. An inspiration can be drawn for the same from The BRTS road model implemented in Gujarat that has simplified movement and spurred growth in the State. The focus should be on improving the supply chain models in the economy so as to overcome the hindrances in delivering value.

Knowledge clusters: Promote knowledge clusters in the country to spur innovations . India has so far been involved in assembling and manufacturing what has already been developed in other countries. It's time to promote innovation. The current budget has taken a step towards it by promoting the start up culture but there's a long way to go. There should be a structure in place to see that the startups coming up don't go out of business and impart knowledge so that they can sustain themselves. We can draw inspiration from the investments in this area by China, and even Singapore, which invests 3% of GDP in research and development, and is thus trying to attract global talent to its shores

Promote exports: There has been a steep fall in exports over the past few years. This was due to rising protectionism in the world market and to curb the devaluation of rupee. The emphasis so far has been on reducing imports. However, it is the declining exports which are more alarming.Thus, exports should be incentivized more.

Foreign Direct Investment

Manufacturing: A global perspective

One of the primary objectives behind the Make in India programme is to reap the benefits of a flourishing manufacturing sector including massive job creation and economic growth. Today, multiple emerging economies are making efforts to replicate the Chinese growth engine. From the past few years labour costs in China have been steadily increasing as more and more people entered the middle class, because of which many companies were already thinking of packing shops in the country and shifting elsewhere. The trade war gave the final push to all these companies which soon started shifting to Vietnam and Taiwan. Despite a clear geographical advantage and low labour costs, India failed to capture a share of this pie. The biggest hurdle holding back the Indian potential is the bureaucratic hurdles and the red-tape. In addition to this a majority of unskilled labour force only adds to the set of problems. While the EU-India Free Trade Agreement (FTA) is stuck in negotiations for years, Vietnam quickly made its move and finalised an FTA with the EU. Such lethargic behaviour does little to boost the already low investor confidence.

The rising FDIs

The rising levels of foreign direct investments is many times referred to as a success of the Make in India scheme, with FDI level rising from US $36 Bn in 2013-14 to US $45 Bn in 2014-15 and US $ 55 Bn in 2015-16. However, from the point of view of the manufacturing sector, the share in the total FDI receipts has declined from 47 percent to less than a quarter. E-commerce and services dominate the FDI inflows, implying that the impact on the manufacturing sector has not improved by any means. Furthermore, majority of the investments were made in companies incorporated before 2014 which means that such investments can't be attributed to the Make in India scheme.

NEW FDI RULES

On 17 April 2020, India's Department for Promotion of Industry and Internal Trade — DPIIT — announced new limitations to existing foreign direct investment rules. It said that any company, located in a country that shares a land border with India, will require government clearance before it can invest in India. These rules will also apply to owners of firms, who are the citizens of such countries, and might benefit from such investments. As a result, companies based out of Pakistan, Afghanistan, Bhutan, Nepal, Myanmar and China will have to abide by these rules.Since FDI from Bangladesh and Pakistan was already subject to government approval, the revision is mainly intended to regulate Chinese FDI.
According to the Indian Ministry of Commerce, tighter restrictions on Chinese investment became necessary in order to prevent "opportunistic takeovers" of Indian companies. The trigger may have been the disclosure earlier this month of the People's Bank of China—the Chinese central bank—buying a 1 percent stake in India's largest non banking mortgage provider HDFC Bank, bringing its total holdings in the lender to 1.75 percent at the end of March. China has protested against the revised rules, claiming a violation of the World Trade Organization's free trade rules. However, there are plenty of precedents for this kind of restriction. Even before the coronavirus pandemic, European countries were increasingly modifying domestic economic policies to ensure greater scrutiny of Chinese investment—especially mergers and acquisitions—in order to protect domestic firms, in particular those in technology and manufacturing.

Why was this decision taken?

China's increasing stakes in Indian start-ups and other technology companies also raise major concerns over the protection of intellectual property rights, data privacy, and national security. Alibaba, for example, is the single largest shareholder in Paytm, which handles the daily financial transactions of millions of Indians. Although this is ostensibly a private investment, India isn't the only country concerned about the Chinese government's influence over private technology companies' foreign activities, whether this concerns technology transfer, access to sensitive data, or the implementation of Chinese censorship policies. The recent increase of Chinese investment in India may also represent a shift away from investment in the United States, where Chinese FDI faces growing suspicions and scrutiny.

- **Impact on startup Culture**

In the past two years only, Chinese investors have poured about $6 billion into Indian startups. Dozens of Chinese firms and venture funds, including giants like Alibaba and Tencent have emerged as some of the biggest investors in Indian startups in recent years. Flipkart has an investment from Tencent (about 5%), a significant stake in Paytm is owned by Alibaba, social media operator ShareChat and food delivery firm Zomato are partly backed by Chinese venture capital and will be affected by this new rule.

Although the change in FDI is a measure to prevent Chinese hostile takeovers, its flip side is that it will make raising fresh capital in an environment of economic slowdown even more challenging. With preventive measures on FDI from neighbours which have been formulated with China in mind, businesses and startups will face severe disruptions. The prospects of these businesses post-COVID-19 will provide the foundations for economic recovery. But in the short run, they have financial commitments but insufficient cash. The change risks Indian access to the benefits of Chinese FDI — a valuable source of not just funds but also technology, know-how and links to markets. This will make smaller projects now even more expensive to implement. For India, Chinese investment was also a means to counter the widening trade deficit.

There are also a range of complex issues that may arise in determining how the changes apply to transactions that were entered into prior to the effective date but which had not otherwise required government approval under the old rules. This will hopefully be worked out sooner rather than later, so as to not cause even more trouble to India Inc at a time that is already extremely challenging.

While some startups can afford to give a secondary exit at their scale of operations, the ones which are raising capital for growth and expansion are in talks with new investors following mutual agreement between entrepreneurs and their existing Chinese investors to not take new money from them.

- **Impact on Indian Firms Chinese Business**

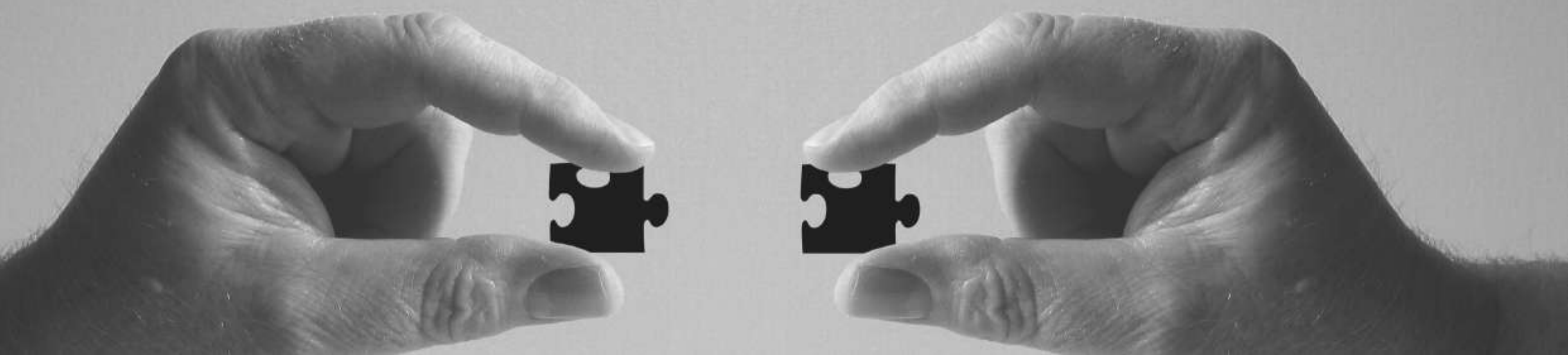
With these China-focused FDI changes, the high-level mechanism set up after Modi-Xi Jinping to correct trade imbalances in Mamallapuram, will lose its momentum. Additionally, there is lack of clarity on the fate of Indian investments in China in sectors such as industrial manufacturing, consumer products, financial services, information technology, business process outsourcing, logistics, healthcare and telecommunications.

Big groups like Tatas, Infosys, Adanis, Jindal Power etc. have a presence in China which is the second-largest economy in the world. Annual revenues of Indian corporate investments in China account for anywhere between 3% to 20% of their global total. What implications would the new DPIIT (Department for Promotion of Industry and Internal Trade) notification have on bilateral investment relations, which is the main driver of trade?

Extent of China's Investment in India

China today ranks among one of the top FDI sources in the world, with 74 percent of Chinese FDI going to Asian countries. According to India's Department for Promotion of Industry and Internal Trade, Chinese FDI from April 2000 to December 2019 totaled $2.3 billion. This figure has been growing, but in recent years India still has ranked only 31st among destinations of FDI from China; of all FDI inflows to India, Chinese investments have only been 0.52 percent. The biggest increase has been in the acquisition of shares in existing businesses, including pharmaceuticals companies—a source of concern during coronavirus-related medical supply chain fears. Chinese investment has also been directed toward technology start-ups. According to a study, 18 out of 30 Indian "unicorn" companies (tech start-ups whose market capitalization has reached $1 billion or more) have significant Chinese investment. Indian companies such as payment app provider Paytm, online retailer Flipkart, and ride-hailing company Ola Cabs count China's Alibaba or Tencent among their investors. India's technology firms, which operate in a market that shares many structural similarities with China's, have benefited not just from the capital inflow but also from the experience of Chinese firms.

The single largest Chinese investment in India is the $1.1 billion acquisition of Gland Pharma by Fosun in 2018. This accounts for 17.7 per cent of all Chinese FDI into India, but it is unique. This includes the $300-million investment by MG Motors.



WHAT DOES THIS MEAN FOR VARIOUS SECTORS?

Impact On Technology Sector

The revised FDI rules will slow down the pace of Chinese investments in India's technology-driven businesses. In 2018, these stood at $5.6 billion — a five-fold increase from $668 million in 2016. The Financial Times reported that two-thirds of India's start-ups, which are valued at more than $1 billion, now have one Chinese venture capital firm as an investor.
However, the revised FDI rules will act as the proverbial speed-breakers that halt the march of Chinese investments in India's technology. Companies will now have to navigate multiple bureaucratic hurdles and adhere to stricter compliance norms in order to invest in India. The country is in the grip of Covid-19 pandemic and government offices are functioning at a reduced capacity. In such a scenario, nobody quite knows how long it will take for FDI proposals to get approved.
In India, China's tech giant companies and venture capital funds have become the primary vehicle for investments in the country - largely in tech start-ups. This is different from other emerging markets where Chinese investments are mostly in physical infrastructure. Chinese FDI into India is at $6.2 billion, according to a report by foreign policy think tank Gateway House, but its impact is already outsized, given the increasing penetration of tech in India.

What Could India Do Differently?

We suggest a few things that the government should have have done along with introducing the new FDI policy;

- Since, large amounts of FDI comes from China for startup firms,the government can try to get this investment from USA, Japan and other economically powerful countries.This can be done by providing various incentives to investors from such countries which may be setting up special economic zones for firms from these countries.These zones will have certain benefits which may include being exempted from import duties ,provision of power and infrastructure at lower costs,rebate on export duties etc.

The PDC's Project Development Cells set up by the cabinet under most ministries last year must be strengthened .They should be negotiating such incentives with suitable investors.
The PDS's can play a crucial role in improving the FDI of India.They may focus on projects that can be financed by countries other than China.Details of investments from each sector since the set up these PDC's should be made available to be able to judge their progress and effectiveness.
Another important initiative that the government can take to promote investment in tech startups and firms that depend upon Chinese investments and technical know-how is to enter into Private- Public ventures.A private public venture with unicorns of India.In this venture, the huge firm can set up a corpus for investing in these startups and can provide them with the knowledge and experience.While the government may provide benefits like low cost inputs to these huge firms like subsidized power,land and other inputs.This way investment can be channelised from India itself.

An alternative to the new FDI policy could have been -In this situation, to protect strategic firms from opportunistic takeovers, the appropriate measure would have been to shift all countries' foreign investments to the approval route for particular strategic industries, rather than to shift only Chinese investments for all industries. This is similar to the move adopted by Australia, which has temporarily subjected all foreign investment to an approval review- thereby harmoniously balancing the emergency situation with its MFN (Most Favoured Nation) obligation.

SECTOR -WISE ANALYSIS (MII)

Although the scheme was plagued by multiple policy oversights, some sectors like the smartphone manufacturing sector have made the most out of the scheme. Today, India is the second largest smartphone manufacturer in the world with areas like Noida in Uttar Pradesh emerging as hubs for manufacturing. The city now houses the largest smartphone factory set up by Samsung in 2018. However, even here the concerns of the smartphones being just assembled in India remain with only about 10-20 percent of the value addition to the product being done in India. On the other hand, the automobile sector, which contributes about 50 percent of the manufacturing GDP of India was in tatters in 2019 after being plagued by a demand crisis. This was triggered by the uncertainty over BS-VI transitions and a full-blown NBFC crisis. As a result of this, sales of passenger vehicles reduced by about 12.75 percent, the biggest decline in over 20 years. At the same time exports weren't showing much growth either. As such with muted domestic demand and exports, and now an ongoing global pandemic is bound to hit the manufacturing capacity of the automobile sector in a gut wrenching manner.

Now coming to the pharmaceutical industry, another major part of the manufacturing sector in India, it has shown impressive growth after the scheme was launched. The value growth was about 15 percent in 2015 and in recent years it has averaged to about 8-9 percent every year. In addition to this the industry is now worth $37 billions with about $18 billions in exports. About 20 percent of the global generics market is controlled by the Indian pharmaceutical sector. The cheap prices of Indian drugs make it a favourable hub for global pharmaceutical demand.

However a major issue which needs to be addressed here is that about 80 percent of the raw materials used by the industry are imported from China which means that there is an urgent need to establish self reliance in this regard.

Successes and failures

Almost six years later, we aren't even close to achieving any of the objectives which the scheme had set up initially. Rather than increasing to 25 percent, the share of the manufacturing sector in the GDP has slightly declined over the years. The job markets in the country are at a decade low point, meaning that the second target of creating 100 million jobs remains far from fulfilled. One of the major reasons for the policy failure is the lack of oversight and the gaps in implementation. The targets set up by the government were marketable but they were beyond the capacity of the manufacturing sector of the country. The scheme relied too much on foreign capital and investments and focused less on domestic capacity building for achieving that target of 25 percent. While theoretically the scheme was improving the investment environment in India, evident by the improving EoDB rankings, the actual investments were yet to arrive.

How does India's results compare to other lower middle-income countries?

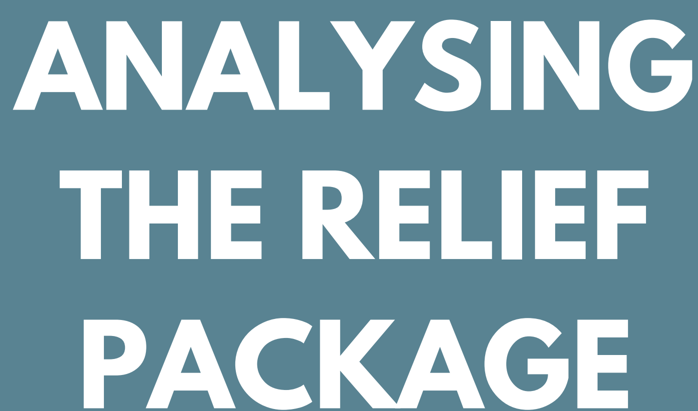
	Education	Employment	Asset Building	Financial Intermediation	Corruption / Rents	Basic services	Fiscal transfers
India	3.35	3.14	3.04	3.26	3.99	3.82	2.70
Indonesia	4.68	3.71	3.37	3.27	3.96	4.43	3.42
Lao PDR	2.94	4.60	3.12	3.36	3.97	3.54	3.24
Philippines	4.07	4.06	3.30	3.24	3.65	4.38	3.49
Thailand	5.21	4.17	3.62	4.28	3.47	5.03	3.56
Vietnam	4.68	4.70	4.05	2.75	4.12	4.38	3.39

STATE SPECIFIC SCHEMES

State specific schemes

One tangible behavioural change which has come out of this scheme is that many states have started realising the importance of the manufacturing sector in terms of job creation at the state level. This has translated into multiple state level schemes and programmes like the Make in Odisha Scheme, the Vibrant Gujarat Summit, the UP Investors Summit and the Tamil Nadu Global Investors Meet. However, most of these summits and schemes have focused more on organising events and very few projects have actually begun at the ground level. For instance, only 9 percent of the projects committed in the UP Investors Summit in February 2018 had begun commercial production till February 2020. Although state level interventions are crucial to develop the manufacturing sector in multiple parts of India, more focus needs to be given to giving incentives and coming up with other effective policy solutions to achieve the same.

Although India has made its fair share of efforts to expand the manufacturing sector of the country, it has always failed to ensure tangible change through its policies because of poor implementation at the ground level. With the advent of automation and artificial intelligence, we also need to ask ourselves if manufacturing will be as effective in creating jobs in the future. Maybe we are overestimating the ability of the sector to generate jobs and drive economic development. Regardless of the technological advancements, the Covid-19 crisis will create a new opportunity for the manufacturing sector in India because multiple companies will be once again looking for alternatives to diversify their supply chains and reduce dependence on China. But this time India needs to be more proactive with its efforts if it really wants to claim itself as a manufacturing hub.



ANALYSING THE RELIEF PACKAGE

The COVID 19 pandemic has delivered the largest supply ,and an even bigger demand shock, to the entire global economy. It has brought forward the vulnerabilities in the supply chains as well as the extent of interdependence between the globalised economies. The lockdowns have had a huge impact on the global economy and as even though the restrictions are being eased worldwide, the demand for most goods remain low with sectors like tourism, aviation and retailing witnessing massive job losses and shop closures. India too has seen massive downgrading with the IMF projecting a contraction of 4.5% of the GDP in 2020-21.

Economic Stimulus by FM: A Bird's Eye View

As governments around the globe have been releasing gargantuan stimulus packages (Japan going as large as 21.1% of its GDP, India has done a modest job with its first package valued at ₹20 lakh crore (10% of India's GDP). But, what stands more relevant than the size of the package is the timing and the contents of the package. In terms of timing, the government released the package just before the gradual reopening of the economy and as a result was perfectly placed. The package has many supply-side benefits which are exactly the need of the hour to ensure the survival of businesses. As for the broad structure of the contents of the package, it has laid out many long term structural reforms which can potentially improve every sector of the economy. It is extremely far-sighted and many experts are of the opinion that it is of little value in the short run conditions, but we shall delve into our opinion of the package as we move further into the Policy Report.

Overall Stimulus provided by Atmanirbhar Bharat Package

SN	ITEM		(Rs. Cr.)
1	Part 1		5,94,550
2	Part 2		3,10,000
3	Part 3		1,50,000
4	Parts 4 and 5		48,100
		Sub-Total	11,02,650
5	Earlier Measures incl PMGKP	(earlier slide)	1,92,800
6	RBI Measures (Actual)		8,01,603
		Sub Total	9,94,403
		GRAND TOTAL	20,97,053

MSMEs

FINANCIAL HIGHLIGHTS:

- Collateral free loans for businesses: All businesses (including MSMEs) will be provided with collateral free automatic loans of up to three lakh crore rupees.[1] MSMEs can borrow up to 20% of their entire outstanding credit as on February 29, 2020 from banks and Non-Banking Financial Companies (NBFCs). Borrowers with up to Rs 25 crore outstanding and Rs 100 crore turnover will be eligible for such loans and can avail the scheme till October 31, 2020. Interest on the loan will be capped and 100% credit guarantee on principal and interest will be given to banks and NBFCs.
- Corpus for MSMEs: A fund of funds with a corpus of Rs 10,000 crore will be set up for MSMEs. This will provide equity funding for MSMEs with growth potential and viability. Rs 50,000 crore is expected to be leveraged through this fund structure.1
- Subordinate debt for MSMEs: This scheme aims to support to stressed MSMEs which have Non-Performing Assets (NPAs). Under the scheme, promoters of MSMEs will be given debt from banks, which will be infused into the MSMEs as equity. The government will facilitate Rs 20,000 crore of subordinate debt to MSMEs. For this purpose, it will provide Rs 4,000 crore to the Credit Guarantee Fund Trust for Micro and Small Enterprises, which will provide partial credit guarantee support to banks providing credit under the scheme.

POLICY HIGHLIGHTS:

- Expediting payment of dues to MSMEs: Payments due to MSMEs from the government and CPSEs will be released within 45 days.1
- Insolvency resolution: A special insolvency resolution framework for MSMEs under the Insolvency and Bankruptcy Code, 2016 will be notified.
- Disallowing global tenders: To protect Indian MSMEs from competition from foreign companies, global tenders of up to Rs 200 crore will not be allowed in government procurement tenders.1
- Definition of MSME: The definition of MSMEs will be changed by amending the Micro, Small and Medium Enterprises Development Act, 2006.

As per the proposed definition, the investment limit will be increased from Rs 25 lakh to Rs 1 crore for micro enterprises, from Rs 5 crore to Rs 10 crore for small enterprises, and from Rs 10 crore to Rs 20 crore for medium enterprises. A new criteria of annual turnover will be introduced. The turnover limit for Micro, Small and Medium enterprises will be Rs 5 crore, Rs 50 crore, and Rs 100 crore, respectively. The current distinction between manufacturing and services MSMEs (to provide different investment limits for each category) will be removed

WHAT WORKS IN THIS POLICY?

First and foremost, revising the definition of MSME under applicable law is intended to bring more MSME enterprises under the purview of being classified as MSMEs so that they can reap benefits associated with it and grow under the watchful eyes. Under the new definition, the investment limit for micro, small and medium enterprises have been raised substantially and the distinction between manufacturing and services has been abolished. This measure will widen the net of benefits associated with classification as an MSME to more enterprises.

The collateral-free automatic credit line and the subordinate debt to MSMEs may be a game-changer for a sector which is finding it harder and harder to find credit support from banks and other financial institutions. It will make it lucrative for risk-averse banks to resume lending operations as the government will act as 100 per cent guarantor on both the principal and the interest. The guarantee from the government will ease pressure on banks and other financial institutions as they will not have to make provisions in case the loan account turns into a non-performing one.

Startups are not explicitly covered in the definition of MSME; however, startups operating in manufacturing and ancillary services sector especially medical devices, robotics etc. may consider registering themselves as MSME. The host of benefits such as priority lending to cluster financing, exemptions, tax soaps etc. will be available to such startups along with the new benefits under ANBA.

WHAT DOES NOT WORK IN THE POLICY?

More than three-fourth of the ABA package is about potential liquidity infusion and expected increase in the credit offtake at aggregate level.

The realisation of this potential liquidity infusion into enhanced credit offtake is conditional on the demand for credit in the market. Easy loans would boost aggregate demand for credit if, and only if, the MSMEs and the farmers do not substitute their past debts with these easy loans.

Furthermore, the aggregate demand for credit would increase only if the aggregate investment demand rises, which in turn, depends on the expected profitability of the investment projects. The profitability of the businesses/investments is subject to the demand for the products in the market.

The aggregate demand for goods and services again is dependent on the income and purchasing power of people, which has come down drastically, at the aggregative level, due to the COVID-19 lockdown.

The central bank has been on a repo rate-cutting spree (rate at which commercial banks can borrow from the RBI), resulting in an all-time low repo rate of 4% in May 2020 to make it easier for the banks to meet the increased demand for credit, if any, at a lower interest rate.

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Additionally, the reserve ratios have been lowered to enable commercial banks to provide more loans to the investors, given their deposit base.

However, if the easier loans had been taken in addition to the existing loans, the credit-deposit ratio of all the commercial banks operating in India (taken together) would have increased, at least after the announcement of the ABA package in mid-May.

That is, the credit offtake from the commercial banks would have increased relative to the (demand and time liabilities) deposit base with the banks.

Also, if there is a higher demand for credit in the market, the banks would invest less in governmen
refore, the potential infusion of liquidity would actualise and enhance the purchasing power of people to stimulate the aggregate demand only when extra credit is taken from banks and gets invested on the ground. However, the available data tells us a completely different story altogether (see the graphs below).

We have based our insights on the data related to the business of commercial banks in India from the various issues of weekly statistical supplements of the RBI from January 3 to June 19 of this year.

It is evident that the credit-deposit ratio started falling quite steadily after March 27 following the lockdown, (a decline from 76.4% on March 27 to 73.5 on June 5) and the banks' investment in government securities have gone up as a proportion of the total credit delivered (plotted along the secondary axis in the first panel) consistently after March 27 (from 35.6% on March 27 to 40.4% on June 19).

Even on March 27, the banks' investment in government and other approved securities was more than 30% of their net demand and time liabilities (NDTL), which was way above the statutory reserve requirements. Therefore, the reserve ratios were not binding constraints in any way.

The central bank's motive behind the reduction in the reserve ratio was to expand the bank's deposit base as it expected that there will be an increase in credit demand and a decline in bank deposits in the future.

On the contrary, the deposits have been continuously rising and the credit offtake has been continuously coming down since the lockdown was imposed. As a result, the credit-deposit ratio has been falling steadily till June 5.

Consequently, injecting liquidity into the banking system has failed to boost the growth of credit because the problem is not the scarcity of liquidity but that of the demand for credit.

The main cause of concern is that the demand for credit is not picking up. That will not increase until and unless the aggregate investment demand rises and that will not rise unless business sentiment about the size of the market improves.

If the aggregate demand for credit does not rise, clearly, 75% of the ABA package would simply fail to stimulate the economy.

WHAT THE GOVERNMENT SHOULD BE DOING?

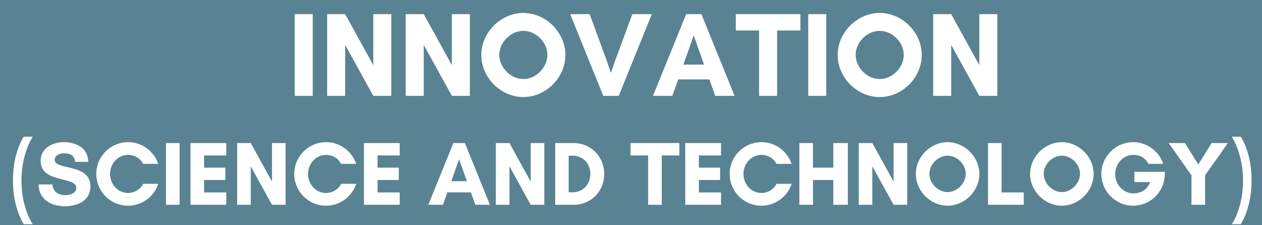
It is not that nobody would take collateral-free loans with the government guarantee even with low credit rating. Many would take this opportunity to demand loans under these easier terms, however, that does not necessarily mean that the aggregate credit offtake or investment would rise in the economy.

There is always the option of substituting past loans of businesses with these fresh loans with full or partial government guarantees. If those businesses make losses in future and generate non-performing assets (NPAs) with the banks, the government has to write the bad-debts off using taxpayers' money.
Basically, it is a mechanism of risk-diversification - to bring investors' confidence back.

The government is providing guarantee to the businessmen (with Rs 100 crore annual turn-over or less) that their losses, if any, would be fully or partially borne by the government (or the tax-payers).
This is important for the lives of such a gigantic population in India under capitalism. The government must go for expansionary fiscal policy (Keynesian demand management policy) financed by short-term monetisation.
The frontloading of government expenditure through deficit financing with universal employment of last resort programme (with enhanced wages) is the need of the day. An increase in government expenditure on health and education would reduce the out of pocket expenses of people on these services, which, in turn, would enhance the purchasing power and revive the aggregate demand.This is when people will begin to borrow and the benefits provided to the MSME’S in the lending sector will actually prove useful.

POLICY SUGGESTIONS

The stake of the manufacturing sector in India's GDP augmented from 8.98% in 1950-51 to 16.18% in the 1990-91 but post the reform period, the sector largely seemed to be 'input-driven' and hence, a decelerating rise. Due to severe long run production inefficiency, the share of manufacturing industry in India's GDP is sluggish at 15% from 2019-20. The Make in India policy 2015 was launched with the objective of inflating the size of the domestic output and hence, the manufacturing sector to 25% of GDP but the goal remains a distant dream for varied reasons stretching from investment climate, research and development to labour laws. Timely policy actions with robust measures can lubricate inclusive and sustainable development.

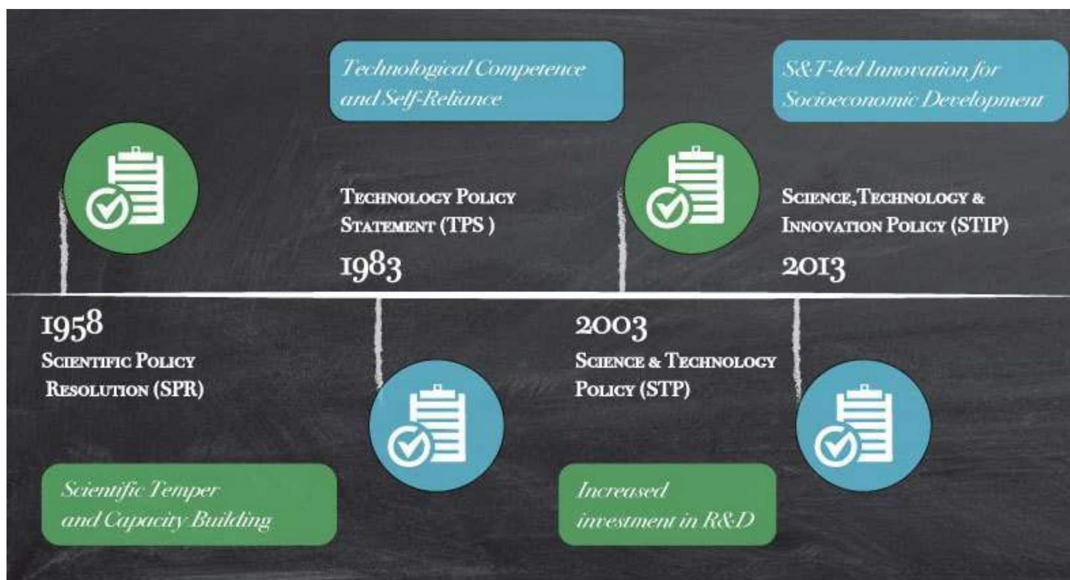


INNOVATION (SCIENCE AND TECHNOLOGY)

The bold vision of an 'Aatma Nirbhar Bharat' can only be realised through science and technology. Research and technological development are a pre-requisite for any manufacturing enterprise. Thus, policies must connect the knowledge generating system with the knowledge- consuming system. Here, comes the role of three key players - academic institutions, industries and the government. Push from academia resulting in a pull by the industries combined with an inclusive, long-term and sustainable policy on the part of the government, can foster, develop and escalate innovation. For years, our academic institutions have been homogeneous but now there is a desperate need for people from multidisciplinary backgrounds to chiefly form part of such institutions. Policies must ensure advancement of information, bio, nano, quantum and other flourishing technologies.

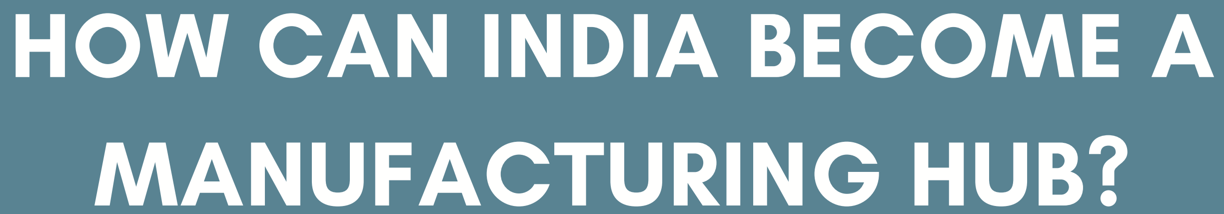
Model of transfer of technology should only be used for maturing technologies where there is no need for reinvention. This will proselytize self-sufficiency in areas of need and hence, constructively utilise the productive resources. Government is working towards creation of a new India by bestowing support to ideation, incubation and prototyping, and also by ensuring market access. The different agencies should ensure timely release of funds for the welfare of scientific staff and workers of Research & Development Projects. With proper planning and incorporation of some of the best practices of other agencies, delays in release of funds can be avoided in the indian ecosystem.

Recently, the Central government initiated a consultation process for formulation of a new National Sciences, Technology and Innovation Policy - the aim of which is to place India among the top three scientific superpowers in the coming decade with the generation of people centric STI (Science Technology and Innovation) ecosystem. The image below is a representation of the major policies implemented since independence for scientific and technological development in the country.



The objectives of 2013 STIP Policy and 2020 draft policy are similar and hence the draft policy fails to discuss what we have achieved on these fronts since then. A decentralized institutional mechanism is imagined in the new draft policy, balancing the top-down and bottom-up approach but at the same time, the document itself speaks of establishing new authorities and centres which may end up defeating the purpose of a decentralized mechanism.

Though India is among the top 15 nation in Information and Communication Technology and R&D intensive global companies, yet more technology-oriented firms need to step forward utilizing the untapped resources of the country. The Covid-19 pandemic has precipitated a financial crisis but this can be a blessing in disguise for India because whenever there is a financial crisis in the World, it is an opportunity to procure assets, Intellectual Property Rights, Patents from abroad at attractive rates. Thus, facilitating knowledge transfer at a profitable scale. For a longer vision, administrative bodies can take 10 areas instead of focusing on all for a robust, inclusive and transformational headway.



HOW CAN INDIA BECOME A MANUFACTURING HUB?

Here are the major four focus areas –

Tweak the 'Make in India' formula

Even after such an explosive shock the world suffered due to coronavirus China refused to inject consumption stimulus through direct cash transfers. This shows the confidence it holds upon its model of economy. After the lockdown the chinese companies very quickly shifted to online mode somehow reassuring the foreign companies to stay a bit longer. It's time that India tweaks the formula of 'Make in India' to 'Make for India' as once said by former RBI governor Raghuram Rajan. He explained that making products for foreign market is a cumbersome process and India should rather focus on producing commodities for the vast indian population who cannot otherwise afford the other expensive goods produced. As the idea of having a manufacturing unit where you sell makes more sense, producing for the local population can be taken advantage of.

Control Crime Rate

There are no two questions that the crime rate in India is way more than that in China. This swells the balloon of doubt among the companies wishing to invest in India. China being an authoritarian state, there's rarely any mass protests or court restriction that can potentially hinder the once approved projects. Clearly this is not the case in India where labor union protests and other legal restrictions have brought a halt to the operational activities of a company in the past. It is difficult for Indian authorities to make one sided decisions which most of the companies desire. A more flexible and yet neutral decision making will perhaps make it easier to overcome this problem.

Focus on Skill Development

Hands down, the most important factor to make India a manufacturing magnet for foreign investors is the skilled labor force. China has spent extensively in skill development and the rest is history. India will need to take the importance of education very seriously if it hopes for a brighter future. In FY 2018 India spent only 2.7% of its GDP in education as compared to China which spent 4.11%.In addition to educating, India must skill their labour force in various industries from low (mining, agriculture-related etc.) and specialized ones (textile & apparel, electronics manufacturing etc.).

Increasing technological innovations are automating the clerical jobs and demand for specialized skill sets, especially IT skills which can be a great asset to the country considering the huge young population it has. India should not ignore this factor and fulfil the skilling needs to remain competitive globally.

Policy Restructuring

Age-old policies and laws are certainly another barricade standing in the way of India to reach the status of a manufacturing hub. From labour laws to land clearances, it's an absolute headache to get past these archaic processes. The taxation and customs policies are irrelevant which for example makes importing medicines cheaper than locally producing it. As quoted by Ms Biswal in an interview with BBC, President of USIBC and the former assistant secretary of state for south and central Asian affairs in the US Department of State."The more that India can improve regulatory stability, the better its chances of persuading more global businesses to establish hubs in India."

INCENTIVES TO MANUFACTURE IN INDIA

- **Large Consumer Market**: Companies like Abbott pharmaceuticals have seen India becoming their third largest market in the world! This is also the case with other companies like Cummins Engineering which has seen a 15% growth in its operations for the past ten years that it has been in the nation. As disposable income grows, many multinationals want to sell their products to the Indian consumer. The most cost-effective way to do so is to start manufacturing in India.
- **Politically Stable:** Companies would not want to build their facilities unless they are absolutely sure that their investment is secure. India has the upper hand on its rivals when it comes to security and stability. India is the most politically secure nation in the vicinity. Pakistan and Bangladesh are facing a problem with terrorism. On the other hand, China is known for being an oppressive regime. India is the most convenient option for corporations to invest their money in.
- **Regional Export Hub**: India has negotiated several trade agreements. As a result, it enjoys favorable deals from all its small neighbors as well as South East Asian countries.

Hence, if a multinational company sets up it's manufacturing unit in Mumbai, it can also serve other markets like Nepal, Bhutan, Bangladesh, Myanmar, Thailand, Malaysia and Indonesia, etc. At the present moment, some car manufacturing companies are even serving the European markets from their manufacturing facilities on the west coast of India.

Labour Market

Grass-root intervention and Institutional innovations are indispensable in fostering growth in the labour intensive industries. Among all the industrial workers, the migrant workers are the most severely perturbed and all of their administrative burden lies with the state governments. Thus, during the ongoing pandemic the state governments must have possessed abundant information concerning the size and distress of inter-state migrants in their respective territories. For generation and implementation of ample data and better decision making by governments, a policy can be designed which imparts an obligation on the part of employers to maintain a digital register on the specifications of inter-state migrants authorized under them. Also, relaxations in labour laws captivates employers and firms but these relaxations must be accompanied by any grievance redressal mechanisms for workers. For instance, the Occupational Safety, Health and Working Conditions (OSHWC) code which strives to replace 13 labour laws removes statutory obligations of the organisations with regards to certain health and safety conditions.

Bringing state of the art technology, the central government has envisioned a specialist body, “National Recruitment Agency” for the majority of central government jobs. Since, multiple recruitment examinations are a burden on the candidates as well as on the respective recruitment agencies involving repetitive expenditure, law and order or security related issues and venue-related problems. Solving this hassle, a historic decision of conducting an online Common Eligibility Test for shortlisting candidates twice a year has been advocated. Thus, it is a transformative reform but the state of capacity of local governments has to be looked forward. Moreover, the failure of policy threatens the danger of deepening digital divide. Thus building up of necessary infrastructure is a prerequisite.

WHAT ARE INDIAN LABOUR LAWS?

Estimates vary but there are over 200 state laws and close to 50 central laws. And yet there is no set definition of "labour laws" in the country. Broadly speaking, they can be divided into four categories.

The main objectives of the Factories Act, for instance, are to ensure safety measures on factory premises, and promote health and welfare of workers. The Shops and Commercial Establishments Act, on the other hand, aims to regulate hours of work, payment, overtime, weekly day off with pay, other holidays with pay, annual leave, employment of children and young persons, and employment of women.

The Minimum Wages Act covers more workers than any other labour legislation. The most contentious labour law, however, is the Industrial Disputes Act, 1947 as it relates to terms of service such as layoff, retrenchment, and closure of industrial enterprises and strikes and lockouts.

CRITICISMS OF THE LAWS:

Indian labour laws are often characterised as "inflexible". Even the organised sector is increasingly employing workers without formal contracts. This, in turn, has constrained the growth of firms on the one hand and provided a raw deal to workers on the other.

Others have also pointed out that there are too many laws, often unnecessarily complicated, and not effectively implemented. This has laid the foundation for corruption and rent-seeking.

Essentially, if India had fewer and easier-to-follow labour laws, firms would be able to expand and contract depending on the market conditions, and the resulting formalisation — at present 90% of India's workers are part of the informal economy — would help workers as they would get better salaries and social security benefits.

CHANGES MADE IN THE LAWS

UP, for instance, has summarily suspended almost all labour laws including the Minimum Wages Act.

Radhika Kapoor of ICRIER characterised this as "*creating an enabling environment for exploitation*".

In that sense, from the perspective of the workers, the government has completely turned its stand from asking firms not to fire workers and pay full salaries at the start of the lockdown, to stripping workers of their bargaining power now.

Moreover, far from pushing for a greater formalisation of the workforce, this move will in one go turn the existing formal workers into informal workers as they would not get any social security.

IMPACT OF THIS

Even before the Covid-19 crisis, thanks to the deceleration in the economy, wage growth had been moderating. Moreover, there was always a wide gap between formal and informal wage rates. For example, a woman working as a casual labourer in rural India earns just 20% of what a man earns in an urban formal setting.

If all labour laws are removed, most employment will effectively turn informal and bring down the wage rate sharply. And there is no way for any worker to even seek grievance redressal.

Theoretically, it is possible to generate more employment in a market with fewer labour regulations. However, as the experience of states that have relaxed labour laws in the past suggests, dismantling worker protection laws have failed to attract investments and increase employment, while causing an increase in worker exploitation or deterioration of working conditions.

Ravi Srivastava, Director, Centre for Employment Studies at the Institute of Human Development, said employment will not increase, because of several reasons.

That's because far from being a reform, which essentially means an improvement from the status quo, the removal of all labour laws will not only strip the labour of its basic rights but also drive down wages. For instance, what stops a firm from firing all existing employees and hiring them again at lower wages, the director pointed out.

First, there is already too much unused capacity. Firms are shaving off salaries up to 40% and making job cuts. The overall demand has fallen. Which firm will hire more employees right now? he asked, if the intention was to ensure more people have jobs, then states should not have increased the shift duration from 8 hours to 12 hours. They should have allowed two shifts of 8-hours each instead, she said, so that more people can get a job.
this move and the resulting fall in wages will further depress the overall demand in the economy, thus hurting the recovery process.

WHAT THE GOVERNMENT COULD DO DIFFERENTLY?

Instead of creating exploitative conditions for the workers, the government should have — as most governments have done across the world — partnered with the industry and allocated 3% or 5% of the GDP towards sharing the wage burden and ensuring the health of the labourers because if Covid hits them, the whole economy would be sunk.

Other Areas

Exports Sector

RoDTEP (Remission of Duties or Taxes on Export Product) scheme was commenced as a replacement of the subsisting MEIS (Merchandise Exports from India Scheme) scheme, to implement WTO-consistent principles. According to these principles, central and state indirect taxes on exports can be reimbursed by the government. But the short term transition phase failed to assure the export industries about the policy change. Though the policy was inevitable as per international norms but the procedure of entry and exit of such industrial policies must be in accordance with the feasibility of acceptance and applicability by predominantly affected sectors. Intra and Inter-regional disparities in export infrastructure needs to be addressed as they act as major bottleneck in achieving an export-oriented growth. Lastly, the policies of the export sector must not make firms dependent upon export, rather they must aim at making them adequately competitive to take advantage of the prodigious market of India. This will ensure that industries remain unstirred by the protectionist measures or any geopolitical actions of governments across the world.

Financial Sector

Domestic and foreign investment, credit availability in an economy, revenue and cost to industries are substantial factors impacting manufacturing revolution and all of these are largely driven by the health of commercial Banks, NBFCs and other financial institutions operating in the country. The initiatives taken to mitigate the banking crisis in India primarily whirled around recapitalisation and merger of Public Sector Banks. But the policies are required to be framed in a manner to address the structural problem of banks i.e their potential to advance loans. Thus, some sources of financing term loans of Banks can be increased.

One of the other major sectors include NBFCs which have a pronounced effect on the economy and a string of defaults in the industry have already triggered fears within the the spirits of the debt laden firms. A deposit Insurance facility to NBFCs can increase credibility of the institutions and security on the part of customers because the Deposit Insurance and Credit Guarantee Corporation covers Commercial Banks, Regional Rural Banks, Local Area Banks but not the NBFCs.

Taxation

Tax structure and system is of vital importance for any economy. For bringing efficiency and people-centric approach in the taxation system, a platform 'Transparent Taxation - Honoring the Honest' has been launched. The main aim is to ease compliance and expedite refunds benefiting honest taxpayers. Features include faceless assessment, faceless appeal and taxpayers' charter. Though this next generation, public friendly assessing system secures the unsecured and brings belief in people's honesty but it is still a one way system where penalty is levied upon the assessee but there is no reverse for the income tax officer as retribution for his offence if the assessee wins the case. Thus, the taxation system is required to be a two way process where income tax officers are also held accountable.

WHAT IS THE NIIFL?

National Investment and Infrastructure Fund Limited (NIIFL) is a collaborative investment platform for international and Indian investors, anchored by the Government of India. NIIFL invests across asset classes such as infrastructure, private equity and other diversified sectors in India, with the objective to generate attractive risk-adjusted returns for its investors. NIIFL thinks long-term, believes in generating returns through efficiently operating its investments through economic cycles, and is committed to sustainable investing principles.

NIIF Limited manages over **USD 4.5 billion of equity capital** commitments across its three funds - Master Fund, Fund of Funds and Strategic Opportunities Fund, each with its distinct investment strategy. **NIIF Master Fund** primarily invests in operating assets in core infrastructure sectors such as transportation and energy. **NIIF Fund of Funds** invests in funds managed by best-in-class fund managers focused on some of the most dynamic sectors in India such as climate infrastructure, middle-income & affordable housing, digital consumer platforms and other allied sectors. **NIIF Strategic Opportunities Fund** is a Private Equity fund which aims to build scalable businesses across a range of opportunity long but capital short sectors.

The Master Fund: is an infrastructure fund primarily investing in operating assets in core infrastructure sectors such as roads, ports, airports, power etc. The Master Fund invests in mature businesses with long-term track record, often operating in regulated environments or under concession or long-term agreements. These businesses are expected to provide predictable inflation-hedged and stable cash flows.

The Fund of Funds (FoF) invests through India-focused equity fund managers who have a strong track record of managing investments successfully. Our Fund of Funds has a focus on social infrastructure sectors services such as healthcare, education, digital as well as financial services, logistics and consumer services.

Examples of projects undertaken by NIIFL

1. National Investment and Infrastructure Fund Limited (NIIFL) announces an investment of INR 2,100 crore in Manipal Hospitals through its NIIF Strategic Opportunities Fund .
2. DP World and National Investment & Infrastructure Fund (NIIF) joint venture Hindustan Infralog Private Limited (HIPL) has announced an investment of INR 1000 crore in developing its Nhava Sheva Business Park (NSBP) Free Trade Zone (FTZ) in Mumbai.
3. Somerset Indus Healthcare India Fund ("Fund II"), managed by Somerset Healthcare Investment Advisors Private Limited ("Somerset"), is an independent India-dedicated fund manager with the mandate to make investments in SME companies in the Indian healthcare sector. Somerset is an upcoming fund manager that has demonstrated the ability to generate commercial returns by backing businesses that provide affordable and quality healthcare solutions.

OTHER PROGRESS IN THE FIELD OF INFRASTRUCTURE:

- According to the estimates of a recent report – India will require a whopping Rs 50 trillion (US$ 777.73 billion) in infrastructure by 2022 for sustainable development in the country.
- It is also showcasing a myriad of opportunities for foreign investors to invest in the country's infrastructure development.
- Furthermore, the estimates shared by the Department for Promotion of Industry and Internal Trade (DPIIT) suggest – FDIs in the construction development and infrastructure activities stood at US$ 17.22 billion in September 2020.
- Given the present market scenario, the Indian government plans to spend USD 1.4 trillion during 2019 – 2023 on infrastructure with an investment of USD 750 billion on railways infrastructure by 2030.

The Strategic Opportunities Fund (SOF) is aimed at investing in growth and development stage investments in companies and sectors that are strategically important to the Indian economy and are likely to benefit from India's growth trajectory over the medium to long term. The sectors of initial focus are financial services, food & agriculture, healthcare, education among others.

WAYS THIS SECTOR CAN COMBAT THE CHALLENGES OF COVID 19:

- Successful completion of infrastructure projects is capital intensive and requires a massive capital inflow. The most crucial strategy to stimulate growth in the sector is an effective deployment of capital resources by the government. Department of Telecommunications for capital expenditure.
- The deployment of the allocated resources in the right way is expected to increase the number of tenders announced and completed. As a result, there will be a large number of projects and higher demand for infrastructure firms, accelerating the cashflows in the country.
- Additionally, if the time taken to fulfill contractual obligations is reduced than the present, the operations in the sector will proceed with swiftness.
- Another big challenge faced by large infrastructure companies is the sourcing of raw materials such as steel. Earlier, the infrastructure companies were required to procure steel from primary producers who charged a premium, therefore driving up costs for the industry as a whole. Recently, the ministry of steel released a clarification stating that the raw material can be procured from any producer. However, the implementation of such guidelines needs a great push in order to boost the industry's growth by reducing the cost of raw materials.
- In the infrastructure industry, one of the biggest hurdles is incomplete projects. These are usually left for too long in the last stage of development and the completion of them would make way for new projects as well as provide support for them.

This case is evident especially with physical infra projects such as roadways and railways. Focus on physical infrastructure projects will make the movement of resources easier and also provide aid to logistics. In the past three years, there has been a buzz around the development of smart cities in India. Expediting the process of project approvals can help the government fulfil the mission of smart cities, and alleviate infrastructural gridlock in tier 1 and tier 2 cities, where most of the population is concentrated.

SUCCESSFUL CASE STUDIES

Criteria	Problem in India	Successful case study
Pace of Reform	The pace at which reforms had been initiated in a newly independent India and even post-liberalisation, was not enough to meet the contemporary needs of a modern, globalised world.	**China**- Post the opening up of China's economy, Deng Xiaoping initiated wide-scale reforms that sought to overhaul the existing system of China at a rapid pace. He paid little heed to the short-term consequences of such drastic approaches and focused on the long term development. Open door policy and the SEZs spurred China's "investment and exports- led growth". Post Independence, India was slow to implement such measures at this scale and pace. The Indian government focused on implementing reforms in a more gradual manner.
Lacklustre Research and Development	India's investment in research and development is still not adequate. The government's approach of sticking with preserving traditional industries as they are and preference towards saving them from foreign competition instead of helping them expand to face the competition is what hampers the true growth of these enterprises.	**Singapore**- Government agencies such as the Economic Development Board are proactively supporting companies in Singapore by equipping them with resources that can help them realize their business goals. Singapore has succeeded in creating a conducive environment to attract innovative international start-ups to its shores.

Criteria	Problem in India	Successful case study
	India might be among the top ten research and development (R&D) spenders in the world, however there are only 26 Indian companies in the list of the top 2,500 global R&D spenders. On the other hand, 301 Chinese companies are among the top 2,500 global R&D spenders. Further, 19 out of these 26 firms from India are concentrated in just three sectors namely pharmaceuticals, automobiles and software. Further, India has no firms in five out of the top ten R&D sectors whereas China has a presence in each one of them.Though patent filings in India have increased steadily, 10 out of the 13 patents filed here are by companies from abroad. There is a need to foster Innovation inside the country and corporations need to take a step up. Easing up the regulations, promoting openness and encouraging pure and applied research at the University level can help in boosting research and development.	Singapore has transformed itself from a country with a very few natural resources to an aspiring superpower. Singapore has steadily invested in research and development which has proved to be a boon for its industries. Singapore's government knew that it had to develop science and technology since they lacked on the front of availability of natural resources.It started with the establishment of National Science and Technology Board in 1990 that the government began to invest in R and D in a structured way. It has steadily increased its investment in RandD from $2 billion in 1991 to $ 19 billion under the RIE 2020 plan. The push for research and development in Singapore was mainly by the government. Further, there were initiatives taken to convert public universities in Singapore into independent research intensive institutes to further foster and promote research and development. However, it not just focused on promoting research and development but made sure to bridge the gap between universities and industries through integration. This helped in encouraging innovation in the country. Singapore further believes in open innovation and open talent and hence always welcomed investment and talent from outside the country. It made sure to tap and utilise globalization to its advantage. It did so by collaborating with various anchoring MNCs. It has also attracted top researchers from around the world. All this has amalgamated to make Singapore a top performer in RandD

Criteria	Problem in India	Successful case study
(un)successful Special Economic Zones (SEZs)	India's special economic zones (SEZs) — a key element of the country's industrial and export promotion policy over the past couple of decades — are faced with numerous challenges, including over 25,000 hectares of land lying unutilised in these preferential treatment industrial enclaves, lack of flexibility to utilise land for different sectors, multiple models of operation, domestic sales by the SEZs facing a disadvantage due to payment of full customs duty, and lack of support from state governments for an effective single-window system.	**China**-There are various incentives to business owners who are operating out of these zones. . One of the most famous tax benefits is the elimination of corporate tax under losses which means if you fail to generate a profit, you do not have to pay taxes. Once a company does start to generate a profit, then there are reduced tax rates until 5 years from the start of profitability. Many special economic zones have a decreased income tax level, being as low as 15% as in Hong Kong special economic zone, whereas in mainland China this rate is normally as high as 33%. The benefits of these special economic zones in China can directly be seen in the development of well established economic zones. For example, Shenzhen economic zone, after being designated as one of the first special economic zones, the city grew from being a small village to a city with a population of more than 10 million within a few decades.
Make in India	Make in India's goal is just to bring basic manufacturing to an economy that presently desperately needs decent-paying jobs. Unlike the Chinese plan, Make in India's 25 identified sectors mostly include those that aren't cutting edge, such as leather, textile and mining.	**Industrie 4.0** — the result of collaboration between the German government, research institutions and businesses — focuses on the development of fully-automated "smart" factories. These factories would make products on the shop floor fully customizable, according to media reports. **Made in China 2025** - will span the whole manufacturing industry, applying advanced ideas not only from Germany but also from the US and Britain, among others.

Criteria	Problem in India	Successful case study
		It seeks to focus on the upgradation of Chinese manufacturing sector to further innovation and also to encourage green manufacturing. It is a 10-year campaign.
Supply Chain Management	Inefficiency of supply chain in India leads to market failure and incompetency. Though India's supply chain is improving, the government has to scale up logistics and infrastructure development for risk mitigation and competitive transportation of goods. Supply chain is really crucial for the efficient functioning of the manufacturing sector. Supply chain management is important for integration of the processes of business right from sourcing to delivering the products to customers. Lack of adequate technical support, lack of infrastructure, high cost pf raw materials and inexperienced professional act as a major constraint in building efficient and effective supply chain in India.	**Switzerland** - Switzerland has integrated supply chain management that allows MNCs to combine tax and customs with pure commercial and logistical considerations. Most of the international supply chain management integrate tax planning in their design. The main feature of this model is to pool in resources and risks from businesses to combine them into a single entity in Switzerland. This model of creating a centralized supply chain management brings with it the benefit of competitive effective tax rates. Moreover, the presence of competent multilingual personnel who specialize in value chain management further attracts MNCs. Further Switzerland's quality infrastructure, a stable political environment, competent workforce and its neutrality during foreign political disturbance help in risk mitigation. Various risks are addressed by service providers based in Switzerland that cover all aspects of supply chains across industries. Switzerland provides a good base for e supply chains as well. Presence of IT experts, combined with a fast internet connection helps in furthering the development of e supply chains. Another aspect where Switzerland excels is the high importance it attributes to individual privacy.

Criteria	Problem in India	Successful case study
Labour Market	India has always faced conflict of interest between employer and employee and paucity of social security benefits to a large section of workers. Even after programmes like National Skill Development, the incremental change is least with the population comprising a gigantic percentage of unskilled workers.	**Germany** – In Germany, workforce development rests upon the companies and so there is always a constant incentive to hold on the workers and reduce their working hours instead of laying them off during an economic downturn. The severe recession of 2009 reduced Germany's GDP by more than 5% nevertheless companies didn't lay off employees, rather reduced their working hours. The unification of trade unions, employers and government in Germany is the key to its success. Once called the "Sick man of Europe", today Germany has one of the lowest unemployment rates in the continent. Thus, India can utilize its huge market size, demography to the fullest capacity with coordination of numerous stakeholders impacting the performance of the economy.
Contract enforcement	The World Bank's Doing Business Report 2020 ranks India 163 out of 193 countries in enforcing contracts.	**Luxembourg**– Enforcing contracts is easiest in Luxembourg, where it takes 321 days and 26 procedures and costs 9.7% of the value of the claim.

Criteria	Problem in India	Successful case study
	Various land, environment and other clearances form hindrances in honouring business contracts. India's crumpling civil justice system also requires reforms.	**Poland**- Poland appointed more judges and bailiffs in commercial courts, increased procedural efficiency at main trial court and introduced private bailiffs. **Hong Kong**- It increased procedural efficiency at its main trial court by imposing limits on certain appeals, limiting the time for witness examination and extending discovery procedures. **UAE**- Dubai has responded to burdens on its legal system by creating specialized courts. This has resulted in the resolution of 58% more contract enforcement actions in 2009 than in the previous year.
Manufacturing Competitiveness	Manufactured products of India's MSMEs do not carry a competitive advantage in the global market.	**USA**- The favorable US policies centered on sustainability, technology transfer, monetary control, science and innovation, foreign direct investment (FDI), intellectual property protection, and safety and health regulation help to create a competitive advantage for their businesses.

ADDITIONAL POLICIES

Topic	Page No.
1 .New Farm laws and their implications	1
2.Health and Economic growth	5
3. Privatisation	9

Nearly 56% of the Indian workforce is engaged in Agriculture and its allied activities but their contribution to the GDP is just around 17%. This mismatch clearly shows that the Government has failed to create job opportunities for the excess labour present in the agricultural sector.

MANUFACTURING AND AGRICULTURE

In the chain of the agriculture Sector-The Farmers can be called the Manufactures. At the end of the end of the day if the wholesalers want to sell the produce to the retailers and the retailers to consumers only if the farmers produce. Hence, they are the manufacturers.

There are two very important laws in place to help support the farmers. The MSP(Minimum Support Price) and APMC's(Agriculture Produce Market Committees).

EXISTING CONDITIONS OF THESE LAWS

Today, MSPs are set by the government for 23 crops consisting of cereals, pulses, oilseeds and four cash crops - sugarcane, cotton, jute and copra (dried coconut). However, a floor price only makes sense if farmers are assured that everything they bring to the *mandi* will be bought. Right now, only paddy and wheat is procured by government agencies, along with some amount of cotton, oilseeds and few *daals*. For the remaining crops, there is hardly any procurement at MSP rates.

So even in the APMC *mandis*, farmers end up selling most of their produce below government-mandated prices. This is especially the case for non-MSP crops, such as fruits and vegetables. We know how farmers earn a pittance even when wholesale prices of tomatoes and onions shoot up. It's middlemen and commission agents who control the *mandis* - in collaboration with local *netas* and *dadas* - and get fat, while the farmers and consumers lose.

In fact, even with paddy and wheat, only a few farmers manage to sell their produce to government procurement agencies. The Modi government's own Shanta Kumar Committee that looked into the food procurement system reported in 2015 that on average, just about 14 percent of paddy and wheat farmers were able to sell their produce to government procurement agencies. The report also says that even those who sold to the government got the declared MSP for only 27-35 percent of their produce.

Shanta Kumar's report also suggests that only rich farmers are able to access government *mandis* and get paid the MSP. He says that of the total agricultural households in India, less than 6 per cent sold to procurement agencies. In fact, nearly 75 per cent of paddy growers and over 65 per cent of wheat growers didn't even know that the government procures any foodgrain. What is even more surprising is that 68 per cent of paddy growers and 60 per cent of wheat growers hadn't even heard of minimum support prices. Even if one assumes that rich farmers account for 50 per cent of the paddy and wheat that hits the market, Shanta Kumar's report would suggest that just about a sixth of India's total rice and wheat output is bought by the government at the floor price it announces.

There are two solutions to this problem. One is to strengthen the procurement system and ensure that everything that farmers offer to government agencies is bought at the MSP that's been announced. The other is to say that since such a small number of farmers actually benefit from APMC mandis and the MSP system, we might as well dismantle it. The first puts the onus on the state to build more mandis, bring them closer to farmers, expand the procurement network, invest in storage facilities and ensure quick and efficient transport from surplus states to those which don't produce enough.the agricultural expert Devinder Sharma says, India needs 42,000 mandis so that every farmer can access government buyers, but we currently have just 7,000.
The second approach is only conscionable if policy-makers believe that the private sector is more efficient in handling the entire food-marketing system.

NEW FARM LAWS AND WHY :

The Government has been announcing a lot of reforms for the farmers but the farmers are still suffering mainly because of the failed implementation of these policies. Economist Jean Dreze argues that low wages accompanied by low agricultural growth lead to a decline in demand for work.
These laws are -The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, and The Essential Commodities (Amendment) Act. They had first come in the month of June as the three Ordinances before being approved by Parliament during the Monsoon Session by a voice vote.

The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act provides for setting up a mechanism allowing the farmers to sell their farm produces outside the Agriculture Produce Market Committees (APMCs). Any licence-holder trader can buy the produce from the farmers at mutually agreed prices. This trade of farm produces will be free of mandi tax imposed by the state governments.

The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act allows farmers to do contract farming and market their produces freely.

The Essential Commodities (Amendment) Act is an amendment to the existing Essential Commodities Act. This law now frees items such as foodgrains, pulses, edible oils and onion for trade except in extraordinary (read crisis) situations.

IMPACT ON THE FARMERS AND THE SECTOR:

Will this help farmers? Of course not. The history of big companies in agriculture across the world shows that small farmers are unable to compete and get uprooted once big players enter the market. A recent study of contract farming in the Moga, Tarn Taran and Amritsar districts of Punjab by Pavneet Kaur and Naresh Singla proves this point for India as well. Contract farming excludes small and marginal farmers, and even larger farmers find it tough to match the legal resources that corporates use during disputes.

Some would argue there is nothing wrong in that. There is a high level of disguised unemployment in Indian agriculture - more people work on a piece of farm land than are required without adding to income or productivity. Farm sizes are non viable small and getting smaller after each generation. So there's no harm in small and marginal farmers being pushed out of agriculture and being forced to move to productive jobs in factories and services.

In reality, that process has already happened. The RBI's data says that 20 years ago, about 60 percent of India's employment came from agriculture. By 2016, it dropped to 42 percent. CMIE's data suggests that has dropped to about 35 percent now. There's been a massive exo ko dus from farming. Yet, there have been no good jobs in factories or the organised services sector. Most of those who were forced to leave agriculture had to become self-employed, living a hand-to-mouth existence.

Things have only become worse for India's lower-income groups - those who technically are above the poverty level but are always in danger of sinking below it - in the past four years, since demonetisation and GST broke the back of India's unorganised sector.

On top of that, factories are operating at well below their capacity, and corporates are not investing in expanding old ventures or setting up new ones. So there's no reason to believe that farmers who are 'freed' from their land will end up getting better jobs outside agriculture.

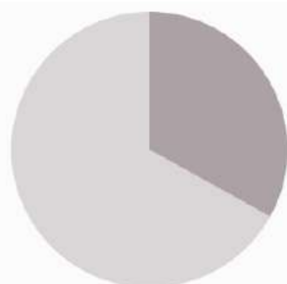
It is understandable then why cynics see these new farm laws as a lifeline for big corporates who are keen to enter the only space where demand is always ever-present: food supply. This feeling is compounded by the Modi government's reluctance to make MSP a law. If these legal changes are going to help farmers get better prices in the open market, then what is the problem in legally fixing floor prices every year? After all, if private procurers are going to pay more, the government will never actually have to pay the MSP, and it will cost the exchequer nothing.

HEALTH

"*Healthy Citizens are the greatest asset any country can have.*" - ***Winston Churchill***

The working-age population is the engine that runs the economy of any country and hence the health of the workforce is inextricably linked to economic health. In order to enlarge the manufacturing sector in India, there is an urgent need to develop the health infrastructure. The poor quality of the health sector stands exposed during the Covid-19 pandemic with literally 0.55 beds per thousand population. Poor health infrastructure has economic impacts of the magnitude one can't think of. The current health infrastructure faces the following challenges :

Malnutrition: According to UNICEF's "The State of the World's Children 2019" report, malnutrition was the primary reason behind 69 per cent of deaths of children below the age of five in India. The Global Nutrition Report states that India is one of the 88 countries that are likely to fail the Global Nutrition Target by 2025. This holds significance for a country that hopes to become a a $5 trillion economy by 2025, because experts say that multiple forms of malnutrition reduce nearly 8% of economic growth owing to decreased schooling, low productivity, cognitive deficits and increased healthcare costs. Malnutrition imposes costs as high as $3.4 trillion per year. In 2019, 17.3% of India's productive years of life (DALYs) were lost due to malnutrition. Every $1 invested in combating malnutrition derives benefits of worth $18 on average but the yields can be even higher in India- $34.1- $38.6 return per dollar invested. Studies have demonstrated a very strong correlation between health and nutrition and growth, making it clear that health contributes more to wealth than any other economic dimension. The government launched the POSHAN Abhiyan under the Ministry of Women and Children to reduce stunting in children between 0 and 6.



India contributes a third of the global burden of undernutrition

Mental health:

Mental health has been defined by WHO as, “a state of well-being in which an individual realizes his or her own abilities, can cope with the normal stresses of life, can work productively and is able to make a contribution to his or her community”. This definition includes the word ‘productively’ which signifies the importance of mental health in achieving high productivity which is an important factor for economic growth.

Mental illnesses often result in violence and crimes in the form of homicide, suicide, morbidity and mortality. Policymakers often ignore the social costs due to alcohol use while counting the tax revenue. In most cases, the costs far exceed the benefits. The World Health Organization estimated that India will suffer economic losses amounting to an astonishing USD 1.03 trillion from mental health conditions between 2012 and 2030. Reports have shown mental illnesses result in a higher chance of unemployment too. It is proven that mental health is an integral part of a nation’s economic growth but the investments have been significantly low in this matter. The amount allocated for mental health accounts only 0.05% of the total healthcare budget. Low investment in areas that can significantly drive growth has been a problem for decades now.

Poor health infrastructure is a major impediment to any country’s growth. While Ayushman Bharat provides insurance cover for the medical treatment of mentally ill, a better initiative would be providing financial protection in form of allowances. Further, an incentive based approach should be followed to increase the number of psychiatrists and mental health doctors in the country. In 2017, the Mental Healthcare Act was passed that promised mental healthcare services to persons with mental illnesses. However, it allows admission of a patient only when he/she is unable to take care of himself or causes harm to others. This leads to stigmatization of mental illness as it relates mental illness with dangerousness. This is a big hurdle in achieving the level of productivity we require to efficiently reap our demographic dividend. The government should focus on reintegration and rehabilitation of the people who have conquered mental illness.

Sanitation:

India lacks on the front of providing adequate sanitation services as well. Inadequate water, sanitation and hygiene services in India which contributes to neonatal mortality rate, which currently stands at 24 per 1000 beds in India. Sepis-mostly spread in health facilities contributes to 15 per cent of overall neonatal mortality rate. Though we have come a long way in curbing the lack of toilets, there is still a longer way to go.

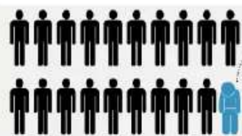
Occupational Health:

Occupational health refers to the highest degree of physical, mental and social well being of workers across all occupations. India currently has 16 laws relating to the working conditions, working hours and employment. According to NIMH (National Institute of Miners' Health) the prevalence of pneumoconiotic opacities in the chest radiographs in the workers increased from 5.7% to 13%. Though there is a lot of legislation in place to ensure adequate delivery of national health services but there are still many loopholes and challenges in the path of same. One of the major lacuna in the occupational health system in India is that a large proportion of its workforce is in the unorganised sector. While the benefit of these policies mainly accrue to the workers in the organised sectors. Hence, it is really important that the occupational health related legislation and facilities are are extended to the workers working in the informal sector. futhermore, there is a requirement to develop the infrastructure of occupational health and spread awareness regarding the issues pertaining to occupational health. When we talk about mental illness, malnutrition, or any health-related problems for that matter, it all comes down to the quality of the most important factors being affected- Human Capital. The mistake that most policy-makers do is to view health as a medical subject and ignore the broader effect that public health has. Health markets should be treated differently. They should be run on the principles of equity and social justice and not on the principles of demand and supply. Good health leads to mental well-being that leads to higher productivity. Thus, a country becomes healthy before becoming wealthy. This is evident in the case of China that also witnessed a dramatic increase in its health indicators before an improvement in its performance across various sectors.

With one of the largest workforces in the world, India needs most of its workforce to be healthy and productive to accelerate the growth of the manufacturing sector. A healthy workforce reduces absenteeism, increases productivity per worker and promotes innovation and overall development of the industry. Better healthcare access to the poor families will help them save the money that they would otherwise spend on health-related expenditures and utilize those savings to send their children to schools, thus giving a major boost to the economy. This boost in the economy would trickle down to other sectors including manufacturing and would help the sector to expand. The policy-makers now need to stop ignoring the economic implications of bad health and start investing substantially more in these fields and focus on inclusive growth

MENTAL HEALTH: THE NUMBERS ARE TROUBLING TOI

15 CRORE People across India are in need of mental health care interventions



1 IN 20 suffers from depression alone

0.3 Psychiatrists per 1,00,000 people in India compared to **6.6** psychiatrists per 100,000 people in developed countries

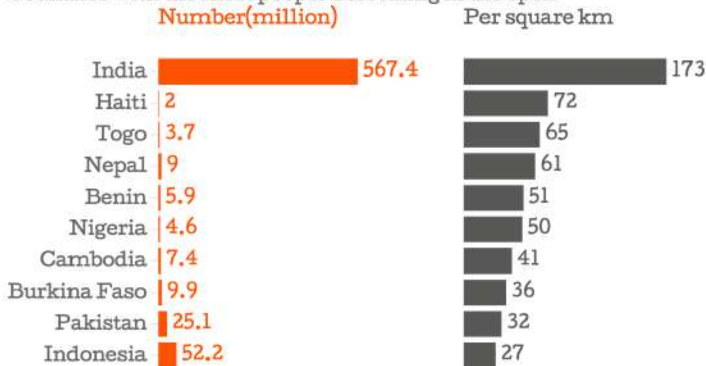
0.07 Psychologists per 1,00,000 people in India

70-92% Fail to receive any treatment

***₹500-1,000** Consultation fee at private clinics

$1.24 TRILLION ECONOMIC LOSS ESTIMATED BETWEEN 2012 AND 2030 DUE TO MENTAL ILLNESSES

*Per visit fee in metros



PRIVATIZATION

As The World Bank consultants said "*Privatization is resorted not just when the firm makes losses, but also when the physical performance is so bad that the PSU becomes a political embarrassment to the Government*". Privatization increases the efficiency of the company because the workforce in a private company gets paid well if the company does well but that's not the case with a public company and hence, easy privatization is important for the manufacturing sector. In India, privatization is a very slow process. Apart from easing Government finances, there is a need for faster privatization to boost productivity and help fresh investments. Quicker process of privatization is important because it affects the investment cycle. There are only a few firms that are interested in making big investments in a sector especially if the sector requires a cumbersome regulatory process in every small step it takes, which is the case in almost every sector in India but if the firm acquires a PSU that is already in the business, it escapes all the hassle. This is a big bonus for the firms and an incentive for them to invest but the problem here is that the Government is being very slow with its privatization drive. There is a need for faster implementations in this regard to accelerate investments and recover the economy. Loss-making PSUs certainly merit privatisation — but no one would buy them with their huge debt and employee liabilities. Budget 2021 gave a lot of importance to infrastructure spending to create demand and strengthen competitiveness to put the economy on back on track. Hence, the government announced 'The Strategic Disinvestment Policy-2021' (SDP21) in the Union budget for 2021. The Centre has targeted Rs 1.75 lakh crore in revenue from disinvestment, privatization, and asset monetization. However, its efforts in this direction moved slowly. For example, the Centre has already extended the disinvestment deadline for BPCL (Bharat Petroleum Corporation Limited) many times. The government has even proposed a PSU divestment program whch includes disinvesting two banks, one insurance company and they've even mentioned an LIC IPO. The government will maintain public sector companies only in atomic energy, space and defence; transport and telecommunications; power, petroleum, coal and other minerals and banking, insurance and financial services. All other PSUs will be privatised or sold.

They do have the benefits of their own but the process involves huge costs, often ignored while the taxpayers' money is spent on privatising companies that they indirectly own. Moreover, the success would depend on the effective working of the Department of Investment and Public Asset Management (DIPAM). However, the government missed the target of disinvestment of the current fiscal even though the stock market was touching new heights.

Private and national asset management ‘bad banks’ should be promoted along with an online platform for distressed loan sales.For the bad loans, restructuring frameworks should be designed for initiating time-bound negotiations between creditors of a stressed firm. If this doesn't work then they should apply to the National Company Law Tribunal.

These privatisation proposals in the budget will truly act as a game changer for the manufacturing sector. Despite having large potential for industrial development, we have been underperforming for over decades now. Till now our policies aimed at industrial development but never did anything for increasing competitiveness. Moreover, these same policies aimed at achieving social objectives as well.
Private sector growth till 1991 was curbed by the licensing policy. Pricing products on socialistic considerations further curtailed the growth of the manufacturing sector. In 1991, this policy was abolished but still nothing was done to make manufacturing competitive. The strategic disinvestment and privatisation proposed in the current budget seems like a step towards it. While the benefits would depend on the implementation of the same, this transformation to private management would result in these undertakings benefitting from the removal of red tape and other compliance requirements. The new private owners would bring with them better technology and systems to ensure higher quality and productivity. This would enhance competitiveness in the manufacturing sector and would spur growth.. Privatisation even has a lot of othe positive impact on manufacturing sector. Privatization provides ample space for creative and innovative thinking as it reduces politicization of the process as well as systematic and strategic planning to realize the full potential of the sector. Further, prviatisation spurs growth in the economy which can trickle down to other sectors like manufacturing.

However, there's another side to this. If the government wants a high price, they must allow a monopoly situation post-privatisation, and if they want competition and low price for consumers, they must be content with a sale price, as the post-privatisation valuation of the firm critically depends on the market structure post-privatisation. These are some of the most important obstacles in India’s growth trajectory

To realise the full potential of privatisation the government should constitute an independent commission with appropriate powers to implement the plan. Further, the quality of receipts from disinvestment can be improved by going in for genuine stake sales, rather than having one PSE buy another.

For instance, During its second term, the NDA led by Narendra Modi tried to exit heavily indebted Air India but without success. Even so, it exceeded its divestment target of Rs 72,500 crore in 2017-18. This was achieved by the method of strategic cross-divestment under which one PSU buys a stake in another, helping the government raise revenues but keep the company's control with the government. However, this doesn't really count as privatisation.

India will be able to achieve the economic glory it dreams of but for this the participation of private sector is a must.

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