

V. KRISHNAMURTHY*

Development of a Competitive Manufacturing Industry**

I feel privileged to be here this evening with all of you on what is considered the most important day in the calendar of the Administrative Staff College of India. Being on the Court of Governors, I know the importance of this day and the time that we used spend in selecting the speakers on an occasion like this. Never before have I felt so humbled as when Dr. S. K. Rao read out the list of outstanding great leaders who have delivered this address over the years. For this honour extended to me, I am particularly grateful to the Chairman, Mr. M. Narasimham, the Director General, Dr. S. K. Rao, distinguished members of the Court of Governors and the faculty. As Mr. Narasimham said, my association with the staff college extends over 30 years. I was first inducted into the court when Mr. Dharma Vira took over the chairmanship of this institute. Thereafter, because of my other engagements in the Government of India, I went out of the court for a short while. I was re-inducted into the board when Mr. Narasimham became the Chairman.

Every time I came to be a part of this college, I used to admire the oversight of the founding fathers. After all, today is the ASCI Foundation Day and we should think of them. T. T. Krishnamachari, John Matthai, Chintamani Deshmukh—they all had tremendous foresight in realizing the need for such an institution in the 1950s, at a time when we were a young nation and not even aware of the problems we were likely to face over the years. Usually, public institutions of this type, over a period of 50 years, have seen several chairmen coming and going. The one distinctive feature of this institution is that over these years, we have had only four chairmen—Mr. John Matthai, Mr. Deshmukh, Mr. Dharma Vira and Mr. Narasimham. Mr. Narasimham has been here for 18–19 years. I still remember that on the day he assumed

* Member, ASCI Court of Governors; Chairman, National Manufacturing Competitiveness Council, Ministry of Commerce & Industry, Govt. of India.

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charge, the financial position of this institution was not all that strong. He not only brought a tremendous amount of financial stability to this organization but also brought credibility to it. And that is where it is today—a very première institution. I voice the opinion of my fellow members on the Court of Governors when I say that we feel privileged to be a part of this institution. We feel happy that Mr. Narasimham leads this institution with distinction. We take pride in the fact that we have a distinguished faculty who can excel and who are doing a tremendous amount of work towards maintaining the objectives of this institute.

Talking about the recent past, I still remember the way that Mr. T. L. Sankar struggled to keep the college afloat financially. And later Mr. E. A. S. Sarma helped to raise the prestige of the institution. Today, we have a very highly distinguished person in Dr. S. K. Rao. It is a pleasure to read his periodical reports about the progress of the college and the vision for the future. Once again, let me thank my friend Mr. Narasimham, and Dr. S. K. Rao, for giving me this opportunity to share some of my own ideas on a subject on which I am presently working.

As I mentioned to you, ASCI has a great role to play in developing the administrative and managerial standards of our country. We on the board feel that the college can play a much larger role than what it is presently doing. I do hope that the institution will grow to greater strengths in the coming years. If at any point of time there was relevance in the working of the Administrative Staff College and members of the faculty, today it is all the more necessary because the country is on a high-growth trajectory. Most of you know that a few years ago, in the international arena, India was of no consequence. Look at any journal 10 years back—nobody ever referred to India as a nation of consequence. Particularly in terms of development, we were not referred to at all. But today, the whole world believes that India is a front runner along with China, and they are going to shape the future destinies of the world. The world has undergone a tremendous change in the last three decades. In the present context, there is a compelling need to manage our resources, both financial and natural, more efficiently. It is here that the efforts of the college assume greater importance.

When I was comparatively younger, India's GDP growth was around 3 per cent. During the days when I was working in the Planning Commission, Raj Krishna called it the Hindu rate of growth. Nobody believed that we would ever be able to graduate beyond 3 per cent. During that period, most of us believed that if we reached a 6 per cent rate of growth in GDP, most of our

problems would be over and India would become a better country to live in. Between 1993 and 2003 annually, year after year, India grew at more than 6 per cent. At the end of 2003, we were shining in several sectors; but in the rural and agricultural sectors, particularly for the weaker sections of society, our problems did not vanish in spite of the fact that for 10 long years we had had 6 per cent growth. During 2004–07, we had an even higher rate of growth—8 per cent, 9 per cent, 10 per cent. And today, in spite of the fact that the whole world is struggling because of the meltdown, we in India fortunately are doing better. We expect that even this year, we are going to have a 7 per cent rate of growth in spite of the fact the rest of the world is not showing strong growth. However, this has not rid us of several of our problems.

I personally feel that while India is growing at a much higher rate, our economy is not exhibiting balanced growth. When I talk about balanced growth, I mean growth that will bring prosperity to all sections of society, all regions of the country. That is what economists refer to when they talk of inclusive growth. It is pertinent to ask: Are the benefits arising out of our present policies flowing to all sections of society? The answer is: No. A substantially large number of people living in rural areas still depend on agricultural incomes. This large population cannot be sustained by India's agricultural sector. Given the demographic profile of the country, and the resources that we have, there should be a careful balance between agriculture, industry and services. In recent years, this balance has become terribly distorted. Industry's contribution to GDP is less than 26 per cent, and the contribution of manufacturing to GDP is less than 16 per cent. The manufacturing sector can play a potentially important role: it spreads the benefits of growth to rural areas by enabling the rural population to participate in the operations of small, medium and large industries. However, this has not happened to any substantial degree. For the past 15 years, manufacturing's contribution to GDP has remained at 16 per cent; it is not growing. Therefore, the growth that is taking place is not balanced. Some sections of society have benefited from this growth. But prosperity has not spread to vast sections of the people—they remain at the margins.

Every year, we are expecting about 8 to 10 million boys and girls to enter the employment market. Unless they are gainfully employed, what is otherwise called the demographic advantage in this country is likely to be lost. And where will these people find gainful employment? It is only through manufacturing activity that they can be gainfully employed. We believed

that the services would take us far. This sector has done so, but only up to a point. Unless there is a strong manufacturing base, the services by themselves are not likely to progress. Let us see why. Seventy-five per cent of our export growth is through manufactured goods. Even today, we do not have a surplus in any one of the areas where we can increase our exports. Moreover, there is a need to increase employment. That increase in employment can be only come about through the manufacturing sector. As long as we do not enlarge our manufacturing activity, we will have very little to export; and, to that extent, the services are going to be affected. The country needs to have a very strong manufacturing base. No country can be strong unless it has a robust manufacturing sector. We will not be a strong and large economy unless manufacturing picks up.

I will share with you some broad concerns. Let us take the case of telecommunications. If there is any one area where in the last recent 10–15 years we have made tremendous progress, it is in telecommunications. In the case of IT, we have excelled in software, but there is practically no production of hardware. Over a period of time, the growth of the software industry itself is going to be stunted unless it is supported by hardware manufacturing. When it comes to telecom, in terms of providing services, we have done tremendously well. But, believe me, almost the entire requirement of the telecom sector is being imported today. Look at the vulnerability of the country in such a situation. Take the case of the power sector. For 25 long years, we met every requirement of power equipment in this country. For the next 10 years, 52 per cent of the power equipment requirement is going to be imported, with tremendous adverse consequences with regard to the future reliability of the power system itself. Coal production has to increase in order to meet our energy requirements. Mining and Allied Machineries Corporation, the organization meant to provide the equipment for coal mining, remains closed. New steel plants are coming up. Heavy Engineering Corporation, which is meant to produce the equipment for steel plants, remains sick. In the 1980s, almost all the machine tool requirements of India were met domestically. Today, not even 20 per cent of the machine tools required are available in the country; the remaining 80 per cent are imported.

About 20 years ago, we were domestically meeting all the requirements of textile machinery. Today, every bit of the textile machinery used in the country is imported. We are a maritime country with a long coastline, but we do not have a shipbuilding facility. Not even 10 per cent of Indian goods travel by

Indian bottoms; 90 per cent of the goods travel on borrowed vessels. The rough estimate for the next 10 years is that 600 aircraft are required. There is no facility to produce aircraft. Even engines have to be sent abroad for servicing. Today, domestic support for the defence of the country, in real terms, is less than what it was 20 years ago. Similarly, support from the Indian manufacturing industry to meet our defence needs is proportionately less than what it was sometime ago. All this leads me to believe that the incentive to produce goods in India has been considerably reduced, and we have made it easier to import goods into the country. Everybody is resorting to the easier method on the basis that it is not very difficult to obtain foreign exchange.

I think economic reforms are essentially meant to promote and accelerate Indian innovation, and incentives for indigenous manufacturing. If this does not take place, we necessarily have to do a certain amount of course correction. Our policy on foreign direct investment is much more liberal than that of almost any other country. It is meant to bring in foreign capital. Capital was scarce in the country, and we needed it. It was meant to bring in technology, which was very necessary. The intention is also that such FDI will promote local manufacturing. I think, in many respects, this policy did not produce all the results that it was intended to produce. Even now, I would strongly argue for direct investment to be intensified. But it has to be followed by the transfer of technology and domestic value addition.

I will give you a typical example. In the 1980s, Maruti Udyog was the first example where foreign direct investment was allowed at a time when the automobile industry was prohibited from foreign collaboration. It was an exception, and foreign capital came through Suzuki. Hundreds of Indian manufacturers improved their technology standards within a matter of three years. Ninety-five per cent of the parts required for Maruti are currently produced in India. It is among the finest examples of the benefits of foreign direct investment. Then came Hyundai. Many more concessions were given to them at that point of time. Capital came in, the factory was set up. But currently, every part that goes into the Hyundai car is produced by the Korean manufacturer.

The second aspect of technology transfer to the Indian operation did not happen although value addition did take place. In the 2000s, Volkswagen and BMW entered the Indian market. They put up an assembly shop, imported all the components through Thailand and produced the cars here. In the case of these auto companies, none of the three objectives of foreign direct

investment was met. Thus, the FDI policy should ensure that the country's interests are fully safeguarded. In 2008, the government, as part of the stimulus package, reduced the excise duty from 12 per cent to 8 per cent. When applied uniformly to Maruti, Hyundai and Volkswagen, the policy defeats the very purpose for which it was formulated.

Some of us believe that the percentage of growth is not the real indicator of the country's progress. Rather, we need to understand what is the composition of that growth? To what extent does it promote gainful opportunities for employment of large sections of the people? Does it encourage regional development? The quality of the growth should be considered more important. It is from this perspective that we in the National Manufacturing Competitiveness Council, set up by the government, are trying to continuously assess the growth process to see what needs to be done in order to ensure that the growth is balanced. How should manufacturing operations in the country be taken forward? How can we ensure that the benefits of this relatively high rate of growth percolate down to all sections of society? When I talk about balanced growth, industry should constitute at least 40 per cent of the national wealth; a 35 to 40 per cent share can be achieved as against the present level of 26 per cent. For manufacturing, the desirable level is 32 to 35 per cent considering India's demographic profile. As against this ideal share, it is half at 16 per cent. How do we raise the share of manufacturing from 16 per cent to 32 or 35 per cent? That is the major concern for policy-makers, right from the Prime Minister downwards. It is not an easy job. It has to be carefully planned and worked for. We must have sustained growth of 14–15 per cent for a period of 15 to 20 years. Only then can we correct this imbalance. This is where our priorities should lie.

Some of us have pursued this goal on an experimental basis. We brought up the growth rate of manufacturing to 12 per cent in 2006–07 in a country where the share of manufacturing never exceeded more than 6 per cent during the years 2005–06 and 2006–07. Even in the current year, when globally every country has suffered, our manufacturing growth is around 7 per cent. However, I do not believe that even this can be sustained without government intervention.

First of all, this country needs a coherent manufacturing policy. A policy is required because there are 14 ministries in the central government dealing with one manufacturing activity or the other. It is extremely difficult to have coordinated policy in a country where decision-making by the executive is often subject to the pulls and pressures of running a coalition government.

The government must be prepared to legislate a manufacturing policy and examine the impact of every decision it takes on domestic manufacturing. Not only the Government of India, but all the state governments also need to actively participate in the policy-making process. The involvement of the latter is important because, after all, manufacturing takes place in the various states. On the basis of such coordination, the government should come out with its manufacturing policy. The Prime Minister asked us to spell out the various ingredients that should be there in the manufacturing policy. Some of us have worked on it and we brought out a report as to what are the essential elements of such a policy.

If you look at the list of things that need to be done, arising out of the manufacturing policy, it is formidable. Most importantly, the manufacturing policy should be in tune with various other policies of the Government of India, such as the taxation policy and the trade policy. On a rough estimate, we find that the Indian manufacturer is at a disadvantage to the extent of 15 per cent compared to what is happening elsewhere in the world, arising out of a number of direct and indirect taxes, the lack of infrastructure, corruption. It is the ingenuity of Indian manufacturers that in spite of all these factors, they are still competitive in many areas.

Moreover, entrepreneurship is not absent in India. But then we need to create an environment where innovation is fostered. When you talk about innovation, domestic research and development, building technological capability, the problems are going to be stupendous. In 1991, it was thought that the liberalization policy will make it possible for the Indian entrepreneur to acquire technology easily. The government removed the restriction of prior approval for foreign technology collaboration. However, the current situation is that nobody is ready to give us technology. The biggest problem today is that no Indian manufacturer is able to acquire technology because we have made it easy for the foreign manufacturer to come and set up a 100 per cent-owned shop here and exploit the market. We have given them the freedom to exploit our market without a corresponding obligation that they should partner an Indian agency to which technology should to be transferred. This imbalance has to be corrected over a period of time.

There is another problem. When we talk of innovation, development of technology, we require the necessary skills for it. At the higher education level, less and less people are opting for science and mathematics. During 2008, the total number of people in this country who took a PhD degree—by definition, a PhD is supposed to be a more knowledgeable person—was less

than 500 as against 50,000 in United States and 1,20,000 in China. The number who had registered for a PhD was only 5,000. Out of which, the number of PhDs granted to the people who graduated to that level was under 500.

The education system itself is very distorted. There is room for 700,000 engineers to graduate every year. As against that, the number of diploma holders is 250,000. This type distortion has to be corrected. A tremendous amount of work is involved in creating the necessary environment and making sure that domestic efforts in technology development take place and bear fruit. There are lots of procedural reforms to be carried out. But the most challenging aspect in terms of improving the quality of manufacturing is the need for skill development. It is here that the poorer sections require special attention. Manufacturing operations require special skills. In our country, 27–28 per cent of the people are illiterate and 25 per cent of the students drop out before they reach the eight standard. Any governmental assistance in terms of skill training starts after the ninth standard—the minimum educational standard for any governmental training scheme. Yet, we find that more than 50 per cent of India's population is below the ninth standard. Are they all destined to remain as unskilled labour or are they entitled to assistance in terms of training? We hardly have any trained plumbers today. Nor do we have many trained electricians. What are the initiatives that need to be taken in order to get them accredited or certify their skills? College degrees are considered to be more important and valuable than any vocational training. This mindset also needs to be changed. Thus, skill development is going to be the one of the biggest challenges. As a result of our efforts, the Skill Development Council has been formed. The Prime Minister himself presides over it. The SPIC group has been asked to head this effort. It is going to take 15–20 years before we are able to solve this problem. And my greatest worry in all this is the small and medium enterprises. It is here that—as a result of the recent developments which have made imports easier—domestic manufacturers have not been encouraged. Most of the medium and small industries have fallen by the wayside. A good number of them have turned into traders rather than developing their manufacturing operations, resulting in loss of employment for many people coming into the market.

I have given you a broad idea of the problems facing the manufacturing sector. It is not intended as a criticism of our earlier efforts but to highlight the challenges that we have to tackle head-on. India is destined to play a greater role in the global market provided we remove this present imbalance

and make the growth process a more balanced one; and ensure that manufacturing operations and domestic value additions are given the right emphasis. Policies ought to be framed to encourage such a development pattern. Without such a policy focus, we will not be able to derive the benefits of a relatively high rate of growth. I am afraid that in spite of all our efforts, the social tensions that the country is presently witnessing will continue unless providing gainful employment to all sections of society is made the primary objective of policy-making. The difficulties ahead of us are much more severe, much more onerous than what we have had to deal with so far.

The role of institutions like ASCI in training organizations to manage their resources better becomes all the more important. Such institutions should be given a bigger role in trying to solve the problems facing the nation. We are prepared to share with ASCI all the studies we have conducted on this subject. Personally, I believe institutions like these should be able to take our studies further and probably help the government to formulate the right kind of policies.

In his 2008 Foundation Day Lecture, Dr. Abid Hussain talked about how to be a good Indian. He spoke about the social and cultural values that Indians should imbibe. I would like to add that such an Indian can be a better Indian, a more happy Indian, when he or she is given the right type of skills and tools to participate in the growth of the country.

Thank you very much.