Reflections on National Manufacturing Policy

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"Free Enterprise was born with man and shall survive as long as man survives".

- A. D. Shroff
Founder-President
Forum of Free Enterprise

INTRODUCTION

Though belated this is the most opportune time for the Government of India to announce the National Manufacturing Policy.

For some years now there has been persistent demand about bringing the manufacturing sector centre stage in our scheme of planning. This is apparent as the services sector accounts for a preponderant share of the GDP (close to 60%), while its contribution to employment is much smaller, probably less than 25%. This is also critical as urbanization in India is growing and will grow much faster in the next two decades accounting for 50% of the total population as against the current 30%. The sharp growth in urbanization will entail creation of a huge number of jobs in urban and semi-urban areas outside agriculture.

This policy is critical for balanced development of our economy. The author has assiduously attempted to discuss the practical ramifications of achieving it. In the backdrop of our lacklustre track record of meeting our ambitious plan targets he has raised many fundamental questions regarding the likely roadblocks along the way and has offered many eminently sensible solutions. A few of them may be cited:

1) To achieve the target of 25% of GDP for manufacturing by 2020 the rate of annual growth in manufacturing will have to almost double to 15%. This will call for a total reorientation of our policies – land acquisition, labour, environmental clearance et al.

2) The proposed National Manufacturing and Investment Zones – to be developed as greenfield industrial townships, benchmarked with the best manufacturing hubs in the world, will be self-governing autonomous bodies.

   How will this be brought about in the light of the current imbroglio in respect of the Land Acquisition Bill?

3) Centre - State coordination is crucial and will have to be managed with far greater tact and finesse than hitherto.

4) Exit policy is another vital component calling for political engagement and statesmanship.

5) The target of creation of 100 million additional manufacturing jobs within a decade is highly ambitious when the total cumulative employment over the last six decades was barely 50 million. The skills development programme undertaken by the Government is most timely to correct the gross mismatch prevailing now between the millions of youngsters turned out by our educational institutions and their employability. To bridge this gap it will take much longer, probably three decades.

In short, political will of the highest order will have to be mustered to implement this farsighted reform. This is sorely missing as can be seen from the proceedings in the Lok Sabha in the last and current session.

Mr. Bhandare has done an excellent job in analyzing the very many ramifications of this vital piece of economic reform. The cautionary signals he has raised are most relevant and need to be pondered seriously before implementing the policy to avoid roadblocks and delays in implementation.

In conclusion one could only wish that our implementation was even half as good as our conception of policies. No serious effort has been directed towards "Outcomes" despite umpteen assurances from the highest quarters. We seem to be more than happy with announcing humongous outlays.

A very thorough study of the problem, well researched and documented. It calls for serious discussion and debate by planners, business bodies and economists.

Minoo R. Shroff
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by

Sunil S. Bhandare*

Setting the Perspective

The Government of India has announced the National Manufacturing Policy (NMP) in early November 2011 exactly at a time when the Indian manufacturing sector is on the retreat. After the adverse fallout of the global economic crisis of 2008, the manufacturing sector had regained its growth momentum in 2010-11. However, based on the performance of the first six months of the current financial year, it will, indeed, be an achievement of sort, if this sector scores growth of even 5.5% in 2011-12 as compared to an impressive growth rate of 8.9% in the previous year. Practically all the major manufacturing industries from cars to chemical and chemical products, from machinery and equipments to textiles and wearing apparels, from rubber and plastic products to wood and wood products, are experiencing receding growth rates – and some of these are even on the negative growth trend.

Far more worrisome is a deadly combination that is currently in operation of – (a) rising interest rates; (b) escalating fuel and input cost structure; (c) volatile exchange rate; (d) falling domestic demand; (e) uncertain global economic scenario; and (f) to top it all, policy making paralysis. All these factors

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have enormously damaged the investment confidence. Stock markets' behaviour reflects this predicament and rapidly falling corporate market capitalization is not only unnerving the investors, but leading to postponement of capital-raising activities (both by public and private sectors) for exploration of new capital formation opportunities in the economy. Further, a significant part of the core sector comprising coal, natural gas and fertilizers industries, so vital for providing inputs for other manufacturing and farming activities, are in the negative growth path in the current financial year, so far.

This may, therefore, be the most opportune time to reflect on various facets of NMP, the draft of which was already in the public domain for past many months. What is important to recognize is that current short-term predicament should not cloud our long-term horizon. If India has to emerge as an industrial power comparable with (if not equal to) China, there is no other alternative, but to aspire for acceleration of growth and contribution of manufacturing sector to the national economy, employment generation and export potential. Besides, there are other huge internal compulsions of keeping on an even keel the macro structural and sectoral balances in the economy, including regional socio-economic stability. Neither reforming of the farming sector nor leapfrogging into the services sector alone could deliver India such sustainable, broad-based, long-term economic development.

Hence, the NMP assumes vital importance and which the Commerce and Industry Minister aptly perceives as "a game changer". It may be recalled that in early June 2011, the Prime Minister broadly endorsed the NMP and observed that "the policy measures proposed would reduce the compliance burden on industry". But at the same time, he cautioned that the formulation of proposed measures needed to adequately take care of "environmental and labour welfare concerns". Thereafter, the Group of Ministers headed by the Agriculture Minister, Shri Sharad Pawar was set up. After extensive deliberations, it is reported that all inter-ministerial differences have been ironed out and "solutions found for all the issues concerning environment, labour and MSME (Mini and Small and Medium Enterprises)".

Since then the NMP has been approved by the Cabinet and is now also unveiled by the government. Business and industry spokesmen have given it a thumping welcome and have hailed it as "one of the most significant developments since the economic reforms of 1991". In particular, they seem to be greatly enthused by the strategic framework of National Investment and Manufacturing Zones (NMIZs), which is looked upon as an "initiative with vision and strategic intent" and holding out a promise of "new paradigm of competitive growth in the country". In contrast, there have been several critical voices, but most prominently from those of trade unions. As is to be expected, the CITU observed that the NMP "will create new islands of lawlessness with bountiful concessions to business houses and absolute jungle raj in implementation of labour laws of the land. The corruption-tainted government of the day has shown scant regard for public outcry against formation of SEZs, which was a huge source of corruption for the benefit of real estate lobby and land grabbers and has gone ahead with NMP".

Key Objectives

It is imperative that we reflect upon objectives of the NMP against this backdrop. Doubtless, all the specifics of NMP are, by and large, well-meaning, and are absolutely relevant in strategizing India's manufacturing growth in the coming years. But, as would be assessed later, some of its quantitative dimensions are not in conformity with our current performance of manufacturing production and employment growth. The key objectives are:

- First, to promote investments in the manufacturing sector and make the country a hub for both domestic and international markets;

- Second, to increase the sectoral share of manufacturing in GDP from 16% to 25% by 2022. This requires increasing the manufacturing growth rate to 12-14% over the medium-term;
- Three, to increase the rate of employment potential of manufacturing sector so that this sector creates 100 million additional jobs by 2022;
- Four, to enhance global competitiveness of the sector through appropriate policy support and to increase domestic value addition and technological 'depth' in manufacturing; and
- Last, to ensure sustainability of growth, particularly with regard to the environment including energy efficiency, optimal utilization of natural resources, etc.

The rationale for NMP seems to have been determined essentially by three specific considerations: First, it is imperative for India, like many other Asian countries in their respective stages of high economic growth, to leverage opportunities unleashed by the dynamics of world economy. It is well-known that South Korea, Taiwan, Thailand, Malaysia, etc. emulated the Japanese model of export-led manufacturing resurgence. Subsequently, China even improvised such growth strategy since eighties, and performed a miracle of sorts in grabbing progressively rising share of global markets. Second, the sustainability of India's growth model (or growth story!) is now inextricably linked with faster growth of manufacturing sector than has been achieved so far in the post-reforms period. Last, there is a growing conviction (or belief!) that only such rapid manufacturing expansion would have the potential of generating massive employment, thereby facilitating realization of India's perceived/potential demographic dividend.

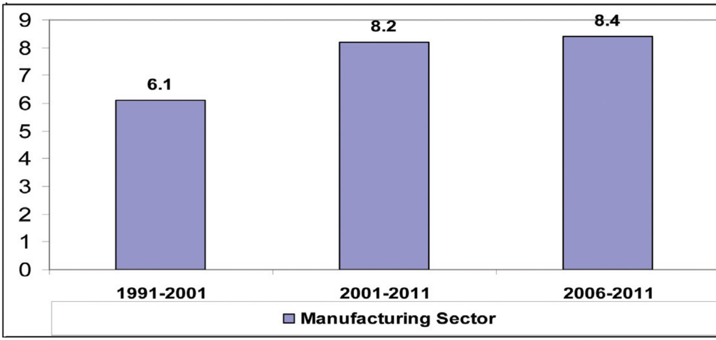
There are, of course, **several critics who seek to find faultlines in this rationale**. It is being argued that the last two decades have revealed the immense growth opportunities of

India’s services sector both for domestic as well as global markets. The employment intensity of the manufacturing sector’s growth is also found to be much less than the similar growth situation of the services sector. Moreover, compared to actual or potential competitive advantage of India’s services sector, the manufacturing sector, by its very nature, is invariably found to be far more capital-intensive, infrastructure-intensive and natural resources consumption-intensive. Besides, the major manufacturing projects are currently bogged down and likely to be confronted with a host of issues of land acquisition, environmental clearances, mineral resource allocations, perennial power shortages, port and transport bottlenecks, lack of centre-state coordination, and so on. The objective of this article is not to deal with such conflicting and “contestable” (!) points of view, but to objectively evaluate the substantive aspects of NMP.

Post-Reforms Manufacturing Performance

For doing so, it will be desirable to take a quick overview of India’s post-reforms manufacturing performance. Over the last two decades of economic reforms, India has come a long way in recognizing the importance of manufacturing sector in the economy. The erstwhile industrial policy was deeply entrenched in *license-quota-permit* raj through its extensive and exasperating system of industrial and import licensing, monopoly controls, pricing and distribution controls, high tariffs structure, burdensome and cascading indirect taxes (excise and sales tax), and dominance of public sector enterprises. These have since then been progressively reformed and rationalized. As a consequence, the country’s industrial landscape has witnessed significant transformational shifts, releasing new energy, enterprise, investments and growth largely through private sector initiatives and efforts.

Growth of India's Manufacturing Sector - Post-Reforms (% annual growth)



Note: Manufacturing sector is a dominant component of Index of Industrial Production (IIP). In the new series (2004-05), its weight has slightly declined, but it still contributes over 75.5% of the total, while mining accounts for 14.2% and electricity 10.3%.

Thus, there is a noticeable acceleration of manufacturing growth rate in the second decade of industrial reforms, albeit this does not fully reflect the true potential of this sector. Also, it pales into insignificance in comparison with China's consistently much higher annual manufacturing growth rate of well over 16% over a similar time span. Incidentally, India's share of manufacturing in its GDP at 15% is abysmally lower than the share of many other rapidly growing Asian economies like China, Thailand, Malaysia, South Korea where this percentage share is between 26% to 40%.

Equally importantly, China's share of world manufacturing exports was 1.9% in 1990, while India's was around 0.5%. But over the next two decades, Chinese share of world manufacturing exports leapfrogged to almost 10%, while India's share improved to just about 1.5 per cent. Undoubtedly, China followed a very aggressive export driven growth strategy (including keeping its currency heavily undervalued), entitling it to be looked upon as "the powerful factory" for global markets. Doubtless, China also sought to repress the needs of domestic consumption mostly through keeping wage rates low, more flexible labour policies and poor welfare benefits thereby ensuring enduring international competitive advantage. In contrast, India has followed a policy of incremental shift towards global market opportunities. Keeping in view the likely adverse impact of the global economic crisis of 2008, China also assigned extreme focus on investment on domestic infrastructure development in the last couple of years. We are currently having a situation wherein in every single core industry be it steel, cement, electricity, coal or in manufacturing of automobiles, consumer durables, electronics, etc. **China has built huge capacities which are in the range of 4 to 6 times those in India, and in a few cases going up to over nine times**.

Going forward, there is a growing perception that China would have to correct some of its structural imbalances, including its massive external surpluses through appropriate exchange rate policy involving sharp appreciation of its currency, Yuan. In turn, this is one more consideration for India to gear itself rapidly to shore up its manufacturing sector through expansion, diversification, technological and competitive scaling up as well as through skill enhancement. This is the only way India can take advantage in those areas, where China would inevitably experience gradual erosion of its competitiveness over the next decade or so.

While on the subject, we can not ignore the qualitative changes in India's industrial landscape. All these are now reflected in a variety of indicators, be it some positive gains in total factor productivity, international benchmarks in costs and capacity building, consistently improving product quality standards, expansion of global footprints in newer export markets for manufactured products or increasing mergers and acquisition activities – not just of local, but also of global companies. Such transformational changes have, in fact, given impetus to growing expectations about and aspirations for the future of India's manufacturing capabilities.

Expanding Share of Manufacturing GDP

Having so said, let us evaluate the significance of NMP. How realistic are its goals? What are the salient features of its strategic framework? What are going to be its major weaknesses and stumbling blocks?

One of the key laudable objectives of the NMP, as mentioned earlier, is to increase the share of manufacturing in India's GDP to 25% by 2022 from just over 15% at present. But the crucial issues are: What does it really imply while determining annual growth target for the manufacturing sector? How to realize such target – aspirational growth rate? Some important spokesperson of the Government/ Planning Commission seem to suggest that the manufacturing sector will have to expand at an annual rate of 12% to 14% to reach the proposed magic figure of its contribution to GDP by 2022. Incidentally, **the Approach to the Twelfth Five Year Plan** (the Document) in its sectoral growth framework set out in Table 2.1 (page 25) envisages two alternative scenarios, namely, of annual manufacturing growth of 9.8% and 11.5% for achieving 9% or 9.5% real GDP growth rates, respectively. Very clearly, the Planning Commission in its Document does not reveal the requisite confidence for achieving even 12% annual manufacturing growth rate.

Witness also what the Document states in its Chapter on Manufacturing Sector: "The Eleventh Plan has targeted growth in manufacturing at 10-11 percent but actual performance will be only about 7.7 percent. It is a matter of concern that the manufacturing sector has not shared in the dynamism of the economy not just in the XIth Plan, but even in the preceding Plan periods. ……… The slow pace of growth of the manufacturing sector at this stage of India's development is not an acceptable outcome". The crucial question is what is the dynamism that the NMP can propel to achieve our aspirations?

It is in this context that we need to reflect further more on the NMP's growth projections. For this purpose, we have made some crude estimation, based on **some critical realistic assumptions, namely,** (a) that India's underlying potential real GDP growth is around 9% per annum over the next decade or so; (b) that the agricultural sector needs to grow by at least 4% annually during this period; and (c) that the non-agricultural and non-manufacturing sectors together (i.e. services sector + mining and quarrying + electricity, gas & water supply + construction) have to expand at about 9.2-9.5% annually. Needless to say, these sectoral growth pattern is not derived by application of any econometric model, but is essentially based on our experience of last decade and application of some qualitative judgment. [Please see Table I]

Table I: Projected Likely Structural Shift in India's Relative Sectoral GDP Share (2017 & 2022)

Sectors	Current contribution to GDP (or weights in 2011-12)	Projected or assumed annual % growth rate (2012-2017)	Estimated contribution to GDP (or weights) in 2017	Projected or assumed annual % growth rate (2017-2022)	Estimated contribution to GDP (or weights) in 2022
Agriculture	15.0	4.0	11.8	4.0	9.3
Manufacturing	15.0	12.0	17.1	12.0	19.4
Non-agri/non-manufacturing	70.0	9.5	71.1	9.2	71.3
Real GDP	100.0	₹ 9.0	100.0	9.0	100.0

Note: On current reckoning, the Planning Commission seems to be envisaging target real GDP growth rate of 9 to 9.5% per annum for the 12th Plan. We have taken lower end of this projection, and made assumptions of the likely targets of sub-sectoral growth rates.

What clearly transpires from the above crude estimation is that the widely proclaimed (or envisaged) official proposition of 12% annual growth rate target for the manufacturing sector will not ensure enhancement of its share to the projected 25% of GDP by 2022. Hence, **it is imperative to enhance the manufacturing sector's growth target to a significantly higher level, say, around 15% per annum** over the next decade. Thus, the following table II is based on the assumption that the growth rate of other two sectors would be kept unchanged, as stated above, while raising growth projection of the manufacturing to 15% per annum. Given the dynamics of such sectoral growth pattern, we believe, that the NMP would then be closer to securing its objective of accomplishing 25% share of the manufacturing sector in India's economy. In the process, assuming the growth target set out in this table, **India's real GDP growth potential could also move towards a double digit level comparable with what has been achieved by China for the last quarter century**.

Table II: Projected Likely Structural Shift in India's Relative Sectoral GDP Share by 2022

Sectors	Current contribution to GDP (or Weights) 2011-12	Projected or (assumed annual % growth rate) 2012-2022	Projected contribution to GDP (or Weights) in 2022
Agriculture	15.0	4.0	8.9
Manufacturing	15.0	15.0	24.4
Non-agri/non-manufacturing	70.0	9.0	66.7
Real GDP	100.0	9.2	100.0

But the crucial issue is **how realistic is this implicit 15% annual growth target for the manufacturing sector?** Or is it going to be an audaciously ambitious goal, even granting our experience of improved performance during the last two decades of economic reforms, as shown in the earlier Chart? The shift from “new 8.4% high” annual manufacturing growth to 15% over the next decade will certainly **call for doubling of governments’ (Centre and States together) policy reforms** for superior and speedy implementation of projects. In turn, this would ensure creation of a very stable and promising investment-friendly business environment. It is only such policy environment that would stimulate progressively positive and strong responses from investors and entrepreneurs – corporate and non-corporate; domestic as well as foreign investors. However, even an acceleration of fifty percent in annual manufacturing growth from about 8.4% to 12% appears to be a tough proposition given our prevailing compulsions of political economy – of coalition government at the Centre and governments of various hues – of national and regional parties – at the States, and with their divergent political interests! Also, we can not claim to be (or even wish to be!) anywhere close to authoritarian regimes of China and most of the erstwhile East Asian tiger economies in steamrolling the strategy for implementation of policy reforms.

Surely, there are going to be huge pitfalls in the realization of implicit (production or gross value added) growth target of the manufacturing sector. And this phenomenon would also be valid for other major quantitative goal of the NMP, namely, creating 100 million additional manufacturing jobs by 2022. According to the Planning Commission data, Indian manufacturing currently contributes to only 12% of employment compared to 28% in China. How can this sector create so many jobs in a span of just a decade, when the cumulative employment **over the last about six decades of our economic planning has led to total manufacturing employment to the current level of just about 50 million!**

One understands the anxiety of NMP in pursuing aggressively an ambitious goal of creating job opportunities to millions and millions of new youth who would be entering the labour market over the next decade. But our experience so far is far from satisfactory thanks to the fact (a) India's manufacturing growth rate *per se* has been relatively modest, as compared to China and many other successful East Asian countries; (b) Indian manufacturing is found to be less employment intensive, given the growing preference of Indian medium and large industry towards capital and technology intensive areas of manufacturing; and (c) India so far failing to initiate major labour policy reforms that could have empowered the management with greater autonomy and flexibility in their labour and employee relationship, and in the process facilitating generation of more and more jobs in the manufacturing sector over the medium to long-term.

In substance, both in terms of realization of growth and employment aspirations, the NMP would eventually be found wanting! But this does not mean that concerned authorities, both at the Center and States remain oblivious in the pursuit of their efforts seriously and consistently. Indeed, what is necessary is to monitor the MNP's quantitative target performance **and formulate an annual rolling National Manufacturing Plan strategy** to mitigate the likely inadequacies and shortfalls in realization of key objectives.

The Strategic Framework of NMP

Thus, rationale in the formulation of NMP, as highlighted earlier, is apparently sound and unassailable. But, the moot question is: Whether is it also driven by far more crucial aspect of stable, sound and implementable strategic framework? Evidently, there are five key building blocks in the pursuit of NMP objectives, and these are:

- First, the creation of National Manufacturing and Investment Zones (NMIZs) as a powerful driver of future manufacturing strategy. The NMP envisages significant advantages of clustering and agglomeration and perceives that NMIZs would catalyze the growth of manufacturing. For this purpose, the policy also spells out many specific details of (a) institutional mechanism for implementation of NMIZs; (b) simplified procedures for clearances and approvals of units to be set up in NMIZs; and (c) various available incentives and benefits.

- Second, identification of **six specific industry verticals:** (i) employment intensive industries; (ii) capital goods; (iii) industries with strategic significance; (iv) industries where India enjoys a competitive advantage; (v) small and medium enterprises; and (vi) public sector enterprises. This classification truly reflects present characteristics of India's industrial landscape. There is a huge work in progress and/or futuristic programs, which either the Ministry of Industry or concerned other ministries have to formulate and execute. **Illustratively,** in area of capital goods, time bound programs are proposed to be initiated for building strong capacities with R & D facilities. Like-wise, in case of automobiles and pharmaceuticals the concerned ministries are expected to formulate special programs to consolidate strong industry base to retain global leadership position. Also, the NMP mentions about specific policy instruments covering a host of issues relating to rationalization and simplification of business regulations, expeditious exit mechanism for closure of sick units, incentives for SMEs, etc.

While on this issue, it is commendable to find that the Planning Commission has also drawn its own separate list of **priority sectors**, which seems to be in conformity with the **special focus sectors** drawn up by the NMP. The Document on pages 112/113 lists seven different areas covering a host of industries [please see the Appendix table]. However, what would have been more appropriate is **to have prepared the small negative list** (rather than the list of either priority/special focus sectors) **comprising, say,** tobacco and tobacco products, liquor, etc – that is the list of non-priority sectors. For our current stage of industrialization, and given the fact that in most areas of manufacturing products India's per capital consumption is too low in comparison with most advanced countries as well with China and some of the South East economies, there is enormous scope for expanding capacity, production and even exports in every segment of manufacturing. For the success of NMP **it is imperative that there is essential cohesion and coordination in the approaches of the government and the Planning Commission**. The Document also mentions about developing the National Manufacturing Plan "with participation of many ministries and industry associations". While doing so, the Planning Commission need to take cognizance of the above points, and also make it a rolling plan.

- Third, the formulation of Exit Mechanism, essentially based on flexible labour policy: For the past over two decades business and industry as well as eminent industrial economists and professionals have been desperately pleading for exit policy. The NMP has done well to at least highlight the critical issues and offered **strategic mechanism so that interests of workers are adequately protected. At the same time NMP seeks to open opportunities for expeditious redeployment of assets of non-viable units**.

- Fourth, the recognition of emerging **importance of Green Technologies** and exploring the potential opportunities both for domestic and global markets: The NMP has identified several aspects for promoting green manufacturing covering issues of (i) environmental audit; (ii) water conservation; (iii) wastewater treatment; (iv) rain water harvesting; (v) renewable energy; and (vi) green buildings. It also mentions about how Technology Acquisition and Development Fund can function for building up autonomous patent pool and licensing agency. Further, it offers a forward looking approach covering purchase of intellectual property rights and compulsory licensing.

- Fifth, the NMP deals with Industrial Training and Skill Development Program recognizing the importance of skill manpower requirement of manufacturing sector. Undoubtedly, this has emerged as one of the major stumbling blocks in enhancing productivity and competitiveness of India's manufacturing. The global experience of all advanced countries as well as of China and the erstwhile Asian tigers suggests that their industrial prowess owes a great deal to superior and consistent industrial training and skill up-gradation programs. In terms of specifics, the NMP sets out a four-tier structure: (a) skill building among large number of minimally educated workforce; (ii) relevant vocational and skill training through establishment of ITIs in PPP mode; (iii) specialized skill development through establishments of Polytechnics; and (iv) establishment of Instructor's Training Centre in each NIMZ. All these are well-meaning, but the question is about its implementation; it is about coordination of efforts between the Centre and States; it is about fixing responsibility and accountability for achieving these tasks.

The Cornerstone – National Manufacturing and Investment Zones

The careful assessment of the 30-page NMP document reveals that the Government would be superimposing the new policy on the present structure (or hotchpotch!) of industrial policy in the country. It is, therefore, necessary to elaborate briefly the substantive dimensions of this strategic framework, especially with respect to NMIZs and also mention briefly the impending stumbling blocks.

- Conceptually, NMIZs will be developed "in the nature of green field industrial townships, benchmarked with the best manufacturing hubs in the world. These will also help us to meet the increasing demand for creating world-class urban centers in India, while will also absorb surplus labour by providing them gainful employment opportunities. These NIMZs will seek to address the infrastructural bottleneck which has been cited as a constraining factor for the growth of manufacturing".

- The NMIZ is also slated to function as "a self-governing and autonomous body, it will be declared by the State Governments as an Industrial Township under Art 243 Q (c) of the Constitution. …**They would be different from SEZs in terms of size, level of infrastructure planning, and governance structure** related to regulatory procedures and exit policies" Thus, this is going to be an all-inclusive gigantic structure combining production units, public utilities, logistics, environmental protection mechanisms, residential areas and administrative services. It may also include one or more Special Economic Zones (SEZs), Industrial Parks and Warehousing Zones, Export Oriented Units (EOUs) and Domestic Tariff Area (DTA) units.

  The NMP prescribes that an NIMZ would have an area of at least 5000 hectares and that **the State Government "will be responsible for selection of land suitable for development of the NIMZ, including land acquisition if necessary"**.

  Critical Issues: (a) How is the State going to ensure land acquisition in the delineated area given the current hostile scenario? The Land Acquisition Bill is still pending and given its proposed format, the cost of land acquisition increases many-fold. This would make competitive building of NMIZs financially untenable. (b) How adequately are the State Governments equipped, especially those which are relatively under industrialized to leverage the advantages of NMIZs? (c) Will the relatively advanced States secure differential advantage and in the process the policy could cause further widening of regional disparities? (d) What will happen to the status of existing notified and operational SEZs and EOUs? Will they be willing to surrender their existing/perceived autonomy?

- As regards internal infrastructure of NMIZ, it will be managed by a Developer or a group of Co-developers, while external linkages will be provided by Govt. of India and the concerned State Govt.

  Critical Issues: How is the Centre-States co-ordination going to be managed, especially where there are different political parties ruling in the States? To whom will the Developer or Co-developers be accountable for their contractual performance – Centre or States?

- The NMP defines administrative structure for NMIZ in the format of (a) Special Purpose Vehicle (SPV), its governing system, and its powers and functions; and (b) Developer and his responsibilities; and (c) the respective roles of Central and State Governments. While the Central Govt. (and other Govt. Agencies) will be responsible for notifying the NIMZ and issuing necessary clearances, the State Governments really have many tasks to perform (quite apart from land acquisition related tasks), such as ensuring water requirements, power connectivity, infrastructure linkages, etc. .

  Critical Issues: This again is a situation where conflicting interest of Centre and States would block the progress of NMIZ. Is it possible for the Centre to **initiate the Center-**

States Coordination Council for implementation of NMIZs and other facets of NMP?

- The NMP sets out specific details of the respective roles of the Central Govt. and State Govts. covering the whole gamut of issues. It empowers the Central Govt. with the creation of a High Powered Committee to ensure necessary coordination among central ministries and state governments and also monitor the progress of environmental and other clearances, as well as development of NMIZs and ensuring external physical infrastructure in a time bound manner. The latter includes: Rail, Road (National Highways), Ports, Airports and Telecom and it also talks about using public private partnership model for this purpose and providing Viability Gap Funding.

  However, State Govts. have far more tough functions and tasks to perform, while playing a lead role; and these include, among other things, (a) land, (b) funding of initial cost of land, (c) exploring funding arrangements, including from international funding institutions, long-term tax free debentures, etc (d) power connectivity, (e) water requirements, (f) state roads connectivity, (g) sewerage and effluent treatment, (h) health, safety and environmental issues, etc.

  Critical Issues: (a) Are the States willing to accept their area of responsibility? (b) Have they given their approval to the proposed policy changes envisaged in NMP? (c) How to make them effectively participate in the manufacturing mission conceptualized by the Central Govt.?

  Besides the above major features of NMIZ, the NMP deals at great length on matters of (a) institutional framework [e.g. making Department of Industrial Policy and Promotion (DIPP) as the nodal department of Govt.

of India]; (b) rationalization and simplification of business regulations – complying with 70 laws and regulations and filing sometimes as many as 100 returns a day; (c) making labour laws flexible; (d) exit policy for units in NMIZs that also ensures prospect of loss of job insurance policy for employees; (e) leveraging infrastructure deficit and government procurement, etc.

There are two other significant features of NMP and both deserve to be studied and evaluated at great length in a separate article. First, it has done well to highlight the importance of “Green Technologies” and opportunities that are going to be unleashed in these areas given the growing concerns of sustainable development. Second, it points out the urgency of focussing on skill development programme to cater to the needs of manufacturing sector, and reaping India’s comparative advantage of large workforce: witness, about 800 million persons will be in the productive working age group of 15-59 by 2015, with about 12 million persons expected to join the workforce every year.

Concluding Observations

While summing up, we would like to stress that it would be most appropriate if the Planning Commission as well as NMP takes cognizance of what the **new industrial policy mission is being adopted by China**. This is imperative given the fact that in popular discussions in recent years there is so much of comparison that is often being made between China and India with respect to their distinctively divergent approaches to economic reforms and their outcomes in terms of overall economic and manufacturing growth performance. China’s policy processes still continues to reflect the heritage of command economy, given the well-entrenched stronghold of communist party and its ideology in its political system, even granting the fact that it has been at least 12 to 15 years ahead of us in launching market-driven new economic reforms.

Having recognized the structural imbalances generated during last three decades of high growth, its approach, as it emerges from its 12th Five Year Plan (2011-15), is to scale down its real GDP growth rate to 7.5% with emphasis now on “inclusive growth”. But more importantly from the perspective of our NMP, what is of significance is that while stressing the urgency of restructuring the economy, it has identified **seven “strategic emerging industries” (SEIs)**. These include: biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, clean energy vehicles, new materials and next-generation IT. The Plan is proposing to expand allocations for these industries and aspiring to increase the share of SEIs from current 5% of GDP to 8% by 2015 and 15% by 2020. Chinese planners have also incorporated preferential taxation, fiscal and procurement policies designed to develop SEIs.

Having established its commanding position progressively in practically the entire spectrum of industries be they consumer goods, basic goods, infrastructure industries or even modern electronics and automobiles, China is now envisioning its role in industries of huge future potential.

The real difference between China and India is that while our articulation of policy objectives and their strategic framework may be comparable with China (albeit divergent/ distinctive), India is invariably found to be laggard in its implementation. Hence, NMP per se is not sufficient in ensuring the realization of our laudable objectives. The question is: who is responsible and accountable for the outcome of such ambitious economic policies, whether the proposed NMP or any other, including the implementation of the final 12th Plan, which is currently under preparation!

We have lurking suspicion that even after fine-tuning and perfecting the strategic framework of NMP, will it not meet with same fate of lack-luster or moderate achievements, as our earlier pioneering efforts in the promotion of Export Processing Zones in seventies and SEZs since mid-nineties have encountered!

It is also imperative to suggest that the Central Government with support and participation of any one of the States must incorporate a Blue-Print of what an ideal or demonstrably implementable NMIZ needs to be! With the versatility of our planners and bureaucrats, it may not be difficult to prepare such a blue-print of action incorporating simulation exercises of sequence of clearances and approvals, geographical location of the such NMIZ (including the quantum and sources of land required), the functioning of the institutional set up (including the prospective developer/co-developers), the performance norms for Central and State Govts. in respective areas of their responsibilities, cluster of units/ industries which could be housed in such NMIZ, investment requirements, capital structuring and funding arrangements, etc. Such a model Blue-Print would, we believe, go a long way in actual implementation of NMIZs. Or else, we would end with only a theoretically wonderful, comprehensive and holistic document of NMP!

Finally, while reflecting on a New Policy Paradigm, the Planning Commission itself points out that “the persistent failure of India’s manufacturing sector to meet expectations suggests that a radical change in the policy approach towards it is needed. We cannot continue the way we have done. The ‘coordination’ challenge in growing the manufacturing sector is complex. ……. ….. The challenges to developing and implementing a cohesive manufacturing strategy in democratic India are many …. ”. Do we really have any magic wand to overcome such challenges in the interest of realizing the prospective full potential of India Growth Story?

Appendix

Twelfth Plan List of Priority Industry Sub-Sectors

1.	Large employment creating	Textiles & garments, leather & footwear, gems and jewellery, food processing, handlooms and handicrafts
2.	Deepening technology capabilities	Machine tools, IT hardware and electronics
3.	Strategic security industries	Telecom, aerospace, shipping, defence equipment
4.	Energy security industries	Solar energy, clean coal technologies, nuclear power generation
5.	Capital equipment for infrastructure growth	Heavy electrical equipment, heavy transport, earth moving and mining equipment
6.	Competitive advantage sectors	Automobile, pharmaceuticals and medical equipment
7.	MSME sector – employment & enterprise generation	No specific industry segments, but vast coverage providing base for the manufacturing sector

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

- Eugene Black
Former President,
World Bank

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In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. A number of youth activities including essay and elocution contests and leadership training camps are organised every year towards this goal.

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