Augmenting infrastructure and reduced costs of doing business will enhance manufacturing competitiveness

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Robust infrastructure, improved ease of doing business, and reduced costs of doing business would be crucial for the high growth of the manufacturing sector and its increased share in GDP.

The manufacturing sector in India is one of the significant growth diverters. The industry has kept pace with the growing demographics and economic changes. However, as the Indian economy has transcended straight away from the agriculture sector to the services sector, the manufacturing sector's share is only around 16% of the GDP over the last many years. To accelerate the pace of industrialization and to enhance the manufacturing activity in the country, the government in 2014 launched the 'Make in India' initiative to promote India as an important investment destination and a global hub in manufacturing, design, and innovation.

The government has identified sectors that can become global champions, drive double-digit growth in manufacturing, and generate significant employment opportunities. Since its launch, several measures have been taken to create a conducive environment for investments, develop modern and efficient infrastructure, open up new sectors for foreign investment, and forge a partnership between Government and Industry.

The make in India aims to take the manufacturing growth to 10% on a sustainable basis by introducing a business-friendly regulatory environment, enhancing the ease of doing business and improving manufacturing infrastructure. During Make in India's six-year journey, significant achievements have been witnessed across different domains as India's Foreign Direct Investment inflows have increased to a remarkable US$82 billion in FY2021 from US$36 billion in FY2014. Further, there has been a significant improvement in the Ease of Doing business in the country as the ranking on the World Bank's Doing Business Index has improved remarkably from 142nd in 2015 to 63rd rank in 2020.

Going ahead, infrastructure is a significant ingredient that propels growth manufacturing. India's infrastructure bottleneck is a considerable constraint in improving (or even maintaining) its global competitiveness, as measured by the World Economic Forum's study on Global Competitiveness Report (2019). India slipped sharply by ten notches to the 68th position out of about 140 countries in 2019. India's relatively poor quality power and transportation infrastructure contribute to the weaker position compared to Asian peers like China (No. 28), Thailand (40) and Indonesia (50). To achieve a high economic growth trajectory, we need a state-of-the-art infrastructure in the country with a significant focus on improving infrastructure projects to improve our competitiveness in the global markets. So, robust infrastructure will enhance manufacturing competitiveness and export performance in the highly competitive world. More Public-Partnership Projects (PPP) for infrastructure development in the country will go a long way to build industrial infrastructure and increase the competitiveness of the enterprises.

The government had launched a national Infrastructure Pipeline with the allocation of Rs 111 lakh crore to provide world-class infra across the country and improve the quality of life for all citizens. Going ahead, the allocated amount needs to be effectively implemented, as increased spending on infrastructure will give a multiplier effect and rejuvenate the aggregate demand in the economy, which will have enhanced production possibilities in the manufacturing sector. Undoubtedly, the robust growth of infrastructure is the crucial ingredient to realize the vision to become Atmanirbhar Bharat. National Infrastructure Pipeline will surely boost the country's growth trajectory and take the size of the economy to the level of USD 5 trillion by FY 2025-26.

Further, as the ease of doing business has improved a lot during the last 5-6 years, our focus, going ahead, must be on the reduced cost of doing business, including the (1) costs of capital, (2) costs of power, (3) costs of logistics, (4) costs of land and availability of land and (5) costs of compliances.

Cost of Capital: The banking sector should continuously transmit the full effect of repo rates by the RBI and lower the lending rates to reduce the cost of capital for the businesses.

Cost of Power/ energy: In India, costs associated with getting electricity has reduced significantly over the years. The government has taken many steps to get electricity easier, faster and cheaper. However, the per-unit charges of power are still considerably high.

Cost of Land and Availability of Land: Obtaining land is one of the essential parameters of ease of doing business. The procedure to acquire land should be free from complex and costly procedural bottlenecks. Land reforms such as increasing the lease period and creating land banks for industry purposes should be focused on.

Cost of Logistics: Over the years, the time involved in transporting goods has reduced significantly. However, the cost of logistics remains high, leading to an increase in the overall cost of doing business. Going ahead, the government should further improve the logistics infrastructure, remove bottlenecks at ports to reduce costs and improve ease of doing business for the industry. The current logistics cost of India is 14 per cent of GDP, while in the US, Europe and other developed countries, it ranges between 8-10 per cent. The need of the hour today is to lower its logistics cost to 7-8 per cent of the GDP to remain competitive in the international market. An increase in railway freight volume, upgrading the water transportation system, regulating highway freight transport and speeding up multimodal transport would go a long way to improve the logistics network and rationalize the logistics costs.

Cost of Compliances: Due to several mandatory regulatory compliances, there is a cascading effect on the overall cost of doing business. Simplifying observations would help make the policy environment more industry-friendly, allowing firms to focus on their core business and keep compliance costs low. All regulatory bodies must ease the regulatory procedures and have a lenient view of the policy environment during this challenging period.

In a nutshell, the growth of the manufacturing sector would be crucial not only to increase the share of the manufacturing in the GDP but also to create employment opportunities for the growing young workforce in the factories as pandemic has impacted and disrupted the global value chains. Time is most suitable to connect with the global value chains with increased efficiencies of manufacturing supported by robust infrastructure, improved ease of doing business and reduced cost of doing business.

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