

National Manufacturing Competitiveness Council (NMCC)

Highlights of the NMCC Council Meetings

A. First meeting of the NMCC held on 6th January, 2005

The National Manufacturing Competitiveness Council (NMCC) has started functioning effectively from the beginning of January, 2005. The inaugural meeting of the National Manufacturing Competitiveness Council was held on 6th January, 2005. In the meeting, Dr. V. Krishnamurthy, Chairman, NMCC made the welcome address and Shri. Kamal Nath Hon'ble Minister of Commerce & Industry gave the opening remarks. The Members of the Council also called on the Hon'ble Prime Minister on 6.1.2005.

Dr. V. Krishnamurthy, Chairman, National Manufacturing Competitiveness Council (NMCC) welcoming the participants stated that the Council is expected to provide a roadmap for making Indian manufacturing competitive - both for garnering a share in the global market and for providing goods at competitive prices for the domestic population. It is expected to help the Government not by restating the often repeated constraints and suggestions, but by providing to it implementable policy initiatives and interventions. He expressed that a lot could be done despite the constraints.

Chairman, NMCC said that the Council would work on devising a long term strategy focusing consisting inter-alia creation of conditions for enhanced competitiveness; reducing cost of manufacturing; quality education and training for upgradation of skills; strengthening market

regulation; and improving competitiveness of public sector units which are continuing to play a key role in capital goods and basic goods industry. Chairman suggested that the Council might identify specific manufacturing sectors for immediate attention such as Textiles & Garments, Food Processing, SMEs, Leather, Gems and Jewellery, and Chemicals & Pharmaceuticals to improve both competitiveness and employment opportunities.

Shri Kamal Nath, Hon'ble Minister of Commerce & Industry in his opening remarks said that the Government has chosen the composition of the Council carefully and members represented the best Corporate from all industry segments. Indian manufacturing was accounting for 17% of GDP of India which was substantially lower compared to China, Korea and Thailand where it formed around 1/3rd of GDP. He expressed that the Government expected the Council to identify the roadblocks in realising India's manufacturing potential and suggest a workable approach to attain global competitiveness. He stressed that manufacturing needed to grow at least at 12% p.a. for taking India's GDP growth to 8%.

The Minister said that Manufacturing growth was essential for absorbing labour displaced from agriculture sector. With growth displacement of labour was a natural phenomenon and the displaced labour need to be absorbed by manufacturing sector. He further stressed that even for service sector, manufacturing continued to be an important base. In this background, Hon'ble Minister appealed to the Council members to ensure that the Council was a 'hands-on' organization rather than one just submitting reports. He assured the fullest support of the Government to the Council.

Following this the other agenda items of the meeting viz. the Purpose and Functions of the NMCC, Status of Indian Manufacturing and its Global Competitiveness, Identification of Sectors for detailed study in the immediate future and recommendations of the Council for improving Competitiveness of the Manufacturing Industry for consideration by Government were taken up for discussion.

The agenda item 2 discussed the purpose and functions of the NMCC. It was stated that many countries have initiated an institutional mechanism for a national approach on manufacturing as recognition of its role in overall economic growth for enhancing productivity, competitiveness and employment generation. Accordingly, in line with the priorities laid down in the National Common Minimum Programme, the Government has set up the National Manufacturing Competitiveness Council as an inter-disciplinary and autonomous body at the highest level to serve as a policy forum for credible and coherent policy initiatives. The NMCC's Role, Functions and Composition is as given below;

Role of the NMCC

- Identification of manufacturing sectors having potential for global competitiveness, and problems and constraints in such sectors with respect to structure and size of Industry, technology gap, modernization needs etc.,
- Evolving sector specific strategies for enhancing competitiveness of manufacturing sectors.

- Recommending measures to create common infrastructure and facilities such as testing, quality, design, HRD, skills, training institutes etc.,

Functions of the NMCC

The Council would look at industry and sector specific initiatives that may be required. Functions would, inter alia include:

- Sectoral and enterprise level initiatives.
- Innovation and technology development (R&D)
- Entrepreneurship promotion
- Infrastructure and enabling facilities
- Trade and fiscal policies
- Employment generation

Composition of the NMCC

The Council is headed by Dr. V. Krishnamurthy and comprises of 25 members comprising of noted industrialists, economies and representatives from industry associations and Government. Shri. V. Govindarajan is the Member Secretary of the Council. The Composition of the NMCC is as follows:

National Manufacturing Competitiveness Council- Composition

I Chairman of NMCC

1. Dr. V. Krishnamurthy

Chairman

II Ex-Officio Members

- (a) Government of India
2. Member-Industry, Planning Commission. Member
 3. Secretary/Dept. of Industrial Policy & Promotion Member
 4. Secretary/Economic Affairs Member
 5. Secretary/Heavy Industry & Public Enterprises Member
 6. Secretary/MSME Member
 7. DG, CSIR Member
- (b) Apex Industrial Organizations
8. President-FICCI Member
 9. President-CII Member
 10. President -ASSOCHAM Member

III Professional & Expert Members

- (a) Management & Technical Institutions
11. Dr. Shekhar Chaudhuri, Director, IIM Kolkata Member
 12. Prof. M.S. Ananth, Director, IIT Chennai Member
- (b) Economists
13. Dr. Bibek Debroy Member
 14. Dr. Isher Judge Ahluwalia, Director & Chief Executive Member

Representatives of various industrial sectors

15. Mr. Ratan Tara, Chairman, Tata Sons Member
16. Mr. Venu Srinivasan, CMD, TVS Motor Member
17. Mr. Mukul Kasliwal, Chairman, S Kumars Group Member
18. Mr. AM Naik, CMD, L&T Member
19. Mr. YC Deveshwar, CMD, ITC Member
20. Mr. Jasmhed N. Godrej, MD, Godrej & Boyce Mfg. Co. Member
21. Mr. Baba N. Kalyani, CMD, Bharat Forge Ltd. Member
22. Mr. Suresh Neotia, CMD, Gujarat Ambuja Cements Ltd. Member
23. Mr. Habil Khorakiwala, CMD, Wockhardt Member
24. Dr. Surinder Kapur, CMD, Sona Koya Steering Systems Ltd. Member
25. Ms. Uma Reddy, Chief Executive, Hightech Magnetics, Blr. Member
26. Mr. V. Govindarajan Member-Secretary

The agenda item-3, status of Indian manufacturing and its global competitiveness gave a broad over view of the Indian economy and manufacturing sector, manufacturing in the global context, the need for a strong and robust manufacturing sector, and india's position in

manufacturing competitiveness by comparing the IMD's World Competitiveness Yearbook(WCY) and WEF's Global Competitiveness Report (GCR). The definition of competitiveness is also given according to various sources and also highlighting some of the salient features of competitiveness, which include the following:

- High quality-a passion for excellence
- Low cost
- Higher customers' satisfaction during the life span of the product-zero complaint.
- Promoting sustainable development.
- Reasonable return on investment to the manufacturer
- Stable or increasing global market share.

The agenda item-4 discussed the identification of sectors for detailed study in the immediate future along with the respective background note. It is stated that despite India's efforts to develop a broad based manufacturing sector, the contribution of manufacturing to GDP has remained stagnant at around 17% for more than 15 years. It also briefly discussed the some of the reasons for this state of affairs viz. as lack of adequate domestic demand, slow growth in exports, lack of competition among the domestic players, in adequate attention and low investment on technology upgradation and it has been mentioned that issues like policy restrictions on size of the enterprises, relatively high levels of taxation, and here cost of funds and higher transaction costs also hindered the growth of manufacturing sector in particular. However, the economic reforms since 1991 gave a boost to the Indian manufacturing sector with freedom to expand, and compete. The successive reduction

in tariffs resulted in stiff competition for the domestic manufacturing industry. The Indian manufacturing sector has realized the need to become competitive in order to strive both in the domestic as well as in the international market. Quality and cost competitiveness are essential to achieve this objective. It has been pointed out that for this, it is necessary that the Council need to;

- Identify such sectors which have the potential for quick growth as well as generation of employment:
- Provide an integrated support to these industries through increased investment, coordinated fiscal incentive, institutional support for fast clearance and low regulatory intervention, policy supporting each technology transfer and adoption, incubation infrastructure like R&D facility and venture funding and focused industrial parks with quality infrastructure.

Keeping the above, notes on the following sectors were prepared taking into account their potential for growth including backward linkages and creation of employment opportunities and sought the views of the members in the meeting to be taken up for detailed study-

- 1) Textiles
- 2) Leather & Leather goods
- 3) Food Processing
- 4) Gems & Jewellery
- 5) Handicrafts
- 6) Chemicals

- 7) Pharmaceuticals
- 8) IT Hardware

Since the formation of the Council, the Chairman has established contacts with the Secretaries of all the administrative Ministries involved in the Productive operations and the office bearers of the industry associations notably FICCI, CII, and ASSOCHAM. Details on the background, need etc and the notification of the Government of India concerning the Council are placed in the links in the NMCC's website.

Though the area to be covered by the NMCC is very vast touching the entire gamut of Indian Economy and its competitiveness issues, as an immediate task it has been decided to focus into the total area of manufacturing activities in the context of increasing need for employment opportunities and to unlock the full potential of the Indian industry. Since the manufacturing spectrum alone covers activities from Food Processing to IT Hardware, it is necessary for the Council to take note of the state of the art in each of the sector and lay down the priorities for action. Further, the Members were requested to debate and evolve suitable procedure for conduct of the business of the Council.

Following points were made by the Council members:

Shri Ratan Tata said that the Council should work for global competitiveness and not merely for domestic competitiveness. Referring to an internal study of Tata group on comparison of retail prices in China vis-à-vis India, he informed that Chinese products were in general 30% cheaper compared to Indian products. While labour and input costs were almost identical, the scale of manufacturing in China was 5 to 6 times

that of India and that made China more competitive. He said that India needed to build its manufacturing capacities on global scale for taking advantage of economy of scales and substantially add or set up new capacities.

Shri Ratan Tata, referring to the strategy adopted by METI in Japan in targeting automobiles and electronics Industry which made Japan the global leader in these sectors, felt that India needed to target 5-6 manufacturing sectors and make concentrated efforts viz., increasing investments, improving technology and scale of operation providing incentives and effecting policy changes for the entire value chain in order to capture a significant share in global trade over a period of time. In his view the Council need not be defensive and ought to think big. According to him the Council's focus ought to be on competitiveness and not on employment generation, for competitiveness would in any case lead to increased employment. He expressed that construction, housing, infrastructure and conventional manufacturing were the areas that could be focused by the Government for job creation.

Dr. Rakesh Mohan, Secretary, DEA mentioned that the huge potential exists for job creation in manufacturing in India, citing that manufacturing absorbed only 7 million people compared to 70 million people in China. He stated that growth in manufacturing had been slower than growth in GDP and contribution of manufacturing to GDP had been stunted and suggested that the Council ought to ponder over ways to accelerate manufacturing growth. He informed that the budget speech of the Finance Minister included adoption of ITIs by industry, the Council might suggest modalities in this regard. He mentioned that reservation of

items for manufacturing to small scale units was coming in the way of growth of manufacturing sector and its competitiveness in India and that issue needed to be tackled.

Dr. Isher Judge Ahluwalia emphasized that the Council ought to consider competitiveness only in the global scenario. She felt that emphasis was required to be shifted to labour intensive manufacturing from the capital intensive industry, which was focused in the past. In her view manufacturing was by itself not a primarily employment generating sector but its growth had a multiplier effect on employment generation as it led to growth in other sectors including services housing, infrastructure and other economic activities, which in turn would create jobs. Growth in a few sectors of manufacturing, however, could contribute to direct employment generation. She volunteered to prepare a paper on the subject.

Shri Y.C. Deveshwar elaborated on the multiplier effect of paper manufacturing on employment generation. He advocated change in land use laws, which were hindering the growth of employment and paper industry. He pointed out that the extant land use laws and the agricultural produce marketing laws deterred Corporates in providing technology, managerial assistance and credit to farmers in producing biomass. He said, in Philippines pineapples were grown in 18,000 hectares with an adjoining canning plant and shipping linkage enabling Philippines to capture 20% of the global market. He claimed that likewise millions of jobs could be created across the entire value chain in the paper sector in India. He stressed upon the urgent need to build industry- farmer linkages.

Shri Y.C. Deveshwar expressed that with right set of policies, regulations and technology interventions India could produce paper in a most competitive way. He endorsed Mr. Tata's views regarding building global levels of operation. He offered to prepare a working paper on the subject. Agreeing with him Hon'ble Minister shared his experiences in this regard while he was the Environment and Forest Minister. Expressing that proper changes in the land use laws could create lot of economic activities, he requested Mr. Deveshwar to prepare a paper on the Paper industry for consideration of the Council.

Mr. Habil Khorakiwala referred to the Indian success story of the pharmaceutical sector. He mentioned that while his Company exported 70% of its products, it employed 88% Indians. While in the pre-liberalisation era the pharma industry was catering basically to domestic market with only 6% exports, its share in global generics market accounted for 22% at present. He stated that about 25% of the scientists working in pharma R&D in USA are Indians. According to him while more than 60% drugs prescribed in USA are patented products, their share in value happened to be around 15% only.

Mr. Habil Khorakiwala said that the present market of US\$ 45 billion in generics would increase to US\$ 100 billion by 2010 as large number of products was to go off patent. He advocated for propelling Indian pharma industry into a higher growth trajectory and to a position of being the world leader by enhanced focus and support to R&D, including tax incentives and offshoring R&D operations; removing barriers for export growth by rationalising SEZ/ EOU procedures; and removing duty aberrations. He further stated that support and incentives to R&D

were WTO compatible and that even developed countries provided full Government support to R&D through educational and R&D institutions. He volunteered to prepare a paper on global competitiveness of pharma sector and increasing R&D in the sector.

Shri Jamshyd Godrej mentioned that Indian competitiveness was based on skills, and not on scales. Expressing that quality skills being in shortage and could become a road block to growth, he advocated that India needed to concentrate on skill building - by improving and strengthening educational and training institutions, whether in the government or private sector or in-house industry training facilities. Explaining the burden of high and multiple indirect taxes vis-à-vis China where retail prices are lower by about 30%, Shri Godrej emphasised on the need to prepare a roadmap for lowering taxation on Industry to unleash demand and to make manufacturing competitive.

Shri Jamshyd Godrej advocated implementation of full blown Goods and Service Taxes (GST) regime. Quoting the Dabhol Power Project case, he stated the need for judicial reforms to ensure quick enforcement of contracts and commercial laws, which would instil confidence in investor community particularly the foreign investors. He also advocated the need for sustainable growth and adoption of environmental best practices so as to avoid future road blocks to growth. He cautioned that development should not be at the cost of environment.

Shri S.K. Munjal drew attention to CII's paper regarding the terms of reference for the Council circulated along with the agenda notes. He urged the Council to think big and in the long term, say 10 to 20 years,

and set ambitious goals with meticulous planning for Indian manufacturing on the lines of China, Korea and Japan. He stressed on identifying few sectors, working on the entire value chain, and preparing a comprehensive action plan for positioning India as global leader. He suggested that some parts of the value chain might be sourced from outside while efforts could be concentrated in areas of our strength. According to him infrastructure bottleneck was a real issue and the Council could suggest which areas could be handed over to the private sector to improve infrastructure.

Shri S.K. Munjal felt that SMEs were essential for growth and key to competitiveness provided the approach and concept of SME was suitably changed. He mentioned that in terms of the global concept, SME was perceived to be one having investment of US\$ 100 million or less. He strongly advocated building linkages between manufacturing and rural areas. He advocated introduction of VAT and GST for manufacturing growth and also emphasised the need for reforms at provincial Government and local Government levels. He stated that there were more than 300 industrial clusters. Focus could be given to natural clusters and on the entire value chain. He offered to prepare a note on technology centres.

Ms. Uma Reddy urged for support to SSI sector emphasising its role in employment and economy, as SSI units have niche strength in prototyping and played crucial role in transfer of technology. She narrated the successes story of business incubator module system which enabled participation of women in commercial food processing in the food processing sector. She also recalled the success of women

entrepreneurship through self help groups with the assistance of Leather Development Programme and UNDP. She stressed for support to SSI particularly for standardisation of products, designing, entrepreneurship development, training and R&D. She pointed out that technology upgradation fund was not being utilised and was not reaching to SSIs.

Dr. Shekhar Chaudhuri stressed the need for improving the status of manufacturing jobs to attract best talent. Suggesting that close interaction between industry, academia and Government was essential, he emphasised need for creation of centres of excellence in manufacturing technologies. Implementation of suitable policies and programmes to attract people of high calibre was a prerequisite to building manufacturing competitiveness.

Prof. M.S. Ananth stressed the necessity of quality teachers for creating excellence in academia. According to him teachers' pay being lower than industry remunerations, the best brains were not getting attracted to teaching. He advocated for increased interaction of industry with academia and enhanced industry efforts to attract talent in manufacturing.

Shri Venu Srinivasan expressed the need for an action plan for improving manufacturing competitiveness. According to him, implementation, and not knowledge, was the weak link. He advocated flexibility in labour regulations, such as allowing limited duration contracts, to promote exports and employment. He suggested that small working groups of the Council could be formed to take sectors one by one, identify issues and recommend practical action plan for each identified sector.

Mr. Mukul Kasliwal, said that China had reached the number one position in the world textiles market by adopting policies to acquire global competitiveness. It continued investment in capacities and technology, whereas, India, over the last 5 decades looked inward and went over protective. He emphasised that rigidity in labour regulations was more a self-created fear psychosis than reality. He expressed that the industry needed to consider cloth as input rather than an end product and concentrate on high end of value chain such as apparels and fashion garments. For upgrading skills, providing skilled trained manpower and micro credit for the sector, he opined that institutional arrangements were needed upto district level. He suggested formation of a working group on textiles with 5-7 years perspective and volunteered to prepare a working paper in cooperation with industry associations and academia for initiating immediate action.

Mr. A.M. Naik expressed concern stating that as a member on the Board of IIM Ahmedabad he noted that no IIM student preferred manufacturing companies, as students found better remuneration in services. He called for immediate attention to changing the mindset so as to attract the best managers to manufacturing sector. He felt that educational institutions and systems were impregnable and their rigidities were impassable.

Mr. A.M. Naik said that India could become a global player in capital goods and machine tools manufacturing and had edge over China in this sector. He stated that India could easily position itself next to Europe and Japan who are world leaders in this sector, provided focus be given on developing skill base. He credited L&T's success to

involvement in high tech with ISRO and other Indian space agencies. He urged the Council to focus on developing competitiveness in defence industry both from strategic and economic considerations, as India imports about 90% of its defence requirements and technology transfer was very poor in defence sector.

Mr. A.M. Naik mentioned that though defence sector was open for private sector, no worthwhile investment could take place since approvals for setting up manufacturing activities were not forthcoming. According to Mr. Naik ship-building industry was another key sector for priority initiatives since India was likely to become one of the biggest global buyers of ships in view of its robust growth of imports and exports. As of now no cargo ships are being built in the country in view of shortage in capacity. He advocated initiating Integrated Development of manufacturing Programmes at national level. With regard to the need for building mega scale projects, agreeing with Mr. Tata, he cautioned that once China met its domestic demand, it would aggressively target neighbouring nations to dump their products and thereby interact domestic industries. He assured to provide a paper on capital goods industry.

Mr. Baba Kalyani said that the success of Bharat Forge Ltd. is due to the strategy of working ahead of markets, building economy of scale and capabilities. He said, when they moved from low-tech products to high-tech products and concentrated on global market, it became world's top company within 3 years. He advocated that to be a global player India must aim corner at least 10% of the global market in each sector and must work towards that target. He stressed upon the need for reforming and deregulating technical education to provide manpower

required for the technical shift from low-tech manufacturing to high-tech products. He expressed concern over disappearance of Development Financing Institutions and stressed on the necessity to revitalise them.

Mr. Suresh Neotia pointed out the need for a regulatory body for coal pricing and for addressing issues arising due to monopoly mining and supply of coal. He warned of acute and impending shortage of coal that might become a roadblock to manufacturing growth, besides resulting in huge and expensive imports. He wondered whether self-regulation could replace regulatory approvals and permissions for mining activities, as these were time consuming often taking upto 3 years.

Mr. Anwarul Hoda's viewed that labour was not an insurmountable issue and said that the Council must not consider labour as a closed chapter. He implored the Council to suggest policy initiatives to provide required flexibility in labour law and regulations.

Mr. Onkar Kanwar deplored the high taxation that constituted 44% of the product cost in India as against only 16% or less globally and emphasized the need to reduce taxes. He stated that FICCI had already made this point in their pre-budget memorandum to the Government.

Shri M.K. Sanghi wanted State Governments to be more proactive and urged the Council to devise ways to get the State Governments on board in its efforts to strengthen manufacturing.

Dr. Surinder Kapur cited the role of SMEs in the phenomenal growth of auto components sector. He stressed on the necessity of providing support to SMEs by reviving Development Financial Institutions. He also emphasized on training and R&D as urgent requirement for growth of manufacturing.

Summing up the deliberations of the first meeting of the Council the Chairman mentioned the following points for future strategy and action points for the Council:

Points for Future Strategy

- i) Manufacturing competitiveness must become a focus area of the Government.
- ii) Conditions for growth of the manufacturing sector must be created for making Indian manufacturing competitive.
- iii) Lowering cost of manufacture in India ought to be one of the prime focus areas to work upon in the Council.
- iv) Investing in innovations was pre-requisite to attain global competitiveness.
- v) Education and training ought to be strengthened for building human capital required for the growing needs of manufacturing sector.
- vi) India must adopt the global best practices in manufacturing for sustainable competitiveness.
- vii) The Council would have to work upon requisite policy initiatives for creating right market framework, competition and regulation.
- viii) Small and medium industries could be the best source for employment generation and spreading benefits of economic growth to the masses.
- ix) Public sector manufacturing industries ought to be another focus area for the Council keeping in view their pre-eminent role in manufacturing, particularly of capital goods.
- x) Infrastructure development must be focussed - for growth of manufacturing sector as well as for India's overall economic growth.

Action Points

- There was an urgent need to boost the manufacturing growth and towards that objective, a draft Strategy paper would be brought before the Council for consideration.
- The Council ought to form issue based and sector based working groups to interact with the Council.
- The Members to send sector specific papers for providing valuable insights and thoughts for initiating dialogue on important sectors identified during deliberations. Some papers could be targeted on generic issues.
- To hold the next meeting in mid March/April after the presentation of the Union Budget.

The Chairman, NMCC requested each of the members to put down their thoughts in writing and send to the Council as it would be an invaluable input.