

C. Third Meeting of the NMCC held on 12th August 2005.

Dr. V. Krishnamurthy, Chairman, NMCC extended a warm welcome to the members. He mentioned that NMCC had been functioning since the beginning of January 2005 when it had its first council meeting and was subsequently followed by the second meeting in April 2005 and now this third meeting in August 2005. He hoped that the regularity of meetings would also be maintained in the future, as the NMCC continues to look forward to receiving the wise advice of its council members. He recalled that while on one side the task of preparing a long term Strategy for the manufacturing sector was taken up, parallelly certain sub-sectors were examined in-depth to identify problems and at the same time certain general issues coming in the way of enhancing competitiveness were also looked at.

On the first agenda item, Chairman sought the opinion of the members if the NMCC is proceeding in the right direction and course correction, if any, needs to be done. He pointed out that while certain Sub-sectors were taken up in the first instance, there are many still to be examined. He cited the case of IT Hardware where in a short time, some success is visible on the horizon. He however, expressed that an overwhelming amount of work still needs to be done in dealing with each sub-sector. He also brought out that the initial accent on prioritization of sub-sectors was based on what amount of linkages the sub-sector had with rural segments, its employment elasticity, etc. but at the same time certain balancing had to be done in dealing with sub-sectors that have inherent advantages, like auto components

In addition to the above initiatives, Chairman drew the attention of the members to the draft of **"The National Strategy for Manufacturing"** which has been circulated as Agenda item no.2. He informed them that an attempt has been made in the paper to cover most of the issues raised by the members while discussing the draft background paper in April 2005 meeting. He felt that even though broad issues related to PSEs have been brought out, there is a need for a deeper study as public sector continues to play a significant role

in manufacturing and competitiveness. However, he felt that there are certain issues on which further examination is needed as a consensus had not emerged. He recalled the concerted debate that got generated on the issue of competitiveness and employment. He reiterated that from the national point of view, unless the suggestions made by the council can be linked to employment, major headway may not be possible.

While appreciating the concerns expressed in the earlier meetings, the Chairman felt that in the context of Total Factor Productivity, some adjustments have taken place in the last decade. He was of the opinion that before large scale contribution of India to the global market can become a reality in terms of providing better goods and services at competitive prices, there is a need to improve on competitiveness. He felt that once the volume of activities goes up, there is every possibility of employment also getting a boost. He mentioned that the other issue which needed further thought is the 'Big push idea' which called for identification of one or two large scale projects centered around which large scale development can take place and a national campaign can be mounted but has not been identified. On the subject of prioritization of generic issues, he felt that lot many of them require parallel action and prioritization in this context could become difficult and hence the draft Strategy paper does not reflect any specific prioritization.

In so far as the way forward is concerned, Chairman stated that at present the NMCC is coordinating with around 25 concerned Ministries and that many of the issues cut across a number of Ministries and cited the example of Food Processing industry. Further, since the main action lies with the States, he brought to the attention of the members, the letter written by the Hon'ble Prime Minister to all Chief Ministers highlighting the need for joint efforts between the NMCC and the State Governments. Most of the Chief Ministers have been responding positively and he cited the initiative already underway with Andhra Pradesh and West Bengal. He stated that the Council would be kept informed of the progress made with the State Governments.

He brought to the attention of the members the concern expressed by the Hon'ble Prime Minister on implementation of various recommendations of the NMCC and his expectations of the Council to take such steps which are necessary to ensure that the recommendations made by the Council are systematically implemented. As the implementation lies with various Ministries and the State Governments, he emphasized that a coordinated approach is essential.

The Chairman stated that between the first and second meetings of the NMCC, 8 different Sub-sector meetings had taken place, and between the second and the third meetings, further sub-sector level interactions had taken place in respect of Paper industry, Chemicals & Petrochemicals Industry, and Drugs & Pharmaceuticals Industry. In addition, aspects like Skill upgrading and Human Resource requirements in manufacturing sector were also examined. In all discussions, Secretaries of the concerned departments have been very participative in deliberations on issues that need improvement particularly those aimed at gaining competitiveness. Also the interactions between various government officials, industry leaders, academia has brought out very clearly the specific aspects needing improvement related to each sub-sector. Further, the NMCC had been keeping its members abreast of the proceedings in each Sub-sector. He expressed that many of the Council members had very actively contributed during the Sub-sector interactions in bringing forth aspects that needed immediate attention.

The Chairman said that in addition to the Sub-sector interventions, one of the crucial areas that were examined was the Small and Medium Industry segment. He felt that the NMCC with the active co-operation of Secretary, SSI&ARI has managed to move actively forward in getting certain issues related to this segment resolved. This initiative could fructify with the active co-operation of Ministry of Finance and RBI and recalled the recent Annual Monetary and Credit policy announced by RBI as well as the announcement made by Minister of Finance aimed at measures that would go a long way in benefiting the small and medium industry segment. He hoped that while substantive issues are getting resolved, further push in this segment would be maintained.

On the subject of labour flexibility, he opined that Councils like the NMCC are being looked upon to provide a platform to engage in a dialogue with concerned parties and suggest possible changes aimed at achieving a resolution. Towards this, he recalled that both formal and informal discussions have taken place with some trade unions as well as with the Ministry of Labour. He expressed that the need is for perhaps to combine certain amount of flexibility demanded by the employers with the provision of some social security which needs to be built in a package. *He observed that perhaps the focus on meeting the conditions of service in organized labour is leading to the sacrifice of interests of the larger section of workers in the un-organised sector.* He felt that two main issues in respect of labour which have repeatedly come up during various discussions pertain to Chapter V-B of The Industrial Disputes Act (IDA), 1947 and The Contract Labour (Regulation and Abolition) Act, 1970 require to be addressed.

He recalled that certain work has been done on the subject of environment, where the issue related to cumbersome procedures involved in getting approvals, etc. has been addressed. Further, Ministry of Environment has now brought out 'The National Environment Policy' which has also been endorsed by the National Advisory Council (NAC).

Keeping in view the anomalies expressed by various sub-sector representatives in the context of Free Trade Agreements (FTA), he informed the participants that the matter which has been taken up at the highest level and is now being given due attention by the newly set up Trade and Economic Relations Committee (TERC). He hoped that this initiative will lead to the establishment of an institutional framework which should enable a serious study the implications of various FTAs.

Thanking the members again for their support, he called upon them to deliberate on the agenda items placed before them, especially the draft National Strategy for Manufacturing. He then invited Mr. V Govindarajan, Member Secretary, to initiate further discussions.

Mr. V Govindarajan explained that the first agenda item was the status report on activities carried out by the NMCC since the last meeting of April 2005. As the main aspects were covered by the Chairman in his introductory remarks, he called upon the members to take up straight way the agenda item no.2 "The National Strategy for Manufacturing". He felt that since the agenda item no.3 relates to FTA issue raised by Dr. Surinder Kapur, which was also covered the same could be covered parallely during the deliberations on agenda item no.2.

The Third Council meeting discussed three Agenda items.

The first agenda item: the NMCC's Status Report- Progress since the second meeting of the Council. The following are the highlights of the 1st agenda item:

The 1st meeting of The NMCC was held on the 6th January, 2005 followed by an interaction of the council with the Hon'ble Prime Minister on the same day and subsequently the second meeting was held on the 15th April, 2005. Within the overall agreed approach of formulating a Strategy paper and engaging sub-sectors for identification of issues, the Council in, its second meeting had examined the background paper. 'National Strategy for Manufacturing in India' and also endorsed the view on further Sub-sector engagements.

In line with the suggestions made by the council, a draft strategy paper has been revised and put up as Agenda item 2 for Council's consideration. Further, with the following sub-sector engagements had taken place since the second meeting of the NMCC, i.e. a total of 9 Sub-sector' Meetings have taken place. In addition, meetings to discuss generic issues of Human Resource development, funding issues of SMEs, Labour issues were also conducted and minutes of these meetings were circulated to the Members.

- Paper Industry
- Chemicals & Petrochemicals Industry
- Drugs & Pharmaceuticals Industry
- Human Resource requirements in Manufacturing sector

A second set of sub-sectors have been identified for discussions in the coming two months. These are:-

<u>Manufacturing sub-sectors</u>	<u>Generic issues</u>
i) Gems and Jewellery	i) University/Industry Co-ordination / Collaboration
ii) Handicrafts	ii) Innovation Policy
iii) Steel	iii) Infrastructure
iv) Minerals/Metals	iv) Tax Issues
v) Telecom Equipment Electronics	v) Labour Issues
vi) Biotechnology	vi) Offset Policy and related
vii) Fertilizers issues & Technology Transfer	
viii) Cement issues	

It is clear that the growth of manufacturing sector is dependant on the policies and programmes implemented by a variety of Ministries and that some mechanism should be found for taking an integrated view. A number of Ministries/Departments deal directly with manufacturing activities. There are also several Ministries/Departments, the policies and programmes of which, impact on the competitiveness of manufacturing directly or indirectly. The NMCC has to provide input with regard to Manufacturing when so many Ministries deal with the subject in varying degrees. Keeping this in view the Prime Minister's Office were kind enough to clarify the over arching role of NMCC to all the concerned Secretaries to Government of India (**Annexure-I**), which helped the co-coordinating efforts of NMCC enormously.

In respect of SME sector, the -Manufacturing Competitiveness Programme announced in the Union Budget 2005 was discussed earlier in a small group with a view to define the parameters of the scheme for submission to the Ministry of Finance. Further work with Ministry of Small Scale Industries on the design of the scheme is in progress. Parallelly, the funding problems of the SMEs were taken up with the Reserve Bank of India(RBI). The Annual Monetary and Credit Policy announced on the 29th April, 2005 by the Reserve Bank of India had included a number of suggestions made by the NMCC. The efforts of the Ministry of SSI were crucial in the discussions with the RBI and on the outcome. When these ideas get implemented by the Reserve Bank of India, SIDBI and Commercial Banks, it would provide some help to the SMEs. An extract of the Credit Policy is enclosed (**Annexure-II**).

The Capital Goods industry in India remains non-competitive for a number of reasons. One of the recommendations of the NMCC has been that the Government should have an Offset principle applied in particular to Defence Procurement. The Defence Ministry has taken up this suggestion while finalizing its policy.

Detailed discussions on the Labour flexibility issues were held with the Labour Ministry and some of the trade union leaders. While a few steps have been taken in the past two months, a lot more needs to be done. Main attempt is to change the mind set of both employers and the union leaders on this sensitive issue.

Discussions were held with the Ministry of Environment on the issues relating to manufacturing which would secure a hassle free and transparent approach to environment clearances. The National Environment Policy under preparation by the Ministry of Environment & Forests is expected to take into account the suggestions of the NMCC to ensure a balanced approach between development of industry and preservation of the environment.

Manufacturing activity essentially takes place in various States. Therefore, there is a crucial need for co-ordination of activities between -the Central and State Governments, the Industry, the academia and the experts and the first step were to familiarize the State Governments with NMCC's role in assisting the development of manufacturing in the States. The first such interaction took place with the Chief Minister of Andhra Pradesh, when he was apprised of the activities of the NMCC as well as the opportunities for investment and employment generation available to the state in respect of some of the sub-sectors like Textiles & Garments as well as Leather & Leather goods. Andhra Pradesh is expected to vigorously follow up with setting up and promoting investment in the Apparel Parks as well as in the new Leather Goods Complex being planned in Nellore district.

Hon'ble Prime Minister has also addressed a letter to each of the Chief Minister's of the State regarding the need for coordinated approach and the role of the NMCC in this regard (**Annexure-III**). Chairman, NMCC has followed this up and has sent a letter to all the Chief Minister's explaining in detail the purpose of creation of NMCC, its role, and the work done so far as well as on the need for

coordination with the States (Annexure-IV). Further interaction with state governments is planned in ensuing months.

The NMCC has been reporting monthly to the Prime Minister, on the work done by the NMCC. While appreciating the work done by NMCC, in his letter dated 23 June 2005, the Hon'ble Prime Minister observed:

“.... I do hope that you will be pursuing some of your key recommendations and interventions with the concerned Ministries/ Departments so that appropriate decisions are taken In order to improve the performance of our manufacturing Sector.”

The NMCC has already initiated a second round of discussions with the concerned Ministries to follow up on the recommendations. Thus far, during the course of discussions with the concerned industry leaders and government departments during sub-sector engagements, it was generally agreed that the Secretaries of the concerned Departments would immediately initiate further steps on the action points and that the NMCC could follow up with review meetings after a lapse of three months.

In line with this, the NMCC has started the second round of meetings to pursue the conclusions arrived at in the first round of sub-sector engagements. Following meetings were held with the Secretaries of the concerned departments: IT Hardware & Electronics, Food processing Industry, SME Sector and Textiles & Garments. The second round reviews in respect of Leather & Leather goods, Auto Components, Paper, Chemicals & Petrochemicals, and Drugs & Pharmaceuticals will be conducted shortly.

One of the important issues that were raised at the NMCC Council meeting as well as during the meetings of the sub-groups on various sectors related to the impact of FTAs on the domestic industry. The case of Thailand and Sri Lanka were cited. The NMCC has taken up this matter with the Hon'ble Prime Minister and the matter has been given due attention by the newly set up Trade and Economic Relations Committee(TERC)and it was agreed that thorough studies would be conducted on the probable impact on domestic growth and employment before any new FTA is approved.

The second agenda item: "The National Strategy for Manufacturing". The following are the highlights of the 2nd agenda item:

The first Council Meeting decided that the NMCC shall come out with a National Manufacturing Strategy and accordingly the Council has identified Ten elements that could constitute the core of the National Manufacturing Strategy. Based on the comments made by the members in the first meeting the NMCC Secretariat has prepared a discussion paper titled "The National Strategy for Manufacturing- a discussion paper", which was discussed in the second Council meeting held on 15.4.05. Based on the detailed suggestions made on the discussion paper a draft National Strategy for Manufacturing (NSM) has been prepared and placed for discussion in the third Council Meeting. The following are the highlights of the National Strategy for Manufacturing (NSM):

Introduction

- India has the potential to emerge as a major manufacturing hub for the global market with its comparative advantages like experienced work force, large pool of scientists, engineers and managers, reasonable endowment of natural resources and a large domestic market.
- Further, the above goal can be achieved with improvement in the competitiveness of its Industry because competitiveness is central to robust growth of manufacturing sector.
- Manufacturing sector is crucial, directly or indirectly, for providing jobs for the large work force entering the job market every year, particularly from the rural areas.
- The challenges faced by Indian manufacturers raise important questions for both industry and government. While industry has to grapple with problems within the Industry to maintain a competitive edge in a globally competitive environment, the government will have to create conditions that foster a healthy & competitive manufacturing sector including substantial additional investments for generating higher levels of growth.

- This calls for a 'breakthrough' and a bold thinking on the part of all stakeholders. Only bold aspirations can enable India to benefit from emerging opportunities in the manufacturing sector.
- The 'National Strategy for Manufacturing' attempts to identify the areas of policy and outlines the strategic directions that need to be pursued in order to realize higher levels of growth and employment.
- These steps are the start of a process and not the end. It details the manufacturing imperative and enumerates challenges facing Indian manufacturing along with certain strategy prescriptions. It also lays out the way forward for the further work to be done to realise the goal of sustained growth of manufacturing.

Manufacturing imperative

Importance of manufacturing to Indian economy

- A GDP growth rate of 9 per cent would mean that the Industry as a whole would have to grow on a sustained basis at about 10 per cent and that the Manufacturing component in it at 12 per cent per annum.
- Manufacturing is a force multiplier. It creates productive employment, promotes agriculture and service sector and spins a cycle of wealth creation.
- Investments in manufacturing produce a Keynesian multiplier effect on GDP growth to the tune of four times in India as every rupee invested adds four rupees to GDP.
- The quest for competitiveness at firm level might result in reduction of employment to begin with. But overall increase in competitiveness in the sector in which the firm operates would lead to enhanced opportunities that not only drive demand but also generate employment through the spread effect. There are also sub-sectors which are good employment generators while being competitive.

Competitiveness

- International competitiveness really a multi dimensional concept, dependent upon three main sets of factors - all taken together. viz.,
- Country specific advantages - related to technological, financial and other infrastructural status of the economy vis-à-vis those of the highly developed economies where major competitors are located.
- Industry specific advantage - related to the type of industry where competitiveness is also affected by various fiscal and monetary policies which can change from time to time.
- Enterprise specific advantages - related to a particular company, like the ability to acquire, assimilate, develop new technologies; capabilities to reduce production costs; cut down delivery cycles; enhance quality & productivity and after-sales-service etc.
- Countries or economies don't compete. It is companies that compete. Therefore, government policies need to provide the enabling environment within which companies are able to compete.

Challenges facing Indian manufacturing

Creating conditions for growth, investment & employment

- While government policies would influence the market environment in which the businesses will operate, the growth of manufacturing sector is dependent to a large extent upon the role played by the industry themselves. The Industry would not only need to think big in terms of scale but also need to :
- invest in R&D and technology,
- have a continuing commitment to skills development & education,
- benchmark their performance against the best in class,

- adopt best manufacturing practices & production techniques, and
- deliver on globally acceptable quality levels.
- Manufacturing would need to grow at 12% p.a. compared to the trend growth rate of 7% achieved during the last decade in order to create 1.61 million employments with present employment elasticity.
- Towards this, the policy framework shall encourage manufacturing sector to become competitive by allowing it to build up global scale of operations and also enable financial institutions to finance such projects. Further, it should also be able address issues such as risk management and debt restructuring faced by companies.
- Large scale investment, both domestic and foreign would have to be attracted into the manufacturing sector to enable high-levels of growth envisaged.
- It is also essential that in order to be globally competitive, the manufacturing sector needs to be modernized through infusion of modern technologies.
- There is also a need for the Manufacturing Sector in India to design and offer at affordable prices products suitable for Indian conditions and appropriate for people at the bottom of the pyramid. This large potential still remains to be exploited.

Driving cost competitiveness and domestic demand

Recent studies have shown that India suffers on competitiveness due to various factors such as:

- higher import duties including inverted duty structure
- higher incidence of indirect taxes
- sub-optimal levels of operations
- lower operational efficiencies
- higher transaction costs
- lower labour productivity

- higher cost of capital
- inadequate infrastructure
- Indian manufacturing would be competitive only when the cost of manufacturing is low. Further, scale of operations cannot be achieved without a strong domestic demand and policies for enhancing domestic demand must be expeditiously considered as this would also drive an increased share of manufacturing in the economy.
- Therefore, lowering cost of manufacture in India should be one of the prime focus areas to work upon in the council.

For stimulating domestic demand, while the focus could be on reducing indirect taxes and import duties, **following generic heads need attention:**

Import duties

- It is evident that the peak import duty will be no more than 10%. In the interest of a stable policy regime, it is recommended that stage wise downward duty reductions should be pre-announced so that the Indian Industry gets time to readjust to the trend.

Domestic indirect taxes

- Domestic indirect taxes are often singled out as a major reason why Indian manufacturing is uncompetitive.
- There should be an all India combined goods and service tax (GST), with service sector taxation integrated into the VAT framework instead of being a tax on turnover. This should be accompanied by a withdrawal of all other taxes like central excise, central sales tax, octroi, State- level sales tax, entry tax, stamp duties, transportation taxes and so on.

Export incentives/export subsidies

- Sustained export growth is crucial for maintaining and accelerating the GDP growth momentum. Export subsidies involve differential treatment to exports as compared to

sales in the domestic market and are in general WTO-incompatible, although there are some exemptions for India. Export incentives are WTO-compatible, as they involve reimbursements (DEPB and duty drawback scheme) or waivers (advance licensing scheme) for duties paid in exported products.

- Export procedures continue to be cumbersome because of procedures connected with export incentives/subsidies. Implementation of both DEPB and duty drawback will become simpler if there is a complete VAT system.
- With import duties declining, restrictions on DTA sales need a re-look in order to ensure competitiveness. Further, it is suggested that the concept of economic regions with world class infrastructure but with no fiscal concessions could be considered.

FDI and procedures

Foreign investments mean both foreign portfolio investments and foreign direct investments (FDI). FDI brings better technology and management, access to marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. This efficiency contribution of FDI is much more important.

- There are procedural problems at all three levels of an enterprise's functioning - entry, functioning and exit, although foreign investors often tend to focus on the first.
- Some of the procedures at the State government level where appropriate reforms are necessary include:
 - Providing the necessary climate for the growth of manufacturing in the states
 - Providing infrastructure, particularly in respect of power, water, roads, etc.
 - Development of a common format for computerization of required records.
 - Doing away with multiplicity of inspections by large number of inspectors.
 - Farming out to recognized private agencies, various inspections.

Interest rates

- High interest rates and availability of credit are problems which hinder growth of Industry. Thus in a capital scarce country, real interest rates will never be as low as global interest rates, although this is qualified by the harmonization that has taken place between global and domestic interest rates. Some parts of the Indian corporate sector are now allowed to borrow globally, though not all.

Labour laws

- With the focus on creating an enabling environment that encourages new employment as a result of increased growth in various constituents of the manufacturing sector as well as skill development/ upgradation to enable such a growth to happen, it is essential to look at various labour related issues.
- It is recommended that given the other provisions of labour legislation, the requirement of governmental permission can be dispensed with, without adversely affecting the interests of labour. Competition cannot function without free exit.
- Hence it is suggested that while a consensus on Chapter V-B is being arrived at, the need is for quick amendment of the other sections of IDA and implementation of other labour law reforms.
- If the recommendations of the Second National Commission on Labour submitted in 2002 are implemented, they will harmonize labour laws under five heads of industrial relations, wages, social security, safety and welfare and working conditions. While flexibility will improve in the organized labour market, there will simultaneously be better social security provisions in the unorganized one.
- While the focus is on dealing with Labour laws to make them growth friendly, there is no denying that Labour productivity which is normally sector specific needs to be constantly improved in order to sustain competitiveness.

Investing in innovations & technology

- Investing in innovations is one of the pre-requisites to attain global competitiveness. Investing in R&D by the corporates and by the government to adopt technology ahead of markets should be encouraged. For this purpose it is recommended that:
- Existing policies relating to R&D funding, incentives for supporting generic technologies, engineering and physical sciences should be reviewed and steps taken to encourage better coordination of efforts and greater focus on innovation and productivity enhancing technologies.
- Priorities should be established for support of advanced manufacturing technologies.
- The need for creating a coordination mechanism on Manufacturing
- Research and Development should be pursued.
- Support Prototype development and design innovations through fund sharing/ enabling establishment of references, etc.
- Create common testing facilities and centres of manufacturing technology excellence. Management of these by the beneficiaries themselves would encourage the Indian manufacturing industry to invest in innovations,
- Strengthen the Intellectual Property Rights framework in the country particularly the Patent and Trade Mark systems to encourage more Patenting and Trade Mark registrations.
- Establish Technology parks on the lines of those existing in USA

In critical areas, in addition to tax relief measures on R&D expenditure enhanced government funding of research & development activities becomes crucial to support the efforts of the manufacturing sector, especially if innovation and R&D is to

form the basis of building comparative advantage. This would call for sector wise study of technology status and building a future model for R&D support by the government, especially in the areas of emerging technologies which have the potential to transform products, processes and services.

- Current business realities may call for technology acquisition as an alternate strategy. Hence, it is recommended that a 'Global Technology Acquisition Fund' be set up, which would enable Indian industry to acquire very high technology intensive companies abroad, when ever such opportunities arise. Framework for administering such a fund needs to be separately worked out.
- Specific needs of small businesses need to be attended to Small Business innovation Research and Small Business technology transfer focusing on Manufacturing need to be addressed. The unique capabilities of the National Laboratories and the IITs and other Technical Institutions need to be leveraged to benefit the Small and Medium Manufacturing Industries.
- Special incentives may also be provided for Innovation and development of products which has an appeal for the larger section of Indian society.

Strengthening education & skill building

- Isolation of education (even training) from the production sector is the basic flaw of Indian system. For the Indian manufacturing to be globally competitive, it needs to attract the best brains.
- Any effort to improve human capital has to take into account the needs of not only the domestic market but also the increasing opportunities in the global market. It is recommended that:
- Rationalize the complex procedures for changing curricula and course syllabi to enable institutes keep pace with developments in technologies.

- Encourage the private sector to establish and operate demand driven technical training centres through financial and other incentives, under a carefully designed industry-managed, and government supported, quality control and accreditation system.
- Develop a comprehensive 'National Vocational Education Qualification System' and set up Vocational Education & Training Institutes in each State. In addition large private sector manufacturing /engineering organizations must be encouraged to adopt Vocational Education Institutes through appropriate schemes.

Benchmarking against best practices & breakthrough thinking

- Adoption of global best practices in manufacturing is another area which requires attention for ensuring sustainable competitiveness.
- Benchmarking and standard setting has to begin from building the human resource and extended to the entire value chain. In this context, all organizations should collaborate in the development of relevant sub-sector data bases that could help the industry to benchmark and measure itself against the best in class performances. A Manufacturing Advisory Service should be established to deliver practical help to manufacturing SMEs.

Providing right market framework & regulatory environment

- Work towards providing the right market framework and regulatory environment that provides impetus to the manufacturing sector is essential.
- One of the areas impacting the industry includes procedures related to compliance with environment & safety regulations. In this respect, it is recommended that on the lines of 'financial audit firms', certain special institutions or firms of reputation specifically in the area of 'environment & safety' could be identified to carry out necessary certifications.

- The recommendations of the high powered committee set up for improvement in the extant procedures for investment approvals and implementation of projects and for simplification of the procedures for both public and private investments needs to be implemented.
- Enable Consolidation of regulatory frame work by weeding out legislations that have outlived their utility, bringing others in line with the present day technological, environmental, competitive and social requirements to make the administration as well as compliance, effective.
- Transformation of regulatory processes through re-engineering of procedures to reduce discretion through clear cut rules, rationalising approval/permission requirements of manufacturing industries, optimizing inspections by Regulatory Authorities etc. needs to be done to minimize the transaction costs to the manufacturing sector.

Enhancing the role of Small & Medium Enterprises (SMEs)

- Over the last five decades, the small scale segment has acquired a prominent place in the socio-economic development of the country.
- Small Scale must be seen as breeding grounds for innovation and technology development where they become the technology sources for larger companies.
- What is needed is focus on assisting the tiny component of the small enterprises because it constitutes over 98 per cent of the small enterprises engaged in manufacturing.
- Among the several impediments preventing the segment from achieving its full potential, the important ones are : access to timely and adequate credit (particularly, as a sequel to the general decline of the State financial corporations), technological obsolescence, infrastructural bottlenecks, lack of R & D linkages, marketing constraints and disabling rules and regulations.

- Towards addressing various issues confronting them and achieving the objectives, consultation is underway to formulate the National Competitiveness Programme with special emphasis on making the SMEs competitive.

It is recommended that further work should be done on:

- Examination of the methodology for enabling better credit delivery to the SSI sector by RBI
- Designing a scheme to enable SSI units revitalize themselves to face import competition
- Restructure/ Revitalization of State Finance Corporations (SFCs)
- Giving a larger role to SIDBI in direct lending to SSI sector
- Mandatory registration of SSI units in which Industry Associations could be empowered for facilitating the process of self registration.
- A separate law for small enterprises including chapter on provisions of credit to the SSIs, be framed as prevalent in several other countries
- One of the solutions for pushing manufacturing growth is through growth poles or industrial clusters, mentioned in the PURA (Provision of Urban Amenities in Rural Areas) context, in the 2005 - 06 in the Union Budget speech.
- Examination of the policy of reservation of certain products for exclusive manufacture by the SSI units and decide on the pace and sequencing of future de-reservation also taking into account the findings of the empirical study currently under way to assess de- reservation.
- Delivery of the benefits of support measures to enhance the competitiveness to unregistered firms, without making it mandatory for them to register themselves with the state agencies at the district level, keeping in mind global best practices in this regard and their adaptation to suit the local conditions.

Enabling Public Sector Enterprises to meet competitive market conditions

- Given the type and range of problems faced by the country at the time of independence on the economic, social and strategic fronts, it became a pragmatic compulsion to use the public sector as an instrument for self-reliant and accelerated growth of Indian Economy, Public Sector Enterprises (PSEs) were central to India's philosophy of development.
- The dominant consideration for the continued large investments in PSEs was develop the core sectors of economy and to serve the equipment needs of strategically important sectors like Railways, Telecommunications, Power, Steel, Coal, Defence, etc., and to provide a spring board for the economy to achieve a significant degree of self- sufficiency in the critical areas.
- The National Manufacturing Competitiveness Council will take into account All the work done so far in respect of reform of the PSEs, study the remaining aspects, and make suitable recommendations for improving the competitiveness of the PSEs. Towards this end, various guidelines and procedures with respect to procurement, sales and marketing, pricing, recruitments, manpower planning, salary structures, technology transfer, outsourcing of production and production facilities, outsourcing of sales and marketing and labour laws for PSEs which make them uncompetitive would also be studied and necessary changes would be suggested to make the PSEs globally competitive.
- Hence, it is recommended that in order to make PSEs internationally competitive, following areas need to be addressed: Autonomy, review mechanism, delegation of powers, cost and productivity, sourcing decisions, technology, ancillaries and supporting industries.

Infrastructure Development

- There can be no issue with the proposition that inadequate Infrastructural renders Indian manufacturing uncompetitive. In this regard, it is recommend that:
- Additional investments need to be made by the government in increasing the port capacities (over and above the currently planned expansions).
- Further, port operations & procedures need streamlining by simplifying the number of procedures, automating the processes, etc. with a view to bring down customs clearance time.
- While the Golden Quadrilateral (GQ) and the east-west and north- south corridor projects launched by the National Highways Authority of India (NHAI) are steps in the right direction, port connectivity to manufacturing clusters and the GQ through targeted road development projects is essential.
- While the Electricity Act 2003 is a step in the right direction, state level power reform supported by rationalized regulatory framework needs to be put in place for enabling better access to quality power.

Importance of Intellectual Property Rights (IPRs) in the Manufacturing sector

- Effective utilisation of intellectual property rights particularly patents, has acquired great importance for technology upgradation and growth in the industry as well as wealth creation and gaining international competitiveness.
- At the macro economic level, the absorption, or assimilation, of increasingly modern technologies, and adaptation to change in industrial structure, are increasingly becoming the critical components of competitive transformation. The transition from the early stages of accumulation of minimum knowledge levels of innovative capability and adaptation; to the creation and management of knowledge as a

strategic asset must be accelerated if India is to maintain and improve its growing competitive position.

- It necessary that knowledge-driven industries in India should increasingly attempt to embrace the network model of innovation and R&D by intensifying their collaboration with research institutes, universities and other counterparts. Such efforts need to be particularly supported and encouraged for the manufacturing sector.

Importance of Information Technology (IT) in manufacturing sector

- Current Stage of IT adoption in Indian manufacturing sector is not encouraging. Indian manufacturing industries are facing various challenges in terms of global competitiveness partly due to lack of IT enablement of their business processes and management practices.
- In India, over 90% of the manufacturing enterprises fall under Small and Medium scale categories and the majority of them are still undergoing nascent stages of the IT adoption.
- The development of the e-economy can be seen as being of major importance for the growth of Indian economy as a whole and would also integrate local manufacturing enterprises more to the regional and global markets. This will only be possible if investment and modernization of production and services takes place.
- A planned model of IT adoption needs to be implemented in the current Indian manufacturing scenario. The relation between quality and certification and the assessment process(auditing) is also an extremely important element in the manufacturing and movement of goods and in the whole supply chain. These concepts have to be adapted in the e-business context too and applied to the manufacturing sector in India in order to enable them to be competitive

Firm level competitiveness

- In order to be successful, Indian companies will need to adopt a global mind set to build scale and achieve cost excellence; acquire market access rapidly; strengthen design and innovation skills; build a global or regional operating foot print; and master the ability to manage a world-class talent pool and organization.
- These actions will form the foundations for ambitious growth and will need to be supported by a judicious choice of market segments and business models.
- While initiatives are taken at the country and sector levels to enhance competitiveness in the economy, maintaining firm level competitiveness is equally essential for individual firms if growth aspirations are to be realized.
- Individual firms can do this by way of building abilities to acquire, assimilate, develop new technologies; reduce production costs; cut down delivery time; practice Total Quality Management; enhance productivity and customer service. Use and development of technology is central to competitiveness.
- However, using technologies efficiently is not a passive, automatic process of simply importing a set of machines and instructions on how to use them. It involves building technical understanding and information skills, managerial practices and links with other firms and institutions which could be termed as 'capabilities' in a broad sense. Such capability development can be a slow, often costly and risky learning process. The secret of competitiveness lies in the effectiveness with which countries promote the development of technological and managerial capabilities. It is necessary to pursue further in this regard through appropriate mechanisms.

Role of state governments

- The State Government have a crucial role to play since the actual activity of manufacturing takes place in the

States. It is, therefore, very important that issues falling under the domain of the State Governments need to be addressed adequately in order to achieve the objective of sustaining the growth of manufacturing industry.

- It has long been felt that there are several problems being faced at the ground level leading to higher transaction costs which act as an impediment to the robust growth of the manufacturing sector and therefore, these need to be addressed on a priority basis.
- Vital areas like State Government taxation, availability of land and other infrastructure requirements like water, electricity, implementation of regulatory laws dealing with labour, environment, etc. need to be appropriately addressed.
- The State Governments have a major role and stake in the successful implementation of relevant strategies to ensure growth of manufacturing sector for balanced economic growth and creation of additional jobs.
- Therefore, a continuous dialogue with the States and working together in the implementation of the reforms is essential. This needs to be done by regular interfacing with the State Governments on the issues relating to manufacturing in the States.

Sub-sector engagement

- As a part of the overall approach toward enhancing competitiveness in manufacturing sector, it becomes imperative to focus on sub-sector interventions because of their own characteristic requirements.
- Some of these sectors are ideal candidates for attention by the Government as they have obvious competitive advantages in the world market and would, therefore, need to be given higher priority in the present economic context.
- Accordingly, it becomes necessary to encourage such sub-sectors and enable them move forward on the growth path quickly. Textiles and Garments, Leather and Leather

Products, Auto Components and Drugs & Pharmaceuticals select themselves at this point in time.

- Sub-sector wise engagement to identify impediments for growth and suggest initiatives aimed at enabling growth and employment have been carried out through sub-group meetings in the following areas :

Leather & Leather Goods
Food Processing
Textiles & Garments
Auto Component
Capital Goods
IT Hardware & Electronics
Paper
Chemicals & Petrochemicals
Drugs & Pharmaceuticals

- In addition to the above, more sub-group engagements covering others sub- sectors/generic issues is necessary. Among them, following engagements are planned in the near future :
 - Innovation Policy
 - Steel
 - Minerals/Metals
 - Telecom Equipment/Electronics
 - Bio-technology
 - Fertilizers
 - Cement
 - Competitiveness of PSEs
 - University/Industry Coordination / Collaboration
 - Infrastructure
 - Tax Issues
 - Labour Issues
 - Offset Policy & Technology Transfer Issues
 - Gems & Jewellery
 - Handicrafts

Creating a monitoring mechanism & measuring performance

- One of the weaknesses in achieving the goals set in the past has been weak implementation of policies and programmes.
- It is imperative that in order to achieve the high targets of growth and employment being aimed at, it is essential that the implementation mechanisms as well as institutions are properly designed. Creation of such mechanisms and institutions is therefore an immediate necessity.
- The Mission mode of implementation or a similar Mechanism that will improve efficiency in implementation could be the appropriate mode in respect of some sectors such as leather & leather goods, textiles & garments and food processing industries. This will help in providing a focal point for decision making in a time-bound manner and help in better monitoring of the growth objectives. As and when required the other sectors could adopt such mechanisms.
- The key component of any strategy is a means of measuring progress towards a defined goal. A suitable format for monitoring should, therefore, be put in place.
- For monitoring to be effective, a set of key performance indicators should be identified/developed, which would allow a quantitative and qualitative assessment of the progress of manufacturing sector. These indicators shall allow monitoring of performance and effectiveness of initiatives /actions by the government, industry and other stakeholders of manufacturing.

Way Forward

Key Recommendations

Enhancement of Government focus on manufacturing imperative and competitiveness

- ✓ Competitiveness is central to robust growth of manufacturing sector. Manufacturing sector is crucial, directly or indirectly, for providing jobs for the large work force entering the job market every year, particularly from the rural areas.
- ✓ The growth rate for manufacturing has to be at least 12 per cent as against the trend growth rate of 7 per cent achieved during 1995-2004.
- ✓ There should be a well planned strategy to increase manufacturing's share in GDP. Even with a growth rate of 12%, the share of manufacturing in GDP would reach only 23% by 2015.
- ✓ The policy framework should encourage building up scale of operations in the domestic market. Financial institutions should be geared to assist global level projects as well as address issues such as risk management and debt restructuring faced by companies.

Creating conditions for the growth of the manufacturing sector

- ✓ It is imperative that large scale investments, both domestic and foreign would have to be attracted into the manufacturing sector to enable high-levels of growth envisaged.
- ✓ In order to be globally competitive, the manufacturing sector needs to be modernized through infusion of modern technologies. Innovative domestic development needs to be stepped up to market products specially designed to serve the large number of people at the bottom of the pyramid.
- ✓ As many of the important issues such as Land, labour, water, electricity, environment are in the domain of the State

Governments, appropriate reforms are also necessary in these areas, such as:

- Providing the necessary climate for the growth of manufacturing in the states
 - Providing infrastructure, particularly in respect of power, water, roads, etc.
 - Development of a common format for computerization of required records.
 - Doing away with multiplicity of inspections by large number of inspectors.
 - Farming out to recognized private agencies, various inspections.
-
- ✓ Retention of the Contract Labour (Regulation and Abolition) Act, 1970 but tightening up Section 10 so that ambiguity about continuance of contract labour and absorption following abolition is removed.
 - ✓ Dispensing the requirement of State Government permission under the Industrial Disputes Act (IDA), 1947, without adversely affecting the interests of labour given the other provisions of labour legislation.
 - ✓ Implementation of the recommendations of The Second National Commission on Labour submitted in 2002 to harmonize labour laws under five heads of industrial relations, wages, social security, safety & welfare and working conditions. With this flexibility will improve in the organized labour market and there will simultaneously be better social security provisions in the unorganized one.
 - ✓ Labour productivity which is normally sector specific needs to be constantly improved in order to sustain competitiveness.

Lowering cost of manufacture

- ✓ Lowering cost of manufacture in India should be one of the prime focus areas to concentrate upon.
- ✓ The peak import duty shall be no more than 10% and be fixed dependent upon the levels of indirect taxation in India. In the

interest of a stable policy regime, the stage wise downward duty reductions should be pre-announced.

- ✓ While the basic customs duty may be zero, imported products should face duties equivalent to domestic indirect taxes paid by domestic manufacturers.
- ✓ There should be an all India combined goods and service tax (GST), with service sector taxation integrated into the VAT framework instead of being a tax on turnover. This should be accompanied by a withdrawal of all other taxes like central excise, central sales tax, octroi, State-level sales tax, entry tax, stamp duties, transportation taxes and so on.
- ✓ With import duties declining, restrictions on DTA sales need to be re-examined. Also, the concept of economic regions with world class infrastructure but with no fiscal concessions could be considered.

Investing in innovations

- ✓ The creation and management of knowledge as a strategic asset must be accelerated to maintain and improve India's competitive position.
- ✓ It necessary that knowledge-driven industries in India should increasingly attempt to embrace the network model of innovation and R&D by intensifying their collaboration with research institutes, universities and other counterparts. Such efforts need to be particularly supported and encouraged for the manufacturing sector.
- ✓ Existing policies relating to R&D funding, incentives for supporting generic technologies, engineering and physical sciences should be reviewed and steps taken to encourage better coordination of efforts and greater focus on innovation and productivity enhancing technologies.
- ✓ A planned model of IT adoption needs to be implemented in the current Indian manufacturing scenario. The relation between quality and certification and the assessment process (auditing) is also an extremely important element in the

manufacturing and movement of goods and in the whole supply chain. These concepts have to be adapted in the e-business context too and applied to the manufacturing sector in India in order to enable it to be competitive.

- ✓ Priorities should be established for support of advanced manufacturing technologies.
- ✓ The need for creating a coordination mechanism on Manufacturing Research and Development should be pursued.
- ✓ Support Prototype development and design innovations through fund sharing/enabling establishment of references, etc.
- ✓ Create common testing facilities and centres of manufacturing technology excellence. Management of these by the beneficiaries themselves would encourage the Indian manufacturing industry to invest in innovations.
- ✓ Strengthen the Intellectual Property Rights framework in the country particularly the Patent and Trade Mark systems to encourage more Patenting and Trade Mark registrations.
- ✓ Promotion of establishment of 'Technology Parks'.
- ✓ In the present era of knowledge based industrial development and globalization, effective utilisation of Intellectual Property Rights particularly, patents, has acquired great importance for technology upgradation and growth in the industry as well for wealth creation and gaining international competitiveness. Through suitable interventions, enhance awareness about creating wealth from IPRs among many sectors of the industry especially in manufacturing sector.
- ✓ Preparation of a sector wise study of technology status and building a future model for R&D support by the Government, especially in the areas of emerging technologies which have the potential to transform products, processes and services.
- ✓ A 'Global Technology Acquisition Fund' to be set up, which

would enable Indian industry to acquire very high technology intensive companies abroad, when ever such opportunities arise. Framework for administering such a fund to be separately worked out.

- ✓ Small Business innovation Research and Small Business technology transfer focused on manufacturing need to be addressed. The unique capabilities of the National Laboratories and the IITs and other Technical Institutions need to be leveraged to benefit the Small and Medium Manufacturing Industries.

Strengthening education and training

- ✓ A close interaction should be initiated between academia-industry-government for creating Centres of Excellence in manufacturing technologies. The quality of Technical education at the vocational level as well as the University level needs to be addressed. Special focus needs to be given to issues relating to the emerging requirements of Industry while designing the syllabus by these institutions, such as:
- ✓ Rationalize the complex procedures for changing curricula and course syllabi to enable institutes keep pace with developments in technologies.
- ✓ Encourage the private sector to establish and operate demand driven technical training centres through financial and other incentives, under a carefully designed industry-managed, and government supported, quality control and accreditation system.
- ✓ Develop a comprehensive 'National Vocational Education Qualification System' and set up Vocational Education & Training Institutes in each State. In addition, large private sector manufacturing/ engineering organizations must be encouraged to adopt Vocational Education Institutes through appropriate schemes.

Adoption of global best practices in manufacturing

- ✓ Develop relevant sub-sector wise benchmark data bases as well

as global best practices that could help the industry measure itself against the best in class performances. A Manufacturing Advisory Service would be established to deliver practical help to manufacturing SMEs.

- ✓ Setting up of a group to study the concepts & applicability of manufacturing architecture (integral vs. modular) as relevant to the Indian conditions.

Right market framework, competition and regulations

- ✓ Government to work towards providing the right market framework and regulatory environment that provides impetus to the manufacturing sector for which the NMCC will provide appropriate actionable policy recommendations.
- ✓ In the area of compliance with 'environment & safety regulations', certain special institutions or firms of reputation could be identified to carry out necessary certifications on the lines of 'financial audit firms'.
- ✓ Improvement in the extant procedures for investment approval and implementation of projects and for simplification of the process for both public and private investments need to be implemented as per the recommendations made earlier by a high power committee.
- ✓ Enable Consolidation of regulatory frame work by weeding out legislations that have outlived their utility, bringing others in line with the present day technological, environmental, competitive and social requirements to make the administration as well as compliance effective.
- ✓ Re-engineering of procedures to reduce discretion through clear cut rules, rationalizing approval/permission requirements of manufacturing industries. Such changes should help in optimizing inspections by Regulatory Authorities etc. and minimize the transaction costs to the manufacturing sector.

Promotion of small and medium industries

- ✓ Small Scale must be seen as breeding grounds for innovation and technology development where they become the technology sources for larger companies.
- ✓ Since small enterprises constitute the largest number of production unit across practically all components of the manufacturing segment of the economy, they need special focus and support to enhance their competitiveness.
- ✓ Provision of adequate and timely financing to the SMEs is crucial and, therefore, steps need to be taken to remove the bottlenecks and enable easier flow of funds.
 - RBI should examine the methodology for enabling better credit delivery to the SSI sector.
 - Restructure/ Revitalize State Finance Corporations (SFCs).
 - SIDBI be given a larger role in direct lending to SSI sector.
- ✓ Mandatory registration of SSI units in which Industry Associations could be empowered for facilitating the process of self registration.
- ✓ A separate law for small enterprises including chapter on provisions of credit to the SSIs, be framed as prevalent in several other countries.
- ✓ One of the solutions for pushing manufacturing growth is through growth poles or industrial clusters, mentioned in the PURA (Provision of Urban Amenities in Rural Areas) context, in the 2005-06 budget speech.
- ✓ A scheme to be evolved to enable SSI units revitalizes themselves to face import competition.
- ✓ Technology Upgradation is crucial for SMEs to survive in an increasingly competitive world and urgent actions are needed to improve their access to new technologies.
- ✓ Examine the policy of reservation of certain products for exclusive manufacture by the SSI units and decide on the

pace and sequencing of future de-reservation also taking into account the findings of the empirical study currently under way to assess de-reservation.

- ✓ Delivery of the benefits of support measures to enhance the competitiveness to unregistered firms, without making it mandatory for them to register themselves with the state agencies at the district level, keeping in mind global best practices in this regard and their adaptation to suit the local conditions.
- ✓ Create effective mechanism for establishing SMEs collaboration with selected industries in India and abroad with a view to promote closer business ties, enhance competitiveness and increase the share of Indian SMEs in global trade.
- ✓ Formulate National Competitiveness Programme with special emphasis on making the SMEs competitive.

Enabling public sector manufacturing industries

- ✓ In order to make PSEs internationally competitive, following areas need to be addressed:
 - Autonomy,
 - review mechanism,
 - delegation of powers,
 - cost and productivity,
 - Sourcing decisions,
 - technology,
 - ancillaries and supporting industries.
 - Infrastructure development
- ✓ Infrastructure development, particularly removing of bottlenecks in physical infrastructure is very important. In particular:
- ✓ Additional investments need to be made by the government for increasing the port capacities (over and above the currently planned expansions).
- ✓ Further, port operations & procedures need streamlining by

simplifying the number of procedures, automating the processes, etc. with a view to bring down customs clearance time.

- ✓ While the Golden Quadrilateral (GQ) and the east-west and north-south corridor projects launched by the National Highways Authority of India (NHAI) are steps in the right direction, port connectivity to manufacturing clusters and the GQ through targeted road development projects is essential.
- ✓ While the Electricity Act 2003 is a step in the right direction, state level power reform supported by rationalized regulatory framework needs to be put in place for enabling better access to quality power.

Firm level competitiveness

- ✓ Encourage firms to build abilities to acquire, assimilate, develop new technologies; reduce production costs; cut down delivery time; practice Total Quality Management; enhance productivity and customer service recognizing the fact that it is the firms that compete in the market.

Role of State Governments

- ✓ Ensure continuous dialogue with the States for working together in the implementation of the reforms in the manufacturing sector. This will have to be done by proper interfacing with the State Governments on the issues relating to manufacturing in the States.
- ✓ With a view to bring down transaction costs examine areas like:
 - State Government taxation,
 - availability of land
 - infrastructure requirements like water, electricity, etc.
 - implementation of regulatory laws dealing with labour, environment, etc.

Creating a monitoring mechanism & measuring performance

- ✓ It is imperative that in order to achieve the high targets of growth and employment being aimed at, it is essential that the implementation mechanisms as well as institutions are properly designed. Creation of such mechanisms and institutions is therefore an immediate necessity.
- ✓ The Mission mode of implementation or a similar mechanism that will improve efficiency in implementation could be the appropriate mode in respect of some sectors such as leather & leather goods, textiles & garments and food processing industries.
- ✓ This will help in providing a focal point for decision making in a time-bound manner and help in better monitoring of the growth objectives. As and when required, other sectors could adopt such mechanisms.
- ✓ For monitoring to be effective, a set of key performance indicators should be identified/developed, which would allow a quantitative and qualitative assessment of the progress of manufacturing sector. These indicators shall allow monitoring of performance and effectiveness of initiatives/ actions by the government, industry and other stakeholders of manufacturing. A body like the NMCC has the role to monitor the delivery by various stakeholders on the recommendations/action programme evolved for the manufacturing sector.

The **third agenda item:** Discussion Note prepared by Dr. Surinder Kapur, Member, NMCC on International Trade. Members were requested to consider the note of Dr. Kapur and give their views on the matter. The following are the highlights of the 3rd agenda item:

Impact of Free Trade Agreements(FTAs) on Manufacturing

Chairman, NMCC had taken up the issue relating to the impact of the recently concluded FTAs with Thailand, Sri Lanka etc. on the manufacturing industries with Hon'ble Prime Minister indicating that in respect of some of the sectors FTAs have had adverse impact and, therefore, it was essential that prior specific industry sector-wise studies on the impact on domestic industry should be conducted before any RTAs/FTAs are entered into with various countries.

Government has set up a High Level Committee called the Trade & Economic Relations Committee (TERC) which is chaired by the Hon'ble Prime Minister. The Finance Minister, External Affairs Minister, Commerce Minister, Deputy Chairman of Planning Commission, Chairman, Economic Advisory Council of the Prime Minister, Chairman, NMCC, National Security Advisor and Principal Secretary to PM are its members. The TERC is a high-level body which looks into the issues of economic relations with other countries including issues relating to trade.

The NMCC has presented a paper to the TERC on the need for a Comprehensive Foreign Economic Relation Policy in which the issues relating to FTAs and the need for prior studies in respect of sub-sectors has been emphasized. The NMCC has also pointed out the practice in this regard in the United States. Briefly, the following points were raised in the NMCC's note.

- The USA makes a thorough investigation of the Probable Economic effect of each of its FTAs, whether the country concerned is small or big. In fact, the US International Trade Commission (USITC) makes this study and advises the President of the US of the probable economic effect of any proposed FTA through a confidential report. This report is given prior to effecting implementation of any FTA. Besides this, the USITC also reports periodically to the Congress the economic impact

on the US of all the FTAs that are already under implementation in a given period. These reports are detailed and cover each specific industry sector. Several analytical approaches are used including global models of trade and trade agreements in preparing the reports. Several other major countries also make similar studies before entering into agreements.

- In India, we have so far not undertaken such independent and in depth studies. The Thailand experience bears testimony to it. With the average tariff levels having come down to 15%, a greater fine tuning would be necessary if our domestic manufacturing is not to suffer. This is particularly so when the taxation levels, transaction costs and other factors in India has made Indian goods more expensive.
- Extensive analytical studies need to be undertaken to study the impact. It is doubtful whether our Ministries/ research bodies have developed expertise in this particular field. ICRIER has done one study on generic tariff reduction issue with a multi-sector model. There is a major gap in this area and we need to urgently develop capabilities in this regard. A mechanism also has to be put in place which would discharge functions similar to USITC but tailored to our needs and conditions.

Challenge of Rapidly Opening up of International Trade

1. International reforms are happening fast driven by WTO, FTAs and RTAs. However, internal reforms are taking place much slower. Challenge is to sustain our competitive edge and not get derailed in this skewed environment.
2. India specific cost disadvantage is estimated to be around 18%-20% as compared to Thailand and China. But we have the advantage of higher degree of skills and engineering capability. We need to exploit our advantages and minimise the impact of the disadvantage to maintain our lead in the low cost world.
3. Some clear threats :-
 - a) WTO NAMA negotiations aimed at rapid reduction of Import Duties. Threat of duties reducing to 5%-7%, while

the India cost disadvantage of 18% to 20% would still remain. This is largely a political issue as Government may trade-off the manufacturing sector in return for maintaining its protection on agriculture and services.

- b) Free import of re-manufactured or second-hand products at the same rate of duty as new products. This could potentially make India a junkyard of the developed world and erode the manufacturing in developing countries like India.
 - c) The FTAs and RTAs if not negotiated carefully could potentially drive the future investments away from India to countries like Thailand and other ASEAN countries where the investment climate is more attractive.
 - d) We welcome FTAs, but we also want market access thru these FTAs. Our large market is SAFTA. However, SAFTA countries have included all auto-components in their sensitive list, thus blocking our access to these countries. Therefore, in its present form, we find that FTAs only result in opening up our domestic markets to our competitors while not granting us access to our large export markets in the region.
 - e) Reckless reduction in the MFN rates of duties, without consideration of what our competitor countries are doing is another threat. Thailand has duties as high as 20%-30% on components, while China has recently increased the duties on components to 30%. On the other hand, India has already reduced its peak rate of duties to 15% and seems intent on bringing down the duties to 5%-8% in the next 2-3 years. There is a general mis-conception of what ASEAN rates of duties are. The Average duty rates of ASEAN may be 5%-8%. But we cannot make ASEAN Average Rate as our Peak rate. This would put us on an uneven playing field and handicap the manufacturing sector seriously.
4. For India, the most important objective should be to encourage value addition and employment. Towards this

objective, Government has set up a National Manufacturing Competitiveness Council. The Ministry of Heavy Industry is also setting up a 10-year Mission for the automotive industry.

5. As a part of this Mission, an ambitious project has been taken by the MOHI for stimulating R&D in the industry. This is the NATRIP project for which Govt has contributed Rs. 1800 crores. Ultimately, this project will be managed and run by the industry.
6. On the whole, the future of the auto-component industry has never looked brighter. We have a great opportunity ahead of us to emerge as one of the biggest 2 global automotive hubs of the world.

Following Points were made by the Council Members:

On Manufacturing Strategy Paper

Mr. Y.C. Deveshwar, appreciated the task of the NMCC of putting together the Strategy paper. He felt that this is the first step and there is a need for getting the perceptions of various members in taking this forward. He expressed that the task before the NMCC was indeed a very complex one as it is about business of businesses and felt that only a co-ordinated approach among various concerned Ministries could provide the necessary solutions. He expressed that the best way to move forward is perhaps by looking at the entire value chain in each industry to see which part of the value chain has a multiplier impact on employment. He felt that manufacturing may only be one segment of the value chain and recalled the example of paper industry where the input of growing of trees on the Indian soil is the best answer to livelihood creation.

He felt that any food processing or agri based industry has a much greater multiplier impact on the economy and pointed out that right taxation policy plays an important role in the success of food processing industry. He opined that the only way the integration of the rural economy with the manufacturing can be achieved is through setting up industries near rural areas. Food processing industry is one which lends itself to distributed manufacturing, especially involving small and medium scale segments of the industry and in his opinion; this is one industry which can give a big push to the rural economy.

He however stressed the need to follow the entire value chain concept while dealing with the strategy rather than merely the manufacturing component.

Dr. (Mrs.) Isher Judge Ahluwalia, appreciated the Strategy paper prepared. She felt that one good thing that comes out very clearly is that this council is about the global competitiveness. She further observed that the issue then becomes how we contribute to the nation's economy by building up GDP as well as employment within the country. Referring to the normal debate on employment in services vs. manufacturing, she cited the example of IT services where the recent increases in employment generation have been in either the government administration or the IT sector.

She was in agreement with the concept of creating conditions for growth and improving competitiveness in the context of growth as these would lead to a much larger employment base. She expressed that while the council is mainly involved in developing a long term (10-20 yrs.) strategy for manufacturing sector, at the same time it is also being asked by the government to see if problems cutting across ministries could be resolved.

She stressed that there should be a clear focus on contemplating about the direction of our manufacturing sector in ten years from now. She expressed satisfaction that in the strategy paper, while talking of investment climate a distinction has not been made between domestic and FDI. She felt that once the infrastructure is improved, then investments would flow. On the question of FTA and SEZ, she felt that these are desirable ways in a process which is essentially gradualistic. This also becomes more relevant when resources are limited to effecting across the board changes for improving infrastructure. In such a case, the best possible option would be to create pockets of better infrastructure for showcasing results.

Prof. Bibek Debroy felt that once the National Strategy paper is agreed upon and disseminated, there would be similar papers that focus on particular sectors which have much more of detailing, e.g. auto components, food processing, etc. He suggested that in parallel with such efforts, we should also have some detailed papers that address generic issues raised in the National Strategy paper. He felt that members should volunteer for such efforts and suggested that

ICRIER could consider preparing a paper on FTAs, EOUs, EPZs, etc.; Prof. Sekhar Chaudhuri and Prof. MS Ananth could consider preparing a paper on vocational training, skill development , etc.; a paper on Power/ Energy could be entrusted to eminent persons like Mr. T.L Sankar or Mr. S.L Rao; Fiscal/ indirect taxes is another on which a paper could be prepared; Ms. Uma Reddy with help from Secretary/ SSI&ARI could consider preparing a paper on SME sector ; and Inspector Raj as opposed to Chapter V-B could be another area on which a paper could be got prepared.

Chairman observed that generic issues mentioned in the Strategy paper covered aspects like attracting large scale investments both domestic as well as foreign; dealing with inverted duty structures, taxation policies, etc; resolving larger problems related to SME segment; creating conditions that innovation and technology development; dealing with education, skill building and HRD. He felt that a 12 percent growth in manufacturing sector is both feasible and doable and at that growth rate, investments may not be a problem but right type of manpower would be. The need is for creating conditions wherein manufacturing gets the right recognition and is able to attract talent. He agreed with Prof. Bibek Debroy's suggestion that specialist agencies or specialists in the field should be entrusted with the task of drawing up such papers. He also brought to the attention of the members, the formation of Energy Coordination Committee under the Chairmanship of Hon'ble Prime Minister where aspects like coal sector development would also be looked at.

Mr. V Govindarajan mentioned that so far one round of Sub-sector meetings have taken place in which their issues have come to the forefront. Without waiting for preparation of detailed papers, the effort has been to parallelly deal with certain issues needing immediate attention and cited the example of Textiles & Garments Sub-sector. Agreeing to the point relating to the development of detailed papers, he opined that once the staffing of the NMCC secretariat is in position, the suggested activities would be taken up and the NMCC would also look at implementation as suggested by the members.

Dr. Ajay Dua, Secretary, IPP mentioning on sector specific issues, recalled the intervention in the Leather sector, the Leather sector development fund, which is the way forward in a sector which has good employment generation potential and at the same time is

emerging as number one exporter in the world. According to him there are several sectors like Leather, Paper, Ceramics, Marble, Granite etc. where technology upgradation itself will result in employment generation as also drive the competitive edge. He reiterated the view expressed by Mr. Y C Deveshwar on examining the entire value chain and not just manufacturing alone.

Mr. Anwarul Hoda remarked that the Strategy paper is an excellent document and suggested that he would revert back with comments mainly oriented towards making the document factually accurate. He was of the opinion that the NMCC is following the right process with clear focus on bringing out a National Strategy paper on Manufacturing and parallelly addressing the critical issues relevant to specific sectors. On the subject of generic issue arising from the point related to Energy policy, he felt that a view needs to be taken on whether the NMCC needs to address every aspect of the policy that impinges one way or the other on the manufacturing competitiveness.

He observed that there is a need for prioritization and aspects like fiscal issues, labour issues would figure high on the agenda. He felt that the Council must not feel shy of making its recommendations as they could perhaps become the impulses for the government to take difficult decisions including that of building political consensus. He also felt that maintaining the quality of engineers is a critical issue including the ability to attract qualified people. He recalled the earlier discussions wherein the presence of a large pool of technically qualified personnel in the country was identified as a major competitive advantage and felt that the need is now for maintaining such a pool. On these aspects, he suggested that the Council must separately deliberate in a Sub-group.

Prof. M S Ananth mentioning that the Strategy paper was a very educative document, highlighted the desperate situation on the skilled manpower front, especially in IITs. He stated that in India 400,000 undergraduates enter engineering education and 10,000 post graduate education. Even if one were to assume that 20% of them would opt for teaching, it would still leave large gaps in the adequacy of teaching professionals in IITs. He also opined that the Industry-Institute interaction is only oriented towards problem solving. He felt that there should be a policy on investment in education as a

percentage of investment in R&D by the industry. He was of the opinion that the remuneration issue has to be addressed adequately, if the best talent is to be attracted into the teaching & research arena. He warned that ten years down the line the crunch is going to be felt very badly.

Prof. Sekhar Chaudhuri complimented on the excellent report and appreciated the work done in bringing various dimensions of manufacturing competitiveness into one place in a Strategy paper observed that sector wise analysis is perhaps needed especially from the innovation and R&D perspective. He felt that agencies like DST, DSIR, and TIFAC should be tapped to conduct specific technology related studies. On the subject of enabling brake through's to happen, he recalled the example of IIT-Kharagpur which in a small way allowed faculty-entrepreneurship. He advocated that similar models should be tried out on a trial basis for 5-10 years wherein the faculty is allowed to set up firms to translate ideas to market without affecting their teaching obligations. He felt that the role of venture capital firms needs strengthening. In his opinion, organizations that are doing well in the area of R&D and innovation must be identified and encouraged to become trail blazers.

Mr. Mukul Kasliwal appreciated the Strategy paper and while endorsing the views expressed by Mr. Deveshwar on the development process stated the while looking at the Manufacturing Strategy the emphasis must be on pushing investments towards rural areas so that large scale disorganized urbanization can be avoided and the hinterland can be developed on a sustainable basis. He reiterated the need for establishment of textile parks away from urban areas and cited the examples of Mumbai and Ahmedabad. On the subject of global technology acquisition fund, he was of the opinion that global brand acquisition fund should also be considered.

Mr. M. K. Sanghi appreciating the Strategy paper observed that the recent devastations as a result of certain natural calamities have exposed the lacuna in Infrastructure and Industries have suffered. He felt that the central issue of Infrastructure needs to be addressed. Referring to the Food Processing example, he pointed out that economies of scale are essential for success and infrastructure plays an important role. He advocated the need for greater involvement of the NMCC with the States for overcoming obstacles in way of achieving growth & manufacturing competitiveness. He drew the

attention of the Council to the ongoing shortage of coal faced by power stations and advocated the need for privatization of coal mines. In his opinion, the energy scenario continues to be grim with global crude oil prices increasing steeply. He felt that State Governments that encourage Cluster Development & growth as well as those willing to implement Power sector reforms must be engaged.

Mr. Onkar S. Kanwar, complimented on the excellent preparation of the National Strategy for Manufacturing. He also pointed out that the real need is for a concentrated effort on implementation against time lines and expressed that the NMCC has a major role to play in this. He advocated the need to focus on certain immediate doable. In this context he cited the issue of employment, where, in the EOU and SEZ areas, small and medium size enterprises involved in the export businesses should be targeted first and given necessary flexibility. He felt that such an exercise must be attempted in a six month time frame and based on the success; it can be extended to the larger SME segment and then the large industry segments.

Commenting on the fiscal reforms, he felt that over the next six months, all taxes that are leviable must be made VATable and the emphasis should be on making VAT an effective proposition. At the same time, there must be a concerted effort to withdraw all indirect taxes like sales tax, octroi, etc. On the administration side, he felt that enforcement must be de-linked from inspection and cited the example of environment compliance where self certification could be considered. On FDI he advocated the need for large scale computerization and simplification of forms. On the subject of FTA he drew the attention of the council to the Bangkok agreement where zero duties are hurting certain sub-sectors. He cited the example of tyre industry from his personal experience where the world's leading tyre company 'Michelin' has decided to defer its project in India. He strongly recommended the need to correct inverted duty structures.

Mr. Jamshyd N. Godrej appreciating the Strategy paper pointed out that there is a need to substantiate certain portions of the report especially covering the capital goods sector, as there are certain capital goods segments that are doing extremely well including exports and their successes could also be flagged like that

of auto sector. He felt that the environmental policy needs study. In the context of Kyoto protocol and why the developing countries have been kept out of it, he observed that some sort of voluntary constraints would have to be accepted and going ahead chart out mile stones for achievement. He was of the opinion that the industrial development and growth would demand that we put a lot of emphasis on CO2 emissions. He pointed out the slowing down of exports on account of accumulation at ports and cited the example of textiles where relocation to Dubai is already underway as the turnaround time there is one day only for the garments compared to about 14 days in the case of India. He opined that the report needs to be much stronger on public sector.

Chairman drew the attention of the members to the Hon'ble Prime Minister's letter wherein certain amount of anxiety was expressed about the implementation of various recommendations. He agreed with the observation of Mr. Onkar S. Kanwar that the Strategy paper should not be treated as yet another paper lacking in implementation. He readily agreed that the main issue is of implementation as pointed out by all the Council members and there is a general expectation that the NMCC will play a major role in this. He felt that, as NMCC, we have neither the capacity nor the wherewithal to get things done. In this regard, he hoped that the NMCC secretariat would be suitably strengthened in the immediate future and with the support of all concerned Ministries, implementation aspect would get due focus. However, in all the discussions at the sub-sector level, the process of implementation is being left to the concerned Secretary of the department after due deliberations on all issues. At the present moment, he observed, that the role of the NMCC would be that of ensuring co-ordination or advocacy while the normal governmental machinery works in ensuring implementation. Citing the example of Textiles, he informed the council that barring the issue of manmade fibres, most of the issues affecting the competitiveness of the sub-sector have been successfully dealt with.

On Energy

Mr. Baba N. Kalyani, felt that 'using agricultural resources to create energy' could be the big push idea of the future. With climbing oil prices, he felt that energy security itself is going to become a major issue in competitiveness of developing nations. He

cited the example of Brazil where ethanol meets 22% of the energy needs. He felt that there is a huge opportunity for growing crops to create ethanol. There is also the ability to create bio-diesels, technologies for which have been developed in Germany and are significantly being used in USA. He suggested that the NMCC could consider this idea and pointed out that the two main issues concerning this would be taxation related issue connected with products like alcohol, ethanol, etc. and political issues which bar the movement of products from one state to the other. He however felt that this could be a big solution to the country's energy security and also create a huge employment capability and suggested that a study on the subject should be initiated.

Commenting on the subject of Ethanol, Dr. Ajay Dua, Secretary, IPP informed the members that the Ministry of Petroleum has entered into an MOU with the Indian Sugar Manufacturers Association (ISMA) assuring them that what ever amount of ethanol is produced by them would be bought provided they are price competitive. He however observed that because of the wide variation in production of sugar cane, long term commitments are getting affected.

Mr. Suresh Neotia pointed out that in the context of price competitiveness of ethanol, the oil companies were looking for a differential of Rs.15 below the fuel cost and this is being resisted to by the sugar industry as it is a substitute product. He commenting on the subject of energy crisis particularly in respect of coal, observed that large deposits of lignite are blocked in Gujarat and Rajasthan because of certain agreements that M/s. Neyveli Lignite Corporation has with the State governments. Hence these deposits are not in a position to be developed which needs to be corrected. In his opinion, mining per unit of investment would generate better employment. He observed that in the near term of 3-4 years, coal shortages are going to affect the power, steel, cement and paper sectors critically. The privatization of Coal mines on competitive bidding route if this is speeded up, then some relief could be got by the sector and he urged the council to make a suitable recommendation. He observed that growth projections for cement industry cannot materialize if coal is not available. To overcome the shortage of coal in the short run, he suggested that Coal India should be made to import coal and the additional cost could be spread over the price of coal as it is an administered price.

On Sub-Sectors

Mr. Priyadarshi Thakur while appreciating the report observed that since the last meeting there have been some developments especially in the auto sector. The National Auto Testing and R&D project to be implemented over the next six years at an investment of Rs.2000 cr. has been approved by the cabinet and the project implementation authority is in the process of being finalized. Echoing the proposal made by Mr. Baba N. Kalyani to make a presentation on the auto sector, Mr. Thakur also agreed to join hands and share experiences of auto sector with the council members. He felt that if right steps are taken it is estimated by various leading consultants that as against the employment of 1 million in auto sector as on date, the employment could go up to 30 million in 2015. Reconstituted Auto Council met and decided to form a smaller group which could assist DHI in developing a 10 year perspective plan for the auto sector. He reiterated that auto sector has a lot of employment potential considering its forward and backward linkages.

He mentioned that CII and L&T have made a study on Capital Goods sector which brings out the lack of level playing field. He pointed out that even the World Bank recognizes that the transaction costs like octroi, etc. amount to 15-18% in case of capital goods and there is a case for neutralization of at least 15%. He desired that Capital Goods sector must be examined separately. On the subject of implementation, he was in agreement with the observations of Mr. Onkar S. Kanwar, and felt that creation of awareness among various departments and the state government is an essential prerequisite for successful implementation.

On R & D

In the context of R&D-Institute-Industry link, Ms. Uma Reddy observed that even though there are a large number of R&D institutions in the country, her experience of interactions with entrepreneurs have shown that all of them look at a viable project idea. She wondered if there could be an on-line link made possible, where in, the very many projects undertaken by R&D institutes could trigger a project idea for a budding entrepreneur in some part of the country. In the context of competitiveness, she suggested R&D institutes could support the efforts of the industry by looking at

alternate materials and suggested that the government must provide necessary thrust to such efforts.

On the subject of material science, Chairman mentioned about the proposition of Prof. MS Ananth for creating a Centre of Excellence in IIT, Chennai for advancement of manufacturing technology where the initial focus is on materials. Prof. Sekhar Chaudhuri suggested that certain parameters could be worked out which evaluate the performance of the NMCC. Welcoming the suggestion, Chairman requested Prof. Chaudhuri to develop such parameters.

On Small and Medium Industries

Chairman observed that considering the socio-economic-political importance of the SME sector, the NMCC is working closely with Secretary, SSI & ARI and at the same time while on one hand attempts are being made to do away with reservations, on the other aspects like credit, technology and skill upgradation are being concentrated upon. He also stressed the need for a study on the cause-and-effect of various Government policy initiatives being taken in this sector.

Mr. V Govindarajan observed that due to the excellent synergy in SME sector and under the able guidance of Sectary/ SSI & ARI, several breakthroughs could be achieved including the announcement made by RBI in their annual credit policy statement and the recent observations relating to SSI segment made by the Finance Minister.

Mr. Anupam Dasgupta, observed that the recent pronouncement made by Finance Minister in respect of SSI sector takes into account most of the suggestions made by his department. He agreed that monitoring of the implementation at the State level is an issue and in this regard, further discussions with Ministry of Economic Affairs may become necessary. Main aspects on which some more work is needed to be carried out include the one time settlement that the policy mentions for which the deadline for the settlement is 31 Mar 2006 and the debt restructuring mechanism for potentially sick units. He also informed the council that on the subject of ratings, two initiatives are already under way. He however expressed concern about the actual delivery of credit at the ground

level. One area on which the policy is silent relates to restructuring of the operating portfolio of SIDBI.

On the legislative front, he stated that detailed consultations were carried out through the forum of Standing Parliamentary Committee where in State level Secretaries had also participated along with representatives of national level and state level associations. This resulted in certain suggested amendments to the SME bill. These amendments include incorporation of the micro segment; composition of small & medium enterprises Board with a wide representation; and provisions relating to delayed payments. On the 'National Manufacturing Competitiveness Programme' while certain amount of work has been done, he expressed that further detailing would be done shortly.

Ms. Uma Reddy appreciated the overall coverage of the Strategy paper. She further observed that SME sector in particular had got ample coverage and felt that a good amount of synergy has been generated in the efforts directed at measures to mitigate the issues facing SME sector. She recounted the discussions that the associations had with the Secretary/ SSI &ARI followed by the discussions at the Chief Secretary level in Karnataka State on the SME bill. She observed that implantation would ensure that the whole process goes through smoothly and felt that SME sector could stand to gain. She expressed happiness at the inclusion of the un-organised sector and its linkages with the associations.

On FTAs

Chairman said that while he appreciates the concerns expressed on FTAs, he informed the Council that in the recent meeting of the TERC there is a move to address all such issues.

Mr. Anwarul Hoda expressed that the big issue appears to be going in for FTAs with zero duty when our manufacturing industry faces various impediments in its competitiveness. In his opinion, mechanisms such as early harvest schemes have been the real cause for concern. He cited the example of television sets in the context of Thailand FTA. He also mentioned about the inverted duty structure being experienced by the capital goods industry. He suggested that

mechanisms such as the early harvest scheme are not very helpful because they create a structure which is not in favour of domestic industry.

Mr. Jamshyd N. Godrej, agreeing with the observations made by Mrs. Isher Judge Ahluwalia on the importance of FTAs, he observed that what is relevant is their timing, because they give rise to certain distortions that effect competitiveness. He cited the example of Thailand FTA and its effect on auto components industry. He felt that FTAs are not addressing the comparative strength of industries in each other's country.

Chairman observed that issues related to FTA are already engaging the attention of the Trade & Economic Relations Committee (TERC) presided over by the Hon'ble Prime Minister. He informed the council members that it has been suggested to the TERC that before an FTA is signed, there should be a detailed study on its implications. Further, in future the attempt should be that all FTAs are within a country wide policy framework. He concluded by saying that the issues raised by Dr. Surinder Kapur vide the agenda item no.3 has already been taken up with TERC.

Mr. V Govindarajan, Member Secretary, NMCC mentioned that this precise problem related to FTA was recognized earlier and the letter written to the Hon'ble prime Minister resulted in such issues being taken up by the TERC. One of the decisions taken is that there should be a prior study on the possible implications of the structuring of a particular FTA. It was also hoped that institutions like Indian Council for Research on International Economic Relations (ICRIER) would be strengthened to take up such studies.

In Conclusion

In conclusion, V Govindarajan, Member Secretary, NMCC thanked all the members for their valuable suggestions including those who had given their helpful suggestions prior to the meeting also. He agreed that there are areas where further improvement is possible in the Strategy paper. In this context he requested each member to send comments within the next two weeks to enable their incorporation in the final Strategy paper.

He mentioned that the Strategy paper cannot do full justice giving complete details as it would become very long and therefore, the objective was to condense the presentation which resulted in sacrificing some details. However, he expressed that parallelly several aspects are getting covered in detailed in the Sub-sector interactions and reports.

He also brought to the attention of the members that certain larger issues like Labour, Energy, etc. are being taken up in other relevant forums and at the same time, the Implementation aspect is getting the attention through the aegis of review mechanism with the concerned Ministries on the issues identified during Sub-sector deliberations.

He also mentioned about the manpower constraint which is being faced for following up on the various issues and he hope that NMCC would be getting the requisite manpower shortly. He mentioned that the Innovation policy would be taken up as a separate sub-sector issue. He also pointed out that the problem highlighted about the cement industry would also be taken up in a separate sub-sector meeting.

Chairman in conclusion enquired from the members if the strategy paper should be put out for a wider circulation by putting it on the web. It was generally felt that it would be a good idea to place it on the web after incorporating the suggestions suitably from the various members. On the subject of interactions with the States, it was also agreed that certain members would participate in the discussions along with the Chairman and Member Secretary, and if feasible, collective meetings can also be considered.

D.O. No. 300/31/c/5/05-ESI
2 May, 2005

Dear Shri

As you are aware, Government has set up the National Manufacturing Competitiveness Council (NMCC) in line with the priorities laid down in the National Common Minimum Programme (NCMP). The Council is an autonomous inter-disciplinary body at the highest level to serve as a forum for credible and coherent policy initiatives and it is expected to give a boost to manufacturing which is the main driver of growth world-over. Accordingly, the NMCC has been given the task of improving the competitiveness as well as on advising on steps for achieving robust growth of the industry sector with a view to creating employment for the millions who are joining the job market every year. The intention is not to have more of the same but to have a breakthrough.

2. Within Government, a number of Ministries/Departments deal directly with manufacturing activities. There are also several Ministries/Departments, the policies/programmes of which impact on the competitiveness of manufacturing directly or indirectly. Therefore, it is essential that an economy-wide integrated view is taken for ensuring a break-through in manufacturing sector. The NMCC is expected to provide such an overarching expert input whenever policies/programs relating to manufacturing are prepared/considered in your Ministry/Department the views/suggestions of the NMCC should be invariably obtained and integrated into them. This would help us to tackle the problem of overall competitiveness more effectively.

3. As your Ministry/Department deals with policies/ programmes which impinge upon issues relating to manufacturing and enhancing competitiveness, I request you to ensure that at the stage of formulation of policies and/or preparation of papers for policy decisions and in matters of implementation the NMCC is invariably consulted. and -its views are taken on board. . . .

Yours sincerely,

Sd/-
(T.K.A. Nair)

To Secretaries as per list attached.

Extract from the Annual Policy Statement for the year 2005 of the
Reserve Bank of India(RBI)

Credit flow to Small Scale Industries

The small scale industries (SSI) sector plays a very important role in the development of the economy. While large industries have access to various sources of finance, the SSI sector has to primarily depend on finance from banks and other financial institutions. With a view to further smoothening the flow of credit, the following measures have been initiated:-

- The Credit Information Bureau of India (CIBIL) is working out a solution that would provide comprehensive credit reports on SSIs.
- The Reserve Bank is reviewing all its existing guidelines on financing small scale sector, debt restructuring, nursing of sick units, etc., with a view to rationalizing, consolidating and liberalizing them. Banks are urged to take the revised guidelines as indicative minimum requirement and the Boards of the banks are expected to formulate more liberal schemes as appropriate.
- Under, a scheme to be drawn up by the RBI, banks will be encouraged to establish mechanisms for better co-ordination between their branches and branches of SIDBI which are located in 50 clusters that have been identified by the Ministry of Small Scale Industries, Government of India. Under the scheme of strategic alliance (i) the existing branches of SIDBI redesignated as "Small Enterprises Financial Centers" (SEFC) will take up co-financing of term loan requirements of SSI units along with the bank branches and the working capital requirements of these units will be met by the banks; (ii) the expertise of the SIDBI in appraisal of credit requirements of SSI units will be leveraged by the branches of commercial banks, by payment of a nominal fee; (iii) SIDBI will provide other expert services of help the banks in simplifying the application forms, documentation and disbursement procedures, etc.; and (iv) the working of the scheme may be monitored and modified to suit the local conditions by the State Level Bankers' Committee (SLBC) and, depending on the experience, the coverage of the scheme may be extended to more clusters. The services of SEFCs will be available for tiny industrial units also.

Credit Flow to Medium Enterprises

In view of the fast changing market conditions and increasing competitiveness, there is an urgent need to upgrade the technology of small scale industries and the graduation to medium enterprise sector. The Reserve Bank will explore modalities to meet their growing financial needs. A simplified debt restructuring and rehabilitation mechanism is also being considered for the sector.

ANNEXURE-III
New Delhi
June 22; 2005.

Prime Minister

Rapid and balanced growth of employment opportunities to over all sections of society can be achieved only when manufacturing activities keep in step with the development of other sectors. Employment of people coming from the rural areas and those moving out of agriculture in particular can be driven only by the manufacturing industry. The manufacturing sector accounts for about 17% of our GDP, while the corresponding figure for China is 35%, Indonesia 25%, Malaysia 31% and Thailand 34%. While in India about six million people are employed in manufacturing, the corresponding figure in China is about 160 million. This clearly brings out the high employment potential of the manufacturing sector. Government believes that the twin objectives of economic growth as well as creation of substantial number of jobs can be achieved through increased manufacturing activities. The emphasis here is on the competitiveness of the manufacturing industry and to improve both in qualitative and quantitative terms Indian industry's ability to meet the needs of our people as well as to secure a larger share of the global market.

Against this background, Government constituted the National Manufacturing Competitiveness Council (NMCC) as a continuing forum for policy dialogue to energise and sustain the growth of the manufacturing industry. Dr. V. Krishnamurthy is the Chairman of NMCC and its members include cross-section of leaders of industry, academia and senior Government officials, with vast experience in the field of manufacturing. The Council will help in formulating policies and programmes which, when implemented, would enhance competitiveness and bring about robust growth of the manufacturing sector.

This Council has started functioning since January this year and is in the process of formulating a national strategy to achieve the above objective. Needless to say, you have a very crucial role to play in the success of this initiative as the actual activity of manufacturing in terms of investment, production, employment, etc. takes place in the States. Therefore, it is essential to establish close coordination amongst the Central and State Governments as well as industry, the academia and experts. The NMCC is expected to carry out this task. For this purpose, the Chairman, NMCC will be interacting with the States to discuss with them their priorities and to help create synergy in our action.

I have suggested to Dr. Krishnamurthy to write to you, giving details of the functioning of NMCC so that you could establish a system for a continuous dialogue on various issues relating to the manufacturing activities in your State. I trust that NMCC will get your full support in its endeavours for the promotion of the manufacturing sector.

With warm regards,

Yours sincerely,
Sd/-
(Manmohan Singh),

Chief Ministers of States(As per list attached)

Dr. V. Krishnamurthy
Chairman
National Manufacturing Competitiveness Council

ANNEXURE-IV.
D.O. 4(7)/NMCC/2005.
July 12, 2005.

My dear Chief Minister,

I am happy to write this letter in continuation of Hon'ble Prime Minister's letter to you dated June 22, 2005 on the National Manufacturing Competitiveness Council (NMCC). The growth of the manufacturing sector and improving its competitiveness are crucial for achieving the twin objectives of a balanced economic growth as well as creation of additional jobs for those coming out of the rural areas and small towns.

2. " NMCC is expected to work towards improving the competitiveness of the manufacturing industry and also improve both in qualitative and quantitative terms, the Indian industry's ability to meet the domestic requirements as well as securing a larger share in the global market" The Council is mandated with the responsibility of suggesting policies and programmes to achieve these goals.

3. The share of manufacturing in the GDP has been stagnant at around 17%, for the past 20 years. The task of increasing this share to a reasonable level is onerous. The issues involved to reinvigorate the sector are complex and solving them would require time and efforts. The NMCC has, therefore began preparing a draft strategy paper for achieving this longer term goal and the paper is currently under internal discussion. Parallely, in order to not to lose time, we have also taken up studying specific sub-sectors of manufacturing that have the immediate potential for growth as well as for employment generation. These include:-

Textiles and Garments;
Leather and Leather Products;
Food Processing Industries.
IT Hardware and Electronics;
Auto Components;
Capital Goods;
Paper;
Chemicals and Petrochemicals; and
Drugs and Pharmaceuticals.

We have also taken up cross-cutting issues such as the problems faced by the Small and Medium Industries, Human Resource requirements of the industry in a rapidly changing technological world and also issues relating to environment clearances etc. We have been able to give some suggestions in respect of these sectors during the course of time Union Budget as well as at the time of preparation of the Annual Credit Policy Statement of the RBI. Many of our suggestions were accepted by the Government and the RBI. The individual Departments concerned with

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these subjects have also started work on the recommendations of the Sub-groups of the NMCC in respect of their sub-sector.

4. As mentioned by the Hon'ble Prime Minister in his letter to you, the role of the State Governments is crucial for the success of this initiative of manufacturing since the actual activity takes place in the States. We have started our discussion with some of the States. Our intention is that there should be a close co-ordination and dialogue between all the stakeholders: namely, the Central and State Governments, the Industry, Academia and Experts. Based on our interactions, we find that each State Government has the potential to harness, in respect of the some of the sub-sectors, in particular. With a little attention and co-ordination, the States should be in a position to reap the full benefits of increased investments as well as creation of more "jobs for the local people in those sectors. We require your full support in this endeavor of increasing job opportunities through, the growth of manufacturing and keeping it competitive.

5. I would, therefore request you to kindly consider forming a small Group under the Chief Secretary to" interface with the Secretariat of the NMCC and constitute a system of continuous dialogue on the issues relating to manufacturing in your State. I would" also be taking the earliest opportunity to visit your State and apprise you personally.

With kind regards,

Yours sincerely,
Sd/-
(V. Krishnamurthy)