

Trust between the Government and Private Sector Critical for Building a Competitive Manufacturing: R.C. Bhargava

New Delhi, May 03, 2021: Mr R.C. Bhargava, Chairman, Maruti Suzuki India Ltd, has made some unconventional recommendations for building a competitive manufacturing sector in India, at a well-attended online foundation day lecture of the Institute for Studies in Industrial Development (ISID) on Manufacturing Competitiveness as a Growth Driver recently.

Mr Bhargava voiced his concern that the share of manufacturing in gross domestic product (GDP) remains stagnant at 14%-16%. Despite the acknowledged importance of manufacturing as an engine of growth since the 1950s, certain factors did not allow India to realise its potential. A key factor was the lack of importance given to competitiveness. Since the early days of planning, achieving competitiveness in manufacturing was not considered as an objective of industrial development. This was in sharp contrast to the experience of the East Asian countries.

The policies pursued were not mindful about bringing down the cost of manufacturing, increasing market size or achieving economies of scale. This hindered competitiveness. Domestic manufacturers were protected and not evaluated on the basis of efficiency. Obsolete technology also affected competitiveness.

Economic reforms in 1991 brought in the liberalization of international trade, abolition of licenses, privatization, and opening up of foreign investment. However, the general distrust of the private sector continued, manufacturing costs continued to remain high and competitiveness was still not understood for what it is worth. The export potentials were also not realised due to lack of competitiveness. Despite all reforms, growth of manufacturing remained stagnant.

Mr Bhargava elaborated on a number of factors that could help India build competitive manufacturing.

The first is trust. It is imperative that relation between private sector and government stakeholders is based on trust and the state recognises the private sector as an engine of growth instead of viewing profit-making with suspicion.

The second is about profit itself. It is important for the private sector to realise that re-investment of profit into the company is of vital importance. Frugal management, capping the salaries of top management, ensuring that the profits are not siphoned away from the company but re-invested into it is of critical importance to scale up. This is important for small scale enterprises too. To achieve low cost of production, frugal management and cutting costs at the upper tiers is crucial.

The third pillar is labour partnerships. Labour is not just a factor of production and cost. A motivated labour force can boost the productivity of the company. Labour thus needs to be seen as a partner in the competitive spirits of an enterprise rather than as a cost centre.

The fourth pillar is the critical role of the government. The government can help keep the costs of production low. Costs include that of land, raw materials, infrastructure, transport and logistics, electricity, compliances to tax laws, costs of labour and finance. However, this is not a sufficient condition to achieve competitiveness as quality is equally important. While consumers look for lower costs and acceptable quality, that itself is an evolving and continuous process. The government has to induce conditions to nudge the private sector to meet quality standards.

Timely decision making and bureaucracy that is mindful and aware of the ground realities of the businesses can help create competitive environment for enterprises. Another critical role of the government that Mr Bhargava emphasised upon was to create demand. Without adequate demand conditions, manufacturing will not flourish. In order to achieve the target of 25% of share in GDP, a commensurate annual growth rate of 12%-15% has to be attained in manufacturing sector as well as in domestic demand. These objectives can be achieved by realizing the need for attaining manufacturing competitiveness facilitated by right mix of government policies.

Welcoming the speaker and the audience, Dr Nagesh Kumar, Director, ISID emphasised that the trajectory of development in India and its structural transformation has bypassed industrialisation and moved directly from agriculture to services without bringing in the prosperity of job creation that industrialization could have led to. He reiterated that competitive manufacturing was the need of the hour.

Mr S.K. Misra, Chairman of the ISID Board of Governors, elaborated that the country finds itself at a critical juncture today in meeting the challenges of the Fourth Industrial Revolution. ISID is envisaged as a centre of excellence in the critical area of industrial development that is able to provide inputs for the policy making process. It celebrates its Foundation Day on 1 May.

The live streaming of the Foundation Day Lecture is available at the institute's YouTube Channel with the following link: <https://youtu.be/bYySPZcEJcA>