Point of view
National Manufacturing Policy
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Economist Nicholas Kaldor theorised manufacturing as the engine of growth and stipulated that there exists a close relationship between the growth of manufacturing output and the GDP of a country.

Post-independence, thanks to the legacy of a good industrial and infrastructural base left over by the British regime, India held an advantageous position in manufacturing in Asia. However, the next 50 years saw our ‘socialist’ bent of industrial policies stifle the growth of the infant manufacturing sector. Even though the reforms of the early 90s removed illogical growth barriers and turned the tide for the Indian industry, manufacturing still accounts for only 16% of GDP compared weakly to other Asian countries of similar economic maturity.

The major factors constraining growth of Indian manufacturing are well-documented - poor core infrastructure, lethargic bureaucracy, high cost of capital, an agonising land acquisition process and labour issues. An earlier initiative to further manufacturing growth by setting up of SEZs met with limited success. This was due to deficient land acquisition reforms, and lack of power and logistics infrastructure. The services sector including IT/ITES, already on a healthy growth trajectory, was the only real beneficiary of SEZs.

The need to raise the global competitiveness of the Indian manufacturing sector is a key imperative for the country’s long-term growth. The National Manufacturing Policy (NMP) is by far the most comprehensive and significant policy initiative taken by the government. A decade late in arriving by some accounts, the policy seeks to increase manufacturing growth rate from 9% (in the last five years) to 12% to 14% over the medium-term period. The aim is to push manufacturing’s contribution to GDP from the present 16% to 25% by 2022. In doing so, the policy intends to create an additional 100 million jobs and support required skills development programmes. Other key objectives of the policy include:

- Creation of National Investment and Manufacturing Zones (NIMZs)
- Development of Small and Medium Enterprises (SMEs)
- Implementation of industrial training and other skill upgradation measures
- Promotion of Green Manufacturing
- Rationalisation and simplification of business regulations

Besides, the policy also dwells upon improvement of core infrastructure, creation of financial and institutional mechanisms for technology development, boosting domestic capacity to enhancing exports, besides many other provisions, with the intent to enhance global competitiveness of Indian manufacturing.

The policy has been formulated keeping in mind existing initiatives such as foreign direct investment (FDI), Goods and Services Tax (GST), Land Acquisition Bill, etc. This co-ordinated implementation of the NMP with other policy and procedural initiatives is the key to its success and will be vital in establishing India as a viable alternative to China. The success of this initiative also depends on various linkages between public-private partnerships (PPPs).

While the task is difficult, the introduction of the NMP is definitely a step in the right direction. As history reminds us, intention alone will come to nought without proper implementation. This policy to correct decades of inaction must not meet the same fate as earlier ones.
**Current scenario**

Despite India’s early development strategy of creating a well-diversified industrial base through extensive reforms focussed on manufacturing, an acceleration of manufacturing growth and the desired dynamism has remained elusive. The sector has not lived up to its expected potential as evident from its stagnant share of 15% to 16% in overall GDP since the 1980s.

Further, countries with similar levels of development, especially the East Asian economies, have been able to make their presence felt in the global market for manufacturing products to a far greater extent than India\(^1\). While China in particular has achieved rapid growth fuelled by its manufacturing base, India has not witnessed a similar scaling-up of its manufacturing capabilities, although over the years, the share of services has risen and agriculture has declined as a percentage of overall GDP.

The share of India’s manufacturing output to overall GDP was only 15.8% in 2010-11, as compared with 30% in China, 31% in Korea, 36% in Thailand, 26% in Malaysia, 25% in Indonesia and 22% in Singapore\(^2\).

The Indian manufacturing sector has significant potential to generate large scale employment especially in the organised sector. Historically, during the transition process, the manufacturing sector has been the main absorber of mass unskilled labour released from the agricultural sector. Unlike the East Asian economies, the country has not been able to draw employment from agriculture into manufacturing in any significant magnitude. Agriculture still remains the chief employment generator contributing 50% of the total employment (2007). This is the highest among most Asian and emerging market economies (Brazil 19%, China 44%, Indonesia 41%, Korea 7%, Malaysia 15%, and Thailand 42%) with the industry contributing to only 20% of overall employment\(^3\). Manufacturing employs 12% of the Indian workforce or about 53 million people\(^4\).

**Sectoral contribution to GDP: stagnant share of manufacturing**

![Graph showing sectoral contribution to GDP]

Source: CMIE Business Beacon

Note: The data represents shares in real GDP at factor cost (2004-05 base).

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\(^1\) Trivedi et al. 2011

\(^2\) World Bank data sets.

\(^3\) Trivedi et al (2011)

\(^4\) National Sample Survey 66th round (NSS-66) conducted in 2009-2010
Key challenges
Currently, the following critical issues impede the growth of manufacturing in India:

Infrastructure deficit
There is an urgent need to bridge the gap in physical infrastructure and address the equipment and raw materials requirements in key sectors such as power and transport. Poor connectivity results in high logistics costs, long lead times and impacts market penetration. For example - "a truck carrying goods from Gurgaon to Mumbai has to pass through 36 checkpoints and takes up to 10 days to reach its destination. While 57% of goods in India are transported by road (the most inefficient, expensive and emissions-intensive mode of transport), the figure in China is just 22%"5. It is estimated that addressing this deficit can enhance growth in India’s manufacturing sector by 3% annually.

Land acquisition
Multiple land acquisition policies, variation in rules on how land can be acquired, compensation paid to land seller, have added to the complexity of doing business and is a major impediment in establishing new industrial projects (E.g., Tata Motor’s land acquisition in Singur, West Bengal had an in-principle approval but later ran into hurdles and political opposition leading to major production delays. Eventually, the company pulled out of the project.).

Environmental clearances
Securing environmental clearances for new projects have been a key roadblock for investors in the past due to long delays and social hurdles (E.g., Posco’s project in Orissa).

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5 World Economic Forum Article “India’s New Manufacturing Policy Vital to Create Jobs and Maintain Growth”
Labour-related issues

A universal concern for manufacturers is enhancing labour productivity, ensuring sustained availability of skilled and highly qualified workforce, resolving labour disputes during closures or bankruptcy and managing rigid and archaic labour laws. These are impediments in attracting investments.

Multi-tier regulatory framework and complex procedures:

Multi-tier regulatory frameworks and complex procedures, prevailing at the central, state and local jurisdictions, increase the burden on investors and deter them from venturing into capital intensive projects. E.g., a manufacturer has to comply with almost 70 regulations and file 100 returns a year. Recent attempts to streamline procedures for bringing down compliance requirements (E.g., single window systems) have only been partially successful.

According to the World Bank's 'Doing Business 2012' survey (on overall ease of doing business across the world) the procedures and costs for starting and, especially, closing a manufacturing business in India are among the most cumbersome.

<table>
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<tr>
<th>World Bank report 2012: Ease of Doing Business</th>
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<tbody>
<tr>
<td><strong>Starting a Business</strong></td>
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<tr>
<td>Total number of procedures required to register a firm</td>
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<td>Total number of days required to register a firm</td>
</tr>
<tr>
<td>Cost (includes all official fees and fees for legal or professional services) (% of income per capita)</td>
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<tr>
<td>Paid-in minimum capital (as % of income per capita)</td>
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<tr>
<td><strong>Resolving insolvency</strong></td>
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<tr>
<td>Average time to close a business (in years)</td>
</tr>
<tr>
<td>Average cost of bankruptcy proceedings (% of estate)</td>
</tr>
<tr>
<td>Recovery rate* (cents on the dollar)</td>
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* The amount an entrepreneur needs to deposit in a bank or with a notary before registration and up to three months following incorporation. This is recorded as a percentage of the economy’s income per capita.

* How much claimants (creditors, tax authorities and employees) recover from an insolvent firm.
SWOT analysis of manufacturing in India

An analysis of Indian manufacturing reveals that the sector will continue to benefit from certain inherent advantages offered by the country such as a very favourable demographic dividend and the resulting strong domestic consumption story. However, a less than stable business environment where policies and regulations change with the political climate will impede decision making and delay critical investments.

Open access to export markets and government procurement will help Indian manufacturers achieve economies of scale and mitigate demand volatility to some extent. The stage is set for SMEs to leverage its status as a priority lending sector and embrace technology. The SMEs can especially benefit from the proposed tax sops and subsidies. A few hurdles along the way need to be addressed. Banking systems currently under stress with rising non-performing assets (NPAs) may face a liquidity crunch. This will stall development and expansion plans. Manufacturers, on their part, also need to adopt flexible manufacturing to prepare for demand volatility.
Opportunities

• Easing excise restrictions can open up large import and export market. Global slowdown will trigger opportunities for low cost economies such as India.
• Government procurement will boost demand and provide economies of scale.
• Role of SMEs in innovating and supplying to large manufacturers, in turn boosting employment.
• Potential for millions of new skilled and highly qualified jobs.
• India emerging as an attractive destination as compared to weaker and unstable economies.
• Green manufacturing as a profitable means of business.

Strengths

• India considered as a high quality manufacturing destination.
• Favourable demographic dividend for next 2-3 decades. Sustained availability of quality workforce.
• Responsible business houses operating with credibility and professionalism.
• Strong consumerism in the domestic market.
• Strong technical and engineering capability backed by top-notch scientific and technical institutes.
• Well regulated and stable financial markets open to foreign investors.

Weaknesses

• Low employee productivity, high illiteracy and inadequate scale in developing skills.
• Volatile governance and regulatory environment - regular rollback on policy, clearances, licenses, etc.
• Poor power and transport infrastructure.
• Rising input costs of labour, fuel, power, freight, commodities, etc.
• Inadequate credit flow and rising cost of credit.
• Limited ability to adopt technology due to cost and accessibility.
• Small firm size, clustering and economies of scale not effectively utilised.
• Low backward and forward integration.
• Slow pace of reforms and policy implementation.

Threats

• Policy paralysis, slow and faulty implementation.
• Competition from other emerging economies who may introduce policy interventions similar to NMP with better and faster execution, to attract global investors.
• NMP targets to grow manufacturing at 12% CAGR. This is unlikely without a strong export market.
• High volatility in demand and manufacturing growth – leads to uncertainty in taking big decisions and inefficient utilisation of resources.
• Losing FDI and domestic investors to more competitive and efficient economies.
• Credit crunch due to rising NPAs, undercapitalised banks and therefore rising cost of capital.
• Cheap imports from other countries especially China.
• High volatility in currency markets.

Source: PwC internal analysis
Small and Medium Enterprises (SMEs) in the manufacturing sector

The Indian SMEs play a significant role in the overall industrial economy of the country and account for about 45% of the manufacturing output and 40% of the country’s total export. The major advantage of the sector is its employment potential at low capital cost. Overall (manufacturing & non-manufacturing) this sector employs an estimated 60 million people, making it the largest employer after the agriculture sector. The SMEs manufacture over 6,000 products, from traditional to high technology items. Further, SMEs are considered as the drivers of innovation and competition in a lot of economic sectors such as precision engineering design, food processing, retail, IT and ITES, agriculture and services sector.

The NMP specifically outlines proposals for improving the access of SMEs to finance. The lack of access to adequate and timely finance due to the non-formal nature of business has always constrained their growth. Some of the measures outlined in the policy include the roll over relief from long-term capital gains tax to individuals on sale of a residential property and in case of re-investment in a new start-up of a micro, small and medium enterprise (MSME) unit. Others include setting up a stock exchange for SMEs and tax pass through status for venture capital funds with a special focus on SMEs.

Additional boost will come from directives such as commercial banks have been advised to achieve the target in priority sector lending at 40% of aggregate bank advances. SMEs qualify as a priority sector and will benefit from this preferential status. Patent pools and provision of Technology Acquisition and Development Fund (TADF) are seen as incentives for SMEs to encourage use of appropriate technologies and raise the return on fixed investments.

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6 T SME Chamber of India – SME Brochure
7 As per FICCI MSME Report, July 2011
While some of these challenges arise due to the non-formal structures and practices, a diagnostic feature of the sector and others arise due to the lack of awareness. Most SMEs are unaware about recent developments, laws and regulatory changes in the domestic and international arena, incentives and schemes deployed by the government of India, advancements in other areas such as HRM, TQM, six sigma, quality assurance, productivity, logistics and supply chain management. They also do not have information about relevant topics such as international collaboration, venture capital and private equity, export procedures and documentation, etc.
National investment and manufacturing zones (NIMZs)

The NMP has proposed the creation of massive NIMZs which are being conceived as giant industrial greenfield townships to promote world-class manufacturing activities. The policy seeks to make rules and regulations more flexible by reducing the compliance burden on manufacturing units. The proposed single window clearance mechanism will provide relief to investors and ensure faster clearances. The Cabinet Committee on Economic Affairs has already cleared the Delhi Mumbai Industrial Corridor (DMIC) and has sanctioned 17,500 crore INR for development of seven industrial cities along this corridor.

A critical advantage the NIMZs can deliver is the clustering of small and large manufacturers (essentially customers and suppliers between themselves). Operating in close proximity, these companies will be able to leverage synergies as individual component manufacturers and can come together to build high value goods. NIMZs have the potential to foster a collaborative working model across different players along the value chain. Such an approach helps reduce costs, lead times, achieve economies of scale, exchange technology and gain expertise.

These NIMZs will be larger than SEZs in terms of area. Provisions indicate the government’s willingness to further ease the burden on a private developer. Also, a broad comparison of various tax incentives for SEZ and NIMZs indicate that the latter has not been proposed to compete with SEZs.
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<th>SEZ</th>
<th>NIMZs</th>
<th>PwC assessment</th>
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<tr>
<td>Minimum land area</td>
<td>10 to 1,000 hectares depending upon the sector (higher for multi-sector SEZs, lower for niche sectors such as gems and jewellery, IT, etc..)</td>
<td>5,000 hectares. Processing area may include one or more SEZs.</td>
<td>NIMZ can be viewed as a cluster of smaller industrial areas such as SEZs, EoUs, etc.</td>
</tr>
<tr>
<td>Maximum area</td>
<td>5,000 hectares for multi-product.</td>
<td>Not specified</td>
<td>NIMZ is not restrictive.</td>
</tr>
<tr>
<td>Special Purpose Vehicle mandatory</td>
<td>No</td>
<td>Yes. CEO of the SPV will be a senior central or state government official.</td>
<td>Even though NIMZ will involve private sector participation, the government intends to be in control of overall management.</td>
</tr>
<tr>
<td>Can land be mortgaged by SPV?</td>
<td>Not specified</td>
<td>The state government needs to ensure that land can be mortgaged by the prospective allottees.</td>
<td>Government has been able to address a key issue of private developers regarding raising debt for funding such as infrastructure projects.</td>
</tr>
<tr>
<td>Responsibility for Environmental Impact Assessment (EIA)</td>
<td>Developer</td>
<td>State government</td>
<td>A comparison of SEZ and NIMZs on these parameters reflects government’s willingness to ease the overall burden on a private developer.</td>
</tr>
<tr>
<td>Minimum processing area</td>
<td>50%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Cost of master-planning</td>
<td>Not specified</td>
<td>Central government</td>
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Incentives under NIMZ

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<th>SEZ</th>
<th>NIMZs</th>
<th>PwC assessment</th>
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<tr>
<td>Renewable energy or depending on green technology</td>
<td>No mandate or incentive for renewable energy or green technology.</td>
<td>Mandatory to get a certain percentage of its electricity mix from renewable sources. Low interest loans and investment subsidies.</td>
<td>While obligation on private companies is being made stringent, financial implication is eased. This will ensure that it does not hurt overall economics of development and operations.</td>
</tr>
<tr>
<td>Special preference by government</td>
<td>Not specified</td>
<td>In government purchases preference will be given to units located in the NIMZs.</td>
<td>NIMZs will be more competitive than other industrial regions or SEZs especially, for the government market.</td>
</tr>
<tr>
<td>Interest subsidy for working capital requirement</td>
<td>Not specified</td>
<td>In government purchases preference Subvention of interest on working capital by 4%.</td>
<td>Fiscal incentives have been provided to encourage players to operate under a NIMZ.</td>
</tr>
<tr>
<td>Applicability of Viability Gap Funding (VGF)</td>
<td>Not specified</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Incentives to promote innovation</td>
<td>Not specified</td>
<td>Nearly 50% of the expenditure incurred in filing international patents will be shared by the government. Tax exemption on expenditure incurred in taking national, international process or product certification (E.g., ISO).</td>
<td>Companies working towards developing or procuring innovative technologies will benefit.</td>
</tr>
<tr>
<td>Single window clearance</td>
<td>Yes</td>
<td>Yes</td>
<td>Despite increase in size and scale of a NIMZ, the government has retained its policy of single window clearance.</td>
</tr>
<tr>
<td>Tax incentives / concession to SEZ vis-a-vis NIMZ</td>
<td>Presently, supplies to SEZ is exempt from indirect taxes subject to fulfillment of export obligations and other conditions</td>
<td>NMP proposes to provide various tax exemptions / concessions to unit establishments in NIMZ.</td>
<td>Present applicable exemptions to SEZs will not get affected if they are put under NIMZ – SEZ is mainly for export oriented units whereas NIMZ will comprise of export oriented units as well as domestic suppliers. Thus, both SEZ and NIMZ will attract capital investment and it will help in increasing employment opportunities.</td>
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Adoption of Green Technology

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<tr>
<th>Current scenario</th>
<th>NMP announcement</th>
<th>Impact</th>
<th>PwC assessment</th>
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</thead>
<tbody>
<tr>
<td>Many industries are exposed to hazardous technology and no incentives are available for renewable energy/or green technology.</td>
<td>Promotion of green technology by extending incentives and concessions.</td>
<td>Supports conservation of energy and technological enhancement. Incentives and funding provided to SMEs to acquire new technology for controlling pollution, reducing energy consumption and water conservation</td>
<td>Industries adopting green technology will be more competitive than others.</td>
</tr>
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Increase in labour productivity

In the coming decade, more than 100 million additional jobs are expected to be created. The policy outlines measures to bridge the quantitative and qualitative gap in skill development through establishment of polytechnics and instructor training centers.

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<tr>
<th>Current scenario</th>
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<th>Impact</th>
<th>PwC assessment</th>
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<tbody>
<tr>
<td>Current labour laws such as ID Act, Factories Act, etc. are active. Individual company circumstances are taken into account during arbitration proceedings, which can be time consuming for both workers and entrepreneurs.</td>
<td>Job loss policy</td>
<td>Flexibility for companies to define amount of retrenchment payments in line with affordability.</td>
<td>While the policy seems more favourable to companies, the success and acceptance of the scheme will depend on the details of how the scheme will be integrated with various labour laws and linked to governance mechanisms.</td>
</tr>
<tr>
<td>Skill gaps continue to plague MSMEs. Initial steps taken by the NCSD (under the aegis of the prime minister’s office) are helping shape policy that will address labour shortages</td>
<td>Skill development initiatives</td>
<td>Improved availability of talent, increased investment in education infrastructure, certification and employable skill sets.</td>
<td>The skill development mandate addresses important concerns of the industry around skill shortage and labour productivity. The scheme has several aspects that will generate interest among corporates, and improve enrolment, certification and employment. Additional policy thinking is required on how to make the scheme attractive to workers and what subsidies or assistance they may require to ensure that these skills, post training, do not move to urban centres. The policy does not directly address the use of IT to scale up training delivery and this will need to be considered in the implementation phase.</td>
</tr>
</tbody>
</table>
Presently, manufacturing sector is highly regulated and needs to comply with over 70 laws. In addition to facing multiple inspections, the sector has to file more than 100 returns annually. A multi-tier regulatory framework and procedures prevailing at the central, state and local jurisdictions merely increase the burden on investors and also deters them from venturing into capital intensive projects.

The NMP proposes to rationalise and implement provisions of different acts in cooperation with public and private institutions, under the overall control of statutory authorities, in order to facilitate entrepreneurs. To achieve the stated objective under the policy, specific instruments have been conceptualised.
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<tr>
<th>NMP announcement</th>
<th>Impact</th>
<th>PwC assessment</th>
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<tbody>
<tr>
<td>Single window clearance.</td>
<td>Will streamline the process and reduce bureaucratic complexity</td>
<td>The reduction will reduce the costs (time &amp; money) in starting new projects.</td>
</tr>
<tr>
<td>Central and state government to provide exemptions subject to fulfillment of conditions as provided in the statute. SPV can act as a facilitator.</td>
<td>To enhance the efficiency and streamline processes.</td>
<td>While having a facilitator in the form of a SPV is good, it will be prudent to create or set up a regulator for such hubs. It will have more clear and distinct powers and will be independent to facilitate the processes and schemes surrounding the NMP. It should act as a single window for industries to set up under the NMP. The SPV can initially be set up by the nodal agencies to get the pre-development approvals in place and then all the necessary clearances can be transferred to project owners. E.g., in case of E&amp;P companies we have the Directorate General of Hydrocarbons, for telecom we have the TRAI, for energy efficiency we have the BEE, for food we have the Food Safety and Standards Authority of India. For SEZs there are development commissioners.</td>
</tr>
<tr>
<td>Develop a mechanism for co-operation between public and private institutions under government supervision.</td>
<td>To expedite and smoothen processes.</td>
<td>Clear guidelines need to be laid for carrying out inspections. Also, the government should install centralised automated systems to support governance across all government departments.</td>
</tr>
<tr>
<td>Entire process of central and state clearances to be web-enabled.</td>
<td>To reduce lead time and costs.</td>
<td>Integrating approvals and processes through technology is a necessity, given the prevailing regulations in the country. The web-enabled processes should be introduced across all the central and state government departments and the investor platform should be made accessible to reduce multi-reporting compliances for investors and also reduce the administrative compliances as may be required under law.</td>
</tr>
<tr>
<td>Submission of multiple returns to different departments to be replaced by one simplified monthly or quarterly return.</td>
<td>To reduce compliance requirements, complexities and costs.</td>
<td>A single point submission system is a must. The submissions should be linked to the web-enabled database with an ability to share informations and submission across various relevant government departments.</td>
</tr>
<tr>
<td>Central government to delegate powers to State Pollution Control Boards (SPCBs) on regulations pertaining to environment.</td>
<td>To speed up approval and clearances.</td>
<td>SPCBs need to operate as representatives of the central PCBs and Ministry of Environment and Forest for respective states. There is a need to delegate greater powers to state boards for facilitating state specific approvals in line with central government regulations.</td>
</tr>
<tr>
<td>Instruction and guidelines to be issued at the central and state level to promote NIMZs investment while safeguarding environment integrity.</td>
<td>Will help to minimise detrimental impact on environment during development of NIMZs.</td>
<td>Laying down environmental guidelines for NIMZs will be important as there are no specific guidelines for these zones.</td>
</tr>
<tr>
<td>With respect to Technology Acquisition &amp; Development (TAD), the NMP proposes to leverage existing incentives and schemes and also introduce new mechanisms to promote green technologies.</td>
<td>To attract investment in new and clean technologies.</td>
<td>There is a clear need to instill incentives, especially to promote investments in new and costly clean energy technologies. The regulations need to ensure that the state and the central policies are synchronised.</td>
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The provisions of the NMP will deliver universal benefits to manufacturing industries in the following manner:

- **Training and skills development:** Millions of minimally educated people will be trained through industrial training institutes (ITIs) in a PPP mode and courses in local language will ensure a constant supply of skilled resources throughout the country. Industry involvement to impart industry or job specific vocational training and skills development will help reduce the training curve and ensure employees are productive.

- **Improving labour productivity:** Upgradation of skills, manufacturing and people process innovations, internship and apprenticeship models will help improve output allowing companies to operate with a leaner workforce and be cost-effective.

- **Wide-scale infrastructure improvements:** Development of world-class ports, cargo hubs, highways and railway corridors will provide greater accessibility to procure raw materials, better distribution channels and expand market reach. This will directly impact lead times enabling companies to be more agile, react faster to dynamic market conditions, expand their manufacturing and market footprint while becoming more competitive due to more efficient supply chains and reducing freight costs.

- **Clustering and agglomeration of companies:** Operating within an industry through NIMZs will allow small, medium and large suppliers and manufacturers to work in close proximity, making sourcing easier and faster. This will grant advantages in economies of scale while reducing lead times and freight costs.

- **Technology acquisition and development:** Incentives such as tax concessions and subsidies will allow SMEs as well as large enterprises cheaper technological access and enable procurement of essential technology for core manufacturing activities. Subsidies for indigenous development of technology will make investments more attractive, boost R&D and creation of Intellectual Property Rights (IPR).

- **Regulatory reforms and quick clearances:** A quick and efficient bureaucracy reduces regulatory and compliance burdens. It will also provide faster single point electronic clearances, a conducive atmosphere for companies to focus on core business activity and expand their operations faster.

- **Foreign investment:** The government intends to create a positive investment climate by easing FDI regulations and fast-tracking sectoral reforms to attract foreign direct investment (FDI). Foreign investors enter either via partnerships with existing local manufacturers (thereby infusing capital and sharing technology) or through big ticket investments in setting up greenfield manufacturing plants, generating large employment and boosting growth of local businesses, suppliers, logistics providers, infrastructure developers, etc.

- **Trade policy:** The government also plans to revise trade policies and open up international markets. This will deliver economies of scale to domestic manufacturers, help mitigate demand volatility to some extent, ensure better plant utilization and a more efficient use of capital throughout the year.

- **Land banks:** Government measures implemented in releasing land under unproductive use and fast-tracking allocation of industrial land banks by reducing administrative hurdles will help manufacturers to set up plants faster. This will not only attract further investments but stem the outflow by local businesses to foreign destinations such as China where it is quicker to set up manufacturing plants.

- **Exit mechanisms under NIMZ:** By defining job loss policy, sinking fund, asset redeployment plan, exemption from capital gains tax (under certain conditions) for units operating within the NIMZs, the government has helped to address labour relations and liquidation issues to some extent.

- **Focus on innovation and IPR:** The government’s vision to focus on process innovations and promote registration of IPR will offer vital strategic and long term advantages to Indian manufacturers, especially when competing in the global arena.

- **Promotion of industrial growth through partnerships:** The policy promotes growth through partnerships. This will help companies leverage synergies, collaborate on product and technology development and enable players to produce high value goods while being competitive.
In the backdrop of an increasingly uncertain global economic environment, the timing of the policy announcement will help boost overall business sentiment and help stem the decline in growth of industrial output. Its implementation will serve as a trigger to transform the manufacturing sector as well as the economy. It will also place the sector on a higher growth trajectory by increasing manufacturing output and creating job opportunities.

The new manufacturing policy addresses the issues prevailing in the Indian manufacturing sector such as labour laws, reducing bureaucratic delays through single window clearances, SME incentives, technology development, exit mechanism for unit closures, etc. The proposal for creation of NIMZs will help establish world-class infrastructure and promote investments under a more business-friendly environment. These mega zones will help boost efficiency through linkage effects and enhance global competitiveness of the manufacturing sector.

While the intention of the new policy is good, the framework proposed has often been mooted in the past. The key issue has been the lack of policy implementation. Enforcement of the proposed review and monitoring mechanism of the policy will be crucial.

Also, to derive the desired results and achieve inclusive growth, the NMP needs to work with other policy initiatives such as reforms in FDI, land acquisition bill, environmental and financial reforms such as Goods and Services Tax (GST) and Direct Tax Code (DTC).

While it may take some time for Indian manufacturing to become a strong force to reckon with, the NMP can be viewed as a key foundation towards achieving the goal.
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