

Manufacturing for the world

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By Neeraj Bansal, Partner and COO - India Global; National Leader - Supply Chain Re-alignment, KPMG in India

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Beset by problems of low productivity and the availability of cheaper import substitutes, the manufacturing sector's share in India's GDP has remained range bound for the past 20 years. A comparison of India's performance with its regional peers is striking. Several other rapidly developing economies, including Thailand (25.3 per cent in 2019), Malaysia (21 per cent in 2019) and Indonesia (20 per cent in 2019), have been successful in increasing their share of manufacturing to above 20 per cent of their GDP.¹ Though India has moved up in the World Trade Organisation's (WTO) rankings of leading exporters in world merchandise trade (#32 in 1999 to #18 in 2019), its share in global exports has been hovering around 1.5 per cent mark since 2010². On the other hand, China's share in global manufacturing exports has increased from 10.4 per cent in 2010 to 13.2 per cent in 2019, during the same period.³

Despite this apparent stagnancy, the years following the launch of Make in India 1.0 have seen some notable developments. The program, whose core objective has been to bolster manufacturing capabilities by promoting exports, has been a vital reason behind the commendable growth in India's electronics manufacturing sector over the past five years. Notably, the launch of the Phased Manufacturing Program (PMP) for the electronics industry has led to the growth in exports of telecom handsets from USD0.3 billion in FY15 to USD3.8 billion in FY20⁴, aided in setting up of around 300 mobile and mobile component manufacturing units and generated 670,000 jobs during 2016-19⁵. Electronics hardware production has grown at a compounded annual growth rate of 24 per cent over the last five years⁶. However, the lack of a convincing rationale for the selection of sectors under the aegis of Make in India, absence of significant changes to import duties, and inadequate production-linked incentives have resulted in the limited success of the program.

The Atmanirbhar Abhiyan scheme, estimated at 15 per cent of the GDP (~USD412 billion) as of November 2020, is an opportunity to kickstart Make in India 2.0.⁷ The program addresses some of the inadequacies of its predecessor and focuses on incentivising investment through fiscal incentives, while developing select, strategically important manufacturing ecosystems by curbing imports within them. It lays down the government's clear intent of revamping a strong manufacturing sector for the country's long-term growth in a post-COVID-19 world. Given the progression from a 'one-size-fits-all' approach for 25 sectors under Make in India 1.0 to a clear focus on select sectors under Make in India 2.0, the latter, if executed as intended, could be the impetus India needs to develop a competitive manufacturing ecosystem and increase the sector's contribution to GDP over the medium term.

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Seizing the opportunity: Why this is an appropriate time for targeted policy measures

While the government has been taking steps to increase manufacturing sector's share in GDP over the past two decades, the drivers responsible for policy changes are different this time around. The growing emphasis on supply chain realignment by companies globally and the critical need for India to reduce its import dependence, specifically those concentrated on single markets, are the key triggers behind the launch of 'Atmanirbhar Bharat Abhiyan'.

Supply chain re-alignment at a global scale

The continuously shifting geo-political landscape over the last several years coupled with the experience of the COVID-19 pandemic in 2020 have left global manufacturers seeking more diverse, resilient and economically viable supply chain partners. Now that most businesses have resumed operations, they must navigate through increasingly challenging complexities such as risk exposure, tax and regulatory compliances, digital and analytical capabilities etc. to sustain and thrive in the new world order.

The Indian government, having introduced several significant reforms this year, realised this was an opportune time to attract companies for whom supply-chain relocation has become a top priority with the experience of COVID-19 in 2020. Firms from countries including the U.S., Japan and South Korea, have already expressed interest in shifting their production facilities to India⁸. The government's investment-driven policy measures along with corporate tax cuts, investment in infrastructure under the National Infrastructure Pipeline (NIP) and business-friendly changes to labour laws are likely to further underpin the country's attractiveness as a manufacturing hub.

Over-reliance of imports from dominant geographies

From raw materials to critical components, the COVID-19 pandemic exposed the reliance of country's key sectors on a few markets for fulfilling their manufacturing and sourcing requirements. To put things in perspective, India depends on a single market for 70 per cent of its API consumption needs, 85 per cent of smartphone components imports and 75 per cent of television components imports.⁹ As global supply chains were swiftly and effectively dismantled as one country after another went into lockdown in 2020, efforts toward bolstering domestic manufacturing gained momentum. With the introduction of the USD26 billion Production Linked Incentive (PLI) scheme and Phased Manufacturing Programme, the government has undertaken important measures to encourage local manufacturing and further reduce import dependency. In addition, custom duties on imports of finished products have been revised upwards to bolster domestic production in sectors such as consumer durables (AC, television), toys and networking products. These measures are expected to support the vision of 'Atmanirbhar Bharat' or self-reliant India and likely make domestic manufacturing competitive, create economies of scale, attract investments and extend 'Made in India' products to global consumers.

While 'Make in India 1.0' laid the foundation, 'Make in India 2.0' is likely to hasten the manufacturing transition. But the journey has just begun...

Make in India 1.0 was instrumental in furthering the evolution of manufacturing in India and Make in India 2.0 is expected to increase its momentum. However, India is not the only country stepping up its capacity

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and capabilities in domestic manufacturing to attract global investors. The country competes with equally lucrative manufacturing destinations in the region, some of which fare better than India on important parameters such as land and labour laws. For instance, India's complex land acquisition laws and the lack of identifiable land for projects has hit investor confidence in the past. While the formation of a land bank encompassing 4.75 hectare and 3,300 industrial parks across 31 states is a step in the right direction¹⁰, more such reforms would be needed to improve productivity and attractiveness of the manufacturing sector. Research and Development (R&D) is another area in which India has been lagging developing economies. Despite being home to R&D centers of more than 150 international companies, India's R&D spend, at 0.6 per cent of GDP¹¹, is one of the lowest among emerging markets. This places India at a disadvantage when it comes to sophisticated, high-end manufacturing. A concerted push both by the government and the private sector toward R&D would provide further impetus to the Make in India initiatives.

While the pandemic has spurred interest in India's domestic manufacturing ecosystem, the journey has just begun. Providing easier access to land, boosting R&D and legal infrastructure, and further investment in re-skilling efforts are just a few of the pre-requisites for India to achieve its goal of becoming a global manufacturing hub.

¹ Manufacturing, value added (% of GDP), The World Bank, accessed on 29 January 2021

² World Trade Statistical review 2011 and 2019, accessed on 29 January 2021

³ World Trade Statistical review 2011 and 2019, accessed on 29 January 2021

⁴ Ministry of trade & commerce, accessed on January 29, 2021

⁵ Digital technologies to generate \$1 trillion in India by 2025, Outlook India, 14 October 2019

⁶ Electronic goods production in India increased 187% by value in 6 years, Money Control, 19 November 2020

⁷ Atmanirbhar Bharat 3.0: Total stimulus package announced is of Rs 29.87 lakh core, 15% of GDP, says FM Sitharaman, Money Control, 13 November 2020

⁸ Powering up: Electronic manufacturing in India, KPMG in India report in association with HSBC, December 2020

⁹ How dependent is India on China? Here is what trade data reveals, Money Control, 03 June 2020

¹⁰ Press Bureau of India, 27 August 2020

¹¹ Economic Survey 2020-21, accessed on 29 January 2021

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