




Managing growth

With the US manufacturing output bouncing back in February 2013, showing the latest signs of strength in an economy after a near-stall in 2012, and the Indian industrial production inching up 2.4 per cent in January due to rise in manufacturing output and improved power generation, we spoke to EM's Editorial Advisory Board so as to understand their expectations & recommendations for the Indian manufacturing sector to sustain the growth phase in 2013-14. Here are their views…

Raghavendra Rao
Vice President
Manufacturing & Process Consulting
Frost & Sullivan

To be fair, we will have to wait and watch for atleast another 3-4 months, to see how stable is this growth and whether it continues to witness the upward swing. Only then can we conclude that the reversal has happened. Yes, in USA, there have been recent policy announcements and subsequently we have witnessed a minor upswing in the value creation activities for manufacturing.

To quote an example, an Indian manufacturer of braking systems, commented that, "While sales in India have been hit, exports to the US have improved by 1 or 2%. Sales to Europe is not doing well." Further, the interviewee clarified that the optimism that he was referring to, applied strictly to only commercial vehicles and not to cars. Going ahead, when the global economy does stabilise, one can expect the US to have a more resurgent manufacturing economy, but, only to the extent of their exports. Indian market itself is large enough to be able to generate a demand on its own. So the link between US and Indian manufacturing growth may not be a strong link.

We need to be clear that what we term as 'recession', is semi-psychological, wherein companies postpone their investments in putting up a new capacity and cutting down their spending with respect to filling up their supply chains. This holding back is not the case witnessed during the growth periods. What creates such recession, besides these softer sentiments? Well, you have deferment of government policy changes and also the availability of (lack of) financing options (monetary policy) doing their bit to sustain the damage. Having said that, India is expected to remain, more or less, in a low growth mode in 2013 and for a larger part of 2014. There is no reason to believe that there will be a significant improvement in manufacturing growth rates. India still retains the edge it has in manufacturing and one should expect a resurgent manufacturing economy once again post 2014. The US, in its existing form, will continue to be a supplier of technology products and capital equipment to the work; and will face competition from European, Korean and Japanese manufacturers. Quite clearly, with its cost structure, these sectors will dominate US manufacturing and hence, will be dependent of the growth rates of other economies around the world.

Satish Godbole
Vice President
Motion Control Div
Siemens Ltd

In the last decade, Indian manufacturing sector has seen a commendable growth. This can be substantiated by McKinsey report of November 2012, where the country has moved from 14th to 10th position in the 'Top 15 manufacturers'. This trend will continue and the long term outlook over the next 5 to 7 years is very strong. While conducive government policies are mandatory to boost India's prospect in manufacturing, the manufacturing companies themselves have to start "thinking big".

Currently, many Indian manufacturers build capacity considering the demand from the domestic markets only. They place very less focus on the global demand. We need to step up the local production by leveraging on technology usage so as to achieve higher productivity and quality for global competitiveness. Susbequently, this would not only help in building the 'Made in India' brand overseas but also reduce our dependency on imports. For instance, 60% of the machine tool consumption in India is imported. We need to step up to increase the share of domestic production and build 'Brand India' in the manufacturing space. Also, the dearth of skilled manpower restricts the adoption of high-end technology. This skill gap, if not addressed quickly, can have a bearing on the productivity and the competitiveness of the sector. Hence, in today's challenging times, it's a pre-requisite for the manufacturing industries to address these issues so as to achieve excellence and sustain the growth momentum.

Dr K Subramanian
President
STIMS Institute Inc
USA

A view from abroad: Changes in Indian economy is often described as analogous to the movement of the elephant – slow, steady and often aimless! The slow and steady nature of the changes in Indian economy is often seen as a welcome and reliable opportunity, compared to the rapid and volatile changes elsewhere. However, the aimless nature of the economic changes in India, often mask the gradual and sustained growth of the middle class in India and their growing consuming power. It is this internal capacity for consumption by the middle class that bodes well for the long-term sustained growth of the Indian economy and in turn its manufacturing base.

It is doubtful if the manufacturers, who are committed to this domestic consumption alone, can ever compete in the global market. There is a term used such as 'best-in-class for India', which suggests a lower level of quality, precision, reliability acceptable to the Indian market and its internal customers. "Good is good enough and best-in-class is for the imported items" mindset has to change, for the Indian manufacturers to compete in the global market place. While the US manufacturing is showing signs of improvement, there is a depleted manufacturing base, thanks to relentless outsourcing and off-shoring for the past three decades. This has created a void for precision components, accessories, tooling and machine tools for many critical manufactured goods. While small and medium manufacturers in the US will strive hard to regain this void, there could be a unique set of opportunities for Indian manufacturers with world-class quality in their veins.

Vineet Seth
Managing Director
India & Middle East
Delcam Plc

It is indeed silver lining that the manufacturing output has bounced back in the US as well as the Industrial Production Index in India has had a marginal growth. While I would not forthrightly classify these as signs of recovery in manufacturing output; it will be interesting to see how these numbers hold up in the next couple of months before we can make an informed guess. In the Indian context, it is not only the growth in IIP, but also associated inflationary indices that we need to consider. The manufacturing output is a sign of better utilisation of resources and not necessarily an increased buying power among consumers. Macro level policies such as FDI in emerging sectors for one, needs a closer look. As long as investment keeps happening, we can arguably say that manufacturing will receive an impetus. Having said so, I have always maintained that I hold an optimistic outlook towards the Indian manufacturing sector. We have a large scope to grow and have in the past overcome many challenges to claim our stake at the global level. One of the most important ingredients being talent pool and access to technology, we as a nation are positively exploiting the information era to harness our growth.

My recommendations to further our manufacturing sector, would be to take discrete and concrete steps towards building & enhancing (where applicable) a manufacturing infrastructure, optimise power generation and distribution, plug leakages in the system, encourage small and medium enterprises to undertake R&D to encourage innovation and eventually build a progressive tax regime, provide a globally level playing field, and help build a competitive environment to allow Indian manufacturing to grow and thrive.

Dr Wilfried Aulbur
Managing Partner
Roland Berger Strategy
Consultants Pvt Ltd

US manufacturing profits from several very important trends. For one, the administration is supportive of the manufacturing sector and realises its importance in de-risking the overall economy. Wage moderation and shifting of work from the unionised north to the non-unionised south of the country has significantly lowered cost of production. Efficiency gains add to this positive picture and are expressed by the fact that the US has gained a top spot in global productivity rankings. Cheap natural gas will provide energy at very competitive prices and policy initiatives like the FTA with the European Union will increase opportunities for US manufacturers in markets where so far, the balance of trade has been negative.

In India, exporters exposed to the US market will benefit from the positive trend in the US. However, the road to a manufacturing giant is long and winding for India. Clear policy support on the ground in areas such as land acquisition, labour reforms, infrastructure development, policy continuity and reliability is woefully lacking. High inflation and rising aspirations are driving up personnel cost which is not overcompensated by productivity gains. The fact, that Indian entrepreneurs are successful despite all these challenges is positive, but competition from nations such as Vietnam, China, and others will only continue to increase. As a consequence, while there may be a short-term revival of manufacturing activity in the country, key road blocks must be removed quickly, to enable Indian entrepreneurs to leverage the country's potential.

S Ravishankar
Deputy Managing Director
Yamazaki Mazak
India Pvt Ltd

India with its young, IT savvy and highly qualified workforce can easily be the leader for future manufacturing. Therefore, India and India Inc must invest heavily in cyber and related physical infrastructure, to be positioned to lead by exploiting the huge knowledge base and by integrating with the advanced manufacturing technologies.

Currently, manufacturing accounts for approximately 16 per cent of global GDP and 14 per cent of employment. With the industrially advanced countries, the share of manufacturing goes to 20-35 per cent of GDP. India is the ninth largest manufacturing nation in the world and the manufacturing sector contributes only 15-16 per cent to India's GDP, and remains a poor cousin of the service sector that contributes over 50 per cent to the GDP. India's share in world manufacturing is only 1.8 per cent.

According to the National Manufacturing Policy, the manufacturing sector of India has all the potentialities to increase its share value of GDP to 25 per cent from the existing 15 per cent by the year of 2022, which will certainly help India to earn the tag of fifth largest manufacturing nation. As per BCG –CII Survey report, the main reason to this ultra poor performance of this sector is one and only poor productivity of the country.

The major issues that are hampering the India's manufacturing growth over the past years are capital costs (land, infrastructure) and cost of capital (interest costs). With the absence of measures to improve food production/distribution food related in inflation has gone high, resulting in hardening of interest rates. With this, manufacturing costs have increased rendering Indian manufacturing losing out their competitiveness. Hardening of interest rates has also the effect of curtailing the demand (especially capital intensive infrastructure industry). This has resulted into a spiraling effect on the manufacturing sector.

Additional factors

1. Multiple regulatory inspections, bureaucratic approach by government employees that leads to delays in approvals
2. Extremely rigid labour laws that result in very low worker productivity (manufacturing firms are not even allowed to reassign workers)
3. Current taxation system is a major constraint to the supply chain flows. Goods and Services Tax (GST) can ensure that there is a free flow of goods in the common market.

Outlook for 2013–14

As spoken above, the major woes of manufacturing sector is related to Government policies and initiatives as well Indian Government being the biggest spender the economic growth hinges on Government's policies. Government with the forth coming general elections in 2014 will have to fine balance between growth and Control of prices.

The February numbers for the Blufin Business Cycle Indicator (BCI) which provides 'real time' information on the state of the business cycle in the Indian economy shows signs of recovery and expansion. At the current score of 170.4, 4.2 per cent higher than the same month last year, the BCI continues to indicate an expansion, suggesting that the Indian economy is growing at a faster rate than the previous year. GDP growth for the Year 2013-14 is expected to rise to 6 per cent due to private sector initiatives and spending.

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