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IF INDIA COULD DO MANUFACTURING AS IT DOES SERVICES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Our laws and bureaucracy stand in the way of making manufacturing a success story

If you are worried about your equity portfolio, you are not alone. Whether or not to continue SIPs and whether or not to get out of the market would have been the most asked questions in almost every webinar that I have been a part of since end March 2020. The fear is not just about the market crash in March, but also about the possibility of a global recession and the ability of India's already slowing and now negative growth to recover from this shock. It is a valid fear and unless India is able to get its growth back on track, targeting at least 8%, if not more, the fruits of demography, of a geopolitical advantage today and of servicing a large domestic market will all be frittered away.

Economist and former Reserve Bank of India (RBI) deputy governor Rakesh Mohan wrote in a superb 2019 paper, titled *Moving India to a new Growth Trajectory: Need for a Comprehensive Big Push* (read it here), that to get to the needed 8-9% GDP growth, other than a push to financial savings, there is a need to "revive animal spirits in the private sector…particularly in internationally competitive manufacturing sector". He wrote that there seems to be an acceptance of the fact that India has missed the bus in manufacturing but that there are plenty of buses still to board, if we make the needed changes in regulatory structures that impede enterprise, both Indian and foreign, from making investments in manufacturing.

I think we need two sets of changes. First, we need to import lessons of success from the Indian services sector. When we compare Indian services to Indian manufacturing stories, it is almost like we are in two different countries. India is ahead of its more developed peers in having a state-of-the-art payments system in the Unified Payments Interface. Travel abroad to Europe and you are struck by their clunky banking and obsolete payment systems. The India story of telecom and broadband is the same—it is cheap, fast and fairly dependable. I have written about this before (read here). The Indian passport Seva is probably the most efficient in the entire world. So is getting a driver's licence in some cities. The home delivery services' speed leaves you wonderstruck at their ability to turn an online order placed at 11pm to be delivered by 9am the next day. The entire election machinery, the Jan Dhan infrastructure, the digi-locker facility, the account aggregator and health stack initiatives all put India ahead in the global services marketplace.

But when it comes to manufacturing, the story suddenly changes. You hear the stories of India losing giant factory outlays to Bangladesh, Vietnam, Indonesia. Why? Our laws, bureaucracy and rules come and stand in the way—they are inflexible and coercive. Much of the services push has had state support in terms of political will. A UPI was not possible without the regulators and the government putting their weight behind the infra backbone. Why a similar exercise cannot be done in manufacturing is not clear. Is it because the bureaucracy does not understand tech that well and could not derail those changes?

This brings me to the second change that we need. Our rule book has colonial DNA hard-coded into it. Take the highest administrative authority at the grassroots level as an example. She is called the district collector. Collector. Collector of taxes for the British raj. Look into the Acts that govern the businesses and you see mountains of compliances and paperwork that seem to be out of sync with reality. Why will somebody go to jail because they forgot to file some routine paperwork? The step to decriminalize check bounce is a great step, but legal incumbents are fighting to keep that law in place—their livelihood gets impacted it seems!

The state has to shed the fear of being a *suit-boot-ki-sarkar*. The aspiring India wants wealth and that wealth will come when private enterprise is allowed to breathe and flourish. Regulations are important for a fair marketplace, for environment protection and safety, but not for curbing the animal spirits of Indian entrepreneurs—who remain one of the most cheerful and enterprising entities in the world. The state needs to review the rules to see which of them are actually working to solve the problems they set out to solve. Most of these Acts were written in the pre-tech era and many of the issues can now be solved using technology—you don't need a filing or an inspector or other coercive methods.

If the state (centre and states) are able to translate the services experience into manufacturing and is able to hard code a celebration of wealth and merit into our laws that govern industry, India has a shot at boarding the manufacturing bus, for both export and for an *atmanirbhar Bharat*. If not, then our $3 trillion GDP gets us into the top five nation league table, but our $2,000 per capita income will be a fraction of the $40,000-60,0000 per capita of the developed nations and we will remain a low-to-middle-income country with few resources to deal with issues of healthcare, education and defence.

So equity markets will not collapse but the potential of a multiplier over the next 15-20 years will be lost.

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