

## CHAIRPERSON'S MESSAGE

The Indian industrial sector has gone through various phases since independence. The major reforms in Indian Industrial sector were witnessed during the 1990s. For instance, in 1991, there was a gradual dismantling of industrial licensing, removal of import licensing from nearly all manufactured intermediate and capital goods, tariff reduction and relaxation of rules for foreign investment. The reforms in respect of the industrial sector were intended to free the sector from barriers to entry and from other restrictions to expansion, diversification and modification so as to improve the efficiency, productivity, and international competitiveness of the Indian industry.

Now India has emerged as the world's fastest-growing large economy, it's no surprise that demand for capital goods has more than doubled in the past decade. Yet one-third of this demand has been met by imports. India imported machinery worth more than \$30 billion in 2015, making it the fourth-largest import category after crude oil, electronics, and gold. For a little over \$2 trillion economy, the country's capital-goods sector remains relatively underdeveloped, offering a significant business opportunity for both Indian and foreign original-equipment manufacturers (OEMs).

India's domestic capital-goods industry is weighed down by low investment in technology and talent. Most companies focus on low-value-add fabrication and assembly work, unable to move up the chain with their designs or technology. Value addition represents only about 22 percent of total output, or \$13 billion, and the capital-goods sector as a whole accounts for just 0.6 percent of India's GDP, compared with 4.1 percent for China, 3.4 percent for Germany, and 2.8 percent for South Korea (exhibit). The output of domestic capital-goods players grew by an average of 2 percent annually from 2010 to 2015, trailing the overall average of 7 percent annual economic growth.


India's liberalization in 1991 was premised on the idea that it would make local industries more competitive, helping them capture world markets, which in turn would enable millions of Indian workers to move away from low-productivity farm jobs to high-productivity factory jobs.

India's economy consists largely of small firms, a large segment of them in the unorganized sector. This creates several hurdles to productivity and economic growth. Enterprises are unable to invest in the machinery needed to boost labour productivity due to a lack of access to capital. They are also unable to invest in worker skilling. The low productivity and output consequently result in poor wages. Technological diffusion to the rest of the economy tends to be uneven and slow. The preponderance of small enterprises in the Indian economic landscape thus works against the introduction, use and spread of labour productivity-boosting innovation.

The goods and services tax is an important step toward formalization of the economy, but the resultant productivity boosts will take years to gestate. Meanwhile, labour law reforms are still pending. In their absence, formal enterprises lean on contractual workers. This robs them of efficiency gains and the economy of the benefits of a productivity boost. Little wonder

India's automobile industry—one of the flag-bearers of the post-1980 manufacturing surge—still suffers from a substantial productivity gap that reverberates down the supply chain to smaller enterprises. And while the government's skilling efforts at least acknowledge a serious labour capital problem, their failure thus far points to the importance of organic, private sector efforts that are difficult to come by in an economy as structurally lopsided as India's.

India's expenditure on R&D as a percentage of GDP has remained stagnant at 0.6 to 0.7 of GDP, however GDP has increased and so has the sum spent on R&D. Greater spending on R&D leads to innovation. Such innovation is visible among a handful of private Indian companies who are innovating in the personal protective equipment (PPE) space. Such innovation includes manufacturing PPE that meets the newest European Norms (EN).



**Dr. Ashok Kumar Gadiya**