



Civil Services Day
21ST APRIL, 2022



**Atmanirbhar Bharat –
Focus on Exports**

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COMPOSITION OF THE SESSION

Plenary Session 2 – Atmanirbhar Bharat- Focus on exports

Chair

- **Shri Piyush Goyal, Hon'ble Minister of Commerce & Industry and Minister for Consumer Affairs & Food & Public Distribution and Minister for Textiles**

Panelists

- **Ms S. Aparna, Secretary, Department of Pharmaceuticals**
- **Shri Sunil Barthwal, Secretary, Ministry of Labour & Employment**
- **Shri Vivek Johri, Chairman, Central Board of Indirect Taxes & Customs**
- **Shri P Ravi Kumar, Chief Secretary, Karnataka**

INTRODUCTION

This background paper has been curated with the objective of facilitating discussions and deliberations on the identified themes by laying down a detailed contextual reference for an action-oriented panel discussion on 'Atmanirbhar Bharat- Focus on exports' for the 15th Civil Services Day on April 21, 2022

The following are the sub themes to be covered under the main theme:

- Production Linked Incentive Scheme
- Making Districts as Export Centre

The paper carefully captures succinct representation and analysis of the ideas pertaining to the relevant topics. The ideas presented here are set to help the wheel turning and lead to an insightful and vibrant discussion leading to the possible interventions and way forward.

On 13th May 2020, the Government of India launched Atmanirbhar Bharat Abhiyan with an aim to make India self-reliant and a global manufacturing hub. One of the key ideas behind Atmanirbhar Bharat is to make India truly independent and self-reliant in its path to development. Along with that, India holds immense capabilities to stand as a global manufacturing hub and rightful execution of ideas of 'Make In India' would certainly make India world renowned. India aims to achieve USD 5 trillion economy by 2024-2025 which is intricately linked with an export-oriented approach. It is through building our manufacturing prowess for the domestic market as well as augmenting the export share that India can fast track its trajectory towards economic growth and social development.¹ Therefore, the two primary aspects that will be thoroughly discussed in this paper are the Production Linked Incentive scheme and Making District as export center.

MANUFACTURING SECTOR IN INDIA

Manufacturing is one of the high growth sectors in India and India is the sixth largest manufacturer in the world. India's gross domestic product (GDP) at current prices stood at Rs. 51.23 lakh crore (US\$ 694.93 billion) in the first quarter of FY22, as per the provisional estimates of gross domestic product for the first quarter of 2021-22. The manufacturing GVA at current prices was estimated at US\$ 97.41 billion in the first quarter of FY22. India has potential to become a global manufacturing hub and by 2030, it can add more than US\$ 500 billion annually to the global economy. In India, manufacturing sector has multiple advantages indicating a strong potential for high growth. The country has many advantages like a **robust demand**, **efficient policy Support** and a **Competitive Advantage**.

Along with the domestic production, there is also need for interventions to boost the export profile of the country and make it a leader in the global trade ecosystem. Currently, major export items of India are Petroleum products, Mineral fuels including oil, Gems, precious metals, Machinery including computers, Organic, Electrical machinery, equipment, chemicals, iron, steel, and Pharmaceuticals products. The main destinations for these exports are US, Western Europe and Middle East.² The share of exports to GDP stands at 18.4, lower than the global average of 30.52. According to the United Nations Industrial Development

¹ <https://www.ibef.org/industry/manufacturing-sector-india>

² https://stat.unido.org/content/publications/competitive-industrial-performance-index-2020%253a-country-profiles?_ga=2.154706744.1001488022.1649070077-937290851.1649070077

Organisation (UNIDO), in 2019, India ranked 42 out of 152 countries in Competitive Industrial Performance Index 2020 which measures the ability of countries to produce and export manufactured goods competitively. Hence, though manufacturing sector is a high growth sector with ripe potentials, there is need for interventions to develop the nation as the global manufacturing hub.

ROLE OF MANUFACTURING IN SOCIAL AND ECONOMIC DEVELOPMENT

By a flourishing manufacturing sector, there will always be a substantial employment generation, with more opportunities. Manufacturing provides many jobs, at all levels. Among all sectors (service, agriculture, social, manufacturing), manufacturing distributes wealth most equitably among the workforce; hence is a key factor to pull people above the poverty line. A strong manufacturing sector is the aim of Atmanirbhar Bharat Abhiyan, hence will play a pivotal role in minimising jobless economic growth. This sector also houses the MSMEs, with a workforce of 6 crore, making it more imperative to strengthen the sector in order to bring systematic solutions for pervasive social challenges in India.

Cognizant of this, the government has been extremely instrumental in strengthening the manufacturing sector both for inhouse consumption as well as exports. As cited by NITI Aayog Export Preparedness Index 2021, India's exports are growing at 36%, while global trade is growing at 30%. After a long time, India's share of world goods trade increased from 1.6 to 1.7 percent and sectors such as cars, electrical machinery, and iron and steel contributed to the expansion. The world trade is about USD 24 trillion, with India's exports worth USD 400 billion which indicates huge potential. Therefore, India aims for its manufacturing industry to play not just significant but a leading role.

The government has focused on increasing the investment in the country. According to Department for Promotion of Industry and Internal Trade (DPIIT), cumulative FDI inflows in the manufacturing sub sectors amounted to US\$ 100.35 billion between April 2000 and June 2021. In May 2020, the Government of India increased FDI in Defence manufacturing under the automatic route from 49% to 74%.

With this idea set, NITI Aayog's Export Readiness Index sets the vision of increasing share in global trade from the present 1.7 % in 2020 to at least 5% in the coming decade. NITI Aayog's Strategy for New India also sets the target - Exports of goods and services combined should be increased from USD 478 billion in 2017-18 to USD 800 billion by 2022-23. It is with this underlying context and the immediate reason of the pandemic which reimpose the need of self-reliance on the basis of which Atmanirbhar Bharat was launched by the government in May 2020.

ATMANIRBHAR BHARAT: INDIA'S MISSION TO BECOME GLOBAL MANUFACTURING HUB

The pandemic enabled India to realize the ardent need to cut its import dependence, boost exports and promote domestic manufacturing. This was considered extremely essential and therefore required prompt actions to be taken. With this twin objective of expanding domestic manufacturing sector as well as expand exports, Atmanirbhar Bharat - or Self-reliance was introduced in the country. Given the immediate context of

the pandemic, one of the main components of the scheme is to strengthen domestic demand and supply chains. Additionally, with other market leaders and countries seeking to diversify beyond China, the Indian exports sector has the potential to become a viable alternative supplier to several major economies.

Economy	Infrastructure	Systems	Demography	Demand
<ul style="list-style-type: none"> Quantum jumps, not incremental changes 	<ul style="list-style-type: none"> Represents modern India 	<ul style="list-style-type: none"> Technology-driven systems 	<ul style="list-style-type: none"> Vibrant Demography of the largest democracy 	<ul style="list-style-type: none"> Full utilisation of the power of demand & supply

Figure 1: 5 Pillars of Atmanirbhar Bharat

With a major budget of Rs. 20 lakh crores, India through this ambitious programme aims at world economy integration and becoming global leader in certain products. Many relaxations and policy changes have been introduced to incentivize and support the different stakeholders involved in the ecosystem with the focus on increasing ease of doing business. One of the major schemes to realize the goal of making India a global manufacturing hub is the Production Linked Incentive.

PRODUCTION LINKED INCENTIVE SCHEME

The Government of India rolled out the production linked incentives to categorically promote and incentivize production in selected sectors for positioning India as a global manufacturing hub and a leading export player, consequently achieving double digit growth. Initially, the focus of the scheme was on the following sectors— Mobile Manufacturing and Specified Electronic Components, Critical Drug Intermediaries, Active Pharmaceutical Ingredients, and Manufacturing of Medical Devices. In 2020, the Government decided to introduce the PLI Scheme for another 10 key sectors, namely, Electronic/Technology Products, Pharmaceutical drugs, Telecom & Networking Products, Food Products, White Goods (ACs & LED), High-Efficiency Solar PV Modules, Automobiles & Auto Components, Advance Chemistry Cell (ACC) Battery, Textile Products, and Specialty Steel. The scheme was also introduced for an additional sector, drones, and drone components, in September 2021. Unlike earlier schemes which were input-based and mostly relied on capital subsidy or funding assistance (like the M SIPS and EMC schemes), PLI is output-oriented.

The PLI scheme aims to expand the present output and will further augur the achievements. It is envisaged that this scheme will make Indian manufacturers globally competitive and competent, attract large investments in areas of high growth and create economies of scale and integrate India with world economy.

The government has received a total of 239 applications under the Production Linked Incentive (PLI) scheme for bulk drugs and 49 of them from 33 companies have been approved. Out of these 33 companies, 13 are Micro, Small and Medium Enterprises (MSMEs) besides some newly incorporated entities. Manufacturing of 35 active pharmaceutical ingredients, which have been imported earlier, have started in India under the production linked scheme for the pharmaceuticals sector. These 35 active pharmaceutical ingredients (APIs) are among the 53 APIs, for which India has 90 per cent import dependence. This is a major boost to India’s goals to achieve Atmanirbharta.

DEVELOPING DISTRICT AS EXPORT HUB

For a country that is as vast and plural as India, the interventions to augment manufacturing sector and exports needs to take place at a regional level. One of the ideas that has entered the policy discourse is one district one product and developing district as the export hub. The clarion call is about boosting export at a disaggregated level. Strengthening export competitiveness at a disaggregated level has a huge potential in boosting the overall export ecosystem in the country. Hence developing districts as export hub is an important line item for the country going forward. The government under Ministry of Commerce and Industry is focusing on initiating the scheme of Rs 10,000 crore for developing 700 odd districts as export hubs in the country.

The government is focusing on developing key products from each district fostering competitive and cooperative federalism. There is need for synergized efforts from central as well as state actors in order to realise this goal. Under the 'Districts as Exports Hub' initiative, products and services with export potential have been identified in all districts of the country, including agricultural and toy clusters and products with geographical indications.

NITI Aayog's Export Preparedness Index's primary goal is to instil competition among all Indian states ('Coastal', 'Landlocked', 'Himalayan', and 'UTs/City-States') to bring about favourable export-promotion policies, ease the regulatory framework to prompt subnational export promotion, create the necessary infrastructure for exports, and assist in identifying strategic recommendations for improving export competitiveness. It promotes competitive federalism and a fair contest among States/UTs.

The government is aiming and consistently working to achieve a double-digit export growth from 500 districts of the country in the next three to five years. India's merchandise exports surged a record 38.91% year-on-year to \$37.81 billion in December 2021 and amounted to \$301.38 billion in the April-December period.

³Besides developing a database of all potential exporters in each district, work is also on to build an interface with the Indian Missions abroad to provide them access to exporters in each district for them to market outside India and find potential buyers.

KEY CHALLENGES

There are currently multiple challenges in the manufacturing sector which distort the potential of the country and its manufacturing prowess. There is critical need of interventions in these areas:

- India's weak infrastructure continues to be a fatal flaw for the manufacturing sector. Even today, India's surface transportation systems simply cannot meet the expectations of modern high-speed logistics – the backbone of efficient manufacturing. In terms of transport, it is imperative to note that 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 %.
- Inefficient regulations add to the infrastructure gaps. In the current set up, a business is subject to multiple central and state level regulations and compliances increasing the cost of production and

³ <https://economictimes.indiatimes.com/news/economy/foreign-trade/scheme-to-develop-700-districts-as-export-hubs-on-cards/articleshow/89192447.cms>

curbing the potential of the industrial growth. Sustained measures by the government are being taken which include moving licensing and compliance processes online, simplifying procedures and permitting self-certification in larger number of areas.

- India has a favorable demographic dividend for the next 20-25 years. According to the eighth edition of India Skill Report 2021, only 45.9 per cent of graduates are employable, a decline from 46.21% in 2020 and 47.38% in 2019 ⁴It is crucial that need based skills are imparted for upskilling and knowledge upgradation in order to successfully absorb the young burgeoning population towards manufacturing sector. Skill development facilitates a cycle of high productivity, increased employment opportunities, income growth and development.
- Policy measures at the national level are not enough to strengthen exports and efforts must begin with improving competition in the domestic markets. India has a conducive business environment and favorable policies in place, but they are not translating into a strong export ecosystem. A weak export ecosystem owing to the poor trade support, inability of the states to build export hubs etc are important areas that need policy reforms.
- Another challenge for India is the lack of access to financial facilities for exporters. This is primarily because of the lacunae of loan facilities to be provided to the exporters. Only 12 states have this provision, marking most of the states outside the gambit. Additionally, the low export credit constitutes as another impediment for financial accessibility. Resultantly, access to financial facilities remains a challenge in most states and will form a key area for interventions going forward.
- In the current state, India has limited presence of women in manufacturing sector. The impediments for workforce participation of women in the Indian context include gaps in educational attainment, social norms, restrictive institutional frameworks, etc., which in the manufacturing sector are compounded by challenges related to physical safety, infrastructural gaps, legal and regulatory challenges, shift working, conscious or unconscious biases in promotion or recruitment of women, among others.

WAY FORWARD

There should be sustained and collaborative effort from all stakeholders to translate the vision of Atmanirbhar Bharat. Following are some of the broad steps that need to be taken:

- One of the key areas of intervention is developing the physical and digital infrastructure of the country. The government has already committed on this front, discernible from the Union Budget 2022 which puts equal emphasis to all physical infrastructure including roads and highways, railways, urban infrastructure, power, port, shipping and airways, and petroleum and natural gas. Along with this, there should be focus on extending broadband connectivity to accelerate IT enablement.
- Shift to multimodal transportation for faster movement of goods with less cost of production- Multimodal logistics involves carrying freight from point of origin to final destination, using more than one mode of transport — road, rail, air and waterways. Projects are already underway, for ex- Completion of the Dedicated Freight Corridors (DFCs) will also enhance the share of rail freight in the country from the current 30% to around 60-70% as in developed countries. NITI Aayog Strategy @ 75 also outlines setting up of an IT enabled platform for integrating different modes of transport in order to promote multi modal and digitised mobility.

⁴ <https://indiaeducationforum.org/pdf/ISR-2021.pdf>

- Better implementation of large- scale projects is a critical area of intervention. There is need to accelerate the completion of projects so that there is timely closure and the end outcomes of the interventions are realised.
- India must improve and follow-through the regulatory reforms such as labour and land acquisition reform, commercial law approval processes and regulations, tax credits and grants for investors. Favourable policies which lessen the burden of compliances and burdens need to be introduced to increase the ease of doing business and make India a lucrative recipient of investment and industrial growth.
- Since focus is on making Government to Business and Government to Citizen interfaces online, transparent and time bound, single-window system mechanisms need to be implemented, with focus on end-to-end digital governance. Faceless, paperless and contactless measures should also be implemented.
- The abundant supply of working age population in India has the potential to drive manufacturing growth. However, the challenge before the government is to boost education and skill development. One of the key line items going forward is designing a Labour Market Information System (LMIS) in order to effectively identify skill shortages, training needs and employment creation.
- The different ministries should work in collaboration towards creating an inclusive ecosystem for entrepreneurs. The share of women entrepreneurs needs to be increased through providing access to resources, finances and market share along with cultivating a behavioural change towards gender roles and women in public sphere. The policies need to be studied from the lens of gender mainstreaming to truly create equal opportunities for all.

