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India Rising

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How PM Gati Shakti and Atma Nirbhar Bharat will help meet the aspirations of her citizens

There is a need to understand the importance of Prime Minister Gati Shakti (PMGS) and overall program of 'Atmanirbhar Bharat' as more than just infrastructure and industrial development programs. They are the critical building blocks for socio-economic transformation of India, and meeting the hopes and aspirations of millions of Indians. This article attempts to connect the dots to explain how Prime Minister's Modi's bold vision for an Indian renaissance is closely tied to these initiatives.

Economic Development to meet citizen's aspiration

Economic development that does not meet the aspirations of the people is not economic development in true sense. The biggest aspirational challenge for a country like India with the world's largest cohort of youth is to create good jobs-the kind of jobs that will lead to middle-class status and livelihoods for millions of young men and women in our country.

Creation of such middle-class jobs that provide stable livelihoods in such large numbers can only happen in manufacturing and industry. The example of other Asian economies that pulled out of millions of their people from low-income status or poverty and created overall economic prosperity underlines this importance of industrial sectors jobs in delivering

the promise of economic security to a country's citizens.

It is not uncommon to find young couples from rural areas of India, especially from less industrialized states of the Indo-Gangetic valley such as UP, Bihar, Jharkhand and West Bengal working several informal jobs, sometimes more than 16 hours a day so that their children can get a good education in better quality schools in urban areas and thus become qualified for 'good jobs' Such sacrifice and resilience is the hallmark of our shared Indic civilization that takes a multi-generational view of development. In that sense all middle-class Indians stand on the shoulders of 'giants'- i.e., of their parents who made huge sacrifices to provide a better life to their children. This sub-text of sacrifice informed by our Indic values is not talked or discussed enough in our discussion on economic development in our country.

But the sad truth is that economic opportunities have not kept pace with aspirations. Which in turn means that sacrifices being made by parents across India might not result in providing the desired economic security for their children. Inability to meet this challenge will be a betrayal of the dreams and hopes of millions of citizens across our country.

This challenge underlies the kind of socio-economic issues that have become increasingly common. The mad-rush for government jobs that are seen as vehicles for economic stability and middle-income status is one example. Thousands of post-graduates

and even engineers apply for jobs as peons or clerks. The ever-increasing identarian politicization that creates newer fault-lines a direct outcome of need for reservation for such government jobs and opportunities

The challenge....

The population of those below 30 years in India is estimated to be about 730 million people. This cohort in the Gangetic plain states alone would be about 230 million youth. To provide manufacturing sector jobs to 30% of this youth would mean that the economy would have to provide for 220 million industrial sector jobs.

As of date only about 26% of Indian employment is in the broad industrial sector, representing about 100 million jobs. This is an improvement from about 24% in 2014, achieved under difficult circumstances despite the shocks to the system between 2020 and 2022 due the global pandemic, but still much short of the demand for employment.

This challenge for job creation is further complicated by the fact the world undergoing a technological transformation-a new industrial revolution that is automating a large number of traditional manufacturing jobs, replacing humans with robots in factories, warehouses, mines and construction sites. Not only would India need to rapidly create millions of new jobs to help realize the aspirations of its millions, it would have to create jobs in new technology driven sectors that are not made redundant in this new industrial revolution.

This is the challenge that Modi ji was confronted with. What was clear is that business as usual will not work. Only a comprehensive response would be able to tackle the enormity of this challenge. The Prime Minister's Gati Shakti Masterplan (PMGS), and the Production Linked Investment Scheme (PLI) are such comprehensive responses. Let us examine how this is so.

Prime Ministers Gati Shakti

Indian economy is at a very exciting phase. Rapid urbanization and industrialization are resulting in the expansion of existing urban centres and industrial zones and the development of new urban agglomerations and new industrial clusters. Adoption of technologies such as solar and wind power in a large-scale are creating new mega-facilities in hitherto remote locations. E-commerce is touching the lives of consumers in the remotest of villages.

With planned reforms in the agricultural sector that empowers the Indian farmer to directly connect with the market, new agro-production and marketing clusters will emerge. As we will discuss later in this article, the planned economic corridors crisscrossing the country will lead to new large-scale industrial townships. As policies such as the production linked incentives (PLI) attract FDI, linkages with global-value chains will need to be supported with improved maritime and air connectivity with rest of the world.

In other words, without this multi-modal connectivity infrastructure as its backbone, the Indian economy will never be able to fully take-off and become globally competitive. Unfortunately, the planning and implementation mechanism for infrastructure suffered from poor coordination between departments of the central government, between centre and states, and between states. Ports got developed by state governments without providing for adequate road connectivity between the road and national and state highways.

Trucks took hours, sometimes days to cover the last mile. Rapid urbanization led to congestion around railways yards or airports costing trade time and money to move goods in and out of these facilities largely due to lack of coordinated development of urban logistics solutions which required municipal, state, and central ministries to work together. Even worse, sometimes road projects got started with accounting for pipeline or underground sewerage or cable works, leading to cost over-runs. Indian citizens are used to seeing the same road being dug up multiple times to lay different types of infrastructure.

The choice of which mode to use too was not dictated by cost or efficiency. Take just one example, the provision of a RoRo ferry service for trucks between west Bank of the river Hooghly and Kolkata port would reduce hours of transit time, pollution and urban congestion in the Kolkata area if the right infrastructure was developed for this solution.

Prime Minister Modi's vision was to change the current top-down planning model to one that is more bottom-up, with a clear understanding of the alignment of industrial zones, mines, agro-clusters, warehousing clusters, logistics parks, inland terminals and gateway ports.

This is exactly what PMGS does. **The National Logistics Master Plan developed under PMGS will be based on micro-level assessment of transportation needs of India's businesses, farmers and common citizens all of which will be mapped on to a single digital system to help this planning process.** This draws on best practices on logistics and transport planning in countries like Korea and Germany that have transformed their logistics infrastructure and are considered models for providing effective logistics solutions for their industries.

In order to help achieve greater coordination, the PMGS provides for an Empowered Group of Secretaries (or EGoS) with Secretaries of all transport ministries as members. Ministries of Petroleum and Natural Gas, Energy, and Communication and IT are also members since modern industrial infrastructure includes pipelines, electricity grids that 'transport' energy and fibre-optic networks that 'transport' data.

Chaired by the Cabinet Secretary, and coordinated by the Department of Promotion of Industry and Internal Trade (DPIIT), the EGoS will ensure that all infrastructure planning,

development and execution will be in coordination with each other, providing India with a world-class eco-system. The EGoS will ensure that projects are seen holistically as providing an end-to-end solution for businesses and citizens, and not just from the narrow prism of a single ministry. It would also have to have the capacity to coordinate with state governments and private stakeholders to fully appreciate location specific demands.

The breadth of vision and ambition of the GATI Shakti initiative, as outlined by Prime Minister Narendra Modi on 13 October provides hope that a radical change is underway. India will replace decades of top-down planning that characterized the last seven decades after independence and replace this with a truly bottom-up set up where the system would become responsive to the dynamic connectivity needs of the country's entrepreneurs and citizens. The PMGS reform has been backed by 1 lakh crore loan facility for State governments, providing 50 year interest free loans for development of PMGS compliant infrastructure. This would be a befitting gift for the nation on the 75th anniversary of our independence.

More importantly, as we shall see, the success of PMGS is intrinsic to the success of the strategic industrial policy vision of the NDA government.

Atma Nirbhar Bharat: India's free market strategic industrial policy

Some international economists, including of Indian origin have

misinterpreted Atma Nirbhar Bharat as a program for protectionism. Nothing could be further from the truth. Indian industry was governed by vested interests and collusion between some business lobbies and the government for about four decades between the 1950s and 1990s. Government decided what, where, and how much to produce, and by whom. This crony capitalism, the so-called license-quota raj, crippled Indian industry's ability to compete globally.

It was under these conditions that the reforms of 1991 were carried out. While government controls were reduced, there was no accompanying program to provide strategic support to Indian manufacturing that has been crippled by the debilitating policies of the last four decades. Reduction of import tariffs removed the protective walls that had protected Indian manufacturing for so long.

Those who hail the reforms of 1991, fail to mention this great lacuna of its architects. Every country that counts itself as a major manufacturing power today did so with active government support. Such support was strategic, and included ensuring access to cheap credit and land, efficient infrastructure, reducing administrative burden due to regulations, and support for technology acquisition and investments into key sectors that represented future opportunity for employment and technological advancement among other things.

That Indian manufacturing managed to hold its own, and indeed emerged as a global player in key

sectors like auto-parts and components and pharmaceuticals, speaks volumes for the entrepreneurial spirit and ability of Indian businesses. But the manufacturing sector did not expand as it should have, and did not create the millions of jobs that were needed to productively employ India's growing young population.

The comprehensive package of Atma Nirbhar Bharat is Prime Minister's Modi's brave and ambitious attempt to reposition Indian manufacturing within global value-chains. The program provides support in crucial ways to Indian manufacturing:

Facilitating Access to Credit and Land

High interest costs increase cost of doing business and makes Indian manufacturing less competitive. India has one of the highest interest costs in Asia, especially for its MSMEs that represent a bulk of the industrial value-chain. If working capital costs are high, short-term loans to pay for urgent purchases of raw material and services adds greater stress to cash flow management.

ANB provides for 3 lakh crores Collateral-free Automatic loans for Businesses, including MSMEs. This credit window is likely to be further expanded in the future. More radically ANB has launched a program of digital integration of available information across all banks for specific projects and for specific borrower businesses, with overall history of loan repayment, GST and other tax payment records,

and payment for purchases of individual business.

This would provide a credible and comprehensive record of reliability of a business, and for individual projects, allowing banks to make informed decisions on loan applications and charging interest rates that is reflective of the credit worthiness of the borrower, and not a generic rate.

This is transformational, especially for MSMEs, that have much less negotiating power with financial institutions, less collateral to offer, and do not have access to international financial markets like large corporates.

The other constraint for development of new manufacturing facilities or expansion of existing ones is land. A fresh start has been made by mapping 5 lack hectares of land in existing industrial parks and SEZs. A new SEZ policy is expected to allow units located in SEZs to have greater flexibility to access Indian markets instead on pure focus on exports.

A comprehensive policy of industrial corridor development in partnership with state governments is leading to creation of large land-banks that could be accessed at competitive rates. A spirit of 'competitive federalism' has been infused with states competing to attract manufacturing investment. As mentioned, this is being complemented by PMGS program to ensure optimal connectivity and low operating costs.

Industrial parks are now being rated for the kind of common use facilities they provide as a means to incentivize the improvement of services they

provide the manufacturing sector. The availability and quality of such common use facilities which can include back-up power, water-treatment, warehousing, machine maintenance etc. are especially important as they bring down overall cost of production and allow new units to quickly start production

Facilitating Investment and Ease of Doing Business

Prospective investors in India are often deterred by the complexity of the system of approvals and permits needed to set up a manufacturing unit or logistics facility such as a large warehouse. A large project can be held up for weeks, or even months, simply because one officer in one department does not provide an approval.

In order to drive greater coordination, and ensure that officers across departments are made accountable for time-bound and transparent decision making, provision has been made for fast-track investment clearance through an empowered group of secretaries or EGoS.

But the critical reform in this area has been Prime Minister Modi's single-minded focus on doing business reforms from day one of his administration have resulted in steadily improving India's position in World Bank's Doing Business Report rank from 142 in 2014 to 63 in 2019. This included streamlining processes related to procedural approvals, permits and clearances. The next phase of Ease of Doing Business

Reforms will focus on fast disposal of commercial disputes and simpler tax regime for making India one of the easiest places to do business.

Targeting new sectors: Addressing Industrial Revolution 4.0

Jobs in both manufacturing and services are under threat from automation. While robots are replacing humans in the factory floor, and in many back-office functions. This is especially true of low-skill repetitive jobs in traditional industries.

India needs to attract investment in new industries and sectors that would ensure India's presence at the centre of global value-chains in the decades to come and help ensure sustainable job creation. The Production Linked investment schemes for target sectors like solar PV modules, advanced technical textiles, chemistry cell batteries, auto and auto parts with a special focus on electric vehicles, drones and drone components, semiconductors etc. is radical shift in India's industrial development policy.

Linking incentives to actual production, and not just the quantum of investment is a departure from business as usual, and would ensure that investing firms put in the best of technology and quality control into their manufacturing lines since they would have to meet production targets, and whatever they produce would have to be sold in a competitive and quality conscious market. Unsold inventory from their production lines would be drag on return to investment. Thus,

PLI provides a structural design to incentivize quality and technological sophistication into manufacturing investment.

Attracting investment in sophisticated industries is one aspect of ensuring future job security for India's youth. This has to be matched with adequate efforts at skill development focusing on the job roles that would become important in this new industrial environment where humans would need to work with intelligent machines and robots. This would require familiarity with new technologies and new factory or warehouse processes.

The New Education Policy (NEP) and Skills India program are attempting to address this challenge. This article would not get into this detail, the linkage between NEP and the new industrial eco-system should be the subject matter of a detailed article on that topic.

Revitalizing MSME

MSMEs form the bedrock of the manufacturing eco-system in major manufacturing economies like Germany, France, China, and Japan. MSMEs have played a critical role as job creators and exporters in India as well. But poorly designed policies established a low threshold for MSME definition. This meant that expansion in scale would lead to MSMEs losing their benefits, creating disincentive to their growth. This had held many MSMEs back from realizing their true potential.

Revising the MSME definition for capital and machinery significantly upwards have created space for growth and technology adoption. As an illustrative example, the investment criteria for micro industries used to be mere 25 lakhs. This limit would not allow any significant investment in better technology or quality control. Now this limit has been revised upwards to 1 crore, creating space for technology adoption and product development not possible before. These reforms would bring in transformational change in the MSME sectors, unleashing their massive reserve of entrepreneurial talent. Indian MSMEs would increasingly be able to make their presence felt in global-value chains with newer and better-quality products.

As mentioned before, MSMEs face severe stress in cash management. They have to extend credit to their buyers to survive in the market, but due to their lesser negotiating capacity have to often pay their suppliers up front or within a short period of time. Any disruption to the supply-chain, or late payment by a major buyer can create financial havoc for a MSME.

In addition to the 3-lakh crore collateral free credit window mentioned earlier, a 20 thousand crore fund to relieve debt stressed MSMEs and a 10 thousand crore equity infusion to create MSME funding facility has also been provided under the Atma Nirbhar Bharat program. This fund will also help MSMEs get listed in the stock market.

MSMEs represent grassroots entrepreneurship in manufacturing. They were held back by decades of controls and lack of concern for their welfare in an eco-system that held entrepreneurship and profit making in contempt. **The unleashing of MSMEs represents a huge shift whose ramifications are yet to be understood by mainstream media and commentators. A silent revolution is underway-as thousands of Indian MSMEs entrepreneurs, empowered to take greater risks and dream big, start innovating with new products and technologies. India in time will emerge as a global hub of industrial innovation and become a dominant player in manufacturing.**

A new India is emerging

PMGS and Atma Nirbhar Bharat represent the foundations of a new Indian economy. These programs are being complemented by strategic trade and supply-chain policies. Prime Minister Modi has correctly identified the Indian consumer and the size of India's economy as a major strategic lever that needs to be judiciously used to attract investment and compel technology transfer. India's ongoing engagements on Free Trade Agreements with major economies and the recently launched Indo Pacific Economic Framework for Prosperity (IPEF) represents this strategic approach, and will be the topic of a future article.

It needs to be pointed out that both PMGS and the various programs under the Atma Nirbhar Bharat program

require states to play a major role. In our federal system, states play the critical role in execution of infrastructure and setting up and operating factories and warehouses. States are primarily responsible for providing land for infrastructure or industry, approving projects, or providing different types permits. The extent of actual ease of doing business on the ground would be defined by the quality of state level administrations.

If politics comes in the way of state governments from wholehearted participating in these programs, this would result in those states losing out. Political opposition should not impair partnership between centre and states to ensure economic development.

The next 25 years up to 2047, our centennial year of independence, is truly a 'Mahotsav'. The vision for India's economic transformation represents the celebration of the Indian spirit for hard-work, industry and entrepreneurship. The greatest tribute to the millions of Indians over generations who have made great sacrifices and bravely faced the greatest of adversities so that their children can thrive and have a better life, is to lay the bedrock of a competitive economy that provides sustainable livelihoods and economic independence to all our citizens. PMGS and Atma Nirbhar Bharat lays the bedrock of such a competitive economy.

(The writer is an independent trade and logistics expert and writes extensively on these issues. The views expressed are his own)

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