

## **Report on the India Mission**

**October 19, 2012**

### **GRIPS Development Forum**

Researchers of the GRIPS Development Forum visited India (Delhi and its vicinity, Gurgaon and Manesar in the State of Haryana) during September 23-29, 2012 to study India's experiences in economic and industrial policy making and to draw lessons for other developing countries including Ethiopia and Vietnam<sup>1</sup>. The mission members were Prof. Kenichi Ohno, Prof. Izumi Ohno, and Ms. Mieko Iizuka (research assistant).

The mission studied (i) methodology of India's economic and industrial policy making, including the policy contents and processes of the latest Five-year Plan, the National Manufacturing Policy, the Delhi-Mumbai Industrial Corridor, kaizen (productivity and quality improvement), investment attraction, and the roles of export promotion organizations and industry-specific organizations; and (ii) institutional aspects of policy making at present and in the past including how coordination works among various ministries, agencies, and other stakeholders; the roles of state governments and the private sector; and how implementation and monitoring and evaluation mechanisms are set up.

We had meetings with government ministries and agencies, the resident office of the State of Gujarat in New Delhi, business associations, industry-specific organizations, and research institutes and universities (see attachments for mission schedule, places visited, and information collected). We would like to express our deep appreciation to all organizations and individuals who kindly received us and shared valuable information with us. This report summarizes main findings of the mission.

#### **1. The state of the economy: liberalization and the role of manufacturing**

After independence in 1947, India embraced heavy industrialization and state-owned enterprise development under socialistic planning. Serious effort in economic liberalization was started in 1991 by the Narasimha Rao government (1991-1996) where Dr. Manmohan Singh, the current Prime Minister, served as Finance Minister. Economic growth and FDI inflow were stimulated by this policy shift. Ever since, despite changes in ruling parties, India has stayed on the course of gradual and steady liberalization. In 1991, seven sectors were designated as public-sector only areas, 18 sectors were licensing areas, and over 800 sectors were reserved only for small-scale enterprises. Today, only two areas are public-sector only areas (atomic energy and railroad), only five areas are licensing areas

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<sup>1</sup> The purpose of this mission, which was commissioned by JICA, was to compile information on industrial policies in selected Asian countries for the policy learning of other developing countries. In the phase 1 of Japan-Ethiopia industrial policy dialogue 2009-2011, we visited Singapore (August and September 2010), South Korea (November 2010), and Taiwan (February 2011). Our India mission was part of phase 2 of Japan-Ethiopia industrial policy dialogue 2011-2013.

(defense industry, industrial explosives, cigarettes and tobacco, hazardous chemicals, and portable alcohol), and only 20 items are reserved for small-scale enterprises. Many of these permissions are devolved from federal to state levels.

According to a non-government researcher, remaining focal points in industrial policy are (i) licensing policy, (ii) FDI policy, (iii) monopoly restrictions and trade practices (MRTP), (iv) plan documents, and (v) annual budgets that determine actual resource allocation. According to other researchers, the only remaining significant economic controls are mainly in FDI policy, where Prime Minister Manmohan Singh just recently launched a new drive to liberalize even that area (multi-brand retail FDI). Another current move is introduction of “e-Biz” to simplify business permissions. Despite these policy efforts, however, India’s business environment generally and in reality still remains difficult and fraught with delays, ambiguity and bureaucracy according to foreign firms.

The Indian economy registered high growth in the early 2000s, to the tune of 9% per annum, but growth has fallen recently to the 6% level<sup>2</sup>. This slowdown was partly due to the tightening of macroeconomic policy to fight inflation and partly due to the impact of a series of global crisis. As interest rates rise and both domestic and global markets shrink, Indian manufacturers are currently facing difficulties. Fiscal and current-account deficits are other serious problems for India at the moment.

From a longer perspective, high growth generated by economic liberalization in the past two decades was remarkable, but growth came mainly from service sector expansion in which ICT and finance were prominent drivers. Services rose and agriculture fell in the share of GDP, but manufacturing’s share remained stagnant at about 15-16%. A concern rose among political leaders that lopsided growth in certain service sectors did not produce enough jobs for all, and that strong manufacturing was needed to sustain shared growth in a huge economy such as India. The incumbent United Progress Alliance (UPA) government led by Prime Minister Manmohan Singh, which came to power in 2004, immediately appointed Dr. V. Kurishnamurti as the head of the National Manufacturing Competitiveness Council (NMCC) to coordinate related ministries and produce a manufacturing policy for the first time in India. Businesses and academics also participated in this policy formulation. The National Manufacturing Policy (NMP) was finalized in 2011 and implementation details are currently worked out. The key thrusts of NMP will be carried into the industry chapter of the 12th Five-year Plan. Details of the procedure and content of NMP will be discussed below.

The overarching “macro” objective of Indian economic policy is job creation, followed by value creation, infrastructure, ameliorating regional inequalities, further liberalization, and so on. The new manufacturing drive is required mainly to create more jobs on a broad basis,

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<sup>2</sup> The reader should be aware that India’s economic data captures only registered (formal) units with 10 or more employees whose shares of production and employment are two-thirds and one-fifth, respectively, in the national economy. Annual changes in the small-scale sector, mainly family businesses, where wages and productivity are low, are difficult to estimate although surveys are conducted for such enterprises every five years.

not just for few elites and professionals. India's sectoral preferences are not very strong; priority sectors in manufacturing are specified but they are not given special incentives or treatments unlike in some other countries.

As explained below, India's policy making features broad consultation with all stakeholders, especially business associations and academia. In addition, as a federal state, close consultation with state governments is a must. Policy visions are generated both top-down and bottom-up, as extensive consultation covers various aspects and interests and informs them for policy makers, while the Prime Minister announces prioritization based on such information. It is amazing to see such a complex and "democratic" policy formulation to work so reasonably well in India without breaking down or causing significant delay and confusion. At the same time, implementation and ultimate performance are less spectacular and also vary across states. Proactive states such as Gujarat, Tamil Nadu, and Andhra Pradesh are attracting domestic and foreign investment while conservative states are left behind. According to a representative of one of these proactive states, good economic performance requires a mixture of "enabling environment" (general liberalization) at the federal level and wise and strong leadership at the state level. Some researchers mentioned good governance and cultural differences as additional determinants of divergent economic performance across states.

## **2. The policy making process**

Reflecting the large size and diversity of the country, India's policy planning is systematic and comprehensive. It is said that a democratic process must take all important aspects into account if policy is to win legitimacy. Jurisdictions of federal and state governments are stipulated in the Constitution in which matters related to manufacturing fall into the category of "concurrent" or joint responsibility of both federal and local governments. Additionally, in the last ten years or so, the policy making process has become increasingly participatory and interactive among government, industry, and academia. Not only the Planning Commission but also all ministries, in producing any policies, now actively seek and incorporate the voices of industry, through business organizations such as the Confederation of Indian Industry (CII), the Federation of Indian Chambers of Commerce and Industry (FICCI), and the Associated Chambers of Commerce and Industry of India (AssoCham), as well as academicians in universities and think tanks. Policy making without deep interaction among key stakeholders is unthinkable in India today. The mission was informed by a number of researchers that government ministers often hijacked, "owned," and printed their names on studies independently prepared by them (external experts) when ministers discovered that the content was agreeable. Tripartite policy consultation among government, industry, and academia has become pervasive, substantial, and highly institutionalized in India.

## 2-1. The Planning Commission and the 12th Five-year Plan

India is well known for its elaborate machinery led and coordinated by the Planning Commission that produces development plans. The Planning Commission was established in 1950 and the first Five-year Plan was launched in 1951 under the chairmanship of Jawaharlal Nehru. While five-year planning was interrupted several times in the 1960s, 70s and the early 90s due to India's political and economic crises, it has been normalized since the Eighth Plan 1992-97. The Planning Commission consists of Prime Minister as *ex-officio* Chairman, one Deputy Chairman appointed by Prime Minister with the rank of a full Cabinet Minister, and full-time members who are experts of such fields as economics, industry, science, and general administration<sup>3</sup>. Cabinet Ministers with certain important portfolios act as part-time members of the Commission. Mr. Montek Singh Ahluwalia is presently Deputy Chairman of the Commission. The Commission works through its various Divisions (the website shows 30 Divisions, including Industries Division). Full-time members of the Commission provide advice and guidance to the subject Divisions for formulating Five-year Plans, Annual Plans, State Plans, Monitoring Plan Programs, and Projects and Schemes.

The 12th Five-year Plan (2012-17) was recently approved by the Cabinet. This Plan seeks to achieve average economic growth of 8.2% per annum. The overarching vision of the 12th Five-year Plan is "Faster, Sustainable, and More Inclusive Growth"<sup>4</sup>. The Plan has been drafted through extensive stakeholder consultation, taking about one-and-a-half years since April 2011 when preparation works started. The Plan document will be placed for final approval by the National Development Council (NDC) which has all Chief Ministers and Cabinet Ministers as members and is headed by the Prime Minister, and must eventually be approved by the Parliament. It will then be reflected in the annual budget, with the new fiscal year starting April 2013.

The nature of Five-year Plans and the role of the Planning Commission have evolved over time. The first eight plans put strong emphasis on the public sector with massive investment in basic and heavy industries. Since the launch of the Ninth Plan in 1997, Five-year Plans have become more indicative. The function of the Planning Commission has changed accordingly from central planning to policy coordination through multi-stakeholder consultations. There are a large number of ministries and agencies in India whose policy scopes are limited to narrow sector issues. To rectify this situation, the Planning Commission is increasingly becoming a focal point for producing a holistic approach in formulating policies and bringing "macro" and cross-cutting perspectives in the critical areas of human and economic development. Many officials and experts note that the Five-year Plan still remains an important policy document which sets priorities and policy direction of

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<sup>3</sup> The tenure of full-time members and Deputy Chairman is not fixed. The total number of members can also change according to the wish of the government.

<sup>4</sup> See Approach Paper to the 12th Five-year Plan. Before the Plan is drafted, the Planning Commission prepares an Approach Paper which lays out major targets, key challenges in meeting them, and a broad approach that must be followed to achieve the stated objectives. The Approach Paper is approved by the Cabinet and the NDC.

the country every five years and influences the allocation of development budget (excepting for defense, subsidies, and maintenance). Based on the Five-year Plan, the Ministry of Finance formulates annual budgets. It is also charged with the recurrent budget. The Planning Commission conducts mid-term appraisal of Five-year Plans. Because of the country's size and diversity, five-year planning continues to enjoy legitimacy as an instrument for ascertaining the current situation of socio-economic development and agreeing on future direction through the process of multi-stakeholder consultation.

At the same time, we heard from a number of officials and experts that implementation is a problem not only for the Five-year Plan but also for other key policies under it. Once the Five-year Plan is approved, individual ministries assume responsibility for implementation, by "notifying" (officially announcing) policy measures and securing budgets. Furthermore, under the federal system, state governments are also charged with executing a large part of policy measures. While close collaboration between federal and state levels is necessary, in reality it is difficult to always ensure this.

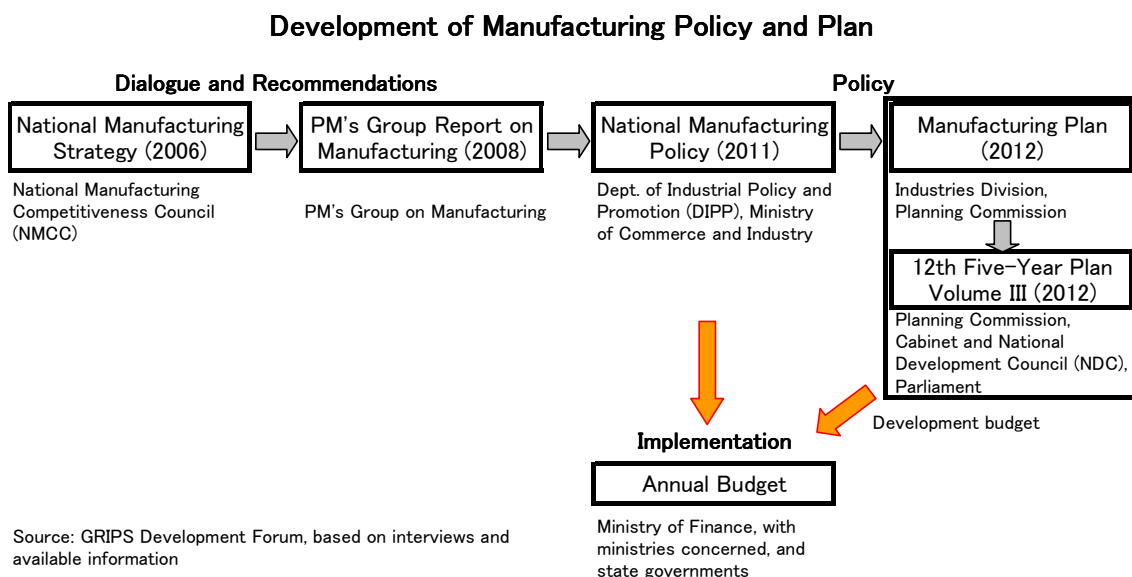
## **2-2. Key features of the 12th Five-year Plan as related to the Manufacturing Plan**

The Industries Division of the Planning Commission assumes prime responsibility for creating policy inputs to the industry chapter of the Five-year Plan. In the process of drafting the 12th Five-year Plan, 25 working groups (WGs) were created, with 15 WGs for sector-specific industries (e.g., steel, automobile, and textile) and 10 WGs dealing with cross-cutting issues (e.g., business environment, environment sustainability, and export competitiveness). Sectoral WGs are normally chaired by respective ministries in charge. These WGs submit reports to the Planning Commission. Although these reports are not treated as official documents of the Planning Commission, the Commission takes due note of their recommendations as policy inputs to the Five-year Plan.

According to the Advisor of the Industries Division of the Planning Commission, with regards to the formulation process there have been two notable changes in the industry chapter of the 12th Five-year Plan: (i) more attention given to cross-cutting issues which are beyond the interests of specific industries; and (ii) more intensive consultation with various stakeholders including ministries and agencies concerned, the private sector (through business associations and industry-specific organizations), think tanks, and universities.

Regarding (i), for the first time in India's planning history, the Manufacturing Plan was created as a new and comprehensive document on industry for informing and serving as a pillar of industry chapter of the 12th Five-year Plan. The Steering Committee was established and managed by the Industries Division to provide the overall guidance and strategic direction to the development of this Plan. In this process, recommendations of various reports produced by WGs were incorporated. The Manufacturing Plan also gave due consideration to the NMP produced by the Department of Industrial Policy and Promotion in 2011 (see section 3).

Regarding (ii), both government officials and experts and researchers in the private sector whom we met confirmed a very intensive nature of multi-stakeholder consultation<sup>5</sup>. Many experts and organizations stated that they took active part in the policy-making process through diverse channels of communication and appreciated the government’s effort on this.



### 3. National Manufacturing Policy (NMP) and related documents

In 2011, the Indian government formulated the National Manufacturing Policy (NMP). This was the first policy document for the manufacturing sector in India. The NMP sets two main targets that must be attained by 2022: (i) increasing the share of manufacturing in GDP to at least 25% (currently around 16%); and (ii) creating 100 million additional jobs (which is almost doubling the current manpower of 120 million). There were several reasons for such a manufacturing drive. First, there is a growing concern about the low and stagnant share of the manufacturing sector in India’s GDP compared to East Asian countries such as China (35%), Thailand (34%), and Malaysia (31%)<sup>6</sup>. The contribution of manufacturing in India is considered far below its potential. Second, India is a country with the largest young population in the world. This creates opportunities and challenges. India must have 220 million jobs by 2025 in order to reap the demographic dividend. Although India has achieved remarkable growth over the past decade, the main driver of growth was a few service sectors such as ICT, hostelry and finance, which however does not generate broad employment opportunities for all. There is mounting pressure to create gainful employment

<sup>5</sup> Our interviewees included the Confederation of Indian Industry (CII), the Apparel Export Promotion Council (AEP), the Society of Indian Automobile Manufacturers (SIAM), Jawaharlal Nehru University, the Institute of Economic Growth (IEG), the Research and Information System for Developing Countries (RIS), and the Indian Council for Research on International Economic Relations (ICRIER).

<sup>6</sup> Quoted from the National Manufacturing Policy of 2011 with original data based on the World Bank’s World Development Report.

for the entire workforce, especially for the youth, and robust growth of manufacturing is integral to the inclusive growth agenda of the government. This point was emphasized by many in our meetings with officials and experts. Such obsession with job creation is unique in India. In many East Asian countries, policy focus tends to cover global and regional competition (especially with China), productivity and innovation, integration into global value chains, industrial skill development, and other competitiveness-enhancing issues in addition to the number of jobs created.

Like Five-year Plans, the NMP is formulated through extensive stakeholder consultation in which the Department of Industrial Policy and Promotion (DIPP) of the Ministry of Commerce and Industry assumed prime responsibility for coordinating the drafting work.<sup>7</sup> The initial draft of the NMP was placed on the DIPP's website in March 2010 for stakeholder comments. In response, the National Manufacturing Competitiveness Council (NMCC) proposed a draft national manufacturing policy, incorporating the views of member organizations such as CII, FICCI, management and technical institutes, and various ministries. Industry-specific organizations sent their comments through their supervising ministries. The Planning Commission also commented on the draft NMP, and more recently prepared the National Manufacturing Plan, as part of drafting work of the 12th Five-year Plan as noted above. After the clearance of its final draft by the Cabinet, the NMP was notified by DIPP in November 2011. After that, it entered the implementation stage, with the latest Five-year Plan (through the Manufacturing Plan) supporting this policy direction.

It is important to note that, as a background of this work, the National Strategy for Manufacturing, published by the NMCC previously in 2006, played a critical role. This Strategy gave an impetus to the manufacturing drive and contributed to raising political awareness of "manufacturing imperative" in India. It triggered subsequent actions by the government, such as the Prime Minister's Group Report on Manufacturing (2008)<sup>8</sup>, NMP (2011), and the Manufacturing Plan (2012). The NMCC was created in October 2004 as an apex advisory body to the government based on public-private partnership. It acts as a policy forum for framing government policies to enhance competitiveness in the Indian manufacturing sector. Its Chairman, Dr. V. Krishnamurthy, is a guru in manufacturing who previously served as the first chairman and CEO of Maruti Suzuki as well as a member of the Planning Commission and enjoys high trust of the Prime Minister. The NMCC is composed of 25 members representing industrial sectors, management and technical institutions, economists, industry organizations, and various offices of the Indian government.

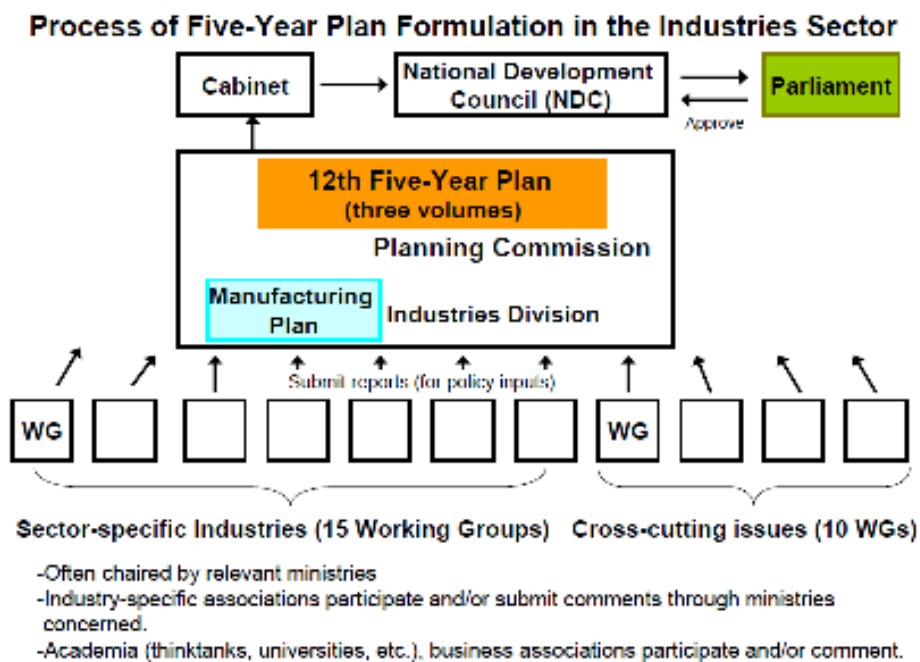
Content-wise, the most notable features of the NMP are (i) establishment of National

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<sup>7</sup> The Ministry of Commerce and Industry has two departments, the Department of Commerce and the Department of Industrial Policy and Promotion. Previously they belonged to different ministries.

<sup>8</sup> In 2008, Prime Minister Manmohan Singh constituted a group led by NMCC Chairman Dr. Krishnamurthy to look into the reasons behind the sluggish growth of the manufacturing sector. The group produced the Prime Minister's Group Report on Manufacturing, which recommended measures to ensure its sustained high growth.

Investment and Manufacturing Investment Zones (NIMZs) which intend to offer comfortable business environment for both exporters and domestic market targeting enterprises in place of failed SEZs; and (ii) rationalization and simplification of business regulations (e-BIZ project). These measures collectively aim to ease the problems of administrative red tapes and business regulations. The NIMZ is one type of industrial zones where procedural clearances are simplified—for example, in the areas of environment, labor, land acquisition—and one-stop-services are provided to enterprises but without any specific financial incentives. To this end, Special Purpose Vehicles (SPVs, for this purpose often called industrial estate management authorities in other countries) are to be created, assuming a role of developer of industrial zones. On the other hand, the e-BIZ project is applied to those firms operating outside an NIMZ. It aims to drastically improve business environment by providing efficient and convenient electronic services to investors in the areas of information on forms and procedures, licenses, permits, registrations, approvals, clearances, permissions, reporting, filing, payments, and compliance. Additionally, the NMP also discusses simple and expeditious mechanisms for closure of units, incentives for SMEs, industrial training and skill upgrading measures, and green technologies.



Source: CIRRI'S Development Forum, based on interviews and available information.

Here again, many government officials and non-government experts stated that the drafting process of the NMP had been consultative with very active participation of stakeholders including concerned ministries, apex business associations (CII, FICCI, AssoCham, etc.), industry-specific organizations, and academia. They appreciated the participatory process and opportunities provided for them to comment on the draft. The process of policy formulation in India is built on the value of democratic society with various constituencies, with enormous effort and energy being expended to ensure the inclusive and participatory nature of the process.



Despite the impressive policy formulation process, India continues to face problems in the implementation stage. This is another point stressed by many officials and experts we met. India needs to strike a balance between formal correctness of policy making procedure which can be supported by democratic aspiration of all stakeholders on the one hand and ensuring effectiveness of implementation (budgeting, staffing, monitoring, etc.) as well as obtaining ultimate objectives such as growth, productivity and competitiveness on the other. India seems to be very strong on the former but weak on the latter. Three things may be mentioned in relation to this problem.

First, though India is admittedly a huge and complex society, extreme subdivision of organizational structure makes the policy process unnecessarily cumbersome. For example, there are 12 ministries directly involved in manufacturing such as the Ministries of Textile, Steel, Heavy Industry, Micro and SMEs, and so on; and 48 ministries are either directly or indirectly related to the manufacturing sector. In most East Asian countries such as Japan, Taiwan, Korea, Malaysia, and Thailand, only one ministry directly handles all manufacturing issues. In export promotion, the textile sector alone has 10-12 agencies separately promoting exports of apparel, cotton, wool, synthetic fiber, handloom, power loom, silk, etc. whereas East Asian countries usually have only one export promotion agency for all sectors (JETRO in Japan, KOTRA in Korea, MATRADE in Malaysia, etc.)

Second, while state governments assume prime responsibility for implementing policy measures specified in the NMP, their commitment to policy reforms varies significantly. In manufacturing, state governments issue licenses, provide infrastructure, facilitate land acquisition, oversee environmental clearance, and so on. In these matters state autonomy is ensured and the federal government cannot simply instruct state governments. Consequently, great performance variation exists among states in, for instance, attracting investment and developing industries.

Third, although the NMP outlines policy direction and broad measures, there is no concrete action plan which specifies sub-actions, expected outcome, deadlines, monitoring criteria and procedure, organizations with principal responsibility, and organizations with supplementary responsibility. Such action plan matrices are used to ensure policy implementation in a number of countries, but no such mechanism has so far been mobilized in India.

National Investment and Manufacturing Investment Zones (NIMZs), featured in the NMP in which the Delhi-Mumbai Industrial Corridor (see section 5) is supposed to be the spearheading showcase, may also face similar problems in the forthcoming implementation stage. It is unclear whether and how fast the NIMZ concept can be put into practice. First, the establishment of an NIMZ requires approval by both federal and state governments. According to the NMP, the application for establishment of an NIMZ must be forwarded by the state to DIPP upon which DIPP will constitute a Board of Approval for considering all

such applications and approving such proposals as are found feasible. Each NIMZ will be notified separately by DIPP. How quickly and smoothly this process will go is to be seen. Second, it is questionable whether a state-run SPV is capable of functioning as an effective one-stop shop for NIMZs. Providing customer-oriented services to prospective investors and promptly solving daily operational problems faced by tenant firms in NIMZs is a challenge that requires deep understanding of global trends, enormous expertise, and dedicated effort. East Asian experiences show that only a limited number of industrial estates can supply such services, and it is particularly a tough call for state-run bodies. In fact, industrial zones in East Asia, upon official approval, are usually built and managed by domestic or foreign private developers rather than operated directly by the public sector. Given that Indian authorities have not had any experience in offering efficient business-support functions in industrial estates, how effectively proposed SPVs can operate needs to be seen.

#### **4. Kaizen**

The concept and practice of kaizen, and its associated tools such as 5S, muda elimination, suggestion box, QCC, TQM, quality awards, etc., are widespread among officials and organizations in the manufacturing sector of India. Though our mission had no time to study the extent of sectoral or geographical reach, it is clear that kaizen is a firmly established practice in the Indian automotive sector and is also recognized in some other sectors such as textile<sup>9</sup>. India is one of the few countries that use the Japanese term “kaizen” to denote this practice<sup>10</sup>.

Kaizen was introduced to India with the establishment of the first factory of Maruti Suzuki (joint venture of Suzuki for automobile manufacturing) in Gurgaon in the State of Haryana in 1984. Indian managers and engineers at Maruti Suzuki were trained and local component suppliers were selected and improved as required by Japanese quality standards. For this, the Maruti Center for Excellence (MACE) run by Maruti Suzuki, as well as the Association for Overseas Technical Scholarship (AOTS)<sup>11</sup> training in Japan (Nagoya), played key roles. Japanese component suppliers, such as Daiichi, and Japanese organizations, such as the Japan Productivity Center, also assisted Indian companies. Introduced practices changed names from Toyota Production System (TPS) to Suzuki Production System (SPS) then to Maruti Production System (MPS) but the contents remained essentially the same. Honda also teaches kaizen. Other automotive producers in India include Hyundai, Toyota, GM, Volkswagen, Tata, and Mahindra & Mahindra (the last two are local and mainly produce commercial vehicles).

After nearly three decades of introduction, kaizen is widespread among car assemblers and

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<sup>9</sup> Previously we visited an Indian textile firm spinning synthetic fiber in Kitwe, Zambia, which practiced kaizen throughout its factory.

<sup>10</sup> The term kaizen is also well known in Thailand and Ethiopia among industrial circles. In Singapore, Taiwan, Korea, and Malaysia, substance of kaizen is broadly introduced without calling it kaizen.

<sup>11</sup> In April 2012, AOTS and the Japan Overseas Development Corporation (JODC) were merged into the Overseas Human Resources and Industry Development Association (HIDA).

component suppliers. It is practiced smoothly without Japanese assistance. All 380 first-tier suppliers of Maruti Suzuki must practice kaizen which is introduced by vendor training programs and monitored regularly. Local suppliers teach kaizen to employees and new recruits through in-house training as well as MACE and other external programs. One salient feature of Indian kaizen is active interaction and migration of kaizen leaders both vertically and horizontally (between Maruti Suzuki and suppliers as well as among suppliers). It is common that experienced kaizen experts at Maruti Suzuki teach vendors through short-term visits or long-term assignments. Kaizen leaders of each company know each other well through various programs, award ceremonies, and mutual assistance. This promotes information sharing, standardization, and training of new employees. While exact data are difficult to obtain, it is suspected that highly experienced Indian kaizen leaders are thousands in number, if not more. While excellent persons and practices are frequently recognized by prizes and awards, India does not have any formal licensing or certification of kaizen leaders.

Another interesting feature of India is that kaizen has so far been private sector activity without any support from government. In this sense, its development is closer to Japan than Singapore or Ethiopia where the state is (was) the initiator of national productivity movement. The Confederation of Indian Industry (CII) and the Automotive Component Manufacturers Association (ACMA), as business associations, are active promoters of kaizen. CII is particularly important in spreading the practice to non-automotive sectors. Its headquarters has a library that carries manuals and textbooks on kaizen. In this regard, JICA's Visionary Leaders for Manufacturing (VLFM) program, led by Professor Shoji Shiba, for inculcating the spirit of Japanese manufacturing to senior and middle managers, is an important component (human capital). Another important industrial cooperation of JICA is the Delhi-Mumbai Industrial Corridor (physical infrastructure), as discussed below.

The mission visited one factory, Horizon Industrial Products, Pvt. Ltd., a Blue Peter Group company, in Manesar Industrial Zone in the State of Haryana. Blue Peter was a metal utensil manufacturer which turned to the production of Maruti Suzuki components with the help of Maruti Suzuki in 1985 and Honda components in 1996. Its products are welded and stamped automotive metal parts (45 parts for 6 car models) as well as jacks for all Maruti Suzuki cars. The factory has 120 staff (all Indians, of whom 60 are managers and engineers) with a very low turnover (1% quit rate per year). It has six experienced kaizen leaders who migrate actively across companies, three of whom were trained by AOTS. General Manager Mr. V.K. Saxena is a veteran of kaizen since 1984 who was dispatched from Maruti Suzuki to Horizon in 2010. The factory practices the same quality and productivity activities as in any excellent Japanese company, including morning meetings, weekly staff meetings, wall posters, kaizen and other boards, safety control, suggestion box, red box (rejected parts are analyzed), in-house training and awards, seven QC circles, clean toilets, family events and sports, etc. It received the Corporates of the Future Award from CII and 5S Silver Award from the Suppliers Convention. For Maruti Suzuki (largest customer occupying 60% of orders), the Dispatch Instruction System is used where part orders are

received on the previous day by email and delivered the next day by trucks, by 11am to the Gurgaon Factory and by 2pm to the Manesar Factory of Maruti Suzuki.

## **5. Delhi-Mumbai Industrial Corridor and investment promotion by the State of Gujarat**

The Delhi-Mumbai Industrial Corridor (DMIC) is a flagship project of the governments of Japan and India, agreed by the two top leaders<sup>12</sup>. DMIC is conceptualized to eventually become India's largest industrial belt by linking the industrial zones and harbors of the six states between Delhi and Mumbai (Uttar Pradesh, Haryana, Madhya Pradesh, Rajasthan, Gujarat, and Maharashtra) in order to promote export and investment by foreign enterprises, particularly those from Japan. Under the DMIC initiative, plans are also being developed to create industrial zones and logistics hubs with well-developed infrastructure extending up to 150 kilometers on both sides of the Western Dedicated Freight Corridor (DFC) which aims to provide fast-freight railway connection between Delhi and Mumbai.<sup>13</sup> The Japanese government is actively exploring ways to support the implementation of the NMP for which the DMIC project is regarded as the principal instrument. The Japan International Cooperation Agency (JICA) has already signed ODA loan agreements (450 billion yen on STEP terms<sup>14</sup>) on the DFC project. The Japan Bank for International Cooperation (JBIC) is also supporting the DMIC Initiative by contributing to the Project Development Fund (US\$75 million) and equity participation in the DMIC Development Corporation (DMICDC)<sup>15</sup>. The majority of infrastructure projects in DMIC are envisaged to be implemented through public-private partnerships.

Out of the six states covered in DMIC, the State of Gujarat is the front runner in investment promotion and business environment. Furthermore, about 37% of the planned DMIC route will pass through Gujarat and more than 60% of total investment is likely to come to Gujarat (according to the information provided by the Resident Commissioner of Gujarat in Delhi). Thanks to its pro-active and business-friendly policies for investment promotion, Gujarat has achieved tangible results in enhancing the social and economic welfare of its people and has become a highly industrialized state. Gujarat accounts for 7.5% of India's GDP (2011-12), 17% of national industrial output (2011-12), 26% of total investments (implemented projects up to 2011), and 25% of India's exports (2010-11). With a long coastal line, the state is strategically located and its ports handle 37% of India's total port cargo (2011-12). Unlike other states, Gujarat is a power-surplus state that can supply electricity without interruption in every town and village in the state.

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<sup>12</sup> See the Japan-India Strategic and Global Partnership, signed by two Prime Ministers Mr. Noda and Dr. Singh in December 28, 2011, entitled "Vision for the Enhancement of Japan-India Strategic and Global Partnership upon Entering the Year of the 60th Anniversary of the Establishment of Diplomatic Relations." [http://www.mofa.go.jp/mofaj/kinkyu\\_img/20111229\\_01.pdf](http://www.mofa.go.jp/mofaj/kinkyu_img/20111229_01.pdf)

<sup>13</sup> Quoted from JICA homepage: <http://www.jica.go.jp/english/news/press/2010/100726.html>

<sup>14</sup> The scheme of Special Terms for Economic Partnership (STEP) is designed to promote ODA with a distinct Japanese profile through transfer of Japan's advanced technology and know-how to developing countries.

<sup>15</sup> JBIC will invest about 260 million rupees (\$4.67 million) or 26% stake and send an executive as a board member of the DMICDC. JICA will also send an expert to DMICDC to provide technical advice.

Gujarat's achievements can be attributed to three factors: (i) good leadership of the current Chief Minister, Narendra Modi, who assumed office in 2001; (ii) cultural traits of the Gujarat people who are industrious and business-oriented; and (iii) enabling business environment provided by the federal government through economic liberalization since 1991. In particular, Chief Minister Modi has won high reputation for his pro-business policy and moral authority. From around 2002-03, various reform initiatives were taken under his leadership, which led to increasing FDI to Gujarat. A good example is "Vibrant Gujarat Global Investors Summit," a summit organized every two years by the Gujarat state government inviting business leaders and prospective investors from all over the world. The first summit was held in 2003, and the sixth one is planned for January 2013. Gujarat is ranked top among Indian states in terms of total investment attraction including both domestic and FDI, and is poised to become a new hub for automotive production in India. Tata and Ford have already car plants in Gujarat<sup>16</sup> and Maruti Suzuki plans to build its third factory in Gujarat with expected start of operation by 2015.

Gujarat formulated its state industrial policy in 2009 embracing a vision of "Gujarat aspires to become a beacon of comprehensive social and economic development". The industrial policy of Gujarat discusses extensively the need to leverage DMIC and its surrounding area to integrate industrial, social, and infrastructure development. To this end, special emphasis is placed on clusters, large industrial zones (which can become NIMZs, subject to the approval of DIPP), special economic zones (SEZs), and special investment regions (SIRs). The state industrial policy is also mindful of the urgency of job creation and skill development in light of growing young population who will enter the labor market in the near future.

Regarding large industrial zones, the Gujarat Industrial Development Corporation (GIDC), an SPV funded by the state through paid-up capital, constructs basic infrastructure such as roads, power, water, sewerage, waste treatment, etc. and develops industrial zones including land acquisition<sup>17</sup>. The Industrial Extension Bureau (iNDEXTb) of Gujarat promotes investment in industrial and infrastructure projects, acting as a single contact point. As part of the DMIC initiative, establishment of an industrial park dedicated solely to Japanese enterprises is planned at Detroji (Sanand area)<sup>18</sup>. Currently, details are being worked out to launch the offer in December 2012. A unique feature of this industrial zone is deep involvement of the Japan External Trade Organization (JETRO) in providing full advisory and consultative services to Japanese firms interested in investing there. Furthermore, JETRO even directly negotiates with state authorities (including GIDC and

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<sup>16</sup> Tata Motors originally planned to invest in the State of West Bengal, but decided to eventually come to Gujarat due to the difficult business environment in the former, especially in land acquisition.

<sup>17</sup> In India, land acquisition for industrial purpose is a very difficult matter due to complex registration of land inherited through history which does not easily reveal all owners. As a result, investors must spend significant time in investigation and negotiation with farmers.

<sup>18</sup> Along DMIC, there are five planned NIMZs including a Japanese industrial zone in Gujarat (Detroji) mentioned in the text. They are the first NIMZs notified by DIPP. It should be noted, however, that the concept of DMIC was shaped before the NMP invented the concept of NIMZs.

iNDEXTb) on behalf of individual Japanese enterprises on matters that require immediate attention and action. In East Asia, such concrete problem-solving is usually handled by private industrial estate developers, foreign, or local, while JETRO's role is to provide general information and facilitate FDI in its initial stages. India is the only country where JETRO provides full investor services both before and after investment in place of private developers. Detroji is the second case of Japanese industrial zones fully supported by JETRO, following the Nimurana Industrial Zone located in the State of Rajasthan<sup>19</sup>. JETRO intends to scale up the expertise accumulated through the experience of the Nimurana Industrial Zone to other states, particularly Gujarat.

In India, manufacturing is the “concurrent” sector in which federal and state governments have shared responsibility for policy implementation. While the federal government sets minimum standards for the regulatory framework (e.g., environment, labor codes), state governments can set their own guidelines (which are stricter than federal standards), issue business licenses and permits, facilitate land acquisition, and supply infrastructure. Now that the first generation of economic reforms (general liberalization) has advanced at the federal level, state-level efforts for the second generation of reforms (which should include creation of jobs and value added) matter a lot for investors' choice of location for establishing new factories. States that offer superior initiatives and business environment are likely to garner the lion's share in new industrial investment.

## **6. Concluding observation**

Successful execution of development policies requires fulfillment of the following steps.

- (i) *Policy formulation*—vision creation, consensus building, stakeholder consultation, surveys and analyses, and documentation
- (ii) *Implementation*—budgeting, staffing, legal base, organizational setup, assignment of authority and responsibility, and monitoring and evaluation
- (iii) *Economic performance*—growth, structural transformation, job and income creation, productivity, innovation, and competitiveness.

Needless to say, (iii) is the ultimate goal while (i) and (ii) are the means to attain it. It must be stressed that perfection in (i) alone, or even (i) and (ii) jointly, does not automatically guarantee (iii). Each step requires separate expertise and conditions, and their linkage is a complex one. If (ii) is lacking despite good effort in (i), implementation must be additionally learned. If (iii) is missing despite progress in (i) and (ii), government should go back to (i) and re-work the direction and concrete content of the policy from scratch. Studying India's policy method sharply reminds us of linkage issues among these policy steps.

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<sup>19</sup> The Rajasthan Industrial Investment Corporation is responsible for the development and management of the Nimurana industrial zone. About 80% of the Nimurana Industrial Zone has already been rented out to approximately 40 companies.

India is very strong in (i) but weaker in (ii) and (iii). The new manufacturing policy in particular and development policies in general are the products of highly complex consultation and interaction of all key players—national leaders, federal and state governments, business associations, and academia. The participatory process is exemplary and admirable, and may even serve as a model for other developing countries. Virtually all officials and experts whom we interviewed emphasized that the huge size, diversity, and democratic tradition of India supported and legitimized this elaborate policy process.

Special features of India certainly dictate its policy methods. Due process and consultative effort must be respected. At the same time, however, it should also be pointed out that size, diversity and democracy do not justify all complexities and duplications. What can be simplified without loss of efficiency or legitimacy should be simplified. There seems to be excessive subdivision of policy organizations and too many overlaps of responsibilities within the Indian government that can be streamlined. For competent and proud technocrats, there is even a risk that policy formulation becomes the end in itself without producing final economic results. The way must be sought to strengthen (ii) and (iii) while maintaining the achievements in (i)<sup>20</sup>.

The first-generation reforms launched in 1991 were “easy” ones of gradual liberalization and opening up. The process has almost run its course and produced initial results in economic growth. However, this is not enough to compete globally and reach high income in the 21st century. The next step should be establishment of policies and institutions to encourage and even compel domestic citizens and enterprises to create value and compete effectively with a strong foundation in productivity and innovation. Topics frequently discussed by Indian authorities during our mission—further liberalization and deregulation, job creation, infrastructure, industrial zones, etc.—are traditional ones that constitute only a subset of industrial policy menus of East Asian high performing countries. From now on, India is likely to need more proactive industrial policy that not only cursorily mentions but can also actually implement a large number of capability enhancing measures such as TVET, skills matching, SME consultation and finance, FDI-local linkage, benchmarking, technology transfer, commercialization of R&D, coalition among government, businesses, and academia to produce new industries and products, and so on.

Attachments:

1. Mission schedule
2. Organizations/persons visited
3. List of information collected

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<sup>20</sup> During our stay in Delhi a local newspaper printed an article by one of the members of the Planning Commission (Arun Maira, “The Reforms That Matter,” *The Times of India*, September 29, 2012). His argument was that institutional reforms of government and policy making institutions were key to the successful implementation of the 12th Five-year Plan, in which coordination within the Indian system and administrative reforms were most urgent. Admittedly, coordination and effective administration are important for policy execution, but they are not enough. For India, acquiring technical expertise in industrial corridor design, strategic FDI attraction, one-stop investor services, etc. on the ground is equally important for successful policy implementation.

## Mission Schedule (23- 30 Sept. 2012)

### 1. Mission Members

<b>Kenicni Ohno</b>	Professor, National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan
<b>Izumi Ohno</b>	Professor, National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan
<b>Mieko Iizuka</b>	Research Assistant, National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan

### 2. Mission Schedule

DATE		TIME	ACTIVITY	
1	Sep 23	Sun	AM	
			PM	Arrival
2	Sep 24	Mon	AM	Prof. Amitabh Kundu, Jawaharlal Nehru University
			PM	Office of the Resident Commissioner, Government of Gujarat
3	Sep 25	Tue	AM	Confederation of Indian Industry (CII)
			PM	Indian Council for Research on International Economic Relations (ICRIER)
			PM	Mr. Kazuki Minato, Institute of Developing Economies, Japan (@IEG)
			PM	Prof. Arup Mitra, Institute of Economic Growth (IEG)
4	Sep 26	Wed	AM	Horizon Industrial Products PVT. LTD.
			PM	Apparel Export Promotion Council (AEPC)
5	Sep 27	Thu	AM	Dr. Ram Upendra Das, Research and Information System for Developing Countries (RIS)
			AM	Planning Commission
			PM	Society of Indian Automobile Manufacturers (SIAM)
6	Sep 28	Fri	PM	Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry
			AM	JETRO New Delhi
			AM	JICA India Office
			PM	National Manufacturing Competitiveness Council (NMCC)
7	Sep 29	Sat	PM	Department of Economic Affairs, Ministry of Finance
			PM	Departure (Kenichi Ohno & Izumi Ohno)
8	Sep 30	Sun	AM	Departure (Mieko Iizuka)



## Organizations/Persons Visited

### The Government / Governmental Organization of India

Organization	Name	Position
Planning Commission	Renu S. Parmer	Adviser (Industry & VSE)
Department of Industrial Policy & Promotion, Ministry of Commerce and Industry	Daniel E. Richards	Director
National Manufacturing Competitiveness Council (NMCC), Ministry of Commerce & Industry	Gaurav Dave	Joint Secretary
	R.Dharini	Deputy Chief
Department of Economic Affairs, Ministry of Finance	M.C.Singhi	Senior Adviser
	Gopal Singh Negi	Adviser
Office of the Resident Commissioner, Government of Gujarat	Bharat Lal	Resident Commissioner
Industrial Extension Bureau, A Govt. of Gujarat Organization	Amresh Chandha	Jr. Resident Officer
Apparel Export Promotion Council (AEPC)	Chandrima Chatterjee	Director, Economic & Consultancy /Compliance

### Research Institutes/ University

Organization	Name	Position
Jawaharlal Nehru University	Amitabh Kundu	Professor
	Purushottam M. Kulkarni	Professor
	Deepak Kumar Mishra	Associate Professor
	Bishwanath Goldar	Visiting Professor
Indian Council for Research on international Economic Relations (ICRIER)	Rajat Kathuria	Director & Chief Executive
	Arpita Mukherjee	Professor
	Chetan Ghate	Researve Bank of India Chair
	Sanjana Joshi	Senior Consultant
	Francis Xavier Rathinam	Senior Fellow
	Pooja Sharma	Senior Fellow
Institute of Economic Growth (IEG)	Arup Mitra	Professor of Economics
Research and Information System for Developing Countries (RIS)	Ram Upendra Das	Senior Fellow

### Private Sector

Organization	Name	Position
Confederation of Indian Industry (CII)	Sarita Nagpal	Deputy Director General
Society of Indian Automobile Manufacturers (SIAM)	Ritika Changia	Assistant Manager
Horizon Industrial Products PVT. LTD.	V.K.Saxena	General Manager (Quality)
	Sugata Roy Chowdhury	Factory Manager

### Governmental Organization of Japan

Organization	Name	Position
JETRO New Delhi	Tomofumi Nishizawa	Director (Research)
	Kenichiro Toyofuku	
JICA India Office	Shinya Ejima	Chief Representative
	Sei Kondo	Representative
	Kazuyoshi Ohnuma	Representative
	Yui Nakamura	Programme Specialist
Institute of Developing Economies	Kazuki Minato	Researcher

## List of Information Collected

Source	Title	Authors/Publisher
Jawaharlal Nehru University	Centre for the Study of Regional Development (CSSRD), A Profile Vibrant Gujarat, Global Trade Show 2013	CSSRD, SSS, Jawaharlal Nehru University
Office of the Resident Commissioner, Government of Gujarat	CD (including "Summit Brochure, Destination Gujarat, Sector Profile, Presentations & Films, Doing Business in Gujarat") 50 Golden Facts about Gujarat Destination Gujarat	Industrial Extension Bureau, A Govt. of Gujarat Organization
Confederation of Indian Industry (CII)	Welcome to Vibrant Gujarat - The Global Business Hub- Centres of Excellence Wider Perspectives, Clearer Strategies, Smarter Initiatives Retail in India, 2009	CII
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Society of Indian Automobile Manufacturers (SIAM)	Automotive Mission Plan 2006-2016 - A Mission for Development of Indian Automotive Industry- List of Items reserved for Exclusive Manufacture by Micro and Small Enterprise Sector	Ministry of Heavy Industries & Public Enterprises
Ministry of Commerce and Industry Department of Industrial Policy & Promotion (DIPP)	Definition of Micro, Small and Medium Enterprises in India (ANNEXURE-XI) Statement on Industrial Policy (July 24, 1991) Brief on Package for Special Category States of J&K, H.P. and Uttarakhnad Delhi-Mumbai Industrial Corridor (DMIC) Project National Manufacturing Policy Press Note No.2 (2011 Series) Annual Report 2011-12	DIPP, Ministry of Commerce and Industry
National Manufacturing Competitiveness Council (NMCC)	Measures for Ensuring Sustained Growth of the Indian Manufacturing Sector (Report of the Prime Minister's Group), September 2008 PPT: Welcome to the Mission Members of GRIPS, Japan The latest economic situation of India (Sept. 2012)	NMCC
JETRO New Delhi	JETRO Business Support Center (New Delhi) Economic situation and business environment of India (Sept. 2012) Comparative cost study for investment (Apr. 2012) List of Japanese companies operating in India (Oct. 2011) Trend of Japanese companies starting business operation in India, by industry (Apr. 2012~) Trend of local & foreign companies in India, by industry (Apr. 2012~) Summary of the 6th survey on wage (Jun. 2012) News Letter from JICA-India Office, Issue 18 & 19	JETRO, New Delhi Office (originally written in Japanese) JCCI (originally written in Japanese)
JICA India Office	List of Projects in India 2012 Operations & Activities in India Visionary Leaders for Manufacturing (VLFM) Indian National Award on Professor Shoji Shiba	JICA India Office JICA (originally written in Japanese) CII