India Needs to Improve Manufacturing Sector Performance to Return to High-growth Path, says World Bank

India Needs to Improve Manufacturing Sector Performance to Return to High-growth Path, says World Bank

Implementing GST and dismantling inter-state check posts are the most critical reforms needed for Indian manufacturing
As economic reforms gain momentum, Indias growth is likely to accelerate towards its high long-run potential. Measures such as a national Goods and Services Tax (GST), accompanied by a dismantling of inter-state check posts, can be transformational and significantly improve the domestic and international competitiveness of Indian manufacturing firms, said the latest India Development Update of the World Bank.
According to its estimates, simply halving the delays due to road blocks, tolls and other stoppages could cut freight times by some 20-30 percent and logistics costs by an even higher 30-40 percent. This alone can go a long way in boosting the competitiveness of Indias key manufacturing sectors by 3 to 4 percent of net sales, thereby helping India return to a high growth path and enabling large scale job creation.
According to the Update, a twice yearly report on the Indian economy and its prospects, Indias economic growth is expected to rise to 5.6 percent in FY15, followed by further acceleration to 6.4 percent and 7.0 percent in FY 2016 and FY 2017.[1]
"With economic reforms gaining momentum, long-term prospects for growth remain bright for India, said Onno Ruhl, World Bank Country Director in India. "To realize its full potential, India needs to continue making progress on its domestic reforms agenda and encourage investments. The government's efforts at improving the performance of the manufacturing sector will lead to more jobs for young Indian women and men.
Highlighting some of the significant trends in the Indian economy, the Update said growth has rebounded significantly due to a strong industrial recovery. Capital flows are back, signaling growing investor confidence as inflation has moderated from double digits, exchange rate has stabilized, and financial sector stress has plateaued.
Growth is expected to strengthen over the medium-term. WPI inflation is expected to moderate to 4.3 percent in the current fiscal, from 6.0 percent in the previous year while the FY2014 current account deficit of 1.7 percent is expected to widen marginally to 2.0 percent as import demand picks up and capital inflows rise. Fiscal consolidation is expected to continue through expenditure restraint, although there is room for revenue mobilization to strengthen, the Update cautions.
"Implementing the GST will transform India into a common market, eliminate inefficient tax cascading, and go a long way in boosting the manufacturing sector. The transformational impact of reform, particularly if enhanced by a systematic dismantling of inter-state check posts, can dramatically boost competitiveness and help offset both domestic and external risks to the outlook. , said Denis Medvedev, Senior Country Economist, World Bank, India.
According to the Update, Indias longer term growth potential remains high due to favorable demographics, relatively high savings, recent policies and efforts to improve skills and education, and domestic market integration. Improved growth prospects in the US will support Indias merchandise and services exports, while stronger remittance inflows and declining oil prices are expected to support domestic demand, the Update added.
The projections could, however, face risks from external shocks, including financial market disruptions arising out of changes in monetary policy in high income countries, slower global growth, higher oil prices, and adverse investor sentiment arising out of geo-political tensions in the Middle East and Eastern Europe.
Domestically, the risks include challenges to energy supply and fiscal pressures from weak revenue collection in the short term, the Update said. However, risks could be mitigated to a large extent by focusing on reforms that help the manufacturing sector.
Manufacturing in India accounts for around 16 percent of GDP, a level that has remained largely unchanged in the last two decades and is relatively low when compared to the 20-percent plus share in countries like Brazil, China, Indonesia, Korea and Malaysia, even after controlling for differences in per capita incomes. .
The Update said supply chain delays and uncertainty are a major, yet underappreciated, constraint to manufacturing growth and competitiveness. Regulatory impediments to the movement of goods across state borders raise truck transit times by as much as one quarter, and put Indian manufacturing firms at a significant disadvantage with international competitors.
State border check-points, tasked primarily with carrying out compliance procedures for the diverse sales and entry tax requirements of different states, combined with other delays, keep trucks from moving during 60 percent of the entire transit time. High variability and unpredictability in shipments add to total logistics costs in the form of higher-than-optimal buffer stocks and lost sales, pushing logistics costs in India to 2-3 times international benchmarks, the Update said.
The GST offers a unique opportunity to rationalize and re-engineer logistics networks in India, given the inherent inefficiencies with taxes based on the crossing of administrative boundaries. It will free up decisions on warehousing and distribution from tax considerations so that operational and logistics efficiency determines the location and movement of goods, it added.
Link to the Update: http://documents.worldbank.org/curated/en/2014/10/20320065/india-development-update-india-development-update
[1] The financial year refers to fiscal year ending March 31, 2015.

The World Bank
1818 H Street, NW
DC 20433 Washington
USA
Telefon: (202) 473-1000
Telefax: (202) 477-6391
Mail: investigations_hotline@worldbank.org
URL: http://www.worldbank.org/
<img src="http://www.pressrelations.de/new/pmcounter.cfm?n_pinr_=579271" width="1" height="1">

Pressekontakt

The World Bank

DC 20433 Washington

worldbank.org/
investigations_hotline@worldbank.org

Firmenkontakt

The World Bank

DC 20433 Washington

worldbank.org/
investigations_hotline@worldbank.org

The World Bank is a vital source of financial and technical assistance to developing countries around the world.