

“If ‘Make in India’ has to succeed, we actually have to become a low cost manufacturing hub...”



Hon'ble Finance Minister, Shri Arun Jaitley's speech at the 57th National Cost Convention (NCC 2016)

The President of the Institute, Shri Pramod Kumar Bhattad Ji, the Vice President, Shri Thakur, Secretary, Dept of Corporate Affairs, Shri Ray, the Chairperson of the ONGC, Shri D K Saraf, and friends, let me at the very outset express my gratitude to the Institute of Cost Accountants for having invited me to your annual conference wherein relation to the Make in India campaign of the Hon'ble Prime Minister, you have kept the subject of Cost Competitiveness, as the theme of this year's convention itself. Cost Competitiveness is at the key of any kind of economic activity. I recollect, there was a time period of about 20-25 years ago when we realized that the global economy was being integrated and in third world countries which still had modest economies, we were all scared of the idea of how larger economies would actually start dominating upon those which were still either developing or not even yet developing. There was a resistance to the idea of a globally integrated economy. But then the script itself was redefined and in that redefined script it's obvious that China took the lead. China gave the world from amongst the Asian Economies the whole idea of low cost manufacturing and then going on that roadmap you had several economies from Indonesia to Thailand to Malaysia and if we come to textile industry where economies like Srilanka, Bangladesh, they started

excelling in this. India of course had a track record of repeated industrial revolutions bypassing us. The first industrial revolution virtually left us untouched, we were late starters and to low cost manufacturing also, we found ourselves difficult because of our systems to adjust. But we made up by low cost and moderate cost services and over the last two decades we became an important service hub as far as the world was concerned and in this context globally, also globalization got redefined. It got redefined because ultimately everybody realized that it's consumers who have the last choice and consumers will always buy products which are of good quality and are cheaper. Consumers will hire services which are of good quality and are cheaper. And therefore both in goods and services, cost became the key. Those who had overpriced themselves as economies, found themselves completely running out of competition and therefore if we see what happened to the entire negotiations on global trade through the decade of the nineties and what's happening now, a large number of developed economies found themselves completely overpriced. Their costs are higher, their rentals are higher, their labor costs are higher, their environmental costs are higher, and on account of all these higher costs, jobs started shifting both in manufacturing and in services. And I think this is the key for us to realize in India. We have a very large population. Out of this very large population, we have an excellent human resource. The size of the Indian middle class is also expanding. The number of educated minds with trained minds with knowledge is also expanding. We have a younger profile population. We have a very large market. Therefore we have a young population, a knowledge resource and a market. We have the purchasing power as also informed minds who can dominate economic activity. Given these advantages, one of the factors that kept us behind all these years was, why are our products costlier in comparison to our competitor. And in the world of competition you actually have to beat your closest competitor. If an ordinary shirt is manufactured in Europe for 15 dollars, and in America for 18 dollars, and we do it for 8 dollars, it's not that we are ahead of Europe and America, we have to beat China and Bangladesh and Srilanka which manufacture it for 5 or 6 dollars. And that is where cost effectiveness will come in and I think India is today stationed as an economy at a state wherein manufacturing in infrastructure creation in processing our agriculture and taking it to the level of an advanced food processing, there is a lot of headspace still available, a lot of distance which we still have which we have to cover. As far as services are concerned, unquestionably, we are and have the potential

to become a low cost service provider in the world. But are we only going to be satisfied with being the back office or also being the global factory? And I think it is here that the role of your profession comes in at a big way, you are trained professionals who have a keen eye for seeing that there is no overspent, you have a keen eye to see that cost can be cut and therefore in order to cut costs both at the micro level and at the larger level, there are lots of improvements and changes required in any system, cost of capital adds to costs, a poor infrastructure can add to costs, lack of proper trade facilitation can add to costs, cost of higher utilities like electricity can add to costs, and I think even within the execution of the contract, what courses to follow, what procedures to follow are all areas where you know the methodologies of how cost effective products and services can become more competitive. If 'Make in India' has to succeed, we actually have to become a low cost manufacturing hub and I think there are several global factors which collectively are suiting us. The cost of wages in China is going up and therefore we are back in competition. There are lower commodity prices, lower metal prices, lower oil prices. The world has never seen this kind of a low price regime and India as a net buyer benefits from this low price regime and therefore given these advantages and coupled with a human resource which is moderate costing. So our research and development centre in India, experts that are in India would be far more cost effective than those hired by our competitors internationally and therefore it is extremely important that at this junction we fully make use of this global situation which has been created and I am sure over the next two days of this convention you will get a great opportunity to discuss this issue and provide further light on this. Your professional training and the knowledge and experience that you inculcate is of an immense advantage to you in determining the roadmap for cost effectiveness. I am sure your experience will and the outcome of your convention will be of great use to the society and also train you further to ensure that India continues to become a cost effective manufacturing destination. My best wishes to you and your office bearers on this convention. I am sure you will have a great success in your deliberations. Thank you very much.



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