

PEOPLE OF MANUFACTURING

How Liberalization Derailed the Atmanirbharta of Indian Manufacturing



Hari Shanker

14-Sep-2020

1



- During the 1970s preferential indigenous manufacturing was practiced, allowing imports only if the item was not manufactured locally
- Businesses must face certain challenges to find out the latent opportunities therein
- ‘Ease of Doing Business’ should not be just machinery of attracting foreign investment; it should ease going easier for local manufacturers first



When we think of major Indian manufacturing companies, the prominent names that immediately loiter around our minds are TATAs, Reliance, Mahindra, Bajaj, Birla's, Hero, Godrej, Kirloskar, etc. What is common among these manufacturing multinationals? They have all been successfully doing business for more than 50 years and making our nation proud globally. If so, why a call for Self-reliance now with Prime Minister Modi leading from the front for “Be Vocal, For Local”?

When I got the opportunity to have an exclusive interaction with **Deepak Pahwa**, Founder of Pahwa Group, I hardly knew I would get an interesting insight into Atmanirbharta of the 60's to '80s, innovations which were built on necessity, and how globalization brought down the need for developing technologies locally. Let's bring you the story of a mischievous school boy-turned-entrepreneur, who was instrumental as an innovator in building the first indigenous desiccant dehumidifier for Mysore Food Research Laboratory, which was looking to train Indian astronauts to have food in space before 40 years. When Wing Commander Rakesh Sharma, the first Indian went up on the Russian spacecraft Soyuz T-11 on 3 April 1984, Mr. Pahwa was paving the foundation of his manufacturing empire, with innovation and self-reliance as his key assets.

Risk Taking: Key for Innovation & Entrepreneurship

“The intrinsic character of a human being is optimistic or pessimistic, and an entrepreneur is always an optimist. An entrepreneur is a risk-taker, and the same goes for an innovator, who needs to experiment. Fundamentally I am a risk-taker”, shares Deepak Pahwa succinctly stating his initial journey. Mr. Pahwa had been looking to do something new and exciting from his college days. He used to participate in annual technical exhibitions where he and his team won the prize for a Tesla Turbine project, those were the early seeds of trying to innovate.

An alumnus of IT-BHU, Deepak Pahwa is the Founder and Chairman of Pahwa Group. His first company Arctic India was founded in 1979, introducing the first desiccant dehumidifier in India, and later he established Bry-Air (Asia), Desiccant Rotors International, Delair India, and Technical Drying services. A fellow and life member of ASHRAE, he was bestowed with several awards for his entrepreneurship and innovations.



Starting his career, Mr. Pahwa and his brother were assisting an internationally trained chief engineer to deliver a project in Rourkela. The chief engineer was looking to import the desiccant dehumidifier, a technology that was not available locally, which removes water from air at a low temperature and low humidity level. The imports were expensive and no one was making it by that method in India. Ultimately, that project too was finished with an imported product, but Mr. Pahwa's felt this product could be made in India and this realization went on to motivate him later.

Mr. Pahwa took up the initiative to make this product locally and finally ended up successfully testing the prototype and making the finished product. “We supplied the desiccant dehumidifier to Food Research Laboratory in Mysore, where special food was prepared for our two astronauts, and one

astronaut from India who went up on the Russian spacecraft 40 years ago”, proudly narrated Mr. Pahwa. He entered into a joint venture with Bry-Air USA in 1981 for taking his company globally in terms of manufacturing and expanding its market base.

Atmanirbhar Bharat: Fighting for a Lost Cause

Mr. Pahwa welcomes the Prime Minister’s clarion call for Atmanirbhar Bharat and strengthening our manufacturing, however, he mentioned that developing import substitute was already a way of life during the sixties and seventies, especially the time he ventured into his career. “Today we are trying to find that lost cause. During the 1970s no one could import anything unless you had got a certificate to ensure the particular product was not manufactured in India. Only then could you apply for an import license and then could import the item”, he said. He added that, if there was an indigenous item available one would not get a license to import it. At that time, there was a very strong movement and encouragement by the government that we’re calling today self-reliant. That time it was called import substitution programs.

During the 1970s, whatever one was to import, one must do a substitution of import, so everyone was encouraged to localize or indigenous and produce locally. This was integral to the system at that time because you were discouraged to import and importing was very expensive with a high rate of duty imposed, as much as 100% to 125%



“In our Desiccant Dehumidifier, one important item is called desiccant, which is an absorbent. It is a type of silica gel we had got from our Indian suppliers which they sent to the USA for testing. The results came out wearing in performance anywhere around 70% of acceptability”, said Mr. Pahwa. Manufacturing Desiccant Dehumidifier in India, if the heart of that material is going to be imported, the

cost would go up tremendously. So Mr. Pahwa decided that they must not only do import substitution, but also bring down the cost, and it made more sense.

All through during the 70s and 80s localization had a different meaning. “We had a different meaning in localization or indigenization as we still call it at that time. So we set up a small pilot plant and research plant and we built the same lab they had in the USA to test all adsorbents. So that began as our journey for localization”, said Mr. Pahwa. This research plant brought several savings for the Pahwa Group.

He adds, "40 years ago, the gear mechanisms costing ₹15,000 were imported and yet had high failure rates. The import substitution we made ended up at ₹2000 and is a highly reliable one. When we did that, we found the spirit of indigenization with great advantages. So we embarked on a journey by that spirit, that whatever we're doing, we should localize".

Then came the Economic Liberalization of 1991

After the two failed attempts in 1966 and early 1980, during 1991 under the leadership of Prime Minister P V Narasimha Rao, Dr. Manmohan Singh the bureaucrat turned Finance Minister successfully brought an end to the Licence Raj, initiating the economic liberalization of India, which witnessed Governments throwing out everything related to import licenses. There was no such thing as import barriers under an open general license. “That liberalization, unfortunately, swung the pendulum to the extreme by opening the floodgates to imports. The duty structure which came in at that time was extremely inverted. The duty of a finished good was cheaper than the imported raw material”, says Deepak Pahwa.

When the bureaucracy realized the big mistake that they made after liberalization with the duty structure, it was too late. Its ultimate result was that people had a very great incentive now to import a whole product. But certainly, the Indian manufacturing industry went from one extreme to another, the localization thrust was totally lost overnight in 1991, and today we are here in 2020, the present government with our Prime Minister appealing for Making in India, Vocal for Local and AtmanirbharBharat.

Another leap Indian economy achieved was with the Y2K discovery of the great potential of the software industry. From 2000, we witnessed the whole encouragement and the growth of India was on the bank of software for the next decade. “As long as our overall GDP growth was steady no one gave much thrust on the manufacturing sector, but in this whole process you could see that the share



of manufacturing in our GDP dropped down”, states Mr. Pahwa. “With the present Government calling for ‘Make in India’, ‘Assemble in India’ and now ‘Vocal for Local’ - it is all that the same we were doing earlier, but a welcome move to inspire the country to achieve what we lost over time”, he rued.

Make in India Vs Make in China

Deepak Pahwa had a long exposure to neighboring China. “I’ve seen China come around quite a bit. Before 25 years the hardware stores or the shop-floors in India had better staff than theirs. But in the last two decades, they made great progress for various reasons”. Mr. Pahwa believes like Indians Chinese are also very hardworking, and very industrious. But the way Chinese authorities took their economy in almost 20 years, brought them great growth. He goes on to further explain how India as a country has a long way to go when compared to China.

China had liberalized its economy during the early 80s which allowed it to get ahead in terms of production. He believes that India can be on par with China and is capable of narrowing the gap. This can only be done if the Indian manufacturers are given proper attention. He cites that if one looked at China 10 years ago, one would notice Chinese manufacturers were not very far from where Indian manufacturers are today. “Most of our data points are 10-12 years behind them, be it road or airport infrastructure. We should not allow that gap to widen, but we should be happy to be able to emulate what they did 10 years ago. There is a great opportunity for India, we can get things right. We can become an equal powerhouse if we give full focus towards the Indian manufacturing industry”, he said.

“Way back in 1971, Indian Space Research Organisation used to launch balloons from Thiruvananthapuram. Today they are sending dozens of foreign satellites in a single launch vehicle.

They took on the challenges at their time and look at the opportunities they've created for themselves in terms of going to the Moon and Mars” said Mr. Pahwa. Unless you work on any challenge, you can't look at that opportunity. Look at companies like Bharat Forge who are exporting globally, because they'd overcome the challenges and their foundation was localization. All manufacturing companies which undertook these challenges got opportunities globally. Our company, a medium manufacturing house, is selling globally because of the confidence we gained from overcoming challenges.

Mr. Pahwa compares different generation of entrepreneurs and their way of carrying out business. He thinks that the younger generation doesn't follow the typical concept of industrial infrastructure and localization is not the main focus. Their main focus would be on how to get into business quickly without having second thoughts from where the materials are sourced from.



MACHINE MAKER

9

Businesses must face certain challenges to find out the latent opportunities therein. 'Ease of Doing Business' should not be a just machinery of attracting foreign investment; it should ease going easier for local manufacturers first.

DEEPAK PAHWA
Founder, Pahwa Group

PAHWA GROUP
Innovation is life

Bry-Air

DRI

delair

TDS

As a company, Bry-Air started looking at global opportunities 30 years ago, established a manufacturing plant in Malaysia which is producing great results. 20 years ago Mr. Pahwa decided to put up the first R&D Lab and today they have got nine labs in India, totally developed ingeniously, and no corporate in the world have labs like the Pahwa Group. “So we are far ahead at the cutting edge of technology because we took the step of challenging ourselves. We got the confidence and today we are able to develop technology which gives us the leverage to supply product to anywhere in the world”, commented a proud Deepak Pahwa. He adds, “You don't have to catch up with anyone, but have to just play our cards right”.

Ease of Doing Business: Supporting Indian Manufacturers?

In recent years as per World Bank ranking for Ease of Doing Business, India has progressed significantly. But he raises a question whether Ease of Doing Business is just to attract foreign investors or make going easier for local people to do business as well. One needs to have a very clear objective. “We don't have to go by the World Bank nomenclature. We should develop our own ten-point simple index for Ease of Doing Business and talk to the Indian businessmen. I've spoken on many platforms about ease of doing business in India and should be looked at from people on the ground, not from a World Bank perspective”, says Mr. Pahwa.

He adds, “On the other day we had the Prime Minister announce tax terrorism will end. Now, why would you call it tax terrorism, to begin with? I have used this terminology 15 years ago at the PHD Chamber of Commerce Board meetings. Now talking about international investors, how many do feel trapped getting into this country?”

The government had promised that it will give advanced tax rulings within six months. Today these tax rulings are pending for five years. Where is the ease of doing business? Five years on, a company entering India is yet to get an advance tax ruling which was promised while they were invited to invest. When you want to attract an investor on ease of doing business, is this what we want to project? Cheese in a mousetrap. The foreign investor is coming towards the cheese and he gets trapped inside. And he has no way to get out. How many?



(Deepak Pahwa with his elder son Varun Pahwa in the centre and younger son Vivek Pahwa in the right)

Please keep in mind that the investor is mobile, and we are fixed. How do you attract him here? You cannot attract with an image something superficial. It has to be real. China did not attract only large companies. China attracted thousands of medium enterprises from Europe. Those guys went to China to set up a company there, and the process was very easy. In India the amount of compliance one needs to fulfill every year, no medium-size company has the energy nor the bandwidth to come to a place 5000 or 10,000 miles away, dealing with tax consultants, auditors, etc.

Companies like Siemens or a Rolls-Royce will always be there in every part of the world, they'll go to Nigeria, even Somalia, and overcome all the challenges. But in India, you have to make sure that the investor is mobile. Why would an Investor go to Thailand, Vietnam, and not come to you? What can we do to attract them? Lowering a tax rate is not enough but making it simple, transparent, and easy to manage is needed.

55 Years of Bry-Air Excellence

Bry-Air, one of the flagship companies of the Pahwa Group is a worldwide leader when it comes to dehumidifiers, with operations in China, Malaysia, Brazil, Nigeria and Switzerland, and an associate plant in the USA. Deepak Pahwa leads a strong and capable team of 1500+ employees in over six continents and has thirteen manufacturing units, and the group focuses on desiccant and desiccant-based technology and operate within the environment and energy framework. The companies which this group caters to manufactures products like dehumidifiers, plastic auxiliary equipment, gas phase filtration systems, dry rooms critical for lithium battery production, energy recovery, and fresh air treatment systems, etc. Bry-Air's products can be found in all the industries and have an installation in over 85 countries including China, the Middle -East, Australia, the USA, Japan, etc.

For more details, visit www.bryair.com