Make in India

"If we have to put in use the education, the capability of the youth, we will have to go for manufacturing sector and for this Hindustan also will have to lend its full strength, but we also invite world powers. Therefore I want to appeal all the people world over, from the ramparts of the Red Fort, come, make in India, come, manufacture in India. Sell in any country of the world but manufacture here. We have got skill, talent, discipline, and determination to do something. We want to give the world a favourable opportunity that come here, come, make in India…"

- Prime Minister Narendra Modi, 15 August, 2014

1 Escape from Underdevelopment: Is services-led growth the answer?

Historically, there have been three modes of escape from under-development and poverty: ***geology, geography, and "jeans" (signifying low-skilled manufacturing).***

Since the onset of industrial revolution, the **majority of countries which have transitioned from low income to high income have done so by undergoing industrialisation** and reducing their dependence on agriculture and natural resources. The latest examples of this trend are India's neighbours in the Indian Ocean - the **"East Asian Tigers"**. Only a few smaller countries with valuable natural resources, and small populations, have gone through a period of sustained economic growth without advancing manufacturing.

India, on the other hand, seemed to be charting a completely own course by pursuing a **services-led growth** in the past two decades. This approach has paid dividends in the short-run as India has come to be known as the back-office of the world. The share of services in the Indian economy has risen to **57% in 2013**, which is comparable to India's more developed peers in the BRIC grouping such as Brazil and Russia and also South Korea.

The following table shows the share of services as a percentage of GDP and in employment in the **BRIC** nations and **South Korea** in **2013**:

Country	India	China	Brazil	Russia	South Korea
Share of services in GDP	57.0%	46.1%	69.4%	59.8%	59.1%
Share of services in employment	28.1%	35.7%	62.7%	62.3%	76.4%

However, even a cursory glance at the share of services employment will draw your attention to a confounding statistic. With the exception of China, services contribute nearly the same relative share in these 4 economies but whereas more than **60%** of the workforce in Brazil, Russia and South Korea is employed in services sector, the corresponding figure for India is only **28%**. Even China with a smaller share of services in the total economy, has a greater share of work force employed in services as compared to India.

The explanation lies in the fact that India, somehow, due to ***historical policy choices*** and ***technological accidents*** has developed an advantage in relatively **skill-intensive** activities such as information technologies (IT) and business process outsourcing (BPO). Put otherwise, **India has defied its "natural" comparative advantage, which probably lay in the *"jeans"* mode of escape because of its abundant unskilled and low-skilled labour**.

Most importantly, the statistic points to the fact that the **demographic dividend** which the country is witnessing cannot be accommodated in the services sector alone. Currently, the sector has **low absorption potential** as the IT and BPO sectors have fewer jobs to offer. There is also a **'skill gap'**, i.e. even when jobs are on offer, the vast majority of the young workforce is not skilled enough to be absorbed into these relatively-skilled jobs.

2 Manufacturing in India: Stuck in a rut

Over the past 20 years, Indian manufacturing has grown at nearly the same pace as the overall economy. However, its share in the overall economy has stagnated at around **15%** and even this modest figure has declined in the last few years due to a slowdown in manufacturing growth.

The following table shows the share of manufacturing as a percentage of GDP in select **East Asian countries** in 2013:

Country	Thailand	China	Malaysia	Indonesia	Philippines
Share of Manufacturing in GDP	34%	32%	24%	24%	31%

The level of **contribution of manufacturing** in the Indian economy, as we can see is much **lower than our East Asian neighbours** and is generally **in line with the levels witnessed in post-industrialised economies**.

India's **share of global merchandise exports** has grown from **0.5% to 1.7% in the past 20 years** but there is an **overall trade deficit in goods**. The much vaunted **trade surplus in services** barely covers **one-fifth of India's trade deficit in goods**. This is a balance of trade constraint that the country will have to tackle eventually and again a **services-led growth does not seem to be the answer**.

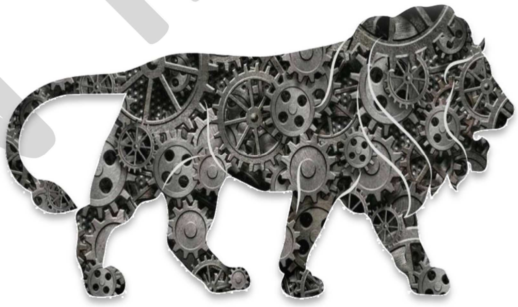
3 Why Manufacturing Matters: The Multiplier Effect

Balance of trade aside, there is a more compelling argument for promoting manufacturing growth in India. Various studies have shown convincingly that **no other sector does more to generate broad-scale economic growth and, ultimately, higher standards of living than manufacturing**.

The magic lies in the **linkages** that manufacturing has with other economic sectors. The substantial links with dozens of other sectors throughout the economy ensures that manufacturing output stimulates more economic activity across the wider economy than any other sector. This is called as the **multiplier effect of manufacturing**.

But this manufacturing cannot be **unregistered manufacturing** which **suffers from low productivity as well as low rate of growth of productivity**. Rather, it is **registered manufacturing** which **has the potential to absorb the country's large pool of unskilled labour and is also more attuned to export-oriented production.**

At the same time the efforts to promote labour-intensive manufacturing should be complemented with rapid and continuous **skill upgradation of the workforce** because skill-intensive sectors are dynamic sectors and sustaining their dynamism will require that the supply of skills keeps pace with the rising demand for these skills.



4 Why India lags in manufacturing

We have underlined the importance of manufacturing but before we proceed any further, we have to understand the key barriers to manufacturing growth in India. The reasons for India's low level of industrial growth are manifold but we will look at the **key barriers that are within the domain of policymakers to address**. These are:

- No *'ease of doing business'*
- Inadequate Infrastructure
- Investment Regulations
- Inflexible labour laws
- The Skill Gap

In the following sections, we will see how Make in India initiative seeks to overcome these barriers. But before that, let us first of all understand what Make in India really is.

5 What is 'Make in India'

The 'Make in India' campaign has its origin in the Prime Minister's Independence Day speech in which he gave a clarion call for "Make in India" and "Zero Defect; Zero Effect" policies. The campaign aims to ***facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure*** in India.

The initiative seeks to woo domestic and foreign investors by promising a business environment conducive to them. In the PM's words, India will offer a ***red carpet*** to an investor instead of the hitherto ***red tape*** that they faced. The central government, various state governments, business chambers and overseas Indian Missions are all expected to play a key role in the successful operation of this initiative.

Invest India, the country's official agency for investment promotion and facilitation, will act as the initial reference point for **guiding foreign investors on all aspects of regulatory and policy issues and would also help them in obtaining regulatory clearances**. The Government is closely looking to overhaul regulatory processes in order to make them simple and reduce the burden of compliance on investors.

A **web portal** (www.makeinindia.com) has been created to **answer investor queries**. The portal has a comprehensive set of FAQs which would help the investor find instant answers to their general queries. Additionally, the portal will have a back-end support team, who would seek to answer specific queries within a period of 72 hours. The website will make use of analytics to track visitors' location, interests, etc. and the user experience will be customised for the visitor based on the information collected. Visitors can also register on the website to receive relevant information and updates with newsletters. An **investor facilitation cell** will provide assistance to the foreign investors from the time of their arrival in the country to the time of their departure. The initiative also seeks to actively **target top companies** across key sectors in identified countries to encourage them to invest in India.

Domestically, the 'Make in India' initiative aims to **identify domestic companies having leadership in innovation and new technology for turning them into global players**. The focus will be on promoting green and advanced manufacturing and helping these companies to become an important part of the global value chain.

The Government has identified **25 key sectors** in which Indian industries have the potential to compete with the best in the world. These sectors have been listed on the Make in India web portal and separate **brochures** for these sectors will be released along with a general brochure to guide companies. The brochures covering sectors like automobiles, aviation, chemicals, IT, leather, pharmaceuticals, ports, textiles, tourism and hospitality, wellness and railways among others will provide details of growth drivers, investment opportunities, FDI and other policies specific to that sector and details of relevant agencies.

6 Make in India: Turning ambition into reality

Make in India will promote a rethink on how government works and how it interacts with businesses. The new government has undertaken a series of initiatives to remove the barriers to manufacturing growth and promote India as a manufacturing destination.

Some of the **key recent initiatives** include:

1. **Ease of Doing Business**: India ranked **142 in the Ease of Doing Business Index** ranking in **2014**, down from **140 in 2013**. The ranking is significant as it reflects the perceptions of the global business community about India's attractiveness as a place for doing business.

a. To improve India`s ranking, reforms are being undertaken in areas such as starting a business, obtaining construction permits, property registration, getting power supply, paying taxes, enforcing contracts, and resolving insolvency.

b. Other important reforms relate to the licensing process, time bound clearances for applications of foreign investors, automation of processes for registration with the Employees Provident Fund Organization and Employees State Insurance Corporation, reducing the number of documents for exports, adoption of best practices by states in granting clearances and ensuring compliance through peer evaluation, self-certification, etc

c. **E-Biz Portal**: The Government to Business (**G2B**) portal is being set up to serve as a **one-stop shop for delivery of services to investors** and to address the needs of business from inception through to the entire life cycle of the business. The process of applying for industrial licence (IL) and industrial entrepreneur memorandum (IEM) is now available to businesses on a 24x7 basis at the E-Biz website. Other services of the central government are also being integrated with the portal.

d. **Environmental and forest clearances**: Applications for environment, coastal regulation zone (CRZ), and forest clearances can now be **submitted online**. The decision-making process for clearances has been decentralised. The requirement for environment clearance has been done away with for projects such as construction of industrial sheds which house plant and machinery, educational institutions and hostels.

2. **Infrastructure**: The government is seeking to improve the physical infrastructure in the country primarily through the PPP mode of investment. There has been increased investment in ports and airports. The development of **dedicated freight corridors** is being done and these corridors are expected to house **industrial clusters** and **smart cities**.

3. **Investment Regulations**: The government has **liberalised FDI policy**:

   a. 100% FDI under automatic route has been allowed in construction, operation and maintenance of specified rail infrastructure projects.

   b. FDI cap in Defence has been raised from 26% to 49%.

   c. The norms for FDI in the construction development sector are being eased.

4. **Labour-sector reforms**: Multiple overlapping and inflexible labour laws have been an impediment to the growth of manufacturing sector in India. The new government has initiated a set of labour reform measures such as:

   a. A ***Shram Suvidha*** **portal** has been launched for online registration of units, filing of self-certified online return by units, computerised labour inspection scheme, online uploading of inspection reports within seventy-two hours and timely redressal of grievances.

   b. A **Universal Account Number** has been launched to ensure portability of Provident Fund accounts for employees.

   c. With a view to providing flexibility in working hours and increased intake of apprentices for on the job training, the **Apprentices Act, 1961 has been amended**. An **Apprentice Protsahan Yojana** has been initiated for the micro, small and medium enterprises (**MSME**) sector.

5. **Skill Development**: It is quite true that 'Make in India' will not be possible without **'Skill India'**. For the manufacturing sector to take advantage of the improved business environment and physical infrastructure, the need for having a strong human capital has been recognized by policy makers.

However, the magnitude of the enterprise in implementing a nation-wide skilling programme can be gauged from the fact that the current **size of India's formally skilled workforce** is just **2%**, while that for countries like **South Korea** and **Japan** is **96%** and **80%** respectively. According to the **National Skill Development Corporation (NSDC)**, **India would require 120 million skilled persons in the non-farm sector between 2013 and 2022**.

To address this issue, the Government has established a separate **Ministry of Skill Development and Entrepreneurship**. An exercise is being undertaken on setting up common norms for skill training across central ministries/ departments. 31 **industry/employer-led Sector Skill Councils (SSCs)** have been operationalised and have been aligned with the 25 sectors under 'Make in India'. Efforts are underway to create a common standard for skills training and certification in the country efforts by aligning the **National Council for Vocational Training (NCVT)**, school boards, and the University Grants Commission (UGC).

The skilling of rural youth has also been refocused and reprioritized towards capacity building of poor rural youth. New programmes have also been initiated for bringing minorities into mainstream development.

7 Make in India: The Downside

The strongest criticism of 'Make in India' has come from rather unexpected quarters. According to RBI Governor Raghuram Rajan, an ***incentive-driven, export-led growth or import-substitution strategy*** may not work for the country in the current global scenario where developed nations are witnessing a tepid economic recovery. In such a scenario, market expansion to accommodate new players is limited or absent.

The RBI Governor has warned against focusing on a particular sector such as manufacturing for encouragement just because it has worked well for China because India, he says is different and moreover the circumstances of its development are different.

He has argued that the government should focus on creating an environment where all sorts of enterprise can flourish, and leave businesses to choose what they want to do - *"Instead of subsidizing inputs to specific industries because they are deemed important or labour-intensive, a strategy that has not really paid off for us over the years, let us figure out the public goods each sector needs, and strive to provide them".*

He said with external demand growth likely to be muted for at least the next five years, India should rather **focus on producing for the internal market** and a well-designed **GST** (goods and services tax) Bill, should be higher up on the priority list of the Government.

Other critics have contended that the **potential benefit from such a strategy in terms of industrial advance has been exaggerated**. The integration into a global manufacturing value chain may result in a significant increase in the gross value of manufacturing production, but little in terms of increased **value addition** in domestic manufacturing. We can give the example of the iPhone or Barbie doll exports from China, which are huge in terms of value but value addition is low because much of the kit that is assembled is imported from abroad. China's industrial success cannot be attributed to exports alone, but also because of the growth of manufacturing driven by domestic investment.

The policy has also been accused of being an **"old wine in new bottle"**. The bid to make India another successful low-cost manufacturing base for global capital, as such, is nothing novel and successive governments at the Centre have been putting in place such policies with no sign yet of success. Probably, the only difference the new regime can make is to accelerate the pace of introduction and implementation of such measures. But even with a proactive regime success is not guaranteed. Many countries in the past have sought to become a "manufacturing hub" status and have failed miserably. In India's case, the **major obstacle** that springs to mind is the **inadequate infrastructure**, especially in power generation and distribution capacities, roads, ports, and transportation and communication facilities. The prospect of quickly reducing this infrastructure deficit is slim. The efforts at fiscal reform aimed to curtail government expenditures in order to reduce deficits, would further hamper the ability of the state to invest in infrastructure. Also, **private capital to build the supporting infrastructure has not been forthcoming** despite the focus on PPP investments in recent times.

Social activists are also worried about the implications of a manufacturing policy which would require vast tracts of land for setting up new industrial towns. There are fears of **large-scale displacement** and **environmental deterioration** and damage following this policy. Another big worry is that to emerge as a favoured low-cost manufacturing location, India would have to keep wages low and ensure labour discipline with laws that may have to be **anti-labour**.

These concerns are not without basis and the government of the day would have to tread carefully to balance growth with concerns about labour welfare and the protection of environment.

8 Conclusion

In conclusion, we have to acknowledge the fact that advancing manufacturing growth will be essential if India wants to transform itself into a high-income economy. We cannot rely on services alone to fulfil this ambition. At the same time, we will also have to focus on skilling our youth population. The 'Make in India' programme may have the potential to transform India into a manufacturing hub but if we are to achieve that potential, the government would have to move beyond rhetoric to actual implementation of the announced policies.

Many governments in the past have announced lofty policies to transform India's manufacturing but few things have changed on the ground. The National Manufacturing Policy of 2012 announced ambitious goals such as increasing manufacturing's share of GDP from 16% to 25% by 2022. It also sought to increasing manufacturing growth to 12-14% per annum over the medium term. Just three years later in 2015, most experts have already referred to the goal of increasing manufacturing's share to 25% of the GDP as out of reach as manufacturing growth has stumbled in the last few years.

Finally, policy makers should also heed the words of Raghuram Rajan and other critics. They should not be dogmatic about following the "jeans" model of escape from underdevelopment. Rather than blindly aping China, we should try to learn from the Chinese example and adapt the learning to the Indian and the current global context.