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Make In India-New Paradigm For Socio Economic Growth in INDIA

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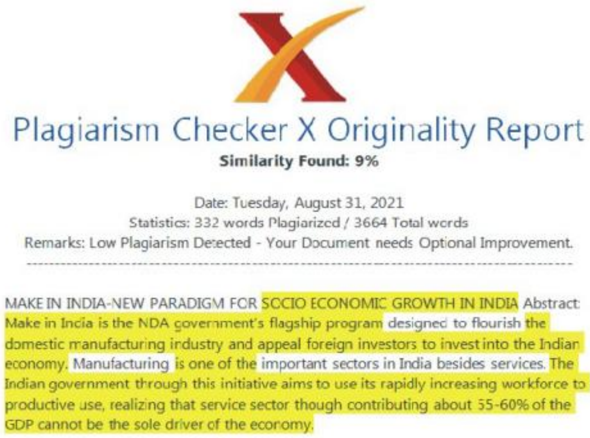

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MAKE IN INDIA-NEW PARADIGM FOR SOCIO ECONOMIC GROWTH IN INDIA Abstract: Make in India is the NDA government's flagship program designed to flourish the domestic manufacturing industry and appeal foreign investors to invest into the Indian economy. Manufacturing is one of the important sectors in India besides services. The Indian government through this initiative aims to use its rapidly increasing workforce to productive use, realizing that service sector though contributing about 55-60% of the GDP cannot be the sole driver of the economy.

ABSTRACT

Make in India is the NDA government's flagship program designed to flourish the domestic manufacturing industry and appeal foreign investors to invest into the Indian economy. Manufacturing is one of the important sectors in India besides services. The Indian government through this initiative aims to use its rapidly increasing workforce to productive use, realizing that service sector though contributing about 55-60% of the GDP cannot be the sole driver of the economy. But there is need of properly planned policies for land procurement, labour laws, power tariffs, logistics etc. Government has shown intent to ease the processes but the actual implementation is slow. The Make in India program can only be successful, when besides the desire to spend on infrastructure and attracting FDIs better implementation of the decided policies are looked after. The problems on the grassroots level needs to be understood and addressed. Besides instead of focusing only on the manufacturing sector there is need for sustainable and stable development. In this paper, we have tried to make a study about the contribution of manufacturing sector (some specific industries) in economic development post Make In India and observed that there has been positive impact. We also found that this increase has trickled down in certain social parameters like that of education. Make in India is surely going to uplift India to its desired level but that requires a reasonable amount of time.

KEYWORDS

Employment, FDI, Make In India, Manufacturing, Policy.

INTRODUCTION

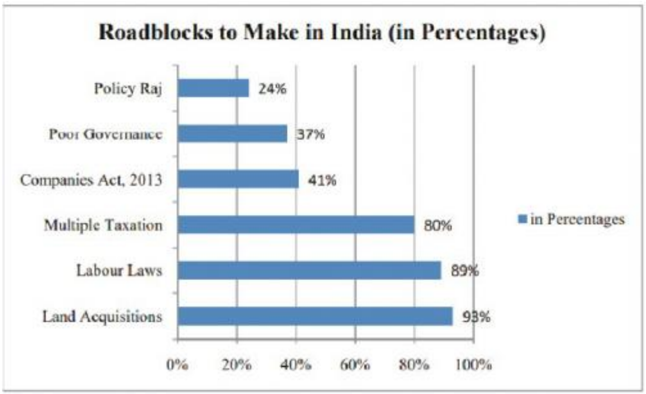
On 25th September 2014 the Make in India initiative was launched by our Honb'le Prime Minister Shri Narendra Modi as part of an extensive set of state-building projects. The goal behind such project was to evolve India into an international design and manufacturing centre. Such a dynamic project was the need of the hour as India was seriously lagging behind in its manufacturing sector and skilled employment generation. During the pre MAKE IN INDIA phase, the share of manufacturing sector in Indian GDP was to an extent of about only 12%, which was significantly low as compared to that of the services sector, which contributed about a whopping 80%. It is true that services plays an important role for driving economic development but for the third world countries like India , it is the manufacturing sector which can be one of the major incentive for innovation and productivity growth. Manufacturing sector is the crux of employment and technological development.

The Government of India launched the Make in India programme with the objective of encouraging various companies to manufacture in India. An initiative under Atma Nirbhar Bharat Abhiyan MAKE IN INDIA was dedicated to facilitate investment, stimulate innovation, enhance skill development, protect intellectual property and build finest manufacturing infrastructure in the country. The main aim behind the project was to attract foreign capital to invest in Indian manufacturing companies so that more and more employment opportunities could be created and also to encourage citizens to use made in India products only instead of imported products. The initiative targeted 25 sectors across the economy. Some of the important sectors are automobiles, bio-technology, oil and gases, tourism, pharmaceuticals, power, railways, textiles, media and entertainment, aviation, leather, electronics etc. The three main objectives of the project are:

- The manufacturing sector of India should grow by 12-14% annually.
- 100 million additional manufacturing jobs must be created in the Indian economy by 2022.
- The contribution of the manufacturing sector in GDP is increased by 25% by 2022 (later revised to 2025)

These objectives if fulfilled to the brim can usher in a model of huge socio economic growth in India. Along with economic growth there can be growth in various social indicators like that to the of education, health, material living conditions, safety, environment etc. Besides, reducing import expenditure will help in accumulating foreign exchange reserves and thus improve the country's BOP.

The dream of making India a global manufacturing hub, though, seems to be very promising is actually full of challenges and barriers. The biggest challenge to the successful implementation of Make in India programme are the anarchic laws, strenuous and expensive land acquisition; inflexible labor laws. In addition to these, issues such as multiple taxation, poor governance and red-tapism (permit and license raj) are some of the other impediments that the initiative has to sort out at the outset. Political instability, law and order problem, social unrest, increasing crime rate are another challenges which restricts the countries to invest in India.



(Source: Exploring Prospects for Make in India and Made in India: A Study)

Note: Respondents have chosen more than one option

The Modi government has taken a number of crucial reform measures, to tame the above mentioned obstructions, in the way of India becoming a manufacturing hub. Some notable course of action includes trading across borders, getting power & electricity, resolving insolvency matters, construction permits etc. India made notable improvements in these categories. Another area where India reflected a boost in World Bank's ease of doing business ranking was in getting building permits. Exporting and importing is now comparatively easier, as India has reduced the number of mandatory documents for export and import from 9 to just 3. Now the document can be submitted electronically using digital signature. Digital India helps to promote e-transaction, e-business which provides more transparency in business. Steps were also taken to ensure reduction of corporate tax and labour reforms with introduction of Wage Code & Social Security Bill. The successful implementation of the Insolvency and Bankruptcy Code is one of the foremost reasons for improvement in India's ranking this year. During the pre-reform period, it was a herculean task for secured creditors to confiscate companies in default of their loans – it took around five years for foreclosure proceedings, making efficient recovery almost impossible. According to "Doing Business report, 2020"the most preferred procedure for companies was reorganization, which increased the overall recovery rate from 27 to 72 cents on the dollar." The fact that these reforms, indeed, yielded a fruitful result can be traced from the fact that for the 3rd consecutive time India ranked among the top 10 improvers on the World Bank's flagship 'Doing Business' 2020 report. India also, jumped 14 places to the 63rd position in the latest rankings from the 77th rank last year. Besides all these government is working on development of 100 smart cities which will help in improving infrastructure and sustainability requirements of the country.

Make in India was launched along with the 'Zero Defect, Zero Effect (ZED)' culture which focuses on both customers and society. It focused on the fact that the quality of the products has to be very high and there should be no adverse effect on the environment by manufacturing. This depicts the government's intense desire to pay particular attention on manufacturing as a means to sustainable growth in order to transform the course of economy.

RESEARCH METHODOLOGY

Our study involves data collected from the secondary sources. The secondary data has been collected from journals, Research paper, Newspapers, Literature review, various Bulletins of Reserve Bank of India, Websites. An Exploratory research has been undertaken in order to develop a keen understanding of the research topic and obtain in depth knowledge about the research objectives.

Objectives

1. To examine how far is the project realistic?

2. To examine the performance of certain manufacturing sectors post launch of Make in India.
3. To examine the impact of Make in India on some social indicators like education.
4. An evaluative study of the project.

1. How far is the project realistic?

Mr. Raghuram Rajan, an eminent economist and ex RBI Governor was quite apprehensive about viability of the project of Make in India, because according to him what worked for China might not necessarily work for India. He also warned against picking a particular sector like manufacturing for encouragement. At a time when the global recovery is low, just emulating Chinese policies of subsidized exchange rates and incentives to export more will not yield desired result. Export-oriented industrialization is not the classic economic policy for India because the global demand might take a substantial amount of time to recover from the immediate economic crisis and another export-led China is the last thing that the world could accommodate now. India does not have first mover advantage in manufacturing that China had. Production for export - which requires handling both poor infrastructure and complicated foreign exchange rules- should not be the ideal step for India , instead the initial step really should be 'Make for India' because there's a large domestic market with increasingly cash rich consumers. The need of the hour was to strengthen domestic macroeconomic institutions, to promote sustainable and stable growth, which requires a reduction in the transaction costs of buying and selling all over the country, boosting the physical transportation of network, more competitive and organized intermediaries in the supply chain from producer to the consumer. Reduction of the state border taxes will provide a comprehensive GST Law and create a truly national market for goods and services that will be critical for our growth in the coming years. Mr. Rajan was of the view that Make in India would succeed in the long run.

2. Performance of certain manufacturing sectors post Make In India initiative

We have made an in-depth analysis of various economic indicators (e.g. Number of factories, Capital invested, Number of workers, Persons engaged, Wages, Emoluments, Output, Depreciation, Net value added, Rent, Interest) pertaining to F.Y. 2014-15 and F.Y. 2017-18 for some specified industries as covered under Make in India initiative by Government. Our review is restricted to primary manufacturing sectors viz. Motor Vehicles, Textiles, Computer & Electronic Products, Leather & related products, Pharmaceuticals & medical products.

The analysis revealed the following:

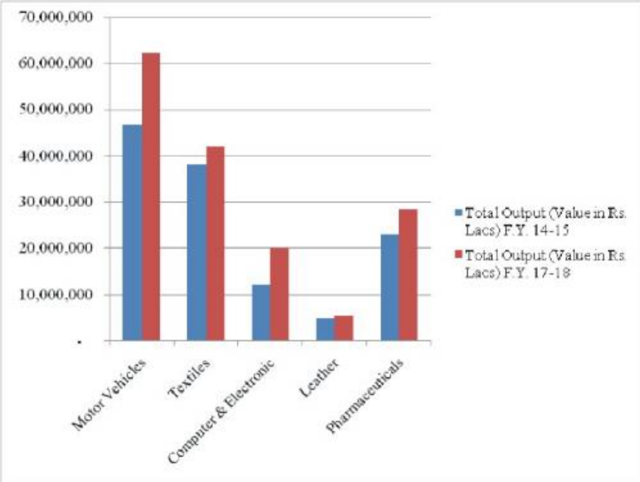
- High % increase in Total Output for industries like Motor Vehicles, Computer & Hardware, Pharmaceuticals in first 3 years of this initiative. Kia Motors (Seoul) established their new unit at Andhra Pradesh in recent times. MG Motor is planning to set-up 2nd Plant in India for cars. This positive change is attributable to 'Make in India' plan to some extent.

(Value Figures in Rs. Lakhs)[1]

SECTORS	Total Output (Rs)F.Y. 14-15	Total Output (Rs)F.Y. 17-18	% of change in output
MOTOR VEHICLES	4,67,32,176	6,22,50,066	33%
TEXTILES	3,82,05,386	4,19,12,041	10%
COMPUTER & ELECTRONIC	1,21,56,508	1,99,46,156	64%
LEATHER	50,95,772	55,31,381	9%
PHARMACEUTICALS	2,31,83,353	2,85,01,422	23%

[[1]Source: National Sample Survey Office (NSSO)]

Output Growth Over The Year



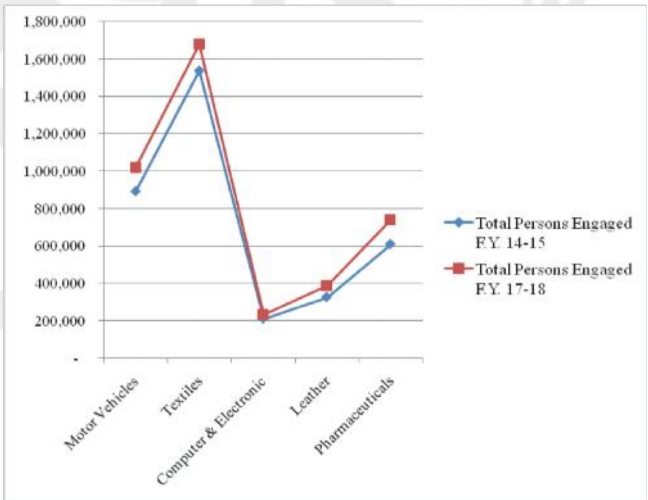
- The incremental changes in output witnessed more engagement of persons in all selected sectors over these years. This has also resulted in more payment in terms of wages & salaries, which generally increase purchasing power of people in general. The employment in those sectors have increased and boosted up youth for picking up higher education and further technical studies.

(Numbers)[2]

SECTORS	Total Persons Engaged F.Y. 14-15	Total Persons Engaged F.Y. 17-18	% of change in engagement
MOTOR VEHICLES	8,92,955	10,17,614	14%
TEXTILES	15,37,959	16,78,671	9%
COMPUTER & ELECTRONIC	2,12,538	2,31,454	9%
LEATHER	3,27,143	3,87,134	18%
PHARMACEUTICALS	6,10,250	7,40,251	21%

[[2]Source: National Sample Survey Office (NSSO)]

Impact Of Business Growth - On Employment



- The above incremental changes in (a) output and (b) persons engaged have resulted into rise in total number of factories/establishments over these years. Motor vehicles segment have registered 6% increase in number of factories as many foreign players are coming in (e.g. Kia Motors, MG

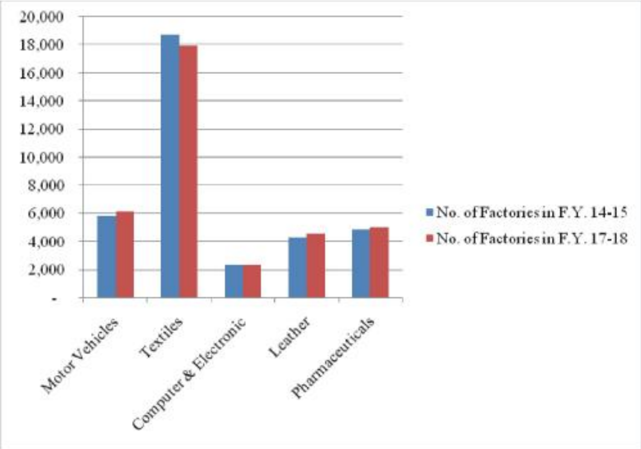
Motors etc.) and Indian market is also expanding for four wheelers. However, a declining trend is also observed in Textile segment where labour issues, unfavorable factors (technological redundancy) have resulted into decrease in number of factories.

(Numbers)[3]

SECTORS	Total number of factories F.Y. 14-15	Total number of factories F.Y. 17-18	% of number of factories
MOTOR VEHICLES	5,857	6,182	6%
TEXTILES	18,744	17,958	-4%
COMPUTER & ELECTRONIC	2,351	2,341	-0%
LEATHER	4,341	4,617	6%
PHARMACEUTICALS	4,908	5,051	3%

[3 Source:National Sample Survey Office (NSSO)]

Impact of Business Groweth On Number of Factories



Based on above findings, it may be concluded that Make in India initiative is approaching steadily towards its objective. In the last 3-4 years equity markets have seen a static rise as the new highs have been hit by the standard indices. The amount invested by FII's were INR 79 crore in 2013-14 where as in 2014-15 it was to the extent of INR 1.11 lakh crore which indicates at the exceptional pace of approvals as well as investors' confidence in the country, post MII.

3. Impact of Make In India on social indicators like Education:

The objective of Make in India of Skill development will enhance the employability skill of the job applicants and that will surely be a gateway to industries. Job oriented courses will be on the rise due to the focal point being on skill enhancement .The increase in job opportunities will in turn motivate the students to go for higher education. New provisions for education were introduced in the budget 2015-16.

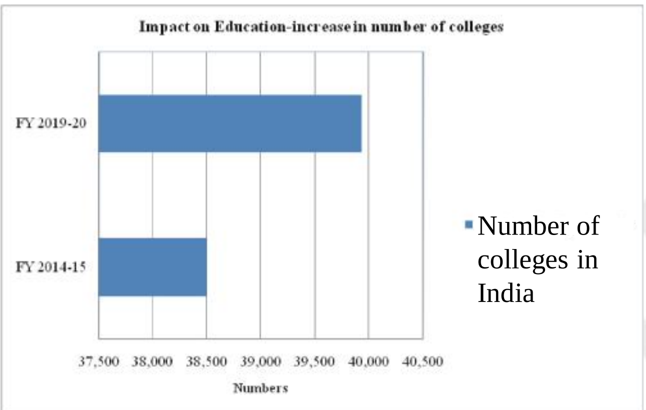
- ➢ Setting up of new IITs, IIMs, and AIIMS to raise capacity in such supreme institutes.
- ➢ More emphasis was given to skill the youth with entrepreneurial and employability skills.
- ➢ Address issues of quality in school & girl child education through specialized schemes and creation of infrastructure
- ➢ Allocation for teacher training so that there can be a direct influence on the student learning outcomes.
- ➢ In order to facilitate education loan for higher studies norms were simplified.

These new provisions have been fruitful to some extent

- A total of seven new IIMs have been established during the phase 2014 to 2020, previously there were only 13 IIMs in the country. (Sambalpur, Nagpur ,Visakhapatnam, Jammu etc)
- Post 2014, 15 new AIIMS have been set up in the country (some are in the process), earlier only seven were present
- On an average, a new IIT has been opened every year in the last six years.

Impact on Higher Education

	FY 2014-15	FY 2019-20
Number of colleges in India	38,498	39,931
No. of universities in India	760	967
Students enrolled in higher education	34.2 Million	37.4 Million
Gross Enrolment Ratio in higher education	24.3%	26.3%



4. Evaluation of the Project

A) What has been achieved so far?

One of the choicest destinations for FDI was India, leaving behind the U.S. and China post the announcement of the esteemed ‘Make in India’ initiative. It is evident from the fact that, between September 2014 to February 2016, India received[1] 16.40 lakh crore (US$250 billion) worth of investment commitments and investment inquiries worth[1] 1.5 lakh crore (US$23 billion) from various companies. Airbus, Thomson, Phillips, Samsung Flextronics etc are to name a few. Companies like Xiaomi, Huawei, Foxconn, Lenovo, Motorola etc are also ready to invest in India. Besides the national programme, the states too like that of Gujarat, Haryana, Maharashtra launched their own strategies.

Some of the major reasons for FDI in manufacturing sector are:

- Helpful for reaping the benefits of demographic dividend
- Help to reduce poverty
- Curtails imports
- Shift to manufacturing sector from agricultural sector

An interesting fact to be noted is that the total FDI between April 2014 and March 2017 was about 33% of cumulative FDI into India since April 2000. In 2015-16, FDI inflow crossed US$ 50 billion for the first time in any fiscal year, and further in 2016-17, FDI reached a record figure of US$ 60 billion. Accumulative FDI inflows from April 2000 to March 2018 had touched US$ 546.45 billion which included equity inflows, invested earnings and other capital. India held on to its position as the world’s most preferred destination for Greenfield FDI in 2017.

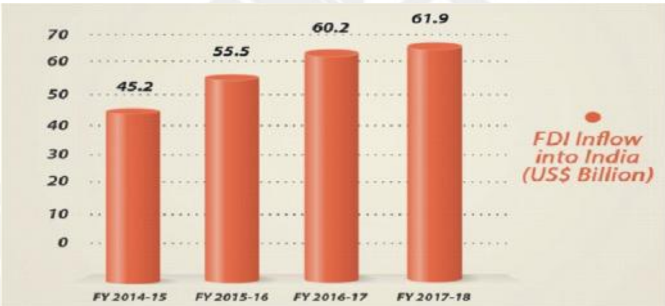
Measures to improve business confidence have led to progressive improvements in India's rank in the World Bank's ease of doing business rankings from 142 in 2014 to 100 in 2017. 21 new nodal industrial cities and five industrial corridors are being set up to escalate industrial growth.

India's Bankruptcy Code is now at par with global best practices as the Insolvency and Bankruptcy Code 2016 has merged all rules and laws concerning insolvency into one legislation.

In order to stimulate innovation and creativity in the Indian economy the Government of India initiated a comprehensive National Intellectual Property Rights (IPR) policy in May 2016. During April - October 2017, 9,847 patents and 3,541 copyrights were granted.

INDIA'S RANKING ON VARIOUS PARAMETERS IN WORLD BANK'S DOING BUSINESS 2018 REPORT

PARAMETER	RANK IN 2018
STARTING A BUSINESS	156
DEALING WITH CONSTRUCTION PERMITS	181
GETTING ELECTRICITY	29
REGISTERING PROPERTY	154
GETTING CREDIT	29
PROTECTING MINORITY INVESTORS	4
PAYING TAXES	119
TRADING ACROSS BORDERS	146
ENFORCING CONTRACTS	164
RESOLVING INSOLVENCY	103
OVERALL RANK	100



B) Is the achievement satisfactory?

The relationship between foreign direct investment (FDI) and economic growth has attracted major attention from academics and the governments of developing countries. It has been found from different studies that, especially for emerging and developing economies, it is in the long run that FDI helps stimulate economic growth, although it has a negative impact in the short run. Depending upon the characteristics of the investment resulting from FDI, such as type, scope, sector, proportion of domestic businesses in the sector etc, it can be concluded whether the economic growth will be positive or not. Governments should put in place policies to improve the quality of human resources and labor skills. Since FDI always comes with technology, there needs to be highly skilled labor in order to utilize the new technology and to create a positive technological diffusion effect. In a comparative study of FDI and economic growth by Alam (2000) for Indian and Bangladesh economy he stressed that though the impact of FDI on growth is more in case of Indian economy yet it is not satisfactory. Sharma (2000) used a multiple regression technique to evaluate the role of FDI on the export performance in the Indian economy. That FDI does not have a reliably significant role in the export promotion in Indian Economy was concluded by the study. Thus although India has attracted a significant amount of FDI post MII, whether it has contributed to the country's growth needs to be assessed.

Like every coin has two sides, why the much hyped campaign of MII could not yield desired results needs to be looked at. What were the limitations and constraints of the campaign? The focal point of the initiative is on the manufacturing sector, and the Indian population is mostly middle-class or lower middle-class. However, the products of these foreign companies will be entirely for the upper section of the society. Herein the irony lies.

Also if we make a policy wise analysis of the campaign, it can be seen that policy changes were intended to usher growth in three key variables of the manufacturing sector — investments, employment growth and output. Therefore, the success of Make in India can be judged by these factors:

Progress on the investment front:

- Overall investment growth is not satisfactory.
- Gross fixed capital formation depicts declining trend.
- Increase in private sector's savings, decrease in investment.

Progress on the output growth front:

- Overall double digit growth is not achieved so far.
- Contribution of Manufacturing Sector to GDP is still behind the desirable limit.

Progress on the employment growth front:

- Growth is observed only in few selected sectors.

Problems with the policy:

- Too much reliance on foreign capital
- Lack of implementation.

Three reasons why 'Make in India' failed to perform as was expected:

- Too-much ambitious goals
- Dealing with too many sectors
- Ill-timed launch.

Reforms Required:

- Government should focus on manufacturing for the domestic market first.
- We need policy reforms and better infrastructure to promote local entrepreneurship.

CONCLUSION

The future of Make in India is golden and full of sunshine in every field and aspect. The campaign has immense potential to lead India to be the next manufacturing hub of the world. With a bag full of proposals, it can urge companies - local and foreign - to invest in India and make the country a manufacturing highflier. Better allocation of FDI is an added feather to the cap.

There is a laudable attempt to reduce red tape, purane labour laws and environmental clearance processes, and in general to speed bureaucratic processes up. Some sectors like information technology, automobile components, pharmaceuticals, etc, are globally quite competitive. Some sectors, such as defense manufacturing, food processing, and electronics are not so competitive. Some are reasonably competitive like electrical machinery, textiles and leather.

"Rome was not built in a day" - so this initiative too will take its own time to bloom. There are quite a few examples which emphasizes the fact that this initiative is moving in the right direction.

- Mercedes Benz has committed to increase localization in its car manufacturing to up to sixty percent which are to be sold in Indian market.
- Volvo is going to export its range of buses in other international markets by making them in India.
- Warships would be built in India, by Hyundai Heavy Industries (HHI) of South Korea in collaboration with Hindustan Shipyard Limited, Vizag reducing the delivery period from six to two years.
- The 'Rafale Fighter Jets', deal with France (in the category of military aviation), agreed that India would import 36 fighter jets from France and the rest would be manufactured in India by HAL.
- Electricity will be manufactured by Alstom T&D India, from two substations one in Betul in Madhya Pradesh and other in Navsari in Gujarat.
- Azure Power India, commissioned its largest hundred Mega Watt solar photovoltaic (PV) plant in Jodhpur, Rajasthan.

Armed with these positive dimensions, more focus on sustainable and stable growth and proper policy formulation is surely going to ascertain the fact that "India will again take the best seat in the world assembly"- in the words of Tagore.

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