Make in India: New dimension to socio-economic growth in India

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Abstract:

Indian economy is dominated by the service sector. If India were to improve its socio-economic growth, it is amply clear that the focus should be on industry or manufacturing sector. With this objective in view, India in 2014 launched its ambitious Make in India program. In order to achieve its objectives, the program focused on four pillars – new processes, new infrastructure, new sectors and new mindset. This study was meant to achieve three objectives - to study the growth in FDI Inflows; to study the growth in exports; and to study the improvement in Ease of Doing Business ranking. The hypotheses were tested using secondary data from sources such as RBI, DPIIT and other secondary sources. The conclusions of this study are – first, there is significant growth in the FDI inflows for India, second, the growth in exports is not significant and third, there is significant improvement in ease of doing business rankings. The credit of FDI inflow growth coupled with significant improvement in the ease of doing business rankings goes to the Make in India program. These findings are clearly indicator of the program's success. The limitation of this study is that it is restricted to evidence of 5-6 years only. Moreover, it uses data for the all the sectors on a combined basis. The limitation of this study is that it is restricted to evidence of 5-6 years only. Moreover, it uses data for the all the sectors on a combined basis. Future research can focus on longer time frames and more granular choice of sectors.

Keywords: FDI, exports, ease of doing business, manufacturing, relicensing

Introduction:

‘Make in India’ campaign to facilitate investment, foster innovation, enhance skill development, protect intellectual property & build best in class manufacturing infrastructure. he “Make in India” initiative is based on four pillars, which have been identified to give boost to entrepreneurship in India, not only in manufacturing but also other sectors. Four pillars of ‘Make in India’

1) New Processes: ‘Make in India’ recognizes ‘ease of doing business’ as the single most important factor to promote entrepreneurship. The aim is to de-license and de-regulate the industry during the entire life cycle of a business.

2) New Infrastructure: Availability of modern and facilitating infrastructure is a very important requirement for the growth of industry. Government intends to develop industrial corridors and smart cities to provide infrastructure based on state-of-the-art technology with modern high-speed communication and integrated logistic arrangements.

3) New Sectors: ‘Make in India’ has identified 25 sectors in manufacturing, infrastructure and service activities and detailed information is being shared through interactive web-portal and professionally developed brochures. FDI has been opened up in Defence Production, Construction and Railway infrastructure in a big way.

4) New Mindset: Industry is accustomed to see Government as a regulator. ‘Make in India’ intends to change this by bringing a paradigm shift in how Government interacts with industry. The approach will be that of a facilitator and not regulator. The Make in India program has been built on layers of collaborative effort. There has been from Union Ministers, Secretaries to the Government of India, state governments, industry leaders, and various knowledge partners. The requirement of skills for industry are to be identified and accordingly development of workforce to be taken up.

A breakup of India’s GDP clearly indicates that it is heavily reliant on services. For FY21, the services sector contributed around 54% of the total GDP, whereas industry sector contributed 26% and agricultural sector contributed around 20% (statisticstimes.com, 2021).

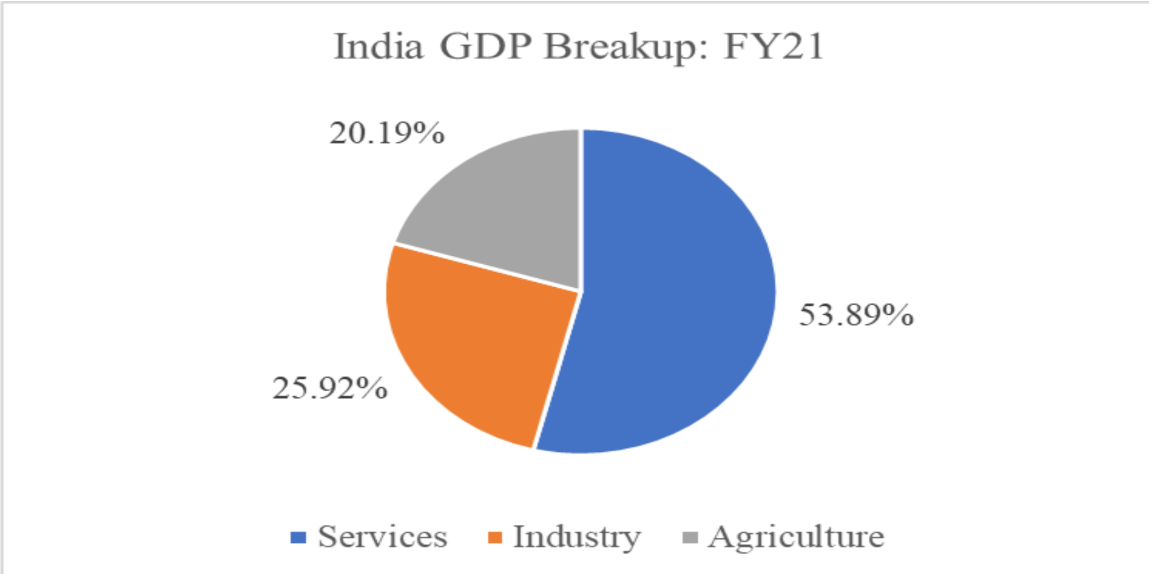

Figure 1: India GDP Breakup

(Source: statisticstimes.com, 2021)

If India intends to improve its socio-economic growth, it is amply clear that the focus should be on industry or manufacturing sector. With this objective in view, India in 2014 launched its ambitious Make in India program, under the leadership of PM Mr. Modi. The key advantages of the Make in India program were: 1) Develop job opportunities; 2) Expand GDP; 3) Develop the vicinity of the manufacturing locations; 4) Strengthen the rupee; 5) Increase brand value; 6) Upgrade technology; 7) Improve ease of doing business; 8) Provide job opportunity for the youth; 9) Development of rural areas; and 10) Increase flow of capital (business alligators, 2021).

In order to achieve these ambitious goals, the government had adopted a four-pronged approach.

1) New Processes: Doing business in India will get a lot easier. The new delicensing and deregulation measures will reduce the complexity and significantly increase the speed and transparency. To give a few examples – process of applying license will be made online on a 24 x 7 basis; validity of license will be extended to three years; services of all central govt. departments and ministries will be integrated by a single IT platform.

2) New Infrastructure: India's infrastructure for manufacturing is poised for phenomenal growth. New smart cities and industrial clusters will be developed in identified industrial corridors which will have high speed connectivity. To give a few examples – National Industrial Corridor Development Authority is being created; work on 5 smart cities in Mumbai-Delhi industrial corridor is in works; planning being done for Bangalore-Chennai industrial corridor; feasibility for Chennai-Vizag industrial corridor; feasibility study for Amritsar-Kolkota industrial corridor; strengthening of intellectual property regime; development of 4 national institutes of design.

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3) New Sectors: With the easing of investment caps and controls, high value industrial sectors such as defense, construction and railways were opened for global participation. To give a few examples – FDI cap in defense raised from 26% to 49%; 100% FDI allowed in defense for modern and state-of-the-art technology; major components of defense product list excluded from industrial licensing; 100% FDI allowed in construction; push for rail infrastructure projects and locomotive manufacturing and maintenance facilities.

4) New Mindset: Most importantly, the government wants to convey its role not as a permit issuing authority but as a true business partner. A few examples are - dedicated teams to assist first time investors; focused targeting of companies across sectors (makeinindia.com, 2021).

The success of this program will be tested based on increase in FDI, exports and improving of ease of doing business rankings.

Literature Review:

The Literature Review section is divided into two pockets – first, general aspects on Make in India initiative and second, on various sectors.

General Aspects of Make in India

Make in India is all set to transform India in a global manufacturing hub (Soundhariya, 2016). However, that does not mean it will be an export led growth (Rajan, 2015). The key challenges to achieve this transformation are skilled manpower (Punjani, 2019) and ease of doing business (Singh and Jaiswal, 2018).

Soundhariya (2016), has posited that, Make in India is an international marketing strategy, conceptualized by the Prime Minister of India, Narendra Modi on 25 September 2014 to draw in investments from businesses all throughout the world and make India the manufacturing Hub.

Rajan (2015), has argued that, the danger when we talk about "Make in India" is to assume the export-led growth way that China followed. Slow-growing industrial countries are substantially less prone to absorb a critical extra measure of imports within a reasonable time-frame.

According to Punjani (2019), PM Narendra Modi launched "Make in India" project, with an intent to make manufacturing a vital engine for India's financial growth. However, to make this effort effective, it is important to focus around the development of the skills of Indian laborers to empower them in getting and doing the right job.

Singh and Jaiswal (2018), have opined that, India has consistently been seen as an economic powerhouse and presently it is among the main five fastest improving economies in the world which plainly is the aftereffect of different reforms launched under the Make in India campaign.

According to Green (2014), a new "Make in India" mission to "transform India into a worldwide manufacturing hub" plans to utilize manufacturing as a vehicle for job growth. Is this strategy reasonable? This paper helps answer the inquiry by describing the job growth capability of the Indian economy.

Sectoral Focus of Make in India

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Various research articles are focused on various sectors. E.g. textiles (Gulhane and Turukmane, 2017), IT (Das, 2017), auto (Kamal, 2017) and MSME (Kochukalam et al., 2016).

Gulhane and Turukmane (2017), have opined that, Govt. of India has set out its profoundly aspiring project 'Make in India' mission to galvanize the manufacturing sector of the nation and to increase the inward investment in various sectors. Textile industry, one of the biggest and profoundly labor-intensive manufacturing sectors in India, is one of the recognized sponsors of this mission. Make in India leads to penetration of organized retail, favorable demographics and rising income levels.

Khatoon (2016), has argued that, Make in India-a program designed and initiated by the public authority of India to advance India as a global manufacturing destination, cultivate innovation, and fabricate top tier manufacturing infrastructure.

Das (2017), has posited that, IT-BPM sector in India which has 56% of the worldwide outsourcing market size is a quickly growing urban infrastructure sector. It includes improvement of infrastructure, employment reforms, strive towards skill building and efficient workforce, investment in R&D, adding worth to the innovations continuously to satisfy the changing expectations of customers.

Kamal (2017), has argued that, the Make in India program was launched by Prime Minister Mr. Modi in September 2014 as a feature of a more extensive arrangement of nation - building initiatives.

According to Kochukalam et al. (2016), MSME sector is one of the most neglected sectors as for public approach however has huge potential. It is on the grounds that MSMEs are the foundation of any industrial economy.

Objectives:

The study aims to achieve the following objectives:

1) To study the growth in FDI Inflows
2) To study the growth in exports
3) To study the improvement in Ease of Doing Business ranking

Data Analysis:

The FDI inflows in India in the year 2014-15 were 45,148 US$ million. They have increased to 81,722 US$ million by the year 2020-21 registering a CAGR of 10.4%. Since the CAGR is 10.4%, the growth in FDI inflows is robust.

India's exports of principal commodities for the year 2014-15 was 310,352 US$ million. They showed a nominal increase up to 313,138 US$ million by the year 2020-21 registering a CAGR of 0.20%. In other words, the growth in exports is not significant.

The 2019 Ease of doing business ranking has improved to 63 from 134 in 2014. The improvement by 71 places is certainly significant. In other words, there is significant improvement in Ease of Doing Business ranking.

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Initiatives for the success of Make in India

Make in India initiative is a good move, and it will boost up the economy of our nation and help in sharing the burden of deficit financing. As India is very rich in resources both natural and human. The problem being faced in India is the direction and financial investment in different areas, because of which our economic growth is very slow and restrict us to compete with the developed nations. Moreover, before getting the fruitful results of 'Make in India' we have taken following initiatives:

- We can make use of all the resources to the best possible extent
- We can stop youngsters running abroad
- Their talents can be best utilized and can increase production in the country
- We can also increase exports
- Our foreign exchange reserves will increase
- We can have better position in international market
- All this is possible only when
- If Good number of talented youngsters come forward to take initiative in setting up enterprises
- For this the govt. Should identify their talents give them scholarships extend all financial support
- The govt. Can also fix some time bound targets
- Encourage healthy competition among the youngsters

Business Reaction to the Make in India Initiatives

As per the data available from the government, that it has so far received Rs.1.10 lakh crore worth of proposal from the various companies that are interested in manufacturing electronics in India. Recently Lenovo also announced that it has started manufacturing Motorola smart phones in plant near Chennai. In addition to this large number of multi-national companies are tying up with the concerned departments and ministries to start-up their projects and forwarding these proposals. In response the Government of India is also showing very liberal approach in welcoming their proposals.

Challenges in Implementation of 'Make in India'

No doubt Make in India concept will boost up our economic growth and the initiatives taken by the present government is being welcome by every corner of the world. Apparently, it is very clear that countries and private sector players are showing their keen interest in this concept and are willing to invest in manufacturing sector. There are certain grey area's which needs immediate attention of the government for smooth implementation and success of this concept.

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1) India's labor laws are still ancient by most standards which makes hiring and firing and shutting down of inefficient units next to impossible.

2) India, is a federal structure which reduces the Central government's power in pulling off such schemes and ideas.

3) Provision of utilities such as electricity, water, infrastructure development such as roads, law and order, land allotment, are all under state government's gambit. Thus, cooperation of state governments is an absolute necessity for "Make in India."

4) High level of corruption in India at all levels in the bureaucracy. China even though on the basis of data provided by transparency international is more corrupt than India, India's '70's hangover of permit and license raj (which leads to red-tapism and hence corruption) and weak redress system makes doing business a very difficult task.

5) India's investment in health and education leaves a lot to be desired. A skilled and healthy population is both: a good employee and a potentially good employer. India spends less than 3% of GDP for both health and education. China, on the other hand, spends more than 3% of a much larger GDP in favor of both.

6) Political instability, law and order problem, social unrest, increasing crime rate are another challenges which restricts the countries to invest in India.

Conclusion:

The conclusions of this study are – first, there is significant growth in the FDI inflows for India, second, the growth in exports is not significant and third, there is significant improvement in ease of doing business rankings. The CAGR growth is FDI inflows over 10% clearly indicates the growing popularity of India as an investment destination. Moreover, the growth in exports is negligible, which suggests that the growth in investments is focused on domestic demand. Additionally, there is considerable change in the ease of doing business rankings by almost 71 places. The credit of FDI inflow growth coupled with significant improvement in the ease of doing business rankings goes to the Make in India program. These findings are clearly indicator of the program's success. The Modi government has been successful in cutting the red tape and streamline a lot of processes to start a new business which has resulted in sharp improvement in the ease of doing business rankings. On the other hand, India has shown the ability to attract foreign capital indicating the success of various invest in India conclaves. India needs to rapidly make a workforce ready to cater to this opportunity and its ambition of making India a manufacturing hub will bear fruits.

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