Pacific Business Review International
Volume 9 Issue 7, Jan. 2017

Make in India: Strengthening the Supply side of Indian Economy

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Abstract

Manufacturing sector has always been considered to be an engine for economic growth of any nation. One of the main reasons for slow economic growth in India is the structural imbalances in the economy. Indian economy has been traditionally an agriculture based economy. In Indian economy, majority of the population i.e. around 54% is engaged in agriculture sector, but the share of this sector in GDP is around 15%, a clear indicator of very low productivity. The share of manufacturing sector in GDP is below 18% whereas total employment engaged in manufacturing activities is around 20% of the total employment. It is also observed that Indian manufacturing sector could not grow as expected due to higher input costs e.g. effect of indirect taxes on selling price, high cost of power, water, transportation & finance, poor quality of product and lack of competitiveness of its exports. To boost up the growth of our manufacturing sector, Government of India has initiated "Make in India" programme with an objective to encourage domestic and foreign companies to manufacture their products in India. This theoretical research paper is an attempt to study the salient features of "Make in India" programme and to analyze the issues and challenges in its implementation. For the purpose of this study, only secondary data has been collected.

Keywords: Make in India, Manufacturing, Government of India.

Introduction

The manufacturing sector of a nation has been considered as an engine for growth of its economy as it has a cascading effect on the other sectors of the economy. Despite the availability of technical manpower and cheap labour, Indian manufacturing sector has not grown as expected. This may be attributed to a number of factors i.e. the use of obsolete technology, poor infrastructure, complicated regulatory mechanism, compliance burden, higher input costs i.e. power, water, transportation, finance, impact of indirect tax, over staffing, low investment in Research & Development activities and delay in decision making due to bureaucracy. According to KPMG survey (2014) on ease of doing business in India, approvals related to environment clearances, land procurement, construction permits, industrial safety permits and power connections are found to be the major obstacles to start a business in India.

India has never been a favourite location for foreign investment. Foreign investors find it difficult to invest in India due to complex rules and bureaucratic red tape that delay investment decisions. In the latest World Bank study, Doing Business 2014, India is ranked at 134 among 189 countries, lower than its BRICS counterparts as on June 1, 2014. India comes among the bottom 10 per cent of countries when it comes to the ease of starting a business — ranking 179 out of 189. It takes, on an average, 27 days and the completion of 12 procedures to start a business in India. This is attributed to slow decision making at the administrative level.

To encourage companies to manufacture their products in India, the Government of India has launched "Make in India" initiative with the emphasis on ease of doing business to achieve structural changes in the economy. This programme was initiated with the following objectives

- to attract capital investment
- to foster innovation
- to enhance skill development
- to build manufacturing infrastructure and
- to protect intellectual property

Initiatives by Government of India under "Make in India" Programme:

To achieve the above objectives, a number of initiatives have been undertaken by Government of India under "Make in India" Programme. The salient features of these initiatives are:

a) Deregulation and De-licensing of the manufacturing sector

- Introduction of self-certification or third-party certification for safety standards. (for activities classified as non-risk or non-hazardous, it’s to be entirely self-certified.)
- Application for industrial licenses through online portal.

- Extension of validity of industrial licenses from two to three years.
- Opening up entirely a number of sectors such as defense and construction.

b) New Infrastructure

- Building industrial corridors and smart cities.
- Strengthening intellectual property regime – compliance with global standards.
- Skill development.

c) Opening up India's 'high-value' industrial sectors

- Opening up Defense, construction and railways to private investment.
- Doubling of the FDI cap in Defense and permitting 100% FDI on a case-to-case basis.
- 100% FDI in rail projects and in construction.

d) Specific targeting of twenty-five sectors

- Include automobiles, auto components, aviation, biotechnology, chemicals, defence manufacturing, electrical machinery, IT, pharmaceuticals, roads and highways, food processing, mining, oil and gas, and thermal power.
- Mostly capital-intensive sectors and/or require highly skilled labour.
- Need use of imported technology even if they are not capital-intensive.

e) Other Initiatives

- Setting up of an investor facilitation cell to guide the foreign investors on all aspects of regulatory and policy issues and to assist them in obtaining regulatory clearances.
- Integration of all central government services with an e-Biz single window online portal.
- Advising the states to introduce self-certification.
- Advising the Ministry of Home Affairs to give all security clearances to investment proposals within 3 months.

Issues and Challenges:

Under the "Make in India" programme, Government has already commenced concerted efforts to enhance the ease of doing business and kick-start manufacturing growth. It has also relaxed FDI limits in critical sectors like defence, construction and railways. Some state governments are trying to create a conducive environment for this purpose. In Madhya Pradesh the state government is creating 27 industrial areas while promising to improve infrastructure and make labor laws and land acquisition regulations more investor-friendly.

Sensing the positive intentions of these initiatives of the Government under Make in India programme, there has been some encouraging responses from various multinational companies i.e. Mercedes to double its India assembly capacity to 20,000 units, Ford to ship India-made EcoSport to USA, Spice Group to invest Rs. 500 crore in India, Hitachi to set up auto-component plant in Chennai, Huawei opened a new R & D campus in Bengaluru, Iphone maker Foxconn in talks to build first Apple plant in India, LG to start domestic manufacturing of smartphones with Rupees 1000 crore investment in R & D, Airbus Helicopters and Mahindra Defence, a Mahindra Group subsidiary, has recently announced a plan to produce helicopters to cater to India's military requirements etc.

Though there is a positive feel for the programme to meet its objectives, there are some serious issues at ground level, which require immediate attention to sustain the momentum built up recently. These issues have been explained below:

1. **Land Acquisition:** Setting up the proposed new industrial corridors and priority sector industry as construction, infrastructure, manufacturing and mining etc. under the programme would have vast land requirements. This is a major issue of concern as the current land laws make the acquisition of land more complex and costly. Further there are increasing numbers of social struggles against land acquisition. This is adversely affecting investment into priority sectors. This needs to be also viewed from the perspective that the other developing countries e.g. Bangladesh, Vietnam and Thailand also have comparative advantage in providing cheap manufacturing locations to the foreign investors. A key question is whether the government will be able to master the difficult balancing act between providing sufficient rights and safeguards to landowners while easing land acquisition procedures.
2. **Infrastructure:** To increase the productivity, profitability and competitiveness, the manufacturing sector needs sound physical and administrative infrastructure. The immediate concerns are irregular power supplies in most states, poor roadways, railways and port infrastructure, insufficient number of universities and colleges providing higher and relevant education, inadequate quality of education etc. These infrastructure issues are some of the factors, which are making Make in India programme is a big challenge.
3. **Labour:** Another issue, that may be very critical to the implementation of Make in India programme, is the

Indian Labour market, which is characterized by world's most restrictive labour laws. Besides leading to strong unionization, these laws are outdated in the current context. India has some of the world's most restrictive labor laws. A key question is whether both the union and state governments will be able to ease these laws in a way that fosters more employment and industrial activity in labor-intensive sectors, and in light of strong opposition from unions.

4. **Training issues:** The priority sectors under the programme are highly capital intensive and require highly skilled labour. Preparing high skilled workforce by proper education and training to meet the demands of such industry is again a big challenge for the Government. In the absence of proper training, only a small proportion of total youth population will be benefitted out of this and would fail the purpose of employment generation under the programme. Lack of attention paid to 'skill development': the constant harping on the benefits 'India's youth' is puzzling because the only provision that seems to have been made is an 'Indian Leather Development Programme.' It is supposed to train a lakh of young people, which is terribly inadequate, given the extent of unemployment existing now, and expected in the future.

5. **Intellectual Property Rights:** India has to comply with the global intellectual property regime, which has some very problematic consequences, particularly on the availability drugs and medicines.

6. **Tax:** One of the major impediments to a smooth business, especially in the manufacturing sector, is the uncertain and unpredictable indirect tax regime. The current indirect tax system is plagued with multiplicity of taxes - at different rates - at multiple points. The absence of any setting off mechanism results in cascading effect of these taxes. This is accentuated by a huge compliance cost that is incurred in respect of each of the taxes and it is observed that unclear rules and regulations and assertive tax authorities are at the heart of numerous high-profile tax litigation cases involving foreign companies. All this aggregates to huge tax cost for the manufacturing sector, which is clearly unsustainable in the current scenario. There have been a number of encouraging recent court decisions and the present Government is keen to reassure investors that India is moving towards a tax-friendly regime. However, sufficient work has not been done to ease concerns. The risk perception of businesses facing arbitrary taxation demands therefore remains high. A key question is whether the present administration will clarify these rules and regulations to minimize leeway for interpretation, and rein in tax authorities, while under pressure to plug the fiscal deficit. A key focus will also be on the extent to which India will be able to reform its antiquated tax regime.

Suggestions:

The issues and challenges may appear to be having simple solutions, but the devil lies in details and these would require long-term strategies and multi-thronged approach. Thus the success of the "Make in India" programme is dependent not only on the solutions to these issues, but a number of other pro-active measures can play a crucial role. Some suggestions have been made here in this regard:

a) The land acquisition issue requires an active consideration from the Government to ensure provisions of suitable cheap land for investment. The decisions related to land acquisition should be taken expeditiously at the state as well as district administration level, keeping in mind the interest of all stake-holders. Though the Land Acquisition Bill has already been initiated but it might require some fundamental changes before getting acceptance. Land acquisition should be faster while taking care of the displaced population.

b) For infrastructure development, the use of Public-Private-Partnership (PPP) model may be adopted to address the infrastructure issues in the implementation of Make in India programme, but the issues related to PPP model are to be resolved. In India, we have a weak form of PPP model due to lack of flexibility in the contractual agreement and huge delay in dispute redressal. It calls for right enabling environment for PPP initiatives for infrastructure development. Therefore transparency in government procedures, enacting new legislations, ease of norms and rules of National PPP Policy, appropriate risk allocation, fast dispute redressal system and good governance are need for hour to implement Make in India plan successfully.

c) The issues and challenges related to labour also demand to be addressed on priority. According to World Bank, India has one of the most rigid labour markets in the world. This is one of the biggest constraints in implementing Make in India initiative. Labour laws which are restrictive and outdated in the present context are needed to be revisited. We require more flexible labour laws e.g increasing ceiling on layoffs of workers and discouraging them to form unions and go on strike but providing minimum wages to all employees.

d) To address the tax related issues, the implementation of a centralized goods and services tax (GST) may simplify the currently complex indirect taxation system. It will replace all the indirect taxes as central excise duty, service tax, value added tax, octroi and luxury tax etc. The Goods and Services Tax will be a huge step forward in making India a single market. The GST is a stated priority area for the government, but it continues to face resistance from some states that are worried about losing revenues and are keen to keep certain tax items excluded from it. The Government of India should bring on board all the state governments and deliberate upon the issues concerning the states and should come up with a solution, where the states do not stand to lose any revenue and simultaneously the manufacturing sector gets a clear and fair taxation system.

e) The issues relating to training and intellectual property rights need a long term strategy and lot of efforts, but there is an immediate need to make a beginning on these issues. These issues require setting up of institutions of education, training and research and nurturing them without any political interference. The manufacturing sector should be encouraged to participate directly and indirectly in these activities by providing them tax benefits for investments made in this regard.

f) To compete with the cheap manufacturing sources i.e. China. The manufacturing of goods should be encouraged in India instead of importing those goods. The government should put more efforts to enhance the competitiveness of the Indian domestic manufacturing industry by encouraging them to increase productivity, decrease lead times, implement various quality control techniques and green practices. The countries like China might be losing on the advantage of vast pool of low-wage workers, as it is having double-digit increases in China's minimum wages. This would compel many companies to look for other low-cost alternatives. On this front, India has an advantage over Southeast Asian countries such as Vietnam and Indonesia as these countries lack the deep supply of workers available in India. We need to strengthen our low skill manufacturing to complement the inherent capabilities of skilled labour force, which is already recognized all over the world for making complex things and for its frugal engineering. It is thus the most opportune moment for India to make the environment investor friendly from the perspective of manufacturing sector. low skill manufacturing.

Conclusion:

India, being a large market, has the potential to translate the requirements emerging from government objectives of creating smart cities, industrial corridors, "Digital India" programme and globally competitive Small & Medium Enterprises (SMEs) into a huge demand for cement, steel, computers, construction equipment and other manufactured goods within the country. This would definitely lead to employment generation and poverty alleviation. Investment by foreign companies will bring more technology, sound scientific and management practices.

The present global economic environment thus puts India in a very enviable position, where a number of positive steps in the right direction would place it among the competitive manufacturing location on the economic map of the world.

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