

**Make In India -A Global Manufacturing Hub: Opportunities and Challenges****Author: Mrs. Yashwanti Singhmar,****Asst Professor in Commerce****Priyadarshi Govt. College for Women, Jind, Haryana****ABSTRACTS**

On 25<sup>th</sup> September 2014 , Indian Prime Minister Narendra Modi addressed an audience of 500 domestic and international entrepreneurs at Vigyan Bhawan in New Delhi, in an atmosphere charged with euphoria following the success of India's first mission to Mars the previous day, Mr. Modi inaugurated an international campaign aimed at transforming India into a global manufacturing hub and easing its business climate for both domestic and foreign investors. The ambitious scheme, that also puts in place the logistics and systems to address in a timely manner queries of potential investors, was unveiled along with a logo, a portal and a brochures detailing 25 priority sectors on that day. The logo shows a striding lion made of cogs with the campaign name across its body.

To become a manufacturing nation, India has to quickly move beyond rhetoric to create a clear strategy and favourable policy environment for manufacturing to take off. A close dialogue and partnership between government and the private sector is critical. At this moment, the Prime Minister's "Make in India" campaign appears to be exactly this — an imaginative marketing campaign. But there is much thought and even more work that is required to convert this to reality. However there are certain bottlenecks in the economy which the Government needs to address towards making India a global manufacturing hub. This research paper aims to identify some of the key challenges in the path of development and recommend possible solutions to deal with the same. Through secondary research and data obtained from various authenticated sources has been used for the purpose of analysis.

This paper has been able to identify the few major challenges in the path of making India a global manufacturing hub and accordingly make a few suggestions regarding possible solutions to deal with each of the issues.

- Improving the ease of doing business in India
- Improving the employability of general and engineering graduates
- Infrastructure development of major roads and highways in the country
- Capacity addition in the power sector to meet industrial energy demand

It is to be noted that the above list is not exhaustive and there are lot of other ample challenges towards making India a global manufacturing hub. However, focusing on these issues and taking adequate measures to deal with the same will go a long way towards turning the "Make in India" vision into a dream come true.

**Key Words:** Make In India, Key Initiative, FDI , India's Manufacturing Sector, Defence manufacturing in India

## **Introduction**

The 'Make in India' initiative has its origin in the Prime Minister's Independence Day speech on 15 August 2014, where he gave a clarion call to 'Make in India' and 'Zero Defect; Zero Effect' policy. The launch of the "Make in India" campaign by Prime Minister Mr. Narendra Modi where leading businessmen and CEOs of about 3000 companies from 30 countries were present is an impressive effort on the part of the new Government to boost investor confidence in the country. Moreover, Mr. Modi's foreign visit and meeting with CEOs of some of the top global firms like Goldman Sachs, Google, General Electric, Cargill, Boeing and many others definitely set the ground for investment in India. But at the ground level, there are a lot of challenges that the government has to deal with in order to turn the vision of achieving a sustainable 10% growth in the manufacturing sector into reality.

### **Recent policy measures and projects to open up India's manufacturing sector:**

In line with campaign the Government of India have taken a series of initiatives to revitalise the industrial sector in general and manufacturing sector in particular, A few of them are:

1. The process of applying for Industrial License and Industrial Entrepreneur Memorandum has been made online on the e-Biz website 24\*7
2. A vast number of Defence items have been de-licensed
3. The validity of Industrial license has been extended to three years
4. With a view to providing flexibility in working hours and increased intake of apprentices for on the job training, the Government has decided to amend a number of labour laws
5. An advisory has been sent to all Departments/ State Governments to simplify and rationalize regulatory environment which includes:
  1. on-line filing of all returns in a unified form
  2. no inspection without the approval of the Head of the Department, etc.

### **Recently the Foreign Direct Investment policy has been liberalized.**

1. 100 per cent FDI allowed in the telecom sector;
2. 100 per cent FDI in single-brand retail;
3. 100% FDI under automatic route has been permitted in construction, operation and maintenance in specified Rail Infrastructure projects

4. FDI in Defence liberalized from 26% to 49%. In cases of modernization of state-of-art proposals, FDI can go up to 100%
5. The norms for FDI in the Construction Development sector are being eased.
6. The government is committed to improving the physical infrastructure. Development of dedicated freight corridors and investment in improving our ports and airports are underway. These corridors would house Industrial agglomerations along with smart cities. The private sector would be playing a significant role in these developmental works.
7. For all non-risk, non-hazardous businesses, a system of self-certification to be introduced;
8. Process of obtaining environmental clearances made online.
9. The Government of India is developing the Delhi-Mumbai Industrial Corridor (DMIC) as a global manufacturing and an investment destination utilising the 1,483 km-long, high-capacity western Dedicated Railway Freight Corridor (DFC) as the backbone.

### **Why Make In India?**

Several pressing issues prompted the launch of this campaign. First and foremost, India needs to reboot its economy. After several years of gross national product (GNP) growth averaging 7.7%, between 2002 and 2011, this pace slowed down to around 5% in 2013 and 2014.

Second, India needs more jobs for its young people. Recently, on average, 5 million new jobs have been created each year, but around 12 million people join the workforce each year. This is the other side of the demographic dividend: India's labour force is expected to grow to 600 million by 2022. Job creation will fight poverty and help divert people from agriculture, which has a low capacity to sustain their livelihood.

Third, India's economic development model has been quite peculiar, offering privileges to skilled labour often employed by foreign companies. Conversely, other economies have achieved success by first providing incentives for job-creating manufacturing industries. That is why today manufacturing in China makes up 34% of gross domestic product. The Chinese have positioned themselves as the 'workshop' of the world, accounting for 22.4% of global manufacturing, while India accounts for only 2%. India's manufacturing sector is less productive compared to its competitors and accounts for only 15% of its GDP. The government has set a target of 25% of GDP by 2022.

**Advantages:**

1. Manufacturing sector led growth of nominal and per capita GDP. While India ranks 7th in terms of nominal GDP, it ranks a dismal 131st in terms of per capita GDP.
2. Employment will increase manifold. This will augment the purchasing power of the common Indian, mitigate poverty and expand the consumer base for companies. Besides, it will help in reducing brain drain.
3. Export-oriented growth model will improve India's Balance of Payments and help in accumulating foreign exchange reserves (which is very important given the volatility in the global economy with multiple rounds of Quantitative Easing announced by major economies).
4. Foreign investment will bring technical expertise and creative skills along with foreign capital. The concomitant credit rating upgrade will further woo investors.
5. FIIs play a dominant role (relative to FDI) in the Indian markets. However, FIIs are highly volatile in nature and a sudden exodus of hot money from India can effect a nosedive in the bellwether indices. Make in India will give an unprecedented boost to FDI flows, bringing India back to the global investment radar.
6. The urge to attract investors will actuate substantial policies towards improving the Ease of Doing Business in India. The Government of the day will have to keep its house in order (by undertaking groundbreaking economic, political and social reforms) to market Brand India to the world at large.

**Disadvantages:**

1. From a theoretical perspective, Make in India will tend to violate the theory of comparative advantage. If it is not economically feasible to manufacture a commodity in India, it is best to import the same from a country which enjoys comparative advantage in its production. International trade, after all, is welfare augmenting.
2. Reiterating the point made by Dr. Raghuram Rajan, India, unlike China, does not have the time advantage as it undertakes a manufacturing spree. The essential question is - Is the world ready for a second China?
3. Make in India will lead to an unsustainable focus on export promotion measures. One such measure is artificially undervaluing the rupee. This will have devastating consequences for the import bill.

4. A relative neglect of the world economic scenario may not augur well for Make in India. With the US and Japan economies yet to recover from their economic crises and with the EU floundering, one needs to be wary about the demand side of Make in India. The clairvoyance of the incumbent RBI governor to Make for India should be put to good use.

### **Major Challenges**

As stated by the Commerce Minister, Nirmala Sitharaman- "Make in India is not a slogan but a mission to be accomplished by a single-minded committment about new processes."

The following major challenges for Make in India need to be addressed immediately:

1. Restore broken trust between industry and government, eg. Issues with government such as uncertainty in tax system, like in Vodafone is a matter of concern for industries.
2. Environmental clearance has been a contentious issue for many projects. Land acquisition for industries is a pre-requisite, thus bringing the eternal debate of development vs displacement.
3. Skilled labour force is mandatory and it requires huge monetary support. Unlike in Korea, Japan and Germany which have about 80% of its population skilled, only 12% of India's population is skilled.
4. Infrastructural bottlenecks and lack in logistics have stifled the sector's growth. Capacity constraints and inefficiencies (such as delay in use of latest SCM technology, administrative delays etc ) are impacting economies of operation. To overcome, there is a need to invest \$ 1 trillion. Such a huge capital is tough to mobilize.
5. Political Criticism: A lot of people especially the Leftist parties have criticized this initiative as a clear cut favoring to Mr. Modi's friends in the business sector who have allegedly put in large sums in his campaign to the throne. Also, they say that the carrot India's precious resources to these business honchos.
6. Creating healthy business environment will be possible only when the administrative machinery is efficient. India has been very stringent when it comes to procedural and regulatory clearances.
7. India should also be ready to tackle elements that adversely affect competitiveness of manufacturing. Unfavorable factors must be removed. India should also be ready to give tax concessions to companies who come and set up unit in the country.

8. India's small and medium-sized industries can play a big role in making the country take the next big leap in manufacturing. India should be more focused towards novelty and innovation for these sectors.
9. India's make in India campaign will be *constantly compared with China's 'Made in China' campaign*. The dragon launched the campaign at the same day as India seeking to retain its manufacturing prowess. India should constantly keep up its strength so as to outpace China's supremacy in the manufacturing sector.
10. India must also encourage high-tech imports, research and development (R&D) to upgrade 'Make in India' give edge-to-edge competition to the Chinese counterpart's campaign. To do so, India has to be better prepared and motivated to do world class R&D. The government must ensure that it provides platform for such research and development.

### **Industry Reactions to 'Make in India' Campaign**

'Make in India' has received widespread support from industry leaders from both India and abroad as well as from the Confederation of Indian Industry (CII). Some companies, including foreign ones, have already announced plans related to the initiative.

**Oppo** jumps on to 'Make in India' bandwagon- to start India plant by August; Oppo's vice president Sky Li said, "India is the top priority in our expansion plans in South Asia this year. We have received tremendous support and appreciation from the customers and it's now time to reciprocate the feeling."

**Fiat** plans for 'Make in India': Modi's call to Make in India has had things moving in the automobile sector. Fiat Chrysler Automobiles has come up with a plan to manufacture a range of C-segment Jeep brand premium sports utility vehicles in India and export these SUVs to countries such as Australia, South Africa, and the United Kingdom. This manufacturing (export) unit is likely to be up and running within an year and shall bring in an investment of about INR 1,500-2,500 cr.

**Airbus;** Narendra Modi paid a visit to Airbus Group 's facilities in Toulouse, France.

He was greeted with a vote of support, from the aerospace company's CEO, for his Make in India initiative to build up manufacturing in India. Airbus Group aims to increase its sourcing of aerospace parts from Indian companies to \$2 billion in the next five years, the company informed Mr. Modi, as it seeks to diversify its supplier base and tap low-cost suppliers worldwide.

**Hitachi:** Has agreed to set up a Bup auto-component plant in India.

**Huawei:** Some reports say that Huawei will invest 170 million dollars to set up RnD center here in India.

**China:** Chinese companies CEOs support PM Modi's 'Make In India' campaign; this is what they said

1. "We are excited about India. We are excited about Make in India and Digital India," Jack Ma of Alibaba.
2. "We have some big plans for India, We fully support Make in India," said President of Xiaomi Lin Bin.
3. "Harbin Electric would like to bring more light to India, take advantage of Make in India," said Harbin Electric Chairman Zou Lei.

**Sweden:** Swedish companies such as Tetrapak, Scania, Ericsson, and Volvo India have committed to successfully participating in Make in India and strengthening their decade old relationship with the Indian manufacturing sector. The Swedish Ambassador, H E Harald Sandberg praised Modi's initiative to boost the manufacturing, automobile, infrastructure and other sectors of the Indian economy drawing upon the traditional strengths of the country.

**Oman:** The soon to be held seventh joint commission meeting between India and Oman is likely to provide both the nations a perfect platform to strengthen trade ties and for investors from Oman to explore investment opportunities in our country.

### **Reaction in Defence Sector**

PM Modi's 'Make in India' attracts 330 foreign companies at Aero-India 2015. Baba Kalyani, Bharat Forge also said that the Foreign companies very keen on 'Make in India' in defence space:

**Germany:** German defence major TKMS has said it will be participating in the Project-75I and is ready to offer HDW Class 214 boat and has promised that it will be in line with the "Make in India" initiative.

**Japan:** Japan might bid for P-75I as the Indian side is keen on the Japanese participation in the submarine building programme. Japan's Soryu-class conventional attack submarines which are a 4,200-tonne have garnered interest in India with Australia too in talks with the Japan.

**Spain:** Spain's Navantia is ready to offer its expertise in design and construction for India's P-75I. It is also part of the Scorpene India Consortium along with France.

**France:** France has already been part of the P-75 project as it helps Indians build Scorpene boats on their shipyards. However, P-75I subs will be bigger than the 1800-ton Scorpene class being built.

**Russia:** Russia has said that it will be offering India Rubin Amur 1650 class submarines to India. This boat is a low-noise, 20 knots speed and is designed for both anti-submarine and anti-surface warfare.

### **Conclusion**

Make in India is an ambitious project, but it is one that India desperately needs to kickstart and sustain its growth momentum. With relentless policies towards this end, it is possible to make India the powerhouse of manufacturing sector in the world.

Although the ease of doing business score went down to 142 from 134 last year, the World Bank has taken care to distance this downslide from the NDA government which took charge barely a week earlier and World Bank has used data till May 2014 whereas most measures to improve doing business were undertaken subsequent to that. The various measures undertaken by the NDA Government to address issues related to economic growth, delay in Government decisions and reforms in the Labour law, Land law and taxation have kick started the manufacturing sector and shot the GDP growth by 5.7 % in the last quarter.

The Modi Government has also signed a staggering USD 35 Billion investment deal with Japan for infrastructure development. If governance continues in the current manner, we can definitely hope to see significant and sustainable growth in the manufacturing sector and progress towards India becoming a global manufacturing hub.

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