1. Five years of Make in India

Context:

- Prime Minister launched the **Make in India campaign on September 25, 2014**. Five years later, this policy has produced contrasting results. In this context, we will analyse the performance of Make in India.

Make in India:

- The initiative basically promises the investors – both domestic and overseas – a conducive environment to turn 125 crore population strong-India a manufacturing hub and something that will also create job opportunities.
- Make in India aspired to emulate China in attracting foreign investment to industrialise India. The objective was, officially, to increase **the manufacturing sector's growth rate to 12-14 per cent per annum in order to increase this sector's share in the economy from 16 to 25 per cent of the GDP by 2022 — and to create 100 million additional jobs by then.**

Achievable Targets:

- Target of an increase in manufacturing sector growth to 12-14% per annum over the medium term.
- An increase in the share of manufacturing in the country's Gross Domestic Product from 16% to 25% by 2022.
- To create 100 million additional jobs by 2022 in manufacturing sector.
- Creation of appropriate skill sets among rural migrants and the urban poor for inclusive growth. An increase in domestic value addition and technological depth in manufacturing.
- Enhancing the global competitiveness of the Indian manufacturing sector.
- Ensuring sustainability of growth, particularly with regard to environment.

Contrasting Results:

- Foreign direct investment (FDI) has increased from $16 billion in 2013-14 to $36 billion in 2015-16. But this remarkable achievement needs to be qualified from two standpoints.
- First, FDIs have plateaued since 2016 and second; **they are not contributing to India's industrialisation**. FDIs in the manufacturing sector, in fact, are on the wane. **In 2017-18, they were just above $7 billion, as against $9.6 billion in 2014-15. Services cornered most of the FDIs — $23.5 billion,** more than three times that of the manufacturing sector.

- This is a clear reflection of the Indian economy's traditional strong points, where computer services, for instance, are remarkably developed. But can a country rely on services without developing an industrial base? The response is clearly no and this is why "Make in India" was initiated.
- The idea, then, was **to promote export-led growth**: Foreign investors were invited to make in India, not necessarily for India. But few investors have been attracted by this prospect, and **India's share in the global exports of manufactured products remains around 2 per cent — China's is around 18 per cent.**

Why has Make in India failed to Deliver?

- First, a **large fraction of the Indian FDI is neither foreign nor direct but comes from Mauritius-based shell companies.** Indian tax authorities suspected that most of these investments were "black money" from India, which was routed via Mauritius.
- **Second, the productivity of Indian factories is low.** According to a McKinsey report, "workers in India's manufacturing sector are almost four and five times less productive, on average, than their counterparts in Thailand and China". This is not just because of insufficient skills, but also because the size of the industrial units is too small for attaining economies of scale, investing in modern equipment and developing supply chains.

Why are Companies Small?

- Partly by choice, because **labour regulations are more complicated for plants with more than 100 employees.** Government approval is required under the Industrial Disputes Act of 1947 before laying off any employee and the Contract Labour Act of 1970 requires government and employee approval for simple changes in an employee's job description or duties.
- **Infrastructure is also a problem area.** Although electricity costs are about the same in India and China, power outages are much higher in India. Moreover, transportation takes much more time in India**. Average speeds in the China are about 100 km per hour,** while in India; they are about 60 km per hour. The average ship turnaround time in Singapore was less than a day; in India, it was 2.04 days.
- **Bureaucratic procedures and corruption continue to make India less attractive for investors.** It has made progress in the World Bank's Ease of Doing Business index, but even then, is ranked 77 among 190 countries. India ranks 78 out of 180 countries in Transparency International's Corruption Perception Index.

- **To acquire land to build a plant, for instance, remains difficult.** India has slipped 10 places in the latest annual Global Competitiveness Index compiled by Geneva-based World Economic Forum (WEF).

Conclusion:

- There was clearly a contradiction in the attempt to attract foreign investors to Make in India **before completing the reforms of labour and land acquisition laws.**
- **Liberalisation is not the panacea for all that ails the economy, but it is a prerequisite** if India intends to follow an export-oriented growth pattern.
- A significant move in this direction was made last month with the reduction of the company tax from about 35 to about 25 per cent (at least on paper), a rate comparable with most of India's neighbours. This reform is also consistent with the government's effort to compete with South East Asian countries, in particular, to attract FDIs.