Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, General Impact Factor : 2.3982, Volume 08, No. 01, January, 2018, pp. 242-248

THE THREE YEARS OF MAKE IN INDIA CAMPAIGN

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ABSTRACT

Manufacturing sector is considered the backbone of the economy in terms of providing employment to a large population, strengthening the base of the economy, promoting growth and providing strength to all other sectors of the economy. Knowing the importance of this sector Government of India has come up with the Make in India campaign with the objective to raise the raise the contribution of this sector to GDP from around 15% at present to 25% and generating more than 100 million jobs by the year 2022. It was such a great effort for identifying the ailing factors of the growth of this sector and to give a boost to this sector. But the target seems to be so far. So this paper is an attempt to evaluate the performance of manufacturing sector after the three years of the announcement of this awaited campaign.

KEYWORDS: *GDP, Make in India, Manufacturing Sector, Sectors of the Economy.*

Introduction

In comparison with the other economies, performance of this sector is not significant in terms of productivity, exports, employment, and low contribution to GDP. Its contribution to the GDP is only about 16% while in the other rapidly developing countries such as China, Thailand, Malaysia, contribution of this sector has been shown below:

Share of manufacturing in GDP (Manufacturing value added as % of GDP) in 2013

Countries	Manufacturing value added (% of GDP)
Thailand	27%
China	30%
Malaysia	23%
Indonesia	21%
Philippines	20%
Singapore	20%
Japan	20%
India	17%
UK	10%

Source: World Bank

So a low contribution of this sector to GDP and slow growth of manufacturing sector was the major concern for the policy makers during the policy formation. That's why the Make in India campaign was introduced by the GOI to give a hope to manufacturers of India and to give a rise to this sector by making India a manufacturing hub (Kaur, 2016, p. 10). The campaign was expected to raise the contribution of this sector to GDP from around 15% at present to 25% and to generate more than 100 million jobs by the year 2022. No doubt campaign was started with a great spirit and the launching of this campaign has given hope to the manufacturers and investors in India. But still there are a number of challenges which are ailing the sector's growth.

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Review of Literature

As we know that after independence the manufacturing sector of India showed a slow progress. At the time of independence its share to GDP stood at about 9 percent. During the era of 1950 to 1991 the share of this sector was 12.6 percent to national GDP. And after liberalization it is stagnated at 15 per cent level for over 2 decades (Singh, 2013, p. 4). Manufacturing growth rate for the period from 1950 to 2012 has been at the level of 6.76%. Growth rate of this sector was the highest for the year 2007-08 with 10.3% (Singh, 2013, p. 4). No doubt government of India has undertaken a vast range of reforms for the upliftment of manufacturing sector in the last two decades. However, an acceleration of growth in manufacturing; and associated increase in employment has eluded India. Reasons behind the poor performance of this sector are the different type of constraints that are ailing the sector's growth. Inappropriate infrastructure and underdeveloped financial services has been the core reasons which are holding the sector back (ADB working paper series no. 119). Labour market complexities have been another reason for the slow growth of the sector but it has been widely observed that the labour market reforms have not been undertaken (pangariya, 2006). Lack of domestic demand, overlapping tax structure, high price of raw material, lack of skilled labour were also contributing to the slow growth of this sector (FICCI, p. 9). Difficulty in land acquisition and a dysfunctional exit policy framework have been another two major concerns for the sector (Bhat, 2014). So for removing these constraints and to emerge India as a global manufacturing hub through its cost competitiveness, skilled workforce and favorable government policies GOI has come up with the awaited programme Make in India.

Objectives of the Study

Based on review of literature the following objectives have been framed:

- To identify various issues in the existing business environment that are relevant to Make in India campaign.
- To evaluate the performance of Make in India campaign.

Methodology

The present paper investigates the trends in manufacturing sector of India after the implementation of 'Make in India' campaign. This paper also investigates the challenges of this sector, which ailed its performance for a long time. This paper uses secondary data from different sources like journals, books, magazines, Census India, Government reports, surveys and websites.

Challenges for manufacturing sector

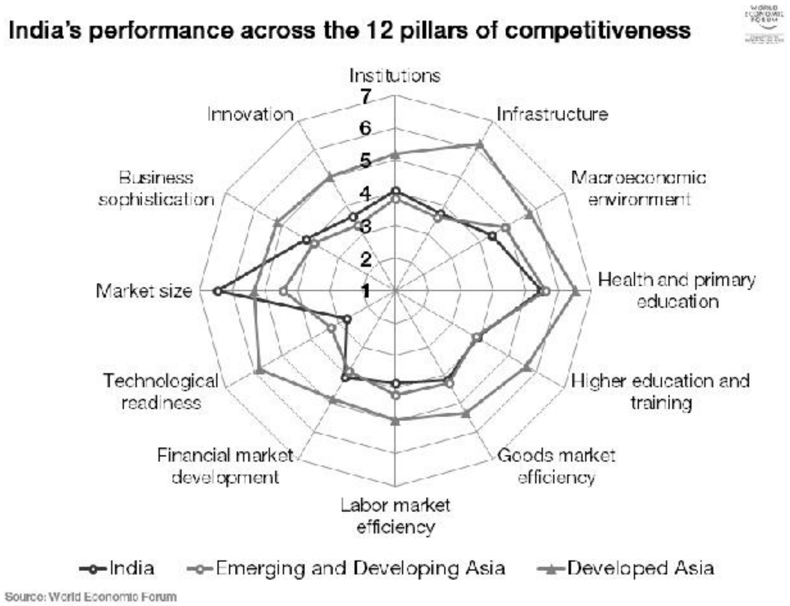
There are many challenges that hold back the downy movement of the manufacturing sector which in turn adversely affect the 'Make in India' campaign. Some of them have been listed below and evaluated briefly:

Infrastructure: According to the Hirschman Social overhead Capital is responsible for fostering production activities as there is a positive spillover effect of infrastructure on manufacturing sector. Smart infrastructure includes development of expressways, highways, waterways and improved and efficient sea and air ports. So the infrastructure is considered to be a critical input for the development of manufacturing sector. Although India has the second largest road network, fourth largest rail network and ninth largest civil aviation market in the world (EIG report, 2016 p. 13), at the same time India has 12 major ports and 200 notified non major ports along the coastline and islands, even then infrastructure has become a major supply-side bottleneck in India, particularly for the manufacturing sector. This problem of infrastructure is concerned with finding the minimum cost of transporting a single commodity from a given number of sources to a given number of destinations. Therefore it was essential for policy makers to give infrastructure a place of high importance in the development policy. Government made a large number of efforts to improve the infrastructure facilities in India especially after reforms but there was not much progress in this field. National Transportation Development project committee (NTDPC) was constituted by the government of India in 2010 to formulate a long term transport policy. Dedicated freight corridors which have been envisaged to augment rail freight transportation capacity, particularly on the eastern and western corridors. In India the development of roads got a big boost with the launching of National Highways Development Project (NHDP) and Pradhanmantri Gramin Sadak Yojana (PMGSY). While the NHDP aimed primarily strengthening and widening high density corridors of National highways and PMGSY was designed to improve the accessibility of habitation in rural areas. However similar attention was not given to state highways and major district roads. The port sector was opened for private sector in 1997 (NTDPC report, 2014, p. 5and 6).

The World Economic Forum's Global Competitiveness Report 2017-18 has given 66th rank to India out of 137 countries for its deficiency in infrastructure. Earlier in 2014-15 India stood at 92nd position out of 144 countries. Overall Global competitiveness rank for India in 2017 was 39th.

Year	Global competitiveness rank
2007-08	48
2008-09	50
2009-10	49
2010-11	51
2011-12	56
2012-13	59
2013-14	60
2014-15	71
2015-16	55
2016-17	39
2017-18	40

(The Global Competitiveness Index presents a framework and a corresponding set of indicators in three principal categories (subindexes) and twelve policy domains (pillars) for different economies).



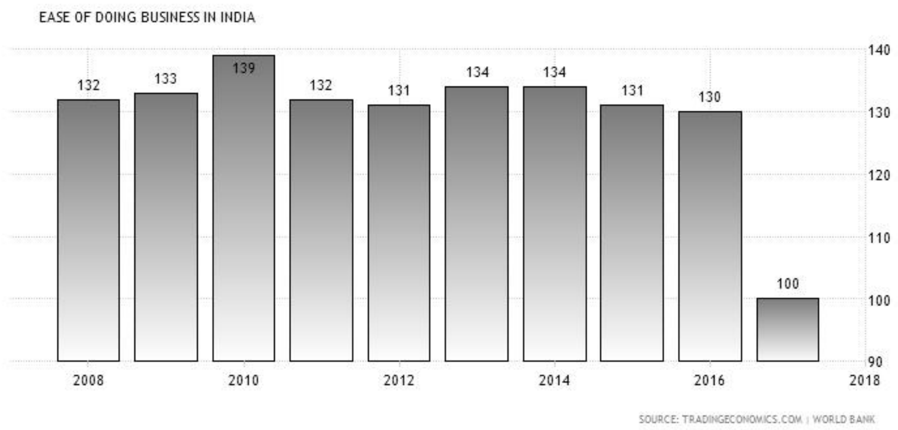
According to world Economic Forum India stabilizes this year after its big leap forward of the previous two years. This continuous improvement in Global competitiveness rank was mainly attributed to two main factors. First one was its significant improvement in macroeconomic conditions and the Second was pro business, pro growth, and anti corruption stance of Modi government, which improved the business community's sentiments towards the country. The report admits that infrastructure has improved but still remains a major growth bottleneck. Infrastructure development has not keep up with the increasing needs of the economy. Since 2007, the country slipped 14 ranks to 81st worldwide in terms of overall quality of infrastructure. In a recent the World Bank estimates that India might need up to **1.7 trillion dollars** to close its gap in infrastructure development.

- **Labour Laws**: Another major factor responsible for the lackluster growth of India's manufacturing sector is the presence of stringent and complex regulations relating to labour. Despite India's labour abundance and the large size of its population and economy, India has a small share of the world market in labour-intensive products. While some commentators have put the blame for this poor performance on India's rigid labour markets arising out of its restrictive labour regulations, others have argued that Indian businesses have found ways to get around these laws (Mitra, 2015).

- **Skill**: Education and skill are the key forces for the growth and development of a country. The countries with high skilled labour can do much better than others. But the situation in India is very gloomy with huge skill gaps. India's population is huge at 1.21 billion and India is among the 'young' countries in the world, with the proportion of the work force in the age group of 15-59 years, increasing steadily. However, presently only 2% of the total workforce in India have undergone skills training (FICCI). India has a great opportunity to meet the future demands of the world, India can become the worldwide sourcing hub for skilled workforce. The challenges for India get magnified, as it needs to reach out to the million plus workforce ready population, while facing an ever increasing migration of labour from agriculture to manufacturing and services.
- **Ease of Doing Business**: Ease of doing business has been the major obstacle to the growth of the manufacturing sector. The "ease of doing business" covers ease in starting a business, enforcing contracts, registering property, gaining access to electricity, paying taxes, etc. The easier and simple process gives a country a good rank. The more the complex and time consuming process the poorer is the rank given

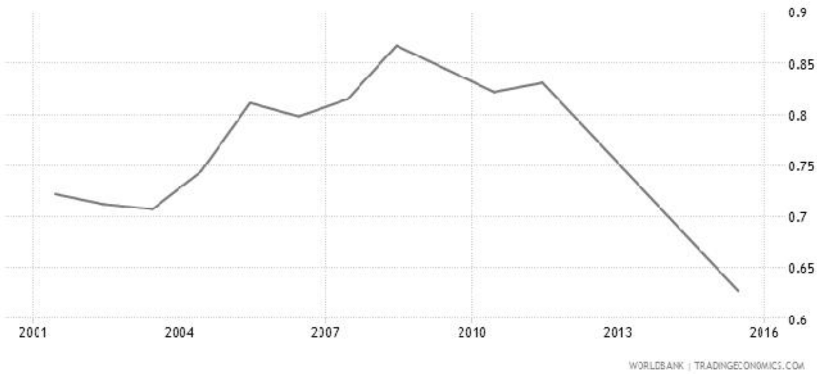
Topics	Rank
Starting a business	156
Dealing with construction permits	181
Getting electricity	29
Registering property	154
Getting credits	29
Protecting minority investors	4
Paying taxes	119
Trading across borders	146
Enforcing contracts	164
Resolving insolvency	103

Earlier in 2014 its rank was 134^{th}. Ease of Doing Business in India averaged 129.60 from 2008 until 2017, reaching an all time high of 139 in 2010 and a record low of 100 in 2017.



So finally India has proved that doing business in India is much easier now than before, endorsing the economic policies that the incumbent government has initiated since 2014.

Research and Development: As per World Bank report 2015 the expenditure on Research and Development in India is just 0.63 percent of GDP. Moreover around 3/4th the share comes from public sector and just 1/4th is invested by private sector showing severe contrast to the trends followed in US and China ("The Manufacturing Plan,"n.d., p. 49). Globally the expenditure on research and development as a percent of GDP is 2.23 percent.



Thus the above figure shows that India's Gross Expenditure on Research and Development (GERD) as percentage of GDP has remained so far less than 1% as compared to the developed and emerging economies despite increase in absolute terms.

Although the Science, Technology and Innovation (STI) Policy, 2013 envisages increasing R&D expenditure to 2% of GDP with enhanced participation of private sector through policy and reform processes. In addition, Department of Science and Technology (DST) brought out a White Paper on policy environment for "Stimulation of investment of private sector into Research & Development in India". But we could not go so far like many other developed and developing nations. India had invested 0.63% of its Gross Domestic Product (GDP) towards Research and Development (R&D), whereas USA and Korea republic spent 2.79% and 4.23% respectively during 2015-16. Among BRICS nations, Brazil (1.17), Russia (1.13) and China (2.07%) also spent more than 1% of their GDP on R&D.

So, low investment in Research and development has been the prime reason for the low technological depth of the manufacturing sector. Indian R&D sector is still under explored as India lags behind her competitors in infrastructural and technological development. Therefore it poses a big challenge to the investors to improve further in skill and standardization of the issues.

In 2015 in India there are only 216 R&D professionals after every one million people which is very low as compare with Japan having 5231 and China having 1177 R&D professionals in every one million people.

Land Acquisition

Land acquisition is another foremost issue involving prolonged and cumbersome process.

In India the present laws are such that it is next to impossible to get 100% clean title for a land parcel of any significant size. The problem is that the law does not have provisions to stop a claimant from approaching the courts at any stage and at any time. The only secure way to get land with a 100% secure title in India was through the Government.

In order to make acquiring land India easier and more beneficial, the Government needs to make more proactive laws for the process of acquisition, as well as for resettlement and rehabilitation. Two of the most critical needs of the hour are the abolishing of the Urban Land Ceiling Act across country, and the formulation of laws that encourage participation of the owner in development of land.

Micro, Small and Medium Enterprises (MSME)

The Micro, Small and Medium Enterprises of India play an important role in providing huge employment and contributing considerably in manufacturing output. Micro, Small and Medium Enterprises in India offer a heterogeneous and varied nature of fabric in terms of the size and structure of the units, variety of products and services, scale of production and application of technology. These enterprises are quite complementary to the large scale industries as ancillary units. They contribute to the socio-economic development of the country quite significantly. The MSMEs in India constitute about 80% of the total number of industries and produce about 8,000 value added products (Das, 2017). Share of MSME sector to total GDP in year 2012-13 was 37.54%. This sector contributes nearly 45% of manufacturing output and 40% of total exports of the country and employs around 117 million persons in over 51 million units throughout the country in 2014-15 (Annual Report 2015-16, MSME). Despite such a big contribution from MSMEs there are various challenges still suffered by them in the areas of inadequate investment, unskilled labour, credit, poor infrastructure, technology, marketing linkages, cumbersome regulatory practices etc.

To obviate these problems, the Ministry of Micro, Small and Medium Enterprises (MSME) is implementing a number of Schemes & Programmes like Credit Guarantee Scheme, Credit Linked Capital Subsidy Scheme, Cluster Development Programme and National Manufacturing Competitiveness Programme etc. Furthermore, the Ministry has been interacting with various concerned Ministries/ Departments/ State Governments/Banks and other stake-holders to streamline the mechanism for grant of loans, simplify labour laws and other procedures to facilitate the growth of MSME units.

Exports

Exports play a major role in the growth of the manufacturing sector. But the share of India in global merchandise exports in 2015 was 1.6 percent. It has been stagnated for a long time.

Year	India's Share in World Merchandised Export
2011	1.7
2012	1.6
2013	1.7
2014	1.7
2015	1.6

Source: Pres information Bureau, GOI, Ministry of Commerce and Industry.

India's export basket, 68 percent comprise of manufacturing exports (as of 2015) which is the lowest among most Asian economies with China having 94%, Japan 87%, Singapore 76% and Thailand having 75%.The major reasons behind the declining manufacturing exports are the slow rate of growth of the sector, the small share of high tech exports, inadequate infrastructure, etc.

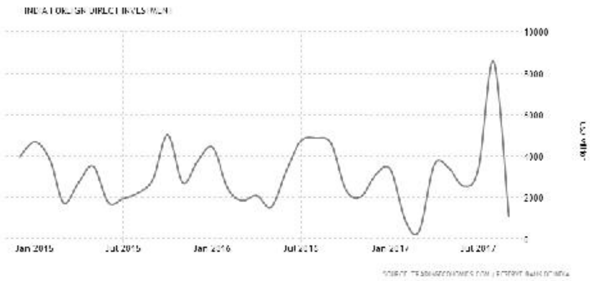
So the Government of India, for trade facilitation and enhancing the ease of doing business has reduced the number of mandatory documents required for exports and imports, which is comparable with international benchmarks. The trade community can file applications online for various trade related schemes. But we need to go far.

Conclusion

The Make in India initiative was launched by Prime Minister in September 2014 as part of a wider set of nation-building initiatives. Devised to transform India into a global design and manufacturing hub, Make in India was a timely response to a critical situation: by 2013, the much-hyped emerging markets bubble had burst, and India's growth rate had fallen to its lowest level in a decade. The promise of the BRICS Nations (Brazil, Russia, India, China and South Africa) had faded, and India was tagged as one of the so-called 'Fragile Five'.

As the table shows Foreign Direct Investment (FDI) has shown an increase of 25% from the period of December 2014 to December 2015. Even the FDI equity inflow has increased by 27%. The initiative has also resulted in the improvement of the business environment. With the recent analysis of the FDI, India has been ranked as the third top prospective economies for 2015-2017. Further the year 2015-16 witnessed 46% growth in Foreign Direct Investment (FDI) equity inflows and highest ever FDI inflows at $ 55.5 billion. As per International Monetary Fund, post the launch of Make in India initiative, India has emerged as the fastest growing major economy with GDP growth rate above 7.6% in 2015-16 and projected growth rate above 7% till 2020.

FDI FLOW IN INDIA



Financial year	**Total FDI flows (amount US $ million)**	**% growth over previous year (in US $ terms)**	**FDI equity inflows (in US $ million)**	**% growth of previous year (in US $ terms)**
2014-15	45,148	25%	30,931	27%
2015-16	55,559	23%	40,001	29%
2016-17	60,082	8%	43,478	9%
2017-18 (up to September 2017)	33,749		25,354	

Source: factsheet on FDI from April 2000 to September 2017

Make in India has now become a calling card for investors to come and invest in the Indian growth story. To further the Indian manufacturing capabilities, the government is focusing on the development of sectors that are going to be the key focus in the coming years. By introduction of new reforms in policies along with a positive economic atmosphere, it has created a fertile ground for businesses to thrive in India.

So we can say after great efforts today, India's credibility is stronger than ever. There is visible momentum, energy and optimism. Make in India is opening investment doors. Multiple enterprises are adopting its mantra. The world's largest democracy is well on its way to becoming the world's most powerful economy. But still there is a long way to go. But the target is very far taking into consideration the present factors. There are miles and 'miles to go' before celebrating the success of this campaign as there are huge obstacles that need to be overcome like simplifying the stringent laws and regulations, introducing the transparency in the process, building the best infrastructure, reforming labour laws, improving labour skill, etc.

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