

MAKE IN INDIA

A decade ago, India and China had roughly the same gross domestic product per capita. But at \$440, India's current GDP per capita is only about half that of China, and India's GDP is growing at a rate of only around 5 per cent a year, compared with China's 8 per cent.

India has one of the largest domestic markets in the world and it has a large labour force available at relatively low cost. It also has well educated workers, particularly in areas of engineering and science. If these were the only determinants, India should be hugely successful at attracting investment. But India has failed to develop a strong manufacturing sector in India.

Problems faced by manufacturing sector

The manufacturing industry faces numerous challenges in today's marketplace. The most significant challenges are dealing with intense global competition, finding and keeping skilled labor, handling cost pressures, and adapting to different consumer needs.

A. Dealing with intense global competition

Globalization has allowed manufacturers increasing access to developing markets. Companies can move production anywhere in the world in search of materials, expertise, and low labor costs. The result has been the globalization of supply chains, as firms around the world compete for business. American and European firms have benefited from this arrangement because they are able to purchase materials and labour at lower prices. But it has also opened them up to fierce competition.

Two major factors have reshaped competition in the manufacturing industry. The first is the revolution in technology, which has raised productivity and reduced costs worldwide. The second is the significant reduction in barriers to trade, particularly with respect to manufactured goods.

Competing in global markets has advantages and disadvantages for global manufacturers. At the same time as emerging markets are offering global manufacturing companies opportunities for investment, these countries are making great strides forward in developing their own domestic industries. Developing nations are investing in technological advances and in modern equipment and plants to manufacture cutting-edge products. There is also a considerable investment in skills development, a shift that is particularly evident in the developing economies.

B. Research and development

In recent years, manufacturers have decreased investment in R&D. Although they realize that R&D is needed to provide breakthroughs in both production technology and products, these initiatives have been scaled back so companies can keep prices low and remain competitive. The erosion of investment in R&D has had the most direct effect on manufacturers' efforts to recruit and fund high-caliber scientists, engineers, researchers, and other staff. In turn, this affects the amount of time it takes a product to move from R&D to commercial release, or "time-to-market."

India's R&D spend is 0.9% of GDP, whereas China, UK and Israel spent about 1.2%, 1.7% and 4.3% respectively. At present, about three fourth of the R&D expenditure India is in the public sector and only one-fourth is in the private sector. This is in stark contrast to trends seen in China where private sector finances

70% of total R&D spending. Further, 65% of total R&D spending in the United States and approximately 75% of total R&D spending in Korea and Japan is also sponsored by the private sector.

India's net imports have also been going up in some key sectors like Industrial Machinery & Equipment and Telecommunication equipment which indicates a lack of depth in these industries. Furthermore, share of Capital goods in Manufacturing, which is an indicator of the overall depth of technology and value addition in the Manufacturing sector, is relatively low in India.

C. Revenue growth

Manufacturing companies are increasingly concerned about their top line (revenue). Expansion into the global marketplace has increased faster than the market for goods, resulting in more competition for business. Revenue growth has slowed as manufacturers compete for a shrinking market share.

D. Maintaining profits

Manufacturers are also concerned with their bottom line (profits). Emerging markets have recognized the benefits of pursuing higher-valued manufacturing endeavors, and have adopted the efficiencies and techniques that, historically, have allowed manufacturers in traditional markets to dominate high-end product markets. Profits have therefore diminished as these manufacturers are forced to keep product prices in line with low-priced imports, both at home and in overseas markets.

E. Finding and keeping skilled labor

The manufacturing industry has a problem locating, and retaining, skilled employees. There are three main reasons for this problem:

- I. Employability** – Work ethic, attendance, and reliability are basic requirements, but they're lacking in a great many applicants. When you consider that a modern manufacturing plant is also looking for employees who can work as part of a team, multi-task, and work through minor problems, the absence of even the most basic skills is cause for concern.
- II. Industry image** – The image many people have of manufacturing is one of toil in a dark, often dirty and potentially dangerous environment. Other assumptions are that the pay is low and that job security is non-existent. What people may not realize is that many of the layoffs in recent years have been the result of companies reducing the number of unskilled workers in favor of lower numbers of skilled employees, combined with computerized machines, to complete the same amount of work.
- III. Training gaps** – In addition to the difficulties involved with attracting skilled labor, the manufacturing industry has also been struggling with training the employees it already has. Getting employees to enroll in, and complete, job skill training has proven difficult.

F. Handling cost pressures

There is an increasing range of forces making it more expensive to do business in traditional markets. Manufacturers are under intense pressure to do more, to do it quickly, and to do it for and with less. Over the years, some of the major costs in the manufacturing industry have increased. In order to sustain a competitive advantage, manufacturers are scrutinizing these cost pressures. The major cost categories in manufacturing are

- I. Energy** – Surges in energy costs have had a massive impact on the industry. The high cost of oil has had an impact on transportation costs. Although energy costs have always been subject to some fluctuation, in the demand-driven manufacturing environment, companies don't have the luxury of waiting out price spikes. Manufacturers have coped with rising energy costs in different ways. Some have moved operations to countries where the power supply is cheaper. Others have concentrated on maximizing efficiencies in their operations and seeking out alternate sources of power.

- II. Raw materials** – Traditionally, manufacturers could forecast what their costs would be with reasonable accuracy, and calculate both expenses and prices accordingly. Many manufacturers are caught between rising costs and consumers who reject higher product prices and shop the global marketplace to find the best deal for goods. There are a number of reasons for the volatility of the price of raw materials. Emerging economies are consuming vast amounts of steel, copper, and other metals. New technologies in sectors like aerospace are increasing the demand for rarer and more specialized materials.
- III. Taxes** – Taxes influence every aspect of doing business, as manufacturers grapple with corporate income tax, property taxes, sales and excise taxes paid by the business, various licensing taxes, unemployment insurance, and workers' compensation taxes. The complicated nature of most tax systems also results in high indirect expenses for bookkeeping, accounting, archiving, and recordkeeping. Many countries are lowering corporate income taxes to lure business investment.

G. Institutional drawback

The issues are:

I. Weak institutional architecture for business regulations in the country

- Despite that high priority of the business regulatory reform agenda in the country, there is no dedicated authority that can guide the whole process of reform in a structured, planned, cogent and systematic manner, which could mandate the respective departments of the Union, State and Local governments to comply in a timely, result oriented and predictable way.

II. Ambiguous nature and vast scope of business regulations

- There are vast numbers of business regulations at different levels of government are in existence in the country.
- There are instances of contradictory as well as overlapping business regulations on account of these being administered by the different tiers as well as layers of government.

III. Absence of national repository of business regulations

- Despite the advancements in Information and Communication Technology (ICT) and its ever-growing applications and usage, there is no dedicated online repository to track all the business regulations and procedures

IV. Lack of coherence in business regulatory governance across country

- Business facilitation is very much in the agenda at the national as well as state levels. But there is lack of coherence in all such efforts. There are wide variations in government-business transactions taking place in different locations of the country. It has also been found that there is a lack of predictability and standardization in terms of timelines as well as process adopted by different state governments when it comes to facilitating business

V. Lack of defined mechanism for consultation between government and industry

- The interface between government and the industry is also not well defined. There are definitely periodic consultations among various industry collectives and specific government departments located at different levels, but such consultations are not structured enough to be guided by a well-defined and outcome-oriented process.

VI. Inherent limitations of regulatory system in country

- Lack of periodic review clauses in regulations
- Lack of Regulatory Impact Analysis (RIA)
- Lack of sun-set clause in regulations

H. Land Issue

India has sufficient land for all uses – agriculture, industry, human dwelling, infrastructure and other uses – as long as it is used with prudence and productivity. Currently industry utilizes only about 2-4% of all land in India. Even at heightened industrial activity in the future, it is expected that there would be sufficient land for all users, including industry. However, there are some critical issues that need resolution in order for land to become a well-managed resource, especially from the point of view of Industry.

Land is inherently an imperfect market, because land is an immobile asset. Hence, no two pieces of land are alike, and can be differentiated. This gives rise to a monopolistic power with the landowners. Furthermore, the value of a piece of land effectively changes when we change its usage and due to development of surrounding areas. In addition, the owner is often emotionally attached to his land. In India, land is considered a very important asset from an emotional perspective.

A major characteristic of land ownership in India is that the land holdings are typically small. Typical industrial usage requires development of large tracts of land. Consequently, industrial development has as a prerequisite need to acquire land from a large number of owners in order to develop a contiguous piece of land for industrial use.

Another problem in the land market is the incomplete, outdated, and inaccurate land records, which give rise to disputes and litigation. Since industrial projects require large amounts of land and land holding in India is fragmented, industrialists have to deal with a large number of landowners and consequently face substantial risk of litigation.

In addition, there are some restrictions on usage of agricultural land for non-agricultural purposes. Non-Agricultural Use Clearance (NAC) from the local / state government is necessary before agricultural land can be considered for other uses.

To meet the above stated challenges government has signed Make in India initiative:

Make in India is a new national program designed to transform India into a global manufacturing hub. It contains lot of proposals designed to urge companies, local and foreign to invest in India and make the country a manufacturing powerhouse.

The main goal of the Make in India program is to increase the share of manufacturing sector from present 16 to 25 percent by addressing issues associated with Investment, Innovation, Infrastructure, IPR and Skill labour.

The initiative is built on four pillars which are as follows:

- **New Processes:** The government is introducing several reforms to create possibilities for getting Foreign Direct Investment (FDI) and foster business partnerships. Some initiatives have already been undertaken to alleviate the business environment from outdated policies and regulations. This reform is also aligned with parameters of World Bank's 'Ease of Doing Business' index to improve India's ranking on it.
- **New Infrastructure:** Infrastructure is integral to the growth of any industry. The government intends to develop industrial corridors and build smart cities with state of the art technology and high-speed communication. Innovation and research activities are supported by a fast-paced registration system and improved infrastructure for Intellectual Property Rights (IPR) registrations. Along with the development of infrastructure, the training for the skilled workforce for the sectors is also being addressed.

- **New Sectors:** 'Make in India' has identified 25 sectors to promote with the detailed information being shared through an interactive web-portal. The Government has allowed 100% FDI in Railway and removed restrictions in Construction. It has also recently increased the cap of FDI to 100% in Defense and Pharmaceutical.
- **New Mindset:** Government in India has always been seen as a regulator and not a facilitator. This initiative intends to change this by bringing a paradigm shift in the way Government interacts with various industries. It will focus on acting as a partner in the economic development of the country alongside the corporate sector.

The focus of Make In India programme is on creating jobs and skill enhancement in 25 sectors.

These include:

- Automobiles, Aviation, Chemicals, IT & BPM, Pharmaceuticals, Construction, Defense manufacturing, Electrical machinery, Food processing, Textiles and garments, Ports, Leather, Media and entertainment, Wellness, Mining, Tourism and hospitality, Railways, Automobile components, Renewable energy, Mining, Bio-technology, Space, Thermal power, Roads and highways and Electronics systems.

Since the launch of Make in India in September 2014, FDI inflows of USD 77 billion including a equity inflows of USD 56 billion has been received for the period October 2014 to March 2016. This represents about a 44% increase in FDI Equity inflows over the same corresponding period. India ranks 130th out of 189 countries in the World Bank's 2016 ease of doing business index, covering the period from June 2014 and June 2015. India was ranked 134th in the 2015 index.

Proposed benefits of Make in India

It is 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.

India's economic growth since the liberalisation of the 1990s has been driven by the services industry. However, India's large and youthful population needs jobs and expansion in manufacturing. This is essential for the country to maintain high rates of growth.

Fortunately, we have many natural advantages including a big labour pool and a large domestic market. In addition, with China's competitive advantage in manufacturing eroding, India has the opportunity to take some share of global manufacturing away from China.

Competitive domestic manufacturing will serve following multiple objectives.

1. It will enhance job opportunities within the country.
2. It will minimize the imports of such products into the country, thereby mitigating the pressure on our trade deficit.
3. In the long run, if not in the near-term, it will help augment and diversify our exports from the manufacturing sector.
4. It will help in bringing latest technologies into the country.
5. Such domestic manufacturing will help minimize some of the trade frictions we have with other countries.