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Growth and Development of Manufacturing Sector in India under 'Make in India' Mission – A Case Study of Making and Implementing Right Policies

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Abstract—'*Make in India' is the initiative launched by the new Government of India after assuming power in 2014. This initiative is about inviting and encouraging global companies to establish their manufacturing base in India to boost its manufacturing sector and generate large scale employment opportunity for Indian youth. In comparison to the services sector which has been the major driver of growth of Indian economy for over two decades now, manufacturing sector contribution has remained low despite the fact that India has vast semi-skilled and literate manpower best suitable for manufacturing sector. Recognizing the potential of manufacturing sector for providing mass scale employment, growth of Indian economy and to achieve sustainable growth, Government of India has framed new policies and is determined for their implementation.*
This paper is a critical study of how 'Make in India' mission can help in growth and development of manufacturing sector in India and hence provide much desired mass scale employment and how government can play a significant role for the development of manufacturing sector through framing and implementing right policies.

1. INTRODUCTION

According to International Monetary Fund's World Economic Outlook Databases figures released in October 2014, India's GDP stands at US$2.048 trillion and India's GDP share adjusted for Purchasing Power Parity (PPP) is at US$7.277 trillion.[1] As per latest estimates of Finance Ministry, Government of India, Indian economy may achieve 7.4 per cent growth rate by the end of current financial year[2]. World Bank has projected this growth rate to be 7.2 per cent by the end of this financial year and projected a growth rate of 7.5 per cent in the financial year 2015-16[3]. Its' current rank as per GDP stands at 10th in the world[4]. Contributions of agriculture, industry and services sector were 13.7 per cent, 21.5 per cent and 64.8 per cent respectively to overall GDP in 2013[5]. Sector wise employment share as per 2012 available data for agriculture, industry and services sector is 49%, 20% and 31% respectively[6].

Indian economy since independence has primarily been agricultural based economy followed by manufacturing and services. Agriculture sector has contributed most to India's GDP since 1950s till the time services sector overpowered it after its tremendous growth in 1990s when liberalization process was introduced in the country. Manufacturing sector growth rate has remained between 6 to 8 per cent after independence till 1990s. It reached to negative growth rate in financial year 1991-92, rose sharply to 15.46 per cent in 1995-96 and then fell again during economic slowdown. In first decade of 21st century it has remained around 8 per cent except when second economic slowdown reduced the demand to lowest.

Services sector has remained a moderate constituent of Indian economy till 1990; however, after liberalization and opening up of Indian economy, backed by huge skilled English speaking youth manpower, India established itself as a leading player in the services sector. This was a result of emergence and adoption of information technology to a massive scale in 1990s in India. Since then service industry of India has been the real growth engine for Indian economy. Services sector contributed about 60 per cent to the Indian GDP in the financial year 2013-14. India services sector strength lies in sectors like hospitality, tourism, healthcare, medical transcription, consulting, construction, infrastructure, telecom, software and information technology, customer care tele-services, banking and other sectors of economy.

However, growth in a single sector alone is not sufficient for India to achieve its objective of becoming largest economy in long run. India is currently facing stiff challenge from several other developing countries such as Philippines, Indonesia, Malaysia, Thailand, Mexico, Vietnam etc. in services sector and hence no longer can Indian economy afford to be based upon services sector alone. Downfall of global economy over last few years has resulted in lower demand of financial and services sector. It is not able to generate enough employment opportunities for huge population of India. In such a scenario, it is imperative for countries like India to look beyond services sector and identify the sectors that have the potential of generating large scale employment for the literate but low-skilled huge manpower of India.

It is therefore highly important to ensure that the manufacturing sector not only grows significantly but comes at the forefront among all sectors. Manufacturing sector has had the potential to generate and provide employment opportunities to a larger section of society. Generation of employment opportunities will provide a chance of increased incomes in hands of all sections of the society which shall further increase the consumption demand in Indian markets. This increased demand will provide big opportunity to the world. According to economic projections and calculations, it is necessary for the manufacturing sector to grow at the rate of about 25 per cent if India aims for double-digit or minimum 10 per cent GDP growth rate.

2. CURRENT STATUS OF MANUFACTURING SECTOR IN INDIA

According to 2013-14 statistics, in India manufacturing sector contributed 21.5 per cent whereas agriculture sector's contribution was 13.7 per cent and services sector contribution was the maximum with 64.8 per cent of overall GDP. To meet future needs, it is not desirable to have such a large inequality in manufacturing sector contribution. Contribution of manufacturing sector in employment generation has remained 20 per cent by the year 2012. According to the McKinsey Quarterly Report, manufacturing sector has potential to contribute US$1 trillion to Indian economy by the year 2025 and creating 90 million job opportunities[7].

To achieve double digit growth for India, manufacturing sector needs to contribute at least 25 per cent in overall GDP. In comparison to other countries including China where manufacturing sector's contribution is about 40 per cent, India lags behind significantly. Even in lower income category countries like Pakistan and Bangladesh, manufacturing sector contributes 12 and 18 per cent respectively whereas in middle income category countries like Vietnam, Sri Lanka, Indonesia, Malaysia and Brazil, manufacturing sector contributes more than India. Malaysia manufacturing sector contributed 24 per cent to its GDP, whereas manufacturing contribution in Sri Lanka and Vietnam contribution is about 17-18 per cent. Among rich countries like Russia, Japan, US and European Union manufacturing sector's contribution is more than India.

This scenario is a matter of great concern for policy makers. It is highly undesirable especially when India has huge market, is rich in natural resources and have low cost labour in abundance. Lagging in manufacturing sector has not only impacted growth and employment generation but has also caused adversely on its market and demand. Not only this, India exports are also lower resulting in trade deficit significantly. Although services sector has tried to meet this deficit through its export orders and is also providing employment opportunities significantly but for a country like India where over 600 million people are educated only up to secondary level, labour intensive manufacturing sector is the only sector that has capacity to provide employment opportunity at such massive scale. Unfortunately, as indicated above contrary to its large capacity, in last twenty years, only about 53 million job opportunities could be developed with a growth rate of about 1.87 per cent per year in manufacturing sector, whereas, services sector's contribution during this period has been 150 million jobs with a 6.5 per cent growth rate per year. Targets fixed under National Manufacturing Policy, 2012 also seem unattainable. As against target of 25 per cent contribution to GDP and about 100 million additional job creation by the year 2022, India has been able to reach only up to 15 per cent contribution of manufacturing sector in total GDP and less than 5 million additional job creation has taken place, which is highly disappointing.

3. 'MAKE IN INDIA' MISSION

Among various initiatives taken for the growth and development of manufacturing sector, the most important step in recent times is the 'Make in India' mission .Launched in September 2014, 'Make in India' is the initiative of inviting and encouraging global companies to establish their manufacturing base in India to boost its manufacturing sector and generate large scale employment opportunity for Indian youth. Over 25 sectors of the economy have been identified under this mission for job creation and skills enhancement, namely, automobiles, aviation, wellness, railways, electronics, renewable energy, chemicals, and information technology and others[8].

'Make in India' mission stated purpose is to establish India as a unique manufacturing hub at world level. 'Make in India' mission is aimed to generate more than 100 million employment opportunities and to achieve 25 per cent contribution of manufacturing sector to the country's GDP in next one decade.[9]This mission not only intends to raise competition but also offers a big market for products manufactured by world's largest corporations out of increased disposable income as a result of employment. In today's global economy, manufacturing sector is essential even for increasing country's exports and make the country export-rich.

Union Minister for Commerce and Industry Ms. Nirmala Sitharaman addressing at the ECGC Dun and Bradstreet Export Performance Award ceremony, as published in an English Daily, DNA newspaper on March 8, 2015 also said that exports play a key role in ensuring success of the 'Make in India' initiative. An Advisory Committee would suggest key reforms measures to boost export performance.[10]

Government has assured to give special focus on de-licensing and de-regulation and provide Ease of Doing Business environment. It has committed to establish new industrial clusters, industrial corridors, and smart cities, opening up of critical sectors like defence, construction and railways for foreign direct investment (FDI). It has assured simplification and rationalization of the existing rules and establishing single window clearances for setting up any business venture. Government has promised to make governance more efficient and effective. Recently an e-biz portal has been launched to facilitate ease of doing business by manufacturers and exporters.

Government has also taken major steps towards skill development to ensure that skilled manpower was available for manufacturing. It has also undertaken Digital India mission so as to ensure that government processes remain in tune with corporate processes. Government initiatives have opened up way to generate employment for the large pool of young people joining the labour force every year.

All past governments paid attention towards development of small and medium enterprises in India, however, 'Make in India' mission surpasses them and is focused towards enhancing their scale, quality, branding and upgrading and linking them to large industries.

The Union Budget 2015 takes stocks of work which are already in progress based on last year budget proposals of building several industrial cities to generate new job opportunities. The Budget 2015 hopes that there would be new openings in sectors such as infrastructure, power, transport, etc. Infrastructure building and development is essential for success of 'Make in India' mission. To further strengthen and enhance capacity level of SMEs among reserved classes of SC/ST, it is proposed in the budget to set up Mudra Bank for enterprises led by SC/ST with an initial allocation of 200 billion rupees. Government is committed towards improving quality of employment under MNREGA. Setting up of National Investment and Infrastructure Fund, Tax free infrastructure bonds for projects in the rail, road and irrigation sectors, setting up a Public Debt Management Agency (PDMA) to deepen the Indian Bond market to provide additional fund raising avenues for infrastructure sector, taxation benefits in respect of Real Estate Investment Trusts (REITs), Converting existing excise duty on petrol into Road Cess will provide additional Rs. 400 billion to fund investment in roads and other infrastructure. Increased budgetary allocation for the road sector, setting up 5 new Ultra Mega Power Projects (UMPPs), each of 4000 MWs, proposal for generation capacity of renewable energy to 175.000 MW by the year 2022, all these measures shall play a great role in boosting infrastructure required for the manufacturing sector and for the success of 'Make in India' mission.

Further to boost manufacturing sector of India, government has proposed to reduce corporate tax from existing 30 per cent to 25 per cent over next four years. Reduction in corporate tax will encourage corporate from world over establishing their manufacturing base in India. The budget also proposes to launch National Skill Development Mission. National Rural Internet and Technology Mission for services in villages and schools, training in IT skills and E-Kranti for government service delivery has been proposed and 5 billion rupees have been allocated.

4. STRATEGIC IMPERATIVES FOR SUCCESS OF 'MAKE IN INDIA' MISSION

Towards the success of 'Make in India' mission it is essential to improve business environment by making regulations and taxes less onerous, building infrastructure, reforming labour laws, and enabling connectivity. These would reduce the cost of doing business, increase profitability, and hence encourage the private sector, both domestic and foreign, to increase investments. There is urgent need to redesign India's industrial policy that can boost manufacturing. Government can help through lowering the cost of capital, and creating special economic zones. Government of India has taken three strategic steps for success of 'Make in India' mission.

1. To improve trade and industrial environment. Important steps like ease of doing business, easy licensing and improvement in trade regulations have been taken up. Currently, India stands at a very lower rank of 142 among 182 nations in Ease of Doing Business Index Survey conducted by the World Bank. Primary reasons cited are casual approach in governance and changing policies. To improve this scenario, the government has adopted "Minimum Government & Maximum Governance" principle which should result in positive outcomes.
2. Second step is in the direction of self-dependency of manufacturing sector i.e. creating structure of industrial corridors, estimation and formation of industrial clusters, designing and implementation of smart cities, recognition of innovation and skill development etc.
3. Third important step is opening up of FDI in special sectors like defense, construction and railways. This should increase foreign investments.

A comprehensive strategic view has to be taken to establish India as one among leading manufacturing nations in the world. Increase in competitiveness of India at the world level should be one of the prime objectives. On one side, it is essential to improve the quality of products produced, on the other hand, exposure of its manufacturing capabilities all over the world, to connect with world and increase in exports is also equally important. It will be very important to boost up 'Brand India' image. It is necessary to bring forward micro, small and medium enterprises and make it integral part of bigger industry.

Global current scenario offers possibilities for India to develop its manufacturing capacity. On one hand, China is losing its advantageous position due to increase in labour and production costs. Russia too is losing its shine due to geo-political reasons and rise in labour and production costs. Countries like the US and Mexico however are increasing their share in manufacturing due to the liberal economic and working environment. Hence, while India has chance to develop its manufacturing sector, it also has competition from the other countries like the US and Mexico.

In today's global economy, big industrial corporations and companies continuously keep searching and changing their manufacturing bases in different countries depending upon various factors like political stability, labour-cost, energy price, productivity and fluctuation in foreign currency markets. It has been observed that due to changing environment, many corporations have shifted their manufacturing locations over the years from the countries where they were in profits in past years.

For India this pattern of relocation across the globe by the companies can be an advantageous proposition. According to BCG Manufacturing Index 2014, India stands second among top 25 exporting nations measured on low manufacturing costs. Indonesia ranks first with lowest manufacturing costs. Although labour costs have increased in these countries also, but due to increase in productivity and change in foreign currency rates, negative impact of increasing labour-cost has been neutralized. In other countries labour and other costs have comparatively increased more than India and hence India has the advantage. Rising manufacturing prices in China and their vast impact is a case in point.

Countries like Mexico, however, are in a good position due to low cost and better working environment and is benefitted with foreign investment. The US is also successful in attracting companies due to falling gas and shell gas prices. Due to success in technological development and research, it has been able to attract technology centered manufacturing. Industries like additive manufacturing, nano-technology, artificial intelligence, and robotics etc. are mushrooming there. From Indian perspective, these are bigger challenges. It is therefore necessary for India that it takes concrete decisions and steps about costs and other related issues like political, financial and Ease of Doing Business policies in order to strengthen its position as a leading manufacturing hub.

In addition to production cost, some more important issues need to be paid urgent attention, viz. infrastructure especially highways, port and power sector, reforms in labour-sector, simple tax system, easy capital sources and a better worldwide image. Simultaneously government should pay special attention on labour-reforms, and facilitating ease of doing business.

Finally, it is essential to put right policies in place to achieve leading position in the world. China has established its leading position in manufacturing and demonstrated to the world through its right policies those boost manufacturing. Initially, China established itself in the category of simple technology developer nations but slowly and gradually established its supremacy among technology-led sectors. India too will have to do some similar attempts.

'Make in India' mission has ambitious targets to achieve. It has full policy support of the Government of India and undoubtedly it has great potential also of generating mass employment opportunities resulting in rise in income level of society in general. However, it is equally essential that other sectors contributing significantly to the Indian economy are not overlooked in order to boost manufacturing sector. Kamath, KV (2015), Independent Director at InfoSys and ex-banker cautions not overlooking the services sector over the manufacturing sector. According to him, "While manufacturing will add another dimension to our growth, the services sector will continue to be strong, given its robust contribution in the last 15 years and enormous potential to drive growth by meeting the aspirations of a growing consuming class". Post liberalization, services sector had made significant contribution to India's GDP. Its share rose from 42.55 per cent in 1990/91 to 60 per cent in 2013/14. During this period, the services sector grew at a compound annual growth rate (CAGR) of 8.1 per cent compared to 6.5 per cent overall economic growth[11].

5. IMPACT OF 'MAKE IN INDIA' MISSION ON MANUFACTURING SECTOR

In order to make 'Make in India' mission successful and meaningful Government of India has already identified some priority areas like Defence, Railways, Power especially Renewable Energy and Construction in addition to other sectors with high consumption demand and dependent upon imports e.g. Electronics. India can encourage home production of these items to lower imports bill. In addition for a natural resources rich country like India, sectors like cotton, steel, coal, and petro-chemicals can contribute significantly to manufacturing. These sectors have lesser manpower costs with easy and plentiful availability of the same. Also, technical know-how of these sectors to the work-force is also an added advantage. India competitive advantage lies in its abundant unskilled and low-skilled labor, as of now.

India's manufacturing sector has potential to touch US$ 1 trillion by 2025. There is potential for the sector to account for 25-30 per cent of the country's GDP and create up to 90 million domestic jobs, by 2025. 'Make in India' mission can play a catalytic role in achieving these targets. After launching of 'Make in India' mission, investment in manufacturing sector is growing continuously. Following table displays some of the major investments received or committed in manufacturing sector. This list is not exhaustive but just indicative only and is continuously growing each day.

Table 1: Big investments in manufacturing sector in India

S. No.	Name of Sector	Company Name (Country)	Investment Amount (In Rupees)
1	Electronics	Huawei (China)	10.37 billion12
2	Electronics	Samsung (South Korea)	5.17 billion13
3	Electronics	Spice Group (India)	5 billion14
4	Electronics	Lava	5 billion15

5	Power	Toshiba (Japan)	18.8 billion16
6	Vehicles	Hero MotoCorp (India)	5 billion17
7	Jewellery	Kalyan Jewellers (India)	12 billion18
8	Paints	Asian Paints (India)	17.50 billion19
9	Chemicals	Pidilite Industries (India)	2.64 billion20
10	Solar Energy	Danfoss (India)	5 Billion21
11	Electronic	Intex (India)	10 billion22
12	Defence	ADAG (India) acquired Pipavav Defence and Offshore Engineering	8.19 billion23

Exchange Rate Used: Rs. 1 = US$ 0.0157

Electronics goods production in India is expected to touch US$ 104 billion by 2020. The country's electronics market is anticipated to grow to US$ 400 billion by 2020 and expand at a CAGR of 24.4 per cent during the period 2012-2020.[24] Similarly, Indian chemical industry is expected to reach US$ 190 billion by the financial year 2017-18 on account of increase in demand of the chemicals from industries of various sectors[25].Defence sector will be the biggest contributor in the years to come as far as manufacturing sector is concerned once all government policies are in place to increase FDI in the sector.

Countries like Germany already have expressed interest in working with India in the manufacturing sector, especially in the auto and solar energy industries, at a meeting with business lobby Confederation of Indian Industry (CII) recently.[26]

6. CONCLUSION

India has the potential to become world's largest economy. However, to achieve the same, it has to walk a long way. Dependency on agriculture or services sector alone won't be enough to reach this goal. Agriculture sector development is prone to the monsoon. Moreover, employment in this sector is continuously shrinking due to modern cultivation methods where human intervention and role is minimized. Services sector growth depends largely upon performance of global economy. Hence, India has to necessarily ensure higher growth of its manufacturing sector so that it contributes at least 25 per cent to overall GDP and meet the employment targets set up under Manufacturing Policy, 2012. To achieve the same, India has to pledge for resurgence of its industry and focus on establishing internationally accepted quality standards for the industry, so that Indian goods can be exported and accepted in international markets.

Government of India has initiated framing policies conducive for investment as visible from the Union Budget 2015-16. It has opened up many important sectors like insurance and pension for higher foreign direct investment (FDI) up to 49 per cent. Government is putting its efforts to remove all obstacles hindering right investment climate in India. It is essential that India maintain its momentum of focusing comprehensively on encouraging areas like industries growth and development; education and skills development, knowledge management; research and development; innovation; boosting power and electricity generation capacity, infrastructure and logistics. Framing right policies and implementing them will help India to reach the league of developed economies and becoming world's largest economy subsequently and India is destined to reach there in the times to come.

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