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Macro Economic Indicators and the Link to Make in India

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Abstract—*Make in India is an initiative taken by Government of India under the guidance of the honorable Prime Minister Sh. Narendra Modi. The objective is to motivate Multinational Companies as well as Domestic companies to set up their manufacturing base in India. The move focuses to impediment the macro economic variables. The major focus is on manufacturing which would lead to job creation, skill development. A rise in the employment level would result in higher purchasing power. More circulation of money in the economy would improve the standard of living of people thereby pushing up the demand for sophisticated goods and services. This leads to competition amongst the domestic producers to produce quality products at cheaper prices. The competition does not stop at the domestic level but outreach the international markets, by exporting products to the global market. The Make in India project also proposes to attract FDI in form of capital and technological advancement. This paper focuses on the impact of manufacturing sector on the various economic aggregates like Employment, Economic Growth, GDP, Trade Balance, Consumer confidence, Purchasing power.*

Keywords: *Manufacturing, Employment, GDP, Exports*

1. INTRODUCTION

With the launch of the program "Make in India", Prime Minister Narendra Modi's aim is to transform India into a manufacturing hub. The Make in India program was first initiated by the PM in his Independence Day speech. It lays emphasis on majorly 25 sectors, some of them are textiles, automobiles, chemicals, IT, pharmaceuticals, ports, aviation, leather, tourism and hospitality, wellness, railways, auto components, design manufacturing, renewable energy, mining, bio-technology, pharmaceuticals and electronics. The campaign is completely under the command of the Central Government of India.

India is the second largest country in terms of population. Labor is available in abundance and also there also exist a problem of unemployment. With Asia developing as the outsourcing hub of the world, India is soon becoming the preferred manufacturing destination of most investors across the globe. Make in India is the Indian government's effort to harness this demand and boost the Indian economy.

Right On Time

The program was launched right in time to boost the consumer confidence level. In the year 2013 GDP growth rate of India had fallen to a decade low of 4.5%. This was for the second year in a row that the economy's growth remained below the 5 percent mark. The last time the economic growth rate had pierced the 5-per cent mark was in 1984-85 to 1987-88. Some of the reasons that contributed to the fall in GDP were fall in output of both the manufacturing and mining sectors, low level investments and capital formation. The reason for low level of investment and capital formation was high interest rates prevailing in the market. (Data released by Central Statistics Office (CSO))

Also in year 2013 India was put in a basket with the fragile five along with Brazil, Indonesia, Turkey and South Africa. Global investors contemplated about the risks and opportunities offered by the world's largest democracy. There was one big question dwindling in the mind of 1.2 billion Indian citizens that whether India was too big to succeed or too big to fail. India was on the verge of severe economic recession. The timing could not have been better to regain the global investor confidence in Indian markets by launching (announcing) Make in India.

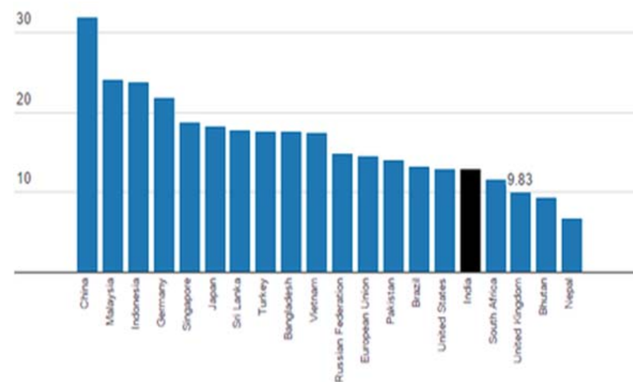

Fig. 1: Manufacturing Value Added As A Share Of The GDP In 2013 For Various Countries

The data above was given by The World Bank. According to this data it was given that India's manufacturing sector contributed 13% to its economic output in 2013. This was the worst record in last 10 years. The manufacturing sector's contribution to gross domestic product (GDP) is even lower than that of Pakistan and Bangladesh.

Foundation Of The Make In India Project

The idea behind the Make in India project was "Minimum Government, Maximum Governance". India has been known for its bureaucratic style of working. It was now the time to change the mindset of the world about India. This became the basis and the slogan came into existence as the need of the hour was to invite Indian citizens, business leaders, potential partners and investors to come into action to collaborate and make the best of the opportunity. All of them can come together only and only when a conducive business environment can be provided. So anew scenario was created where there was a shift in the focus from the issuing authorities to the business partners. The Prime Minister emphasized on the fact that the role of the government in business should be limited to that of a facilitator. The quality of governance should improve and not the size for better economic development.

Another slogan came into effect along with this campaign, and it was" Zero defect, Zero Effect". The emphasis was doing it right the very first time. Manufacturing the products with zero defects so that wastage is reduced and the products manufactured in India are accepted in the world market. "Zero Effect" means that production in any way should not hamper the environment.

The Intention Behind The Project

The most striking attribute of the project is to make India an industrial powerhouse. India has been attracting a lot of FDI in the past decade. The inflow of FDI has improved the services by partial privatization of loss making government firms. But the campaign urges the investors not only to pump in FDI, but also to set up industries in India. This includes making India a destination for production of goods and exporting the same to the world over.

The campaign has been determined to fulfill the objective of job creation, skill development, export promotion, GDP Advancement, taking India to a level of self-sufficiency and to give the Indian economy global recognition.

Industries are the key to employment. More is the manufacturing base, more would be the industries established thereby providing huge employment opportunities, which would further impediment the growth of the weaker section of the society.

Most of the products that we consume on a daily basis are not manufactured in India. If the manufacturing base shifts to India, the prices of the products would fall as no duties would be imposed on them. So the benefit would be reaped by the Indian consumers in terms of availability of products at cheaper price, better service backup. Also a reasonable increase in supply of products domestically would boost the exports and reduce the import bills.

2. LITERATURE REVIEW

This review of literature will highlight some publications that address how increase in productivity helps a country to achieve global standards. Altman (2007) discusses that globalization is a process of interaction and integration of people, organizations and governments of various countries. It provides as a platform for sharing world views, products, ideas, culture. The concept of home country and host country came from globalization. Host country is the one that liberalize its policies thereby attracting a lot of FDI. Multinational Corporations entering a host country can contribute a lot of positive changes to the host country in form of brining in new managerial skills, technology, increased production activity, high investment, generation of employment, expansion of exports.

Baumol (1986) suggests that developing nations compete to attract FDI by adopting policies conducive to do business. They improve their hospitality standards by liberalizing the economy, decreasing regulation, improving intellectual property rights. It is also advocated that countries coming late to industrialization catch up in their productivity per worker and steadily reach up to the level of industrialized nations in terms of per capita income.

Lautier and Moreaub (2012) address the effect of domestic investment on FDI flows in developing countries. They conclude that a positive domestic market helps attract Multinational corporations. Companies originated in home country, investing and producing within the domestic territories brings about a positive encouragement to foreign investors .As this would lead to better infrastructure, financial development, trade openness. Therefore policies encouraging domestic firms to invest at home will attract foreign investors.

(Osman and Süleyman, 2013)FDI inflows have a substantial positive impact on the growth rates of host countries. FDI generally flows in form of capital from the capital rich economies to comparatively capital poor economies. The reason of inflow is that the multinational companies want to take advantage of the higher rate of return on capital.

Economic growth has been attributed to the addition of human and physical capital, and increased productivity resulting from technological innovation. It is calculated as the annual percent change of Gross Domestic Product (GDP). Increase in productivity is the major factor that contributes to per capita economic growth. Geography and endowments of natural resources are not the exclusive determinants of GDP.

(Chuang and Hsu 2004; Lardy 1995)Many empirical studies focus on the effects of FDI on output growth in the host

country. FDI help in accumulation of physical capital stock, boost the technological advancement, stimulate knowledge spillover, develop skilled labor, and introduce new management practices. This would further develop the emerging economies.

(National Bureau of Statistics of China 1978–2011) According to the data collected, it has been observed that a relationship between growth rate of FDI and growth rate of DP exist. When the inflows of FDI increase (decrease), the real per capita GDP increases (decreases. Therefore it has been concluded that FDI plays an important role in promoting a country's economic growth and contributing to regional development. Source: China Statistical Yearbook.

FDI might increase production and the export of manufactured goods, as most FDI in developing economies intends to take advantage of cheap unskilled labor. Thus, FDI can result in an increase in job creation in the emerging markets, and improved job opportunities will affect people's decisions about higher education and human capital investment. Human capital will accumulate through working in foreign-invested enterprises; however, the attractiveness of higher education is reduced, and this will impede human capital accumulation in the long run. This is another channel through which FDI can affect output growth. Finally, FDI may spur institutional changes and market liberalization and thus influence output growth. Many large emerging markets have recently implemented economic reforms in order to increase international trade and foreign investments. Their attempts to integrate into the global economy have caused the institutional structures in those countries to change significantly.

Relative Factor Endowments Theory (P. Subba Rao, 2008)

According to Eli Hecksher and Bertil Ohlin, countries vary in terms of factor endowments. Factor endowments are the basic factors of production which forms the supportive factors in effective production activity. Land, labor, capital, natural resources, climatic conditions are some of the basic factor endowments.

Not every country can be blessed in all the resources, factor endowments vary among countries. For example, United States is a capital rich economy, South Africa is blessed to have gold mines, Saudi Arabia is rich in oil resources, and India is rich in labor. Because of the advantage of population, India is abundant in labor in relation to land and capital. As ample labor is available, its price would be low in comparison to land and capital.

As the labor cost is low, cost of manufacturing would again be less in labor abundant countries Vis - a - Vis other countries where labor is scarce. So countries acquire comparative advantage in those products for which the factors endowed by the country concerned are used as inputs. Thereby countries can work towards achieving trade surplus by increasing their exports of the products in which they have a comparative advantage in terms of cost due to factors endowed.

Similarly India can focus on Make in India, as the key to have a manufacturing base is availability of competitive resources. In manufacturing, workforce is the key component and India is abundant in labor force. As labor is available in plenty, its price is low thereby reducing the cost of production. Domestic as well as the multinational companies can benefit from the factor endowed by producing at cheaper cost. India can reap the benefits by exporting the products which are manufactured domestically at a cheaper cost.

Porter's National Competitive Advantage Theory (Justin Paul, 2015)

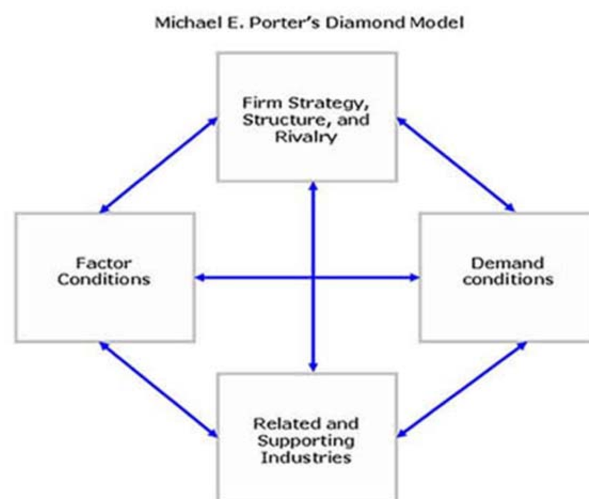

Fig. 2: Michael E. Porter's Diamond Model.

Michael Porter advocated that some nations achieve international standards because of the success of certain industries. Industries success is dependent on the competitiveness of certain firms. A nation attains a competitive advantage if its firms are successful. A firm's competitive superiority is derived through the interactive efforts of four factors. The following are the four determinants:

- Firm Strategy, Structure and Rivalry
- Factor Conditions
- Related and supporting Industries
- Demand Conditions

The above four attributes of a nation shape the environment in which the firms compete. The above diagram is known as the Porter diamond. It presents the determinants of global competitive advantage.

Firm's strategy and structure is internal to the firm. A success of the firm is predominately based on the firm's management style, organization's structure. Rivalry means competition existing in the domestic market which leads the firm to compete with resulting in high quality and lower prices of the

product. This would help the organization and country to gain competitive edge.

Factor conditions are the factors of production or inputs which are used in the production process. Porter classified the factors as key and non-key factors. Key factors of production are created and not inherited (Skilled labor, capital, and infrastructure). Whereas, the non - key factors are the ones which are inherited (unskilled labor, raw material, climatic conditions). The availability of both key and non-key factors leads to competitive advantage of an organization.

The emergence of an organization also impetus the growth of other related and supporting industries in an economy. The supporting industries can be categorized as financial intermediaries, market intermediaries, consulting companies, raw material suppliers. As these ancillary industries develop and grow they compete with each other and provide high quality products and services at lower price. Availability of high quality inputs at cheaper price provides competitive advantage to a firm and thereby enabling them to reach international standards.

Existence of a large and sophisticated customer base creates and improves the demand conditions. Consumers who are literate and have the willingness to purchase would demand variety of good quality products at competitive prices. This induces the manufacturers to innovate and develop new products, thereby flooding the markets with superior products.

3. CONCLUSION

The literature review presented above in the paper supports the fact that manufacturing is the basis of any economy. With the Make in India campaign it is projected that India is going to be a manufacturing hub. With the industrial base expanding there would be a direct contribution to the employment level. India is a country rich in labor, and it is one of the important factor endowments. The Make in India initiative is inviting foreign companies to set up their manufacturing base in India and take advantage of the availability of labor force. This would have a twofold benefit, the host country would benefit in terms of rising employment level and the multinational companies would take advantage of the low price of labor resulting in low cost of production.

The campaign would further boost the consumer confidence as a lot of multinational corporations would be setting up their production base in India. Employment level would go up, generating high income levels and increased standard of living. With the rise in income, demand for sophisticated goods would go up. The domestic as well as international producers would compete to produce better quality product at cheaper price.

Gross Domestic product is the market value all goods and services produced in the domestic territory of an economy during a given period of time. As manufacturing base would shift to India, it would give a boost to Indian GDP. Production activity is happening within the domestic territory irrespective of whether it is done by residents or non-residents of the country.

India has been experiencing trade deficits from many years. It shows a lot of dependence on imports. The major focus of the campaign is to boost our exports. The foreign manufacturers would make benefit of the factor endowment (cheap availability of labor) and would produce products at low cost. Now the focus of these organizations would be to gain the opportunity to export these products to achieve global standards. India can expect a positive trend towards its trade balance by this move.

The intense competition between foreign- and domestic-invested firms can lead to an improved allocation of resources so as to reduce inefficiency in production. FDI may affect economic growth by promoting the advancement of technologies, improved management techniques, development of infrastructure.

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