Make in India: Are we ready for it?

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Abstract: Make in India is an initiative of the Government of India to encourage multi-national, as well as domestic, companies to manufacture their products in India. It was launched by Prime Minister Narendra Modi on 25 September 2014. When you import goods from another country, the lead time for you to order and bring goods to India is much higher, while if you manufacture in India, the lead time gets reduced, say from four to five weeks to two to three weeks. That was a key reason for the decision to "make in India".

It is a challenging area to try to maintain the business and make it successful within the constraints of an economy like India, because for producing export quality goods for both domestic consumption and exports manufactures should be supported by a wide enough consumer base for good quality products. Therefore manufacturer are encouraged to keep costs down, thereby limiting their ability to move up the quality index.

In the circumstances, India's manufacturers have two choices - 'Make for India' or 'Make in India' for export markets. "Make in India" and "Make for India" are qualitatively different choices. The former leaves the manufacturers entrapped in a low-level equilibrium, exit from which is very difficult. The latter choice - 'make in India' for external markets - requires technological and professional expertise, which only a handful possesses, and an enabling infrastructure and policy environment, which is sorely deficient. A lot of reforms are needed to make foreign direct investment (FDI) into India more attractive to doing business, India isn't quite ready for the big time. Therefore any campaign to 'make in India' by 'making for India' is unlikely to achieve intended results, at least in the medium-run.

Keywords:- Make in India, Make for India, Manufacture, equilibrium, FDI, external market

At first it is very important to understand- what is "make in India" initiative to differentiate it with make for India and to decide which one is better for the progress of India. Make in India program is an initiative of the Government of India to encourage multi-national as well as domestic companies and factories of belonging to different sectors to manufacture their products in India. It was launched by Prime Minister Narendra Modi on 25 September 2014. The pitch had its origin in the Prime Minister's Independence Day speech when he invited global companies to pick India to locate factories, promising to replace red tape with red-carpet welcome. The jobs and incomes for Indians these factories would generate, he said, would in turn create the market for their output. The goal the Modi government has set is to make India break into the top 50 in the World Bank's ease of business index ranking from the current 134th position.[1]

This includes attracting overseas companies to set up shop in India and encouraging domestic companies to increase production within the country. 'Make in India' aims at increasing the GDP and tax revenues in the country by producing products of high quality with minimal impact on environment, Fostering innovation, protecting intellectual property, and enhancing skill development are the other major objectives of the programme.

[1] Http://Www.Thehindu.Com/Sunday-Anchor/Sunday-Anchor-Make-In-India-Vs-Make-In-China/Article6533575.Ece

The key reason behind this programme is to reduce the time to bring the import goods in India as if these goods would manufacture in India then the lead time to bring in India "and to get the customers more close to the company so that the company can respond more quickly to the changing demand. [2]

There are total 25 sectors which are the major focus of the “make in India” programme. The list contains the following sectors-

1. Automobiles
2. Automobile Components
3. Aviation
4. Biotechnology
5. Chemicals
6. Construction
7. Defence manufacturing
8. Electrical Machinery
9. Electronic systems
10. Food Processing
11. IT and BPM
12. Leather
13. Media and Entertainment
14. Mining
15. Oil and Gas
16. Pharmaceuticals
17. Ports and Shipping
18. Railways
19. Renewable Energy
20. Roads and Highways
21. Space
22. Textiles and Garments

[2] Http://Www.Cnbc.Com/2015/11/24/Modis-Make-In-India-Wins-With-Xiaomi-But-Fdi-Infrastructure-A-Problem.Html

23. Thermal Power

24. Tourism and Hospitality

25. Wellness

To foster "make in India" programme Government has allowed 100% FDI in all sectors except Space (74%), Defence (49%) and News Media (26%).[3]

The major objective behind the initiative is to focus on job creation and skill enhancement in 25 sectors of the economy. The initiative also aims at high quality standards and minimising the impact on the environment. The initiative hopes to attract capital and technological investment in India. It was also rolled out with the aim of creating 90 million job in next decade. It covers 25 major sectors like automobile, IT&BPM, oil and gas etc. In pursuance to meet these objectives in the last one year government has announced several steps to improve the business environment by easing processes to do business in the country, and attract foreign investments.

There are mainly 4 major policies under this initiative which includes new investments, foreign direct investment (FDI), intellectual property facts and national manufacturing.

New initiatives aims to improve the ease of doing business in India, which includes increasing the speed and transparency with which protocols are met with. In pursuance of this initiative during the past one year government has taken some steps, which includes -

1. -- Environment clearances can be sought online.
2. -- All income tax returns can be filed online.
3. -- Validity of industrial licence is extended to three years.
4. -- Paper registers are replaced by electronic registers by businessmen.
5. -- Approval of the head of the department is necessary to undertake an inspection.

The second policy is of foreign direct investment The government has allowed 100% FDI in all the 25 sectors except the three sectors –Space (74%), Defence (49%) and News Media (26%).FDI restrictions in tea plantation has been removed and the FDI limit in defence sector has been raised from 26% to 49%.

The government in pursuance of the third policy has also decided to improve and protect the intellectual property rights of innovators and creators by upgrading infrastructure, and using state-of-the-art technology.

The main aim of intellectual property rights (IPR) is to establish a vibrant intellectual property regime in the

[3] Http://Www.Dnaindia.Com/Money/Report-Pm-Modi-S-Make-In-India-Turns-One-All-You-Need-To-Know-About-The-Initiative-2128448

Country .According to the websitethese is the various types of IPR:

1. Patent: A patent is granted to a new product in the industry.

2. Design: It refers to the shape, configuration, pattern, colour of the article.

3. Trade mark: A design, label, heading, sign, word, letter, number, emblem, picture, which is a representation of the goods or service.

4. Geographical Indications: According to the website, it is the indication that identifies the region or the country where the goods are manufactured.

5. Copyright: A right given to creators of literary, dramatic, musical and artistic works.

6. Plant variety Protection: Protection granted for plant varieties, the rights of farmers and plant breeders and to encourage the development of new varieties of plants.

7. Semiconductor Integrated Circuits Layout-Design: The aim of the Semiconductor Integrated Circuits Layout-Design Act 2000 is to provide protection of Intellectual Property Right (IPR) in the area of Semiconductor.

Fourth and the final policy has the vision to-

1. Increase manufacturing sector growth to 12-14% per annum over the medium term.

2. Increase the share of manufacturing in the country's Gross Domestic Product from 16% to 25% by 2022.

3. Create 100 million additional jobs by 2022 in manufacturing sector.

4. To create appropriate skill among rural migrants and the urban poor for inclusive growth.

5. To increase the domestic value addition and technological depth in manufacturing.

6. To enhance the global competitiveness of the Indian manufacturing sector.

7. To ensure sustainability of growth, particularly with regard to environment.[4]

Now there are various other initiatives including conferences, meetings and different campaigns organised by the government to boost the "make in India" programme. On 29 December 2014, a workshop was organised by the Department of Industrial Policy and Promotion which was attended by PM Modi, his cabinet ministers and chief secretaries of states as well as various industry leaders. Prime minister Narendra Modi also launched his pet project Skill India Campaign in New Delhi on the occasion of the first ever World Youth Skills Day which included the launch of the National Skill Development Mission and unveiling of the new National Policy for Skill Development and Entrepreneurship 2015.[5]

[4] Ibid.

In a fillip to Prime Minister Narendra Modi's ambitious 'Make in India' initiative, over 100 top Chinese handset and component manufacturers gathered in Delhi and that could bring $2-$3 billion investment in Indian mobile manufacturing operations in the next two years.

Top officials from major Chinese companies such as Techno, Gionee, Coolpad, Holitech, Wingtech, Camera King, Galaxy Core, etc. participated in the first-ever summit titled "China-India Mobile Phone & Component Manufacturing Summit," in the Capital to explore avenues to tap the existing and emerging opportunities. Leading Indian mobile companies such as Micromax, Lava, Karbonn, Spice, Vodafone and Intex also participated in the day-long event.[6]

Companies like Xiaomi, Huawei have already set up manufacturing units in India, while iPhone, iPad manufacturer Foxconn is expected to open a manufacturing unit soon.

Recently, Lenovo also announced that it has started manufacturing Motorola smartphones in a plant near Chennai. In a report released by the World Bank, about a state-wise bifurcation based on ease of doing business, Gujarat was ranked as the top state, followed by Andhra Pradesh and Jharkhand.

Besides all these government is working on development of 100 smart cities which will help in improving infrastructure and sustainability needs of the country .So overall it can be said that the government is taking some crucial steps to promote make in India initiative.

Now after getting the overview of the what make in India campaign is ,its objectives and government initiatives there is a need to understand that what are the major flaws of this campaign and are we ready for the make in India programme or we have to go ahead with the make for India initiative?

The debate triggered by the remarks of the Governor of Reserve Bank of India, Raghuram Rajan, on the central government's high-profile "Make in India" campaign missed an important insight about the strategy that should be adopted to encourage manufacturing. The Governor had cautioned about excessive focus of the campaign on both manufacturing and external markets and suggested "Make for India". So, how are 'Make in India' and 'Make for India' different? Proactive government policies encouraged manufacturers who produced export quality goods for both domestic consumption and exports. In all these cases, the domestic demand was supported by a wide enough consumer base for good quality products and the domestic market in turn provided the platform for manufacturers to develop and refine those products to world-class standards.

[5] Http://Www.Firstpost.Com/Business/Economy/Pm-Modi-Launches-Skill-Development-Mission-Hopes-To-Make-India-A-Hub-Of-Workforce-2344090.Html

[6] Http://Gadgets.Ndtv.Com/Mobiles/News/Chinese-Mobile-Makers-Commit-Major-Investment-In-Make-In-India-Initiative-789306

In contrast, manufacturers in India may struggle with domestic demand. The headline numbers that proclaim large declines in those living 'below the poverty line' (BPL) does not mean that the new entrants into the 'above the poverty line' (APL) are ready for middle-class consumption. In fact, a MGI report from last year shows, 56% of the country's population do not have the resources for their basic needs. Nearly 95% of the households make less than Rs 1.5 lakh a year.

It is fair to argue that these consumers are likely to be deeply price sensitive and less concerned about quality beyond some basic considerations and durability. Only a tiny sliver of the market is likely to be demanding on quality. A manufacturer making automobiles, clothing, or consumer durables is therefore encouraged to keep costs down, thereby discounting for quality. Margins are also minimal in this side of the market, thereby limiting their ability to expand or move up the quality escalator. Needless to say, none of these products can be exported. Export quality manufacturers are constrained by the limited domestic market base to refine their products through a "learning by doing" approach.

In the circumstances, India's manufacturers have two choices - 'Make for India' or 'Make in India' for export markets. As illustrated, they are qualitatively different choices. The former leaves them entrapped in a low-level equilibrium, exit from which is very difficult. Its market dynamics makes it difficult for these manufacturers to re-orient their production to also meet export markets. Further, manufacturers in this end of the market face stiff competition from cheap imports from competitors in China and elsewhere who have moved up the quality chain and can therefore produce the same quality at far competitive prices. Therefore any campaign to 'make in India' by 'making for India' is unlikely to achieve intended results, atleast in the medium-run.

The latter choice - 'make in India' for external markets - requires technological and professional expertise, which only a handful possess, and an enabling infrastructure and policy environment, which is sorely deficient. Here, India has sought to emulate the latest entrants into the "flying geese" model like China and Vietnam where public policy encouraged greater external-market focus through the establishment of export-only Special Economic Zones. But in order to make an impact, this strategy requires massive investments on infrastructure in these zones and its surrounding areas as well as equipping public systems there with much greater state capability. Further, it also assumes the presence of a receptive external market. The reliability of these assumptions are, at best, questionable.

Companies like xiaomi made its move into India, but not everyone has seen such quick success with the program. Given the tight profit margins that a lot of these companies are running to, given the cost pressure in terms of maintaining pricing at a low level to satisfy local needs, it is a challenging area to try to maintain the business and make it successful within the constraints of an economy like India.

Rather than making products in India for export - which requires navigating not just poor infrastructure but also complex foreign exchange rules, the Make in India campaign will work in the long term, it is something that is a positive thing for the country, the initial step really should be a 'make for India because there's a large domestic market with increasingly affluent consumers."

Others have also noted that when it comes to doing business, India isn't quite ready for the big time. The World Bank's ease of doing business survey, released in October, has ranked India at 130 out of 189 countries." There's still 129 places in the world that are actually easier to do business with than in India right now, which is quite disappointing given the opportunity that exists.[7]

In order to summarise the Rajan's arguments and the need of various reforms, six major flaws can be identified in make in India campaign. Raghuram Rajan is cautioning against an obsession to transform India into a manufacturing economy because as an economist, he knows that it will not work in the given economic situation.

Make in India, just like many other programs launched by the new NDA government suffer from one basic flaw, they are trying to go from A to D while ignoring B and C while trying to emulate the success of China and Four Asian Tigers. Make in India is expected to be successful with the assumptions 'if China can do it, why cannot India?' and manufacturing will leave China sooner or later and India should be ready to capture it. Both of these assumptions are fatally flawed.

The major flaws in make in India campaign are-

1. Export-oriented industrialization is not the ideal economic policy for India because the global demand might take years to recover from the recent economic crisis. He said that emulating Chinese policies of subsidized exchange rates and incentives to export more will not work at this time when the global recovery is slow. He suggested that we should develop a holistic business environment and leave it to the entrepreneurs to produce when they feel is profitable. An extension of the first point, just because it worked for China does not mean it will work for India. David Shambaugh in The Illusion of Chinese Power said that China's economic model is essentially not replicable and that China's success was as much a matter of timing as of concerted efforts. Simply giving subsidies has not worked in the past and will not work in the future, we need to identify what each industry needs in terms of support structures like quality certifying agencies, IT support and give it to them.

2. India does not have comparative advantage. India's demographic dividend is of less use without comparative advantage. Indian policy makers think that India will capitalize on the manufacturing that leaves China while ignoring the fact that manufacturing has been leaving China for quite some time

[7] Http://Www.Cnbc.Com/2015/11/24/Modis-Make-In-India-Wins-With-Xiaomi-But-Fdi-Infrastructure-A-Problem.Html

now, it is not moving to India but to Bangladesh, Vietnam, Thailand etc, nations that have comparative advantage over India. That apart, India does not have first mover advantage in manufacturing that China had. When India pushes into manufacturing exports, it will have China, which still has some surplus agricultural labour to draw on, to contend with. Export-led growth will not be as easy as it was for the Asian economies who took that path before us.

3. Import substitution industrialization (ISI) or trying to produce everything domestically and not import has not worked in the past because it is an anti-competitive policy. To produce domestically, we create tariff barriers against foreign companies, increase their taxes etc so that domestic goods become cheaper. However, because this reduces competition, domestic manufacturers become inefficient and costs go up. Instead of doing this there is a need to reduce barriers so that our manufacturers can compete with the best in the world and major companies can come and open factories in India and create jobs. In India, the most labour intensive sector is small and medium enterprises (SMEs) which employs 65 percent of the labour force. This is also the most inefficient sector in India with regularly negative gains. If in an earlier age, ISI created large inefficient industrial units—both public and private—this time the danger is of the story being repeated in the MSME sector.

4. Make for India-The global demand will not spruce up for the next five years. India should hence boost manufacturer for the domestic market. This needs economic reforms, creating good transport infrastructure (reforming the railways), adopting the GST and reducing state wide taxes. This is very important for India. At this point, our focus should be on retaining manufacturing, not losing it. Our domestic companies do not make in India and foreign companies that sell in India do not manufacture here. The avenues should be created so that these firms manufacture locally to satiate the local demand.

5. Household savings should be promoted with tax incentives. This is needed because household savings are needed for complete utilization of FDI. Household savings and FDI work in concurrence with each other.

6. Transparency and stability of the economy should be prioritized. Transparency and stability directly correspond to sustainability. Since we do not belong to any power bloc, we need to have a robust economy so that we can avoid international economic shocks because we cannot depend on multilateral support.

Now the question arises what reforms are needed in the make in India programme-

1. Government should focus on manufacturing for the domestic market first. Emulating China is a bad idea. Economic and political conditions are different this time around and China had first mover advantage. JLR's China launch has set alarm bells ringing for the Modi government: "Make in India"

will have to go quickly from being a statement of intent to real action on the ground. Markets across Indian towns and cities that are flooded with Chinese products, more so around festivals such as Deepavali, are grim reminders of how Made-in-China has come to dominate homes and offices. From furniture and gadgets to industrial equipment, India is importing almost all products from its neighbour, even yarn for saris.

It is estimated that over 99 per cent of Bangalore silk saris are being made with Chinese silk yarn. As a result, the rapidly growing bilateral trade between the two neighbours is tilting heavily in China's favour, at a rate that India has termed unsustainable. Bilateral trade crossed $65 billion in 2013, but while India exported $15 billion worth of goods to China, but imported $51 bn. The quality of trade also goes against India. India exports raw materials such as iron ore but imports manufactured goods.[8]

2. We need policy reforms and better infrastructure to promote local entrepreneurship. Make in India is Modi's attempt at replicating the manufacturing successes of South Korea, Taiwan, China and other East Asian countries. Unlike those countries, India never built a range of factories or manufacturing infrastructure.

Thus, we were left behind in the tides of time. The time is up for an East Asian style growth and we need to look at our own strengths. We need to go beyond just manufacturing. We need to have a policy that pushes all kinds of entrepreneurship instead of emphasizing too much on manufacturing. World economy is slowing down and what worked in 1970s-90s might not work now. When the world economy is slowing down, there is not enough profits to go in an export-led path. Providing more incentives for manufacturing will make us go into more debt. Any policy that tries to discourage imports through a weak currency and/or tailor-made policies will be counterproductive and will not be best for our consumers.

We need to focus more on creating an internal market rather than creating an export-centric market. For instance, US was never built focusing on exports. They built their industries focusing on domestic consumption.

Thus it can be concluded that the focus of Make in India might be export orientation but we are very far from being an Export Dependent Economy. 'make in India' for external markets - requires technological and professional expertise, which only a handful possess, and an enabling infrastructure and policy environment, which is sorely deficient. Here, India has sought to emulate the latest entrants into the "flying geese" model like China and Vietnam where public policy encouraged greater external-market focus through the establishment of export-only Special Economic Zones. But in order to make an impact, this strategy requires massive investments on infrastructure in these zones and its

[8] Http://Www.Thehindu.Com/Sunday-Anchor/Sunday-Anchor-Make-In-India-Vs-Make-In-China/Article6533575.Ece

surrounding areas as well as equipping public systems there with much greater state capability. Further, it also assumes the presence of a receptive external market. The reliability of these assumptions are, at best, questionable. So, becoming an Export Dependent Economy isn't coming very soon, at least for the next 20 years. So 'Make for India' is a more sustainable option for India right now.