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Manufacturing Sector of India: Challenging the ‘Make in India’ Campaign

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Abstract

Manufacturing sector of a country plays a major role in the growth of an economy. The development of this sector is an indicator of the economic strength of a country. It helps in raising productivity, generating employment and also supports other sectors of the economy. The lacklustre performance of the manufacturing sector of India is a cause of great concern when compared with the other economies of the world. With the launch of “Make in India” campaign there is not only rise in the hope among the CEOs of the manufacturing companies but the optimism in the domestic and foreign investors is also building up. The campaign is expected to 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. 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. This paper intends to study the various challenges that drag the performance of the manufacturing sector and the trend so far after the launch of ‘Make in India’ campaign.

Keywords: Manufacturing, Make in India, Challenges, Labour, Skill, Land.

Introduction: The picture of the manufacturing sector of India is very gloomy with its low productivity, low exports, low employment, low contribution to GDP, etc. It is contributing around 15% to the GDP which is quite low when compared with other rapidly developing economies of the world like in the table shown below it is 34% in Thailand, 32% in China, 24% in Malaysia, etc.:

With such a poor performance it seems quite difficult to achieve the target of 25% contribution to GDP by the year 2022 fixed by National Manufacturing Policy (2012). The “Make in India” campaign was launched by the Prime Minister of India, Mr. Narindra Modi to give the manufacturing sectors’ shabby performance a U-turn. The main objective of the

mission is to make India a manufacturing hub and to generate more than 100 million jobs by the year 2022 (Bhattacharya, Bruce, & Mukherjee, 2014, p. 14). With the launch of "Make in India", a ray of hope for the upliftment of the performance of this sector is slowly emerging. The campaign has started showing its positive colours with various steps taken to encourage the investment in this sector but there are various challenges that hinder the growth of this sector.

India needs to develop a macro vision for promoting 'Make in India' in defence sector to attain the level of developed countries in defence manufacturing. It should not only have Make 'In' India approach but also Make 'For' India. It should first satisfy the domestic market and then look for the exports. Present approach is more of export oriented than for the domestic market. An export-led growth strategy will not pay for India as it did for Asian economies, including China, due to the tepid global economic recovery, especially in the industrial countries. The government should rather focus on creating an environment where all sorts of enterprise can flourish, and then leaving entrepreneurs to choose what they want to do. Make in India will typically mean more openness, as we create an environment that makes our firms able to compete with the rest of the world, and encourages foreign producers to come and take advantage of our environment to create jobs in India. India needs to develop a macro vision for promoting 'Make in India' in defence sector to attain the level of developed countries in defence manufacturing. It should not only have Make 'In' India approach but also make 'For' India. It should first satisfy the domestic market and then look for the exports. Present approach is more of export oriented than for the domestic market. An export-led growth strategy will not pay for India as it did for Asian economies, including China, due to the tepid global economic recovery, especially in the industrial countries. The government should rather focus on creating an environment where all sorts of enterprise can flourish, and then leaving entrepreneurs to choose what they want to do. Make in India will typically mean more openness, as we create an environment that makes our firms able to compete with the rest of the world, and encourages foreign producers to come and take advantage of our environment to create jobs in India.

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The Prime Minister Narendra Modi, prior to the commencement of his maiden US visit, last month launched 'Make in India', a major national initiative which focuses on making India a global manufacturing hub. Key thrust of the programme would be on cutting down in delays in manufacturing projects clearance, develop adequate infrastructure and make it easier for companies to do business in India. The 25 key sectors identified under the programme include automobiles, auto components, bio-technology, chemicals, defence manufacturing, electronic systems, food processing, leather, mining, oil & gas, ports, railways, ports and textile. The national programme aims at time-bound project clearances through a single online portal which will be further supported by the eight-member team dedicated to answering investor queries within 48 hours and addressing key issues including labor laws, skill development and infrastructure. The objective of the mega programme is to ensure that manufacturing sector which contributes around 15% of the country's Gross Domestic Products is increased to 25% in next few years. Speaking to more than 500 top global CEOs along with captains of Indian industry at the event in Vigyan Bhawan, New Delhi on September 25th, Prime Minister termed 'Make in India' initiative a lion step to usher in increased manufacturing in the country, which will ultimately generate more employment opportunities for the poor and give greater purchasing power in their hands. The mega even was watched live in several cities in India and abroad through video conferencing, He urged the domestic as well as global investors not to look at India merely as a market, but instead see it as an opportunity. "When we talk of Make in India, we are not just offering a competitive situation and we give you an opportunity to create a huge market for your product. After all, handsome buyer is equally important as cost effective manufacturing," Modi told a packed audience. Cutting down on procedural delay However, for making India an investment hub, the first and foremost importance step would be to create a efficient administrative machinery which would cut down on delays in project clearances. Economists say that India has been very stringent when it comes to giving procedural and regulatory clearances. Besides a time bound clearance from all regulatory authority would create a conducive environment for business. The Prime Minister acknowledged that India being ranked low on the 'ease of doing business' ranking by World Bank and added that he has started to sensitize the Government officials in this regard. On his recent meeting with World Bank President Jim Yong Kim, Modi said "World Bank President was also expressing this worry. Probably we were 135th in the world at that time. If we have to come to 50 from 135 then Government alone can do this. If Government brings transparency in its decisions and rules, pushes works with simplicity we can occupy number 50 from 135 in ease of doing business,". Delay in getting regulatory clearances lead

to rise in cost of production. A leading multinational automobile major said "costs of production in India increase because of various government policies, procedures, regulations and the way some of the laws are implemented,". The quicker the government addresses these challenges its better for the industry to set up facilities in the country. Tax sops & focus on innovation Economists have noted that with the globalization becoming a reality, Indian manufacturers will have to compete with the best and cheapest the rest of the world has to offer even in the domestic market. They urged for providing tax concessions to any industry which would set up manufacturing facility in the country. Besides a critical aspect is the country's huge small and medium-sized industries which could play a big role in making the country take the next big leap in manufacturing. "India should be more focused towards novelty and innovation for the sectors identified and integration with the country's premier institute for carrying out research and development would be critical to the success of the make in India programme," a leading industrialist said. Skill development & thrust on education Stressing that his government has given top priority to skill development, Prime Minister had said the government is currently doing mapping for assessing skill manpower demand for specific sectors. He noted that there has to be synchronization between the objectives of the government, academic world, industry and job seekers for ensuring that industry specific skills are imparted. Experts argue that the country needs to focus on quality education not just skill development. "In the emerging economy, people will need to continuously learn new skills to meet the economy's changing requirements," an official with an industry association observed. Prime Minister also promised that specific sectors would be asked to access Industrial Training Institutes (ITIs) located across the country to train manpower locally as per their needs. "You will get a good worker for your industry and our ITI will start running. Our youngsters will get employment, his family will be strengthened and better purchasing power will help the economy," Modi told top industrialists. In the last couple of years, National Skill Development Agency (NSDA) initiated work on creating a labour market information system which would help industry sourcing their manpower requirement. After getting information on labour market, the government would provide accreditation to manpower agencies so that the industry can access information on the manpower requirement. Reforms in the labour laws Besides the skill development, labour law flexibility is a key element for the success of this campaign for increasing manufacturing in the country. Economists say that "labour law flexibility does not imply 'hire and fire' policy, it's about providing a sound social safety net to workers." Experts say that the country has some of the most comprehensive labour laws at the same time a large parts of working population do not have access to social security net. Prime Minister had stressed the faster the bulk of Indian middle class increases, the faster people move from poverty to middle class, the faster will be their conversion into a favourable market for the world. He said his government's focus will be on physical infrastructure creation as well as creating a digital network for making India a hub for global manufacturing of goods ranging from cars to software's satellites to submarines and paper to power. A leading Economist said the big challenge for 'Make in India' campaign would face constant comparison with China's 'Made in China' campaign.

The China launched the campaign at the same day as India seeking to retain its manufacturing prowess. "India should constantly keep up its strength so as to outpace China's supremacy in the manufacturing sector," he noted. Categorically stating that there is a need for some fundamental changes in Indian economy so that the country emerges as global manufacturing base, Modi explained "on the one hand, manufacturing growth is to be promoted, at the same time we need to ensure that direct benefit goes to the youngsters of India. He should get employment so that there is improvement in the economic situation of even the poorest family. These poor should move towards middle class and their purchasing power should improve. This will lead to manufacturing growth and growth of the market,".

Demographic dividend: Notwithstanding the challenges faced in making India a manufacturing hub, the country is poised to reap rich dividend for being one of the youngest nations in the world. According to reports by 2020, India is set to become the world's youngest country with 64% of its population in the working age group. With the Western countries, Japan and even China aging, this demographic potential offers India and its growing economy an edge that economists believe could add a significant 2% to the GDP growth rate annually. Prime Minister also had said that India is the only country in the world which offers the unique combination of democracy, demography, and demand from a rising middle class. Besides, the campaign would ensure closer centre and states relations for promoting India as a global manufacturing hub. "If investment comes in the States, it comes in India also. States and Centre should work collectively, shoulder to shoulder as a team. they should find solution together and things move forward,". Modi urged. Although a sound beginning has been made for the Make in India campaign, now the ball is in the government's court to ensure its success.

Review of Literature: Since the year 2009, manufacturing sector of India is showing reverse trend with its share of GDP falling from 2.2 to 2.0 (Bhattacharya, Bruce, & Mukherjee, 2014, p. 4). It is undoubtedly true that, if India aspires to be a powerful nation by 2030, it needs a strong sustainable growth which can only be achieved if India creates a strong manufacturing base (Shah, 2013, p.1).The existing labour laws are less employment friendly and biased towards the organized labour force; they protect employment and do not encourage employment or employability; they give scope for illegitimate demands of the Trade Unions and are a major cause for greater acceptance of capital-intensive methods in the organized sector (Datta & Milly, 2007, p. 2). Employers complain of major skills gaps, and fewer than 25% of graduates are estimated to be employable in manufacturing ("The Manufacturing Plan," n.d., p. 65).India's underdeveloped infrastructure is the top most issue faced by Japanese manufacturers ("Make In India: Opportunities and Challenges," 2015, p. 9).Senior managers of manufacturing companies consistently rank difficulties in acquiring land as one of the top priority areas to be tackled by the government (Bhattacharya, Bruce, & Mukherjee, 2014, p. 34). The share of manufactured goods in total merchandise exports fell from 77% in 2003 to 65% in 2013 (Joumard, Sila, & Morgavi, 2015, p. 9). 'Make in India' is a dream campaign launched by the Prime Minister of India to boost this sector so

that India can present its candidature for becoming the Global Leader (Chattopadhyay, 2015, para. 3).

Methodology: The present paper investigates the challenges posed to the 'Make in India' campaign by the manufacturing sector in India. Secondary datas from different sources like journals, books, magazines, Census India, Government reports, surveys and websites have been taken to support the points. The objective is to present the current position of the manufacturing sector of India, various challenges faced by it and the emerging trends after the launch of the 'Make in India' campaign.

Challenges for Manufacturing Sector: There are many challenges that hinder the smooth progress of the manufacturing sector which in turn adversely affect the 'Make in India' campaign. Some of them have been listed below:

4.1 Infrastructure: The growth of manufacturing sector is highly dependent on its quality of infrastructure. The World Economic Forum's Global Competitiveness Report (2015-16) has given 81st rank to India out of 140 countries for its deficiency in infrastructure. Quality infrastructure is one of the top requirements for the success of "Make in India". India's underdeveloped infrastructure is the top most issue faced by Japanese manufacturers ("Make In India: Opportunities and Challenges," 2015, p.9). Roadways in India pose a big challenge for the growth of the country and successive governments are continuously failing to implement their electoral promises. Like the previous central government promise of building 20 km of road infrastructure every day has failed (Chattopadhyay, 2015, para. 6). The projects of railways department suffer from even longer delays as compared to road sector. Also, rail transport is 70% more expensive in India as compared to the United States which makes it inefficient (Joumard, Sila, & Morgavi, 2015, p. 28). There is a nationwide scarcity in terms of power generation. About 48% of firms suffer from power cuts for more than 5 hours in a week and around 60% of firms are ready to pay more for continuous and reliable supply (26). In order to promote the foreign trade, ports play a very important role. There is a scarcity of modernised ports and those that exist, are using 90% of their capacity as against an average of 70% international usage (28).

4.2 Labour Laws: India's labour regulations are among the world's most stringent and complex, and over time have limited the growth of the formal manufacturing sector ("India Investment Climate Statement 2015," n.d., p.26). The present labour laws favour the employees and protect employment and also a big tool in the hands of trade unions to raise their bargaining power giving a way to go for capital intensive methods in the organised sector. This adversely affects the expansion of employment and generating jobs (Datta & Milly, 2007, p. 1). There are more than 200 laws regarding conditions of employment, social security, health, safety, welfare, trade unions, industrial and labour disputes, etc. ("Doing Business in India," 2015, p. 32). From the year 2004-05 to 2011-12, the rate of employment growth was just 0.5% with contrast to 2.8% during 1999 to 2005 (Bhattacharya, Bruce, & Mukherjee, 2014, p.21). The Industrial Disputes Act 1947, Section 9A requires (an industry with at least 50 workers), worker's consent to modify job description or move workers from one plant to another. It further requires at least 21 days in notice before modifying wages, hours of work, rest intervals, and leave and chapter V-B of

the same act with employees more than 100 requires industrial firms to obtain prior government permission to lay-off or retrench one or more workers. Another problem is lost relevance of most of the labour regulations in the present day (Joumard, Sila, & Morgavi, 2015, p. 16). As per the survey of CII-KPMG- 2014 in India, about 47% of the respondents stated moderate to major difficulty in complying with labour laws. 4.3 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 .Although India has improved a lot in education but its competitors are much ahead in this area (“Skill Development,” 2006, p. 2).As per the report named “Higher Education in India: Vision 2030” by FICCI and Ernst & Young, 75% of IT graduates are deemed ‘unemployable’, 55% in manufacturing, 55% in healthcare and 50% in banking and insurance graduates are deemed unemployable (Bhagowaty, n.d., p. 7).Further in India only 3.5 million workers are undergoing skills courses a year, compared with 90 million in China(Nam & Vishnoi, 2014, p. 1). The quality of higher education is also low. As per NAAC report the quality of education in 90% of the Universities and 70% of the colleges is below par” (Joumard, Sila, & Morgavi, 2015, p. 21).

Research and Development: The expenditure on Research and Development in India is just 0.9 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). The credit of the faded growth of manufacturing goes to the low technological depth of the 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 standardisation of the issues.

Land Acquisition: Land acquisition is another major issue involving lengthy and cumbersome process. It is one of the main reasons for delay of the projects. About 70% of the infrastructure projects got delayed due to it (“OECD,” 2014, p. 39). It takes 14 months on an average to acquire land (“Ease of doing business,” 2014, p. 12). Another difficulty is to establish the land title due to incomplete land records (Joumard, Sila, & Morgavi, 2015, p. 29) which becomes a cause of litigation later. Also the owners of the land are often inadequately compensated which again leads to disputes and delays.

The manufacturing sector has contributed little to income, export and employment growth: Production has been shifting away from agriculture, but mostly into services rather than manufacturing. Despite important product market reforms in the early 1990s, such as trade liberalisation and abolition of industrial licensing, the share of manufacturing in GDP has remained stagnant over the past decades. Productivity of the manufacturing sector is low. Drawing cross-country comparisons on productivity requires high quality data and a choice of an appropriate exchange rate for international comparisons. productivity, which cannot exploit economies of scale. Employment in manufacturing firms with less than 10 employees - the so-called unorganised sector accounted for about 65% of employment in the sector in 2011-12, compared to 14% on average in the OECD and 9% in Brazil Even in

the organised sector firms have little incentive to grow since by staying small they can avoid regulations and taxes. Growth in total factor productivity in the manufacturing sectors has been lower than in the service sector. In fact, the growth in manufacturing TFP has been negative in many subsectors over the past three decades (Das et al., 2014). In addition, growth of value added in the manufacturing sector largely stems from factor accumulation, in particular increases in capital intensity, rather than total factor productivity gains. India should better channel employment from low productivity agriculture to higher productivity manufacturing and services, which would raise wages and living standards for a larger share of the population. Furthermore, India should aim for more formal jobs in the organised manufacturing sector, as these tend to be the most secure and of highest productivity. Indeed, household surveys show that male urban manufacturing workers with regular jobs on average get a salary 2.5 times the level of casual contract workers in the same sector (NSSO, 2011-12). Informality is typically associated with lower productivity and many workers remain outside the reach of labour market regulations and social protection schemes, resulting in higher inequality (OECD, 2011b). Lifting barriers to manufacturing Various measures to boost manufacturing have been introduced since the early 2010s. The 2011 National Manufacturing Policy (NMP) is meant to increase the share of manufacturing to 25% of GDP and to create 100 million additional jobs by 2022. The 2014 Make in India initiative goes in the same direction. The Delhi-Mumbai Industrial Corridor (DMIC) project, in cooperation with Japan, aims to develop an industrial zone spanning six states by expanding infrastructure and industry. Relatively restrictive FDI policy has gradually been relaxed and a not-for-profit single window facilitator for prospective overseas investors, "Invest India", has been set up. The government has also stated that promoting labour-intensive manufacturing is one of its top priorities. While these plans are welcome, India could do more to address fundamental problems with the overall business environment. Currently, policies rely heavily on the economic zones (see Box 3) that provide exemptions from many existing policies such as labour regulations, taxation or business creation. When zones are set up to boost employment and growth, they are successful mostly if they can have a wider impact on the economy and do not operate as enclaves with few linkages to the domestic economy. Still, such zones may act as catalyst for reforms, facilitating progress towards more country-wide reforms.

Conclusion: The manufacturing sector has contributed little to income growth and its share in total merchandise exports has been declining. Manufacturing has not brought much new employment, and most of the recent rise in manufacturing employment has been in the informal sector, where workers are not covered by social security arrangements.

Productivity of the manufacturing sector is low, partly because the relatively small size of manufacturing firms makes it difficult to exploit economies of scale. Despite abundant, low-skilled and relatively cheap labour, Indian manufacturing is surprisingly capital and skill intensive. Furthermore, firms have little incentive to grow, since by staying small they can avoid taxes and complex labour regulations. Land acquisition is slow, companies face

frequent power outages and transport infrastructure is below par. This is especially harmful as manufacturing is highly reliant on well-functioning infrastructure.

Stronger manufacturing would increase productivity and make growth more inclusive, while contributing to improved current account balance. In particular, India should aim for more formal jobs, as these tend to be the most secure and of highest productivity.

The poor condition of India's manufacturing sector has been slowly improving with the efforts of PM Narendra Modi's "Make in India" campaign. Moreover his one after another visits to other countries have brought commitments to investments in India. Like Japan has committed to invest USD 35 billion, and US committed to a USD 42 billion investment over the next two to three years (Bhattacharya, Bruce, & Mukherjee, 2014, p.8). As per the CIIBCG manufacturing survey 2014 85% of the respondents expect manufacturing growth between 5 and 10% over the next five years versus only 65% in 2013 (7). So the optimism and the expectation among the CEOs of manufacturing companies is getting a boost. In another survey, a leading 32% of international investors ranked India as the most attractive market, while 60% placed the country among the top three investment destinations. Respondents believe that ongoing economic reforms are increasing opportunities for them to develop their companies profitably in India. Enthusiasm is strongest among companies with annual revenue exceeding US\$2b ("EY's Attractiveness," 2015, p. 41). Also Foreign Direct Investment in manufacturing sector during the first half of 2015 witnessed a 221% increase as compared to the first half of 2014 with US\$ 24.8 billion Equity. Manufacturing's share of FDI raised to 80% and FDI projects raised by 22% (39). The government is taking various positive steps to make the campaign successful like making its functions more efficient, reforms of the processes required in getting approvals and environment clearance by introducing the use of online system to speed up the process, policies to help the expansion of MSMEs, enhancing the business ease, attracting FDIs, actions to improve skill and thereby strengthening the hope of achieving the manufacturing target growth of 25% share to GDP by the year 2022 but still there is a long way to go. There is an urgent need to clear all the hurdles in the way of growth of this sector before getting assured of the targets. India is still ranked at 142nd place out of 189 economies of the world for its ease of doing business (World Bank Report, 2015). There is a lot of work to be done in providing the ease to the investors in areas like starting a business, dealing with construction permits, payment of taxes, enforcing contracts, etc. A business-friendly environment is a base for the growth of an economy. So the government of India is required to address the various issues that creates hurdles in the way of the growth of the manufacturing sector for making "Make in India" a success.

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