Make in India Campaign: An Assessment of its Likely Economic Impact

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ABSTRACT

India’s growth performance has been diverse yet fascinating over a period of time. While agriculture and manufacturing were the dominant sectors during the pre-industrialisation and industrialisation period respectively, more recently, the services sector has emerged as the most important sector in terms of its contribution to GDP. The growing demands of service sector and its importance in the economy has led to a concern about the situation of India’s manufacturing sector. This study analyses the ‘Make in India’ initiative of the present government launched in September 2014, with the twin objectives of developing India as hub of business and manufacturing and generating massive employment opportunities for India’s teeming young population. The analysis indicates that Indian economy is gaining momentum slowly, and growth estimates are in line with projections made. India also has the best prospects for the growth opportunities in coming decade. Since this concept is new, it will take some years before analysts can effectively measure the success of this campaign.

Keywords: Manufacturing; Investors; Employment; FDI; Technology.

1.0 Introduction

The economic structural changes that entail sectoral share dynamics (industrial, services and agricultural) are basically related to each other and with the as well. It has been observed that the economic growth generally takes place at an uneven rate across different sectors of economy. Growth performance of India has been diverse yet fascinating. Indian economy’s growth processes is changing over the time, both sectorally and spatially, are major issues of economists and policy makers.

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Structural changes lead to economic growth and changes in structure of economy have their own implications for the rate and economic growth sustainability. During traditional civilization period, the agriculture sector was at the top contributing around 70% to India’s GDP. As the transitional (Industrialization period) phase begins with contribution of the secondary sector rise and becomes 30% compared to 20% in the earlier period. The attention of the past government was on service sector which led to manufacturing receiving a step-motherly treatment. Addition made by manufacturing sector is just 16% of GDP in India. Around half of Indian labour is engaged in agricultural activity which is able to fetch hardly 13-14% of India's GDP (2013-14 constant prices) (Bureau of Labour Statistics). In comparison to Australia, Japan and China, the cheap labour and land (as factors of production) must attract manufacturers from the said countries to look at India as their base for manufacturing.

The present government identified manufacturing sector as the engine of long-run growth and conceptualised and initiated ‘Make in India’ campaign so as to improve the status of manufacturing sector. As is the case with other emerging countries of Asia, the target is to increase contribution made by manufacturing sector at a level of 25% of GDP by 2025 (Sangwan, 2015), from 16% now. ‘Make in India’ is different from the ‘Made in India’ as it is an invitation to foreign investors having intellectual property and technology (innovations) for employing Indian labour and land for the purpose of manufacturing goods for the domestic market and/or export marketing in India. The initiative of ‘Make in India’ is an offer for the foreign investors to come and pour money and contribute to the Indian growth story and further Indian manufacturing capabilities. The ‘Made in India’ included labour, capital, ‘swadeshi’ land, intellectual property, entrepreneurship and technology. Hence, it also referred to India’s own brand equity like 'Amul' Butter – The Taste of India. The ‘Make in India’ campaign is basically a red carpet welcome for technology, managerial skills and entrepreneurship to project India as their base for manufacturing either for export market or for domestic market or for both. This is in line with the famous proverb “Since the industrial revolution, no country has ever become a major economy without becoming an industrial power.”

The manufacturing sector of India is already aiming to provide an excellent opportunity to all the international investors for collaborating with existing businesses and not only are they actively participating in government’s ‘Make in India’ mission for making it a great success but also offering 3 ‘Ds’ for business to thrive: demography, demand and democracy. The government had taken various steps to make ‘Make in India’ a success, some of the important ones being:

- Reduction in corporate tax rate by five percent and abolition of the provision of wealth tax in order to attract both IDI and FDI for manufacturing sector.
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- FDI ceiling in insurance sector raised to 49% from 26% (Sangwan, 2015) and foreign investment in railway projects and real estate area being allowed.
- SETU Yogini launched to promote entrepreneurship.
- In order to ensure enough skilled labour supply the ‘Make in India’ program has been linked with ‘Skill India’ program especially in the rural areas. It will become an alternative to MNREGA where only unskilled work (sand digging) is being done.
- A new financial institution MUDRA has been created with Rs. 20,000 crore corpus to provide funds to MSME sector.
- Establishment of 100 smart cities for enhancing the industrial growth and to generate employment opportunities in India.

1.1 Objectives of the study
This paper aims to understand the dynamics of ‘Make in India’ concept initiated by the present government. It also studies the primary aspects of Make in India programme in relation to (i) employment; (ii) FDI; and (iii) start-ups.

1.2 Relevance of the study
Earlier, the Indian economy was agrarian based economy but things have changed. There is an urgent need to uplift global competitive position of manufacturing sector of India which is required for the long term growth of India. An increase in employment would lead to raise in income which, in turn, would increase savings and investments and ultimately all this contributes to an increase in GDP.

1.3 Research methodology
The study is descriptive in nature and the available literature was reviewed. The secondary data has been used in the study and the sources of data were mainly various websites, journals, books and newspapers.

2.0 Literature Review
A modest analysis of transformation of sectors originated from Fisher (1939) and Clark (1940), who studied the sectoral shifts in the composition of the force of labour. However, they were considered as the first to tackle this process of reallocation of production factors in the growth of economy, with the use of sectoral division (primary sector, secondary sector and service sector) which is still with us. The traditional measures of the economic structure are labour force sectoral share. These
three categories were examined by Kuznets (1966) in detail and added the interpretation and analysis of GDP sectoral share. He was able to show empirically that growth is brought in by changes in sectoral composition. There has been steady decline in agriculture total output while there has been increase in industry sector, and then it has shown decline. All through, the share of services has steadily increased, but increasing rate seems to be enhanced in the rest of the half of the twentieth century period during which there has been a decline in the share of the industry, which is basically referred to as the period of “deindustrialization”.

Kuznets (1973), in his Nobel Prize lecture, explained the structural transformation process i.e., reallocation of the different economic activities across the broad sectors of services, manufacturing and agriculture. Kuznets incorporated the transformation of structure as the main feature of modern Indian economic growth. Much attention has also received by the structural transformation in debate of policy for the most developed countries. Boon (2001) explored the FDI and economic growth causal relationship and found that there has been bidirectional causality FDI and economic growth in Malaysia. It has been observed that growth in GDP not only attracts FDI but FDI also helps in increase in output. FDI had a key role in the Malaysian economy and the resultant is that the economy is no longer dependent upon the only few commodities but also keeping pace with the manufacturing sector. Klaus (2003) found that integration of emerging economy with the global economy leads to increase in the international investments and trade.

Dunning (2004) critically examined the role of institutional environment for the purpose of reduction in the domestic and cross border activity transaction cost. Kochhar et. al. (2006) examined the countries of East Asia (Thailand, Indonesia, Malaysia, China etc.) and basically focused on the low-skilled manufacturing mainly including clothing and textile to run the economic growth. Later, they focused on the more sophisticated manufacturing ‘jeans’ that offered prosperity. They concluded that countries can use the skill intensive techniques especially the underdeveloped countries to use it as a launch pad for the purpose of enhancing the economic growth. Hausmann, Hwang, and Rodrik (2007) observed that rapid growth is generally not affected by the domestic market. Trade serve as the mechanism to learn from technology transfer and it may spill-over through the related industries. Johnson, Ostry and Subramanian (2010) experienced that countries historically have huge growth in the exports sectors mainly the manufacturing exports. Rodrik (2013) examined manufacturing sector and found unconditional convergence or rapid growth. Ghani and O’Connell (2014) studied India in the context of addressing the problem of poor performance of manufacturing and relatively strong service performance and mirrored the performance behaviour of many Sub-Saharan
African countries. With the introduction of globalisation, it provided an opportunity to the low income countries to bank upon the niche where they can get the specialisation and scale up the explosive growth as the way East Asian Tigers did. Sangwan (2015) examined and found that there is a high degree of correlation between the FDI inflows and industrial production and concluded that after the make in India campaign, the FDI has manifold increased the productivity and growth of economy.

3.0 Analysis and Results

3.1 Sectoral contribution of sectors to GDP and Employment

It can be seen from Figure 1 that during last 3 years, India industry saw a rough patch. The growth rate of industry fell down from 9.2% (FY 2011) to 7.2% in the financial year 2012 and 0.35% in the FY2013. India has shown the fastest growth for services during 2010-2014 along with 8.6% of an annual compound growth rate (CAGR) followed by China at 8.4 %. While the agricultural sector has taken a big leap with respect to GDP contribution in the Indian economy, the industrial growth rate of India has jumped from -0.1% in financial year 2014 to 5.9 %in 2014-15.

Figure 1: Industry growth rate from FY 2004 to FY2015 (in %)

Source: Research Bureau of PHD, compiled by MOSPI

A new manufacturing policy has been formulated in 2011 in order to enhance the share of manufacturing sector in the GDP from the current level of 16% to 25% by the year 2025 (Research Bureau of PHD). Although agriculture and its allied activities have employed more than half of India’s population with stake in employment of about 48.9% of the workforce, its contribution to GDP was recorded to be just about 17.4 % in 2014-15 in comparison to 18.3% in 2013-14.

Industry sector which constitutes manufacturing, mining, construction and electricity registered a growth of 5.9% in 2014-15 as compared to 5% in 2013-14. The
advance estimation of the national income for 2015-16 is expected to generate the growth rate of about 9.5% for the manufacturing sector. The advance estimation of national income for 2015-16 expects to have generated 9.2% growth rate for service sector, marginally lower than 2014-15 (10.3%). This fall might be contributed to the deceleration in the growth of combined category namely defence, public administration and other services. Given the fact that there are expectations of improvement in macroeconomic environment along with an aim to increase focus on government reforms, the Indian government expects GDP to reach to a level of 7-7.75% during the year 2016-17. Basically the setting up of new industries aims at creating new job opportunities and this gives a hope that ‘Make in India’ campaign is going to gain desired traction and it will work as a catalyst to foster the employment sector (Table 1).

### Table 1: Quarterly Employment Survey in Select Sectors of India

<table>
<thead>
<tr>
<th>Industry/Group</th>
<th>Sep 2014 compared to June, 2014</th>
<th>Dec 2014 compared to Sept 2014</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile including apparels</td>
<td>49</td>
<td>79</td>
<td>61.2</td>
</tr>
<tr>
<td>Leather</td>
<td>-18</td>
<td>1</td>
<td>94.4</td>
</tr>
<tr>
<td>Metals</td>
<td>47</td>
<td>-20</td>
<td>-57.4</td>
</tr>
<tr>
<td>Automobiles</td>
<td>28</td>
<td>-23</td>
<td>-17.9</td>
</tr>
<tr>
<td>Jewellery and Gems</td>
<td>8</td>
<td>-5</td>
<td>37.5</td>
</tr>
<tr>
<td>Transport</td>
<td>-7</td>
<td>-1</td>
<td>-85.7</td>
</tr>
<tr>
<td>BPO/IT</td>
<td>57</td>
<td>89</td>
<td>56.1</td>
</tr>
<tr>
<td>Handloom</td>
<td>-6</td>
<td>-3</td>
<td>-50</td>
</tr>
<tr>
<td>Total</td>
<td>158</td>
<td>117</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Bureau of PHD

The employment in nonfarm payroll rose to 1,56,000 in September 2016, job gains to an average 1,78,000 every month in comparison to an average increase of 229,000 in the year 2015. It is alarming disproportionately considering that agriculture sector holds the primary employment contribution (60%) in the country, yet contributes a meagre around 16% to GDP (as per 2014 of Labour Statistics Bureau). In contrast, developed nations like USA and Japan contribute much more on the agricultural sector with much lesser proportion of the work force employed. The Indian government has now initiated “SKILL INDIA-a multi-skill development programme” on a mission of entrepreneurship and job creation the socio-economic development of the country.
3.2 Foreign Direct Investment (FDI)

FDI has now been a major source of capital for the Indian economic development and also a major source of the non-debt based financial resource for the Indian economic development. It has received consistent focus under both the past as well as the present government. Foreign companies generally invest in India for taking advantage of changing business environment and cheaper wages prevailing in India. Since the Indian economic liberalisation (1991), FDI has increased steadily in India. The present government has also taken steps to increase FDI inflows by making amendment in FDI policy over a period of time. In the year 2014, the government tried to increase the upper limit of investment from 26% to 49% (RBI Report, 2014) in insurance sector. The government also took initiative of ‘Make in India’ campaign in September 2014. The main objective behind the ‘Make in India’ campaign is to promote India as an important destination for investment and also a global hub for innovation and design. The government pointed out 25 priority sectors that will be promoted adequately for ‘Make in India’ campaign. These are the prominent sectors where FDI inflows are expected to be high. Major sectors include infrastructure, automotive, pharmaceuticals, service and railways. As on April 2015, FDI inflows have been stated to have increased at the rate of 48% in India since the launch of the ‘Make in India’ programme. India
ranked 15th position in the world in 2013 in the context of inflows of FDI and it rose to the 9th place in 2014 while in the year 2015 India has become one of the top most places for FDI. In 2014-15, the Indian economy has received most of its FDI from the countries namely Netherlands, Mauritius, US, Singapore. More than 65% (Indian Brand Equity Foundation) of total FDI has come from the two small geographically countries- Mauritius and Singapore. Mauritius has been the largest source of FDI in India due to tax treaty benefits pumping investment from Mauritius to India.

**Figure 3: Net Foreign Direct Investment, 2006-2014**

As per the Department of Industrial Policy and Promotion (DIPP), there was an increase in the FDI inflows by 87% in 2014-15 with an amount of inflow of $2.23 billion (RBI Report). Around 90% of FDI shown in Figure 3 has been generated through the automatic route. Also in the year 2014-2015, (FII) foreign institutional investment increased by 717% to $40.92 billion. The state-wise FDI inflows analysis by Economic Survey depicts that Delhi, Haryana, Karnataka, Tamil Nadu, Maharashtra, Andhra Pradesh and Gujarat accounted for more than 70% of total inflows of FDI in the last 15 years. Services, trading, automobile and power sectors attracted maximum FDI. FDI equity flows in total grew by 27.3% ($30.9 billion) and especially in service sector by 70.4% ($16.4 billion) (RBI, HAVER Analytics) in the year 2014-15. In first seven months of 2015-16, it increased by 74.4% to $14.8 billion. High growth in hardware and computer software and services are leading to this high growth.

The rating agency Moody’s found that the net FDI inflows were at all-time high in early 2016. With the campaign of ‘Make in India’, India is on the path of becoming the hub for the hi-technology manufacture with global players like Siemens, HTC,
Toshiba, Boeing and GE having planted manufacturing units or are in way of doing it in India. This is the result of Indian market having more than a billion prospective consumers and also the increase in purchasing power.

The FDI in manufacturing electronic in September reached to a highest level of Rs 123,000 crore (US$ 18.36 billion) which was only Rs 11,000 crore (US$ 1.65 billion) (Indian Brand Equity Foundation) in the year 2014 and all this happened because of supporting policies of Indian government and the initiative of ‘Make in India’. India is now considered as the most attractive destination for capital investments in manufacturing sector. Some important developments and investments that have happened in the past have been pointed below:

- Huawei (China) and solutions provider Flextronics Technologies (India) Private Limited have entered into an agreement to manufacture smartphones in India. Flextronics is soon going to produce more than 3 million smartphones which will generate 1,500 jobs.
- For creating a strategy to produce and co-develop Javelin missile system, Tata Power (India) has partnered with US-based Javelin Joint Venture for its Strategic Engineering Division (SED),
- Honda Motorcycle and Scooter India are soon going to invest approximately Rs 600 crore for addition of new line at its Narsapura facility in Karnataka.
- Airbus has already procured US$ 500 million worth of value of supplies from India in 2015 which produced growth rate of 15% per annum and targeted a cumulative procurement of US$ 2 billion over the five year period to 2020.
- Havells (India) is going to set up new manufacturing unit near to Bengaluru by putting investment of Rs 1,000 crore.
- Pepsi is going to invest US$ 74 million for setting up one more unit in Maharashtra to produce pomegranate, mango orange-based citrus juices and on the other hand Monsanto (a biotechnology giant) is planning to seed one plant in Maharashtra state too.

3.3 Start-ups

Start-up has been defined as an entity, incorporated or registered in India; not older than the five years; having annual turnover not exceeding INR 25 crore in any of the preceding financial year; and working towards the innovation, development, deployment or commercialisation of the new products, processes or services driven by technology or intellectual property.

India is the third largest in the number of start-ups across the globe. The Indian Electronics and Semiconductor Association (IESA) appreciated the current government
for being a great facilitator for building a start-up nation. A start-up can be now registered even in a day which basically motivates most of our young entrepreneurs in the way of turning idea into action and thereby increasing the employment opportunities. Also the support for the patent filing at free of cost and reduction of 80% reduction in filing patent fee is a positive move towards motivating people to file patent and grow. Indian start up ecosystem has changed very drastically and its current level of 3,100 start-ups in 2014 is projected to be more than 11,500 by 2020 (Assocham India) and this is only a passing trend. Some of the start-ups which have grown by leaps and bound in the recent times have been presented below.

(i) Paytm - Today Paytm has created its own space in the digital wallet and payment services. It is a leading payment solutions provider for e-commerce merchants using RBI approved semi-closed wallet. It is also now used to make payment for goods and services consumed.

(ii) Zivame - This start-up focused on the fact that lingerie is one of the area which is not served much. Whenever a female goes to buy lingerie from a shop, there are various problems associated with that purchase like the social discomfort, picking up of wrong size in the wake of non-disclosure of wish and the bad market penetration. Hence this start-up gave the freedom to females to choose the lingerie according to her comfort and not according to the store shopkeeper.

(iii) Redbus – This app based start-up provided the facility to book bus tickets online like the train and flights booking. Due to its much popularity, ibibo acquired it for $318 million.

(iv) Ola - After bus, train and flight, it was the turn of taxi services to be booked online and to serve this need. Ola provided the app based services to book cab online and that too at the cheapest price. It has now become the biggest giant of cab based online service after acquiring Taxi For Sure.

Cisco (US) global technology company came in India in 1995 and since then it has generated thousands of jobs and it still continue to do this and it says that it is committed to follow the ‘Make-in-India’ programme by being more generous in the process of improving the position of start-ups in India. Picking a start-up is like pointing at right team acquisition strategy and which is also working on solving the large size problem. Its teams are going to mentor the start-ups and the developers for guiding them on the path of creating digital solutions to enable service providers and enterprise customers in private and public sphere. Typically two things matter: firstly, the market they are in and how big is its size and scope is and secondly how passionate the team in solving the problem at hand.
4.0 Conclusion

The study indicates that Indian economy is gaining momentum, although slowly, with an anticipated growth rate of GDP of 7.3% and 7.5% in 2016 and 2017 respectively. Since ‘Make in India’ concept is new, it will take some years before analysts can effectively measure the success of ‘Make in India’. However, we cannot deny that its present momentum is playing a very vital role in ascertaining its immediate credibility. The ‘Make in India’ initiative is going to build India as a manufacturing hub along with elimination of unnecessary regulations and laws, greater transparency and accountability, and easier and responsive bureaucratic processes to take manufacturing growth at a level of 10% on sustainable basis. With the drive of ‘Make in India’, the Indian economy is surely moving on the path of creating not only the growth opportunities in India but also creating more jobs for the citizens. It is also on the path of becoming hub for hi-tech manufacturing as global giants such as Toshiba, GE, HTC, Boeing and Siemens are in the process of setting up manufacturing plants in India motivated by India's market of more than a billion consumers with increasing purchasing power.

References


