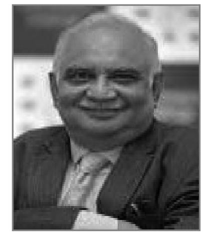
Analytics of Make in India- Issues, Concerns and Roadmap Ahead



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Perspective

India has successfully transitioned from a part of the 'Fragile Five' a decade ago to a 'bright spot' in the global economy. With decelerating growth, low investor confidence, a dozen Indian billionaires going bust, and unsustainably high and mounting defaults and delinquencies, the Indian economy was on the edge of the precipice. Things have turned around now and there is an upswing in the Indian economy. India has been the fastest-growing major economy for the third successive year. India contributed 16 per cent to the global growth in 2023. India's growth rate of 7.2 per cent in FY 23 was the second-highest among the G20 countries and almost twice the average for emerging market economies (EMEs) that year.

A digital revolution, a renewed capex cycle, a well-capitalized banking system, robust credit growth, an upturn in the housing sector, rising domestic consumption, robust investment, growing services exports, and "digitalization-driven productivity gains" are force multipliers. India would consolidate its global heft through important transformative drivers on demand (consumer boom, ascendant middle class, and green transition) and the supply (demographic dividend, greater access to finance, and streamlined infrastructure - both physical and digital) sides. Thus the remarkable Indian odyssey is well on course to achieve its rightful place in the comity of nations.

With zero possibility of recession reflecting macroeconomic resilience and dynamism, India is at a crossroads. At this defining moment, India has to simultaneously focus on maintaining macroeconomic stability and carrying forward structural reforms meaningfully and effectively. This process has strengthened India's economic resilience despite global headwinds and structural obstacles. But there are persisting challenges to enhance the share of manufacturing in India's GDP vis-a-vis average in low and middle-income countries; adequately capitalize on the inherent labor and skill cost advantages to develop large-scale labor-intensive manufacturing; simplify complex land and labor laws; provide productive employment and to absorb out-migration of labor from agriculture; strong macroeconomic fundamentals including low and stable rates of inflation and a falling fiscal deficit. Structural reforms must drive economic reforms, and inclusive growth and address health, education, and employment concerns.

Sustained demographic dividend, services export opportunities, domestic demand potential, increasingly assertive middle class, and India's emergence as an attractive investment destination provide tailwinds for the Indian economy. Strengthened physical sector, viz., highways length, reduced peak energy deficit, improved logistics efficiency, a renewed thrust on exports and investments strengthen macroeconomic growth. Leading development indicators include robust tax collections; higher corporate bond issuance suggest business recovery; capital market levels; rising FPI inflows-debt, equity, etc.; core sector output; forex reserves. Hence, India could grow sustainably by 7-8 per cent over the long haul.

Why Make in India? Compelling Case

In analyzing the impact of industries, particularly MSMEs on development performance, it is important to ask three basic questions:

Ø Is delivery of financial and promotional support to MSMEs adequate and appropriate?

Ø What is to be done for the creation of an enabling environment for enhanced private investment for MSMEs?

Ø Whether these enterprises can perform their conventional roles of employment and decentralized development under a free market mechanism or a new set of policies tailored to the specific needs of MSMEs is necessary to foster a virtuous cycle of regenerative, broad-based growth.

These questions are not merely academic but are fundamental to the process of economic development. In this overarching macro-economic setting, the basic justification for Make in India stems from the fact that skill shortage is the biggest constraint hampering India's competitiveness and economic growth.

The services sector has emerged as the driver of the Indian economy. But there is an asymmetry here with the services sector contributing only 28 per cent to employment though it accounts for 60 per cent of the GDP. Manufacturing has a huge multiplier effect on economic growth with significant forward and backward linkages. This generates more jobs, investments, and innovation, and enhances the standard of living. But most of India's workforce is underperforming because of adequate and appropriate training. However, this workforce can provide India with a cutting edge in the increasingly interlinked global market, provided it is skilled in contemporary technologies and business processes. A comprehensive up-skilling is a prerequisite to boost Indian manufacturing. India has to explore and examine innovative out-of-the-box mechanisms for the convergence of education and jobs and specific identified skills with coordinated and concerted efforts with a sense of urgency. In the ultimate analysis, skills are the killer app of the new economy.

Make in India-The Form and Substance

Launched by the PM on 25th September 2014, this Scheme attempts to provide India the skills edge by resuscitating manufacturing, enhancing global competitiveness, increasing export earnings, generating productive employment opportunities, and opening up Foreign Direct Investment (FDI) in key sectors. These aspects are expected to position India as a global manufacturing hub. Other welcome benefits include higher GDP growth and tax revenue while setting high-quality standards and minimizing environmental impact. The initiative also hopes to attract capital and technological investment.

The Make in India logo is a lion's silhouette filled with cogs. This symbolizes manufacturing, national pride, and strength.

Twenty-five identified sectors are Automobiles, Automobile Components, Aviation, Biotechnology, Chemicals, Construction, Defence manufacturing, Electrical Machinery, Electronic systems, Food Processing, IT and BPM, Leather, Media and Entertainment, Mining, Oil and Gas, Pharmaceuticals, Ports and Shipping, Railways, Renewable Energy, Roads and Highways, Space, Textiles and Garments, Thermal Power, Tourism and Hospitality, Wellness. An attempt is made to provide an impetus to this initiative by new processes, streamlined infrastructure, and a new mindset with a paradigm shift in the role of the Government from a regulator to a facilitator. This strategic initiative has a salubrious impact on the Ease of Doing Business Index and *"Zero Defect Zero Effect"*, i.e., products with no defects and no adverse environmental and ecological effects.

Schemes launched to support the Make in India programme include Skill India (aims to skill 10 million in India annually across sectors; formally skilled workforce in India constitutes only 2 per cent of the population), Startup India (developing an ecosystem to foster the growth of startups, driving sustainable economic development, and creating large-scale employment), Digital India (transforming India into a knowledge-based and digitally empowered economy) and Pradhan Mantri Jan Dhan Yojana (PMJDY) (financial inclusion to ensure affordable access to financial services, namely banking savings & deposit accounts, remittances, credit, insurance, and pension). There are also other Schemes, viz., AMRUT (Atal Mission for Rejuvenation and Urban Transformation focused on building basic public amenities and making 500 cities in India more livable and inclusive), Swachh Bharat Abhiyan (making India more cleaner and promoting basic sanitation and hygiene), Sagarmala (developing ports and promoting port-led development), International Solar Alliance (ISA) (an alliance of 120 countries, mostly from sunshine countries, which lie either completely or partly between the Tropic of Cancer and the Tropic of Capricorn to promote research and development in solar technologies and formulating policies), and AGNII (Accelerating Growth of New India's Innovation to drive innovation ecosystem by connecting people and assisting in commercializing innovations).

Railways, insurance, defense, and medical devices have been opened up for more FDI. The maximum permissible limit in FDI in the defense sector under the automatic route has been raised from 49 per cent to 74 per cent. In construction and specified rail infrastructure projects, 100 per cent FDI under the automatic route has been permitted.

The Shram Suvidha Portal has been launched. Other permits and licenses required to start a business have also been relaxed. Reforms are on in property registration, payment of taxes, getting power connections, enforcing contracts, and resolving insolvency. Other reforms include licensing process, time-bound clearances for applications of foreign investors, automation of processes for registration with the Employees State Insurance Corporation (ESIC) and the Employees Provident Fund Organization (EPFO), adoption of best practices by states in granting clearances, decreasing the number of documents for exports, and ensuring compliance through peer evaluation, self-certification, etc.

Production Linked Incentive Scheme (PLIS), which was introduced in 2020, provides incentives to both domestic and foreign investors through tax rebates and license clearances, among other stimulus, to make the Indian economy more export-driven and more interlinked in global supply chains.

The PPP (public-private partnership) is largely the identified investment mode in ports, airports, and dedicated freight corridors. Plans are also afoot to create 5 industrial corridors, viz., Delhi-Mumbai Industrial Corridor (DMIC), Amritsar-Kolkata Industrial Corridor (AKIC), Bengaluru-Mumbai Economic Corridor (BMEC), Chennai-Bengaluru Industrial Corridor (CBIC) and Vizag-Chennai Industrial Corridor (VCIC). Subsequently, this initial list of 5 industrial corridors was expanded to 11 corridors.

Everything Not Hunky-Dory-Scope for Improvement

Making the Scheme robust is important because the share of manufacturing in the gross value added (GVA) by the economy has been stuck at about 16 per cent in the last twenty years, investment in the manufacturing sector in India continues to languish at about 5 per cent, the employment generation in manufacturing has not breached 5 crore, the FDI has averaged 2 per cent of the GDP since 2014, and the value of exports of manufactured goods as a percentage of India's GDP for the last twenty years has not risen discernibly.

Some of the contextually significant elements include creating a healthy business ecosystem, addressing infrastructure and logistic constraints, viz., transportation networks, power supply, and logistics; streamlined regulatory framework to encourage foreign investors; bridging the skill gap; resolving land acquisition issues; renewed thrust MSMEs and startups and fostering innovation and R&D. There is also a manifest need for greater skill development and up-gradation, slashing cumbersome bureaucracy; broad spectrum PLIS with tax holidays, subsidies, and incentives; and promoting natural and induced clusters. This is a tall order and requires *inter-alia* enhancing the competitiveness of domestic goods, regular monitoring, review, and mid-course correction, wherever necessary; engagement with stakeholders, including industry leaders, planners, policymakers, and citizens and development of bilateral and multilateral partnerships to attract investment and technology in the avowed pursuit of greater self-reliance and higher economic growth.

Catalytic Role of Banks

With the Indian economy gaining steam, bank NPAs steeply declined to a 12-year low of 2.8 per cent, and net NPAs plummeted to 0.6 per cent as of March 2024, bank credit is rising. However, risk aversion, stringent underwriting, and credit to MSMEs cause concern. The Scheduled Commercial Bank (SCB) is, however, not a monolithic category; there are significant differences across public sector banks (PSBs) and private banks and even within these two groups.

The Make in India campaign provides an opportunity for banks to diversify their credit portfolio. But banks' credit off-take to manufacturers continues to languish. High manufacturing NPAs hamper channeling bank finance to support this campaign. Bankers are wary of lending because MSME and Start-up Companies constitutes high-risk lending, banks' unfamiliarity with lending to Start-up companies, lending to MSME without collaterals or inadequate collaterals is fraught with perceived risks, persisting issues of low capital base, ineffective management, low-quality products, etc. in MSMEs. This necessitates a sectoral and cluster-based approach in conformity with value chain and cash flow dynamics; and a product design approach. As banks are well-capitalized and well-regulated, they need to make coordinated and concerted attempts with a sense of urgency to meaningfully drive the Make in India campaign.

Roadmap Ahead-Pushing the Full Throttle

Given the magnitude of the unfinished agenda, we need to move full steam ahead rather than adopt a myopic and silo approach. There are inspiring and impressive success stories, viz., Foxconn's manufacturing unit in Maharashtra, Samsung's mobile phone production in Noida, Boeing's aerospace manufacturing in Bengaluru, and GE's renewable energy investments. In the mobile phone manufacturing sector, 120 units were established (till 2018) leading to the replacement of the import of completely built units (CBUs) by domestically assembled and manufactured units. These success stories need to be replicated on a macro level to meet the challenges of the present and the expectations of the future.

On the occasion of ten years of Make in India on 25 September, 2024, Prime Minister, Shri Narendra Modi justifiably maintained " *'Make in India' illustrates the collective resolve of 140 crore Indians to make our nation a powerhouse of manufacturing and innovation. It's noteworthy how exports have risen in various sectors, capacities have been built, and thus, the economy has been strengthened.*

The Government of India is committed to encouraging 'Make in India' through all possible ways. India's strides in reforms will also continue. Together, we will build an Atmanirbhar and Viksit Bharat!"

While building on the past, we must invest in the future; while strengthening the core competencies, we must explore new vistas of development and seed options for future growth by quickly and adequately upgrading our workforce to meet the demands of global manufacturing, the government partnering the private sector in improving the quality and delivery of skills and Indian enterprises ensuring that their workers' skills remain contemporary and competitive. More specifically, this requires (a) strengthening the support system, (b) dovetailing of MSME-specific policies to the macro-economic environment; (c) finding new and innovative ways to promote entrepreneurship by continued flow of subsidized resources through information, training, technology, and marketing assistance; and (d) strengthening linkages between the enterprises and support institutions, partnership between the private sector and the government, and streamlining of the legal and institutional framework. Consistent innovation in institutions/systems to enhance the quality of education, scalability, attracting sufficient investment into the sector from outside, and government and industry working together as partner in development are needed to drive forward the growth theoretic.

(Views are Personal)