# Five Years of Make in India

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This article is based on **"Five years of Make in India"** which was published in The Indian Express on 17/10/2019. It throws light on 'Make in India' campaign and the challenges it is facing.

Make in India campaign was launched by the P**rime Minister of India on September 25, 2014.**

## Objectives

- To **attract foreign investment for new industrialisation** and develop the already existing industry base in India to surpass that of China.
- Target of an **increase in manufacturing sector growth to 12-14% per annum** over the medium term.
- To **increase the share of manufacturing sector in the country's Gross Domestic Product from 16% to 25% by 2022.**
- To **create 100 million additional jobs by 2022.**
- To **promote export-led growth.**

## Outcomes

- **Foreign direct investment (FDI) has increased from $16 billion in 2013-14 to $36 billion in 2015-16** but it has not increased further and is not contributing to Indian industrialisation.
- FDIs in the **manufacturing sector are becoming weaker** than before. It has come down **to $7 billion in 2017-18 as compared to $9.6 billion in 2014-15.**
- **FDIs in the service sector is $23.5 billion,** more than three times that of the manufacturing sector which shows Indian economy's traditional strong points of having remarkably developed computer services.
- **India's share in the global exports** of manufactured products remains around 2% which is far less than **18% share of China.**

## Issues

- **Investment from Shell Companies:** Large part of the Indian FDI is neither foreign nor direct but comes from **Mauritius-based shell companies** which are suspected to be investing black money from India only, which is routed via Mauritius.
- **Low Productivity:** Productivity of Indian factories is low and workers have insufficient skills.
    - **McKinsey report** states that Indian workers in the manufacturing sector are, on average, almost four and five times less productive than their counterparts in Thailand and China.
- **Small Industrial Units:** Size of the industrial units is small for attaining the desired economies of scale, investing in modern equipment and developing supply chains.

An **economy of scale** is achieved when increasing the scale of production decreases long-term average costs. In other words, the cost of production per unit decreases as a company produces more units. Reducing the cost per unit of production is the most significant advantage created by economies of scale.

- **Complicated Labour Laws:** One of the major reasons behind small companies is the complicated labour regulations **for plants with more than 100 employees.**
    - Government approval is required under the **Industrial Disputes Act of 1947** before laying off any employees and **the Contract Labour Act of 1970** requires government and employee approval for simple changes in an employee's job description or duties.
- **Infrastructure:** Electricity costs are almost the same in India and China but **power outages are much higher in India.**
- **Transportation:** Average speeds in China are about 100 km per hour, while in India, they are about 60 km per hour. **Indian railways have saturated** and **Indian ports have been outperformed** by a lot of Asian countries.
    - The **2016 World Bank's Global Performance Index** ranked **India 35th among 160 countries.** Singapore was ranked fifth, China 25th and Malaysia 32nd. The average ship turnaround time in Singapore was less than a day and in India, it was 2.04 days.

- **Red Tapism: Bureaucratic procedures and corruption** make India less attractive for investors. India has made progress in the **World Bank's Ease of Doing Business (EDB) Index, but even then, is ranked 77 among 190 countries.**
    - While the EDB rank has improved, the Make in India campaign has not succeeded in increasing the size of the manufacturing sector relative to domestic output.
    - **India ranks 78 out of 180 countries in Transparency International's Corruption Perception Index.** To acquire land to build a plant is very difficult here. India has slipped 10 places in the latest **annual Global Competitiveness Index compiled by Geneva-based World Economic Forum (WEF).**
- **Insufficient Rules and Regulations: Labour reforms and land acquisition laws were not completed** before making attempts to attract foreign investors to Make in India.
- **Capital Outflow:** In future India will have to face another external challenge in the form of **capital fleeing** the country. The **net outflow of capital has jumped** as the rupee has dropped from 54 a dollar in 2013 to more than 70 a dollar in 2019 and the rising prices of oil add to it.

## Steps Taken

- Government has taken steps to revise the FDI norms to make India more attractive for FDI.
- For **export-oriented growth** and to **compete with Southeast Asian countries,** especially in attracting FDIs, the **reduction of the corporate tax from about 35 to about 25%** is a significant move.
- The **US-China trade dispute** has given the competition a new dimension. After the tariffs have been increased on Chinese exports to the US, **companies might shift their plants from China to other Asian countries.**

    According to the **Japanese financial firm Nomura's report,** only three of the 56 companies, that decided to relocate from China, moved to India. **Foxconn** is one of them which will be assembling iPhones in India.

## Way forward

- **Liberalisation with its full growth and potential** is the prerequisite if India intends to follow an export-oriented growth pattern.
- Indian government has to take more initiatives to **create a conducive environment for the growth of industries and especially manufacturing systems.** A targeted approach towards specific goal can be used to address the issue.

### ***Drishti Mains Question***

Make in India has failed to meet its objective of turning industry around. Critically examine.