MAKE IN INDIA: Scope and Challenges ahead.

Ms. Swikrati Singh

Abstract

Since decades India has been emphasizing on service sector, which resultant has a lion’s share in GDP. Now the government plans to create 10-15 million jobs in India, which is practically not possible now in service sector. This magic can only be created only when the Indian government concentrates on the manufacturing sector of India. On the contrary when economic reforms happened in China, they targeted manufacturing sector and foreign capital that flowed in the country, was diverted in the infrastructure development, resultant the world is flooded with Chinese products. You name it, you have it. Even banarasi saree which is a rich heritage of India, the zari used in saree is also China made. “Make in India” initiative started by the government of India, is inviting the entire world to come and make in India. But the question is, can we replicate the magic of China? When we have challenges like, poor infrastructure, red tapismetc in the country. At the same time the global economy is fragile right now and is going through a slowdown. Crashing of the crude oil prices has been a boon for the country. So it the right time for India to use its potential to strengthens its manufacturing base. We have a strong educated workforce which is our assets. A country which can send Mission Mar at economical cost has the potential to build a strong manufacture base. According to IMF report India will be an emerging economic super power in the upcoming years. The paper highlights the major challenges faced by India, what scope and potential do the country possess. The various industries and the countries where we need to lay our focus. The paper focuses on the initiatives taken by the government for “Make in India”, and various suggestions for the campaign.

Keywords: Manufacturing, cost of production, infrastructure.
INTRODUCTION

CHANDNI CHOWK IN CHINA

EU Market in China is somewhat similar to ChandniChowk of Delhi. It is spread across 48 square meters and has 80 to 90 shops. Daily 15000 containers of finished products are exported to India. During Christmas 60% of the goods are exported across the world. All varieties of goods from soft toys, clothes, Indian Gods etc. are available to be exported in India. China made Lord Ganesh is in very much demand in Indian market that cost around Rs. 800, (thrice the price). Around 2 cr. of Chinese Ganesh are sold in Indian market per year, but interestingly Incenses stick for the God are being imported from India and are sold again thrice the price. A flying doll is very much a center of attraction in the toy market. The cost incurred in the production might be just Rs. 10 but is sold for around Rs.700. It is just the technology that is making it expensive. A news channel correspondent asked an Indian shop keeper why do India doesn’t have such market. The shopkeeper replied that the Chinese government just provides us all facilities to do business, but in India the government just wants tax, tax and tax.

Research Methodology: For writing this paper secondary data has been used. The data has been used from various websites, newspapers and reports.

Objective: The objective of this paper is to

2. Scope and challenges in this campaign.
3. Present global market.
4. Reforms and suggestion to make this campaign a success.

Can India repeat the magic of China? Make in India “campaign was launched by the Government of India on 25 September 2014. India has targeted to create 10-15 millions of jobs per year, which cannot be achieved just by service sector. So it is high time that manufacturing sector should be focused. Can make in India recreate the magic of China, a country which is world famous for low cost production? China is responsible for half of the global growth. India is one fourth to one fifth of China’s economy. According to the latest data of World Bank GDP of US is $17 trillion, GDP of China is $10 trillion and India $ 2 trillion. India will take long to
overtake China. Even in the slow down the country was able to produce 13.2 million of jobs, where else India was struggling even for a million. China is a special combination of state owned enterprises, currency control and one party rule which will be tough for India to emulate. Countries like Vietnam and Bangladesh from the emerging market has come up in the competition. Economic liberalization and a revolution in information and communication technologies helped to flourish manufacturing sector and India at present do not have any revolutionary technology and even the domestic demand is weak. The demand can be increased if the real wages of middle class is increased, which China did long back in 1995. The real wages increased by 400% and poverty declined from 50% and latter to 18.6% in 2011. China accounts for 95 percent of global output of rare earths, 17 chemically similar metals used in hybrid cars and wind turbines. Based on statistics from the International Monetary Fund’s World Economic Outlook Database, China’s total Gross Domestic Product amounted to $17.632 trillion in 2014. Therefore, exports accounted for about 13.3% of China’s total economic output. According to KPMG report India has the potential to reach USD 1 trillion in manufacturing sector by 2025 and can contribute 25-30% in GDP just like China, Germany, US, Japan. At present its contribution is 2.2% in the world’s manufacturing output which is equivalent to developed countries like UK and France.

Why do we need Make In India? India has a demographic dividend where more than 50% of population is of working age of 15 to 59, and by 2020 the percentage will be 69%. The demographic dividend offers an economic opportunity to India to be utilized for fast tracking its growth, particularly in the manufacturing sector. This becomes all the more important when 12th Plan envisions creation of 50 million non–farm employment opportunities. However, creating jobs for the youth is a biggest challenge faced both by developed and developing economies around the world. India has targeted to create 10-15 millions of jobs per year, which cannot be achieved just by service sector. So it is high time that manufacturing sector should be focused. According to Labour Bureau's "Third Annual Employment & Unemployment Survey 2012-13 unemployment rate amongst illiterate youth is lower than educated youth. A comparison with the earlier report by labour bureau shows that the unemployment level has increased during 2012-2013 over 2011-2012. The report on ‘Youth employment- unemployment scenario, 2012-13 said that one out of
every three persons in the age group 15 to 29 years who have completed at least their graduation is unemployed. Where else illiterate was the lowest with 3.7 per cent without work.

### Unemployment Rate at usual status (adjusted) as per Education level for 2011-12

<table>
<thead>
<tr>
<th>General Education Level</th>
<th>Unemployment Rate (15-29 years)</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>Rural Male</td>
<td>Female</td>
</tr>
<tr>
<td>Not literate</td>
<td>2.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Literate &amp; up to Primary</td>
<td>3.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Middle school</td>
<td>4.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Secondary</td>
<td>4.6</td>
<td>8.6</td>
</tr>
<tr>
<td>Higher Secondary</td>
<td>6.5</td>
<td>13.8</td>
</tr>
<tr>
<td>Diploma/certificate</td>
<td>15.9</td>
<td>30.0</td>
</tr>
<tr>
<td>Graduate&amp; above</td>
<td>19.1</td>
<td>29.6</td>
</tr>
<tr>
<td>All</td>
<td>5.0</td>
<td>4.8</td>
</tr>
</tbody>
</table>

(Source: Planning commission)

### China’s growth story

Starting with economic reforms in 1978, China has doubled its GDP every 6 years on an average

(Source: PwC Analysis.)
Challenges in Make in India.

India has dropped its ranking from 140th to 142th in the World Bank’s recent report ‘Doing Business 2015: Going Beyond Efficiency’ its ranking is even lowest in the BRIC.

1. Commencement of Business: Starting up a business in India is yet again a big problem; India stands 137 in the ranking 189 according to the “ease to do business”. 11.9 procedures, takes 28.4 days, costs 12.2% of income per capita and requires paid in minimum capital of 111.2% of per capita income. On an average, a manufacturing unit needs to comply with nearly 70 laws and regulations. 89 days to start a business in India, compared to 41 days in China. 67 days to register property in India, compared to 32 days in China. 425 days to enforce contracts in India, compared to 241 days in China.

2. Crony bureaucracy: Political fights between central and state government, inefficient bureaucracy, Red tapism is a big hurdle. The decentralization of authority was a main reason of success of SEZ in China, Provincial and local authorities were made partners and stakeholders, by delegating to them powers to approve foreign investment. The SEZ authorities in China can approve foreign investment proposals up to $30 million. In India, only State governments are allowed to set up SEZ and the powers for foreign investment approvals are vested with the Development Commissioners, who are the representatives of the Central Government and the delay in paper work continues.

3. Acquisition of Land: Most of the Sez land is fertile land which the owner is reluctant to give. Lack of clear land title, fragmented holding and multiple legislation are a hindrance in business. They are overcrowded and have insufficient logistical links with ports and airports. The present NDA government has brought revised land acquisition bill which is again stuck in political hassles. The TATA Nano’s incident in Singoor (West Bengal) is alive example of land problem and political chaos. India’s main export processing zones or EPZs (Kandla, Santacruz, Noida, Madras, Cochin and Falta) have not done much. The SEZ size in China is more than 1000 hectares, far more than India. These SEZ are located near ports and are in proximity with cities like Taiwan and Hong Kong, with strong vendor base. China’s five main special economic zones
(Shenzen, Zhuhai, Santou, Xiamen, and Hainan) proved to be very successful in attracting FDI, boosting exports and creating large-scale employment.

4. Logistic cost: State border check points tasked primarily for carrying out compliance procedures for the diverse sales and entry tax requirements of different states, combine with other delays to keep trucks from moving during 60 percent of the entire transit time. Unpredictability in shipments add to total logistics costs in the form of higher-than-optimal buffer stocks and lost sales, pushing logistics costs in India. The average manufacturer in India loses 8.4 per cent a year in sales on account of power outages as opposed to less than 2 per cent in China and Brazil. Utility costs: Power costs vary across regions in India and China, Indicative power cost per 1000 kwH in China is around USD 73 compared to USD 97 for India. Moreover quality of power in terms of power outages is poorer in India than in China Water costs for industrial use in China are in the range USD 0.19 – 0.9/ kl compared to USD 0.175 – 1.5 /kl in India.

5. Tax Regime: For majority of critical components say for eg.in consumer durables and toys. The import duty in India is higher in comparison to China. Further, since India does not have a well-developed component manufacturing base, most of the components are imported. The effective import duties in India are in the range of 4 – 31.7% while Chinese effective duty rates are in the range of 0– 6%. The indirect tax in China is low, it has single VAT which is flat 17%, where else in India there are excise duty, custom duty, cess etc. Indian government charges 33.99% corporate tax to domestic companies and 42.23% to foreign companies. On the contrast Chinese government provides tax holidays, tax concession for the transfer of technology.

6. Poor infrastructure: China had diverted its FDI flow into infrastructure developments of roads, water, transport, electricity and into social welfare sectors like health, education, wholesale and retail, where India ranking is low. While most of the manufacturing locations in India are spread out due to location specific tax benefits, manufacturing locations in China along with the vendor base is clustered(with most located near the east coast. Average freight cost in China is USD 0.013 per tonne per km compared to USD 0.2 in India.
7. **Stringent Labour Law:** China has just one paragraph simple labour law. They follow hire and fire policy and make fresh contract on new assignment. No such policy is followed in India, the units bears the cost of ideal Labour.

**Productivity Growth (%) for the year 2000-2012** [Average annual growth rate of GDP at constant prices per worker at 20011 PPPs] idle workers. China v/s India.

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<tbody>
<tr>
<td>India</td>
<td>2.6</td>
<td>6.9</td>
<td>5.1</td>
</tr>
<tr>
<td>China</td>
<td>8.6</td>
<td>9.5</td>
<td>9.1</td>
</tr>
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Source: Compiled from “APO Productivity Data Book 2014”

**The most problematic factors for doing business in India.**


**Scope for India.**

India has it all, this we proved by sending a mission to Mars most economically. According to the Index report released by Deloitte Touche Tohmatsu Limited’s (DTTL), India happens to the fourth most competitive manufacturing nation in the next five years. We are the leaders in information technology, sciences, pharmaceuticals, biotechnology and food production. It is a
right time for India to encash the population dividend, as majority of the population is young. Looking at the global prospects, apart from United States and United Kingdom where the recovery is visible, other countries like Japan, Euro Zones, Brazil and Japan are in recession zone because of low growth, low inflation, excessive debt, deflationary pressure. Crises in Greece. China is decelerating at the same time. Emerging market will face problems like dollar going strong; higher interest rate. The economy is in its fragile state. The best thing that has happened is the crashing of crude oil prices, which will help government in curtailing subsidies and diverting the money to some other productive work. Many Indian companies like Havells, home appliance like Godrej, Micromax, auto-parts maker Bosch and stationery manufacturer ITC have shifted their manufacturing units back in India. According to Business Today 16 companies have shifted their production from China to India; even Chinese companies are entering into joint ventures to set up business in India. The reason is that cost of production has increased as the labour cost has risen. Nokia has set up its manufacturing hub in Tamilnadu, as cost of production is 12% less than China. Same ways LG and Hyundai has its export hub in India. **Manufacturing of Tata Nano itself shows the talent of Indians showcasing its engineering skill.** The country should leverage this competitive advantage as many US, European and Japanese companies are shifting production from China to lower-cost locations such as Southeast Asia. India has a large young population of engineers and scientist etc. India since the inception of economic reforms has followed capital intensive technique and China had been labour intensive. It is high time to tap labour intensive like toys, apparels and footwear, food processing, gems and jewelry. India needs to tap its manufacturing potential by tapping the LCC countries (Low Cost Countries). These LCC countries with wage rate less than a third of the US. India, China, Thailand, Poland, Mexico, Turkey, Brazil, Indonesia, Russia, Philippines, South Africa, Malaysia and Taiwan. UNIDO has identified textiles; chemicals; basic metals; machinery and equipment and electrical, Machinery, as sectors in which India leads among developing countries. Capital goods like machine tools; heavy electronic equipment; heavy transport, earth moving and mining equipment; high technology equipment like telecom, power, ICT and electronic hardware. Strategic industries like aerospace; shipping; IT and electronic hardware; renewable energy; solar, wind etc, defense equipment are some of the area where the concerned need to work on.

**Current Global scenario. The China's Crunch plunging into recession.**
On 24th August 2015 the global market tumbled down as it observed a “Black Monday” in stock market plunging the Chinese economy into recession. The global market is marching towards financial crises like 2008 and 2009. The Chinese government devaluated their currency yuan. The global market is rattled and India will be no exception, but the fundamentals of India are strong and it should take this as opportunity as a growth engine as the world is looking upon Indian economy in the Asian market. The dwindling China and recovering India, can grow if the Indian government takes proper reforms. Due to fall in crude oil prices Indian Foreign exchange has increased by 13% in past year. Current account deficit declined by 97%. While exports to China accounted for only 5.2% of India’s total last year, the figures for Singapore, Vietnam and Indonesia were more than twice as high.

This recession has come as boon in disguise for five sectors in India namely Consumers goods, automobile, banking, fuel retailers, and technology and drugs exports. But industries like Steel will suffer as China’s exports have will be cheaper and they will dump their steel products abroad.

Advantages of India over China.

- **Currency**: Fall in Rupee making its export more competitive and rising Yuan.
- **Shortage Labour**: Chinese does not have enough workers for low value added industries as they now want to work in Hi Tech factories.
- **Labour cost**: has risen 10% per year.
- **Shipping cost**: Freight charges in India are low. Charges from Shanghai to UK are higher as compared from Chennai.
- **Inventory Risk**: Local manufacturing helps Indian companies manage inventory better at a time of high economic volatility.
- **Local Demand**: Domestic demand in India is itself very large, which is 600, million rural consumers where else China’s focus was on export.
- **Single country risk**: Many countries do not want to bet just on one country, Japanese are looking for other options, due to political risk.

Potential Industries.
Apparel Industry: India is the second largest in apparel industry after China, it exports were $274 billion in 2013 out of which 40% was contributed by apparel and 60% by textile, while Indian exports were only $36 billion dollar out of which 40% were from apparel and 60% from textile. The Brandix India Apparel City in Visakhapatnam is emerging as a hub for apparel companies. India can focus on manmade fibre based textile product; branding India as a T&A hub, creating new T&A manufacturing hub etc. At present 45 million work forces are employed, to achieve $70 million dollar export we need to employ an additional 10 million work force.

Chemical Industry: The chemical industry has witnessed a growth rate of 13%−15% in the past 5 yrs. India has a strong domestic consumption. The chemical industry is among the fastest growing ones in India. The bulk of chemicals produced in India comprise either upstream products or intermediates, which go into a variety of manufacturing applications including fertilizers, pharmaceuticals, textiles and plastics, agrochemicals, paints and dyes. Chemicals constitute ~5.4% of India’s total exports. India already has a strong presence in the export market in the sub-segments of dyes, pharmaceuticals and agro chemicals. India exports dyes to Germany, the UK, the US, Switzerland, Spain, Turkey, Singapore and Japan. There are good opportunities in segments such as Speciality Chemicals, Speciality Polymers, for catering to huge emerging domestic demand as also as a manufacturing hub. India is the third largest producer of chemicals in Asia and sixth by output, in the world. India’s proximity to the Middle East, the world’s source of petrochemical feedstock, makes for economies of scale.

Automobile Part: The Indian automobile happens to be the 3rd largest in the world by 2016, ahead of Germany, Japan and Brazil, and will capture 5% worldwide sale. India's exports of auto components increased at a CAGR of 19.6 per cent to US$ 9.3 billion during FY08-13. Contribution to GDP will account to as much as 3.6 per cent by 2020 from 2.1 per cent in 2009. National Automotive Testing and R&D Infrastructure Projects (NATRiPs) as well as concessions provided on excise duties in the Union Budget 2014-15, have helped the Indian auto components industry achieve considerable growth. LCC countries like Thailand and China has seen a growth rate of 30% a year, such growth should be achieved. India’s Automotive Mission Plan (AMP) 2006-2016 is a collaborative effort between the Indian government, the automotive industry, and academia. The stated vision of AMP is for India “to emerge as the destination of choice in the world for design and manufacture of automobiles and auto components with output
reaching a level of U.S. $145 billion accounting for more than 10 percent of the GDP and providing additional employment to 25 million people by 2016.”

**Electronic and electrical Industry:** Countries like Taiwan, China, Malaysia and Thailand are already the market leaders in export. India should aspire to capture 1-1.5% of market share in future as compared to 5% share of other countries like Taiwan and China. The export of Electronics goods and components from India during the year 2013-14 registered a growth of 5.23 per cent. Some of the reasons to invest in India are that India has a 3rd largest pool of scientist in the world. We have skilled manpower available in abundance in Semiconductor Design and Embedded Software. We have Strong design and R&D capabilities in auto electronics and industrial electronics and Global demand to reach USD 94.2 Billion by 2015.

**Pharmaceutical Industry:** The Indian pharmaceutical industry was estimated to be worth US$ 12 billion in 2013 and is expected to touch US$ 100 billion by 2025. The Indian pharmaceutical industry is expected to touch US$ 100 billion by 2025. A large raw material base and the availability of a skilled workforce give the industry a definite competitive advantage. US, European Union and Africa.

**Food Processing Industry:** India is the second largest producer of food after China, and happens to be the 5th largest industry in terms of production, consumption export and growth. It contributes 9-10% of GDP in agriculture and manufacturing. The confederation of Indian industry (CII) believes that the industry will create 9 million of employment and attract US$33 billion of investment in next years.

**Cement Industry:** It happens to be the largest industry worldwide. Its current capacity is 370MT and is expected to grow 550MT by FY20.

**Reforms taken by Union Budgets FY 2014-2015 for” Make In India”**.

The government plans to create Industrial corridorDelhi-Mumbai Industrial Corridor (DMIC) as a global manufacturing and investment destination utilizing the 1,483 km-long, high-capacity western Dedicated Railway Freight Corridor (DFC). Its advertisement for the campaign tries to convince the foreign companies that the country’s environment is transforming from **Red Tape to Red Carpet**.
Business environment: All business and investment clearances on a single online portal with an integrated payment gateway; single window customs clearance. Infrastructure: Formation of the National Industrial Corridor Authority and a new institution (3PIndia) to support mainstreaming of PPPs; launch of tax-favorable Infrastructure Investment Trusts; development of 16 new ports, new inland waterways, and new airports in Tier-2 cities funds for metros in Lucknow and Ahmedabad, and additional funds for railways in border areas. Energy: Steps to improve coal production and linkages; extension of the tax holiday on investments in power to 2017; transmission feeder separation in rural areas. GST bill has been diluted to 27%. The campaign is already into action for example, after the Increase in the import duties many mobile companies have planned manufacturing in India. FDI for Defense worth 1, 10,000 crore out of which 90% are for Make in India from the French government. Changes in export and import duties: The government has made amendments in import and export duties of various potential industries to boost Make in India. Other measures: 14.18 billion have been allocated for Prime Minister’s Employment Generation Programme. 1.32 million have been allocated for providing assistance to training institutions and many other funds allocation.

Lucknow Agra Expressway (CASE STUDY): Land acquisition is a big barrier in the so called “ease to do business” in India and the land acquisition bill is stuck in the parliamentary uproar, but the Lucknow and Agra Expressway is an outstanding example of land acquisition, where 3000 hectares of land was purchased from farmers in one year without any litigation.

<table>
<thead>
<tr>
<th>Traditional Model</th>
<th>Uttar Pradesh Model</th>
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<tbody>
<tr>
<td>Land acquisition <strong>takes years to complete.</strong></td>
<td>97.6% of land was acquired in less than a year by using dual purchase acquisition.</td>
</tr>
<tr>
<td>Land is acquired through <strong>litigation</strong> which takes years to get settled.</td>
<td>Land acquired through mutual agreement. 10 cases came across &amp; verdict in favour of UPEIDA</td>
</tr>
<tr>
<td><strong>Compensation</strong> is paid normally at a lower rate than market.</td>
<td>Compensation was paid 4 times the circle in rural area &amp; twice the rate in urban area along with standing crops, with speedy payments to farmer.</td>
</tr>
</tbody>
</table>
**Suggestion:** If the present government wants “Make in India” to drive industrial growth, instead of concentrating on shrinking of current account deficit, the focus must be at ground level for those who actually do manufacture. The focus must be to provide good roads, port, supply power and water, and provide basic facilities like education and health. India spends less of its GDP on public education and health than its peers — 4.7 percent, compared to Mexico’s 8.5 percent and Brazil’s 10.1 percent, according to the World Bank. The U.S. spends 13.7%. In 2013 the infrastructure deficit was $1 trillion, to fix this the World Bank suggested to invest in capital expenditure, where the government is holding itself back. Only 20% to 25% Indian university graduates are readily employable, according to ParthaIyengar, head of research for Gartner India, a technology-research firm. So instead of decreasing the deficit, the focus should be to increase the revenue sources and that is tax. Reforms should be done to increase the tax base to broaden the tax base, reduce tax breaks for the corporate sector, and improve tax collection and tax administration, as only 3% pay tax in India, compared to China that is 20%. The tax slab should be increased so that many contribute. According to NiranjanRajadhyaksha, executive editor of Mint, a New Delhi business daily, in an article this week India cuts state spending when the economy is weak and raises it when the private sector is booming. Instead of rising public spending to cushion the economy when private spending is weak, the state tends to track – and exacerbate – the business cycle.

**China and India can complement each other:** Even though there is political distrust among the dragon and elephant, looking at the geographical location, India and China can bring great economic changes if both join hands. Both countries can provide favorable environment for each other’s competitive industries like textile, where both countries are leaders. India can allow Chinese telecommunication to access local market, and likewise Indian pharmaceutical companies in China. The European Union integration can be lesson for both and can ultimately create a common market of 2.6 billion people.

**Zero Defect products:** The country needs to focus on technology upgradation and skill development to match up the international benchmark and standards. The government has recently launched “SkillDevelopment Programme” in this segment.

**Other suggestion:** The country need to focus on R&D development, simplified tax regime and FDI system and simplified legislation.
Quick Decision: China is slowing down very slowly and India is progressing even more slowly so India has to pull up its socks because even though, as China's State Council has unveiled a national plan, “MADE IN CHINA 2025” designed to transform China from a manufacturing giant into a world manufacturing power. Nine tasks have been identified as priorities: improving manufacturing innovation, integrating information technology and industry, strengthening the industrial base, fostering Chinese brands, enforcing green manufacturing, promoting breakthroughs in 10 key sectors, advancing restructuring of the manufacturing sector, promoting service-oriented manufacturing and manufacturing-related service industries, and internationalizing manufacturing.

Reference:


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Websites:

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2. www.ibef.org