PEOPLE: International Journal of Social Sciences
ISSN 2454-5899

Misra & Ghadai, 2016

Volume 2 Issue 1, pp. 01-08

Year of Publication: 2016

DOI- http://dx.doi.org/10.20319/pijss.2016.21.01-08

This paper can be cited as: Misra, S. N. & Ghadai, S. K. (2016). Make In India - The Manufacturing Conundrum. PEOPLE: International Journal of Social Sciences, 2(1), 01-08.

MAKE IN INDIA - THE MANUFACTURING CONUNDRUM

Satya Narayan Misra
Director, School of Leadership, KIIT University Campus-4, Chintan Building, Patia, Bhubaneswar, Odisha, India, Pin-751024
misra.sn54@gmail.com

Sanjaya Ku. Ghadai
Executive, School of Leadership Campus-4, Chintan Building, Patia, Bhubaneswar, Odisha, India, Pin-751024
ghadaisk77@gmail.com

Abstract

The high octane propaganda of Make-in-India seeks to make India a global manufacturing hub, by taking advantage of its demographic dividend, democratic framework, and huge untapped demand. The paper traces the impact of dismantling License Permit Quota (LPQ) regime on growth and employment and criticality of ICOR and Ease of Doing Business to realize our full growth potential. It brings out the need to harness economy of scale by setting up a chain of economic zones on the coastline and ancillary them with the SMEs. Given the tepid FDI inflow, particularly into the power sector, the paper makes a strong case for exploring viable joint ventures so as not to allow India to become fishing zone for MNCs. Underlining the pivotal importance of social capital, the paper strongly calls for Centre-State synergy and identifies investment in IT hardware as a priority sector in this major policy footprint of India.

Keywords

LPQ, Ease of Doing Business, FDI, ICOR, OEM, MNC

1. Introduction

The just concluded Make in India week held at Mumbai, witnessed an interesting dichotomous spectacle of Amitabh Kant, CEO, Niti Aayog handing over a pledge for 15.2lakh crore to the Maharashtra Chief Minister and Foxconn, a Taiwanese company, expressing jitters about its commitment to invest $ five billion in Maharashtra. The main bone of contention seems to be the inordinate delay in acquiring 300 hectares for the factory, for which they have been lobbying with the Maharashtra government since June 2015. The Department of Industrial Promotion and Planning (DIPP) has brought out that the proposed total investment during 2015 has fallen by 23% compared to the previous year i.e. from 4.05 lakh crores to 3.11 lakh crore. Further, as per the official data released the actual investment remains stagnant during the last two years around $12.5 billion. Therefore, Modi's opening day salvo that India offers a rare cocktail of democracy, demography and demand, does not perch easily on the existing realities of a tepid investment climate that discourages potential foreign investors to make India a manufacturing base. This paper aims at analyzing the (a) trends in contribution of manufacturing to employment and GDP (b) importance of total factor productivity (c) debates on the alternatives available to Make-In- India a success story (d) the way forward.

2. Trends in Manufacturing

India's tryst with industrialization started with the Industrial Policy Resolution (1956), where the key and basic industries were reserved for the public sector; called "temples of modern India" (Nehru). These PSUs, under the protective veil of the government, perpetuated inefficiency, high losses and low quality. While the Mahalanobis model had rightly underscored the importance of manufacturing led growth with massive investment in heavy industry, the lack of private sector participation in important sectors like telecom, power, communication, railways, shipbuilding and defence manufacture have contributed to the stagnantly in manufacturing. Coupled with the protection given to the small scale sector, this fostered inefficiency, low skill and lack of competitiveness of our products in the global market. Fortunately, the waves of liberalization and acceptance of market mechanism as the key to efficiency and competitiveness (1991) has taken India to a substantially higher growth trajectory. The principal beneficiary of liberalization has been the service sector. The manufacturing sector is still mired in stagnancy and poor value addition as the following table would show.

Table 2.1: *GDP Contribution & Employment Share: Trends*

Sector	1990-9991		2014-2015	
	Employment	**GDP Share**	**Employment**	**GDP Share**
Agriculture	60	17	53	14.7
Manufacturing	11	15	10.5	16
Services	23.7	58	24	59

Source: Economic Survey

It would be seen from the above that the GDP share of agriculture is sharply dwindling after 1991 and is presently at a low level (14.7%) with around 53% depending on this sector for employment, which is largely of disguised natural (Nurkse). On the contrary, the manufacturing sector shows stagnancy in terms of both employment creation and GDP contribution. In contrast, global manufacturing hubs of China & South Korea contribute 30- 31% of their GDP; with China accounting for 19% of global share in exports.

Most analysts therefore, strongly believe that India should transfer sizeable section of its disguisedly employed, low value adding workforce in agriculture to high value add non- farm jobs in the urban centres. The Lewis growth model strongly advocated such rural migration, which has been adopted with great success by China. The National Manufacturing Zone Policy (2011) takes into account the successes witnessed by countries like South Korea and China and promises to create 100 million jobs and increase our share of manufacturing from 16% to 25% of GDP in a decade's time. The manufacturing zones that dot Germany, Japan, South Korea and China contribute close to 30% of their GDP, high global export and a consistent current account surplus. However, to realize the success stories that one witnesses in respect of these countries, the most critical factors would be (a) the level and scale of technology (b) adequate availability of capital and lab our and (c) their factor efficiency.

3. The Vital Importance of ICOR

It was Robert Solow, the Nobel Laureate, who underscored the importance of total factor productivity through his celebrated equation Q = A x K□ Lβ where A is scale of production & level of technology, K & L are factors of production and □ and β are factor productivity. The remarkable GDP growth in China after 1979 was significantly contributed by the factor efficiency of lab our (42%) as compared to 18% prior to liberalization as the following table would show.

Table 3.1: *Sources of Growth in China (%)*

Parameter	1953-1978	1979-2011
Output Growth	5.8	9.3
Contribution of K	65	45
Contribution of L	17	13
Contribution of Productivity	18	42

Source: Hu & Khan, 1997

China's singular policy thrust after independence was to universalize public education. Its subsequent technological tie-up with USA after Nixon's China visit (1973) have contributed handsomely to the 'Solow residual'. Mr. Subir Gokarn in a perceptive analysis bring out how India's stagnancy in Investment/GDP (31%) and increasing ICOR have contributed to the loss of momentum in its growth journey. From a low of 3.5 (2007-08) when India's GDP growth was at its highest (9.3%), growth numbers have plummeted from 2011-2012 onwards; due to sharp increase in ICOR to 4.9 (2011-12) & 5.9 (2012-13). The high efficiency of lab our and capital (2003-2008) was due to significant expansion in telecom, national highway connectivity and network externalities. However, the subsequent increase in ICOR is due to supply side bottlenecks (Rangarajan) like inordinate delay in project implementation, delay in enacting land acquisition laws, inept lab our laws and poor backward linkages of the power sector with coal production and timely supply through railway network.

4. Ease of Doing Business

The Make in India policy is predicated on success of public private partnership, joint venture, with OEMs & design houses and, increasing foreign direct investment and Ease of Doing Business. The following table would bring out the disconcerting areas succinctly.

Table 4.1: *Ease of Doing Business; India*

Parameter	Rank	Time Taken
Construction Permits	182	168 days
Getting Electricity	111	67 days
Enforcing Contracts	186	4 Years
Resolving Insolvency	121	> 4 Years

Source: World Bank Report

4.1 Contrasting Perspectives

The debate on advisability of Make in India was spurred by Dr. Rajan, the RBI Governor who had forewarned that the Chinese model of export led growth may not work as the developed countries are trying to grab the little pie that a stagnant global economy offers to them. Manufacturing hubs of Germany and Japan, in particular, are resorting to re-shoring. With superior design technology, state of art facilities, outsourcing of parts to developing countries like China, these countries have ensured continued dominance as global manufacturing hubs. The illusion that Chinese devaluation will bring in additional export orders to India does not take note of the fact that countries like Bangladesh have lower labour cost and lax labour and environment regulation.

Arvind Panagariya, Vice Chairman, Niti Aayog brings out the need for establishing a chain of economic zones in India's coast line (Sagarmala Project) on the lines of success witnessed by Shenzhen in China. He brings out how economy of scale in such special economic zones has resulted in exports worth $187 billion in apparel and $782 billion in electronic goods for China, as against a measly figure of $18 billion and $9 billion respectively for India. What really would matter for India to become a global manufacturing hub are economy of scale, access to low cost credit, high level of technology and a skilled labour force. In this kind of manufacturing scenario, the SMEs will play a very effective ancillary role. Economists Rana Hassan and Nidhi Kapoor bring out how the SMEs today employ 73% of manufacturing workforce and contribute only 12% to the manufacturing output of India. This is largely due to the fact that SMEs suffer from poor technology and high cost of credit as they do not have access to formal banking system. The Economist, therefore, had suggested the "basic challenge of India is how to formalize the informal sector". It is, therefore, heartening to find that the Mudra Bank initiative announced in the last year's budget is reaping rich dividends as they have disbursed nearly $18 billion to these small enterprises.

On the choice of technology Prof. Sen had suggested in 1960 that India should go for intermediate technology with our abundant supply of labour. This may not be the right strategy. We must not get entrapped by the Chinese model of low skill, high labour intensive products. With proper skilling, India must go for skill based products. On the right areas for investment Mr. Pitroda underlines the importance of IT Hardware as an appropriate area where India's import dependence is a humongous $50billion. Maharashtra can become world's second Silicon Valley. Foxconn's lament regarding tardy land acquisition coupled with its keenness to make

India the manufacturing base of i-pads and i- phones is emblematic of the distance India has travelled since 1991 in attracting foreign investment.

4.2 FDI Inflow

One of the critical levers for high value addition is the willingness of reputed global manufacturing houses and design houses to collaborate with us through inflow of FDI. FDI brings in front end technological knowhow and best management practices. It's heartening that there is substantial FDI inflow since 2000 due to our liberal policy as the following table would show.

Table 4.2: *FDI Inflow (2000-2015)*

Sector	Cumulative ($B)	Percentage
Service Sector	46.3	17
Construction	24.1	9
Computer (S/W & H/W)	18.1	7
Telecom	17.7	7
Automobile	14	5
Drug & Pharma	13.3	5
Power	9.9	4

Source: DIPP

It would be seen that the sector which is not receiving adequate FDI is the power sector which is critical for the manufacturing hubs.

It is heartening to read a piece of Dr. Abdul Kalam who wrote on Make in India just before his untimely demise. For Kalam, the critical factors for Make in India to succeed are improvement in skill sets, increasing R&D spending from the present level of 0.9% to 3% and to collaborate for technological with major original manufactures and design houses. The Brahmos missile is a case in point, where India has a joint venture with Russia leading to $6 billion output during the last five years. It is a missile which is world class with excellent export potential. The recent initiative of Russia to set up a production base for Kamov helicopters as replacement for Cheetah and Chetak is another excellent Make in India initiative to bolster India's domestic military manufacturing capability. However, though Indo-US relationship is on the upswing, USA does not look at India as a technological collaborator but as a market for its expensive products like civil nuclear reactors, heavy lift helicopters, surveillance system etc. Kalam had rightly observed that the way forward for

India "would be to nurture home grown enterprises rather than being becoming a fishing zone for Multinational Corporation".

5. Concluding Thoughts

While almost all emerging market economies including China are limping in terms of growth, India shows a robust trend to upscale its growth trajectory. There is a consensus that India should not mess around with its fiscal consolidation path. Therefore, Make-In-India has a good potential to succeed with government's concurrent initiatives like Sagarmala project on the coast line, developing smart cities, bridging the digital divides and building the industrial corridors. However, their success would critically hinge on (a) the adequacy of public investment on social capital like quality education and skill, (b) centre state synergy and (c) right areas for investment. The forth coming budget must address the allocation reconfiguration needed for quality education, where allocation stands dismally at 3% as against 6% advocated by all committees. The lab our reforms initiated by Rajasthan government needs to be replicated, by all the states. The land acquisition bill must secure political consensus. The long awaited GST legislation must be inked as it will create a unified national market, and improve our GPP by 1.7%. There is a widely held perception that the present government is high on hypes but low on outcomes. As Nandan Nilekani rightly observes, this would need to be urgently addressed by roping in experts laterally on missions mode; the way Aadhaar and the missile programmes under Dr. Kalam was accomplished. Mr. Modi highlighted the need to deregulate the Indian economy in the conference. This must not be encouraged as lessons of US financial crisis clearly highlighted leading to tougher regulation in USA through the Frank Dodd Act, 2010. To quote Prof. Joseph Stiglitz "Unfettered markets will lead to more monopoly power, more abuses of the financial sector, more unbalanced trade relations" which India can ill afford.

References

12th Plan Document, Government of India, http://12thplan.gov.in/

Bhagwati, J. Panagariya, A. (2012). India's Tryst with Destiny-Debunking myths that undermine progress and addressing new challenges, HarperCollins Publishers India, UP, 2012

Debroy, B., Tellis, A.J. & Trevor, R. Getting India Back on Track- An Action Agenda for Reforms. Random House Publisher India Pvt. Ltd. Gurgaon, Haryana

Dreze, J. & Sen, (2013) A. An Uncertain Glory India and its Contradictions. Penguin Books India Pvt. Ltd, Panchsheel Park, New Delhi Economic Survey, Government of India, 2014-2015

Human Development Report, 2014-Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience-UNDP India's Budget Document, Government of India. 2015-2016

Karnard. B.(2015). Why India Is Not A Great Power (Yet). OUP India

Nilekani, N. (2015). Rebooting India- Realizing a Billion Aspirations. Penguin Books India

Ninan, T.N.(2015). The Turn of the Tortoise-The Challenge and Promise of India's Future. Penguin Book, New Welhi

Panagariya, A. India The Emerging Giant. Oxford University Press, Madison Avenue, New York

Pitroda, S. (2015). Dreaming Big-My Journey to Connect India. Penguin Books India

Rajan, R.G. (2010), Fault Lines-How Hidden Fractures Still Threaten the World Economy. HarperCollins Publisher

Rodrik, D. (2015). Economics Rules-The Rights and Wrongs of the Dismal Science. W.W. Norton & Company, Inc, New York

Seth, D. Investment Proposals in Reverse Gear, while number of commitments inched up in 2015, value slipped to 11 year low. Business Standard, 23.02.2016

Stieglitz, J.E. The Great Divide- Winner of the Nobel Prize for Economics. Penguin Random House, UK

Tharoor, S. India Shastra, Reflections on the nation in our time. Rupa Publications India, New Delhi, 2015

Thirlwall, A.P. (2011). Economics of Development. Palgrave Macmillian, UK