Market Insight:

Impact of Manufacturing Excellence on Make in India
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Executive Summary

During the past two decades, the Indian economy has witnessed a transformation to emerge as one of the fastest growing economies in the world. Economic reforms unveiled in 1991 have brought about a structural shift enabling the private sector to assume a much larger role. GDP growth has largely been enabled by growth of the services sector. The worry is that India’s manufacturing sector has stagnated at about 16 percent of GDP, with India’s share in global manufacturing at only 1.8 percent. This is in stark contrast to the experience of other Asian nations at similar stages of economic development, particularly China where manufacturing constitutes 34 percent of GDP and 13.7 percent of world manufacturing — up from 2.9 percent in 1991.

During the last few months, the Indian economy has been witnessing positive sentiments. The macroeconomic indicators have also displayed an encouraging trend in the recent times. Even though the situation of manufacturing sector in India is a cause for concern, the industrial growth scenario has improved in 2015 as compared to the previous fiscal. The recent measures undertaken by the new government in terms of facilitation to industrial sector, creation of conducive environment for the manufacturing activities, focusing on improving industrial policies and procedures, and reforming labor laws have facilitated recovery in industrial sector.

Make in India is an ambitious initiative launched by the Government of India in September 2014 with a mission to transform India into a global design and manufacturing hub. India aims to become the top destination for FDI in the world. The initiative plans to increase the contribution of manufacturing to India’s GDP to 25% from current 15% and also generate employment. India aims to increase its competitiveness compared to China which is seen as a more favorable destination for manufacturing. India believes it has a lot of untapped potential in terms of human resource and infrastructure development which, when properly utilized, will propel India into an industrial hub.

The Make in India functions and operatives at different levels. The government has identified 25 priority sectors that shall be promoted. These industries are identified based on their size and potential growth. The government aims to increase employment and FDI in these industries. In most economic activities in the identified sectors, 100% FDI will be allowed. The business process will be made easier from setting up through production, distribution, and sales. Extended licenses, self-certifications, and reduced compliance requirements will be provided as incentives to encourage production. This will improve the ease of doing business in India. The manufacturing infrastructure and capacity will be developed in large scale to facilitate manufacturers to function efficiently. Five industrial corridors have been identified across the country which will provide a framework of manufacturing and logistics network. The government will continue to provide necessary support and concessions required over a period of time until its vision to convert India into a manufacturing hub and the top FDI destination becomes a reality.

Nevertheless, challenges exist in the form of automation of production process affecting employment, difficulty in replicating China’s model, and unifying the objectives of various stakeholders. The government is aware that the initiative and its objectives are not easy tasks, requiring sustained inputs, promotions and mansagements, and providing the investors with ample space for market development. This can be achieved only through coherent strategy, efficient marketing, and proper investment.
1.0. Indian Economy and Trends

India has a diversified economy with no individual sector accounting for more than 25 percent share as represented in the chart below. Various major sectors such as aviation, retail, agriculture, life sciences, ICT, infrastructure, manufacturing, and automobile are poised for strong growth.

Figure 1: Sector-wise GDP share in 2014-15 (% of GDP)
- India's GDP is expected to reach $3.4 trillion by 2020, but holds the potential to reach nearly $4 trillion if investments and manufacturing growth are more aggressive than expected. In the aggressive growth scenario, India could displace the United Kingdom and become the 5th largest economy by 2025 from its current position as 10th.

- India will gradually shift from a services-based economy to an industry-driven economy by 2025 with increased contribution from industries and the manufacturing sector. India's manufacturing sector, in terms of gross value added to GDP (at the current growth rate), could reach $1,149 billion by 2022 and contribute 25% to GDP.

- India is expected to become one of the global leaders (top 5) in at least 10 big markets of the future. It will be the 5th largest exporter in the globe and the largest manufacturer of chemicals. It will also become the largest consumer market for luxury goods and technology services, such as direct-to-home TV and mobile apps.

- India is forecast to become the 3rd largest automotive market by 2025, with nearly 7 million car sales during the period. It will become the major manufacturing hub for cars in Asia with the likes of Hyundai expanding manufacturing in India. Three out of 10 two-wheelers will be an electric vehicle.
2.0. MAKE IN INDIA

Since its launch, the Make in India initiative has started showing results. Increased production outputs and growing FDI into India are seen as a result of the initiative. Industry leaders have welcomed the initiative and are bullish about its success. Global investors see the opportunity in India and acknowledge the improved business environment in India. Over the next 5 years, large scale foreign developments are expected all over India.

2.1 Program Structure

The plans and implementations of the Make in India initiative can be divided into the following segments –

1. Identification of 25 key industries that has high growth potential and promoting investment in them through marketing, infrastructure development, reducing compliance requirements and providing monetary concessions. The 25 industries are:

- Automobiles
- Automobile Components
- Aviation
- Biotechnology
- Chemicals
- Construction
- Defence manufacturing
- Electrical Machinery
- Electronic systems
- Food Processing
- IT and Business process management
- Leather
- Media and Entertainment
- Mining
- Oil and Gas
- Pharmaceuticals
- Ports and Shipping
- Railways
- Renewable Energy
- Roads and Highways
- Space and astronomy
- Textiles and Garments
- Thermal Power
- Tourism and Hospitality
- Wellness

Figure 2: 25 key industries that has high growth potential
2. Development of 5 Industrial corridors in India as highly industrialized and urbanized regions suitable for establishing manufacturing facilities and which enjoy high economic activity. National Industrial Corridor Development Authority (NICDA) is being established to converge and integrate the development of all industrial corridors. The 5 industrial corridors are:

![Diagram of Industrial Corridors]

Figure 3: Proposed 5 industrial corridors

3. Provision of support to industries through easy access to information, government services, online portal for communication and networking, integrated government services through e-Biz and continuous promotions and protection for industries.

4. Offering of various concessions and simplification of regulations are provided to encourage investing. They include:
   - Amending labor laws to provide flexibility in working hours
   - Simplifying the process of obtaining industrial license
   - Extending validity of industrial license to 3 years from the current 2 years
   - 24 manufacturing cities identifies and are being developed in phases
   - 10% capital subsidy provided for manufacturing equipment for pollution control, reducing energy consumption, and water reservation
   - In the identified 25 sectors, expect a few services, 100% FDI is allowed; in other industries, the allowable FDI limit has been raised
   - The government approved the intellectual property rights (IPR) policy which will allow IPR to be marketed as a financial asset, promote innovation and entrepreneurship, while protecting public interest

5. Development of infrastructure through developing smart cities and excellent transport connections all over India.

6. To meet the target of employing 100 million people by 2022, massive training and development will be conducted to create skilled workers.
### 2.2 Results so far

#### Increase in FDI

In the 20 months till the launch of Make in India in October 2014, India has received a total of $61.58 billion in FDI, which is 46% more than the $42.31 billion that India received as FDI in the previous 20 months.

#### Manufacturing plants proposed and Set-up

The government has received lot of proposal worth billions of dollars from domestic and foreign companies to set up manufacturing firms in India. The top industries are electronics and automobile. The electronics industry received Rs.1.20 lakh crore worth of proposals between September 2014 and November 2015.

#### Jobs created

In the year 2015, 1.35 lakh new jobs were created in top 8 labor intensive sectors. Make in India has not provided the expected result in job creation.

### 2.3 Comparison to Other Countries

#### China

The government of China had announced Made in China 2025 plan in 2015 to push the country beyond labor intensive work into more sophisticated sectors, from robotics to aerospace. In the scale of the program and the economy and in technology, China is far ahead of India. India’s advantage lies in its faster economic growth rate than China. India at present has the opportunity to make use of the increasing purchasing power and industry growth potential that China had a few decades ago.

#### Japan

Similar to China, Japan is also a high tech manufacturing country, coupled with good government-industry cooperation and a strong work ethic. Japan exploded as a manufacturing hub after World War II and has now placed itself as a top destination for mastery in high technology. India has a long way to go before it reaches a high tech country, but can be compared to Japan during its development phase. With a $2 trillion dollar economy and favorable government policies, India is currently at the right moment to invest in its infrastructure and human resource to further develop its manufacturing sector.

#### Germany

Germany is the biggest economy in Europe. Similar to Japan, Germany after the devastating defeat in World War II, had rebuilt its manufacturing sector. Moreover a big recipient of FDI in its early post World
War II era, Germany developed its manufacturing especially in automobiles, engineering, and electronics. India has good economic and diplomatic relation with Germany. Emulating Germany’s success may be difficult for India as Germany had unique advantage of being placed in the heart of Europe and a strong commitment from the United States to develop Germany. Even if India cannot become the manufacturer of the world, it can still be the biggest producer in its surrounding regions. India could take a cue from Germany’s commitment to develop its manpower which is of urgent necessity to India.

**Brazil**

Brazil, which is the biggest economy in South America, is part of BRICS countries which are the most promising economies for the coming decades. India, also a member of BRICS, has lot of similarities with Brazil. Yet Brazil has higher contribution of 28.5% from manufacturing toward its GDP than India which is around 15% only. Brazil's industries range from automobiles, steel and petrochemicals to computers, aircraft, and consumer durables. In 1994, Brazil introduced the Plano Real measure to stabilize the economy. It provided the necessary stability and Brazilian and multinational businesses invested heavily in new equipment and technology. India has a stable economy and it is up to the policy makers to exploit the opportunity for the benefit of India’s manufacturing sector.

**Mexico**

Mexico’s economy has performed well relative to other major Latin American economies in recent years, largely because of its thriving manufacturing sector. Unlike Brazil and Argentina, whose manufacturing sectors are slumping, Mexico has continued to see solid growth because of its integration with and dependence on the U.S. market, according to Forbes. Its younger demographics and geographical proximity to the United States make it more favorable than China for U.S. companies to source and manufacture goods. Although low global oil prices will put pressure on Mexico’s economy, the performance of the manufacturing sector — especially in low cost manufacturing — has been a key driver of Mexico’s economic growth. The cost of productivity adjusted labor costs has been a significant factor contributing to the success story of low cost manufacturing in Mexico.
3.0. Impact on Manufacturing Sector

Make in India has already resulted in positive impact on the manufacturing industry. Some of them are-

**Deregulation of the Manufacturing Sector**

The process of applying for industrial licenses is to be made through an online portal. For activities classified as non-risk or non-hazardous, safety standard requirements are either self-certification or third-party certification. The government is keen to improve the India’s notorious sluggish bureaucracy. Such deregulation of the manufacturing sector will greatly improve the image of India on the global stage and encourage investments. This is an important move to achieve transparency, efficiency, and economical prudence. Through these initiatives, India is also trying to improve its ranking in the World Bank Ease of Doing Business index in which it currently holds a dismal rank of 130 out of 189 countries.

**Opening of High Value Industries**

India has opened up or increased the private investments and FDI into defense, railways, and aviation. The automatic route of FDI, which allows foreign companies to invest in India without a prior approval from either by the Government or the Reserve Bank of India, has been extended to most activities in the identified 25 sectors. This allows the foreign companies to enter the Indian market with their latest technology and the domestic investors to employ their capital in industries of high value.

**Improved Infrastructure and Manpower Resources**

The government has planned to invest heavily in developing infrastructure. The Delhi Mumbai Industrial Corridor will be developed at a cost of $90 billion, which is the biggest infrastructure development in the country ever. By 2019, the government plans to complete 7 smart cities. The government has also launched Skill India Campaign which works toward skill development among Indian youths and also encourages entrepreneurship. The manufacturing sector must seize this opportunity and efficiently employ its resources for the benefit of the sector.

**Increase outputs**

Make in India also aims for efficiency in operations. Recently, the GST bill has been cleared by the parliament. It will further reduces logistics cost, decreases tax filing formalities, and improves efficiency. The government encourages production not only for domestic consumption but also for export. Make in India initiative includes setting up a mechanism for availing concessions for selling goods produced in India to foreign markets. Such features encourage increased production.

**Rise in International Engagements**

Due to the government’s initiatives, several international private and public investment commitments have been made and agreements signed. Japan has committed to $35 billion of investment and financing to India and China has committed to investing $20 billion over the next five years. India and Australia signed a
bilateral Civil Nuclear Cooperation Agreement, enabling the sale of Australian uranium to support India's growing energy needs. The government’s Look East policy aims to link the west with India in various economic activities. Many more commitments are expected from the global economies towards India in the coming years.

3.1 Challenges facing India’s Industry

1) India’s ambitious Make in India plan will require huge effort from the government to develop the required infrastructure and skill. India will find it difficult to get the finance as it cannot rely on FDI for the whole development.

2) Make in India may not meet its 100 million job creation target as robots will take up most of the jobs in the manufacturing sector.

3) Any changes in labor laws and setting up or closing down of a facility will have to face disruptions from unions and political parties. Creating consensus between these factions will be difficult.

4) Training the required work force will require time. These will slowdown progress.

5) India severely lags in research and development compared to other big economies. This phenomenon is largely prevalent in domestic companies, which will affect India’s competitiveness.

6) India faces direct competition from China in both regional and global level. China which is a dominant force in the manufacturing sector will pose challenge to India’s initiative.

7) India faces problems in the form of illicit trade. In 2013-2014, illicit trade resulted in an estimated loss of Rs.1.05 lakh crore in India’s manufacturing industry.

8) India’s corporate tax rate of 30% is not attractive enough for foreign companies. India should reduce the tax rate which will increase economic activity or find other ways to attract investment.

4.0. Conclusion

While challenges exist, the overall future of India’s manufacturing industry looks promising. In order to achieve the goals of the ‘Make in India’ campaign, India should focus on making full use of its opportunities and also concentrate on mitigating the impacts of challenges faced. The success of the plan means higher GDP for India, increased purchasing power for citizens, 100 smart cities, increased contribution from manufacturing sector, high skilled labor force and acquiring the position of a business friendly country. The sustained commitment from the government toward these objectives will determine the success of the Make in India initiative.

__End of Note__