

# Make in India: The Strengths and Possible Outcomes

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## Abstract

The very recent and ambitious campaign of Prime Minister, Mr. Narendra Modi aims to turn the country into a global manufacturing centre. Call for "Make in India" and subsequent announcement of various enabling measures created an atmosphere of hope that economy, particularly manufacturing, will be given a new boost. Make in India is a platform in itself for India to transform its manufacturing sector. People and people alone remain the most important catalyst of any process, idea, practice, policy or whatever may be the fundamentally essential factors responsible for the growth and economic well being of a country. The contribution of manufacturing with respect to the GDP stands at 17 per cent. Since the announcement of "Make in India" campaign by the Prime Minister coupled with his foreign tours, the overseas investment is sure to increase over the next few months. Inherent problems of India's societal setup might turn up as a hindrance but are generally, not to be taken as a major cause of concern. Rising demand in India, jointly with the desire of the multinational's to diversify their domain of production to incorporate setups in countries other than China, could together assist India's manufacturing to grow significantly by 2025. The government today is concentrating on achieving its prime task of creation of policy oriented infrastructure in tune with the objectives of Make in India. In this paper an attempt has been made to see the plausibility of employment potential of the Make in India initiative and suggestions have been made to improve the prospects of this policy. An attempt is also made to suggest basic measures, at the fundamental level to convert mere promises to investments and to achieve exceptional results of achieving the target of 25% contribution of manufacturing vis-a-vis the G.D.P. Make in India has to tackle a few inherent challenges of the Indian societal setup in the long run. The goal needs a thrust that is unique and it would only be possible through adressal of key issues in the sectors which were once thought to be non-allied. The acceleration in terms of growth in the manufacturing sector needs a catalyst.

## Keywords

Manufacturing Sector, Gross Domestic Product, Allied Sectors, Employment, Societal Challenges.

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## Introduction to 'Make In India': The Policy

The 'Make in India' program is an initiative launched to encourage companies to increase manufacturing in India. This not only includes attracting overseas companies to set up shop in India, but also encouraging domestic companies to increase production within the country. 'Make in India' aims at increasing the Gross Domestic Product and generate additional tax revenues in the country, by producing products that are at par with international standards.

In a bid to push the 'Make in India' initiative to the global level, Mr. Narendra Modi, Prime Minister of India, pitched India as a manufacturing destination at the World International Fair in Germany's Hannover in 2015. The Prime Minister showcased India as a business friendly destination to attract foreign businesses to invest and manufacture in the country. Make in India along with other government initiatives and programs are expected to be an engine of bulk job creation. India is an eye-catching hub for foreign investments in the manufacturing sector. Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country. Through impetus on increasing industrial corridors and smart cities, those in power aim to ensure holistic progress of the country. The corridors would further assist in assimilating, monitoring and developing a helpful environment for the trade development and will promote advance practices in manufacturing. Manufacturers from within India have a unique gamble at hand that could help them emerge from the shadow of the country's services sector and seize more of the global market. The demand in India and abroad for products of all kinds is increasing.

Universally, economic progression is poised to create openings for low-cost manufacturers by 2020 the market for manufactured goods from developing countries are expected to double. As global manufacturing giants and investors seek to diversify production and sources of supply beyond China, both to address rising factor of costs to chase domestic demand in other countries there is a vast scope for exploration of alternate, reliable, cheaper, populous options. The land of diversity has a considerable workforce, an evolving supply base, and access to natural resources needed for production—notably, iron ore and aluminum for metallic goods, machinery and cotton for the apparel industry, and coal for power generation. The country could develop itself into a viable manufacturing alternative to China in industries ranging from textile to auto components and might even dominate some skill-intensive manufacturing sectors.

Make in India is a great political agenda with a gamut of possibilities. It attracts productiveness and industries, provides anticipation to the unemployed that they would find decent jobs in new setups that will come up across the length and breadth of the country. The policy looks into three major perspectives, which are:

- a) inspire confidence in India's capabilities amongst potential partners abroad, the Indian business community and citizens at large;
- b) provide a framework for a vast amount of technical information on 25 industry sectors;
- c) reach out to a vast local and global audience via social media and constantly keep them updated about opportunities, reforms, etc.

A whole lot of service sector engagement happens only because of manufacturing. Marketing, Sales, Logistics, Supply Chain management, design, customer relations and at least 30 other allied services are largely dependent upon manufacturing for their growth, existence and promotion. In addition the second-order demand generated by the income and wealth created by manufacturing is an obvious factor proving its importance. The Government of India is determined to domestically manufacture as many as 180 products. The move could benefit crucial infrastructure sectors such as energy, oil and gas, and vehicle manufacturing that involve huge investment and revive the Rs. 1,85,000 crore (US\$ 28.42 billion) Indian capital goods industry. The electronics market of India is an example of the same. It is one of the largest in the world and is anticipated to reach US\$ 400 billion in 2022 from US\$ 69.6 billion in 2012. The market is projected to grow at a compound annual growth rate (CAGR) of 24.4 per cent during 2012-2020. India's Index of Industrial Production (IIP) has experienced a solid run in the recent days, showing year-on-year growth levels of between 0.4 and 5.6 percent since April 2014. FDI has increased from USD 0.1 billion in March 2014 to USD 4.8 billion in June. More-over, since April 2014, manufacturing exports from India have continuously exceeded export levels of 2013, with more than USD 26 billion worth of goods exported each month.

Foxconn, the world's largest contract-based producer of cell phones and other electronics, which has most of its factories in China, agreed in August last year to open 10 plants in western India by 2020, engaging as many as 50,000 workers. In addition to this, General Motors announced plans to invest \$1 billion to develop new car models for the Indian market and significantly increase size of its almost decade old setup near Pune.

## Objectives of Study

1. To study the impact of Make in India on the Employment growth rate.
2. To understand the policies that have been recently introduced and complement the challenges posed in the achievement of goals put forth by Make in India
3. To suggest basic measures, at the fundamental level to promote investment and to achieve exceptional results of achieving the target of 25% contribution of manufacturing vis-a-vis G.D.P.
4. An attempt is also made to suggest measures, at the fundamental level to convert mere promises to investments and to achieve exceptional results that would prove to be additional catalysts in the long run.
5. To discuss about the importance of skill development in the rich population of the country.

## Research Methodology

The paper is an exploratory research. The data has been gathered from various secondary sources such as reports and publications of the Government of India, articles published by the Reserve Bank of India relating to foreign investment, peer reviewed journals, books, and business magazines. The nature of these sources is both, qualitative and quantitative. The paper is mainly reliant on data provided by various business networks and Chambers of Commerce. We have utilized and analyzed the data extracted

from the secondary sources to conduct a thorough policy analysis. The various statistics from reliable sources have been analyzed to infer our findings. Our background in Political Science has allowed us to gather a multi-disciplinary perspective through which we have tried to highlight the critical issues. Various researches that are available have been analyzed to construct an understanding of problems that would act as a hindrance to the pathway of anticipated growth of the programme.

## **The Potential of India's Manufacturing Sector: India's Economic structure in Detail**

The Indian manufacturing/production sector is a definitive case of an industry that has had a great potential, but one that has been steeped down by ignorance, polity and entrepreneurial stigmas. So far, the Indian economy has not achieved much from its manufacturing sector as it has been constantly underperforming and if the rates of steady growth are to be believed it will continue to remain the same. The economies are fast recovering, globally and India the emerging regional superpower's economy with a rebalancing of manufacturing weight across the developed and developing nations might prove to be a great success. The stage is set for India to transform its manufacturing and create a global manufacturing hub in the Indian subcontinent. The nation's financial development, even at the rates of the past decade, has not created important employment for its growing working-age populace. Even today in India, millions of families rely on upon low profitability farming as a profession. India, in this global atmosphere, has a very tough competition as its manufacturing sector, with almost 17% share of overall GDP. At the existing rates, this segment will further downgrade and will be short of the target set by the National Manufacturing Policy (NMP) of 2012. Reforms have been announced to boost manufacturing growth to 10 percent per year by promoting 'Make in India', an initiative aimed at creating 100 million jobs over the next decade and bringing manufacturing up to 25 percent of Indian GDP. Make in India is the Indian Prime Minister's flagship programme that aims to encourage manufacturing within India through allowing foreign direct investments and incentivizing the commercial sector of the Indian economy. Manufacturing is gradually but assuredly sweeping back in the nation's diversified economy. India is undergoing a movement of development in manufacturing after its drop in the previous decades specifically, the late nineties. The current trends in the manufacturing sector are touted to be much more promising than the first wave. With this new manufacturing opportunity slated to be more skill development intensive, the industry leaders foresee India as self-assured to take lead. The perceptions, the outlook and the opinions are changing for the good of the country.

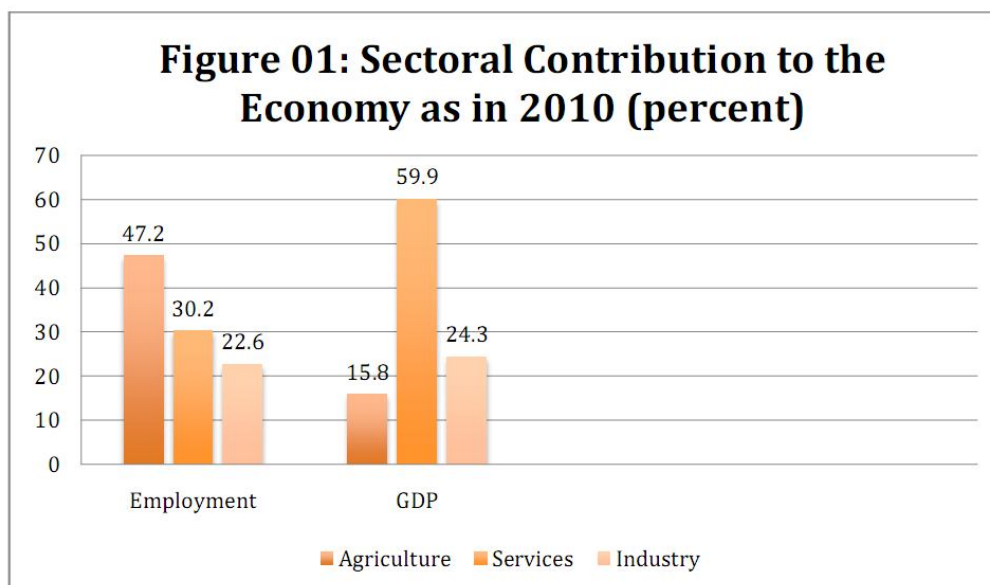
Manufacturing with the presence of huge incentives also poses some risk-factors, not just because the sector employs more than 30 per cent of the non-agricultural workforce in India, but also for the reason that its contribution to the overall economy. According to Federation of Indian Chambers of Commerce and Industry, even though agriculture supports 60% of the working population, it contributes only 22% of the country's gross domestic product. This discrepancy amid dispersal of workforce and value added in agriculture is one of the key reasons behind the nation's poverty and this trend is expected to further widen in the years that are to come. Against this background, only a sharp increase in the Indian manufacturing sector workforce will increase overall revenue

levels of the country. The economic profits of entering into the manufacturing area are quite flawless - if India is to sustain overall GDP growth of 8% per annum, it is essential that manufacturing and allied sectors rise at more than 11% even when agriculture growth picks up from its current 2.3%. India's manufacturing sector could touch US\$ 1 trillion by 2025. There is potential for the sector to account for 25-30 per cent of the country's GDP and create up to 90 million domestic jobs by 2025.

In November of 2015, the seasonally adjusted Nikkei India Manufacturing Purchasing Managers Index (PMI) stood at 50.3, which indicated expansion for twenty-fifth consecutive month. On the other hand, the services PMI was at 50.1 points in November 2015. The optimism is not limited to the manufacturing sector but to the allied sectors such as IT & Technology, that are crucial for its sustenance. Currently, when most businesses are looking forward to unchained growth, their first step has been to completely overhaul all that is possible, putting in place imported machines, automated setups and much more. In a major boost to the 'Make in India' initiative, the Government of India has received investment proposals of over US\$ 3.05 billion till end of August 2015 from various companies. The Indian economy's true potential is ready to be unleashed into horizons that are to come in the near future.

## Global Comparisons

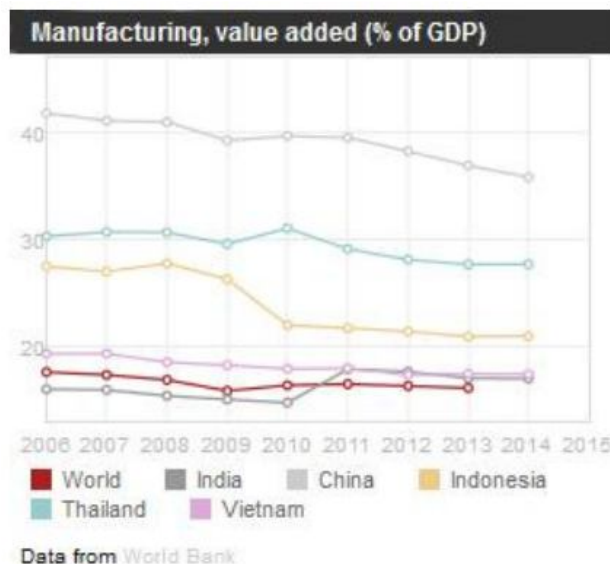
India's economic structure is unique in itself; the level of development proves the same. In the current scenario over the past few decades it has well been observed that today's developed economies opted for a path that transitioned from the domination of agriculture to a large-scale manufacturing sector both with respect to the employment and the GDP. It has been observed historically that, only at higher level of per-capita income did the service sector of such economies come to the supreme level. As mentioned above, the Indian workforce is failing due to low-productivity agriculture. The sector contributes very little to the GDP and for millions these are poor job opportunities (See Figure 1).



Though, India has a scope for sustained improvement of the productivity of this sector, no productivity increase shall increase the demand for workers. Today, the contribution of manufacturing stands at 17 percent and it compares poorly with peers like China, Thailand and Indonesia.

Current lack of productivity proves that the Indian economy is underutilizing the vast labour available in the country. Ministry of Finance, Government of India published in the National Economic Survey of 2011 wherein a calculation stated that - a manufacturing worker is four times as productive as his counterpart in agriculture; a services worker is almost seven times more productive. Transitioning the workforce from agriculture to the manufacturing sector or rather the urban manufacturing sector is not only beneficial but also, carries tremendous potential. A report of the McKinsey Global Institute has estimated that if an uneducated worker moves from agriculture to light manufacturing, he or she can expect an increase of almost 40 percent; the figures are higher for the ones with basic literacy.

Over the past few decades, manufacturing centric economies such as Japan, South Korea and Taiwan were mostly branded by small public sectors, export orientation, cheap labour competition. Countries like China are following the very same path to make themselves into a fully developed economy through seeking the best possible advantage from the demand driven industry of manufacturing. On the contrary, economies where in the dominance of services was prevalent haven't seen the return of manufacturing as the primary resource creation sector.





## **Where is the Job Potential: the Strengths, Skill Development and Job**

### **Opportunity Projection**

Initiatives like 'Make in India' can entail significant employment creation in the manufacturing sectors in the future that is to come. The ripple effects of the 'Make in India' initiative are expected to create an accelerating effect on job creation. From a political, economical and demographic perspective, policymakers should aim for two job market outcomes. The first is to accommodate the continued shift of workers out of agriculture. The second being to shift the jobs to a more competitive industrial sector; manufacturing today faces tremendous global competition. The idea is to create sustained employment.

Make in India is a policy that aims to challenge the barriers in the way of unleashing a new wave of growth. An optimum supply of skilled labour might be a test; the Confederation of Indian Industry – India Skills Report of the year 2014 talks about the scarcity of active skilled workers in the IT industry by 2022 and gives shortage figures of around 3.5 million. To train the workforce through various collaborations and training programs such as the Pradhan Mantri Kaushal Vikas Yojana is the major project that has to work in alliance with the Make in India program. In the next few years India will have a plethora of newly educated workers. With 356 million 10-24 year-olds, India has the world's largest youth population. In order to attain its growth goals, the country has to ensure proper education at all levels. The difficulty of finding skilled as well as educated workers routinely lands as one of the major concerns today. In particular, factory personnel ought to have more than just basic literacy, and foremen need at least a high school diploma. Currently, education quality is inherently very low, yielding lower or unsuitable employability than a candidate's educational profile would imply. The Pradhan Mantri Kaushal Vikas Yojana just doesn't seem to be enough. The neglected strata, the core of the country the farmers should be made a foremost beneficiary of this initiative.

The renewed confidence in the current government together with promising economic growth forecast appears to have an optimistic effect on hiring sentiments, states Team Lease Employment Outlook Report. According to the said report, entry-level talent will be the major gainer in the current year; fresher hiring is likely to witness a 10% increase.

Corporate debt, talent mismatch and capital generation do exist as a cause of major concern but the industry is looking to generate able workforce across a wide array of job profiles. Reportedly, India is among the top-five countries in terms of talent shortage with around 61% employers facing difficulties in finding candidates with right skills. Jobs at a grand-scale are sure to come as industry leaders are looking for alternate as well as cheaper options in terms of labour forces employed as the Chinese manufacturing is slated to become more expensive.

Another fact that comes as an added advantage for the country is the expected decline in terms of the uneducated workforce; about 23 per cent of the labour force has no formal education as a result of which it remains unemployable in the manufacturing sector or

for factory related work. Both formal and informal manufacturing needs to be looked into for achieving the contribution of manufacturing to India's GDP to 25 per cent. To serve the other goal of creating 100 million jobs India.

## Analysis, Findings and Suggestions

1. India needs competitive investments from manufacturers to utilize the labour force that is available to us. The government has some serious tasks to undertake which include timely creation of quality infrastructure and this includes electricity, water, and skilled labour. Indian has to learn a lot from the other Asian economies. With a creation of a vast pool of jobs the government needs to ensure that it caters to the need of the sector so that the skilled labour fits in the apt atmosphere.
2. India in comparison with other Asian economies can source lessons from their historic experiences (See Table 01). For instance, Korea started its boom in the manufacturing sector with a very low contribution of GDP; this makes it easier for comparison and purposes of prediction for India. When compared to its immediate neighbor China and the opening of its manufacturing sector through reforms largely fuelled by export-oriented growth proves the relevance of such examples from the past. To achieve the target of creating 100 million jobs 2022 at a constant growth rate across all sectors other than the formal manufacturing sector we can assume the obvious relationship between output and employment, the high levels of manufacturing growth and employment creation continues to be a far-fetched dream. Owing to the competition and demand across the globe at a gradual growth rate our assumptions can only make the dream realize within the stipulated time of 11 years a somewhat close and attainable target remains to be 22% contribution of manufacturing with respect to the GDP. 100 million jobs cannot be achieved solely on the basis of sectoral reforms.

	Annualized Growth Rate (percent)			Share of GDP (percentage points)		
	Start year	10-year rate	20-year rate	Initial share	10-year change	20-year change
Korea	1963	19	16	4	7	15
China	1978	11	13	20	2	15
Indonesia	1978	11	10	13	10	13
Malaysia	1985	13	10	15	10	13
Thailand	1985	13	9	21	8	15
India	1994	10	8	15	1	0

Table 1: Manufacturing Sector Performance, Selected Asian Countries



3. Based on findings and lessons from experiences of other countries it is to be noted that seeking investment is not a major problem today. The Make in India week at Mumbai, the foreign visits of the Prime Minister have already led to an unprecedented wave of FDI and FII. It is an obvious finding that with investment in the manufacturing sector would lead to the development of other sectors. With the establishment of new companies in the infrastructure and energy sector, a lot many job opportunities are expected, even in the service sector. Conversion of MOU's to execution has been the biggest challenge for India. The investments we have got largely remain stuck on paper. The Prime Minister's leadership skills should encourage conversion from the pledging stage to actual investment. Environmental clearances, bureaucratic hindrances, have stalled project of global importance in the past few decades. The best possible solution as has been stated directly as well as indirectly by governments that have ruled is Special Economic Zones or SEZs.
  
4. Another challenge is of promotion of privatization, it can be very difficult for private sector companies to compete beside firms that can work indefinitely at a loss or that receive subsidized credit or encouraging access to permits. Scaling back government participation in PSUs will open the way for the increased private sector activity that will benefit India in the long run. At the very same time, Public Private Partnership should also be promoted for improved quality of jobs within the country. Privatization in the country would bring along indigenization. The country cannot please just the foreign manufacturers; the policy wouldn't achieve its penultimate goal of GDP contribution or job creation solely on the basis of foreign manufacturers. Indian companies must also step up and start manufacturing on a global scale. This is the ultimate task, which has to be looked into with much emphasis on privatization.

Under exceptional circumstances, can the policy fulfill what it aims to achieve with multiple constraints ranging from investments to economic growth. The most crucial result of the policy as analyzed by us, as well as some researchers of international repute proves that the project's goal is investment and job opportunities which is a bit unrealistic.

## Conclusions

Today, manufacturing is a demand driven sector but its reliance on domestic demands is also a key factor leading to its growth. As a matter of fact, it creates employment and business opportunities. Its continued growth is an absolute necessity for forward movement in the path of economic development. Make in India is an ambitious project, but it is one that India desperately needs to kick-start and endure its growth momentum. With relentless policies towards this end, it is possible to make India the powerhouse of manufacturing sector in the world.

The contribution of manufacturing to GDP in India has been 14 per cent in 2012 and it has never crossed 17 per cent ever since the reform period. India's share in world manufacturing is 1.8 per cent whereas China's manufacturing contributes 34 per cent of

the GDP and 13.7 percent of global manufacturing (up from 2.9 per cent in 1991). Only 9 per cent of our working population is in industry.

The manufacturing as well as the allied services industry is looking for a bi-directional approach to market growth- Consumer spending and Government Will. Planned execution is what the policy needs and at the very same time, much importance has to be given to agriculture, and the minor areas of employment. Such an execution would enable productive and constructive utilization of man power and remove the ignored hurdles in the pathway of seeking investments. Make in India's goals push the limits of plausibility.

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