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Challenges for Manufacturing Sector and Make in India Campaign

Abstract

The purpose of this study is to study various challenges that bind the performance of manufacture sector in India and analyse the trends so far after the launch of "Make in India" campaign. Manufacturing sector plays a fundamental role in the economic growth of a country, which includes job creation, and developed markets. Since the industrial revolution of England the manufacturing sector has been the main engine of growth. Manufacturing in India accounts for nearly 16 % of real GDP and employing about 12% of the country's labour force which is well below its true potential. The most powerful nations in the world are those that control the bulk of the global production of manufacturing sector .The key drivers behind a successful advanced manufacturing strategy include a strong infrastructural base, education, skill and talent development, logical government policy and technology and innovation. The future economic growth in the country depends on the performances of the manufacturing sector in the country. The government should strengthen its current effort on development of the manufacturing sector in the country.

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Introduction

Make in India is a government's flagship campaign intended to encouraging multinational and domestic companies to manufacture their products in India. Prime Minister Modi has launched the campaign in September 2014 with an intention of reviving manufacture businesses and emphasizing key sectors in India amidst growing concerns that most entrepreneurs are moving out of the country due to it's low rank in ease of doing business ratings. The campaign aims to raise the contribution of the manufacturing sector to 25% of the Gross Domestic Product (GDP) by the year 2025 from its current 16%. It also seeks to facilitate job creation, foster innovation, enhance skill development and protect intellectual property.

The major objective behind the initiative is to focus on job creation and skill enhancement in 25 sectors of the economy. The initiative also aims at high quality standards and minimising the impact on the environment. The initiative hopes to attract capital and technological investment in India. This paper is an attempt to study the various challenges that drag the performance of manufacturing sector and the trends so far after the launch of Make in India campaign.

Aim of the Study

The objective of the study is

1. To analyse the present the current position of the manufacturing sector.
2. To analyse the challenges faced by the manufacturing sector.
3. To analyse the emerging trends after the launch of Make in India campaign.
4. To analyse the counter view.

Methodology of study

The research methodology towards producing this paper is mainly based on the secondary data and own thoughts and ideas towards this campaign. Help has been taken from various research papers, literature reviews, websites, journals government surveys and newspapers. Limitations are bound to be there in a form of non coordination of many ideas towards the ideas of experts and theoretical nature of this paper.

Review of Literature

Since the year 2009, manufacturing sector in India is showing declining trend with its share of GDP falling from 2.2 to 2.0 (Bhattacharya, Bruce, & Mukherjee, 2014, p. 4). If India aspires to be a powerful nation by

2030, it needs a strong sustainable growth which can only be achieved if India creates a strong manufacturing base(Shah, 2013, p.1).India still ranks 89 in basic infrastructure as per the Global Competition Report 2011-12.This indicates poor development compared to other countries of the world.(Agrawal Pradeep, 2015,p.3).India's under developed infrastructure is the top most issue faced by Japanese manufacturers ("Make In India: Opportunities and Challenges," 2015, p. 9).Senior managers of manufacturing companies consistently rank difficulties in acquiring land as one of the top priority areas to be tackled by the government (Bhattacharya, Bruce, & Mukherjee, 2014, p.34).The existing labour laws are less employment friendly. They protect employment and do not encourage employment or employability; they give scope for unfair demands of the Trade Unions and are a major cause for greater acceptance of capital-intensive methods in the organized sector (Datta & Milly, 2007, p. Employers complain of major skills gaps, and hardly 25% of graduates are estimated to be employable in manufacturing ("The Manufacturing Plan," n.d.,p. 65).The share of manufactured goods in total merchandise exports fell from 77% in 2003 to65% in 2013 (Joumard, Sila, & Morgavi, 2015, p. 9). ,with adverse fallout on employment and economic growth. 'Make in India' is a dream campaign launched to boost this sector so that India can present its candidature for becoming the Global Leader (Chattopadhyay, 2015, para. 3).

Manufacturing Sector in India Present Scenario

Since the onset of industrial revolution, the majority of countries have transitioned themselves from low income to high income. They have done so by undergoing industrialisation and reducing their dependence on agriculture and allied activities. India on the other hand persuing a service led growth in past two decades. The share of services in Indian economy has risen to 57 % in 2013**.** However, the share of manufacturing sector in the overall economy has stagnated at around 15% and even this modest figure has declined in the last few years due to a slowdown in manufacturing growth. Manufacturing sector of a country plays a major role in the growth of an economy. The development of this sector is an indicator of the economic strength of a country. It helps in raising productivity, generating employment and also supports other sectors of the economy. Over the past 20 years, Indian manufacturing has grown at nearly the same pace as the overall economy. However, its share in the overall economy has stagnated at around 15% and even this modest figure has declined in the last few years due to a slowdown in manufacturing growth. The table given below compares the contribution of manufacturing sectors of various countries in their GDP in 2013:

Table1: Share of manufacturing as a percentage of GDP in selected East Asian countries in the year 2013

Country	Thailand	China	Malaysia	Indonesia	Philippines	Singapore	India
Share of manufacturing in GDP	34%	32%	24%	24%	21%	20%	15%

The level of contribution of manufacturing in the Indian economy, as we can see is much lower than our East Asian neighbours and is generally in line with the levels witnessed in post-industrialised economies. India's share of global merchandise exports has grown from 0.5% to 1.7% in the past 20 years but there is an overall trade deficit in goods. The much vaunted trade surplus in services barely covers one-fifth of India's trade deficit in goods. This is a balance of trade constraint that the country will have to tackle eventually and again a services-led growth does not seem to be the answer.

The picture of manufacturing sector of India is very gloomy with its low productivity, low contribution to GDP, low employment and low contribution in exports. At present the manufacturing industries contributes 16% to India's GDP. The contribution made by manufacturing sector in India's real gross domestic product has increased over the years. However the rate of growth has not been at par with expectations. In the planning process of India's economic development a lot of emphasis has given to the heavy industries and this led to greater expectations from the manufacturing sector.

Advanced estimates released by the Central Statistics Office peg India's overall GDP growth in 2013/2014 at 4.9 per cent, marginally above 4.5 per cent in 2012/2013. But manufacturing output is seen declining 0.2 per cent in 2013/2014 compared with 1.1 per cent growth the previous year, dragging down the overall economy. It is likely to be the worst year for manufacturing since 1999/2000.

With such a poor performance it seems quite difficult to achieve the target of 25% contribution in GDP by the year 2022 as fixed by the National Manufacturing Policy 2012. Prime Minister Mr. Narendra Modi launched the Make in India initiative on r25 2014 to give the manufacturing sectors shabby performance a u turn. The main objectives of the campaign is to boost the domestic manufacturing sector and attract foreign investors to invest into Indian economy .The initiative aims to raise the contribution of the manufacturing sector to 25% of the Gross Domestic Product (GDP) by the year 2025 from its current 16%. Make in India has introduced multiple new initiatives, promoting foreign direct investment, implementing intellectual property rights and developing the manufacturing sector. It also seeks to facilitate job creation, foster innovation, enhance skill development and protect intellectual property. Make in India focuses on the following twenty-five sectors of the economy. The key thrust of the campaign would be on cutting down in delays in manufacturing project clearance, develop adequate infrastructure and make it easier for companies to do business in India. The 25 key sectors identified under this campaign include automobiles, auto components, bio-technologies, chemicals, defence manufacturing, electronic systems, food Processing, leather, mining, oil and gas, ports, railways, port and textile.

With the launch of Make in India a ray of hope for upliftment of the performance of this sector is slowly emerging. The campaign has started showing its positive colours with various steps taken to encourage the investment in this sector but there are still various challenges that hinder the growth of this sector.

Challenges for the Manufacturing Sector

The manufacturing industry has been beleaguered by obstacles. Nearly every news outlet has covered the closing of factories, labour disputes between companies and their employees or reductions in force due to the shift of labour off-shore. The reputation of the industry has been marred by low wages and less than desirable working conditions, in addition to quality-control problems. Some of the obstacles that hinder the growth of manufacturing sector in India have been listed below.

Inadequate infrastructure

Infrastructure development has been closely associated with the development of manufacturing sector as higher investment in infrastructure leads to greater settlement of industrial units and greater output. Poor infrastructure especially in power generation and distribution capacities, roads ports and transportation and communication facilities not only makes a country unattractive for investment, it also promotes inefficiency. The International Monetary Fund's (or IMF) world economic outlook report for 2014 observed that for India, along with other emerging economies, infrastructure bottlenecks are not only a medium-term worry, but can affect near-term growth as well .India has found it difficult to attract investment to its infrastructure sector. Yorihiko Kojima, the chairman of Mitsubishi Corporation, said "infrastructure companies always invest cautiously in India, partly because different states have different laws and taxation regimes." He believes that electricity is the most important of all infrastructure needs in India. In spite of some improvements in infrastructure in recent years, India still ranks 81th in basic infrastructure as per the Global Competitiveness Report (2015-16) among 140 countries. This indicates poor development compared to other countries of the world. The primary reason for India's slow infrastructure development is poor implementation. Ministry of Statistics and Programme Implementation's (or MOSPI) 342nd flash report showed that out of 727 infrastructure projects on its monitor, 317 had no information on commissioning dates. Of the remaining 410 projects that had a schedule, only five were ahead of time, 123 were on time, and 282 were delayed. These delays result in multi-fold cost overruns. Plus, once they are commissioned, they become outdated soon and are unable to serve their purpose.

The prospects of quickly reducing this infrastructure deficit are lean. The efforts at fiscal reform aimed to curtail government expenditures in order to reduce deficits, would further hamper the ability of the State to invest in infrastructure. Also private capital to build the supporting infrastructure has not been forthcoming despite the focus on PPP investments in recent times.

Skill

Finding skilled labour is one of the foremost challenge confronting the growth of the manufacturing sector.According to National Skill Development Corporation's (NSDC), India will need to add 109.73 million people by 2022 to cater to 24 crucial sectors in the country. Currently the employment in those 24 sectors stands at 460 million and is expected to rise to 580 million by 2022.Around 240 million people are engaged in the agricultural sector while 220 million are in the non-agriculture sector. However, by 2022 the number of people dependant on agriculture is likely to shrink to 215 million, while the need of the non-agri sector is expected to rise to 365 million. The mandate is clear, if we wish to augment the share of manufacturing in our GDP from the current 12.5% to 20%, skilled labour is one of the biggest issues that would need to be addressed with a sense of urgency. Vocational education gets secondary treatment - One of the biggest problems for skilling people in the country is that the vocational education system is not attractive enough. Youth across the country still prefer traditional educational and technical degrees, even if it means they would remain unemployed for the lack of relevant skills. India's education system, does not produce the masons, the welders, the fork lift operators that the manufacturing sector of the country needs.

Vocational education for acquiring a skill is often the last resort and is taken up when all other options have been exhausted. For the want of the growth rate that we are aspiring for, it is absolutely important that vocational training is systematically interwoven in the state curriculum at high school, senior secondary and under graduate levels.

Labour Laws

Regulations regarding labour are another responsible factor for the lacklustre performance of manufacturing sector in India.

In the pre-independence period, British colonialists in India suppressed labour rights, trade unions and the freedom of association among workers. As a result, labour activism became a part of the Indian freedom struggle In 1950, the newly framed Constitution of India looked to undo these wrongs by including fundamental labour rights, along with complex labour laws. These laws made hiring additional workers increasingly difficult. Despite several decades of economic progress, these laws have not been amended or reformed in order to foster a friendlier climate for business.

Labour is a subject in concurrent list of the Constitution of India. Thus both centre and states can enact laws on labour matters. There are about 45 central government laws and more than 100 state statutes, sometimes overlapping or contradicting. India has one of the most rigid labour regulatory frameworks in the world. Example- Industrial Disputes Act of 1947 stipulates that a firm with 100 employees or more cannot close down without government permission Such laws curtail the growth of a firm by forcing it to hire fewer workers and remain small There are also high costs involved in complying with several labour laws for example- under the Factories Act, firms with 10 or more workers and firms which use electric power are required to keep records and file regular reports on matters such as overtime work, wages, attendance, sick leave and worker fines.

The guiding principle for India's labour policy reformers should not merely be ring fencing jobs but safeguarding workers through social assistance, re-employment support (such as that which is provided in several Western nations) and skill building, and supporting employers in employee training and development.

No 'ease of doing Business'

The Ease of Doing Business (EODB) index is a ranking system established by the World Bank Group. It is an aggregate figure that includes different parameters which define the ease of doing business in a country In the EODB index, 'higher rankings' (a lower numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights. The ranking is significant as it reflects the perceptions of the global business community about India's attractiveness as a place for doing business. While fewer and simpler regulations often imply higher rankings, this is not always the case. Protecting the rights of creditors and investors, as well as establishing or upgrading property and credit registries, may mean that more regulation is needed. The ease of doing business covers ease in starting a business, enforcing contracts, registering property, gaining access to electricity, paying taxes, etc. The easier and simple process gives a country higher rank**.** The more the complex and time consuming process the poorer is the rank given. It a matter of great concern that more than two decades have passed since the commencement of economic reforms and still India lags behind in providing business encouraging environment and other facilities as provided by other countries of the world. Like the average time consumed in acquiring a land is 14 months. (" Ease of Doing Business," 2014, p. 12) It requires 1420 days to enforce a contract in India as compared to 527 days in OECD nations and 655 in low and middle income nations ("Make in India-Pressing the Pedal" 2015 p. 28) Construction permit are also a costly and time taking persuit. All these factors hinders the growth of manufacturing sector.

Environmental Concerns

Over the years, together with a spreading of environmental consciousness, there has been a change in the traditionally-held perception that there is a trade-off between environmental quality and economic growth as people have come to believe that the two are necessarily complementary. In the Constitution of India it is clearly stated that it is the duty of the state to 'protect and improve the environment and to safeguard the forests and wildlife of the country'. There is an urgent need to develop new techniques that help in protecting the environment. As many as 17 highly polluting industries have been identified by the Central Pollution Control Board, the majority of which are manufacturing industries.

Land Acquisition

Land acquisition has emerged as a critical constraint in India's industrialisation, given pressures on limited land mass for multiple uses. Production of any kind of goods and services requires land. However, delay in land acquisition, protests and resistance on the part of the displaced—as has been observed in Bengal and Odisha—have become central tailbacks for investments in the infrastructure sector. Delayed projects due to mass unrest have caused a damaging effect to the growth and development of companies and the economy as a whole Land acquisition is becoming risky and uncertain in India.

While the land acquisition process is problematic for the poor, there has been little attempt to understand the current situation and find solutions for the private sector. This is a result of both the slow-moving, bureaucratic government machinery, which has been responsible for delays in land acquisition, and the monopoly of governments implementing a suitable land acquisition law, which balances the needs of both the entrepreneur and the farmer.

The process of land acquisition in India has proven unpopular with the citizenry. The amount reimbursed is fairly low with regard to the current index of prices prevailing in the economy. Furthermore, due to the low level of human capital of the displaced people, they often fail to find adequate employment Land acquisition is central to the government's thrust on infrastructure development, and the government would find it difficult to execute its Make-in-India programme aimed at providing a boost to manufacturing and job creation with the objective of taking India to high growth trajectory. From the economy point of view, it is essential to ensure that the land acquisition Bill gets implemented at the earliest and the issue is not further politicised. Government should play a prominent role in land acquisition as agglomerating land from numerous owners is not a task that the corporate sector can do effectively, especially in the absence of proper land records and with small, scattered land holdings. Finally, there is an imminent need to constitute land bank corporations in states to facilitate acquisition of fallow, barren and unproductive as well as other lands, exante, and its disbursement for industrial use in a transparent manner. Digitisation of land records and zoning of land over a 100-150-year horizon will be the key for clear mapping, identification, segregation and systematic development of land for industrial use.

Exports

Despite the significant trade liberalisation carried out multilateral as well as under various preferential trade agreements, India's recent manufacturing sector export performance has been poor and been a matter of policy concern. When we consider export growth rates, It is observed that during the first decade of reforms till 2001-02 India's

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merchandise exports in dollar terms grew only at the rate of about 8 per cent a year. But the country benefitted from a growing world economy during 2003-7 and merchandise exports registered an average growth rate of 24 per cent in these five years before the global financial crisis. However average growth declared to 16 percent in succeeding five years. This period included negative export growth rates during 2009-10 and 2012-13. The slowdown in export growth since 2009 clearly indicates that India's export performance has suffered despite the apparent additional opening up of markets through free trade agreements. Manufacturing has not been the engine of growth for Indian economy; it now needs to grow at a much faster rate to sustain in the external competitive environment. The major reason behind the declining trends of manufacturing exports are poor infrastructure, low level of technology, low level of FDI, lack of skilled personnel etc.

Research and Development

R&D activities are essential for design and development of new products, improvement in the quality of products, introduction of new raw materials, energy conservation, etc. Many empirical studies (Griliches, 1984; Mansfield, 1995) have pointed out that investment in R&D is positively associated with economic growth. While developed countries give much importance to research and innovation, these remain as relatively unexplored areas in less developed countries. Given the limited financial resources, developing countries have been slow in using technology to produce good quality and low cost products to compete with highly technology-based products of advanced nations in local and export market. The expenditure on Research and Development in India in various year is shown in the table given below:

Table 2 : R & D Expenditure in India Since 1991 (Rs. crores)

Year	R&D Expenditure	R&D Expenditure as Percentage of GDP
1991–92	4,512.81	0.78
1992-93	5,004.60	0.76
1993-94	6,073.02	0.79
1994-95	6,622.44	0.73
1995-96	7,483.88	0.71
1996-97	8,340.17	0.72
1997-98	10,611.34	0.77
1998-99	12,473.17	0.79
1999-2000	14,397.62	0.82
2000–01	16,198.78	0.86
2001-02	17,038.15	0.82
2002-03	18,088.16	o.80
2003-04	19,726.99	0.79
2004-05	21,639.58	0.84
2005-06	28,776.65	0.89
2006-07	32,941.64	0.87
2007-08	37,777.90	0.88

Source: Various reports of DST, GOI

The table reveals that Indian R&D expenditure showed an average growth rate of 14.42 per cent during 1991–2008. The average annual growth rate was 15.74 per cent during 1991–2000 and 13.09 per cent in 2000–08. As a percentage of GDP the total expenditure on Rand D is merely 0.9 %. Around 3\4th Share of total expenditure on in India Research and Development comes from public sector and merely 1\4th comes from private sector (" The Manufacturing Plan," n.d.,p.49). India needs to gear up local R&D to enhance its technological capability.

Emerging Trends

India deseperately needs to grow its shrunken manufacturing sector to increase its share in GDP and create jobs. India has the capability to develop manufacturing facilities in order to deliver best quality products at competitive prices. The new "Make in India" policy aims at making India self reliant and less dependent on imports. Indian government through this agenda inviting and enlightening foreign investors to partnership with Indian manufacturer, with Indian company and export from India with emphasis on Foreign Direct Investment to "First Develop India" the FDI's recently coined definition. India's manufacturing sector has evolved through several phases - from the initial industrialisation and the license raj to liberalisation and the current phase of global competitiveness The need to raise the global competitiveness of the Indian manufacturing sector is imperative for the country's long term-growth. Today, Indian manufacturing companies in several sectors are targeting global markets and are becoming formidable global competitors. Many are already amongst the most competitive in their sectors. Here's something to be proud of: Under the Global Innovation Index, India ranks number 1 in the Central and Southern Asia region. Now, that's encouraging. What's not is that we rank number 81 globally. The condition of India's manufacturing sector has been slowly improving with the efforts of Make in India campaign. After the September 2014 launch of the initiative, which seeks to promote manufacturing and attract foreign investment, there was an almost 40% increase in FDI inflows from October 2014 to June 2015 over the year-ago period. According to the Department of Industrial Policy and Promotion, FDI inflows under the approval route (which requires prior government permission) increased by 87% during 2014-15 with an inflow of $2.22 billion. More than 90% of FDI was through the automatic route.

As per the CII-BCG manufacturing survey 2014 85 percent of the respondents expect manufacturing growth between 5and 10 percent over the next five years versus only 65 percent in 2013. So the optimism and the expectations among the CEO's of manufacturing companies is getting a boost. In another survey a leading 32 percent of international investors ranked India as the most attractive market, while 60 percent placed the country among the top three investment destinations. Respondents believe that ongoing economic reforms are increasing opportunities for them to develop their companies profitable in India. Enthusiasm is strongest among companies with annual revenue exceeding USD 2b ("EY's Attractiveness," 2015, p.14). Also Foreign Direct Investment in manufacturing sector during the first half of 2015 witnessed a 221 percent as compared to the first half of 2014 with USD 24.8 billion Equity. Manufacturing's share of FDI raised to 80 percent and FDI projects raised by 22 percent. FDI in manufacturing sector has risen from 51 percent to 62 percent in 2014. Also in 2014-15, foreign institutional investment rose by an unprecedented 717% to $40.92 billion. The credit goes to Make in India campaign.

Counterview

It has been felt that government does not walk its talk- labour reforms and policy reforms which are fundamental for success in Make in India campaign have not yet been implemented. A number of layoffs in companies such as Nokia India casts shadows over the campaigns. A number of technology based companies have not been enthused by the campaign launch and have professed to continue getting their components manufactured China. The idea of export-led manufacturing as followed by China and some other nations might not be the only way for India to pursue growth, opine experts, considering the change in dynamics in global economy. Notwithstanding the growing clamour for a concerted manufacturing push and the government's efforts to woo global investors to set up industrial units in India, there is also an emergent counterview. Providing a strongest critique to the government's Make in India strategy the then RBI governor Raghuram Rajan said India rather needs to make for India adding that either an incentive driven export led growth or import substitution strategy may not work for the country in current global economic scenario. Nandan Nilekani, the former chairman of the Unique Identification Authority of India (UIDAI) and ex-chairman of Infosys, too, has argued in favour of a domestic consumption-led growth, When China, South Korea and Japan took upon the manufacturing path to push their economic growth around two to three decades ago, their call was supported by global demand and also there was no established competition. He however, said that the dynamics of manufacturing have changed a lot now and that might not be the right path to tread as there are issues of overcapacity and disruption on account of the automation in manufacturing.

Conclusion

The analysis shows two dimensions of arguments. One side is optimistic nature which expecting more investment by free flow of capital on other side, it has been criticized and felt that rather than having large corporations driving growth, domestic consumption, service sector and productivity led by technology platform companies will provide growth. In this model small businesses will lead the growth and job creation. Thus is "Make in India" economically viable ? Can India compete in global market with "Make in India"? Only future will answer this.

The government is taking various steps to make the campaign successful, like making its functions more efficient and effective, reforms of the processes required in getting approvals and environment clearance by introducing the use of online system to speed up the processes, policies to help the expansion of MSMEs, enhancing the business ease, attracting FDIs, actions to improve skill and thereby strengthening the hope of achieving the manufacturing target growth of 25 percent share to GDP by the end of year 2022 but still there is a long way to go. There is an urgent need to clear all the hurdles in the way of growth of this sector before getting assured of the targets. So the government of India is required to address the various issues that create hurdles in the way of the growth of the manufacturing sector for making "Make in India" a success. . The 'Make in India' programme may have the potential to transform India into a manufacturing hub but if we are to achieve that potential, the government would have to move beyond rhetoric to actual implementation of the announced policies.

Suggestions

1. Existing systems and processes must undergo significant changes to remove structural rigidities, improve the quality of institutions and infrastructure, and create a favourable climate fostering technological progress.
2. Indian labour laws have constrained labour intensive industrialization. In the current scenario, greater flexibility in labour laws must be ensured so that firms can adjust to changes in the demand when necessary.
3. There is a need to build the required skills in the work force and offer strong vocational training and skill building.
4. Research and Development in the country must be strengthen. India should consciously work towards attracting greater investment in R& D as a means of strengthening the country's technological prowess and competitiveness.
5. The government should provide various facilities like modernized technology, subsidies reduce the tax rates etc. for manufacturing sector.

6. Debt market should be developed to finance manufacturing sector. India has a well developed equity market but does not have a well developed debt market. Steps should be taken to improve the depth and liquidity of debt market as many companies may prefer leveraged investment rather than investing their own cash.
7. Political instability is also a major concern in succeeding 'Make in India 'campaign.
8. The reforms and policies of manufacturing sector should promote exports and lessen the imports.
9. The policies should encourage FDI , but there should be certain limitations on FDI. The FDI should not harm Indian industry sector.
10. The indirect taxes should be reduced in order to promote manufacturing sector.
11. Indians should encourage and promote Indian products. If domestic people are not supporting their own country's products and manufacturing sector the development of this sector is difficult.

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