RIDING THE GOOD WAVE

Despite recessionary conditions and weakening of international demand, Make in India 2.0 has been showing good results on the ground.

By Suman K. Jha

"Come, make in India. Come, manufacture in India; sell in any country of the world but manufacture here. We have got the skills, talent, discipline, and determination . . . From electrical to electronics, from chemicals to pharmaceuticals, from automobiles to agro value additions, from paper or plastic, from satellite or submarine, come, make in India."

This is the almost poetic exhortation that Prime Minister Narendra Modi made from the Red Fort in his maiden Independence Day speech in 2014. He has been delivering the same message to industry captains, both in India and abroad.

"MAKE IN INDIA" IS ONE OF THE MOST POWERFUL IDEAS EVER TO HAVE BEEN LAUNCHED IN INDIA.

The Make in India campaign, which kicked off on September 25, 2014, was devised to make India a manufacturing hub, push the manufacturing sector's share to 25 percent of gross domestic product by 2025 from the current stagnant 17 percent, and make the manufacturing industry worth US$1 trillion a decade from now.

The object is clear: to create millions of jobs in an under-employed nation, jump-start consumption, make India an integral part of the global supply chain, and lead the country to the path of double-digit growth in the coming years.

"It was one of the most powerful ideas ever to have been launched in independent India," says Confederation of Indian Industry (CII) president Sumit Mazumder.

What's behind the slogan

To be fair, this is not the first time the government is pushing a Make in India drive.

THE DEFENSE MINISTRY HAS A TARGET TO ACHIEVE 70 PERCENT INDIGENIZATION BY 2027

Immediately after Indian independence, public-sector units powered the first Make in India movement. After the 1991 opening of the economy, private enterprises led phase two of the Make in India movement. So the Modi government's new thrust on the manufacturing sector is the third wave of the Make in India movement.

With employment not picking up and a million heads being added to the Indian workforce every year, and the services having bypassed the manufacturing sector, the government was forced to rearrange its priorities and focus on labor-intensive, low-cost manufacturing plans, at a time when the world is talking about a fourth industrial revolution.

"We are reaping the benefits of the demographic dividend. If jobs don't increase commensurate with the growing numbers of the working population, which is what the ramping up of the manufacturing sector would do, there could be unrest," says Mazumder.

This massive manufacturing push is expected to create 100 million more jobs for India's youth by 2022.

Former Planning Commission member Arun Maira says that Modi's new thrust on Make in India is consistent with the erstwhile Planning Commission's similar proposal, "which was not pushed by the previous UPA government." Certifying the Modi program, Maira adds, "We need to create jobs. Manufacturing is the right way to go about it."

Tackling over-regulation

Logically, the first step was to introduce a slew of measures that made both starting and doing business in India easier. The slogan "Ease of doing business" was coined by the Prime Minister and was followed up by liberalizing the foreign direct investment (FDI) regime. The target set was to place India among the top 50 countries in terms of ease of doing business within the next three years.

Some significant steps have been taken. The new regime now says no minimum capital, no common seal, and no declaration of commencement of business are required to begin operations. Documents for exports and imports have been reduced from 11 to three. More than half of the defense items (56 percent) are taken out of licensing requirement.

Twenty central government services are linked to the eBiz portal — mandated to function as a single-window portal for clearances from various government agencies.

The FDI regime too has been liberalized. For instance, FDI in the defense industry is permitted through the government route up to 49 percent. Higher FDI can be allowed on a case-by-case basis. FDI in construction, and operation and maintenance of identified railway transport infrastructure up to 100 percent is permitted through the automatic route. FDI in the insurance sector has been raised from 26 to 49 percent. The norms for FDI in real estate projects have been further liberalized. FDI up to 100 percent under the automatic route both for green field and brown field projects for manufacturing of defined medical devices has been allowed.

Commerce ministry officials say that the 25–30 cabinet notes resulting in such far-reaching changes in the last few months showed that the Narendra Modi government worked at a speed unheard of in this country. The campaign has its other arms too — "Skill India," "Digital India," and "Smart Cities Mission" are all part of the groundwork to get Make in India ticking.

Make in India 2.0

In the second year of its existence, the Make in India program moved from setting up a liberal regulatory regime to launching actual measures and removing glitches that slowed the pace of growth.

For instance, the Prime Minister's Office recently asked the skill ministry to open 7,000 new industrial training institutes (ITIs) — half the total number of ITIs opened across the country since independence — in the next year.

"Startup India" was meant to be another slogan to provide a boost to startups with a new venture fund and easier registration norms. Modi realized the potential of this ecosystem early on. In the U.S., 70 percent of jobs are being created by startups, and as many as 30 percent of startups in the U.S. are promoted and created by Indians. According to NASSCOM, 72 percent of founders in India are less than 35 years old,

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—ANAND SHARMA
Former commerce minister and senior Congress leader

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>
> **—ARUN MAIRA**
> Former member of the Planning Commission

making the country the world’s youngest “startup” nation.

Indian startups have raised some pretty impressive funds in 2015. Paytm raised US$805 million, Flipkart US$700 million, Snapdeal US$500 million, and Grofers US$168 million. The e-commerce industry, driven largely by startups, is expected to raise US$38 billion in 2016 — a jump of 67 percent over the last year — and 65 percent of total sales would be generated by mobile devices and tablets.

The challenge now, as Department of Industrial Policy and Promotion (DIPP) secretary Amitabh Kant says, is to become the “most disruptive nation” in the world. There is little denying that something is working. India jumped 12 places on the ease of doing business 2016 index, released annually by the World Bank.

Significantly, the movement is now getting a boost from various Indian states wanting to compete as business destinations; and they are adding local flavor to the central campaign. For instance, Andhra Pradesh wants to be known for its “Make in Andhra” expertise.

The central government is in sync and sees the need for a clutch of leader states powering India to a double-digit growth. States like Andhra Pradesh, Karnataka, Maharashtra, Gujarat, Jharkhand, Madhya Pradesh, and Chhattisgarh are typically positioned to become manufacturing hubs in their own right. A good example is Maharashtra holding a Make in India week in Mumbai that saw participation from over 60 countries and over 1,000 companies.

Performance so far

The renewed thrust has yielded some dividends on the ground too. Minister of Commerce and Industry Nirmala Sitharaman recently announced that the FDI inflow in India is growing at 48 percent when globally there is a fall of 16 percent.

One must mention that global infractions in oil and other commodities have deeply dented commodity exporters such as Brazil and South Africa as investment destinations, making India's case stronger.

Make in India has proportionately benefited with a record FDI inflow growth of 114 percent in December last year, and seven of the top ten sectors receiving FDI relate to manufacturing. RBI data on FDI inflow show that the country received as much as US$63 billion till November 2015, 21 percent higher than the FDI inflow in the previous 15 months.

"FDI will grow by 40 to 45 percent in 2016 despite the global slowdown, largely owing to the number of policy measures taken by the government," says DIPP secretary Amitabh Kant.

Whether it was international agencies or rating agencies or even Ivy League institutions, there was consensus that India is a happening country. It is first among the world's fastest growing economies; it is also the first choice for tech companies to set up research and development facilities outside their homes. Among the BRICS nations, it's only India that is shining. India moved up 16 places on the World Competitive Index 2015-16.

According to the commerce ministry, over 17,000 investor queries have been made through the Make in India portal, quite a feat in this depressing global environment.

Among major commitments, Foxconn expressed its intention to invest US$5 billion in India. Other significant commitments were made by Xiaomi, Cisco, LG, BrightSKY, Philips, Thomson, Samsung, LG, Flextronics, and Quanta.

In the first major FDI in rail projects after the limit was raised, General Electric and Alstom bagged a US$5.6 billion contract from the Railways to build locomotives in the country. Defense ministry officials say that they have a highly ambitious target to achieve a level of 70 percent indigenization by 2027.

A number of companies including majors such as Dassault, Boeing, and Airbus have announced major plans. Dassault Aviation bagged an order for 36 Rafale fighter aircraft. Pipavav Defence announced its intention to develop India's first "smart city" for the defense sector at an estimated cost of US$1 billion in Maharashtra.

Airbus has announced restructuring of its organization in India and said that Airbus exports will reach US$2 billion from India. Boeing has entered into a joint venture with Tata Advanced Systems and the partners formally announced that a center to manufacture aero structures for AH-64 Apache helicopters will be developed in Hyderabad.

In the retail space, IKEA announced its plan to open 25 stores across India, entailing an outlay of US$1.8 billion. Other developments included entry and expansion by global majors such as GAP (which opened its flagship store in Delhi in May 2015, and currently has four stores); the H&M group, which plans to invest US$10 million in India, announced 50 single-brand retail outlets across India in the next few years; and Walmart India, a wholly owned subsidiary of Walmart Stores Inc., plans to open 500 stores in India in the next 10 to 15 years.

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President, Confederation of Indian Industry

The retail sector accounts for over 10 percent of the country's GDP and around eight percent of employment.

In the automobile sector, capacity expansion announcements were made by Bajaj Auto, MRF, Apollo Tyres, Volvo India (which also uses its plant as an export hub for buses), TVS, and Amara Raja; R&D centers by Ford and Piaggio; greenfield projects by Fiat (JV with Tata), CEAT, Daimler-Benz, International Tractors, and increased localization by Mercedes-Benz and BMW. Though the slowdown in the auto industry is a matter of concern, these initiatives are significant considering that the sector accounts for seven percent of India's GDP, and provides 19 million jobs.

Clean energy, on the other hand, is expected to yield business worth US$160 billion in India in the next five years. Significant announcements included Softbank, Foxconn, and Bharti Enterprises pledging to invest about US$20 billion in solar projects in India. Several private companies including the Welspun Group, Adani Enterprises, and the Essel Group have begun building large new solar plants, while Reliance Power has commissioned the largest solar plant in the world, with a 100 MW capacity in Rajasthan. Mytrah has plans to invest around US$400 million next year while Gamesa has plans to invest close to US$220 million over the next two years.

All is not hunky dory

There is the other side too. The Congress-led Opposition has mounted a major attack on the government, claiming the Make in

India campaign is designed purely to aid a bunch of crony capitalists and ignores the wider issues the nation faces. Congress vice-president Rahul Gandhi says that the program in its present form has neglected "the smaller and medium enterprises, with the focus on a handful of big corporations."

Former commerce minister and senior Congress leader Anand Sharma alleges that the Modi government's program was a rehash of the Manmohan Singh government's 2011 manufacturing policy.

Former Planning Commission member Abhijit Sen wonders whether the Make in India program was working on the ground, and says that its template and slogan could be changed to market India as a better destination for profits "because other places including China are not that attractive now."

Internally, BJP ministers have been blaming the bureaucracy for both indifference and sabotage. Union minister Nitin Gadkari says the bureaucracy's attitude was the biggest hurdle in infrastructure expansion. Maira agrees that the bureaucracy has to be sensitized on further facilitating ease of doing business, particularly in states.

Government expenditure on R&D remains a paltry 0.8 percent of GDP, and CII's Mazumder agrees that this needs urgent attention. A joint report of the Boston Consulting Group and CII recently said that the target of creating 100 million jobs and achieving 25 percent of GDP from manufacturing by 2022 may be difficult, going by the performance of the manufacturing sector in the past few months.

Perhaps the biggest challenge is the slowdown in industrial activity marked by poor corporate third quarter results and the lack of orders from global markets now teetering on the verge of recession. Companies hit by poor demand are in a mode of consolidation and lowering risks in preference to investment and expansion. Many of the companies that had shown profits were those that had benefitted from lower energy costs rather than expansion of sales. Backbone sectors like steel took the biggest hit. Tata Steel booked a third quarter loss of US$320 million in the face of dumping by Chinese companies while Korean giant Posco, which once planned to invest US$12 billion in India, has virtually withdrawn from the country.

RBI's recent February report on the economy noted that in the first two months of the December quarter, industrial activity slowed in relation to the preceding quarter. This reflected weak investment demand with deceleration of capital goods production. Stalled projects continue to remain high, and there is a decline in new investment initiatives.

These challenges notwithstanding, the new manufacturing opportunities may be India's chance to cement its position as the only bright spot in the global economy. As Mazumder puts it, "With the possible exception of Singapore, no nation has become an advanced nation without riding a manufacturing wave."

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—NIRMALA SITHARAMAN
Union Minister of State for Commerce and Industry