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‘Make in India’ – The Future of Indian Manufacturing

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India’s new government assumed office over five months ago and the succeeding months have thus far been testimony to some significant announcements by the charismatic Prime Minister Narendra Modi. The ‘Make in India’ initiative is one such serious step of the new government. This paper attempts to analyse the initiative in the perspective of India’s current economic challenges and the possible direction that India’s manufacturing sector may take going forward.

‘Make in India’ In Perspective

In terms of the economic challenges facing India, a genuine need to increase employment prospects for the vast majority of India’s low- and semi-skilled workers is one of the key necessities. India’s Planning Commission noted that 250 million people are expected to join India’s labour force over the next fifteen years and the promising service sector alone cannot

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absorb them.² A vibrant manufacturing sector is best suited for absorbing most of a country's low- to semi-skilled workers. However, India's manufacturing sector has been stagnating over time. It has also been recognised that India has a problem of the "missing middle" where the country has too many small enterprises mostly in the unorganised segment and a few large manufacturing facilities by big corporate houses. The growth of small manufacturing units into medium to large units has not taken place in India.³ The manufacturing sector in fact has seen limited growth and lately Chinese products have been flooding Indian markets. The service sector-led growth over the past two decades has left vast sections of the country disconnected with the fruits of economic growth. A thriving manufacturing sector has the potential to increase employment of these sections of the population apart from improving India's position in the world markets which would improve its trade balance. It is in this context that the 'Make in India' initiative is a very welcome move by the new government.

The 'Make in India' initiative highlights a list of 25 sectors which include sectors where India exports favourably to the world like textiles and automobiles, as well as infrastructure, port connectivity, primary resources and processing.⁴ The government thus puts forward the impression of addressing its objectives with a focus on the international markets. Foreign Direct Investment (FDI) regulations have been periodically relaxed by successive governments in the past. The 'Make in India' website actually notes in crisp detail most attributes and concerns that the foreign investors would have in mind while considering investment in India. A one-stop counter for approvals and allowing online filing of various applications on the ebiz portal, a single window IT platform integrating all central government departments by 31 December 2014, is a first-time initiative that would simplify doing business like never before. Self-certification in non-hazardous and non-risk sectors, as well as 24X7 applications window for industrial licences, are landmark moves.

² See "Faster, Sustainable and more inclusive growth - An approach to the twelfth five year plan" (http://planningcommission.gov.in/plans/planrel/12appdrft/approach_12plan.pdf) Planning Commission, India

³ See "Understanding the Missing Middle in Indian Manufacturing: The Role of size dependent labour regulations and fiscal incentives" (<http://www.ide.go.jp/English/Publish/Download/Vrf/pdf/480.pdf>)

⁴ Make in India <http://www.makeinindia.com/>

Global Scenario and Major Obstacles

Taking a brief stock of the global scenario, one quickly grasps the fact that this is not a time when the global economy is as bullish as it used to be ten to fifteen years ago when China caught on the wave and made itself a global manufacturing hub. At the same time, China itself is on the brink of losing its long-held advantages of cheap labour and resources.⁵ Thus the need for global corporations to find destinations where they could continue business at a lower cost with large reserves of cheap labour has been building up. India stands to fill this gap. However the growth prospects through global markets would be less promising than what China enjoyed.

While most of the new initiatives are worthy of appreciation, it warrants consideration if India should go in the direction that China has taken. A vision for future India should include promoting domestic entrepreneurship and a culture of innovation and research which have played key roles in the development of most countries in the world. Following China and doling out sops to foreign MNCs would not be in India's interests. Playing into the hands of foreign investors looking to exploit India's resources like they have done in China would see India touch record levels of environmental damage and other perils like air pollution just as those experienced by China today.⁶

On the domestic front, India suffers from poor scores of doing business indicators due to a host of reasons including corruption, time to obtain government clearances etc. The prime minister has already announced that he intends to bring India in the top 50 countries for doing business where its rank currently is 134. India is behind its Asian neighbours like Pakistan, China, Bangladesh and Sri Lanka.⁷ To add to this, there are problems of land acquisition in certain states in India and contract enforceability problems (it takes more than three years to enforce a contract in India⁸) amongst others.

⁵ See "The BCG Global Manufacturing Cost-Competitiveness Index" (https://www.bcgperspectives.com/content/interactive/lean_manufacturing_globalization_bcg_global_manufacturing_cost_competitiveness_index)

⁶ See "Air Pollution in China: Real time Air Quality Index Visual Map" (<http://aqicn.org/map/china/>)

⁷ See "Doing Business Ranking" (<http://www.doingbusiness.org/rankings>)

⁸ See "Enforcing contracts in India" (<http://www.doingbusiness.org/data/exploreconomies/india/enforcing-contracts>)

The real beasts throttling the development of big manufacturing corporations in India have long been the Industrial Disputes Act 1947, the Factories Act 1948, Contract Labour Act 1970 and Apprentices Act 1961, with greater impact being those of the first two. Working around these to appease both investors and India's trade unions is where the catch lies in transforming India into an ideal investment destination. Till very recently these Acts bestowed significant powers in the hands of government inspectors, with frequent inspections of factories ending up in corrupt practices. Any unit employing more than ten workers undertaking manufacturing activities comes under the Factories Act and the Industrial Disputes Act.

Drafted more than half a century ago these Acts had aimed to protect the interests of workers. A total of forty four labour laws need to be abided by Indian manufacturers at present. Provision is made to pay overtime rates which are double the normal wages, and a stringent limit is also set on the hours worked. The Factories Act limits overtime in companies employing more than ten workers. The Acts require any company to take prior permission from the government before retrenchment and lay-off of workers. The Industrial Disputes Act mandates that any manufacturing unit employing more than 100 workers would require prior approval from the government for lay-offs. There are many other stringent regulations such as those limiting the usage of contractual workers in non-core activities only, regulations on the number of spittoons that the work place must contain etc.

Steps towards addressing the problem of inspectors and harassment have already been taken. The automation of procedures for assigning inspectors and a requirement that they submit inspection reports within 72 hours would go a long way in reducing the element of corruption and logistics hassles previously faced by investors in starting up a business in India. Some amendments have been made by the Rajasthan Government in recent times which show the way for the Centre and other states to take in order to move towards an investor-friendly regime, thereby attracting manufacturing investments.

Key Considerations for India's Manufacturing Future

In today's open market structure, for India's manufacturing dreams to be a reality, the country needs to prepare to become globally competitive and thereby not only focus at internal but external markets as well. In doing so, meeting global standards on environmental regulations, intellectual property rights (IPR) regulations, while maintaining global competitiveness, is an absolute necessity.

On intellectual property rights, although the BigPharma paints a discouraging picture especially after the Novartis judgment in 2013, several judgments have been issued by Indian courts which reflect the commitment towards protecting true innovation and research. Tendencies towards evergreening patents in the name of incremental innovation need to be curbed, and strict patent laws are thus a need of the hour. India has already taken steps to ensure the same. The 'Make in India' website highlights India's commitment to protect intellectual property. During the prime minister's recent US trip, the two countries agreed to form an "annual high level, intellectual property working group with appropriate decision-making and technical-level meetings as part of the trade policy forum".⁹ This working group should be utilised by India to actively iron out misconceptions about its stand on intellectual property commitments if any, rather than blindly acceding to the demands of the West. The working group may also be utilised to develop a culture of research and innovation in corporate India starting with appropriate incentives for the US MNCs to set up R&D centres geared towards product development in India.

Added to this is the need to promote entrepreneurship amongst the Indians. The advantages that India has in terms of natural resources and low labour costs may be best reaped by Indian entrepreneurs in this new investor-friendly scenario. Indian management schools train the brightest minds of the country to become managers, but training towards taking on the entrepreneurial challenge is the need of the hour that would help mobilise India's domestic capital and domestic expertise rather than perpetually depending on foreign capital. This would lay the foundation stone for India to become a true economic superpower. While a few management schools already provide incubation centres for fresh start-ups, the initiative

⁹ See "US-India Joint Statement" (<http://www.whitehouse.gov/the-press-office/2014/09/30/us-india-joint-statement>)

needs to gather greater steam. In a globally challenging scenario, such initiatives need special care for young entrepreneurs to take the plunge. The biggest challenge for start-ups remains the access to capital through venture capitalists or directly from the stock market, both traditionally hostile in India to inexperienced entrepreneurs starting their first-ever business. Under such circumstances appropriate patronising by reputed business schools could act as guarantees for the new entrepreneurs to pull appropriate capital from the financial markets.

In promoting both entrepreneurship and innovation to secure a position on the world stage in manufacturing, India should aim for environment-friendly sustainable development that shall save the country from deviating to the China way which has brought environmental degradation with rising labour costs as side-effects of rapid economic growth. While this is not an easy task, a true vision of sustainable economic development cannot be fulfilled without environmental considerations.

Conclusion

On the whole, the 'Make in India' initiative is a very welcome move and quite the need of the hour for the Indian economy. However, it requires to be appropriately complemented with amendments to stringent labour laws that have for long strangled the growth of Indian manufacturing. It is also a time when Indian needs to choose if it is wise to walk the same path as China which may result in rapid growth (if global markets are conducive) with higher labour costs, exploitation of natural resources, environmental degradation; or should India concentrate more on developing domestic entrepreneurship, promoting research and innovation-led development to establish itself strongly on the international stage as an economic superpower of the new millennium.

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