The Need For 'Make In India'

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India is believed to have a demographic dividend wherein, the majority of our population falls in the working age group, which in itself is a double edged sword. Hence, the Government and the policy makers have started revisiting the Indian growth story, and addressing its flaws. The role and importance of the manufacturing sector comes in here both in terms of creating a self-reliant economy and in the process, generating the much needed employment

OVER THE last few years, when most of the developed countries of the world were struggling hard to get over the effects of financial recession and sovereign debt crisis, India was among the fastest growing economies of the world. Recently with the new methodology of GDP calculation released on January 31st, 2015, by the Ministry of Statistics and Programme Implementation (MOSPI), the country is believed to be the fastest growing. However, can we be in peace with this achievement? Probably no, because the benefits of this economic growth need to be well distributed among the entire society and that is where we are still lacking. The development of an economy is not solely dependent on the growth rates traced by it. It expands further to how these growth numbers have actually translated themselves into economic development by trickling down to the lower sections of society.

India is a country which has experienced a growth in GDP driven by its service sector throughout the last few decades; however, the service sector led growth has largely been jobless, thereby creating large segments of unemployed population. India is believed to have a demographic dividend wherein, the majority of our population falls in the working age group, which in itself is a double edged sword. Hence, the Government and the policy makers have started revisiting the Indian growth story, and addressing its flaws. The role and importance of the manufacturing sector comes in here both in terms of creating a self-reliant economy and in the process, generating the much needed employment.

Theoretical Perspective

It has been historically observed that the stages of growth followed by an economy to the path of development can be classified into three broad categories. The first stage is the traditional society where a majority of the workforce is involved in agricultural activities, followed by the phase of industrialization ruled by the emergence of leading manufacturing sectors that define the growth and finally, the developed economies which are led by the growth of their service sectors. This growth pattern has been largely followed by countries which constitute the developed world today, notably USA, Britain and Germany. The emerging Asian and South East Asian market economies like South Korea, China, Taiwan and Vietnam are also charting a similar growth story.

India's Sectoral Growth Pattern

India however, has taken a different course of growth, varying from the traditional growth theories. The growth rates over the plan periods have sustainably increased with small interim fluctuations. In the first few years post-independence, agriculture contributed to more than 50 per cent of India's GDP, services contributing to about 30 per cent and industry to less

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than 20 per cent of the GDP. A marked change took place in the sectoral distributions especially after the 1990's with the economy moving towards a service led growth (Chart 1).

The contribution of agriculture has been declining continuously and that of services has been increasing steeply with the share reaching nearly 60 per cent of GDP in the current years. India has charted this typical growth path, jumping directly from the agricultural sector to the service sector as the lead contributor to GDP, unlike other developed countries. During the entire period from 1951-2014, the contribution of the industrial sector to the total GDP has varied the least, being in the range of 16-26 per cent of GDP throughout. This trend for the industrial sector is a cause of concern because industry and manufacturing forms the basis of the real growth of the economy both in terms of production of goods and also in terms of employing the labour force of the country. To understand the effect of the growth and the changes in the sectoral contribution to GDP, we need to look at the employment-unemployment scenario which is a vital measure to check if the positives of economic growth are reaching all sections of the society.

Unemployment Scenario

The unemployment scenario in India continues to remain grim. Further, agriculture which now contributes to only around 14 per cent of the GDP continues to employ more than 50 per cent of the workforce, reflecting the mass of disguised labour in agriculture and also the low labour productivity. The service sector contributing nearly 60 per cent to the GDP, manages to employ only around 25 per cent of the workforce.

Table 1: The Unemployment Scenario

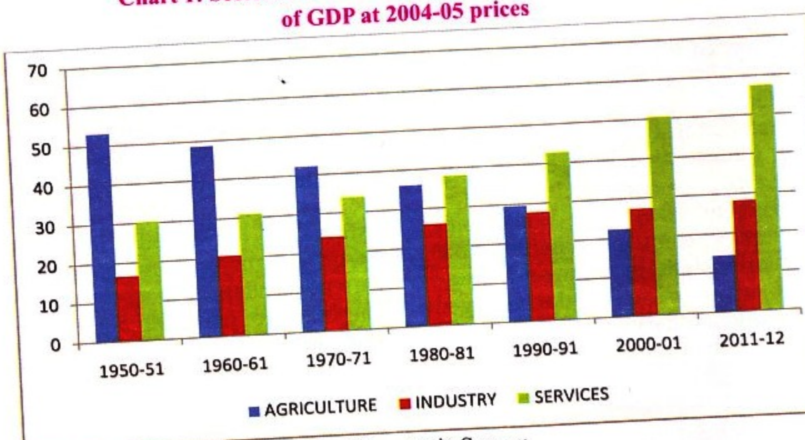
Year	Current Daily Status(CDS) unemployment rate per cent
1999-00	7.3
2004-05	8.2
2009-10	6.6
2011-12	5.6

Source: Economic Survey 2014-15

Service-led Growth

India indeed has a natural comparative advantage in services, which is explained as the splintering effect by Bhagawati, according to which, with the maturing of economies, industries tend to outsource different activities like legal and security services, research and development, etc. to specialists and this raises the share of services in GDP. Further, India has a natural advantage of low cost availability of manpower suitable for ITES. The foreign companies set up their back offices here and outsource services to the Indian companies on a large scale. Moreover, with the growth of per capita income levels in the economy, there is a larger spending on the service sectors like education, health and medical services, communication etc.

Chart 1: Sectoral Contribution to GDP (percentage share of GDP at 2004-05 prices



Source: Reserve Bank of India and Economic Survey.

Table 2: Change in Sectoral Employment Pattern

Year	Agriculture and Allied	Industry	Services
1951	72.1	10.6	17.3
1991	66.9	12.7	20.4
2009-10	53.2	21.5	25.3

From Table 2, it is seen that the employment structure of the Indian economy has not changed in tandem with the contributions of the different sectors. This analysis of the sectoral contributions to GDP and the sectoral employment patterns over time, drives us to the point that the service led growth path to development in India has enhanced the growth rates. However, it has been a jobless growth, not satisfying the larger objectives of creating an equitable development in India.

This generates the need to expand our focus from our comparative advantage of market determined service sector-led growth towards state intervention to boost the manufacturing sector in order to correct the anomalies of skewed gains from growth so far.

Manufacturing Sector: Focus

India is typical in its demography and demand patterns. The Prime Minister recently highlighted that India is a unique country with the characteristic 3Ds namely Democracy, Demand and Demography. There is a large domestic consumer base and the adequacies of domestic demands are reinforced by the good growth in per capita income. On the supply side, the proportion of economically active population in India has increased from 57.7 per cent to 63.3 per cent from 1991 to 2013 (Economic Survey 2014-15), which presents an optimum demand-supply combination for India to emerge as one of the world's manufacturing giants. The gains will be multiplied when a portion of this manufacturing activity spills over to the export sector.

Health of Indian Manufacturing

The post-independence phase of industrial production, till the opening up of the economy in early 1990's, is usually divided into three phases based on the performance of the industrial sector. Period from 1951-65 which witnessed an accelerated industrial production (based on Mahalanobis Model); period from 1965-80 which witnessed industrial deceleration; and the period 1981-91, when some recovery in industry was registered. The period since then has been a mixed bag as far as industry in general and manufacturing in particular is concerned with growth rates averaging 5-7 per cent till the Eleventh Plan. However, the period since the Twelfth Plan (2012 onwards) has seen near stagnation in manufacturing. Economic Survey 2013-14 had observed that the two years, 2012-13 and 2013-14 were particularly disappointing for the manufacturing sector, with growth averaging 0.2 per cent per annum.

However, the survey had cautioned that the data on manufacturing growth during the last two years needs to be interpreted with care, given the possibility of revisions by the CSO. This occurs because the initial estimates of value added in the manufacturing sector are based on the IIP, while the second and the third revised estimates are based on more detailed data from the Annual Survey of Industries (ASI). The above mentioned problem of growth estimation in the manufacturing sector has been further compounded by the new series data.

Calculating with the New Base

There have been large discrepancies (of more than 5 per cent in 2012-13 and 2013-14) in the growth of the manufacturing sector figures in the new and the old methodology. These differences are more statistical than real, and can be partly attributed to more comprehensive and elaborate data set from the e-governance initiative under Ministry of Corporate Affairs under MCA 21. Also, the trade carried out by the manufacturing companies in the manufacturing sector itself has been incorporated, which earlier used to be accounted under service sector. Real growth in manufacturing was observed in textile, apparel and leather products with an average of 17.7 per cent during 2012-13 and 2013-14 (Economic Survey 2014-15).

It is pertinent to mention here that the registered manufacturing sector in India with high productivity has the potential of being the transformational sector for generating high growth. The productivity of the registered sector is 7.2 times that of the unregistered manufacturing sector (Economic Survey 2014-15).

Hindrances in the Sector

The manufacturing sector is still afflicted by problems of land acquisition, rehabilitation, multiple laws and rules to adhere to, lack of clarity for the entrepreneurs, multiple and complex process of clearances to be obtained to set-up a factory, lack of marketing strategies and export orientation, lack of infrastructure, power and water supplies. Economic Survey 2014-15 states that the manufacturing sector has one of the highest numbers of stalled projects in the last few quarters. Among manufacturing, the majority of stalled projects are in steel, cement, garments and processed food. 212 manufacturing projects are stalled due to lack of funds, demand and unfavorable market conditions.

Policies to Boost the Sector

The manufacturing sector revolves around two sets of major participants, the entrepreneurs and the workers. The Government comes in between these two, to balance and facilitate the interaction of the two segments and provide enough facilities for both sides so that the system continues to function smoothly. The policies and programmes rolled out by the Government come in this interplay and act like a catalyst for the manufacturing sector as a whole.

Why '*Make in India*'?

'Make in India' is a timely policy initiative to convert India into a global manufacturing hub. In order to attract new investments and promote manufacturing, this programme addresses the problem areas in the manufacturing sector through different channels of interventions. Some of the major interventions include the E-Biz portal enabling 24x7 applications of industrial license making the process seamless. The process of getting environment clearance has been made online. The policy has given approval to National Investment and Manufacturing Zones, wherein, the provision for single window clearance will be provided.

New Markets and Skilled Labour

The idea of developing new smart cities, industrial corridors and industrial clusters has potential for generating forward and backward linkages and promoting advanced manufacturing techniques at multiple levels. Creating market base for Indian manufactures in the world through project development companies to facilitate setting up manufacturing hubs in CMLV countries, namely, Cambodia, Myanmar, Laos and Vietnam has potential. Further, the initiative has included new youth focused programmes and institutions for skill development. A positive change has been in the form of a separate Ministry for skill development and entrepreneurship, where the ministry is actively engaging with the world, through the National Skill Development Corporation (NSDC) and National Skill Development Agency (NSDA), for acquiring new techniques of skill development for our youth. The ***Skill India*** initiative must focus on skilling the Indian youth on segments which are more labour intensive like leather, textile, food-processing, jute, sericulture, handicrafts etc. In skill development, major impetus has been given to Indian Leather Development Programme targeting to train 1,44,000 youth annually. National Manufacturing Policy (NMP) which was introduced in 2011 with a focus to boost manufacturing and a vision to create 100 million additional jobs by 2022 in manufacturing sector, would ensure that globally competitive manufacturing emerges.

High Value Industrial Sectors

The investment caps and controls on the high value industrial sector have been eased to encourage greater global participation. In the defence sector, FDI cap has been raised from 26 per

Table 3: Changes in Growth in Industry (Constant Prices) Per cent.

	2012-13		2013-14		2014-15 (Ae)	
	2004-05 Series	2011-12 Series	2004-05 Series	2011-12 Series	2004-05 Series	2011-12 Series
Manufacturing	1.1	6.2	-0.7	5.3	NA	6.8
Industry	1.0	2.4	0.4	4.5	NA	5.9

Source: Economic Survey 2014-15.

cent to 49 per cent and the portfolio investments in defense sector up to 24 per cent under automatic route. 100 per cent FDI has been allowed for modern and state of art technologies in defence, on a case to case basis. In railways, 100 per cent FDI under automatic route has been permitted in construction, operation and maintenance in specified rail infrastructure projects. These sectors can help India specialize in high value manufacturing.

Reforms: Workers/Labour Sector

The system of self- certification for all the non-risk and non- hazardous business will encourage small entrepreneurs to set up their businesses. With less than 5 per cent of our potential work force getting formal skill training, the initiative of the Government to launch the Deen Dayal Upadhyay Gramin Kaushal Yojana for rural youth should bring a change. Further, there is a need to consolidate the multiple skill development programmes spread across ministries into the National Skill Mission as pointed out by the FM in his budget speech.

Role of MSME in 'Make in India'

MSMEs can play a critical role to strengthen the 'Make in India' initiative by addressing the issues of job creation, increasing the manufacturing share in GDP and export promotion. Already, the sector contributes to around 45 per cent of the total manufacturing output and around 40 per cent of the country's exports.

There has been a sustained contribution of the MSME both in terms of output and employment, in spite of the slowdown in the economy as a whole and the manufacturing sector in particular. However, MSMEs remained a cause of concern due to the major problems faced by the sector, in particular, having limited access to capital and credit facility, lack of technology know-how, limited access, awareness and interaction with the global market, inadequate infrastructure like roads, power and water supply, multiplicity of labour laws, lack of skilled man-power for manufacturing and marketing of the products.

The major schemes run by the Government through National Manufacturing Competitiveness Programme, Credit Guarantee scheme, Cluster development, and the announcement of Micro Units Development Refinance Agency (MUDRA) bank with a corpus of 20,000 crores is a welcome step to strengthen this sector's contribution in 'Make in India'. The Apprentice Protsahan Yojana would boost the manufacturing sector of MSME. An innovative initiative is the launch of low cost and high quality MSME products on-line delivery system via www.msmeshopping.com facilitated by National Small Industries Corporation (NSIC).

Ease of Doing Business 'Make in India'

In the World Bank's Ease of Doing Business Index of 2015, the position of India is 142 out of 189 countries. It is a matter of concern that India is still far behind. Being globally competitive in the world regarding the ease of doing business.,'Make in India' has taken special care to facilitate business. Provisions of creating dedicated teams to guide and assist the first time investors and opening single window clearance systems, will boost investments in manufacturing. Furthermore, greater emphasis is being placed on a simple, certain and non-adversarial tax regime. Early roll-out of Goods and Services Tax (GST) would be a game changer in the way business will be done in India.

Way Ahead

Time is ripe for Indian manufacturers to tap on the *Go-green* phenomenon running across the world, which can be used to promote indigenous textile and jute products and also in encouraging manufacture of renewable energy equipment to generate wind and solar energy.

It is vital to strengthen the connectivity links both in the country and outside. Spreading the road, rail and waterway connectivity network and making good use of the vast coastline in India would lay strong foundations for the manufacturing sector. Work related to the dedicated freight and industrial corridor needs to be hastened as these could provide multi-level boost to manufacturing both enhancing its demand and supply sides. These will create a virtuous cycle of self-sustained demand for manufacturing.

Indigenous culture and tradition could help create employment and manufacturing. Timely protection, encouragement and promotion of ground level knowledge on a variety of art and craft and facilitating them with good marketing strategies to reach our domestic consumer base and compete globally, is required. Woolen products of Kashmir, Phulkari of Punjab, Bandhej of Rajasthan, Pochampalli of Andhra Pradesh, Jamdani and Tant of Bengal, Benarasi of UP etc. are some such indigenous styles of textiles which could be made popular across the world by creating platforms through frequent exhibitions, fairs and art shows globally. Further, the present generation is more attracted to online purchasing, hence online marketing and tie up with various online marketing companies needs to be done for all such products. These steps will help the youths to create jobs for themselves. Government, by keeping a check on the quality and facilitating to sell the products, could be creating income sources around homes in rural areas. This would ensure that the benefits of the believed demographic dividends are reaped optimally. ❑

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Table 4: Growth of MSME

Year	Percentage Share of MSME in Total Manufacturing Output	Employment in MSME (in lakhs)	Percentage share of MSME in the Total GDP
2006-07	42.02	805.23	7.73
2007-08	41.98	842.00	7.81
2008-09	40.79	880.84	7.52
2009-10	39.63	921.79	7.49
2010-11	38.48	965.15	7.42
2011-12	37.52	1011.80	7.28

Source: Annual Report of MSME 2013-14, Ministry of MSME.