Source : www.thehindu.com Date : 2020-01-20

WHY ‘MAKE IN INDIA’ HAS FAILED

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Workers set up the venue for the 'Make in India' showcase week in Mumbai on February 11, 2016. AFP

On September 25, 2014, the Indian government announced the ‘Make in India’ initiative to encourage manufacturing in India and galvanize the economy with dedicated investments in manufacturing and services. Immediately after the launch, investment commitments worth crores were announced. In 2015, India emerged as the top destination for foreign direct investment, surpassing the U.S. and China. In line with the national programme, States too launched their own initiatives. Five years later, as we brace for another Union Budget, it would be appropriate to take stock of the much-hyped initiative as the economy in general, and the manufacturing sector in particular, is on a slippery slope.

The ‘Make in India’ idea is not new. Factory production has a long history in the country. This initiative, however, set an ambitious goal of making India a global manufacturing hub. To achieve this goal, targets were identified and policies outlined. The three major objectives were: (a) to increase the manufacturing sector’s growth rate to 12-14% per annum in order to increase the sector’s share in the economy; (b) to create 100 million additional manufacturing jobs in the economy by 2022; and (c) to ensure that the manufacturing sector’s contribution to GDP is increased to 25% by 2022 (revised to 2025) from the current 16%. The policy approach was to create a conducive environment for investments, develop modern and efficient infrastructure, and open up new sectors for foreign capital.

Given that big-ticket projects for grand initiatives such as ‘Make in India’ have long gestation periods and lag effects, assessments of such initiatives can be premature. Also, governments often use the excuse of inheriting an economy riddled with macroeconomic problems, and demand more time to set things right. This is an argument that the current government invokes frequently. However, five years is a reasonable time period to assess the direction and magnitude of outcomes. As the policy changes were intended to usher growth in three key variables of the manufacturing sector — investments, output, and employment growth — an examination of these will help us gauge the success of the policy.

The last five years witnessed slow growth of investment in the economy. This is more so when we consider capital investments in the manufacturing sector. Gross fixed capital formation of the private sector, a measure of aggregate investment, declined to 28.6% of GDP in 2017-18 from 31.3% in 2013-14 (Economic Survey 2018-19). Interestingly, though the public sector’s share remained more or less the same during this period, the private sector’s share declined from 24.2% to 21.5%. Part of this problem can be attributed to the decline in the savings rate in the economy. Household savings have declined, while the private corporate sector’s savings have increased. Thus we find a scenario where the private sector’s savings have increased, but investments have decreased, despite policy measures to provide a good investment climate.

With regard to output growth, we find that the monthly index of industrial production pertaining to manufacturing has registered double-digit growth rates only on two occasions during the period April 2012 to November 2019. In fact, data show that for a majority of the months, it was 3% or below and even negative for some months. Needless to say, negative growth implies contraction of the sector. Thus, we are clearly waiting for growth to arrive.

Regarding employment growth, we have witnessed questions being raised over the government's delay in releasing data as well as its attempts to revise existing data collection mechanisms. The crux of the debate has been that employment, especially industrial employment, has not grown to keep pace with the rate of new entries into the labour market.

Thus on all three counts, 'Make in India' has failed.

Accusing the previous governments of policy paralysis, the NDA government announced a slew of policies with catchy slogans. This has resulted in an era of never-ending scheme announcements. 'Make in India' is a good example of a continuous stream of 'scheme' announcements. The announcements had two major lacunae. First, the bulk of these schemes relied too much on foreign capital for investments and global markets for produce. This created an inbuilt uncertainty, as domestic production had to be planned according to the demand and supply conditions elsewhere. Second, policymakers neglected the third deficit in the economy, which is implementation. While economists worry mostly about budget and fiscal deficit, policy implementers need to take into account the implications of implementation deficit in their decisions. The result of such a policy oversight is evident in the large number of stalled projects in India. The spate of policy announcements without having the preparedness to implement them is 'policy casualness'. 'Make in India' has been plagued by a large number of under-prepared initiatives.

The question that begs an answer is, why did 'Make in India' fail? There are three reasons. First, it set out too ambitious growth rates for the manufacturing sector to achieve. An annual growth rate of 12-14% is well beyond the capacity of the industrial sector. Historically India has not achieved it and to expect to build capabilities for such a quantum jump is perhaps an enormous overestimation of the implementation capacity of the government. Second, the initiative brought in too many sectors into its fold. This led to a loss of policy focus. Further, it was seen as a policy devoid of any understanding of the comparative advantages of the domestic economy. Third, given the uncertainties of the global economy and ever-rising trade protectionism, the initiative was spectacularly ill-timed.

'Make in India' is a policy initiative with inbuilt inconsistencies. The bundle of contradictions unfold when we examine the incongruity of 'swadeshi' products being made with foreign capital. This has led to a scenario where there is a quantum jump in the 'ease of doing business' ranking, but investments are still to arrive. The economy needs much more than policy window dressing for increasing manufacturing activity. The government must realise that industrialisation cannot be kick-started by a series of bills in Parliament and hosting investors' meets.

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

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