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FIVE YEARS OF MAKE IN INDIA

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Prime Minister Narendra Modi launched the Make in India campaign on September 25, 2014 with these words: “I tell the world, ‘Make in India’. Sell anywhere but manufacture here.” Modi aspired to emulate China — a country he had visited many times as Gujarat chief minister — in attracting foreign investment to industrialise India. The objective was, officially, to increase the manufacturing sector’s growth rate to 12-14 per cent per annum in order to increase this sector’s share in the economy from 16 to 25 per cent of the GDP by 2022 — and to create 100 million additional jobs by then.

Five years later, this policy has produced contrasting results. Foreign direct investment (FDI) has increased from $16 billion in 2013-14 to $36 billion in 2015-16. But this remarkable achievement needs to be qualified from two standpoints. First, FDIs have plateaued since 2016 and second, they are not contributing to India’s industrialisation. FDIs in the manufacturing sector, in fact, are on the wane. In 2017-18, they were just above $7 billion , as against $9.6 billion in 2014-15. Services cornered most of the FDIs — $23.5 billion, more than three times that of the manufacturing sector. This is a clear reflection of the the Indian economy’s traditional strong points, where computer services, for instance, are remarkably developed. But can a country rely on services without developing an industrial base? The response is clearly no and this is why “Make in India” was initiated.

The idea, then, was to promote export-led growth: Foreign investors were invited to make in India, not necessarily for India. But few investors have been attracted by this prospect, and India’s share in the global exports of manufactured products remains around 2 per cent — China’s is around 18 per cent.

Why has Make in India failed to deliver? First, a large fraction of the Indian FDI is neither foreign nor direct but comes from Mauritius-based shell companies. Indian tax authorities suspected that most of these investments were “black money” from India, which was routed via Mauritius. Second, the productivity of Indian factories is low. According to a McKinsey report, “workers in India’s manufacturing sector are almost four and five times less productive, on average, than their counterparts in Thailand and China”. This is not just because of insufficient skills, but also because the size of the industrial units is too small for attaining economies of scale, investing in modern equipment and developing supply chains. Why are companies small? Partly by choice, because labour regulations are more complicated for plants with more than 100 employees. Government approval is required under the Industrial Disputes Act of 1947 before laying off any employee and the Contract Labour Act of 1970 requires government and employee approval for simple changes in an employee’s job description or duties.

Infrastructure is also a problem area. Although electricity costs are about the same in India and China, power outages are much higher in India. Moreover, transportation takes much more time in India. According to Google Maps, it takes about 12.5 hours to travel the 1,213 km distance between Beijing to Shanghai. A Delhi to Mumbai trip of 1,414 km, via National Highway 48, in contrast, takes about 22 hours. Average speeds in the China are about 100 km per hour, while in India, they are about 60 km per hour. Railways in India have saturated while Indian ports have constantly been outperformed by many Asian countries. The 2016 World Bank's Global Performance Index ranked India 35th among 160 countries. Singapore was ranked fifth, China 25th and Malaysia 32nd. The average ship turnaround time in Singapore was less than a day; in India, it was 2.04 days.

Bureaucratic procedures and corruption continue to make India less attractive for investors. It has made progress in the World Bank's Ease of Doing Business index, but even then, is ranked 77 among 190 countries. India ranks 78 out of 180 countries in Transparency International's Corruption Perception Index. To acquire land to build a plant, for instance, remains difficult. India has slipped 10 places in the latest annual Global Competitiveness Index compiled by Geneva-based World Economic Forum (WEF).

There was clearly a contradiction in the attempt to attract foreign investors to Make in India before completing the reforms of labour and land acquisition laws. Liberalisation is not the panacea for all that ails the economy, but it is a prerequisite if India intends to follow an export-oriented growth pattern.

A significant move in this direction was made last month with the reduction of the company tax from about 35 to about 25 per cent (at least on paper), a rate comparable with most of India's neighbours. This reform is also consistent with the government's effort to compete with South East Asian countries, in particular, to attract FDIs. This competition has acquired a new dimension in the context of the US-China trade dispute. After the Trump administration increases tariffs on Chinese exports to the US, several companies will shift their plants from China to other Asian countries. Some of them have already done so. According to the Japanese financial firm Nomura, only three of the 56 companies that decided to relocate from China moved to India. Of them, Foxconn is a major player which will be now assembling its top-end iPhones in India. Whether other big multinationals will begin to show interest at manufacturing in India remains to be seen.

But India will have to face another external challenge too as it sees capital fleeing the country. The net outflow of capital has jumped as the rupee has dropped from 54 a dollar in 2013 to more than 70 to a dollar in 2019, at a time when oil is becoming more expensive.

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