MAKE IN INDIA: THE OPPORTUNITY AND CHALLENGES

JYOTHI J
ASSISTANT PROFESSOR
NEW HORIZON COLLEGE
KASTURINAGAR, BANGALORE

Abstract: The "Make in India" project is an initiative taken by the Prime Minister Narendra Modi to encourage the companies around the globe to invest and manufacture their products in India. Make in India is an international Marketing strategy created on 25th September 2014 with an ambition of turning the nation into an international manufacturing hub. To achieve this objective of manufacturing led growth trajectory, India would need to undertake a structured and planned approach to review manufacturing, gain global competitive advantage and global leadership. In order to succeed in this campaign, it was important to be open to capital and expertise from all over the globe and implementation of GST made India one market and strengthen overall programme. In wake of this situation, this paper is a study on opportunities and challenges of Make in India Project and take a bird's view on policies introduced at the state and National level to make this project a success.

The success of this initiative greatly depends on the factor that whether we are at par with the advanced nations as far as usage of modern technology is concerned and we need to have more clarity, maturity and intensity about the quality aspects of the products produced. India's youth population is both an opportunity as well as a threat. In order to bring in millions of unemployed youth to employment stream, the nation needs to create millions of jobs every year. The government is aware of this fact and that is why the Make in India campaign is so earnestly launched. As the western countries population continues to run towards old age, India will continue to remain young for next 2-3 decades.

Key words: Make in India, Foreign Direct Investment, Manufacturing, Entrepreneurs and Product.

1. Introduction

India is a country rich in natural resources. Labour is aplenty and skilled labour is easily available given the high rates of unemployment among the educated class of the country. With Asia developing as the outsourcing hub of the world, India is soon becoming the preferred manufacturing destination of most investors across the globe. Make in India is the Indian government's effort to Harness this demand and boost the Indian economy. India ranks low on the "ease of doing business index". Labour laws in the country are still not conducive to the Make in India campaign. This is one of the universally noted disadvantages of manufacturing and investing in India. The new government initiating a new ways for free flows of capital. Make in India is an initiative of the Government of India, to encourage companies to manufacture their products in India. The government's flagship campaign intended to boost the domestic manufacturing industry and attract foreign investors to invest into the Indian economy with an intention of reviving manufacturing businesses and emphasizing key sectors in India amidst growing concerns that most entrepreneurs are moving out of the country due to its low rank in ease of doing business ratings. The Indian manufacturing sector is the classic example of an industry that has great potential. The objective of the scheme is to ensure the manufacturing sector which contributes around 16% of country's GDP is increased to 25% in next 5 years. Make in India scheme Eliminates Unnecessary laws and regulations. Three sectors which contribute to GDP of any country are agriculture, manufacturing and services. According to the current contributions of these sectors to Indian economy manufacturing occupies 16% which is lowest. There are lots of opportunities to be tapped as far as Indian manufacturing sector is concerned. Many business man and entrepreneurs view make in India initiative for betterment of our economy. Major objective of this scheme focuses on 25 sectors. The sectors are Automobiles, textiles and Garments, Biotechnology, Wellness, Defence, Manufacturing, Ports, Food Processing, Mining, Media and Entertainment, IT and BPM, Pharmaceuticals, Renewable Energy, Roads and Highways, Railways, Thermal Power, Oil and Gas, Space, Leather, Construction, Aviation, automobile components, chemicals and Electronic System.

2. OBJECTIVES OF THE STUDY

- To understand the need for the concept of Make in India.
- To understand the opportunities and challenges of Make in India project.
- To study the recent policy measures and incentives given by government.

3. REVIEW OF LITERATURE

Several articles are written by various writers on "Make in India" form their view.

K. Kalaivani (2015) the article entitled "A Study on the Impact of Make in India on HRM Practices – An overview". The study helps to understand the impact of make in India on the HRM practices followed in our country. The study also covers the synergy between the HRM practices and the job opportunities. The study found that, a significant positive and meaningful relationship between HRM practices and the make in India. The study also found that, HRM practices become the means whereby designing new culture requires that HRM professionals and ahead of the cultural change curve with innovative and exciting HRM practices. Dr. K. V. Ramana (2015) the article entitled "Make in India Illusion or Possible Reality Project?" The paper covers issues of the make in India, sectors covered, worldwide and positive responses and some critics. The study also covers the challenges that the project and movement will face. The study found that, this campaign attracts foreign investments and boost the manufacturing sector of India has been timed to perfection. Boopath (2013) revealed that the Press Council of India has commented on synergic alliance‟ or equity participation by way of Foreign Direct Investment. The council opined that Foreign Direct Investment should be allowed to break or halt the growing monopoly of a few media giants in India who offer uneven playground and unhealthy competition to small and medium papers. Jampala, (2013) Jampala, Lakshmi and Srinivasa (2013) discussed Foreign Direct Investment Inflows into India in the Post-reforms period. They concluded that "as far as the economic interpretation of the model is concerned; the size of domestic market is positively related to Foreign Direct Investment. The greater the market, the more customers and more opportunities to invest." Chausa & Tamazian (2008) Juan Pineiro et. al (2008) in the Paper namely "Does Growth and Quality of Capital markets Drive Foreign capital? - The case of cross-. Border M and As" examined the association between the quantum of FDI in a firm and the quality of capital market growth of that firm. The period of study was from 1987 to 2006. After a comparative study of "both the stock market variables and the financial and regulatory reforms variables, they observed that the coefficients was higher than other variables. They concluded that higher reforms in capital markets may result into higher increase in firm level Foreign Direct Investment". Moreover, the results are found to be enormously forceful when they "replaced stock market variables with squared values of the same, reconfirming the fact that bigger is the escalation, better is the inflow of firm level Foreign Direct Investment". Dunning (2004) [1, 10] in his study "Institutional Reform, FDI and European Transition Economics" studied the significance of institutional infrastructure and development as a determinant of FDI inflows into the European Transition Economies. The study examines the critical role of the institutional environment (comprising both institutions and the strategies and policies of organizations relating to these institutions) in reducing the transaction costs of both domestic and cross border business activity. By setting up an analytical framework the study identifies the determinants of FDI, and how these had changed over recent years. Sunday et al. (2004) [8, 11], in their work "Explaining FDI Inflows to India, China and the Caribbean: An Extended Neighbourhood Approach" find out that FDI flows are generally believed to be influenced by economic indicators like market size, export intensity, institutions, etc., irrespective of the source and destination countries. Klaus (2003) in his paper "Foreign Direct investment in Emerging Economies" focuses on the impact of FDI on host economies and on policy and managerial implications arising from this (potential) impact. The study finds out that as emerging economies integrate into the global economies international trade and investment will continue to accelerate. MNEs will continue to act as pivotal interface between domestic and international markets and their relative importance may even increase further. Boon (2001) [13] in his study, "Foreign Direct Investment and Economic Growth" investigates the casual relationship between FDI and economic growth. The findings of this thesis are that bidirectional causality exist, between FDI and economic growth in Malaysia i.e. while growth in GDP attracts FDI, FDI also contributes to an increase in output. FDI has played a key role in the diversification of the Malaysian economy, as a result of which the economy is no longer precariously dependent on a few primarily commodities, with the manufacturing sector as the main engine of growth. Alam (2000) [3] in his comparative study of FDI and economic growth for Indian and Bangladesh economy stressed that though the impact of FDI on growth is more in case of Indian economy yet it is not satisfactory. Sharma (2000) [4] used a multiple regression technique to evaluate the role of FDI on the export performance in the Indian economy. The study concluded that FDI does not have a statistically significant role in the export promotion in Indian Economy. The study by Dua and Rashid (1998) [2] for the Indian economy does not support the unidirectional causality from FDI to Index of Industrial Production (IIP), wherein is taken as the proxy for GDP. In fact, this study used the monthly data for IIP and GDP, which may include seasonal component in its variation and hence it is required to deseasonalise the data.

4. RESEARCH METHODOLOGY

The study involves the data collected from various secondary sources. The secondary data has been collected from different journals, Research paper, Newspapers, Literature review, various Bulletins of Reserve Bank of India, Websites.

An Exploratory research was chosen in order to develop a profound understanding of the research topic and obtain in depth data about the research objectives.

5. LIMITATIONS OF THE STUDY

The study is based on published data and information. No primary data is being collected. Every care has been taken to entice qualitative and correct data; still secondary data have collected for the purposes other than problem at hand. Secondary data may be lacking in accuracy, or they may not be completely current or dependable. Time constraint remained the major limitation in the study.

6. RECENT POLICY MEASURES

- 49% FDI under automatic route permitted in Insurance and Pension sectors
- Foreign investment up to 49% in defence sector permitted under automatic route. The foreign investment in access of 49% has been allowed on case to case basis with Government approval in cases resulting in access to modern technology in the country or for other reasons to be recorded.
- FDI limit of 100% (49% under automatic route, beyond 49% government route) for defence sector made applicable to Manufacturing of Small Arms and Ammunitions covered under Arms Act 1959
- FDI up to 100% under automatic route permitted in Teleports, Direct to Home, Cable Networks, Mobile TV, Headend-in- the Sky Broadcasting Service

• FDI up to 100% under automatic route permitted in Up-linking of Non-'News & Current Affairs' TV Channels, Down-linking of TV Channels

• In case of single brand retail trading of 'state-of-art' and 'cutting-edge technology' products, sourcing norms can be relaxed up to three years and sourcing regime can be relaxed for another 5 years subject to Government approval

• Foreign equity cap of activities of Non-Scheduled Air Transport Service, Ground Handling Services increased from 74% to 100% under the automatic route

• 100% FDI under automatic route permitted in Brownfield Airport projects

• FDI limit for Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and regional Air Transport Service raised to 100%, with FDI up to 49% permitted under automatic route and FDI beyond 49% through Government approval

• Foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and non-scheduled air transport services up to the limit of 49% of their paid up capital

• In order to provide clarity to the e-commerce sector, the Government has issued guidelines for foreign investment in the sector. 100% FDI under automatic route permitted in the marketplace model of e-commerce

• 100% FDI under Government route for retail trading, including through e-commerce, has been permitted in respect of food products manufactured and/or produced in India • 100% FDI allowed in Asset Reconstruction Companies under the automatic route

• 74% FDI under automatic route permitted in brown field pharmaceuticals. FDI beyond 74% will be allowed through government approval route

FDI limit for Private Security Agencies raised to 74% (49% under automatic route, beyond 49% and up to 74% under government route)

• For establishment of branch office, liaison office or project office or any other place of business in India if the principal business of the applicant is Defence, Telecom, Private Security or Information and Broadcasting, approval of Reserve Bank of India would not be required in cases where FIPB approval or license/permission by the concerned Ministry/Regulator has already been granted

• Requirement of 'controlled conditions' for FDI in Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture and Apiculture has been waived off.

7. OPPORTUNITIES OF MAKE IN INDIA CAMPAIGN

- As Prime Minister Modi emphasized on the development of labour intensive manufacturing sector. So, this campaign will generate a lot of employment opportunities in Manufacturing, number expected to be around 100 million jobs by 2022.

- This campaign will help in achieving objectives of National Manufacturing policy i.e to increase the share of manufacturing sector in GDP from current 15- 16% to 25% till 2022.
- Employment will increase people's purchasing power which ultimately helps in poverty eradication and expansion of consumer base for companies.
- The model of "look east and link west" policy wills strength the industrial linkages as well as bilateral ties with many countries.
- Export- oriented growth model will improve India's Balance of Payment and help in accumulating foreign exchange reserves (which is very important given the volatility in the global economy with multiple rounds of Quantitative Easing announced by major economies).
- Government has decided to formulate an auto response mechanism and issues pertaining to procedural clearings will be resolved at different levels in a given time frame, which is a positive step in making industrial friendly environment.
- Foreign investment will bring technical expertise and creative skills along with foreign capital. The concomitant credit rating upgrade will further woo investors.
- FIIs play a dominant role (relative to FDI) in the Indian markets. However, FIIs are highly volatile in nature and a sudden exodus of hot money from India can effect a nosedive in the bellwether indices. Make in India will give an unprecedented boost to FDI flows, bringing India back to the global investment radar.

8. CHALLENGES OF MAKE IN INDIA CAMPAIGN

- From a theoretical perspective, Make in India will tend violate the theory of comparative advantage. If it is not economically feasible to manufacture a commodity in India, it is best to import the same from a country which enjoys comparative advantage in its production. International trade, after all, is welfare augmenting.
- Reiterating the point made by Dr. Raghuram Rajan, India unlike China, does not have the time advantage as it undertakes a manufacturing spree. The essential question is – Is the world ready for a second China?
- Make in India will lead to an unsustainable focus on export promotion measures. One such measure is artificially undervaluing the rupee. This will have devastating consequences for the import bill.
- A relative neglect of the world economic scenario may not augur well for Make in India. With the US and Japan economies yet to recover from their economic crises and with the EU floundering, one needs to be wary about the demand side of Make in India. The clairvoyance of the incumbent RBI governor to Make for India should be put to good use.
- India has a myriad of infrastructural bottlenecks and to overcome these it needs to invest $ 1 trillion during 12th five year plan. Generating such a huge capital will be a daunting task.

- Another contentious issue is of environmental clearance, which has been surfaced in many projects especially related to mining sector.
- Uncertainty in tax regime (highlighted by Vodafone case) and delay in implementation of GST is also a matter of concern for industries.
- Manufacturing sector demands highly skilled labour whereas India lacks highly skilled labour force.
- Complex processes have proved to be hurdles in getting procedural and regulatory clearness especially for new entrepreneurs. This also reflects in World Bank's "Ease of Doing Business" report which ranked India at 134 out of 189 countries in 2013. However, the step taken by NDA Government under the leadership of Prime Minister Modi has helped India to improve this rank by few notches to current 130.

9. INCENTIVES

The incentives taken by both Central and State government are discussed as below:

9.1. CENTRAL GOVERNMENT INCENTIVES:

• Investment allowance (additional depreciation) at the rate of 15 percent to manufacturing companies that invest more than INR 1 billion in plant and machinery available till to 31.3.2015.

• Incentives available to unit's set-up in Special Economic Zones (SEZ), National Investment & Manufacturing Zones (NIMZ) etc. and Export Oriented Units (EOUs).

• Exports incentives like duty drawback, duty exemption/remission schemes, focus products & market schemes etc.

• Areas based incentives like unit set-up in north east region, Jammu & Kashmir, Himachal Pradesh and Uttarakhand.

• Sector specific incentives like Modified Special Incentive Package Scheme (M-SIPS) in electronics.

9.2. STATE GOVERNMENT INCENTIVES:

• Each state government has its own incentive policy, which offers various types of incentives based on the amount of investments, project location, employment generation, etc. The incentives differ from state to state and are generally laid down in each state's industrial policy.

• The broad categories of state incentives include: stamp duty exemption for land acquisition, refund or exemption of value added tax, exemption from payment of electricity duty etc.

10.CONCLUSION

India has already proved itself as one of the fastest growing economies of the world. It has been ranked among the top 10 attractive destinations for investments from all over the world. It has now become a professional license for investors to approach and endow in the escalation legend of India. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly. The measures taken by the Government are directed to open new sectors for foreign direct investment, increase the sectoral limit of existing sectors and simplifying other conditions of the FDI policy. FDI policy reforms are meant to provide ease of doing business and accelerate the pace of foreign investment in the country. Over all scenario of make in India and FDI was a positive summon to prospective investors from all over the world. It represents a wide-ranging refurbish of processes and policies. Earlier, Indian Government was working with a mindset of an issuing authority, but now with the launch of Make in India, it has started working as a Business Partner.

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