

ISSN: 2348-7666

VOLUME -4, ISSUE 3(2), MARCH, 2017

IMPACT FACTOR: 4.535



Monthly

International Journal of Academic Research

VOICE OF INTELLECTUALS

UGC Sponsored Two Day National Seminar on

MAKE IN INDIA - PROSPECTS AND CHALLENGES

In Collaboration With Chowdary Spinners Ltd, Chivatam, W.G. Dt

Organized by

The Department of Economics, S.K.S.D Mahila Kalasala(A), Tanuku
(on 8th & 9th March, 2017)



Edited by

P. Aruna - K. Radha Pushpavathi - B. Naga Padmavathy



Multidisciplinary, Multiple Languages
Refereed and Indexed Journal

Editor-in-Chief
Dr.T.V.Ramana

16	Make in India” strategy provides the incitement for chemical industry: M.Sridevi and P. Aruna	89
17	An assessment of employment skill gaps among engineering graduates in Andhra Pradesh: K.Kishore Babu and D.Thirupathaiiah	92
18	Make-In-India: Optimum Strategies for Sustainability of an Indian Economy in Congruent with the Amelioration of Efficiency of Manufacturing Sector: K.Kanaka Raju and V.Vijayanand	98
19	Role of human resources in “make in India: Role of human resources in “make in India: S.Venugopal and R.J.L.P.Priyanka	103
20	Make In India - Acceleration of Growth: I. Annapurna	106
21	Make in India: prospects and challenges- S. Sai Durga Prasad, J. S. Prabhakara Rao and S.Radha Ramana	111
22	Make in India and the Micro, Small and Medium Enterprises: Ramesh Krishna Vipparthi	116
23	Role of MSMEs in ‘Make In India’ Campaign: M.Rambabu	128
24	Make in India Programme: Opportunities and challenges: K.Ananda Kumar	135
25	Make in India: Major Challenges: K. Swaroop Kumar	142
26	The four pillars of make in India: B. Naga Padmavathy, M.P. Karthik Madhav	147
27	Make in India - A roaring lion: Lt.U.L.Sundari Bai and Smt.K.Padmaja Rani	151
28	Make in India-prospects and challenges: P.Aravind Swamy	153
29	Make in India: New Paradigm for Socio-Economic Growth in India- G. Aruna Kumari, K. Vani	157
30	Make in India: Welcome to invest in Biotechnology Sector of India- K. Venkata Reddy, K. Srilakshmi	162
31	GST: A game changer - “make in India”: T. Tirupati naidu	171
32	Foreign Direct Investment – In India: Kalyanam Satyanaryana and J. Chandra Prasad	174
33	Enabling ‘make in India’ through effective tax reforms: Kota Pallavi	179



Make in India-prospects and challenges

P.Aravind Swamy, Lecturer in Economics,
GDC, Ganapavaram, West Godavari Dt.-534198.

Abstract : India is the fastest growing economy and third-largest economy in the world regarding its purchasing power parity according to the World Bank with the GDP of over USD 2.1 trillion. It was named amongst the top 10 Foreign Direct Investment (FDI) destinations in 2015. Looking at these statistics, one cannot deny that India has an incredible potential to rise as an economic power with a prosperous future. But on the other hand India ranked low on the World Bank's report of 'Ease of Doing Business', having been cited to have a myriad of regulations and bureaucratic red tape. The desired dynamism in the manufacturing sector has remained elusive. The share of manufacturing has largely remained stagnant averaging around 15.5% of GDP over the last 35 years. India is still struggling for a manufacturing led export growth to take root. India has an added advantage with numerous favorable conditions such as cheap abundant labour, rich availability of raw materials, domestic consumer market etc., for the success of Make in India initiative. Low rank regarding 'Ease of Doing Business', multi-tier regulatory frameworks and complex procedures making, lack of clear-cut policies on land acquisition, lack of R&D and multiple tax regime are the main impediments for "Make in India initiative". . If India can overcome the challenges and provide world class infrastructure and logistics, the Make in India initiative can turn India into the world largest economy very soon.

Key words: Make in India, 'Ease of Doing Business, dynamism

Introduction

India is the fastest growing economy in the world today – an impressive position it has held since it overtook China in the year 2015 – with the International Monetary Fund (IMF) predicting that India is likely to retain this status till 2020. With the Gross Domestic Product (GDP) of the country growing at more than 7% since 2014, the IMF has kept projections for India's growth in 2016-2017 at 7.5%, which is remarkable since there has been a forecast of the global growth predicted at 3.4% in 2016 and 3.6% in 2017, as reported by the national daily, The Hindu. India is also the third-largest economy in the world regarding its purchasing power parity according to the

World Bank with the GDP of over USD 2.1 trillion. It was named amongst the top 10 Foreign Direct Investment (FDI) destinations in 2015. The country is home to the 2nd largest English-speaking population in the world after the United States. It also has the largest youth population in the world at 650 million with more than half the population below 25 years of age. This demographic is arguably India's greatest strength.

Looking at these statistics, one cannot deny that India has an incredible potential to rise as an economic power with a prosperous future. A decade-long study by Harvard University's Centre for International Development predicts the country's GDP will continue to expand at an average of over 7% which means



nominal GDP will nearly double to around USD 4.50 trillion (at current exchange rate) in 2025. India's purchasing power parity in 2025 will thus be around USD 15 trillion by a similar calculation. It is also set to be the 5th largest consumer market by the same year.

But on the other hand India ranked low on the World Bank's report of 'Ease of Doing Business', having been cited to have a myriad of regulations and bureaucratic red tape. While India has metamorphosized from an agrarian economy into an economy driven by the services sector, the desired dynamism in the manufacturing sector has remained elusive. The share of agriculture in India's GDP has declined from 35% in 1980 to 18% in 2013 and the corresponding share of services has risen from 40% to 57%; however the share of manufacturing has largely remained stagnant averaging around 15.5% of GDP over the last 35 years. The share of manufacturing in India's GDP stood at a meagre 12.8% in 2013. India is still struggling for a manufacturing led export growth to take root. Of India's export basket, 62% comprise of manufacturing exports (as of 2013) which is the lowest among most Asian economies (China 94%, Japan 88%, Phillipines 77%, Singapore 70% and Thailand 74%). Harnessing India's manufacturing potential is the key to ensure a sustainable long term growth. The government of India has already taken several steps for some much-needed change in the country. Numerous national developmental projects such as Digital India, Start Up India, Skill India, Pradhana Mantri Jan-Dhan Yojana, Smart City, National Manufacturing Policy (NMP) etc., have been launched

in the recent years that cover a wide array of sectors to initiate economic reform as well as target social change.

With the country already witnessing an increase in FDI by nearly 44% since the launch of such initiatives, India seems on its way to achieving its stated target with the government leading the way. 'Make in India' is the proof that the nation is willing to embrace growth by adopting changes on the journey to becoming an economic superpower. Reinforcing the vision to develop India into a global manufacturing giant, Prime Minister Narendra Modi unveiled a national program of 'Make in India' on 25th September 2014' with an aim to facilitate investments, foster innovation and build world class manufacturing infrastructure. Under the 'Make in India' initiative, the government has, since its inception, announced several steps to improve the business environment by easing processes to do business in the country. It represents a comprehensive overhaul of processes and policies. It represents a complete change of the Government's mindset - a shift from issuing authority to business partner, in keeping with Prime Minister Modi's tenet of 'Minimum Government, Maximum Governance'.

With the objectives of making India a global manufacturing hub, encouraging Domestic companies and Multinationals to manufacture their products in India, creating millions of jobs in the country and attracting foreign investment, the initiative focuses on 25 sectors of the economy for job creation and skill enhancement. Some of these sectors are automobiles, chemicals, IT, pharmaceuticals, textiles, ports, aviation, leather, tourism and



hospitality, wellness, railways, design manufacturing, renewable energy, mining, bio-technology and electronics. The initiative hopes to increase GDP growth and tax revenue. It also aims at high quality standards and minimizing the impact on the environment. It hopes to attract capital and technological investment in India. The envisaged creation of smart cities and investment corridors, allowing higher FDI in sectors such as defence and railways, actions to foster project execution including faster approvals and clearances, appeasing investor sentiment, correcting inverted duty structures amongst others, have been some of the encouraging efforts that the Government has undertaken over the last few months.

India has an added advantage with numerous favorable conditions for the success of Make in India initiative. Cheap abundant labour gives India a natural comparative advantage in low-value added, labour intensive manufacturing goods. With a population of 1.2 bn people, and the world's highest youth population (India has 572 mn people under the age of 24); labour is a vital factor of production for India. India's harnessing of its manufacturing potential will lie in tapping its low cost labour. India fares as the most competitive economy in terms of both average monthly wages and minimum monthly wages as compared to its Asian peers. Cheap semi-skilled and unskilled labour intensive products give India a natural competitive advantage.

India has rich availability of raw materials inputs such as cotton, coal and iron ore. India has the world's 5 largest coal reserves, India is the fourth largest iron ore producer accounting for 5% of

global production, and is likely to overtake China as the largest cotton producer. Abundant raw materials give India a comparative advantage in terms of low-cost manufacturing inputs, reducing the overall cost of production. Further, domestic availability of raw materials can insulate India's manufacturing sector from global commodity cycles. There is a room for India in the global markets to export labour intensive products like clothing, textiles, footwear, furniture, plastic products, bags and toys. India's domestic demand offers tremendous potential to tap economies of scale in manufacturing consumer goods segment. India's domestic consumer market is the most rapidly growing consumer market in Asia. The new aspiring Indian middle class is expected to touch 267 mn over the next 5 years as per National Council of Applied Economic Research (NCAER), presenting tremendous opportunities to realize economies of scale for fast moving manufacturing consumer goods. With consumerism and disposable incomes on the rise, retail sector can experience rapid growth in the coming decades with many global players entering the Indian market.

In spite of prospects discussed above, there are several problems for the success of Make in India initiative. India ranked low on the World Bank's report of 'Ease of Doing Business', having been cited to have a myriad of regulations and bureaucratic red tape. According to World Bank's 'Ease of Doing Business' survey 2014, India ranks 142 out of a total of 189 countries, significantly behind its Asian peers (Singapore ranks 1, Hong Kong ranks 3, Malaysia 18, China 90, Philippines 95 and Indonesia 114), highlighting that the procedures



and costs of doing business are particularly cumbersome for India. Start up procedures to register a business requires 12 days in India as compared to 5 days in OECD nations and 8 days in Low and Middle Income nations. Further, 1420 days are required to enforce a contract in India as compared to 527 days in OECD nations and 655 days in Low and Middle income nations. India is characterized by multi-tier regulatory frameworks and complex procedures making it tedious for investors to venture into manufacturing projects. Relative labour productivity in India falls behind its global peers, despite a cheap and abundant labour resource. As a result of poor education, labour productivity remains low in India, serving as a deterrent for attracting investment and manufacturing opportunities. Infrastructure and logistics in India lag far behind international standards adding significantly to the cost of doing business. Highways, bridges, world-class airports, reliable power and clean water are in short supply. Indian ports have a vessel turnaround time of 3-5 days as against only 4-6 hours in Singapore and Hong Kong.

Lack of clear-cut policies on land acquisition, multiplicity of authorities and bureaucratic hurdles lead to delays in the implementation of industrial and infrastructure projects in India. India's expenditure on R&D as a share of GDP is a paltry 0.8% as compared to 2.4% in OECD nations and 1.2% in Low & Middle income nations. Currently the taxation regime faces challenges such as double taxation, inverted duty structure and lower incentives which have rendered the manufacturing sector uncompetitive. The indirect taxation regime is riddled with double taxation such as sales tax on

central sales tax, sales tax on central sales tax, entry tax on sales tax, and income tax on service tax. Further, the current direct tax structure is a major impediment towards building an investor friendly ambience and boosting consumer sentiment. Taxes on income profits and capital gains comprise 45% of total revenues in India with comparable ratios at 23% in OECD nations and 21% in low income nations, reflecting disincentives the current tax structure at present imposes.

Today, India's credibility is stronger than ever. There is visible momentum, energy and optimism. Make in India is opening investment doors. Multiple enterprises are adopting its mantra. The world's largest democracy is well on its way to becoming the world's most powerful economy. If India can overcome the challenges and provide world class infrastructure and logistics, the Make in India initiative can turn India into the world largest economy very soon.

References:

Chattopadhyay, A. (2015, May 15). For 'Make in India' to Happen, Modi Govt. Must Move from Cheap Rhetoric to Difficult Action. *The Economic Times*.

Datta, R.C., & Milly, S. (2007). Contemporary Issues on Labour Law Reform in India: An Overview. *Atmri Discussion Paper*. Tata Institute of Social Sciences, Mumbai.

Doing Business in India. (2015, June). *Nishith Desai Associates*.