EPRA TRUST Publishing

Research Paper

EPRA International Journal of Economic and Business Review -Peer Reviewed Journal

Volume - 8, Issue -4, April 2020 | e-ISSN : 2347 - 9671| p- ISSN : 2349 - 0187

SJIF Impact Factor(2019) : 8.045||ISI Value:1.433 |Journal DOI URL :https://doi.org/10.36713/epra2012

MAKE IN INDIA – ROAD AHEAD GLOBAL AND DOMESTIC OUTLOOK OF MANUFACTURING SECTOR GROWTH DYNAMICS, OPPORTUNITIES AND CHALLENGES

Dr. K. Madhava Rao	*Faculty in Accounting & Finance, Gitam Institute of Management,GITAM UNIVERSITY (Deemed to be University)Gandhi Nagar Campus, Rushikonda, Visakhapatnam– 530 045,Andhra Pradesh India*

ABSTRACT

Article DOI URL: https://doi.org/10.36713/epra2641

India is set to emerge as the world's fastest-growing major economy by 2015 ahead of China, as per the recent report by The World Bank. India's Gross Domestic Product (GDP) is expected to grow at 7.5 per cent in 2015, as per the report. The improvement in India's economic fundamentals has accelerated in the year 2015 with the combined impact of strong government reforms, RBI's inflation focus supported by benign global commodity prices.

The Indian economy has been witnessing positive sentiments during the past few months. The macroeconomic indicators have also displayed an encouraging trend in the recent times. However, the situation of the manufacturing sector in India is a cause of concern. At 16% value added to GDP, the sector does not seem representative of its potential which should have been 25%. However, the industrial growth scenario is improving and is estimated at 1.9% in the period April-October 2014-15.

Make in India is a major new national programme of the Government of India designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure in the country. The primary objective of this initiative is to attract investments from across the globe and strengthen India's manufacturing sector. It is being led by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India. The Make in India programme is very important for the economic growth of India as it aims at utilising the existing Indian talent base, creating additional employment opportunities and empowering secondary and tertiary sector.

The present study is an attempt to understand the global and domestic outlook of manufacturing sector, growth dynamics, opportunities and challenges for manufacturing firms particularly in the states under the influence of DMIC.

KEY WORDS: ***Emerge, Primary Objective, Industrial Policy, Economic Fundamentals, and Commodity Prices.***

INTRODUCTION

The Indian economy has been witnessing positive sentiments during the past few months. The macroeconomic indicators have also displayed an encouraging trend in the recent times. However, the situation of the manufacturing sector in India is a cause of concern. At 16% value added to GDP, the sector does not seem representative of its potential which should have been 25%. However, the industrial growth scenario is improving and is estimated at 1.9% in the period April-October 2014-15. The recent measures undertaken by the new government in terms of facilitation to industrial sector, creation of conducive environment for the manufacturing activities, focus on improving industrial policies and procedures and reforming labor laws have facilitated recovery in industrial sector.

The Government recently launched the Make in India initiative which is expected to make India a manufacturing hub while eliminating the unnecessary laws and regulations, making bureaucratic processes easier, make government more transparent, responsive and accountable and to take manufacturing growth to 10% on a sustainable basis.

Apart from initiatives such as development of smart cities, skill development, National Investment and Manufacturing zones, FDI enhancement, the government is building a pentagon of corridors across the country to boost manufacturing and to project India as a Global Manufacturing destination of the world.

The most important of these corridors is the DMIC which is one of the largest infrastructure projects planned in India and spans the six states of Uttar Pradesh, Haryana, Madhya Pradesh, Rajasthan, Gujarat and Maharashtra. According to the survey conducted, the respondents were asked about the promising sectors of investment in the coming times which according to them are Agro and food processing industry, Auto components & automotive industry, Drugs & pharmaceuticals, Engineering, FMCG industry, Gems and jewellery, Infrastructure, Leather and leather products, Services sector and Textile and readymade garments.

The respondents were also asked about the procedural bottlenecks which hamper their business and may also hinder in the implementation of the Make in India initiative. According to them, current laws make acquisition costly as well as tedious. A robust Land Acquisition policy which would make acquisition much easier along with an attractive R&R package is essential for investment in infrastructure and manufacturing. The labour laws are rigid and inflexible that needs to be addressed. Progressive labour laws would create more job opportunities in the market and would contribute towards the growth of manufacturing sector. Further, there is a need for simplification of tax laws and earliest implementation of GST to remove multiple taxation and to rationalize the tax system.

The manufacturing firms believe that the Companies act in its current form is detrimental for all the companies and poor governance may impede growth in the economy. They also said that there is an urgent need to drastically overhaul the Police Raj to make it people friendly. The business groups were also asked about the operational problems which they face in their states. The manufacturing units of Haryana said that access to finance, dual taxation and labor unrest are some of the operational problems they face. The businesses in Uttar Pradesh face the problem of energy shortages, unskilled workforce, excessive regulations, water shortages, problems with law and order, lack of connectivity and transportation facilities, high energy cost, limited R&D and difficulties in marketing and selling. The firms in Rajasthan face the difficulty in obtaining basic finance particularly the MSMEs while Infrastructural constraint in the form of paucity of airports and double are the problems faced by industrialists in Madhya Pradesh.

The industrial units in Maharashtra face problems in registration/ renewal of license related to Factories Act as the process is manual and cumbersome and the electricity rates are exorbitantly high in the state which impacts their businesses. According to the manufacturing firms in Gujarat, though there is online system of registration for obtaining environmental clearances, it takes around 3-4 months and they are also dissatisfied with the manual system for labor law related compliances. On the other hand, the industrialists in Delhi face various operational problems such as infrastructural constraints, administrative bottlenecks and high taxation. When the business environment in the DMIC states were compared with each other on most critical factors, Gujarat emerged as the best performing state among all states under the influence area of DMIC.

Further, the manufacturing firms are positive on the future outlook as majority of the respondents are considering expanding their business in the next five years through various ways and measures, going forward. Going ahead, the Indian manufacturing sector provide an excellent opportunity to international investors to collaborate with existing businesses as most of the businesses have plans to expand through various options. This also reiterates the fact that the businesses are actively willing to participate in the Make in India mission of the government. With various initiatives being implemented by the government to facilitate the ease of doing business, the manufacturing sector in India is expected to pick up pace and will provide immense opportunities to domestic and international investors to come and make in India.

Key Economic Indicators

The Indian economy has been witnessing positive sentiments during the past few months. The real GDP growth is estimated at 5.5% in the first half of 2014-15 as against 5% in the corresponding period of last year. The macroeconomic indicators have also displayed an encouraging trend in the recent times.

Key Macroeconomic Indicators

S. No.	Parameters	Financial Year 2014	H1Financial Year 2015
1	Real GDP Growth	4.70%	5.5%~
2	WPI Inflation	6%	4.2%*
3	CPI Inflation	9.50%	7.4%*
4	Industry Growth	(-)0.1%	1.9%*
5	Exports	4%	4.7%*
6	Fiscal Deficit as % of GDP	84.4%^	89.6%^
7	Current Account Deficit as % of GDP	1.70%	1.9%!
8	FDI Inflows	8%	15%
9	Exchange rate	60.50	59.7#

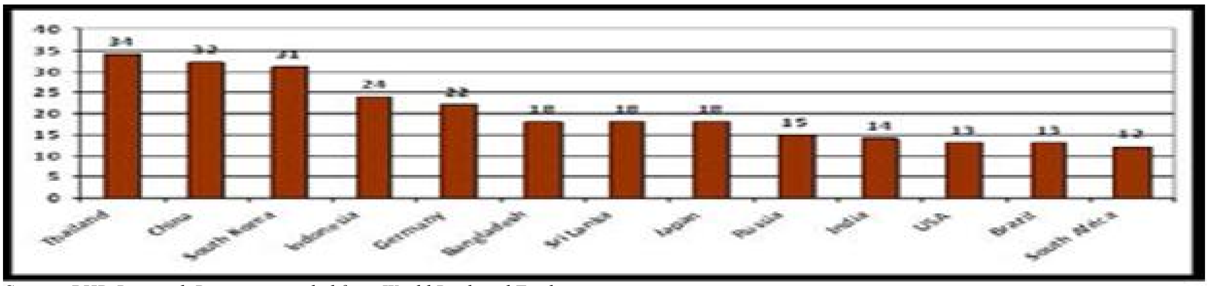
Source: PHD Research Bureau, compiled from various sources

~Real GDP growth is average of Q1 and Q2 2014-15
*Data pertains to April-October 2014-15
^Data pertains to percentage of actual to budget estimates for the month of October in the respective years
! Figure is average of Current Account Deficit of Q1 and Q2 of year 2014-15
#Data pertains to Q2 2014-15

STATUS OF MANUFACTURING SECTOR

The situation of the manufacturing sector in India is a cause of concern. At 16% value added to GDP, the sector does not seem representative of its potential which should have been 25%. In most rapidly developing economies, manufacturing sector contributes 25-40% to the GDP such as Thailand's manufacturing sector value added to GDP is around 34%, China 32%, South Korea 31%, Indonesia 24% and Germany 22%.

Manufacturing value added (% of GDP- US$)

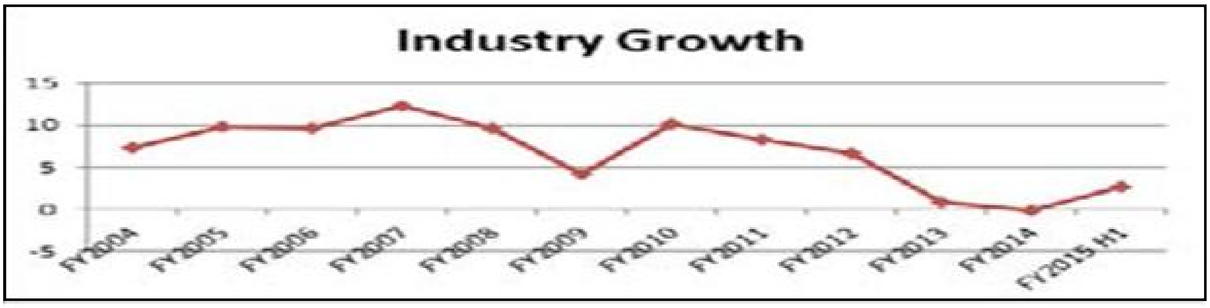


Source: PHD Research Bureau, compiled from World Bank and Trading economics,

Note: Data pertains to 2012

During the last 2-3 years, the Indian industry has seen a rough patch, decelerating considerably. The industrial growth fell from 9.2% (average) in 10th five year plan period to 7.2% in the 11th five year plan period and 0.35% in the first two years of 12th five year plan (FY13 & FY14). However, with the new government in power, the industrial growth picked up from -0.1% in FY2014to an average growth of 2.7% during the first half of 2014-15.

Industry growth from FY2004 to FY2015H1 (in percentage)



Source: PHD Research Bureau, compiled from MOSPI

The manufacturing sector in India grew at 0.7% during the period April-October 2014-15 from (-)0.1% in the corresponding period of 2013-14. The sector grew only 0.2% (average) YoY during the last two years. Though policy has been formulated (New Manufacturing Policy 2011) to enhance its share in GDP from 16% to 25% by 2022, the sector is impacted by multiple factors.

Bottlenecks to Manufacturing Sector in India

- High input costs
- Inadequate infrastructural framework
- Lack of single window clearance facilities
- Inadequate availability of land for industrial purposes
- Unbalanced growth in logistics sector

However, the industrial growth scenario is improving and is estimated at 1.9% in the period April-October 2014-15. The recent measures undertaken by the new government in terms of facilitation to industrial sector, creation of conducive environment for the manufacturing activities, focus on improving industrial policies and procedures and reforming labor laws have facilitated recovery in IIP.

Further, the announcements made in Union Budget 2014-15 are inspiring as focus on industrial infrastructure and plan to establish 100 smart cities would enhance industrialization and create employment opportunities in the economy. The launch of Make in India is expected to inspire the investors to look at India for their future investments which would improve the ease of doing business and spur manufacturing growth, going ahead.

Key Policy Announcements

During the last 6-7 months, the new government has undertaken many reforms in the recent times that have created scope for rejuvenation of India's growth story. The focus of the government has been on refueling growth, taming price pressures, facilitating industrial and businesses environment and simplifying the policies and procedures.

- Launch of 'Make in India' to make India a manufacturing hub
- FDI limits in insurance and defense enhanced to 49% and 100% FDI in railway infrastructure
- Development of 100 smart cities to facilitate infrastructure development
- Launch of a user-friendly Indian Trade Portal aimed to facilitate Indian exporters
- Launch of Jan Dhan Yojana to remove financial untouchability. The scheme targets to open 100 million bank accounts by January 26, 2015.
- Amendments to three archaic labor laws - Apprenticeship Act 1961, Factories Act 1948 and Labor laws act (Exemption from furnishing returns and maintaining of registers by certain establishments 1988) approved
- Re - launch of Kisan Vikas Patra Scheme to increase domestic savings
- • Launch of labour inspection schemes, 'Shram Suvidha' portal, Universal Account Number (UAN) facility for Employees Provident Fund Organisation (EPFO) subscribers
- Easing of green rules for mining, roads, power and irrigation projects
- Proposal to replace the Planning Commission with a new body
- Digital India to connect all gram-panchayats by broadband internet

- Creation of a 'Common National Market' for the entire country to ensure free movement of goods across the state borders.

Bolstering (Strengthen) the Manufacturing Sector

In light of various problems faced by Indian business, various measures can be adopted to facilitate the ease of doing businesses in India.

- ✓ Strengthening and consolidation of the incentive structure for corporate R&D activity in the country to further the international competitiveness of national enterprises.
- ✓ Development of industrial corridors to facilitate ease of doing business, increased industrial output, generation of employment opportunities and promotion of socio-economic growth of India.
- ✓ In order to comply with the global standards, MSMEs scale should be increased manifold in terms of financials and manpower so that more companies come under MSMEs
- ✓ Easing the regulatory compliances of the Companies Act of 2013 for MSMEs in order to boost external funding for the sector.
- ✓ Increased access to finance for MSMEs to reduce the delays and stalling of business projects due to non-availability of finance.
- ✓ Repealing the existing labour laws which put unnecessary regulatory burden on businesses and simplification of the exit rules for Indian and foreign entities.
- ✓ Developing energy infrastructure with up-gradation of technology and strengthening of high capacity national transmission grid.
- ✓ Addressing the infrastructure problems and an overall re-hauling of transport system through increasing the capacity of railways, highways and expressways.
- ✓ Revisiting the Land Acquisition Act to ease the process of land acquisition.
- ✓ Simplification and rationalization of taxation system with long term stability.

MAKE IN INDIA

Make in India is aimed at making India a manufacturing hub and economic transformation while eliminating the unnecessary laws and regulations, making bureaucratic processes easier, make government more transparent, responsive and accountable and to take manufacturing growth to 10% on a sustainable basis.

Objectives

• To make investing in manufacturing more attractive to domestic and foreign investors
• To give the Indian economy global recognition
• To create competitive industrial environment
• To development infrastructure
• To invite latest technologies
• To generate employment and skill formation

The Make in India focuses on new ideas and initiatives such as-

• First Develop India and then Foreign Direct Investment
• Look-East on one side and Link-West on the other
• Highways and 'I-ways
• Facilitate investment
• Foster innovation
• Protect intellectual property
• Build best-in-class manufacturing infrastructure.

On Which Areas to be focused

Automobiles
Automobile Component
Aviation
Biotechnology
Chemicals
Construction
Defense Manufacturing
Electrical Machinery
Electronics Systems
Food Processing
IT & BPM
Leather
Media and Entertainment
Mining
Oil and Gas
Pharmaceuticals
Ports
Railways
Renewable Energy
Roads and Highways
Space
Textiles and Garments
Thermal Power
Tourism
Hospitality and Wellness

Initiatives Undertaken to Facilitate the Ease of Doing Business

- De-licensing and deregulation measures to reduce complexity and ensure increased transparency.
- Online applications for Industrial License & Industrial Entrepreneur Memorandum have been on 24×7 basis. Industrial license have been extended to three years, state governments asked to introduce self certification.
- Services of all Central Government Departments & Ministries will be integrated with the eBiz – a single window IT platform for services by 31 December 2014.
- The process of obtaining environmental clearances has also been made online.
- All returns should be filed on-line through a unified form and a check-list of required compliances should be placed on Ministry's/Department's web portal.
- Center has advised all the departments that all registers maintained by the businesses should be replaced with a single electronic register
- No inspection to be undertaken without the approval of the Head of the Department.

Factors impacting the ease of doing business in India

- Delays in land acquisition
- Delays in municipal permission
- Delays in supply of materials
- Delays in award of work
- Operational issues dragging down the implementation of the projects
- Movement of projects through multiple departments at the state and Central levels

- Involvement of multiple agencies
- Requirement of various approvals across different stages of the project cycle

Common solutions to improve the ease of doing business

- Single window clearances
- Effective coordination between centre and state governments
- Digitization of all the government departments
- Electronic filing and fulfillment of procedures
- Creation of a central cloud where all States should have access
- Making all approvals electronically.

THE ROAD AHEAD

- Plan to develop new smart cities and industrial clusters in selected industrial corridors
- Work on 5 smart cities- Dholera, Shendra-Bidkin, Greater Noida, Ujjain and Gurgaon, is in progress as a part of the Delhi-Mumbai Industrial Corridor
- New youth-oriented programs to develop specialized skills
- Impetus has also been given on developing Industrial Corridors
- 'National Industrial Corridor Development Authority' has been created to coordinate, integrate, monitor and supervise development of all Industrial Corridors
- New Industrial Clusters have been proposed.
- 21 Industrial projects under Modified Industrial Infrastructure Up gradation Scheme have been approved with an increased emphasis on use of recycled water
- Approval accorded to 17 National Investment and Manufacturing zones (NIMZ).
- 100% FDI under automatic route in construction and operation and maintenance in specified Rail Infrastructure projects.
- Government of India is building a pentagon of corridors across the country to boost manufacturing and to project India as a Global Manufacturing destination of the world.

CONCLUSION

The DMIC Corridor provides excellent investment opportunities to the businesses which is expected to not only facilitate ease of doing business and increase industrial output but is also expected to generate employment opportunities and promote socio-economic growth of India.

The states which are under the influence area of DMIC are Delhi, Haryana, Uttar Pradesh, Rajasthan, Gujarat, Madhya Pradesh and Maharashtra. The business environment in these states were studied to know the operational problems faced by the enterprises in these states, promising sectors of investment, ease of doing business in these states and future outlook of the firms operating in DMIC states.

According to the survey, there are various promising sectors in which the upcoming enterprises can invest. Agro and food processing industry, Auto components & automotive industry, Drugs & pharmaceuticals, Engineering, FMCG industry, Gems and jewellery, Infrastructure, Leather an d leather products, Services sector and Textile and readymade garments are the areas where the new startups can invest and where existing enterprises can expand to generate profitable outcomes. Thus the firms in these states are willing to expand their operations and diversify their business and look forward to collaborations which can be reaped in by the international community.

It is expected that the new government would undertake additional measures under its ambitious programme "Make in India" which will create more conducive environment for the growth of business in the coming times. However, there are few problems which are faced by the firms which need to be addressed. Shortage of power, time consuming process of obtaining new power connections, power cuts, high electricity rates and energy cost is a major problem faced by the firms which make it less viable for any business units to set up their enterprises. There are infrastructure constraints in terms of lack of basic amenities, proper transportation facility and connectivity. Further, the administrative procedures are complex and time consuming. There is no single window mechanism in practice and hence taking licenses from various government departments leads to delays in process thereby increasing the costs of doing business in the country.

REFERENCES

*Main resource is PHD Chambers Survey Report and the following reports.

1. Comparative study on power situation in Northern and Central states of India (September 11)
2. Economic Analysis of State (October 2011)
3. Growth Prospects of the Indian Economy, Vision 2021 (December 2011)
4. Budget 2012-13: Move Towards Consolidation (March 2012)
5. Emerging Trends in Exchange Rate Volatility (Apr 2012)
6. The Indian Direct Selling Industry Annual Survey 2010-11 (May 2012)
7. Global Economic Challenges: Implications for India (May 2012)
8. India Agronomics: An Agriculture Economy Update (August 2012)
9. Reforms to Push Growth on High Road (September 2012)
10. The Indian Direct Selling Industry Annual Survey 2011-12: Beating Slowdown (March 13)
11. Budget 2013-14: Moving on reforms (March 2013)
12. India- Africa Promise Diverse Opportunities (November 2013)
13. India- Africa Promise Diverse Opportunities: Suggestions Report (November 2013)
14. Annual survey of Indian Direct Selling Industry-2012-13 (December 2013)
15. Imperatives for Double Digit Growth (December 2013)
16. Women Safety in Delhi: Issues and Challenges to Employment (March 2014)
17. Emerging Contours in the MSME sector of Uttarakhand (April 2014)
18. Roadmap for New Government (May 2014)
19. Economy on the Eve of Union Budget 2014-15 (July 2014)