'Make in India' for more 'made in India'

Doing business in India today is much more difficult than elsewhere, but the government wants to change this. Prime Minister Narendra Modi has launched the 'Make in India' initiative to attract investors and make India a global manufacturing hub.

The launch

'Goodbye red tape, hello red carpet' read one of the slogans that accompanied the launch of the **'Make in India'** initiative on 25 September 2014. That day, Indian Prime Minister Narendra Modi addressed an audience of 500 domestic and international entrepreneurs in New Delhi, in an atmosphere charged with euphoria following the success of India's first mission to Mars the previous day. Modi inaugurated a campaign aimed at transforming India into a global manufacturing hub and at easing its business climate for both domestic and foreign investors. A logo, a portal and brochures detailing 25 priority sectors were introduced that day. The logo shows a striding lion made of cogs with the campaign name across its body.

Doing business in India today

India scores badly with regard to many indicators measuring an economy's capacity of doing business. In the World Bank's 'Doing Business 2015' report, India ranks 142nd out of 189 economies, lagging substantially behind China (90th) and Vietnam (78th), but also behind neighbours like Nepal (108th), Bhutan (125th) and Pakistan (128th). Dealing with construction permits (ranked 184th) and enforcing contracts (186th) are the most critical points, and starting a business (158th), paying taxes (156th), getting electricity (137th) and resolving insolvency (137th) are other challenging aspects. Protection of minority investors is the only topic in relation to which India features among the frontrunners, ranking seventh.

Furthermore, foreign companies complain about India's poor infrastructure, cumbersome land purchasing arrangements, excessive regulation, rigid labour laws and frequent power cuts.

Additional reasons for the new initiative

Several pressing issues prompted the launch of this campaign. First and foremost, India needs to reboot its economy. After several years of gross national product (GNP) growth averaging 7.7%, between 2002 and 2011, this pace slowed down to around 5% in 2013 and 2014.

Second, India needs more jobs for its young people. Recently, on average, 5 million new jobs have been created each year, but around 12 million people join the workforce each year. This is the other side of the demographic dividend: India's labour force is expected to grow to 600 million by 2022. Job creation will fight poverty and help divert people from agriculture, which has a low capacity to sustain their livelihood.

Third, India's economic development model has been quite peculiar, offering privileges to skilled labour often employed by foreign companies. Conversely, other economies have achieved success by first providing incentives for job-creating manufacturing industries. That is why today manufacturing in China makes up 34% of gross domestic product. The Chinese have positioned themselves as the 'workshop' of the world, accounting for 22.4% of global manufacturing, while India accounts for only 2%. India's manufacturing sector is less productive compared to its competitors and accounts for only 15% of its GDP. The government has set a target of 25% of GDP by 2022.

Fourth, rising labour costs (especially in the coastal provinces), the renminbi's appreciation and lower profit margins for businesses in China are at the origin of the shift in manufacturing orders to countries offering prospects of higher profits. Vietnam is a favourite destination, as entrepreneurs pin their hopes on the future Trans-Pacific Partnership (TPP). India needs to improve its business climate in order to take advantage of this shift and benefit from the likely shedding of millions of jobs by China.

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Author: Enrico D'Ambrogio, **Members' Research Service**
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The '2014 OECD Economic Survey of India' suggests several paths of reform for growth: India should adopt a flexible inflation-targeting framework, implement a broad national value-added tax (GST) and cut energy subsidies. It should reduce barriers to manufacturing growth and adopt a simpler and more flexible labour law, covering more workers, together with better education and training programmes. In addition, women's economic participation rates should rise through gender-specific policies, boosting growth by 2% annually.

'Make in India' in practice

Consistent with the 'Digital India' programme launched in August 2014, the 'Make in India' portal, laid out in English, is a powerful supporting tool for the initiative. The website contains a wealth of information on the 25 priority sectors – from automobiles to wellness – that are eager to attract international business interest. It also gives information related to new government initiatives, foreign direct investment (FDI), local manufacturers, and intellectual property rights. Once they fill out a form, prospective investors will receive a reply from a panel of experts within 72 hours.

The portal gives visibility to the Delhi-Mumbai Industrial Corridor (DMIC). This project aims at developing a big area located in north-western India as a global manufacturing and investment destination, through a 1 483 km-long, high-capacity dedicated railway freight corridor running across six states.

The Invest India agency, whose mission is investment promotion and facilitation, is the 'back-end' of the 'Make in India' initiative. It has been set up as a joint venture between the Federation of Indian Chambers of Commerce and Industry (FICCI, 51% stake), the Department of Industrial Policy and Promotion within the Ministry of Commerce and Industry (DIPP, 35% stake), and the 28 state governments (0.5% stake each).

Meanwhile, the government has identified eight core areas for improvement, related to weaknesses identified in the World Bank's 'Doing Business 2015' report, with the ultimate goal of optimising business regulatory processes, reforming the licensing regime and shortening procedures. Registration of a new business will take a single day, unlike the current standard of 27 days. A unique company ID will be introduced. The seven steps involved in getting electricity supply will be reduced to one. It will be possible to register property online through a single procedure. The number of taxes will be reduced and making payments will be simplified. The Goods and Services Tax (GST) is expected to become operational in April 2016. Goods exports will require less paperwork. Fast-track commercial courts will be set up, and their decisions will be taken within a proposed limit of 60 days, in contrast to the current average of three years. The government wants to introduce a single bankruptcy law in place of the existing four overlapping ones.

While international institutions have already incorporated the reforms' success in their forecasts for 2015, Modi's good intentions are clashing with political reality. Reforms require a majority in both houses of Parliament; the governing coalition (NDA) has a majority in the Lok Sabha (lower house) while it is in the minority in the Rajya Sabha (upper house). The government has adopted temporary executive ordinances on land acquisition, FDI in the insurance sector and coal-mining licences, but it will need to come to agreement with the opposition to make them permanent. Some changes are already operational. Validity of industrial licences has been extended to seven years. FDI ceilings in railway infrastructure and defence have been raised. In July 2014, the DIPP made a promise to process all pending applications within 90 days and henceforth all new ones within 20 days. Labour law procedures have been simplified for businesses employing fewer than 40 workers.

Reactions to 'Make in India'

'Make in India' has received widespread support from industry leaders from both India and abroad as well as from the Confederation of Indian Industry (CII). Some companies, including foreign ones, have already announced plans related to the initiative.

Reserve Bank of India Governor Raghuram Rajanin dismissed the idea of introducing a policy targeting the manufacturing sector, just because it had worked for China, given how different the two countries are. He underlined the risks of an export-driven approach in a global economy still in crisis, and where many industrialised economies are strengthening their own manufacturing capabilities. 'The world as a whole is unlikely to be able to accommodate another export-led China', he said.

CK Ranganathan, the founding chairman of popular Indian household brand CavinKare, said that he would rather support a 'Made in India' approach in which India would be creating its own internationally renowned brands. Srikant Jena, a former government minister, stated that efforts to resolve caste and gender inequalities as well as regional imbalances, were missing from the initiative.