Assessment of Make In India

This article is based on **"Why 'Make in India' has failed"** which was published in The Hindu on 20/01/2020. It makes an assessment of Make in India initiative.

On September 25, 2014, the Indian government announced the **'Make in India' initiative** to encourage manufacturing in India and galvanize the economy with dedicated investments in manufacturing and services.

Following this India emerged as the top destination for foreign direct investment, surpassing the U.S. and China. Also, in line with the national programme, the States too launched their own initiatives. However, even after five years, the manufacturing sector, in particular, is on a slippery slope.

Make in India is designed to facilitate investment, foster innovation, protect intellectual property, and build best-in-class manufacturing infrastructure to make India a global manufacturing hub. To achieve this goal, targets were identified and policies outlined.

- To increase the manufacturing sector's growth rate to 12-14% per annum in order to increase the sector's share in the economy.
- To create 100 million additional manufacturing jobs in the economy by 2022.
- To ensure that the manufacturing sector's contribution to GDP is increased to 25% by 2022 (revised to 2025) from the current 15-16%.

Policy changes by Make in India were intended to usher growth in three key variables of the manufacturing sector — **investments, output, and employment growth.** Therefore, the success of Make in India can be judged by these 3 factors.

- **Investment:** The last five years witnessed slow growth of investment in the economy. Slow down was more prominent in capital investments in the manufacturing sector.
  - According to Economic Survey 2018-19, Gross fixed capital formation (a measure of aggregate investment) of the private sector, declined to 28.6% of GDP in 2017-18 from 31.3% in 2013-14.
- **Output:** Monthly index of industrial production pertaining to manufacturing has registered double-digit growth rates only on two occasions during the period April 2012 to November 2019.
  - In fact, the data show that for a majority of the months, it was 3% or below and even negative for some months.
- **Employment:** According to a government report, the unemployment rate in India is highest in 45 years. Moreover, Industrial employment has not grown to keep pace with the rate of new entries into the labour market.

The key stated outcomes were to increase the share of the manufacturing sector to 25% of GDP and to create 100 million additional jobs in the manufacturing sector by 2022. Clearly, both have not happened and going by the increasingly gloomy predictions for GDP growth, unlikely to happen by the target year.

Manufacturing’s share of GDP, currently a shade under 15-16%, is not likely to increase significantly over the next two years.

Reason for failure on these fronts

- Make in India relied too much on foreign capital for investments and global markets for produce. This created an **inbuilt uncertainty,** as domestic production had to be planned according to the demand and supply conditions elsewhere.
- It brought in too many sectors into its fold, this led to a loss of policy focus. Further, the majority of sectors that make in India focuses, **lacks comparative advantages of the domestic economy.**
- Policymakers were more concerned about twin deficits: Fiscal Deficit and Current Account Deficit. However, they **neglected the third deficit** in the economy, i.e **Implementation Deficit.**
    - This has led to a scenario where there is a quantum jump in the **‘ease of doing business’ ranking**, but investments are still to arrive.

Current Account Deficit: The current account deficit is a measurement of a country’s trade where the value of the goods and services it imports exceeds the value of the products it exports.

Fiscal Deficit: A fiscal deficit is a shortfall in a government's income compared with its spending. The government that has a fiscal deficit is spending beyond its means.

Implementation Deficit describe a lack of decisive action in introducing proposed measures

- **Investment crunch** partly can be attributed to the **decline in the savings rate** in the economy and partly due to NPA crisis in the Banking sector.
- Further, an annual growth rate of 12-14% is well beyond the capacity of India's industrial sector.
    - Historically India has not achieved this rate of industrial growth and to expect to build capabilities for such a quantum jump is perhaps an enormous overestimation of the implementation capacity of the Indian industries.
- Further, the uncertainties of the global economy and **ever-rising trade protectionism,** jeopardise the success of Make in India.
- Even though India is among the world’s top FDI destinations, garnering inflows of $49 billion in 2019, However, **FDI inflows are more directed towards the capital markets.** Manufacturing FDI was only around $8 billion in 2019.

Conclusion

Several initiatives have been launched by the Government in the last two years, such as ‘Make in India’, **‘Start-up India’**, **‘Skill India’**, **‘Digital India’** etc. with an aim to make India the number one destination for global FDI and to improve ‘Ease of Doing Business’ in India. However, grand initiatives such as ‘Make in India’ usually have long gestation periods and assessments of such initiatives in a short span can be premature.

In this context, Make in India needs to be backed up by structural reforms like easing land acquisition, reforming labour laws, etc. Addressing the Implementation deficit can be the first step in this direction.

Drishti Mains Question

Make in India which was intended to make India a global manufacturing hub, has failed. Analyse.