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Shachi Pathak
Research Scholar
Dayalbagh Educational
Institute Dayalbagh, Agra.

Sanjeev Swami
Prof. Dayalbagh Educational
Institute Dayalbagh, Agra.

Shalini Nigam
Prof. Dayalbagh Educational
Institute Dayalbagh, Agra.

Make in India campaign' for manufacturing sector: A strategic analysis

Shachi Pathak, Sanjeev Swami, Shalini Nigam

Abstract

The present study brings to light the importance of manufacturing sector in India using SWOT analysis. The paper also evaluates newly started government policy "Make in India" after one year of completion. We wish to analyze how this campaign can improve upon the present conditions of manufacturing sector as well as for India. Make in India is proposed to make India a manufacturing hub of the world. The idea is to increase the involvement of the manufacturing sector to India's GDP. The paper also focuses on the challenges of Make in India Campaign and the strategies which can be used to make the Make in India Campaign successful.

Keywords: Manufacturing Sector, Make in India, Manufacturing Policy, Competitiveness

Introduction

The ambitious "Make in India" program, launched in September 2014, aiming to decrease hurdles of doing business and encourages foreign investment. It hopes to make India, Asia's third-largest economy into a manufacturing powerhouse through increase the contribution of the manufacturing sector to India's GDP.

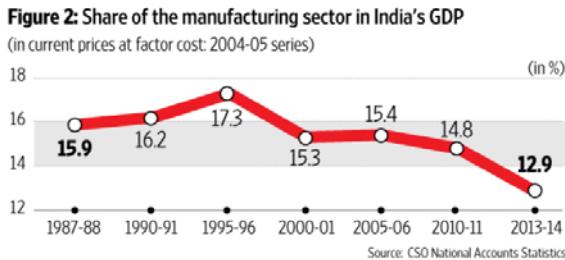
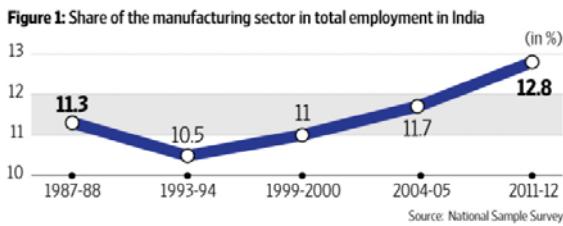
Few months back, secretaries of different government departments presented a draft for the 25 selected sectors for the Make in India campaign to Prime Minister of India. The recommendations include freedom from direct tax for the duration of first three years for MSME's, abatement of tax for defence and aerospace product's local manufacturing, Standard Operating Procedures for Research & Development, and tax benefits to electronics and telecom producers (www.makeinindia.com, 2015) [9].

As the global environment becomes competitive, India is beginning from a position that is far from favorable. India's manufacturing sector contributes poorly with only a 15% share of overall GDP (www.quora.com, 2015) [12]. India is suffering with some critical drawbacks like lack of facilitative infrastructure, perception of India in sense of ease of doing business and a lack of proven capability to participate at a global level. On the contrary India's long term expectations remains flawless, with its vital ability of human resources, a robust base of entrepreneurs, and a vigorous and increasing domestic demand (CII 13th Manufacturing Submit, 2014) [5,6].

To have room for the 300 million people through 'Make in India Campaign', who will join India's workforce between 2010 and 2040, 10 million jobs are required each year. The drive on the manufacturing sector will generate about 100 million jobs by 2022 (www.quora.com, 2015) [12].

The manufacturing sector contributes in around 11% in total employment of India which remained almost constant from 1987-88 until 2004-05 and increased moderately afterward (Figure1). On the other hand, its contribution to India's gross domestic product (GDP), which is greater than before from 15.9% in 1987-88 to 17.3% in 1995-96, diminished to 12.9% in 2013-14 (Figure2) (CSO, 2014)

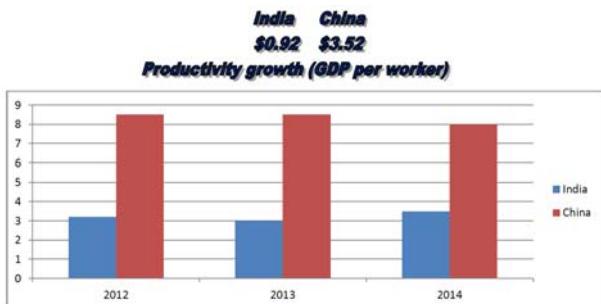
Correspondence
Shachi Pathak
Research Scholar
Dayalbagh Educational
Institute Dayalbagh, Agra.



Swot Analysis

Key Strengths

- Demographic:** India holds 2nd position in the world with 1.29 billion population (according to census data 2015). It is almost 17.31% of the world's population. India is expected to have more than 1.53 billion people by the end of 2030 with the population growth rate at 1.58% (www.indiaonlinepages.com, 2015) [4].
- Young Population:** Today in India every third person is a youth. In India the age of about 50% population is between 25 and 64 years. By 2025, India is expected to have the highest number of workforce. This gives an advantage to India over other countries in terms of human resource (www.quara.com, 2015) [12]. India will be the youngest country in the world with 64 per cent of its population in the working age group, by 2020 (The Hindu, 2013) [14].
- Cheap Labor:** In India labour costs is the lowest in the world (The Economic Times, 2015) [15]. China is raising labour wage at 10% per year which moves it to high labour costs. Many companies like auto-components maker Bosch, Godrej, Micromax and Havells have recently come back to India with requirement of some part of their manufacturing from China due to labour and other cost advantages (The Hindu, 2014) [10].



Source: The Hindu, 2014
(<http://www.thehindu.com/opinion/columns/Chandrasekhar/cheap-labour-and-competitiveness/article5658042.ece>)

Fig 3: Average Manufacturing Labour Cost per hour 2014 (India Vs China)

- Potential Market:** With more than a billion people, India is a big market if a major part of population belongs to age group of 25 to 55 which mainly follow consumerism. Youngsters are income oriented so high

demand of product and services in comparison to other countries like China Nepal and Sri Lanka (Tripathi, R., Shastri, R.K. and Yadav, N., 2015) [16].

- Democratic Country:** As a democratic country, the constitution of India is supreme legal document with the prime motive of equal justice and equal opportunity for everyone or entity in country. This ensures best transparency practices in economy in comparison to other countries market in the world (Tripathi, R., Shastri, R.K. and Yadav, N., 2015) [16].
- Strong Base of Entrepreneurs:** India has a strong base of entrepreneurs, who have great potential in firing up the Indian economy and moving it forward to continuous high growth. Big Indian industries can also be a good consumer for manufacturing sector, They can also provide good capital to invest in further manufacture the products while making Make in India Campaign successful. In fact, Indian government is positively supporting entrepreneurship and self-employment to generate a long term positive impact on Indian economy. According to a survey done by The Boston Consulting Group (BCG) and CII in November 2014, 44% of CEOs of different manufacturing industries are very positive about Make in India Campaign.
- Strong Financial Institutions:** To promote small and medium scale industry, government has established Small Industrial Development Bank (SIDBI), Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), ICICI Bank, and IDFC etc. Commercial banks are also providing continues support for development of small scale or unorganized sector.

Opportunities

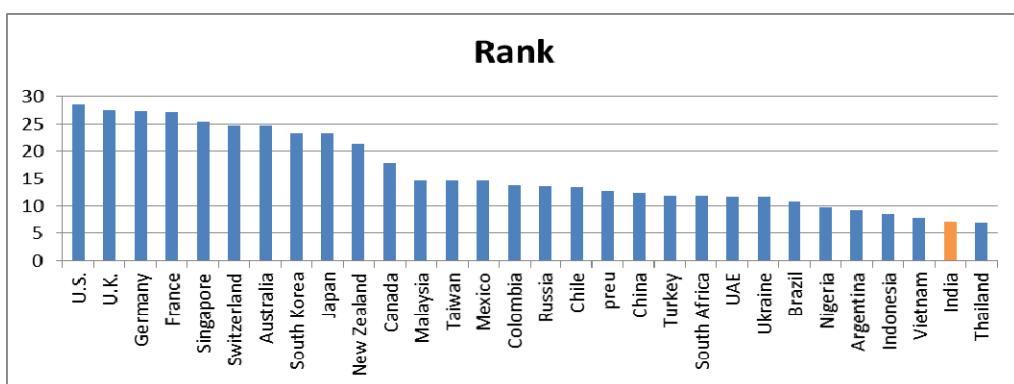
- Manufacturing Hub of World:** The main objective of the 'Make in India Campaign' is to increase the contribution of manufacturing sector in India's GDP from 15% to 25% in next few years. The campaign aims to provide clearance to time-bound project through a single online portal and 8 members team will support by fulfilling investor all queries within 48 hours. The Online portal addresses the key issues including labor laws, skill development and infrastructure.
- Investment for R&D and Innovation:** As the foreign investors manufacture their product in India, therein lays an opportunity for R&D, "Make in India" must grab. To be competitive in market and reduce the cost of production, companies must invest in R&D that will be an opportunity for India to invest and engage in R&D and work on advance and innovative technology. India with focus on innovation and novelty in identified sectors for carrying out research and development would lead to the success of the make in India campaign. Indian government planned to invest USD 16 million development fund to develop smart cities and boost up innovation and new technology development. To facilitate the expansion of Micro Small and Medium Enterprises (MSME), new policies are framed which will also increase the focus on innovation (www.power2sme.com, 2015) [15].
- Create Employment:** As the number of new industries increases the opportunities for new job also increases. The current rate of employment in India is around 8% and 55 million more jobs are required by 2015 (www.makeinindia.com, 2014). "Make in India"

campaign will be a catalyst to the employment as till now gaining expected attraction. The change in Government manufacturing policy through the Make in India programme will help to create a pool of jobs in country. The plan is to create 100 million jobs by next year.

- 4. Fuelling Economic Growth:** India's progress in terms of industrialization is very disappointing since 25 years, as compared with our own past performance and other country's performance. Industrialization is a main source of economic growth, because it creates employment, utilizes our human resource and leads to the development of a manufacturing sector. The Make in India campaign assures to accelerate India's growth by making it a manufacturing hub.
- 5. Increase Export Performance:** Made in China products are dominating Indian market as our markets are covered with Chinese products, even on our festivals such as Deepavali and Holi. India is importing from its neighbor, almost all the products from furniture, gadgets to industrial equipment. Bangalore silk saris are being made up of Chinese silk yarn. According to the Boston Consulting Group, China's traditional cost advantage is losing its attractiveness as a new index of manufacturing costs wear down its exports' cost competitiveness. The International Monetary Fund's reports show that China will no longer be the largest trade surplus economy in the world. The increased production through Make in India will help in development of export at cheaper cost and this will help to give competition in global market.
- 6. Bring Foreign Investment:** According to Make in India website the programme providing ease in FDI norms in 15 major sectors. 100% FDI is allowed in townships, shopping complexes business centers, construction, operation and maintenance of specified activities of Railway sector, ATM operations, medical devices coffee/rubber/cardamom/palm oil, olive oil plantations, duty free shops located and operated in the customs bonded areas. India's defence sector now allows

consolidated FDI up to 49%, Pension Sector up to 49%, insurance & sub-activities increased from 26% to 49% and Private sector banks to 74%, NRIs can invest more as per schedule 4 of FEMA regulations. India's present FDI is 2% of its GDP. The campaign will bring more foreign capital to India. This will be a great opportunity for India to manufacture and be self-reliant as country depends on import capital to fulfill its defence requirements.

- 7. Skill Development:** In a national conference on Skill development, India Skills Report says that only 34% of Indian was found employable. India has only 12%, whereas Korea, Japan and Germany have 80% skilled population. This campaign will provide an opportunity to create the required skills in the workforce. MSME Development institutes and organizations initiated the skill enhancement programme. These training and skill development programmes enhance skills in workforce which help in producing high quality products at low cost and increase our global competitiveness. This will further help in decreasing import costs. To train local workforce as per their needs, government promised to access Industrial Training Institutes (ITIs) of the country.
- 8. Protect Intellectual Property:** As per a latest article available in Business Standard, India is at the bottom - 29th out of 30 countries, according to the 2015 IP index by US Chamber of Commerce's Global Intellectual Property Center (Figure4). Indian government has made changes at legislative and policy level to create a favorable environment for the protection of intellectual property rights of innovators and creators. This is common practice in the pharmaceutical industry, but India has stricter requirements for granting additional patents on previously patented molecules. In addition, government now provide superior service delivery by improving on infrastructure, building capacity and using advanced technology in the working of intellectual property offices in India.



Source: Global Intellectual Property Center (2015)

Fig 4: The GIPC Index maps the IP environment of 30 economies

- 9. Build best-in-class Manufacturing Infrastructure:** The existing infrastructure, logistics and transport network of India is insufficient to achieve just-in-time production for manufacturing companies. To remove obstacles in starting and increasing ease of doing business in India, the government plans to completely de-bureaucratize the system, for infrastructure, change officers' mindsets and reduce paperwork. To provide growth and hassle free manufacturing through 'Make in

India Campaign', availability of modern and facilitating infrastructure is basic requirement for India. To provide hi-tech infrastructure and high speed communication with improved logistics, government has already taken an initiative and developing industrial corridors and smart cities which will give India a competitive advantage in world to provide best-in-class manufacturing infrastructure to global investors.

Threats

- China's Dominance:** Indian offices and homes are flooded with made in China products, which are reminders for China's dominance. 'Make in India campaign' of India will be constantly judged against 'Made in China' campaign of China. India imports many products from China for domestic use. The growing two sided trading between these neighbors's is sloping in favour of China. In 2013 India imported \$51 billion but exported only \$15 billion worth of goods to China. China since 1979 followed a more-exports-at-any-cost policy to boost its economy. Government of China supports manufacturing sector in the terms of reasonable cost of funds, economical inputs and world-class infrastructure as compared to Indian manufacturers. This gives about 10% cost advantage to Chinese manufacturers

as compared to Indians, estimates by Confederation of Indian Industry.

- Global Competition:** It is very important for the global investor to search, in which country they can get low cost labor and raw material to produce cheaper products. Advanced technologies like robotics and artificial intelligence have been already adopted by other manufacturing countries worldwide. Many other countries like Brazil, Taiwan and Russia etc. are also offering cheaper components (China for low cost raw material, Indonesia and Nepal for low cost workforce, Indonesia for low energy cost). While scoring well on cost competitiveness, India loses out on some other factors, on the basis of some of these non-cost components, India ranks very low when compared with developed economies (BCG, 2014) (Table5).

Table 5: India is challenged by secondary factors

Country	Direct cost relative to the India	Overall Business Environment	Ease of doing business	Logistic Performance	Corruption Perception
	Delta	Rank	Rank	Rank	Rank
India	--	57	142	54	94
China	+10%	50	90	28	80
Germany	+39%	12	14	1	12
Us	+15%	7	7	9	19
Japan	+27%	27	29	10	18
Thailand	+4%	34	26	35	102

Source: US Economic Censes; BCG Analysis

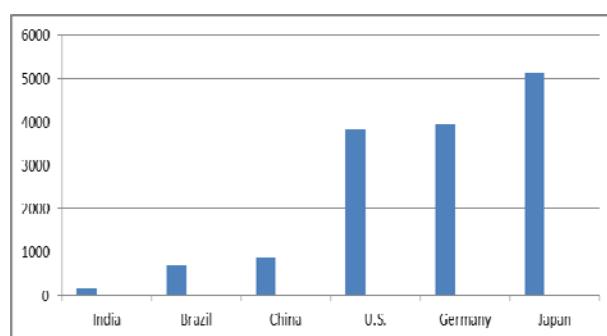
- Corruption Perception:** India rank 94th in world in terms of corruption perception, according to US Economic Censes and BCG report 2014. The perception on corruption may hinder the growth of Make in India Campaign worldwide (Table5).
- Environmental Issues:** According to World Health Organization estimates, 13 out of 20 most polluted cities in the world belongs to India. The worst-ranked city is Delhi. In addition to this, "Make in India" policy of India could increase the pollution and make the situation even worse. Government did not explain any ecological or social criteria about 'Making in India'. On the other hand government is already offering diluted environmental and labor laws attract investors to India. 'Make in India Policy could destroy the soil, evacuate farmers, add to deforestation, and increased pollution in absence of environmental protections. The recent example is Delhi-Mumbai Industrial corridor which destroys 17% farmland in India (www.dw.com, 2015).

To gain investors' attention, India should focus and invest on power plants, energy and water resources.

- Technology Dependence on Others:** In India manufacturing sector facing major challenge in technological aspect. Due to lack of updated technology and dependency on others the growth of Make in India campaign would be affected.
- Lack of Skills Development and Training Institutes:** There is a big gap between the skills needed and skills possessed by the workforce of India, We need to develop the training institutes to make the Make in India Campaign successful. The skill development is required in many sectors like electronics, chemicals and textiles etc.
- Unable to invest in R&D:** India is lacking behind in terms of technology, innovation and Research and development. India, as compare to China, has one-fifth the number of researchers per million and less as compared to others. The figure shows the total R&D setup in India as compare to other countries (Figure5).

Weaknesses

- Land Acquisition and Facilitative Infrastructure:** To establish and run a business in India, infrastructure and Land acquisition for investors is a pre-requisite. Land acquisition is a big constraint for developing better infrastructure for the industry. Often land acquisition thus into trouble at the local level for the industrial purpose. Finding solutions to these problems is necessary. Facilitative infrastructure and land for factories are important factors that could give growth to manufacturing sector through Make in India policy.
- Lack of Water and Power Resources:** India is already suffering with lack of water and power resources. The Make in India campaign will share these scarce resources.



Source: The World Bank: BCG Analysis

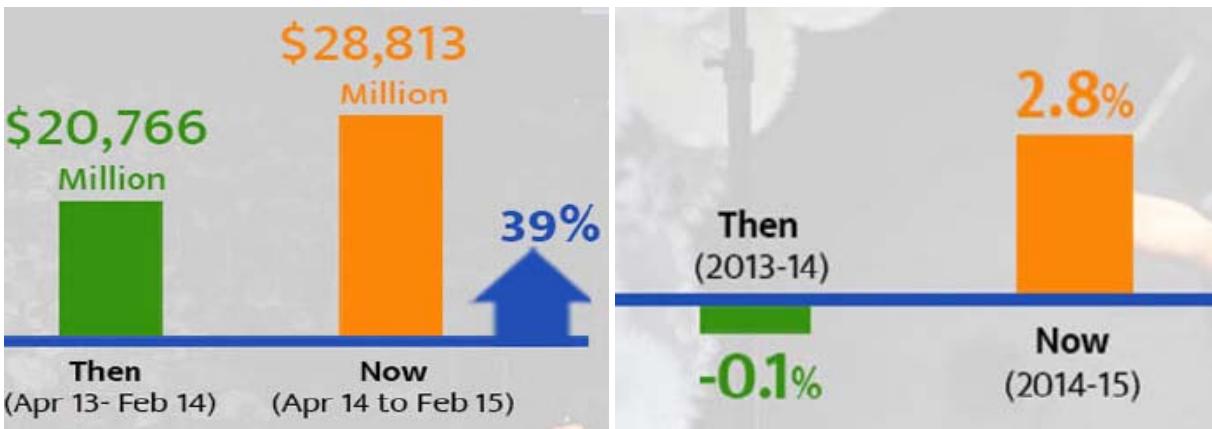
Fig 5: Total R&D setup in India below par (R&D professional per million)

One year completion of Make in India Campaign: With the pledge of reducing the hurdles to doing business and promote foreign investment, government introduced “Make in India” program one year before. Thus it is fair to discuss results of the campaign. Mr. Modi’s campaign is going good can be seen from following points and figure6.

1. The 40% increase in foreign direct investment has been observed as compare to previous year between October and May and estimated to be \$23.7 billion. Moreover a Net investment by foreign institutional investors is noted around seven times more than previous year. Up till 31 March 2014 money coming from foreign financial markets totaled around \$40.92 billion.
2. The surprising lift in investments is beginning to show development of country’s industrial production. An

average of 2.7% growth estimated in only seven month period as compared to only 0.6% increase in a full previous year in India’s industrial production.

3. Contract-manufacturing giant Foxconn, in one week campaign for Mumbai, declared its plans to spend \$5 billion on factories and research and development and spent on electronics.
4. As India is second largest market in terms of serving the cities, Ride-hailing app Uber Technologies, a services company, committed to invest \$1 billion over nine months to build its network in India.
5. Recently General Motors Co. declares another one billion dollar to invest to manufacture cars for domestic consumption.



Source: http://pmindia.gov.in/en/government_tr_rec/make-in-india-2

Fig 6: Massive Boost to FDI Inflow and Boost to Production

Recommended Strategies to make in India Campaign

Successful-The Make in India is a promotional campaign. These are the following suggested strategies and recommendations for it to be successful:

1. Pro-active Market Orientation- Make in India Campaign with the aim of making India as a manufacturing hub of the world, the foreign investors can use proactive market orientation to develop a new product and meet domestic demand for a product. The strategy, with the aim to provides customers correct and satisfactory solutions help the investors to learn and understand customers’ latent needs.
2. Responsive Market Orientation- Domestic as well foreign investors could use responsive market orientation to meet the expressed needs of customers for new or existing product’s demand through Make in India Campaign.
3. Knowledge Management- Through the knowledge present to start a new business and run a new business in India, Knowledge management can help foreign and Indian investors to access the existing knowledge and store the new knowledge related to organization that can be used to take better decisions in future and in present.
4. Government should establish national level skill development institutes to solve problem of skill gap of manpower in India.
5. For the purpose of developing manufacturing sector all over the world, government should focus on the research and development institutes and invest on R&

D to meet investor’s hi-tech demand for technology through this campaign.

6. Need of developing facilitative manufacturing infrastructure is very important for proper implementation of this policy in effective way, government should focus more on road and industry infrastructure and invest to provide growth to gain global competence.
7. For promoting India as a global manufacturing hub, the campaign must ensure good states relations. CM of U.P., already started a campaign called Make in U.P., other states should initiate to contribute towards the make in India campaign like CM of U.P.
8. Merger and acquisition actions of Indians to begin will gather speed. These startups will create more innovative approaches to get attention and retain talent of India.
9. The renewal of manufacturing and industrialization in India need coordination among monetary policy, exchange rate policy, trade policy, and industrial finance. As a part of same government these policies needs to harmonize and work in coordination so that make in India can get success around the world.

Conclusion: Though a great beginning has been achieved by the Make in India campaign with the small but important changes made by government in Indian policies but some more steps still needed to ensure its success as it is just a beginning not the end. India with its strengths, strong pro-industry government should make correct decision at the right time to grab the opportunity to be a leader in manufacturing sector in the world.

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