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Growth drivers of emerging market economies: With special reference to make in India

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Abstract
"MAKE IN INDIA" initiative is launched to give boost to different sectors like automobiles, chemicals, IT, Pharmaceuticals, textiles, engineering & manufacturing, aviation, railways, defence, renewable energy, mining, bio-technology, electronics, leather, tourism & hospitality etc. The initiative also aims to transform India from highly potential market to the powerhouse of manufacturing, thereby creating millions of job opportunities. In short the campaign is conceived and designed to achieve multiple objectives and far reaching impact on the economy.
This paper identifies the potential growth drivers in India that could stimulate growth and drive the Indian economy on a high and sustainable growth path. Identifying substantial investments in physical and social infrastructure and harnessing the demographic dividend as the key growth drivers which will enable the economy to achieve 'inclusive and sustainable growth' in the period leading to FY20.
The service and industrial sector provide employment to nearly 45% of the population, whereas they contribute around 86% in overall GDP.
In this paper I have discussed various opportunities and challenges that we have raised through this concept. Most of them include development in education standards, Infrastructure Building, Foundry development, and other economic issues.

Keywords: Make in India, transforming, challenges, opportunities, development, mitigate poverty

Introduction
The 15th and current Prime Minister of INDIA "Mr. Narendra Modi" unveiled the "MAKE IN INDIA" program on September 25th 2014 in New Delhi. He along extending an invitation to foreign firms to invest in INDIA also solicited the CEOs of domestic firms to invest in INDIA by saying that, "There is no need to leave the nation. We want our companies to shine as MNCs". The MAKE IN INDIA program laid the foundation of India's new national manufacturing policy and rolled out the red carpet to both domestic and international industrialists with an aim to make India a manufacturing hub that will in turn boost the employment and overall growth of India. The program lays emphasis on 25 sectors such as automobiles, chemicals, IT, pharmaceuticals, textiles, ports, aviation, leather, tourism and hospitality, wellness, railways, auto components, design manufacturing, renewable energy, mining, bio-technology, pharmaceuticals, electronics, etc. with focus on job creation, skill enhancement, economic, technical as well as overall infrastructure development. It also focuses on giving Indian industry a global recognition. Manufacturing industry requires heavy finance to facilitate the buying of latest modern technology, setting up and development of required infrastructure, developing skill set of its human resource to produce best quality products and survive in ever increasing global competition. And if INDIA wants to lure the investors and turn itself into a manufacturing hub, its human resource and financial services will play a vital part in making it's this dream come true. Finance and Human Resource are the most abundant, flexible and readily leveraged resources which demand precise attention and articulation. According to World Bank Data, in 2013 the contribution of Indian Manufacturing sector to Indian Economy was merely 13%. The overall contribution of the manufacturing sector to its gross domestic product (GDP) is just 28%. India also stands at a very low in contributing in the world manufacturing, with its overall share standing at a meagre 1.8%. These statistics are the clear indicators that India has not done very well in its manufacturing sector. Domestic manufacturers are also looking for markets to setup their manufacturing units outside the Indian borders.

The Make in India Vision

Manufacturing currently contributes just over 15% to the national GDP. The aim of this campaign is to grow this to a 25% contribution as seen with other developing nations of Asia. In the process, the government expects to generate jobs, attract much foreign direct investment, and transform India into a manufacturing hub preferred around the globe.

The logo for the Make in India campaign is an elegant lion, inspired by the Ashoka Chakra and designed to represent India's success in all spheres. The campaign was dedicated by the Prime Minister to the eminent patriot, philosopher and political personality, Pandit Deen Dayal Upadhyaya who had been born on the same date in 1916.

For instance, in the 12 months that ended March 2014, a year in which the economy was verging on financial crisis, economic expansion was said to be 6.9% instead of 4.7% as previously estimated. The 7.4% growth expected this fiscal year was a similarly large jump from previous forecasts of about 5.5%.

This paper identifies the potential growth drivers in India that could stimulate growth and drive the Indian economy on a high and sustainable growth path. In this endeavour, we begin by identifying substantial investments in physical and social infrastructure and harnessing the demographic dividend as the key growth drivers which will enable the economy to achieve 'inclusive and sustainable growth' in the period leading to FY20.

Need and impact of HR and financial services on manufacturing sector in India and overall Indian economy India's current ranking in the world in factory output is 10. Its overall contribution to Indian GDP is 28% and it engages nearly 17% of the total work force. The basis of any manufacturing organization is governed by the quantity of money it is willing to invest and the kind of people who are going to work in it. For transforming the health of the manufacturing sector and in order to make it a most preferred destination for domestic as well as foreign investors and industrialists, it is very much important to promote both fund based and non-fund based financial services. Manufacturing firms to withstand the global competition, and to ensure their long term sustainability, have to invest in huge quantity in setting up and developing its infrastructure, raw material, skill development of its human resource, and R&D. Hence, the manufacturing houses need such sources which should make the finance available as and when needed. Such a continuous need of inflow of heavy finance can only be satisfied by the financial services. The attention of the domestic as well as foreign manufacturers can only be sought if the investment climate is made favourable. As the investment climate is directly proportional to manufacturers' way of thinking, hence, this climate needs to be favourable in every aspect. The current technological status, available mode of finance and human resource skill set and its availability needs to be identified along highlighting the development initiatives and future imperatives that are required to make India a manufacturing hub and most preferred investment destination for both local and international players. VII. Understanding the Financial Services and its types Financial services in layman language, simply means the services with respect to money management provided by various organizations that are operating in finance industry of a country. These organizations include banks, consumer finance and insurance companies, investment funds, stock broker firms and government sponsored firms.

1. Asset/Fund Based Financial Services The asset or fund based financial services help raising the finance against the assets including both movable and immovable, bank deposits, etc. It also includes underwriting shares, debentures, binds, venture capital, factoring, housing finance, leasing, mutual funds etc.
2. Fee Based Financial Services It involves higher expertise and less financial risk. It includes merchant banking, credit rating, capital restricting, bank guarantee, corporate advisory services, etc.

There are eight different ways to promote financial services to enhance Make in India project.

1. The initiative of government is must in order to reform the investment climate in India which is essential to make India a manufacturing hub. It should encourage promotion of more and more technological, research and development parks on the pattern of special economic zones.
2. Foreign manufacturers as well as domestic manufacturers will only be encouraged to invest in India if they will be provided with an enabling environment. Ensuring timely availability of money, relaxing the norms and regulations governing the banks in order to make the easier and cheaper credit available to the manufacturing houses.
3. Government should Facilitate and encourage merchant banking, factoring, invoice discounting facilities in order to make the finance readily available.
4. Promoting and help flourishing the financial service advisors who provide end to end advise as from where will they finance come from, how much finance is required covering the whole life cycle and production scenario of the plant in manufacturing industry. These financial advisors also keep track of the inflow and outflow of the money and the manufacturer does not have to worry about his time management worrying about tracking the movement of money. They have wide range of funding solutions available in hand which a potential taker can choose from.
5. Encouraging commercial banks to make finance readily available for manufacturing enterprises. Government should frame such policies which are a bit lenient and relaxed, and thus have an insight to performance and financial constraints of the manufacturing units.
6. Regulatory environment should be improved in order to pave a way for the development and growth of the manufacturing industry in India.

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.

Reactions to 'Make in India'

'Make in India 25 sectors in focus

Sector-specific issues such as land acquisition, taxation, inverted duty structure, budget recommendations, and inter-ministerial differences were discussed. Sectors including the chemical, oil and gas, petrochemical, capital goods, pharmaceutical, food processing, tourism, aviation, automobile, aerospace, defence production, and skills development industries were the focus of the workshop. 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 Rajan 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.

C K Ranganathan, the founding chairman of popular Indian household brand Cavin Kare, 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.

To accommodate the 300 million people who will join India's workforce between 2010 and 2040, each year 10 million jobs are needed. The thrust on the manufacturing sector will create about 100 million jobs by 2022.

Advantages

1. Manufacturing sector led growth of nominal and per capita GDP. While India ranks 7th in terms of nominal GDP, it ranks a dismal 131st in terms of per capita GDP.
2. Employment will increase manifold. This will augment the purchasing power of the common Indian, mitigate poverty and expand the consumer base for companies. Besides, it will help in reducing brain drain.
3. Export-oriented growth model will improve India's Balance of Payments and help in accumulating foreign exchange reserves (which is very important given the volatility in the global economy with multiple rounds of Quantitative Easing announced by major economies).
4. Foreign investment will bring technical expertise and creative skills along with foreign capital. The concomitant credit rating upgrade will further woo investors.
5. FIIs play a dominant role (relative to FDI) in the Indian markets. However, FIIs are highly volatile in nature and a sudden exodus of hot money from India can effect a nosedive in the bellwether indices. Make in India will give an unprecedented boost to FDI flows, bringing India back to the global investment radar.
6. The urge to attract investors will actuate substantial policies towards improving the Ease of Doing Business in India. The Government of the day will have to keep its house in order (by undertaking ground breaking economic, political and social reforms) to market Brand India to the world at large.

Disadvantages

- From a theoretical perspective, make in India will tend to violate the theory of comparative advantage. If it is not economically feasible to manufacture a commodity in India, it is best to import the same from a country which enjoys comparative advantage in its production. International trade, after all, is welfare augmenting.
- Reiterating the point made by Dr Raghuram Rajan, India, unlike China, does not have the time advantage as it undertakes a manufacturing spree. The essential question is - Is the world ready for a second China?
- Make in India will lead to an unsustainable focus on export promotion measures. One such measure is artificially undervaluing the rupee. This will have devastating consequences for the import bill.
- A relative neglect of the world economic scenario may not augur well for Make in India. With the US and Japan economies yet to recover from their economic crises and with the EU floundering, one needs to be wary about the demand side of Make in India. The clairvoyance of the incumbent RBI governor to Make for India should be put to good use.

As stated by the Commerce Minister, Nirmala Sitharaman-
"Make in India is not a slogan but a mission to be accomplished by a single-minded commitment about new processes."
The following major challenges for Make in India need to be addressed immediately:

1. Restore broken trust between industry and government.
2. Environmental clearance has been a contentious issue for many projects. Land acquisition for industries is a pre-requisite, thus bringing the eternal debate of development vs displacement.
3. Skilled labour force is mandatory and it requires huge monetary support. Unlike in Korea, Japan and Germany which have about 80% of its population skilled, only 12% of India's population is skilled.

Make in India is a sales pitch the Prime Minister is making on 25 key industries to attract foreign businesses into India. It is partly a conference and partly a portal that will list the things Indian government will help foreign investors.

By 2008, China has grown insanely high to be a world leader in manufacturing.

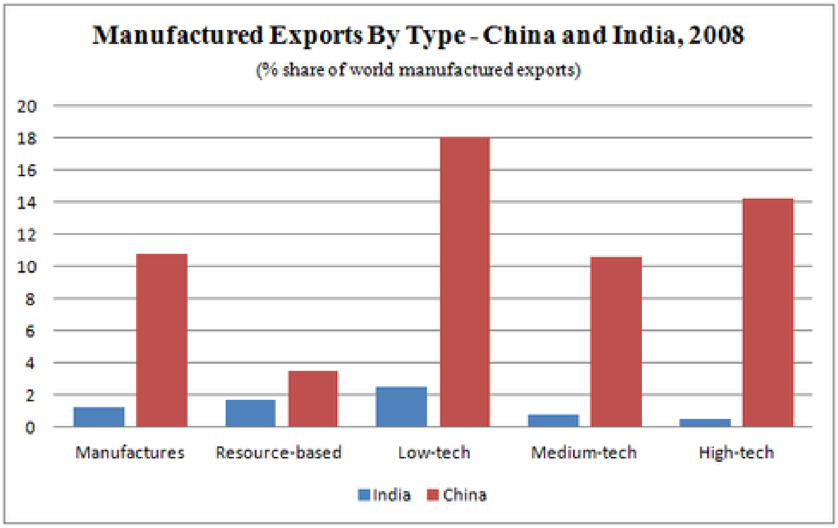

Fig 1: In just 20 years, China has caused all that change. If China can make all that change in the previous 20 years, why can't India too in the next 20?

Sectors in focus

For the Make in India campaign, the government of India has identified 25 priority sectors that shall be promoted adequately. These are the sectors where likelihood of FDI (foreign direct investment) is the highest and investment shall be promoted by the government of India. On the campaign launch, the Prime Minister Mr. Modi said that the development of these sectors would ensure that the world shall readily come to Asia, particularly to India where the availability of both democratic conditions and manufacturing superiority made it the best destinations, especially when combined with the effective governance intended by his administration.

Table 1

Automobiles	Food Processing	Renewable Energy
Automobile Components	IT and BPM	Roads and highways
Aviation	Leather	Space
Biotechnology	Media and Entertainment	Textiles and garments
Chemicals	Mining	Thermal Power
Construction	Oil and Gas	Tourism and Hospitality
Defence manufacturing	Pharmaceuticals	Wellness
Electrical Machinery	Ports	
Electronic Systems	Railways	

Benefits of enhancing and capitalizing human potential

25 sectors in focus

Sector-specific issues such as land acquisition, taxation, inverted duty structure, budget recommendations, and inter-ministerial differences were discussed. Sectors including the chemical, oil and gas, petrochemical, capital goods, pharmaceutical, food processing, tourism, aviation, automobile, aerospace, defences production, and skills development industries were the focus of the workshop.

- **Growth in Sales**: When good quality products will go into the hands of the consumer, the satisfaction of consumer will result in increase in demand of the goods. Hence, the sales will be boosted which in turn will boost the production and hence the manufacturing unit will flourish.
- Cost Reduction: Up to date trained and knowledgeable work force will decrease and automatically omit the defects for the production system which will in turn bring the cost of production down.
- Focus on Organizational Goal
- Reduction of time taken in creating strategic or operational changes by communicating the changes through a new set of goals
- Organizational development

Capacity addition in the power sector to meet industrial energy demand

Without the power industry, no other industry would survive. India has an installed capacity of 253.389 GW as of August 2014, the break-up of which is given below:

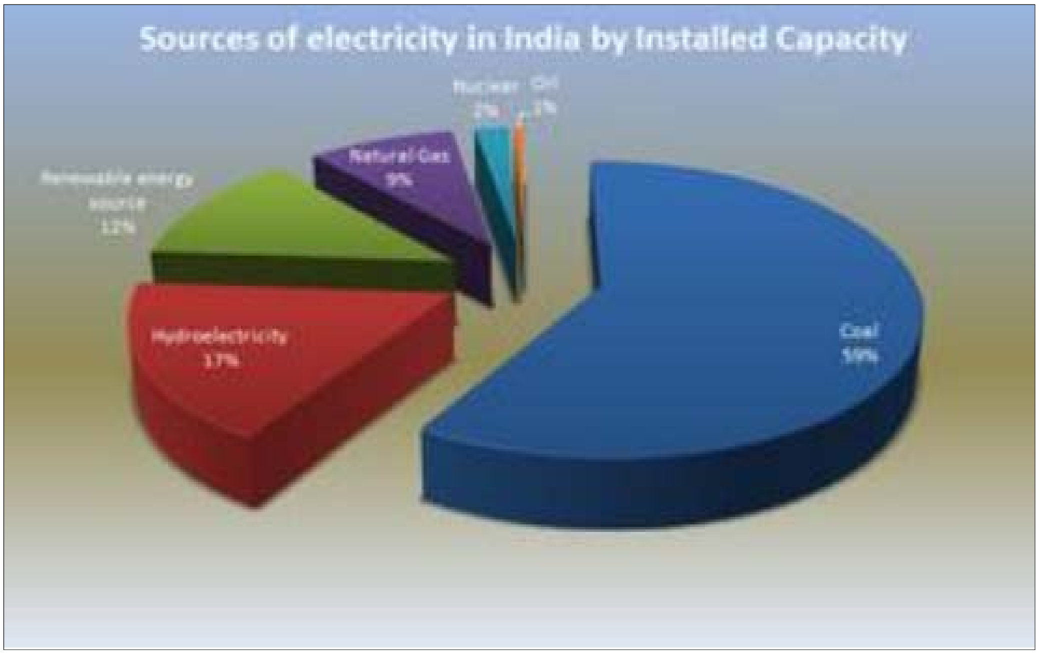

Fig 2

In a May 2014 report by India's Central Electricity Authority, India had an energy requirement of 1048672 Million Units (MU) of energy out of which only 995157 MU of energy were available and out of a peak demand of 147815 MW, 144788 MW was the supply. Also, the 17th electric power survey of India report claims that over 2010-11, India's industrial demand accounted for 35% of electrical power requirement which will further grow significantly as more and more manufacturing facilities come up. As per the 12th five-year plan, the Government had targeted a capacity addition of 88,537 MW out of which only 46,766 MW have been achieved so far as of August,2014. Delay in environmental clearances and shortage of fuel supply are some of the major challenges faced by the Indian power sector. The Supreme Court's decision to deallocate 204 coal mines is further going to add to the woes of the power sector. To meet the fuel shortage and avoid importing coal in order to prevent increasing cost of power production, the Government must focus on raising domestic coal production and improving quality of the existing mines by ensuring efficient and transparent allocation of coal blocks. Moreover, the Government should also work on scaling up other renewable sources of power like Hydro by focusing on resource rich states like Arunachal Pradesh, J&K and Himachal Pradesh after accurate and proper assessment of the environmental impact of setting up power plants in these states. All environmental and safety factors must be considered in total before execution of any power project so that the local people and various other stakeholders are assured of safety and minimal environmental impact due to operation of the proposed power projects in order to avoid situations similar to those against Kundankulam Nuclear Power Plant of NPCIL and Lower Subansiri Hydro-electric project of NHPC limited. Above all, there must be sufficient cooperation between the Centre and the State in this regard so that the funds allocated by the Centre are properly utilized by the State towards planning and development of power projects.

Innovation is one of the key driver for growth Innovation has been the change driver around the world–intervening to provide accessible and affordable solutions to meet ever-shifting consumer needs. Examples are found from around the world clearly depict the role played by innovative solutions in increasing national economic growth and improving standards of living. China, for example, has recorded significant growth in gross domestic product (GDP) over the past few decades. South Korea has also vastly improved its economic status since the 1980s, by promoting the inward transfer of foreign technology and by developing its domestic capacity to digest and improve through reverse engineering and foreign licensing–followed by significant investments in R&D. This paper highlights the need for a similar innovation-driven path for India to achieve non-linear growth over the next two decades, a path that maintains a balance between economic development and social well-being.

Other sectors within India have witnessed sporadic examples of innovation as well. These innovations could be classified as follows:

- Technology-driven innovation, which involves the development of new advanced technology systems, such as the Aadhaar platform, Bajaj Auto's DTS-i technology or Vortex Engineering's solar powered ATMs.
- Market-driven innovation, which includes often disruptive products that create tailored value propositions for new customer segments. Examples include Tata Ace commercial vehicles and GE India's low-cost ECG machines.
- Operations-driven innovation, which includes innovations in processes achieved by adopting cost-efficient practices or by creating new supply and distribution channels, etc. Examples include companies such as the Narayana Health Group and Arvind Eye Hospital that have lowered the cost of heart and eye surgeries through operational excellence achieved from volume-driven business models.

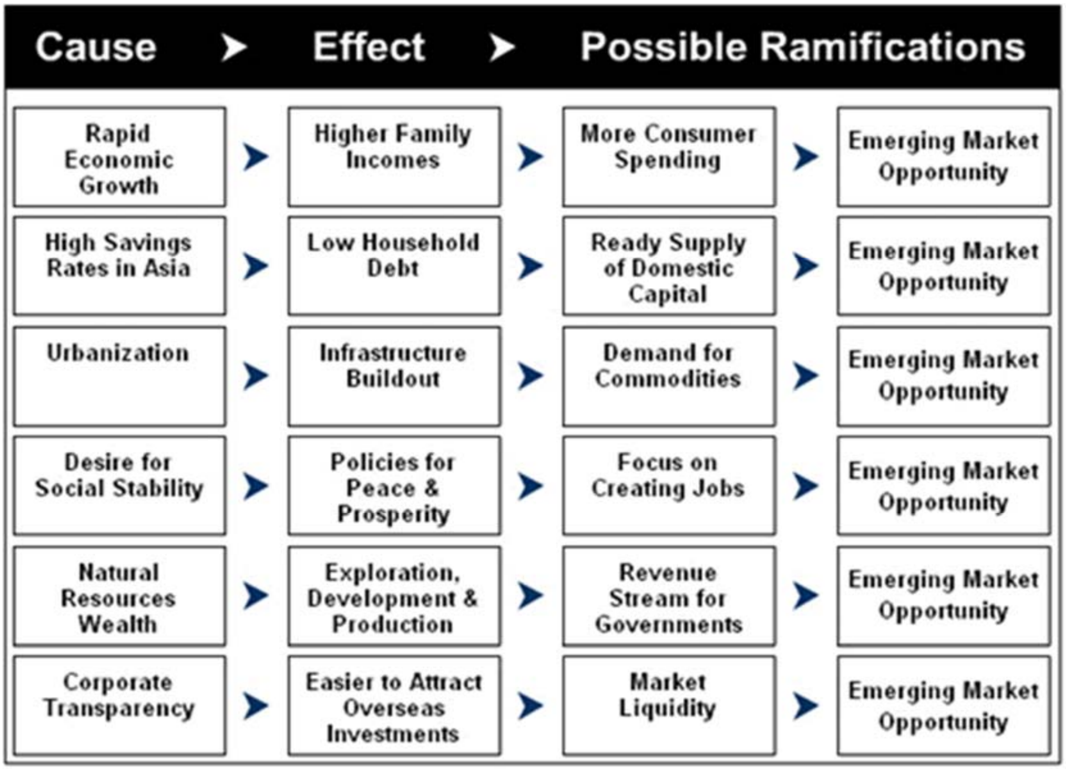

Fig 3

1. Rapid Economic Growth: In the coming years, growth in emerging economies is expected to outpace that of the developed world. This growth is fueling an increase in household income in places like China and India where nearly 60 million people—roughly the combined populations of Texas and California—are joining the ranks of the middle class each year.

2. High Savings Rates in Asia: Despite rising consumption, households in emerging Asia save 17 percent of disposable income—that's roughly four times what is saved in the U.S. and much higher than the developed world. These high savings rates allow them to meet the higher requirements for home ownership—many require at least 20 percent down—and have larger amounts of funds to invest in capital markets.

3. Urbanization: The world's urban population is growing by more than 70 million people each year. China already has over 100 cities with 1 million people and is expected to have over 200 of them by 2025. This urban migration has overwhelmed existing infrastructure like roads, sewers and electrical grids. The build out of this critical infrastructure will require vast amounts of copper, steel and increase demand for all commodities.

4. Desire for Social Stability: One main goal of emerging market governments to remain in power is to keep the public happy. They are doing this by increasing personal freedoms for citizens and providing them with opportunities to increase their quality of life. Many governments have found the key to social stability is focusing on job creation which establishes a path of upward mobility for citizens.

5. Natural Resources Wealth: Many of today's most promising emerging nations sit atop some of the largest oil, metal and other valuable resource deposits in the world. Many of these nations have teamed up with private and/or foreign enterprises to bring these resources to market. Revenue generated through taxation and direct ownership allows for these governments to build infrastructure, create jobs and pursue other economic opportunities.

6. Corporate Transparency: A history of corruption and political turmoil has given way to higher standards of corporate governance in today's globalized world. Though still far from perfect, the improved transparency and oversight has made important information available to investors and reduced uncertainty. By aligning themselves with international business standards and requirements, emerging nations will attract more foreign capital and better integrate themselves into the global marketplace.
These six drivers have helped emerging economies weather the financial crisis and provided them with a blueprint for success as they continue to strive to build economic wealth.

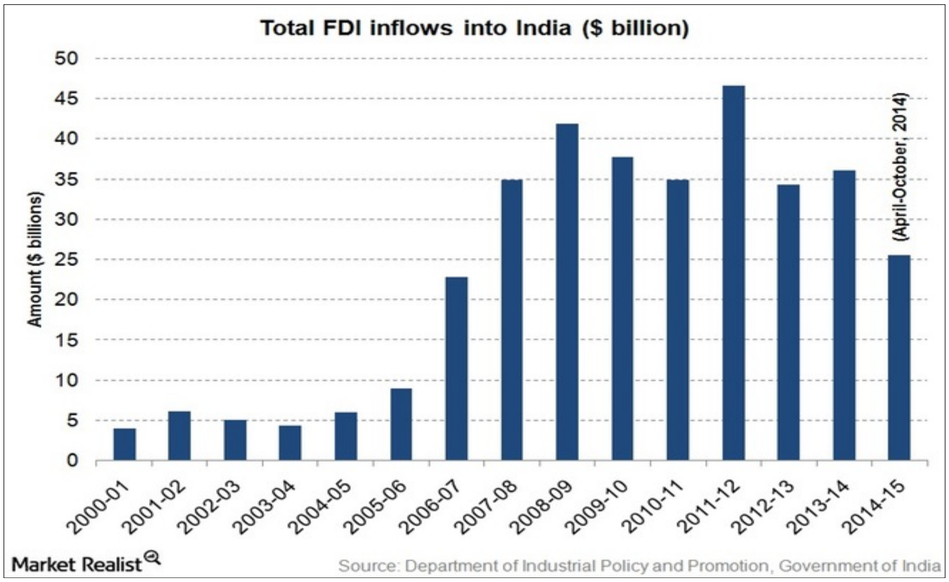

Fig 4

It will certainly be refreshing to see the 'made in India' label on every product on the shelf, for the consumers and professionals in the manufacturing industry.
Recent policy measures and projects to open up India's manufacturing sector:

- 100 per cent FDI allowed in the telecom sector;
- 100 per cent FDI in single-brand retail;
- Validity of industrial license extended to three years;
- For all non-risk, non-hazardous businesses, a system of self-certification to be introduced;
- Process of obtaining environmental clearances made online;
- The Government of India is developing the Delhi-Mumbai Industrial Corridor (DMIC) as a global manufacturing and an investment destination utilising the 1,483 km-long, high-capacity western Dedicated Railway Freight Corridor (DFC) as the backbone.

Indian has the capacity to push the GDP to 25% in next few years. The government of India has taken number of steps to further encourage investment and further improve business climate. "Make in India" mission is one such long term initiative which will realize the dream of transforming India into manufacturing Hub. Start-ups in the core manufacturing sectors are poised to play a crucial role in the success of 'Make in India' ambitions, said experts at a panel discussion at the 11th India Innovation Summit 2015. "Start-ups in the fields of telecom, defence manufacturing, automobile, Internet of Things, financial technology modules and mobile internet have immense potential to succeed in the scheme of 'Make in India'," said Siddhartha Das, general partner, Venture East addressing aspiring entrepreneurs at the discussion on "Entrepreneurship - Role of Start-ups towards Make in India". Make in India scheme also focuses on producing products with zero defects and zero effects on environment.

Conclusion

Although the ease of doing business score went down to 142 from 134 last year , the World Bank has taken care to distance this downslide from the NDA government which took charge barely a week earlier and World Bank has used data till May 2014 whereas most measures to improve doing business were undertaken subsequent to that. The various measures undertaken by the NDA Government to address issues related to economic growth, delay in Government decisions and reforms in the Labour law, Land law and taxation have kick started the manufacturing sector and shot the GDP growth by 5.7% in the last quarter. The Modi Government has also signed a staggering USD 35 Billion investment deal with Japan for infrastructure development. If governance continues in the current manner, we can definitely hope to see significant and sustainable growth in the manufacturing sector and progress towards India becoming a global manufacturing hub.
There is a need for financial service providers and advisors who could work for these industrialists right from the beginning i.e. right from clearance of the project. Improved quality and better performance management system needs to be in place to guide, monitor and enhance the skill set of its work force. Mind set of Industrialists both foreign and domestic towards India needs to be changed. On the basis of the study it can rightfully concluded that People and money, both are the organization's greatest competitive edge. It is essential to unlock the human talent for the success and sustainability of any organization. The development, prosperity and sustainability of India as a Manufacturing hub clearly depend upon the immense potential of its human resources and the financial services that are available for the domestic and foreign players. Employees possessing high value and unique intellectual skills significantly contribute to generate intellectual products. If India successfully provides the industrial houses all this, then it will certainly become a world manufacturing hub. This study both empirically and rationally explained the patterns through which India can become a manufacturing hub. Favourable investment climate, assistance of financial services, relax and industry favourable government policies are the essential ingredients of "MAKE IN INDIA".

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