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Make in India: A strategic tool of economic growth

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Abstract

Make in India' is now an all-pervasive catchphrase-every newspaper and television channel trumpeting the Modi's 'clarion call' to investors – but surprisingly empty in terms of substance. The website is flashy and vastly different from the run-of-the-mill government-of-India websites one is used to – but one has a hard time imagining the 'captains of industry' who attended the Make in India launch on September 25th finding any use for it. One begins to wonder, who exactly is the campaign aimed at? Is it the Indian public? An impressive farce, an ad campaign, the neoliberal dream of the efficient state come true-Make in India is not some brilliant brainwave of Modi's: it is the culmination of very intensive campaign of worldwide propaganda that has been launched by global corporate capital.

Keywords: Make in India, economic growth, manufacturing hub, industrial sectors

Introduction

India is a country rich in natural resources. Labour is aplenty and skilled labour is easily available given the high rates of unemployment among the educated class of the country. With Asia developing as the outsourcing hub of the world, India is soon becoming the preferred manufacturing destination of most investors across the globe. Make in India is the Indian government's effort to boost the Indian economy. It was also rolled out with the aim of creating millions of jobs in the country. Under the 'Make in India' initiative, the government has, in the last one year, announced several steps to improve the business environment by easing processes to do business in the country and attract foreign investments.

Two explanations come to mind: deliberate vagueness is very useful because it can be easily woven into certain rhetoric about delicensing and deregulation and efficiency. Everyone, from Arnab Goswami to the man beside you on the metro know (or think they know) what 'Make in India' is about, and can impose their own particular utopia into Modi's vision without any bothersome facts entering into it. Which further reinforces my conviction that the aggressive coverage on Make in India is aimed at convincing people that the government is taking some real 'solid' measures to create jobs and remove 'roadblocks' to development.

Review of Literature

Bhattacharyya, R. ((2012))^[1] he depicts that we have to challenge and change this scenario. We should be more demanding and insist for superior technology or superior quality that is used elsewhere in the advanced world. Investment in such machinery, tooling or equipment's may appear high but its results and returns will be incredibly quicker and higher.

Chaturvedhi, S. (2013)^[2]. he explain in his study 'Make in India' has caught the imaginatioion of people all over the world. however the india has earned the attention of a good number of cities as well who like to disnciss it as a comitant thrusts on developing quality mind set, expanding digital foat prints & developing skills & employability indicate seriousness of the government in building a holistic ecosystem for success of make in India programme while the becoming a leader in capital- intensive industries, there is tremendous scope of being a pioner in skill intensive sectors especially when we are on the edge of reaping demograpic dividends as a result of concerted efforts of the government industry associatations & international agencies, integrating informational & communication technologies, quality & avanced skill will turn the fartunes of the country beyond imagination.

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Boon (2001) in his study, “Foreign Direct Investment and Economic Growth” investigates the casual relationship between FDI and economic growth. The findings of this thesis are that bidirectional causality exist, between FDI and economic growth in Malaysia i.e. while growth in GDP attracts FDI, FDI also contributes to an increase in output. FDI has played a key role in the diversification of the Malaysian economy, as a result of which the economy is no longer precariously dependent on a few primarily commodities, with the manufacturing sector as the main engine of growth.

The study by Dua and Rashid (1998) ^[3] for the Indian economy does not support the unidirectional causality from FDI to Index of Industrial Production (IIP), wherein is taken as the proxy for GDP. In fact, this study used the monthly data for IIP and GDP, which may include seasonal component in its variation and hence it is required to de-seasonalise the data.

This result is also confirmed by the study of Pailwar (2001) and the study also argues that the foreign firms are more interested in the large Indian market rather than aiming for the global market. By using a vector error correction model (VECM)

Objectives

- To convert India into Global Manufacturing Hub
- To Provide Employment
- Boost Economic Growth
- To urge both local and foreign companies to invest in India

So, what is Make in India?

Deregulation and delicensing of the manufacturing sector

1. Introducing self-certification or third-party certification for safety standards; for activities classified as non-risk or non-hazardous it's to be entirely self-certified (seeming to render the very act of 'certification' a misnomer)
2. The process of applying for industrial licenses is to be made through an online portal
3. The validity of industrial licenses is extended from two to three years
4. A number of sectors such as defense and construction have been opened up entirely – (a further dwindling of the number of licensed industries – at the end of the deregulation phase in 1997–98, only nine industries had some regulations in terms of entry by private investors)

New Infrastructure

1. building industrial corridors and smart cities
2. strengthening intellectual property regime – compliance with global standards
3. skill development

Opening up India's 'high-value' industrial sectors

Defense, construction and railways are open to private investment; in defense the FDI cap has been doubled, and on a case-to-case basis, 100% FDI may be permitted; 100% FDI in rail projects and in construction

Specific targeting of twenty-five sectors

These include automobiles, auto components, aviation, biotechnology, chemicals, defense manufacturing, electrical

machinery, IT, pharmaceuticals, roads and highways, food processing, mining, oil and gas, and thermal power. Largely, these are capital-intensive and require highly skilled labour; even if in themselves they are not capital-intensive, the idea is clear that you're going to use imported technology which as I will argue later on is inherently biased against employing a lot of labour. And finally, and most importantly, our new government apparently has a 'new mindset,' as it claims with such fresh-faced Pollyanna-esque innocence: “an attitudinal shift in how India relates to investors: not as a permit-issuing authority, but as a true business partner.”

Roundup

The changes are in perfect continuity with reforms introduced by Congress-led government in the early 90s. The rhetoric of delicensing and deregulation and decrying the 'inspector and license raj' is no new innovation of Modi's. However, there are a couple of things to be noted:

- The new industrial corridors will cover vast tracts of land, and will likely result in a large number of social struggles against the acquisition of this land, particularly damaging to tenants
- Complying with global intellectual property rights regime has some very problematic consequences, particularly on the availability drugs and medicines
- Lack of attention paid to 'skill development': the constant harping on the benefits 'India's youth' is puzzling because the only provision that seems to have been made is an 'Indian Leather Development Programme.' It is supposed to train a lakh of young people, which is terribly inadequate, given the extent of unemployment existing now, and expected in the future. This is important, given the next point, which is:
- The sectors being concentrated on are largely capital-intensive: IT, aviation, automobiles. They do not employ large amounts of labour, and whatever labour they employ is highly skilled labour. Without adequate education or training, only miniscule fractions of the 'youth' are likely to benefit.

Evaluating Make in India

To make sense of the strategy and critique it in any real way one needs to know what the stated objectives are, figure out how successful it is likely to be in achieving this, and finally to question the objectives and the strategy itself.

The objective is a bit confusing. Said Modi, “India must increase manufacturing and at the same time ensure that the benefits reach the youth of our nation.” (But isn't the former a *means* to achieving the latter and not an end in itself?) But let's give him the benefit of the doubt and assume that his objective is this: to increase opportunities productive employment for a wide subset of the population via the means of growth in private manufacturing. The method being pursued is to integrate India into global manufacturing value chains as a way of driving export-led industrial growth.

This leads us naturally to the next part of the exercise: namely, what are the effects of such a process, how does it precede, that does it benefit – in other words, what is the political economy of Make in India?

The political economy of Make in India

At a fundamental level Make in India is an attempt to alter the production structure of the economy. A shift from agriculture to manufacturing is what is being drummed into our heads. But the important question to ask is this: what sort of industry are we promoting?

Producing goods for export and having these goods produced by multinational companies have very specific implications, and this requires consideration. The demand for these commodities comes from export markets abroad and from the urban/metropolitan middle classes, and richer sections of the rural classes. In other words, domestic markets are extremely narrow – Ford and Honda aren't producing for the typical rural agricultural worker or urban casual labourer.

The other important consideration is that these industries are capital-intensive and/or employ largely skilled labour (employment growth is therefore likely to be minimal, especially since domestic industry will undergo considerable upheaval and displacement). The reason why the incoming investment won't generate employment is simply this: manufacturers producing abroad are likely to have developed processes that reflect the capital-labour ratios that are prevalent in advanced capitalist countries. And because this sort of investment makes use of highly-skilled highly-paid workers, the income distribution will get even further skewed.

What we have is this mutually-reinforcing cycle where the entire economy is restructured and reoriented to cater to the consumption of certain classes in the economy. Add to this the fact the BJP-regime is systematically dismantling all forms of social support – from labour laws to the MNREGA – and you not only have an absence of growth-benefits accruing to the poor: one is likely to see income being transferred *away* from them. The much-lamented reserves of labour will be left unemployed in agriculture but and you will have a set of urban casual labourers and contract workers who are kept at the periphery of this economy – marginalized, even as their labour is exploited.

Support for Modi and Make in India

This is a description of an economic process that is no doubt crude and simplified, and reflective of my own inadequate knowledge of the processes that the Indian economy has been undergoing since the last two decades. But I found it useful for two reasons: the first is a personal one in that it helped me form a convincing narrative of the transformation in my own city: Hyderabad. The IT industry in Hyderabad was the product of the 90s reforms and a certain policy followed by the erstwhile Andhra Pradesh state under Chandrababu Naidu, whose policy, insofar as it deviated from 'deregulation' emphasized urban infrastructure. It no doubt generated a great deal of indirect employment but the lion's share of wages went to IT professionals – highly skilled, highly educated, and almost uniformly drawn from privileged class and caste backgrounds (by virtue of which they were given access to the aforementioned skills and education). What was remarkable was how rapidly the entire city changed, and centered on this new modern cosmopolitan young class of consumers. The Old City of the Charminar, of bangles and biryani, and the Nizams is now merely another item up for consumption on tourist brochures – the city is peculiarly desolate: highways, malls, and franchise outlets dominate the urban landscape, and are

all eerily empty precisely because only a tiny fraction of the city's population can afford to frequent them. Using highways require cars, and most malls are situated on highways and inaccessible to those without such transport, and franchise outlets are priced so as to exclude consumption of most but a tiny few – are we not talking of a city structured to cater only to the richest?

In other words, those not belonging to the 'middle-class' have no spaces to call their own. In fact, this is not just a problem for the poor. I feel that the restructuring of the city in this fashion is impoverishing *everybody*, not just those on the margins of the economy. When consumption is individualized and commoditised, and when any recreational activity to be undertaken is premised on spending money, the concept of communal or public spaces disappears entirely, and if this is not impoverishment, what is?

The second reason such a narrative was useful in that it helped think of reasons why such a campaign could generate objective material interests in its support. The standard narrative of how the 'toiling masses' have been hoodwinked by Modi's well-funded campaigning is only partly true as there are many groups who stand to gain, and not just global or domestic capital. One group is the urban middle classes and the rural rich who stand to gain in two obvious ways: the economy is being restructured to produce the sort of commodities they demand and they may also avail of lucrative employment opportunities. A greater demand for skilled labour would drive up wages (subject, of course, to constraints that I will outline next).

Constraints and limits to export-led narrow-based growth

Now we that we've seen how Make in India, and strategies running parallel to Make in India, could benefit the upper sections of society while marginalizing those already poor and vulnerable, we must recognize that such a strategy could fail:

1. Internal/domestic demand is necessarily constrained (and is bound to remain constrained over the entire course of the strategy as I have just sought to argue simply because it entails no transfers of income to a large majority of the Indian population). Demand from the developed world for Indian exports is likely to be low as well, particularly in the context of a global recessionary climate, which I think, is the point being made by our RBI governor.
2. Lack of infrastructure: a bid to build infrastructure via the thoroughly discredited PPP model is unlikely to solve the very real problem India faces in terms of infrastructure
3. In order to attract global capital the Indian state needs to undertake certain measures that ensure the cheap manufacturing costs: giving capital access to cheap labour and natural resources – as has already manifested itself in recent changes in the labour laws, in the land acquisition act, and in the flexibility of environmental clearances. Social resistance to such measures is inevitable, I think.
4. Other developing economies are also competing to be low-cost manufacturing locations, and the state will have to work doubly hard to ensure a favorable investment climate, and having to suppress resistance and social struggles as and when they arise.

To sum up: Make in India is not a novel or radical turn-about for the Indian economy, the way it is made out to be – it is merely an intensification (more blatant, more brazen, and more assertive) of the policy stance that has dominated discourse since the nineties. It represents a significant worsening of the economic marginalization of the poor and the vulnerable – both if it succeeds, and if it doesn't.

“Stop work” shouted the union leader. Suddenly a screeching sound brought all the machines to a grinding halt as if the machines had a built-in feature to stop in a jiffy. The subsequent silence was deafening and disquieting. Within minutes, slogan shouting became more raucous. Red flags fluttered all over! Today, this is no longer a familiar scene barring a few isolated instances. From being argumentative, we have progressed to being adept at negotiation and find out win-win solutions.

From 154 man-days lost in 1992 to 3 man-days lost in 2011 (according to research by Rajani Pathania, which was based on Indian Labor Statistics Data 1992-2001), the sharp decline in the number of industrial disputes in India is indeed a positive indicator that the labor environment here is conducive for ‘Make-in-India’. Yes, India is ready and our Prime Minister sees it too. Whether we should cater to the domestic or the export market is a debate that is best left to politicians and bureaucrats to dwell on. Isn't it for the entrepreneurs to take a final call on what, where, when and how to produce and what markets they should sell their products to?

Even in a favorable environment, a robust Industrial Relation (IR) strategy is vital. Proactive, smart and easy to implement strategies should be the focus for new entrepreneurs to create an uninterrupted industrial environment.

Need for world-class technology

Manufacturing is a capital and manpower intensive affair. Modern technology can ease the pain of manifold processes involved in the delivery of the final product with high level of precision and quality, be it mass production or niche products. It enables businesses to become competitive. A perfect balance between technology and highly skilled people to manage the modern facility is a win-win for all—the entrepreneur, employees, government and the society.

Location

It is imperative that before one opens a factory, entrepreneurs should study all geographical locations for business viability to make an informed decision. It is strategically important to identify a location away from areas where active unionism traditionally prevails. While this is not in any way undermining the contributions of the unions, do not disregard potential high risk for a few strategic advantages. However, it would be best if organizations get IR subject matter experts to develop a strategy based on past data, including instances where unions created more bottlenecks than extending their support.

It reminds me of a union who were vehemently against introducing computers for data management and speedy customer service in one of the banking companies. The management had to agree to their demand of granting Computer Allowance to implement computerization! The unions were against introducing computers in the bank as

they saw it as a management ploy to deplete the union strength in the bank. They resorted to 'Stop Work' tactics when we introduced a couple of computers on a trial basis in the customer service department. To manage the situation, the bank offered special allowance to Tellers (clerical staff) to work on the computers.

Unions are unreasonable at times in many ways. Here's a difficult situation we faced when implementing “pay for performance” culture in the organization. In a competitive market environment, it is the people who make the difference. Performance Management Programs are introduced to identify high performing and high potential employees in the organization. The unions felt that the managers have the tendency to do assessment on ‘face value (subjectivity)’ and not on ‘performance value (objectivity)’. They considered that the PMP was being used by the management to disintegrate the unity and comradeship of their members!

The management wanted the IR manager to make participation in Performance Management mandatory for all unionized employees. The IR manager then told the union leaders that the management would promote high performing ‘(unionized) non-exempt’ employees to management (exempt) cadre. Unfortunately, it backfired instantly. The union leaders called for an abrupt pen-down strike and subsequently served us with a notice for an indefinite strike. They suspected that this was a ploy to reduce union strength.

It was contextual to mention that this was also the time when management was slow in backfilling any ‘non-exempt’ position for the ‘inhibitions’ they created in running the business seamlessly, including no flexibility on working hours. The unionized employees strictly work as per working hours stipulated in the industry-wide settlements.

We called for an urgent bipartite meeting, where we had them to agree to participate in Performance Management but with a caveat or two. They were equal performance bonus to all members and continue with tenure-based promotion even if the performance is unsatisfactory! The purpose of agreeing to this approach was strategic as we wanted to inculcate a performance driven mindset in non-exempt employees to begin with. Secondly, it was a great way to identify training needs for non-exempts too. We ensured that they attended the training programs along with exempt employees and get positively influenced. In subsequent years, we also achieved their full participation in ‘pay for performance’, acceptance to performance bonus and promotion to exempt category based performance ratings!

Compliance to Labor Laws

Governments are already working on labor reforms in a bid to simplify conducting a business in India. More often, these start-up companies have the tendency of looking at short-term gains and evading labor laws as their main aim is to build the business before focusing on the compliance matters. It is a short-term vision and not a prudent IR strategy at all. It is important to ensure 100 per cent compliance from the beginning itself. No adherence to compliance can get the company into deep trouble, including disengaged workforce coming together to form a union. It is a ‘penny-wise pound-foolish’ approach. The right IR strategy is to ensure that employees’ interests are well protected by adhering to the law of the land from the very beginning of the company’s inception.

Community connect

A robust and winning IR strategy is all-inclusive including relationship management. Call it societal obligation or care towards our society, it has been proven reasonably beyond doubt that businesses that show genuine concern for its surroundings will get protection from anti-social elements. In the larger interest of the business, its employees and other stakeholders, efforts should be made to be socially responsible for the people in and around the businesses / work location. Take care of the needy, take care of the children, contribute to the nearby school, colleges, NGOs etc. for the will extend their support when you need them the most.

IR is a not a complicated matter. There is a tendency to project it as a big problem. It needs deft and nifty approach and high level of emotional intelligence. Get your IR / ER strategy right; win the heart of your internal customers.

Conclusion

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, defense 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 Startups towards Make in India". Make in India scheme also focuses on producing products with zero defects and zero effects on environment.

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