A Detailed Study on Make in India Project

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ABSTRACT
A new “Make in India” campaign to “transform India into a global manufacturing hub” aims to use manufacturing as a vehicle for job growth. Is this strategy realistic? This paper helps answer the question by describing the job growth potential of the Indian economy. Formal-sector manufacturing demonstrates the most potential for job growth under a more supportive policy regime. The paper models future employment paths for India for the next 20 years. Assuming sufficient reforms to generate East Asia-style manufacturing growth, the impact on employment and output is substantial, even if the campaign target of 100 million new manufacturing jobs remains difficult to achieve. The paper then describes a set of reforms sufficient to unleash such a manufacturing growth boom.

Key words: Make in India, transform India, agriculture sector, service sector, manufacturing power

I. INTRODUCTION
India has a jobs problem. The country’s economic growth, even at the impressive rates of the last decade, has not produced meaningful jobs for its expanding working-age population. Dead-end rural construction jobs have offered the only area of expansion. Millions too many families depend on low productivity agriculture for a living as a result. The jobs issue is also politically salient. The 10 states that elected the most members of parliament for Prime Minister Narendra Modi’s party, the Bharatiya Janata Party (BJP), have significantly higher fertility rates—and therefore more new job seekers—than the rest of India.

1- Modi’s headline-grabbing response has been a “Make in India” campaign to “transform India into a global manufacturing hub” and thereby use manufacturing as a vehicle for job growth. The plan includes a variety of measures from easing the regulatory burden to establishing special economic zones to awaken India’s latent manufacturing power. Yet many economists consider labor-intensive manufacturing to be a futile goal given India’s internal hurdles and external competition.

2- They suggest that India stick with its service sector orientation and focus on improving job creation potential there. Is Modi’s strategy realistic? This paper helps answer the question by describing the key barriers to job growth and assessing the job growth potential of the Indian economy. Developing a strategy for job growth requires careful identification of sectors with true potential. Of course, examining the economy at the level of manufacturing and services skims over important detail, including many types of firms and industries that bear little potential. Choosing the path forward is further complicated by the fact that past performance provides a poor indicator of true potential. A sector hobbled by an adverse environment could look completely different with appropriate policy interventions.

Finer distinctions and anticipation of policy impacts will allow policymakers to plot a course for optimal job growth. This paper finds that the modern service sector and the formal manufacturing sector (both described in detail below) are the true growth sectors for India. Both have exhibited moderate job creation on a low base. Formal-sector manufacturing, however, has the most potential for transformation under a more supportive policy regime. This paper models future employment paths for India for the next 20 years.

The best case scenario anticipates sufficiently supportive policy changes to generate sustained 14 percent growth of formal-sector manufacturing. That scenario could create more than 100 million additional jobs. Of those jobs, almost 70 million would come from high-productivity sectors, or a shift of 8 percent of the workforce. Although such a change implies missing the Make in India target of 100 million new manufacturing jobs, it would still put the share of employment and output of Indian manufacturing in the range of East Asian countries like Indonesia, Malaysia, and China in the next two decades.
THE VISION OF MAKE IN INDIA

The manufacturing industry 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 Prime Minister called for all those associated with the campaign, especially the entrepreneurs and the corporates, to step up and discharge their duties as Indian nationals by First Developing India and for investors to endow the country with foreign direct investments.

The Prime Minister also promised that his administration would aid the investors by making India a pleasant experience and that his government considered overall development of the nation an article of faith rather than a political agenda. He also laid a robust foundation for his vision of a technology-savvy Digital India as complementary to make in India. He stressed on the employment generation and poverty alleviation that would inevitably accompany the success of this campaign. The major objective behind the initiative is to focus on 25 sectors of the economy (table 2) for job creation and skill enhancement. The initiative hopes to increase GDP growth and tax revenue. The initiative also aims at high quality standards and minimizing the impact on the environment. The initiative hopes to attract capital and technological investment in India. The campaign was designed by the Wieden + Kennedy (W+K) group which had previously worked on the Incredible India campaign and a campaign for the Indian Air Force.

Table 1: Launched particulars

<table>
<thead>
<tr>
<th>Campaign Name</th>
<th>Make In India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch Date</td>
<td>09/25/14</td>
</tr>
<tr>
<td>Launched By</td>
<td>PM Mr. Narendra Modi</td>
</tr>
<tr>
<td>Number of Sectors</td>
<td>25</td>
</tr>
<tr>
<td>Investment Proposals Received</td>
<td>INR 2000 crore (till 9-Oct-2014)</td>
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Description on logo

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. Wheel denotes peaceful progress and dynamism. Lion has been the official emblem of India” and it stands for “courage, tenacity and wisdom -- all Indian values. 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.

Figure: 1. Logo of make in India

DEMOGRAPHICS

An adequate supply of skilled labor poses one potential limitation on growth. Despite the education forecast cited above, the Confederation of Indian Industries’ India Skills Report 2014 cites research showing that the information technology industry will face a shortage of 3.5 million skilled workers by 2022. Wage costs in modern services have generally risen faster than inflation, indicating difficulty acquiring adequate staffing. However, modern services have
proven many previous forecasts of labor shortages wrong. Large employers have managed to develop the employees they need through in-house training programs and collaboration with private educators. Further, the analysis above suggests plenty of new educated workers will graduate in the next 20 years. Another way to approach the question is through growth rates. The additional workers with post-secondary education coming onboard over the next 20 years represents a 3 percent annual growth rate. Over the past decade, modern services output grew at about three times faster than its workforce. If the relationship between output and employment holds, the supply of educated people can support a 9 percent growth rate in modern services output. Overall, future services output growth will likely be driven by domestic growth. It may continue to rise in share of GDP, as spending on services rises faster than one-for-one with income. That is compatible with a falling share of agriculture in GDP. However, export markets are unlikely to provide as much leverage as in the past, and little room exists for policy change to unleash a new wave of growth. Service sector growth is less likely to significantly exceed overall economic growth. In this sense, the Indian service sector will look less like an outlier unless manufacturing growth continues to underperform.

Manufacturing

The core policy debate on job growth in India centers on the potential of manufacturing to provide large-scale quality jobs. The argument begins back with Simon Kuznets and the fact that every developed country went through a period when manufacturing dominated output and employment. In the last century manufacturing-led growth in Japan, South Korea, and Taiwan was characterized by high investment ratios, small public sectors, export orientation, labor market competition, and government intervention in economic matters. No other path to a fully developed economy has been blazed, and those currently making the best progress, like China, are following the same route.

Despite the fact that only one well-worn path exists, India sits so far off the path that it can be difficult to imagine how it can reach it. Economies with a dominant service sector have not seen manufacturing return to dominance. Further obscuring the vision of a manufacturing-led path for India is the common mistake of examining India’s whole manufacturing sector, rather than limiting the analysis to the formal sector. Since the inception of the Industrial Revolution, competitiveness in manufacturing has meant scale, both in size and sophistication of firms. India’s informal manufacturing sector holds little promise for the kind of rapid growth needed for structural transformation.

The strongest argument in favor of pursuing the manufacturing path is India’s labor force. Most the economies that relied on manufacturing for development began with relatively poorly educated, predominantly agricultural workforces. They started by developing labor-intensive industries like textiles, toy making, and low-end electronics assembly, which capitalize on the large, cheap, low-skill labor force.

Simulations

The sector with the most potential to provide quality jobs in the future—formal sector manufacturing—employs relatively few workers. The same is true for the next best option, modern services. Even if a wave of reform unleashes the full growth potential for formal-sector manufacturing, will that help India supply enough jobs for its workers? Can a large enough share of workers expand in high-productivity sectors to push India up the ladder of development? The answers to these questions are critical for helping Indian policymakers set realistic goals and choose between competing policy priorities.

A simulation can attempt to frame an answer by making simple assumptions about the future evolution of the economy. The simulation presented here starts with a set of basic output growth rates. It maintains a fixed relationship between output growth and employment growth to yield employment growth. Beyond these two critical items, the simulation provides a glimpse at how output and employment might be divided between sectors, as well as the impact of that division on productivity growth. The first assumption to make regards output growth in each sector. As argued in the section above, the formal manufacturing sector stands to gain more than others if appropriate policy changes occur. Hence, it is reasonable to assume that output growth in that sector would rise above its average since 1994 of 8.7 percent.

The growth rates and share of GDP reflect the entire manufacturing sector, not just the formal sector, for which data are unavailable outside India. Korea initiated its boom with manufacturing holding a very low share of GDP. It may therefore have had a much smaller informal manufacturing sector than the other countries, making it a better model for predicting India’s formal manufacturing sector. China has the strongest match with the story of a major wave of reform opening new sectors to export-oriented growth. Malaysia and Thailand have more recent experience with expanding manufacturing. Hence, there are reasons why each country’s experience might be relevant for India.

The scenario also produces employment figures assuming historical relationships between output and employment. The one exception is formal manufacturing. The scenario assumes the high level of manufacturing growth comes from reforms that unlock growth. Accordingly, reform is assumed to help labor-intensive industries more than existing capital-intensive ones, causing manufacturing growth to boost its employment-generating capacity. Under the
assumptions of the simulation, the manufacturing sector reaches 25 percent of GDP by 2022 if the formal side of the manufacturing sector grows 21 percent per year (Table A2 in the Appendix). That means the total manufacturing sector must grow at 18 percent per year. Clearly this exceeds the growth experience of the set of manufacturing booms in Asia and the Make in India manufacturing growth target of 12–14 percent. It may therefore not be realistic. In addition, employment does not come close to the goal of 100 million new manufacturing jobs, reaching only 26 million.

REDUCING LABOR REGULATION

Labor reform stands out as such a singular impediment to manufacturing job growth that it deserves particular attention. India has among the strictest labor regulations in the world. There are four dozen central laws and hundreds of state laws governing labor issues, making reform a complex topic. Labor regulation does not stand out only because of its complexity or stringency. It stands out because it links so directly to job creation. Of all the typical explanations for the failure of labor intensive manufacturing to take off in India, excess labor regulation has the largest body of evidence establishing causality. Evidence also exists that reducing regulations increases creation of formal-sector manufacturing jobs.

Labor regulation deserves to be singled out also because of the unified and powerful political forces pushing to preserve it. The great challenge here is not identifying the reforms or writing new rules, but the political art needed to carry them out. Many compromises will be required to implement the agenda without inciting heavy opposition.

Improvement of Business-Government Relations

The current regulatory regime—even outside labor regulations—smothers business in red tape. Despite major reforms in 1991, the complex web of laws and statutes regulating trade in India still imposes a large burden. According to recent World Bank rankings comparing the ease of doing business in various countries, India registers as the 158th best place to start a business, 186th best for contract enforcement, and 142nd overall. A country’s business climate results from a complex ecosystem of private sector operators interfacing with the government at many points. Reducing the friction of business-government interactions requires a multifaceted approach.

- The tax burden can be lightened by introducing a single, nationwide goods and services tax. This will also facilitate trade across states.
- Interaction with bureaucracies requires faster uptake of online processing options, reduction of points of contact through single-clearance windows, and winnowing of outdated regulation.
- Corruption must be met with aggressive approaches like the Aam Admi Party’s anti-graft helpline or Modi’s reported personal enforcement promises in Gujarat.

Not every obstacle should be removed. For instance, only the government can intermediate the tension between economic development and environmental protection. But even there, an emphasis on expeditious and predictable processes to mediate conflict can dramatically help businesses anticipate outcomes and proceed with confidence.

Education

In order to attain its growth goals, India must make headway toward improving education. The difficulty of finding qualified workers routinely lands atop surveys of businesses’ biggest gripes. In particular, factory workers should have better than basic literacy, and foremen need a high school diploma. Currently, education quality is typically low, yielding lower employability than a job applicant’s educational attainment would suggest. The projections of educational attainment presented above are not a certainty. Rather, the demographers that calculated them consider the projections optimistic compared to current trends in India. Roadblocks include familiar complaints like rigid curricula, inadequate resources, and teachers unions that block reform. No single policy can unlock better education. Rather, the central government should encourage experimentation at the ground level with—most critically—an emphasis on measuring outcomes. A shift to outcome-based funding will necessitate major mindset and administrative changes. It would also require significant deregulation to free state-level governments to adapt their approach, for instance, to a heavier investment in vocational education.

CONCLUSION

The Modi government is right to prioritize creation of high-quality jobs as a key to economic inclusion. India needs to achieve two objectives: creating new jobs and shifting more workers into high-productivity sectors. Meeting both can provide large economic headwinds to the Indian economy for several decades. The current trend will not meet the goal. The status quo implies the preponderance of the labor force languishing in low-productivity sectors. This includes not only agriculture, but also construction, informal manufacturing, and traditional services. Modern tradable, technology-enabled services have driven the Indian economy during its growth acceleration of the last 20 years. Conversely—and contrary to popular conception—services have grown mostly on the back of domestic demand. In the modern service
sector, this growth came with high productivity levels and high-quality jobs. Compared to the size of the labor force, however, the number of those jobs is quite small.

There are two main reasons to remain hopeful that formal-sector manufacturing could provide a new, labor-intensive acceleration to the economy. The first is that India’s massive low-skilled labor force is ripe for application to that purpose. It is growing and education levels are improving. The second is that formal manufacturing has not yet had a chance to meet its potential. More than almost any other sector of the economy, it has been artificially constrained by India’s particular mix of adverse policies. Removing the constraints could transform manufacturing.

Neither should the simplicity of presenting a high-reform scenario be interpreted to imply that the reform process will be easy. Despite all the advantages Modi possesses in terms of Parliamentary majority and electoral momentum, the task remains daunting. Two factors in particular stand out. The first is the necessity to reform the very institutions needed to implement further reform. This makes compromise that weakens the potency of reform much more likely. The second is the centrality (pun intended) to the reform process of layers of government outside the Centre’s control. Modi’s limited power to achieve state-level reform will probably cause years of more delay, with progress occurring at first only among a few likeminded state governments. The scenarios are not forecasts, because the future depends so heavily on a hard slog of major reform. They are mere projections. Overall, the conclusions of this paper about the potentially high impact of an acceleration of formal-sector manufacturing should serve as motivation for the Indian government at all levels to push hard toward the goal.

Appendix: Simulation Details

Table 2: Baseline of Sectoral Analysis: India in 2014

<table>
<thead>
<tr>
<th></th>
<th>Formal Manufacturing</th>
<th>Informal Manufacturing</th>
<th>Other Industry</th>
<th>Modern Services</th>
<th>Other Services</th>
<th>Agriculture &amp; Mining</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth Rate 1994-2012</td>
<td>9%</td>
<td>6%</td>
<td>8%</td>
<td>14%</td>
<td>8%</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>GDP 2014 Share RsTril</td>
<td>11%</td>
<td>5%</td>
<td>10%</td>
<td>22%</td>
<td>36%</td>
<td>16%</td>
<td>100%</td>
</tr>
<tr>
<td>Employment Share 2012 mil</td>
<td>2%</td>
<td>10%</td>
<td>11%</td>
<td>3%</td>
<td>24%</td>
<td>49%</td>
<td>100%</td>
</tr>
<tr>
<td>Employment Elasticity</td>
<td>0.7</td>
<td>0.1</td>
<td>1.0</td>
<td>0.3</td>
<td>0.3</td>
<td>-0.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Productivity 2014 Rs thou/worker</td>
<td>958</td>
<td>95</td>
<td>186</td>
<td>1490</td>
<td>326</td>
<td>71</td>
<td>212</td>
</tr>
</tbody>
</table>

REFERENCES

[2]. The period was chosen to match the employment data available from periodic NSSO surveys, but extending it back another 10 years would not meaningfully change the pattern.
[4]. From largest to smallest, transport equipment, basic metals, electrical equipment, and chemicals and pharmaceuticals, according to 2012 NSSO and national accounts data.
[7]. Kochhar et al., “India’s Patterns of Development.” The paper discusses all of them, though the literature has continued to add further evidence.
[10]. Raghuram Rajan and Arvind Subramanian, “India Needs Skill to Solve the ‘Bangalore Bug,’” Financial

[12]. For details on the simulation methods and assumptions presented here, please see Russell Green, Structural Change Forecasts for India: How Big of a Bang Can a Big Bang Have? (Houston, TX: Baker Institute for Public Policy, forthcoming). A similar exercise was undertaken by Gupta et al., India’s Path from Poverty to Empowerment, with a different breakdown.