

## **A Study on the Impact of “Make in India” on the Indian Economy**

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**ABSTRACT:** Make in India is a Government of India scheme launched by Prime Minister Sh. Narendra Modi in 2014 intended to boost the domestic manufacturing sector and also augment investment into the country. This article comprehensively covers details on the Make in India Scheme as its objectives, schemes & initiatives under it, 25 focus sectors, advantages, challenges, & progress related to it. The government wants to revive the lagging manufacturing sector and spur the economy's growth. The government also intends to encourage businesses from abroad to invest in the country and also to manufacture here, by improving the country's 'Ease of Doing Business' index. The long-term vision is to develop India into a global manufacturing hub and also to boost employment opportunities in the country. Manufacturing plays a vital role in India. But sound policies and facilities are needed for land procurement, labour laws, power tariffs, transport, and logistics. The problems on the grass-root level need to be understood and addressed.

**Keywords:** - Make in India, Foreign Direct Investments, Indian Economy, Manufacturing, Investment.

## **INTRODUCTION**

### **Why Make in India?**

There are multiple reasons why the government has chosen to focus on manufacturing. The key ones are discussed below:

1. For the past two decades, India's growth story seems to have been led by the services sector. This approach paid off in the short-run and India's IT and BPO sector saw a huge leap, and India was often dubbed the 'back office of the world'. However, even though the share of the services sector in the Indian economy rose to 57% in 2013, it

contributed to only 28% in the share of employment. So, the manufacturing sector needed to be augmented to boost employment. This is because the services sector currently has low absorption potential considering the demographic dividend in the country.

2. Another reason to launch the campaign is the poor manufacturing conditions in India. The share of manufacturing in the overall Indian economy is only about 15%. This is way lower than our neighbours in East Asia. There is an overall trade deficit when it comes to goods. The trade surplus in services hardly covers one-fifth of India's trade deficit in goods. The services sector alone cannot hope to answer this trade deficit. Manufacturing will have to chip in. The government is hoping to encourage businesses, both Indian and foreign to invest in manufacturing in India, which will help this sector and also generate employment at both skilled and unskilled levels.
3. To focus on manufacturing is that no other sector seems to have such a huge multiplier effect on economic growth in a country, according to various studies. The manufacturing sector has larger backward linkages and hence, the growth in demand in manufacturing spurs growth in other sectors as well. This generates more jobs, investments, and innovation, and generally leads to a higher standard of living in an economy.

## **REVIEW OF LITERATURE**

The literature review focuses on the key findings of various studies that have analyzed the Make in India initiative:

Sahoo (2018) investigates the measures taken by the Government to open new sectors for foreign direct investment, increase the sectoral limit of existing sectors, and simplify other conditions of the FDI policy. FDI policy reforms are meant to provide ease of doing business and accelerate the pace of foreign investment in the country. Overall scenario of make in India and FDI was a positive summon to prospective investors from all over the world. It represents a wide-ranging refurbish of processes and policies. Earlier, the Indian Government was working with the mindset of an issuing authority, but now with the launch of Make in India, it has started working as a Business Partner.

*Dr. Raghuram Rajan's view:* “I am not advocating export pessimism here – India has been extremely successful at carving out its areas of comparative advantage and will continue to do so. Instead, I am counseling against an export-led strategy that involves subsidizing

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exporters with cheap inputs as well as an undervalued exchange rate, simply because it is unlikely to be as effective at this juncture. I am also cautioning against picking a particular sector such as manufacturing for encouragement, simply because it has worked well for China. India is different, and developing at a different time, and we should be agnostic about what will work”.

*Shrivastav and Jatav (2017)*, conducted a study entitled “An Analysis of Benefits and Challenges of Skilling India” The main aim of this paper was to study the prospects and challenges for skilling in India. The objectives of the study were to study and analyze the Indian experience of skill development and the challenges faced by skill development in India in terms of financial resources based on secondary data.

Make in India was launched in 2014 to make India the manufacturing hub. This initiative aimed to attract MNCs to set up production and design facilities through further sectoral de-licensing, building industrial corridors, and facilitating more significant government–business cooperation (Chang & Zach, 2018). It exempted those whose estimated procurement value is less than Rs. 5 lakhs. The minimum local content shall ordinarily be 50 percent. A Standing Committee in DIPP oversees the implementation of the 2017 to give preference to Made in India products. The Multi-Modal Logistics Parks is a crucial policy to improve the country's logistics sector by reducing freight costs, pollution, and congestion and cutting warehouse costs to promote movements of goods for domestic and global trade. A National Logistics Portal will be a single window marketplace to reduce logistics costs by linking all stakeholders. The Logistics Data Bank Project and the online platform for exporters to self-generate the Importer Exporter Code (IEC) were established to create accessible businesses for exporters. An industrial corridor program for creating world-class infrastructure and connectivity is implemented as a part of the Ease of Doing Business initiative by the government of India (Press Note, Ministry of Commerce). The Electronic Hardware Technology Park/Software Technology Park scheme was introduced to build a strong electronics industry and enhance exports.

There is a vast literature on the scheme but there is a dearth of literature on the comprehensive analysis and evaluation of the Make in India scheme.

## **RESEARCH METHODOLOGY**

To make a comprehensive analysis and evaluation this research used explanatory, exploratory, and evaluation research methodology. The study is mainly based on secondary data. The data for this study has been collected from sources like research papers published in journals, government websites, and online databases.

## **MAKE IN INDIA INITIATIVE**

### **Objectives**

The Make in India mission is aimed at various targets. These are:

1. To increase the growth rate of the manufacturing sector by 12-14% per annum.
2. Create 100 million additional jobs in the manufacturing sector by 2022.
3. Increase the manufacturing sector’s share in the GDP to 25% by 2022.
4. Creating required skill sets among the urban poor and the rural migrants to foster inclusive growth.
5. A rise in the domestic value addition and technological depth in the manufacturing sector.
6. Having an environmentally sustainable growth.



▪ **Four Pillars:**

○ **New Processes:**

- ‘Make in India’ recognizes Ease of doing business, as the most important factor in promoting entrepreneurship for which several initiatives have already been undertaken.
- The aim is to de-license and de-regulate the industry during the entire life cycle of a business.

○ **New Infrastructure:**

- The government intends to develop industrial corridors, strengthen existing infrastructure, and design a fast-paced registration system as part of its commitment to industrial growth.

○ **New Sectors:**

- ‘Make in India’ has identified 27 sectors in manufacturing, infrastructure, and service activities and detailed information is being shared through interactive web-portal and professionally developed brochures.

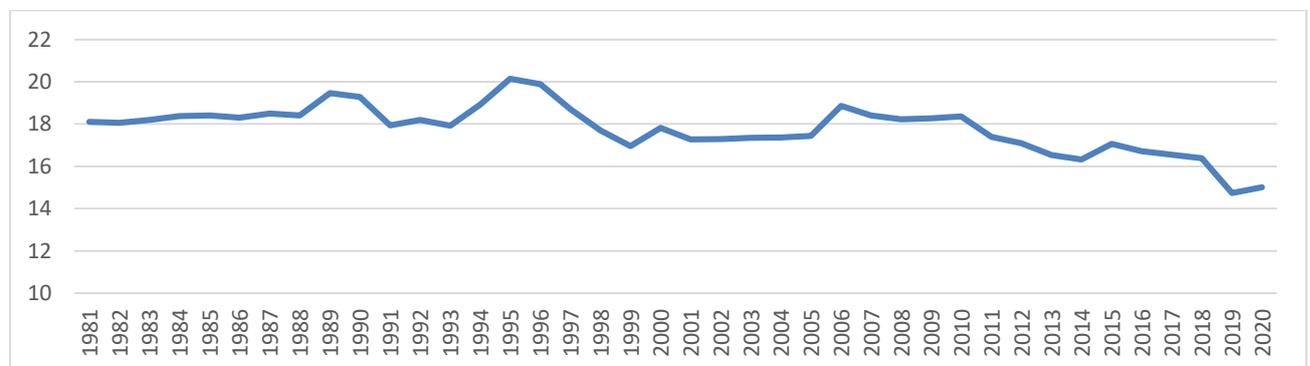
○ **New Mindset:**

- ‘Make in India’ intends to bring a paradigm shift in how the Government interacts with industry.
- The Government will partner with industry in the economic development of the country and the approach will be that of a facilitator and not regulator.

**PERFORMANCE ANALYSIS OF MAKE IN INDIA**

An important indicator for this purpose is the share of manufacturing in the gross domestic product (GDP) by the economy. The following graph shows India’s performance on this indicator in the last forty years. There has been no improvement in this since even the launch of the Make in India initiative. At 15.04 percent, the share of manufacturing in GDP in 2019-20 was slightly better than 14.72 percent in 2018-19. But lower than 16.32 percent in 1914 (the year of the launching of the scheme).

**Figure 1: Share of Manufacturing in Gross Domestic Product (in %)**



Source: The United Nations Industrial Development Organization (UNIDO) Online Database, 2022

Another way to understand progress on this objective is through the data on

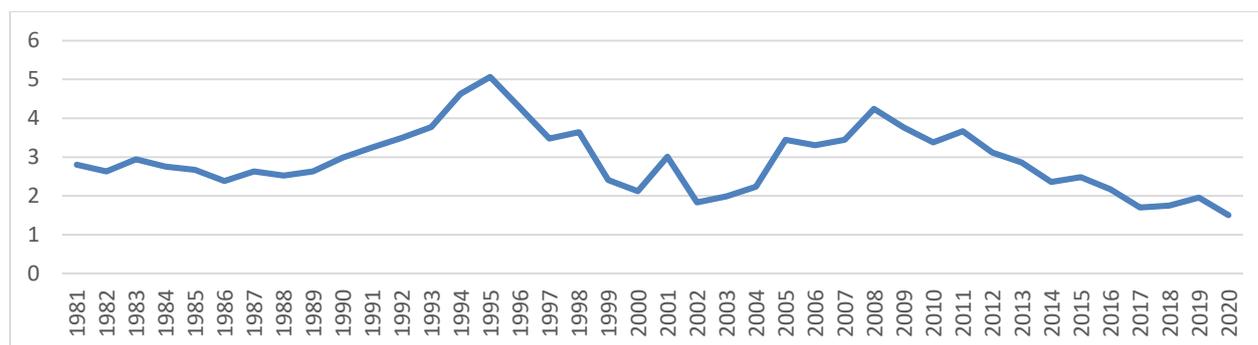
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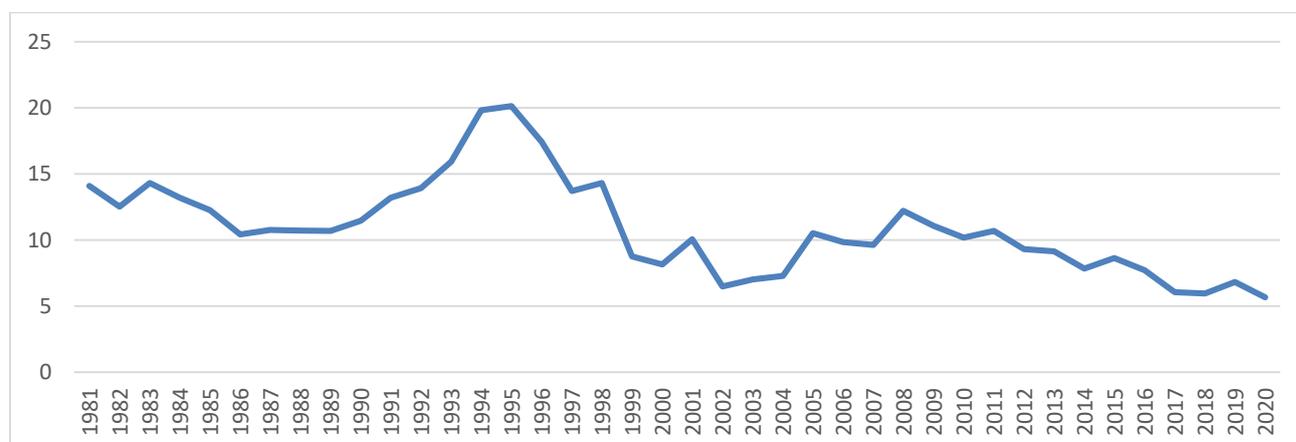
investments in the manufacturing sector in India. A relevant measure of this is the gross fixed capital formation in manufacturing as a percentage of the GDP. A rise in this measure would suggest that investments in manufacturing capacity have increased, which could mean that more manufacturing would happen in the subsequent years. The following graph shows performance on this measure in the last forty years. Even if we do not consider the pandemic years, when capital investments were difficult to make, there has been no progress on this measure since the Make in India initiative was announced.

**Figure 2: Gross Fixed Capital Formation in Manufacturing (as % of GDP)**



*Source: World Development Indicators online database, 2022*

**Figure 3: Gross fixed capital formation in manufacturing (as % of Total GFCF)**



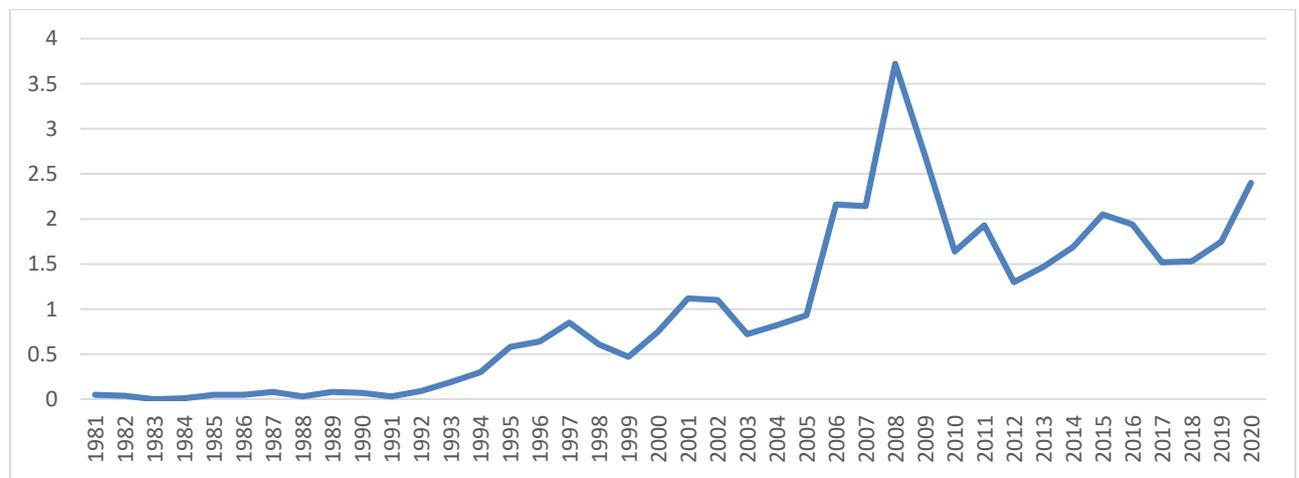
*Source: World Development Indicators and The United Nations Conference on Trade and Development (UNCTAD) Statistics, United Nations (online database), 2022*

Since the Make in India initiative is significantly targeted at foreign investors, a partial measure of its success is the foreign direct investment (FDI) into India. FDI is often associated with the transfer of know-how and increasing the share in global value chains. Therefore, even though the FDI is a small part of the total investment in the economy, its impact can be quite significant. The following graph shows the trends of the FDI in India as a percentage of the GDP in the last twenty years. On this measure as well, there has been no increase since the Make in India initiative was launched, even though the

government has often used nominal numbers to claim improvements. In the eight full financial years since the launch of the initiative, the FDI has averaged 1.76 percent of the GDP, while in the preceding eight years (2007–08 to 2014–15), it averaged 2.14 percent of the GDP.

**Foreign Direct Investment (FDI) Inflows:** To attract foreign investments, the Government of India has put in place a liberal and transparent policy wherein most sectors are open to FDI under the automatic route.

**Figure 4: Foreign Direct Investment Inward (% of GDP)**



Source: UNCTAD Dataset, 2022

### **The Two Phases of Make in India**

Based on these economy-wide measures, it can be argued that the aggregate picture is very different from the one that is painted by the news around big-ticket investments. Perhaps this disconnect can partly be explained by the shift in the government’s strategy for promoting India as a manufacturing hub.

**In the first phase**, the focus was on promoting and facilitating investment as well as improving the ease of doing business. The former meant expanding and energizing Invest India, India’s main investment promotion agency. The latter meant creating a top-down system of monitoring wherein the relevant government departments and agencies were asked to take the steps necessary to improve their performance on different components of the World Bank’s ease of doing business index.

**In the second phase**, even as the attempts to promote investments and improve ease of doing business may have continued, there has been much more focus on the use of fiscal policy. Three types of fiscal policy instruments have been deployed—tariff hikes, tax cuts, and expenditure commitments. This phase began with the hikes in import tariffs on

several products in late-2017. Since then, there have been many changes in import tariffs, and a wide range of goods now attract higher import duties. The government has also announced import restrictions on some product categories.

In September 2019, the government announced tax cuts for new manufacturing enterprises—those set up after October 1, 2019, were given an option of paying income tax at the rate of 15 percent as long as they did not avail of any exemptions or incentives and commenced their production on or before March 31, 2023. This was later extended to March 31, 2024. For other companies, the tax rate was cut to 22 percent, again subject to the condition that they do not avail of any exemptions or incentives.

Finally, from March 2020 onward, a series of production-linked incentive (PLI) schemes were announced. These schemes involved certain expenditure outlays. The incentives are to be given to those firms whose applications have been accepted and met the targets given in the scheme guidelines. Initially, the PLI schemes were focused on key starting materials, drug intermediates, active pharmaceutical ingredients, large-scale electronics, and medical devices. Later, they were extended to eleven more product categories: electronic/technology products, pharmaceutical drugs, telecom and networking products, food products, white goods (ACs and LEDs), high-efficiency solar PV modules, automobiles and auto components, advanced chemistry cell batteries, manmade fiber and technical textiles, specialty steel, and drones and drone components.

These shifts in the strategy might partly explain the disconnect between the aggregate indicators and the narrative shaped by the news articles. Consider the PLI schemes. By design, they are much easier for larger firms to access. The quantitative thresholds and targets with which the fiscal incentive is linked are much easier for larger firms to achieve. For instance, in the PLI scheme for the automobile and auto component industry, the incentive slabs are in nominal rupee terms with the fiscal incentive increasing as the additional sales value rises. The additional sales numbers are easier for the larger automobile firms to achieve. Further, administrative capacity constraints may be creating a bias toward larger firms. It is easier to process a few large-ticket applications from larger firms and monitor their compliance than to do so with many applications from smaller firms.

In areas like semiconductor manufacturing, the combination of large subsidies and the special treatment had given to the investors in overcoming problems of factor markets and business regulations makes it easier for large firms to make big-ticket

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investments that make it to the news headlines. The Micron plant is estimated to require a \$2.75 billion investment, of which \$825 million will be put in by Micron and the remaining will come from the Union Government and the state government of Gujarat. Understandably, the government also seems to be putting special efforts into making it easy for such firms to establish and operate these facilities. It is worth mentioning that such special deals have enabled investments in many other countries as well. Further, protectionist tariffs on product categories such as smartphones have also led to the establishment of more facilities in India. Since India is now a large market for these products, high tariffs can ensure companies establish facilities here. In essence, such policies led to an increase in manufacturing in a country by forcing a transfer from the consumers in the country to the producers. If, over time, such policies led to efficient, globally competitive production in the country, a case could be made that they have succeeded as discussed later in this paper, this is an empirical question to be answered with rigorous analysis. In India’s automobile sector, more than three decades of protectionism and other forms of support have led to considerable manufacturing of automobiles and components in India, but its share in the world automobile trade remains small.

**Course Correction by Performance Measurement**

It can be argued that it is too early to assess the success, especially for the turn in strategy that began six years ago and for the elements such as PLI schemes and tax cuts that have been added in the last three to four years. The pursuit of structural transformation is a long process, and a variety of policy approaches should be tried to enable it. What matters is that the strategy should work.

To clarify how success should be defined and measured, here is a question: If the share of manufacturing in GDP rises significantly in the coming years, is it sufficient evidence of the success of the government’s strategy? It would indeed mean that the initiative has succeeded in promoting manufacturing in India. However, there is another aspect that needs to be considered—the costs of this initiative. While considering the benefits of any government intervention, we should compare them with the direct as well as indirect costs of the intervention. PLI schemes involve expenditures that could have gone to something else. Tariff hikes increase the price at which a product can be purchased. The government estimates that the tax cuts for the corporations cost around INR 2.3 trillion in the first two years. The government may have increased taxes

elsewhere in the economy to make up for some of this loss and/or raised borrowing from the market, thereby raising the cost of borrowing.

#### **EVALUATION:**

There are two broad, mutually complementary ways of evaluating this ambitious initiative.

First, the policies should be subject to standard cost-benefit analysis. Drawing on microeconomics, such analysis is built on a careful identification of the costs and benefits of government intervention. While such analysis considers both indirect costs and benefits but it has limitations too in practical application. They are still useful and often used for project evaluation in India but rarely to evaluate the policies and regulations. In many other countries, policies and regulations are also subject to such analysis. If done well, such analysis can be useful in choosing the right policies, undertaking course corrections, and understanding the impact after the implementation.

Second, it is important to consider the macroeconomic impact in terms of how the initiative is affecting economic growth and employment. It is possible to promote one sector in a manner that harms the other, possibly more productive sectors. For instance, if taxes are cut for one sector but the shortfall is demanded from the other sectors, the later might see a dampening of economic activity. This would show up in the aggregate GDP growth figures. So, a macroeconomic analysis is also required. Macroeconomic models that consider multiplier effects on the economy, which are usually not captured in cost-benefit analysis, can help make this assessment. While professional economists might do such analysis to publish papers at some point, to inform policies here and now, such model-driven analysis must accompany the initiative, preferably housed in research institutions operating at an arm's length.

A problem with the Make in India initiative is that there has been a lack of transparency about the intellectualism that went into designing them. If the rationale for a policy is published and the ongoing progress is documented in detail, others can critique and help improve it. If things are not working well in the aggregate, it might mean that course correction is required. This realization should then trigger an analysis of specific elements of the strategy. This analysis can be done internally by the government or through external institutions. Chances of businesses offering evaluative criticism about the overall strategy are slim because incumbent businesses generally stand to benefit from measures like financial incentives, tax cuts, and protectionist barriers. Since the PLI

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schemes were launched, firms in many sectors have clamoured for more such schemes.

The state-capital interactions are probably now focused more on lobbying for such benefits and less on advocating for reforms. Finally, it is important to remember that it is very difficult to get industrial policy right, especially in a moderate-capacity state like India. This calls for care and caution. Any strategy of industrial policy implies a particular theory of change, which is underpinned by a view on what objective is worth pursuing, a perspective on how the world works, and assumptions about how policies will be implemented. The theory can be wrong on any of these counts, but the sunk cost fallacy is quite common in such matters, especially in a context where there is a large community of narrative-shapers who are willing to claim success too easily. Therefore, only careful analysis can help the government realize the need for timely course corrections.

▪ **Key Achievements**

- Foreign Direct Investment
  - FDI inflows in India stood at USD 45.15 billion in 2014-2015 and have since consecutively reached record FDI inflows for eight years.
  - The year 2021-22 recorded the highest-ever FDI at USD 83.6 billion
- Manufacturing Growth
  - India has emerged as the world's second-largest mobile phone manufacturer.
  - Mobile exports surged from Rs 1,556 crore in 2014 to Rs 1.2 lakh crore by 2024.
  - The electronics sector grew to USD 155 billion in FY23, with mobile phones accounting for 43% of production.
- Self-Reliance in Defence
  - India has made strides in defence production, highlighted by the launch of INS VIKRANT, the country's first indigenous aircraft carrier.
  - Defence production has reached ₹1.27 lakh crore, with exports to over 90 countries.
  - 'Made in Bihar' boots are now part of the Russian Army's equipment.
- Global Export Growth
  - India recorded merchandise exports worth \$437.06 billion in FY 2023-24, marking its growing role in global trade.
- Employment Creation

- The initiative has generated millions of jobs across various sectors, including 8 lakh jobs through PLI schemes alone.

## **FINDINGS**

### **Make in India – Progress**

There are several milestones attributed to the Make in India scheme. Some of the prominent ones are listed below:

1. The introduction of the Goods and Services Tax (GST) has eased the tax procedural system for businesses. The GST has been a fillip to the Make in India campaign.
2. Digitization in the country has gained momentum. Taxation, company incorporation, and many other processes have been made online easing the overall process and improving efficiency. This has upped India’s rank in the EoDB index.
3. The new insolvency code namely, the Insolvency and Bankruptcy Code 2016 integrated all laws and rules relating to insolvency into a single legislation. This has taken the bankruptcy code of India on par with global standards.
4. Due to schemes of financial inclusion such as the PMJDY, as of May 2019, 356 million new bank accounts were opened.
5. FDI liberalization has helped India’s EoDB index to be favorable. Larger FDI inflows will create jobs, income, and investments.
6. Infrastructure and connectivity have received major push-through schemes such as Bharatmala, Sagarmala, and various railway infrastructure development schemes.
7. Bharat Net – this is a telecom infrastructure provider set up by the GOI to enhance digital networks in the rural areas of the country. This is perhaps the world’s largest rural broadband project.
8. India is ranked fourth in the world in terms of its capacity to harness power from winds and ranked number 6 in harnessing solar power. Overall, India is ranked fifth in installed renewable energy capacity in the world.

### **❓ Criticism**

- Experts highlight that the scheme has largely been ineffective in either increasing the share of manufacturing in GDP or attracting major investments in the country.

- Even on the employment front, manufacturing jobs remain few and far between.
- The share of value addition by manufacturing sector is 15.9 percent in 2023-24 compared to 16.7 percent of GDP (in constant price) in 2013-14.
- Even in terms of FDI, net FDI inflows have decreased from 1.5 percent of GDP in 2013-14 to 0.8 percent in 2023-24.

### **Challenges**

- Ease of doing business index is still far away from what is claimed on paper.
- High incidence of taxation and high-handedness in dealing with tax litigation cases.
- Scarcity of skilled workers in India and competition from Vietnam and Bangladesh for low-skilled manufacturing.

### **CONCLUSION**

The Make in India campaign has seen successes and drawbacks. A major success was reported from the mobile phone manufacturing sector, which saw 120 units being set up. This led to the replacement of the import of completely built units (CBUs) by domestically assembled and manufactured units. The country saved Rs 3 lakh crore of possible outflows from 2014. The import of mobile phones is expected to come down. For the success of the Make in India program, mere willingness to spend on infrastructure and attracting FDIs will not serve. The government needs to work on implementation. It should strive for better implementation of the decided policies. The problems on the grassroots level need to be understood and addressed. The following points can be noted-

- As "Make in India" enters its second decade, it stands as a testament to India's determination to reshape its manufacturing landscape and enhance its global standing.
- With the support of strategic reforms, such as the PLI schemes, PM Gati Shakti, and the National Logistics Policy, India has emerged as a competitive and self-reliant economy.
- The success of indigenous projects like the Vande Bharat trains, the INS Vikrant, and the growing electronics sector signals a promising future for India's industrial and manufacturing sectors.

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