

# The 'Make in India' Initiative

Dr. S. D. Naik



**FORUM**  
OF FREE ENTERPRISE

*“Free Enterprise was born with man and shall survive as long as man survives”.*

**- A. D. Shroff**  
Founder-President  
Forum of Free Enterprise



## **SHAILESH KAPADIA**

(24-12-1949 – 19-10-1988)

Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s G.M. Kapadia & Co. and M/s Kapadia Associates, Chartered Accountants, Mumbai.


Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s Dalal & Shah and M/s G.M. Kapadia & Co., Chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce & Economics, Mumbai, in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions.

Shailesh's leadership qualities came to the fore when he was the President of the Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai.

Shailesh was member, Institute of Fiscal Studies, U.K.; member of the Law Committee and Vice-Chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organised by professional bodies.



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## INTRODUCTION

This booklet offers an excellent commentary on one of the most important topics of the current economic policy and strategic program of the NDA government. Launched with great-deal of fanfare, Make in India, has captured the imagination of people at large, and business and industry in particular – both from India and abroad. Various State Governments are also seen to be competing with each in a constructive way to ride the impending new wave of manufacturing resurgence in the country by leveraging the position of their respective states. The core objective of this powerful initiative is to make India as a global hub of manufacturing, design and innovation.

The author of this booklet, Dr. S. D. Naik – an eminent economist and a former Economic Editor of The Hindu Business Line – has sought to unravel multiple facets of this ambitious program. He points out that ‘Make in India’ initiative is the latest and most expansive of the attempts that successive governments have made to revive the country’s manufacturing sector over the past decade. It may be mentioned that in the structural composition of India’s economy, the share of manufacturing has remained almost stagnant around 15% for well over past three decades. In fact, the UPA II Government unveiled its National Manufacturing Policy some time in 2012 with a view to reviving this sector. This policy envisioned the prospect of expanding the share of manufacturing sector in GDP to 25% by 2025. But for a variety of reasons this was of not much avail during the tenure of UPA II government; and the share

of manufacturing sector continues to languish even now.

Inevitably, therefore, some format of a 'big bang' approach has been called for, and that seems to be the rationale and motivation for launching of Make in India strategy. However, formulation of policy is invariably relatively easy and resolves only one side of the story. What is more crucial for its successful outcome is the nitty-gritty of operation and actual implementation of the policy. Doubtless, all the stakeholders are now pinning their great hopes around this decisive aspect of implementation from the present government.

In this contextual framework, Dr. Naik has carefully and elaborately looked into various facets of the Make in India mission before giving his judgmental assessment. Thus, the author reflects on a whole gamut of issues and challenges confronting India's manufacturing sector. Specifically, these cover problems of [a] low productivity; [b] strengthening of technology; [c] creating ethos of global focus; [d] expanding of manufacturing exports; [e] plugging the missing link of indigenous development of hardware required for the growth sectors like IT and Telecom services; [f] harnessing the potential of MSME sector and promoting cluster development approach; [g] leveraging the potential of defence manufacturing; [h] promotion of labor-intensive factories; [i] overcoming innovation deficit; [j] skill formations; et al.

Surely, all these are formidable areas and many of them would require simultaneous and concurrent efforts of both the Center and State Governments. Also, there has to be participative approach and support of other stakeholders of the economy, especially the business and industry, banking and financial sector, and so on.

Dr. Naik has also done well to highlight that to make a success of the Make in India initiative, the government must now work on sustained improvement in the ease of doing business, create a transparent and stable tax environment, revive efforts toward much-needed labour reforms, resolve issues concerning availability of land, et al.

All in all, while concluding his essay, the author proclaims that the new 'Make in India' initiative has helped in improving the overall sentiment relating to India's manufacturing sector, but "a lot more needs to be done within a reasonable time-frame to provide a major thrust to the long-stagnating sector". The FORUM believes that this well-researched and well-articulated article of Dr. Naik would be useful not only by policy makers, professionals, researchers and students, but by the public at large!

**Sunil S. Bhandare**

*Editor*





# The ‘Make in India’ Initiative

**Dr. S. D. Naik\***

## **Introduction**

The ‘Make in India’ initiative was launched by Prime Minister Narendra Modi on September 25, 2014 to provide a pig push to the country’s languishing manufacturing sector. Mr. Modi admitted that there were formidable challenges to achieve the goal. He suggested that achieving the goal would require progress in a host of areas. The government promised reforms on norms for foreign direct investment – some of which were subsequently delivered – and a fix of problems that gave the country a poor reputation among foreigners. These include unpredictable tax policies and a difficult regulatory environment.

he ‘Make in India’ week in Mumbai which ended on February 18, 2016 served as a welcome platform to states to make their case for being business-friendly destinations. The response to the event was indeed overwhelming as about 1000 CEOs and 4,000 delegates representing over 2,000 overseas firms

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were present at the event. Of the promised investment of Rs.15.2 lakh crore during the week, the host state of Maharashtra accounted for Rs.8 lakh crore. It is clear that these are only intentions and how many of them will actually materialise, only time will show.

Foreign investors are keenly watching how India is addressing its challenges, and most importantly, at what pace. India will have to compete with neighbouring countries like Malaysia, Vietnam, Indonesia and China to attract its share of global foreign investment pie. A stable fiscal and tax regime, efficient logistics network, availability of 24x7 power at competitive rates, availability of skilled labour force, stable currency, efficient banking and capital markets and overall ease of doing business are some of the important factors that would be necessary to make a success of the initiative.

To make a success of the initiative, the government must now work on sustained improvement in the ease of doing business and create a transparent and stable tax environment. There is an entire gamut of manufacturing-friendly policies that the States and the Centre would need to work on. The Centre has unfortunately put the much-needed labour reforms on the back burner. Other factor markets too need to be reformed. Land availability in many places is a genuine problem. The recent focus on infrastructure is welcome, but it should be accompanied by deregulation that allows it to be properly used. New highways may not be that useful if outdated laws keep trucks waiting at inter-state borders for too long a period.

While addressing the challenges, it may be noted that the recent 'Make in India' initiative is the latest and most expansive of the attempts that successive governments have made to revive the country's manufacturing sector over the past decade. In 2006, the National Manufacturing Competitive Council (NMCC) had formulated the National Manufacturing Strategy, underlining the need to step up the manufacturing growth rate to double digits so as to increase the share of manufacturing in the national GDP to 23 per cent by 2015.

The UPA II government made further pronouncements for reviving the manufacturing sector through its manufacturing policy announced in 2011. This time the target was to increase the share of manufacturing in the national GDP from 16 per cent from the beginning of the current decade to 25 per cent at the end of the decade. Around the same time, the Planning Commission unveiled its National Manufacturing Plan, as part of the 12th Five Year Plan that spoke of increasing the share of manufacturing from 16 per cent to 25 per cent by 2025. However, despite these initiatives since 2006, the share of manufacturing in the national GDP has continued to remain almost constant at around 15 per cent.

### **Regional variations**

As a matter of fact, the manufacturing to GDP ratio in the country has been stuck in the narrow 14-16.5 per cent band since 1980. That the manufacturing sector never took off in a big way in the country is well known. Less analysed, however, are the regional dynamics that would be needed to achieve the key objectives

envisaged under the new initiative. There are three major states where the manufacturing to GDP ratio is higher than the all-India average – Maharashtra, Tamil Nadu and Gujarat. In Gujarat, the share of manufacturing in its GDP was around the national average of 15 per cent in 1980, but it nearly doubled to 29 per cent by 2006-07. Its share in West Bengal has fallen from 15 per cent in 1980 to 10 per cent now. In Bihar it has fluctuated between 4 per cent and 7 per cent since 1980s. In UP, it has moved up only marginally from 11 per cent in mid-1980s to 14 per cent now.

What is critical to raise the country's share of manufacturing in the country's GDP significantly is a significant jump in manufacturing activity in states like UP, Bihar and West Bengal. Four pre-conditions need to be met, especially in UP and Bihar, if manufacturing expansion is to take place: assured power supply, easy acquisition of land, good road infrastructure, and fast-tracked, corruption-free project approvals. The message is clear: if India has to raise its share of manufacturing in the country's GDP, relatively less developed states will have to play their part and create a more conducive environment for the healthy growth of the manufacturing sector.

An important reason for the poor performance of the manufacturing sector in most states over the years is the failure to improve the competitive strength of the sector in international markets. Not surprisingly, the composition of India's exports has shifted towards commodities over the last decade, away from manufacturing. The share of manufacturing products

in the country's exports has fallen from 80 per cent in 1999-2000 to 67 per cent now. This has not only rendered India vulnerable to the crash in commodity prices in the world markets but has also led to the neglect of labour-intensive sectors such as textiles and leather products.

### **Low productivity**

Studies have revealed that the productivity of the manufacturing sector in India is quite low compared to the international standards. It is just about 20 per cent of the productivity in the US. It is almost half of what it is in South Korea. The reasons for this low productivity in India are not far to seek. Use of outdated technology, non-availability of skilled labour, poor infrastructure, costly financing and bureaucratic controls have dogged the sector for too long. Apart from promoting skill-development on a sustained basis, IT revolution could play a key role in increasing productivity on the shop floor along with better supply-chain management. In an environment of intense global competition with customers becoming more demanding, manufacturers must find ways to achieve greater efficiency and speed in the product development processes.

The key to all-round improvement of manufacturing capacities, including the competitive strength of the sector in world markets is the infusion of latest state-of-the-art technologies. Strengthening the technological sinews of the manufacturing sector has at least two immediate imperatives. First, the manufacturing sector needs to improve its competitiveness significantly in order to meaningfully participate in the economic

integration processes to which India has committed itself. The economic integration agreements that it had formalized during the past decade have secured very few benefits, owing largely from the inability of its manufacturing sector to improve its presence in the markets of the partner countries.

Although the FDI inflows into the country have witnessed a significant increase recently, they were largely dedicated to produce products for the domestic market. In fact, the domestic market oriented FDI has traditionally been attracted by the country so far. The export-oriented FDI inflows into the country have been much less. This is largely because exporters suffer from major competitive disadvantages in our country owing to relatively low productivity, and lack of adequate logistic and infrastructure facilities, compared with countries in Southeast and East Asia. Fortunately, things appear to be changing for the better. For 2014-15, FDI inflows into India were worth \$44.29 billion, up 23 per cent compared to previous year. They reached a record \$51 billion till December in 2015-16. The recently released Financial Times FDI Report 2016 highlights that the big FDI story of the past year is India as it became the highest ranked country by capital investment in 2015, surpassing China, with \$ 63 billion worth of projects announced.

In addition to this encouraging development, two recent legislations in the country are also expected to provide a boost to the country's manufacturing sector. The first one is the Mines and Minerals (Development & Regulation) Act 2016 passed by Parliament is

expected to facilitate transfer of mining leases, thereby paving the way for major mergers and acquisition activity (reportedly worth US \$ 5 to 6 billion) in sectors like cement, steel and power. In turn, this may also ease some pressure on banks regarding their NPAs associated with these sectors. The second is the Insolvency and Bankruptcy Code recently passed by both the houses of Parliament recently paving the way for India to have the law in this regard. This is expected to help India improve its ease of doing business and will also be a big positive for the country's banking sector, currently burdened with stressed assets.

If the aim of the 'Make in India' initiative is to transform India into a global manufacturing hub, then it must have a global focus and for this, foreign trade must be emphasized as much as foreign investment with much greater emphasis on improving the productivity and competitive strength of the sector. Otherwise the danger that the 'Make in India' initiative faces is to reduce itself into a programme for import-substitution through foreign investment. This might result in cheap imports replacing the relatively costlier domestic production as had happened in the past. The long-term success of the latest initiative would largely depend on the country's ability to attract FDI that will focus on manufacturing for both Indian and overseas consumers.

In the past, as many as 26 working groups – 16 on specific industries and 10 working on cross-cutting issues have emphasised on five strategic thrusts for the healthy growth of Indian manufacturing:

- Improving the business regulatory framework;

- Human asset development;
- Improving technology and value-addition in manufacturing;
- Developing effective clusters for the growth of MSMEs; and
- National Investment and Manufacturing Zones.

Of course, there are some strategically important sectors where import substitution is the need of the hour. But this needs to be done in collaboration with foreign companies that are willing to infuse the latest technologies. These sectors include, crude oil, defence equipment, IT hardware and telecom and a number of other capital goods. The country has to pay an enormous price for the import of these goods because of our failure to initiate measures for the production of these items even as the domestic demand was surging. The value of the country's capital goods imports was worth \$ 16.5 billion in FY 15.

The government unveiled a National Capital Goods policy in 2016 under the Make in India initiative to unlock the potential of this sector in creating domestic demand and increasing its exports to 40 per cent of production from the present 27 per cent and increasing its share in domestic demand from 60 per cent to 80 per cent, potentially making the country a net exporter of capital goods. However the task is not going to be easy given the current scenario.

### **Telecom and IT hardware**

India witnessed a revolution in telecom services between 2001 and 2008 but had virtually no presence in the manufacture of telecom hardware. Most of the



telecom equipment was imported at zero import duty after a duty-free regime was ushered in by the World Trade Organisation (WTO). No efforts were made by policymakers to provide an impetus to the indigenous telecom hardware manufacture. Way back in 2011, Sam Pitroda, the then chairman of National Innovation Council had said in an interview on the sidelines of a World Economic Forum event in Mumbai: "Information technology and services may have powered India to be one of world's fastest growing economies. But we have lost the electronics manufacturing base, whatever little we had." Electronic hardware imports could be worth \$ 400 billion in the next 10-15 years, more than oil.

Providing a boost to domestic manufacturing of IT hardware is critical if India wants to reduce its dependence on imports of the same and to provide jobs to its unemployed youth. The good news is that thanks to the new government's 'Make in India' initiative, over the past one year, a number of proposals for electronic manufacturing in India have been received from some of the global players, including Airbus, Phillips, Thomson, Samsung, LG and Flextronics. These proposals are for investment of around Rs.1.5 lakh crore. But the big problem is success in the manufacture of telecom and IT hardware depends a great deal on the country's participation in global value chains (GVCs).

Manufacturing of most technology products is a multi-stage process involving collaboration in several countries. The system binds all participants to just-in-time production and supply schedules requiring

quick export import clearances. We need our ports and customs to deliver at world-class benchmarks. Compared to China, South Korea, Malaysia or Thailand, India's manufacturing is marked by near non-participation in most of the global value chains. This is because it cannot ensure quick export-import clearances.

### **Role of MSMEs**

The micro small and medium enterprises (MSMEs) play an important role in the overall industrial growth of the country. They currently account for about eight per cent of India's GDP and create more than 1.3 million jobs every year. They account for about 45 per cent of India's total industrial output and 40 per cent of total exports. The estimated 4.67 crore MSMEs in India are diverse in terms style, levels of technology employed and goods and services produced. They churn out more than 6,000 produces ranging from traditional goods to sophisticated items and machines, besides offering a gamut of services. The segment has witnessed a growth of 10 per cent per annum in recent years, thus expanding faster than the economy as a whole.

But the sector can do a lot better and emerge as the backbone of the economy and an engine for its rapid growth, aiding the socio-economic transition of the country. In many global economies, MSMEs contribute over 25-30 per cent of the GDP. The contribution of the sector in our country's GDP can be raised from the current 8 per cent to 15 per cent by 2020 if an enabling framework is provided for its rapid growth. Modi government has shown a welcome resolve to

boost the sector's prospects. This year's Budget has provided for a Micro Units Development Refinance Agency (MUDRA) Bank with a corpus of Rs.20,000 crore and a credit guarantee corpus of Rs.3,000 crore. As many as 3.30 lakh people had been disbursed loans totalling Rs.1.25 lakh crore under the MUDRA Yojana, the Prime Minister said on March 27, 2016.

The clusters of small and medium enterprises have to be the backbone of the manufacturing sector revival for two reasons: First, almost all the sectors that have been identified as the thrust areas by the government rely heavily on the SMEs for the supply of ancillaries and therefore the future of these sectors depends entirely on the performance of these clusters. Incidentally, the success of the identified industries would depend on the performance of the SME clusters. Such clusters have a long history of successes, beginning with Europe and then in Japan, South Korea and China. Second, these clusters could provide a much-needed impetus for employment generation. It needs to be pointed out that the state must play a major role in enabling the SMEs overcome many of the disadvantages they generally face; from raising resources to finding the proper marketing channels to maximise their returns.

### **Defence Manufacturing**

India is the largest importer of defence equipment in the world. It imports 70 per cent of its weapons and technology, and this has its own costs, including kickbacks and corruption. The overdependence on imports in respect of defence equipment needs to

change with a focus on 'Make in India'. Prime Minister Narendra Modi has set a tough challenge for India's defence manufacturing sector – doubling its output and halving defence imports in five years. This will save considerable amount of foreign exchange and build technological capability of the country. With a budgeted expenditure of Rs.2, 29,000 crore in 2014-15, India is one of the top 10 countries in the world in terms of defence spends. China spends three times as much as India on defence but imports only a third as much as India.

Although 40 per cent of India's defence spend is on capital account, 70 per cent of the capital equipment it buys is sourced from abroad. On the domestic front, there have been huge delays and cost-overruns dogging key projects, ranging from the main battle tank to the Light Combat Aircraft to even small arms. This needs radical reforms including close integration with end users - the armed forces. For some 50 years after Independence, no private sector unit participated in the manufacture of India-made defence equipment. Indian defence production was confined to public sector defence units till 2001. This situation needs to change through growing private sector participation.

However, the defence industry operates in a monopolist market with the government as the sole buyer, leading to greater business unpredictability for private players. To overcome this problem, India needs to encourage exports of defence equipment. FDI cap in the manufacture of defence equipment has now been raised to 49 per cent from the earlier 26 per cent, since India received only \$ 5 million in defence

FDI over the past decade. If the country has to make a real breakthrough in indigenization of defence equipment, the FDI cap needs to be raised to 74 per cent. The ecosystem that will be created by doing so will allow Indian companies and professionals to learn, innovate and export some of the indigenously produced defence equipment.

The good news is that the Defence Technology and Trade Initiative (DTTI) signed on January 22 this year, an agreement with the US for co-development and co-production in four projects (two involving the US government and two with US companies) that are expected to provide an impetus to DTTI. They will explore aircraft carrier technology-sharing and design, and possible co-operation on the development of jet engine technology. In 2013, the US had offered 10 joint production projects to India, including a maritime helicopter, a naval gun, and a surface to air missile system. Not surprisingly, some large Indian companies (Tata, Mahindra and Larsen & Toubro), have now entered into joint ventures with some leading foreign defence companies.

The latest entrant is the Reliance Defence Ltd. of the Anil Ambani Group which has entered into a joint venture with Rafael Advance Defence Systems Ltd, Israel. The initial outlay for the JV company, excluding the technology cost, will be Rs.1,300 crore. The company will be located at Pithampur near Indore, Madhya Pradesh, and it will make air-to-air missiles, air defence systems and large air ships, according Reliance Defence. As per the current guidelines of the centre, 51 per cent holding in the company would be

from Reliance Defence and the rest would be held by Rafael. The JV is expected to provide a big thrust for the indigenous development of high precision weapons system in India.

Several reports have suggested that the domestic defence sector not only has the potential to augment manufacturing but also add nearly one million direct and indirect jobs. The revised defence procurement procedure (DPP 2016) that became operational from April this year provides more flexibility to end-users and industry to work together, especially on development projects. It also addresses issues like incentives to move up the value chain. It is also expected to spur more design development activities within the country and contribute towards indigenous content and help enhance indigenous defence industrial base.

### **The other areas**

Although the latest 'Make in India' initiative mooted by Prime Minister Narendra Modi has identified a slew of areas it would cover, there are some crucial areas which need to be prioritized. These include infrastructure, clusters of small and medium enterprises (SMEs), skill formation and innovation which have been the main hindrances that have seriously affected the performance of the country's manufacturing sector over the past couple of decades. Also, the country needs to radically transform this sector by focusing on large-scale labour-intensive factories producing exportable goods.

Creating the necessary infrastructure for the manufacturing sector to take off would, no doubt pose the biggest challenge, both in terms of the

financial resources that would be required as also the institutional arrangements necessary for ensuring that the identified projects deliver in the shortest possible time. Over the past few years, several estimates have indicated that to overcome the country's infrastructure deficit, it would require investments of over \$ 1trillion over a five year period. These estimates imply that India would have to increase its gross fixed capital formation by at least 50 per cent over the next five years.

### **Manufacturing for exports**

For the rapid growth of the country's manufacturing sector and to increase its share in the national GDP significantly, there is an imperative need to tap the overseas markets and to increase the country's share in world manufacturing which is only about 1.8 per cent at present. This is in stark contrast with China where manufacturing contributes 34 per cent to its GDP and accounts for 13.7 per cent share in world manufacturing. The neglect of the sector has not only brought down the share of India's manufacturing exports significantly, but has also resulted in a big surge in imports of manufactured products, especially in respect of crude oil, telecom, IT hardware, defence equipment and a number of capital goods.

Unfortunately, the share of manufacturing goods in India's export profile has been steadily trending down over the years. In a global environment of shifting manufacturing geographies, India has the opportunity to emerge as the new manufacturing hub, given its competitive wages and cost structure. Much more can be done to promote Indian manufactured goods

overseas by expanding in new markets and boosting manufacturing of top globally traded items as also leveraging trade agreements.

India needs to radically transform its manufacturing sector by focusing on large-scale labour-intensive factories producing exportable goods. The sector has to grow by 12-14 per cent per annum over the medium term. In order to achieve this, labour-intensive sectors such as food processing, textiles and apparels, leather and footwear etc. which contribute to over 60 per cent employment in the MSMEs should receive much greater policy support. This sector suffers from pervasive power shortages, high energy costs and frequent load-sheddings. Serious efforts are needed to remove these constraints to ensure healthy growth of this sector.

At the same time, we can also try to build manufacturing capability in goods which are currently being imported on a large scale such as defence equipment, IT hardware and machinery and equipment. This may require correcting the inverted duty structures or examining the free trade agreements for their impact on domestic manufacturing. The manufacturing sector's competitiveness also hinges greatly on innovation, quality standards and R & D. India's attainments in these areas are still quite low, but can be scaled up rapidly with proper policies for incentivising investments in knowledge expansion.

In the case of textiles, India had an inherent advantage given that it is the largest producer of cotton in the world, large capacities for polyester and other synthetic fibre production, low cost of labour and a



large domestic demand. But the country has frittered away the opportunity of emerging as the largest exporter of textiles in the world largely because of the wrong policies of the successive governments. In the case of China, its global share in textile exports increased from less than 10 per cent to nearly 35 per cent in the last two decades from \$ 10 billion to nearly \$35 billion. In the same period, India's share of global textile exports remained stagnant at around 3-4 per cent.

### **The challenge of skills and jobs**

The scale of skilling challenge that India faces, and the urgency involved have been stressed by experts from time to time. Going by the recent official data, fewer than one in ten adult Indians had any form of vocational training and even among those who had, the type of training was not the sort of formal skilling that employers seek – the majority had either acquired a hereditary skill or learned on the job. Just 2.2 per cent in all, had received formal vocational training. In comparison, 75 per cent of the workforce in Germany and 80 per cent in Japan had received formal skills training. Even among BRICS countries, India lags far behind. Nearly half of the Chinese workforce, for instance, has received formal skills training. The problem is more acute in India's rural areas for women. Almost all countries that rank among the top 20 on the Human Development Index – Australia, Switzerland, Germany, New Zealand, Britain, etc. – have very strong vocational education and training (VET) systems. Over the last decade, key stakeholders in government, business, academia and civil society

have recognized that skill development of our existing and future workforce can act as a catalyst in realising India's ambition of transforming into a developed nation on the back of favourable demographics. Let us hope to see more partnerships between government and the private sector to drive the skill ecosystem.

The Modi Government has made skills and jobs one of its focus areas right from the beginning of its term. In July 2015, the Prime Minister launched an ambitious mission to impart skills training to 40 crore people by 2022. The new government has a dedicated Ministry of Skill Development and Entrepreneurship. The National Skill Development Policy and the National Skill Development Mission launched by the new government provide the suitable framework for improving the skill development ecosystem across the country along with programmes like Pradhan Mantri Kaushal Vikas Yojana providing financial support for trainees from economically weaker sections.

In a favourable development, the World Bank has tied up with the Indian Skills Development Ministry to provide \$ 1.5 billion loan, to ensure imparting the best practices at schools imparting skills. It would help revamp vocational skills and industrial training institutes (ITIs) and address quality concerns by implementing ISO certification and its ratings. The Skill Development Ministry said, it is partnering with the World Bank to update it by not only extending monetary support but also by ensuring adoption of best practices at skill schools. However, the task is not going to be easy considering the challenges ahead. Incidentally, the previous government had also talked

the same talk but was able to achieve precious little between 2004-05 and 2011-12. There isn't any clear evidence yet that the new government is charting out a radically new path on the subject.

The most unfortunate part in all this is that our entire education system – primary, higher and technical – is in a mess with falling standards and producing unemployable graduates. Even very few engineering graduates are in a position to get suitable and decent jobs since the industrial establishments find them unsuitable for their requirements. Not surprisingly, acquiring sophisticated skills is not easy against such a background. The same is true with regard to innovation even among IIT graduates.

### **India's Innovation Deficit**

India's record with regard to innovations, which is a pre-requisite for generating new knowledge in science and technology, is quite poor. According to figures released by the Geneva-based World Intellectual Property organisation under the patent co-operation treaty, patent applications filed from India dropped to 1,423 last year as compared to 42,381 from Japan, 25,548 by China, and 13,117 by South Korea. In fact, filing of patent applications by Indian firms and research departments over the past three years remained almost flat with 1,320 in 2013, 1,428 in 2014 and 1,423 in 2015.

According to the 2014 Global Innovation Index (GII), India dropped 10 places compared to the previous year to 76th place. India's R & D spending is 5 times lower than that of China. It scores poorly on commercialising its R & D from its universities compared to China and

even South Africa. Overall, the Global Competitiveness Report rates India's capacity for innovation lower than that of BRICS countries, except Russia. Hence it is not surprising that today there is no Indian brand in the interbrand Top 100 Global List. The market capitalisation of Apple (the number 1 interbrand) is 40 per cent of India's GDP!

Innovation is a prelude to manufacturing; that is why 'designed in India' in many ways is more important than 'made in India'. Indian brands can occupy the world stage only if they are designed in India. Innovation, research and development, all need the right talent. It is good to see a concerted effort being made toward encouraging innovation and skill development with the announcement of Atal Innovation Mission and setting up of educational institutions. Brand India can succeed only if Indian firms invest in manufacturing along with investment in innovation, design and technology.

Incidentally, the Start-up India initiative, also announced by Prime Minister Modi on January 16, 2016 is also a part of 'Make in India' to encourage new entrepreneurs with innovative ideas. It is a flagship initiative of the Union Government intended to build a strong ecosystem for nurturing innovation by empowering start-ups to grow through innovation and design. For the implementation of the scheme a dedicated fund Rs.10,000 crore has been announced with several incentives such as self-certification compliance ; no inspection for three years; no income-tax on profits for first three years; 80 per cent rebate on patent filing fee; simplified patent and IPR regime; and

setting up of 5 new bio-clusters and 7 new research parks.

## **Conclusion**

While the new 'Make in India' initiative has no doubt helped in improving the overall sentiment relating to India's manufacturing sector with the government initiating some measures, a lot more needs to be done within a reasonable time-frame to provide a major thrust to the long-stagnating sector. For instance, there is an imperative need to improve the prevailing low productivity in India's manufacturing sector compared to international standards so as to improve the country's export competitiveness. That alone will help the country to gradually become a part of international value-chains. For this, it essential to improve the country's infrastructure – rail, roads, ports, etc. It is also necessary to improve significantly, the buisness regulatory framework, the ease of doing business and further development of MSME clusters. For improving the productivity levels, it is essential to infuse letest technologies and upgrade skills of labour force.

The thrust areas for greater indigenisation of production include IT and telecom hardware and defence manjufacturing with greater private sector participation. At the same time, it is necessary to encourage setting up of large-scale labour-intensive factories producing exportable goods at competitive rates. There should be a renewed thrust with regard to manufacturing for exports, not only to provide a boost to manufacturing sector, but also to increase the country's abysmally poor share in global exports.

In order to make a success of this laudable initiative, the country needs a stable fiscal and tax policy regime, efficient logistics network, availability of 24X7 power at competitive rates, availability of skilled labour force, stable currency, efficient banking and capital markets, and concerted efforts to connect the country to global production networks, and better governance at all levels.

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*The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.*

*“People must come to accept private enterprise not as a necessary evil, but as an affirmative good”.*

**- Eugene Black**  
Former President,  
World Bank

# FORUM

## OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems through booklets, meetings, and other means as befit a democratic society.

In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. A number of youth activities including elocution contests and leadership training camps are organised every year towards this goal.

Membership of the Forum : Annual Membership fee is Rs.250/- (entrance fee Rs. 100/-). Associate Membership fee Rs. 150/- (entrance fee Rs. 40/-). Students (Graduate and Master's degree course students, full time Management students, students pursuing Chartered Accountancy, Company Secretaries, Cost and Management Accountants, Cost and Works Accountants and Banking courses) may enrol as Student Associates on payment of Rs. 50/- per year. Please write for details to : Forum of Free Enterprise, Peninsula House, 2nd Floor, 235, Dr. D. N. Road, Mumbai 400 001. Tel.: 022-22614253, E-mail: [ffe@vsnl.net](mailto:ffe@vsnl.net)

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