

MAKE IN INDIA

PROBLEMS AND PROSPECTS

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Editor:
Dr. Srinivas Reddy Lokasani
Principal
Global Education Centre, Hyderabad

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1. MAKING FOR INDIA

Prof. D.Chennappa
UGC Research Awardee
Department of Commerce
Osmania University, Hyderabad

ABSTRACT

The Government of India (GOI) reforms appear to be big ladder in the direction of minimal results. As manufacturing sector share in Indian Gross Domestic Product (GDP) is 14.6 % in 1993, even after 20 years it has not crossed 15%. In this circumstances, to surpass the existing business environment GOI introduced MAKE IN INDIA programme in September 2014 to boost the share of manufacturing sector share from 15 % to 30 % by the end of 2025.

The main concept of 'Make in India' is to create conducive atmosphere for foreign companies can invest in India in the manufacturing sector through Foreign Direct Investment (FDI) route, to make India is a manufacturing power house by using existing various natural resources; to create millions of jobs for unemployed and to do ease doing business from inspect raj to help desk raj of the States.

However, lack of clear policies from one department to another department, Land acquisition and environmental clearance are the major obstacles to implement the programme in India. Therefore, it is suggested that to develop entrepreneurs, entrepreneurship among Indian and empowering though SMEs and manufacturing sector should be made as MAKING FOR INDIANS instead of make in India.

Key words: Make In India, Make For India, Inspector raj, Tepid growth, Comprehensive Economic Partnership Agreements (CEPA), special additional duty (SAD), ease of doing business index, export pessimism, GST (goods and services tax) Bill, Land Acquisition, Rehabilitation and Resettlement Act of 2013, First, zero defect and, second again zero effect.

INTRODUCTION

'Make in India', declared by the Prime Minister in September 2014 while calling upon foreign companies to invest in manufacturing in sectors such as defence, aviation, automobiles, construction, electronics, food processing, oil and gas, among others. The programme aims to turn India into a major global manufacturing hub, with special focus on tapping the vast potential of the country's medium-, small- and micro-enterprises¹.

To create a more conducive investment climate, the government is moving fast to ease 'doing business' in India. It has initiated a slew of labour reforms by amending certain Acts to do away with the 'inspector raj'. Online portals have been launched to simplify procedural bottlenecks for industry in getting regulatory clearances as well as complying with labour laws.

The 'Make in India' programme seeks to boost manufacturing, create jobs and a larger market for manufacturers in India and abroad. The government is also focusing on a major drive to skill the country's large human resource pool to participate in the programme.

Vision of Make in India is to come, make in India", "Come, manufacture in India". Sell in any country of the world but manufacture here. India got skill, talent, discipline, and determination to do something. India wants to give the world a favorable opportunity that come here, "Come, Make in India" and we will say to the world, from electrical to electronics, "Come, Make in India", from automobiles to agro value addition "Come, Make in India", paper or plastic, "Come, Make in India", satellite or submarine

“Come, Make in India”. Our country is powerful².

COVERAGE OF THE PAPER

An attempt is made in this paper to address the contemporary issue ‘make in India’. It has been prepared based on the opinions of the industry and Research Institutes who are actively involved in policy frame work. Like CII, FICCI, RBI, NGO and free lanes writers. Thus, this paper covers impossibilities/possibilities of implementing make in India programme in India.

WISH LIST OF INDUSTRIES

The capital goods industry wants the Centre to focus on promoting the use of locally-made capital goods along with its drive to step up manufacturing through the ‘Make in India’ campaign³.

Doing away with nil import duties on capital goods for certain specific projects, extending excise duty exemption on capital goods to nuclear power projects and extension of nil excise duty to sub-contractors are some of the sector’s key demands for Budget 2015-16.

1. REMOVE ‘NIL’ CUSTOM DUTY ON CAPITAL GOODS IMPORTS
2. IMPOSE 4% SPECIAL DUTY ON CAPITAL GOODS IMPORTS.
3. RATIONALISE TAXES IN THE SECTOR
4. CORRECT INVERTED DUTY STRUCTURE

5. EXCISE DUTY EXAMPTION FOR GOODS USED IN NUCLEAR POWER.

WISH LIST OF THE GOVERNMENT

Government of India is more particular to make speedy decision for ease doing business by attracting the FDI in select sector and aims for higher growth rate of GDP in manufacturing sector⁴.

1. Interface with global investors
2. Redress grievances, and act as help lines
3. Resolving the policy issues within 48 hours
4. Inviting 30,000 foreign firms to India
5. Close to manufacturing sector
6. Digitalisation of India
7. Focusing on 25 sectors including defence, Auto, Textile, food processing and IT.
8. Central Government to work with State Government to de – bureaucratise and de- regulate in business procedures.
9. Making India as a manufacturing power house.
10. Providing employment to youth
11. Encouraging the FDI flow in to manufacturing sector
12. Bringing world class technology to India from nook and corner of the world.

13. Creating conducive atmosphere to do business in India.

PANEL TO WORK WITH STATES TO EASE INVESTMENT PROCESS

The 'Make in India' programme will eventually take up policy reforms involving changes in laws to ensure ease of doing business in the country. An infrastructure push and tax issues are also on the cards, with the setting up of an eight-member expert panel by the Department of Industrial Policy and Promotion. Besides interfacing with investors, team Invest India will also work with Central and States departments to resolve policy and other issues. The States to accomplish de-bureaucratisation and deregulation and to ensure officials mindsets change from being permits issuers to partners in investment processes⁵.

Starting a business in India at present needs an entrepreneur to follow 12 procedures, which on an average takes 27 days. Similarly, enforcing contracts takes years, the official said adding that these need to be streamlined. The latest World Bank report on the 'ease of doing business' placed India at the 134th rank out of 189 economies on various parameters relating to business and regulatory environment.

MAJOR HIGHLIGHTS OF THE MAKE IN INDIA

1. Invest India cell: An investor facilitation cell set up by the government will act as the first reference point for guiding foreign investors on all aspects of regulatory and policy issues and to assist them in obtaining regulatory clearances. The cell will also

provide assistance to foreign investors from the time of their arrival in the country to the time of their departure. The information & facts that potential investors need for each sector have been compiled in brochures⁶.

2. Consolidated services and faster security clearances: All central government services are being integrated with an e-Biz single window online portal while states have been advised to introduce self-certification. The ministry of home affairs have been asked to give all security clearances to investment proposals within 3 months.

3. Dedicated portal for business queries: A dedicated cell has been created to answer queries from business entities through a newly created web portal (<http://www.makeinindia.com>). The back-end support team of the cell would answer specific queries within 72 hours. The portal also boasts of an exhaustive list of FAQs answers.

4. Interactions with the users/visitors: A pro-active approach will be deployed to track visitors for their geographical location, interest and real time user behaviour. Subsequent visits will be customised for the visitor based on the information collected. Visitors registered on the website or raising queries will be followed up with relevant information and newsletter.

5. Easing policies and laws: A vast number of defence items have been de-licensed and the validity of industrial license has been extended to three years.

With a view to providing flexibility in working hours and increased intake of apprentices for on the job training, the government plans to introduce a single labour law for small industries by December. An advisory has been sent to all departments/state governments to simplify

and rationalise regulatory environment (which includes online filing of all returns in a unified form).

TEPID GROWTH IN INDIA

Valued at over Rs 5,00,000 crore, the capital goods industry in India posted tepid growth in 2014, hit by the absence of fresh investments and a number of stalled projects. Major capital goods companies, both in the private and public sectors, have all been performing below their projections this year. Top companies in the sector include L&T, BHEL, Suzlon and Havells. Weighed down by the Government's decision not to impose basic Customs duty on specified power projects, ultra mega power projects, nuclear plants, fertiliser units and coal mining, the domestic sector wants such exemptions done away with this year.

“Such duty concessions are an aberration in a tax regime and put the domestic industry at a cost disadvantage, particularly in those cases where full deemed export benefits are not allowed,” points out industry body CII in a report⁷.

Although, the benefit of exemption in the case of mega and ultra mega power projects has been restricted to 113 projects approved before July 19, 2012, it has still left the industry feeling short-changed because of the sheer size of the projects.

Domestic companies want the Government to extend excise exemptions for supplies to nuclear power projects and levy a 4 per cent Special Additional Duty (SAD) of Customs on all imports of capital goods, with certain exceptions.

a) Excessive imports

“Our local industry has taken a beating because of excessive imports from China, especially in the power sector. The textile sector is also heavily importing capital goods.

The industry believes the imposition of a 4 per cent SAD on all capital goods imports will ensure a level-playing field for domestic manufacturers who have to pay local duties. The inverted duty structure, where the import duty on inputs is more than the finished product, is another problem facing some capital goods makers.

According to industry body FICCI⁸, items such as pressure vessels, parts of heat exchangers, parts of nuclear reactors and parts of boilers have been hit because of such inverted duties.

“It has been reported that duty inversion exists in certain cases under the India-Japan CEPA and the India-Korea CEPA,” says a FICCI report on the inverted duty structure.

Exporting paddy which is more water observer and subsidizing crony industrialists. For Example, if a NRI is planning to construct a hospital, States are providing free land, water, electricity and other requirement at war footing within in no time by charging the chronic poorest of the patient, similarly for establishing private university, governments are sanctioning all permits by charging capitation fee from poor young students.

Swadeshi Jagran Manch (SJM) spill over of RSS, not convinced about make in India drive, says ‘made by Indian’ is a better idea.

b) Ease of doing business index

India ranks low on the "ease of doing business index". Labour laws in the country are still not conducive to the Make in India campaign. This is one of the universally noted disadvantages of manufacturing and investing in India.

The NDA government's Make in India campaign has till early March 2015, attracted INR 2000 crore worth investment proposals. The campaign has, despite this, found its fair share of critics. The topmost of these criticisms is leveled against the incumbent government. It has been felt that the government does not walk its talk - labour reforms and policy reforms which are fundamental for the success of the Make in India campaign have not yet been implemented. A number of layoffs in companies such as Nokia India cast long shadows over the campaign. A number of technology based companies have not been enthused by the campaign launch and have professed to continue getting their components manufactured by China.

However, a section of industry, is still awaiting clear policy guidelines for faster land acquisition and environmental clearances for the projects to take-off. Rising real estate prices is another area of concern that needs to be looked at if new projects are to attract foreign investments.

e) Export – led growth strategy

Reserve Bank of India (RBI) Governor Mr. Raghuram Rajan said an export-led growth strategy will not pay for India as it did for Asian economies including China due to the tepid global economic recovery, especially in the industrial countries⁹.

RBI Governor Mr Raghuram Rajan said India rather needs to make for India, adding that either an incentive-driven, export-led growth or import-substitution strategy may not work for the country in the current global economic scenario.

Speaking at an event organized by industry lobby Federation of Indian Chambers of Commerce and Industry, Rajan said an export-led growth strategy will not pay for India as it did for Asian economies, including China, due to the tepid global economic recovery, especially in the industrial countries. "Other emerging markets certainly could absorb more, and a regional focus for exports will pay off. But the world as a whole is unlikely to be able to accommodate another export-led China," he said.

"Instead, he is counselling against an export-led strategy that involves subsidizing exporters with cheap inputs as well as an undervalued exchange rate simply because it is unlikely to be as effective at this juncture. He is also cautioning against picking a particular sector such as manufacturing for encouragement simply because it has worked well for China," he said. "India is different, and developing at a different time, and it should be agnostic about what will work."

Rajan said the government should rather focus on creating an environment where all sorts of enterprise can flourish, and then leaving entrepreneurs to choose what they

want to do. "Instead of subsidizing inputs to specific industries because they are deemed important or labour-intensive, a strategy that has not really paid off for us over the years, let us figure out the public goods each sector needs, and strive to provide them," he added.

Giving instances, Rajan said small and medium enterprises might benefit much more from an agency that can certify product quality, or a platform to help them sell receivables, or a state portal that will create marketing websites for them, than from subsidized credit.

On government's strategy for import substitution or trying to manufacture items domestically rather than importing them, Rajan said such strategy, by creating tariff barriers, has been tried and it has not worked because it ended up reducing domestic competition, making producers inefficient and increasing costs to consumers. "Instead, Make in India will typically mean more openness, as we create an environment that makes our firms able to compete with the rest of the world, and encourages foreign producers to come and take advantage of our environment to create jobs in India," he said.

Rajan said with external demand growth likely to be muted for at least the next five years, India has to produce for the internal market. "This means we have to work on creating the strongest sustainable unified market, which requires a reduction in the transaction costs of buying and selling throughout the country, improvements in the physical transportation network, more efficient and competitive intermediaries in the supply chain from producer to the

consumer. A well-designed GST (goods and services tax) Bill, by reducing state border taxes, will have the important consequence of creating a truly national market for goods and services, which will be critical for our growth in years to come," he said.

Speaking at the same event, former prime minister Manmohan Singh said India can achieve a growth rate of 8-9% provided there is a "national consensus" on methods to take advantage of globalized world. "I think that even though many other emerging economies are not doing too well, India has an opportunity to move towards a growth rate of 6-7% and thereafter to 8%," Singh said.

d) The Land Acquisition, Rehabilitation And Resettlement Act Of 2013 (LAAR)

LAAR Stated simply, in the name of protecting the poor and ensuring entitlements, LAAR destroys land markets. To compound matters, stuff that should have been executive (rules) is embodied in the statute. Therefore, government is stuck until legislation is amended by Parliament¹⁰.

Note that non-BJP state governments too want LAAR amended, since it stifles them too. This piece isn't about the Act's ante-mortems or postmortems. It is more a listing of problems states have identified. Naturally, it will help if one knows chapter and verse of LAAR, and this is by no means a comprehensive list.

>*Consent, Section 2(2)*: Can private companies get prior consent of 80% of affected families? Can one get prior consent of 70% of affected families for PPP projects? Is it really necessary to have a Social Impact Assessment (SIA) in every case? Why should one effectively bar acquisition in scheduled areas?

>*Affected Family, 3(c)*: If there is no landownership, can one pin down an affected family? If there are recognised rights under the Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act of 2006, why try to duplicate it? What does a vague provision like 3c (iv) mean? Why bring in unnecessary rights under 3c(v)? Under 3c(vi), aren't we giving rights to those who trespass and encroach?

>*Appropriate Government, 3(e)(ii)*: For a Union territory, why bring in the central government?

>*Social Impact Assessment, 6(2)*: Why create duplicity through an Environment Impact Assessment and an SIA? Does one need SIAs for really small projects below a threshold?

>*Special Provision to Safeguard Food Security, 10*: Why should this section be applicable to small bits of land buys by state governments?

e) Leave Gram Sabha Alone

>*Preliminary Notification for Land Acquisition, 11(2)*: There are elaborate notification procedures. Does one need a meeting of the gram sabha? 11(4): There is effectively a ban on land transfers until processes are complete. Is this fair to landowners? The collector is allowed to

waive the ban, but that's not an easy process.

>—————*Preparation of Rehabilitation and Resettlement (R&R) Scheme, 16(1)*: All land buys don't involve R&R. The R&R policy, 2007, has thresholds. Yet, there are no minimum thresholds in this section. 16(4) & 16(5): The objective is public hearing in the affected areas. Why set up a complicated process involving gram sabhas/municipalities that needs to be documented? (19)(2) & 19(3): Since 19(4) has elaborate processes for public declaration, (19)(2) and 19(3) only muddy waters and serve no useful purpose.

> *Retrospective Application, 24(1)*: Since the earlier Land Acquisition Act has been repealed, what is the idea behind a clause that says "as if the said Act has not been repealed"? In a similar vein, 24(2) only opens up cases where land acquisition has been completed under the old Land Acquisition Act.

>*Determination of Market Value, 26 (1)(c) and Explanations*: Is it a good idea to base market value on an "agreement to sell"? Or will that only drive speculation?

>*Award of Solatium, 30(1) & 30(3)*: 30 (1) mentions that the collector will determine a solatium of 100%. What does the 12% per annum under 30(3) mean then? Is that an interest payment? If so, why call it solatium?

> *Urgency Clause, 40(2)*: If there is something urgent (national security or emergency), is it practical to go to Parliament? 40(5): If it is really a matter of

such urgency, why should one provide for additional compensation of 75%?

f) Voluntary vs Rehabilitated

>*Prohibition of Land Acquisition in Scheduled Areas, 41*: All the subsections in this section amount to a prohibition of land acquisition in scheduled areas. Given the Partially Excluded Area (PEA) provisions, is this fair? Or does it prevent mainstreaming?

>*Applicability of R&R to Negotiated Purchase, 46*: Does one need R&R provisions for a negotiated and voluntary buy? Even if it does, there is plenty of bad drafting, such as in 46(5).

>_____

Applicability of Reference Award to Third Parties, 73: This section of the Act leads to litigation and reopens settled cases.

> *Offences and punishment, 84-90*: These unnecessarily bring in criminal provisions into a civil law.

>*Change in ownership, 100*: Change in ownership is normal. One can understand a lock-in period. But how can one have a blanket and open-ended clause prohibiting change in ownership?

There are others too: utilised land, leasing, powers to amend schedules, etc. a) Exporting paddy which is more use water consumption and b) extending subsidy to crony industrialists. For example, constructing a private hospital by the industry people, States are generously extending water, electricity and huge land at the free of cost by charging poor patients.

Likewise, for constructing a private university by the above mentioned are provided free of cost despite charging capitation fee from poor students.

PAYBACK OF MAKE IN INDIA

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 harness this demand and boost the Indian economy.

India ranks low on the "ease of doing business index". Labour laws in the country are still not conducive to the Make in India campaign. This is one of the universally noted disadvantages of manufacturing and investing in India.

It is important for the purchasing power of the common man to increase, as this would further boost demand, and hence spur development, in addition to benefiting investors. The faster people are pulled out of poverty and brought into the middle class, the more opportunity will there be for global business. Therefore, investors from abroad need to create jobs. Cost effective manufacturing and a handsome buyer – one who has purchasing power – are both required. More employment means more purchasing power.

CONCLUSION

The 'Make in India' programme will eventually take up policy reforms involving

changes in laws to ensure ease of doing business in the country. The States to accomplish de-bureaucratization and deregulation and to ensure officials mindsets change from being permits issuers to partners in investment processes.

India ranks low on the "ease of doing business index". Labour laws in the country are still not conducive to the Make in India campaign. This is one of the universally noted disadvantages of manufacturing and investing in India. Reserve Bank of India (RBI) Governor Mr. Raghuram Rajan said an export-led growth strategy will not pay for India as it did for Asian economies including China due to the tepid global economic recovery, especially in the industrial countries. Therefore, it is suggested that to develop entrepreneurs, entrepreneurship among Indian and empowering though SMEs and manufacturing sector should be made as MAKING FOR INDIANS instead of make in India.

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