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Impact of Make in India on Indian Economy

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INTRODUCTION

India is known for its services exports, but many doubt its ability to export manufactures and that is the perception which our Prime Mister Narendra Modi plans to change.

Prime Minister Narendra Modi rolled out a red carpet to industrialists, both domestic and international, inviting them to make India a manufacturing hub that will help boost jobs and growth.

The campaign is aimed at making India a manufacturing hub, and the government is pulling out all the stops for ensuring a smooth sailing for investors, by setting up a dedicated cell to answer queries of business entities within 72 hours.

"We should manufacture goods in such a way that they carry zero defects, so that our exported goods are never returned to us. We should manufacture goods with zero effect that they should not have a negative impact on the environment," PM Modi said in his speech on Independence Day.

All this will auger well for the economy and the markets as it will help in boosting growth, in job creation and revival of investment cycle in Asia's third largest economy.

Achievable targets:

- An increase in the share of manufacturing in the country’s Gross Domestic Product from 16% to 25% by 2022.
- Target of an increase in manufacturing sector growth to 12-14% per annum over the medium term.
- To create 100 million additional jobs by 2022 in manufacturing sector.
- Creation of appropriate skill sets among rural migrants and the urban poor for inclusive growth.
- An increase in domestic value addition and technological depth in manufacturing.
- Enhancing the global competitiveness of the Indian manufacturing sector.
- Ensuring sustainability of growth, particularly with regard to environment.

Tapping golden opportunity

Now let us look at the opportunity, the initiative can actually benefit India from the ground reality, especially when the Chinese manufacturing leaps have come under strain. There are already reports that several western manufacturing players operating in China want to move away from the world’s largest manufacturing hub. Analysts say, Chinese wages are going up and the labour market is getting more challenging and that is driving away investors. Thus companies with operating factories in China should look for other alternatives in the region, such as Vietnam, Indonesia and of course India.

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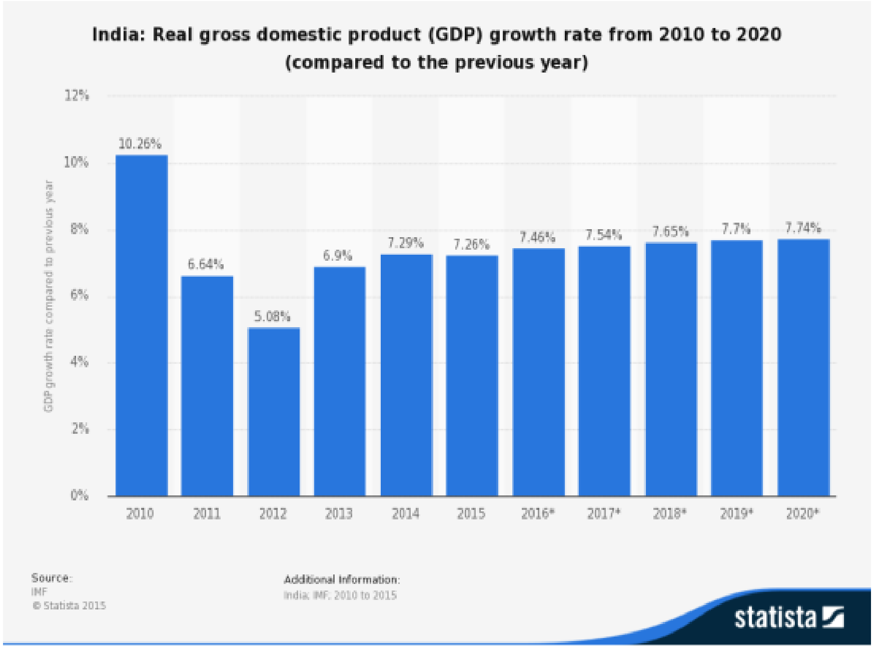


In the Twelfth five year plan (2012-2017) "Make in India" was mentioned and we can see the constant rise in GDP hence forth.

IMPACT ON VARIOUS SECTORS

We have collated a list of stocks from various sectors, as highlighted by Deutsche Bank, which are likely to benefit as India marches forward on the growth map:

Infrastructure sector: Larsen and Toubro, IRB Infra and Adani Ports should be the key beneficiaries of policy moves on building transport infrastructure

Power Sector: Power Grid Corp should be the biggest beneficiary of the second generation reforms in the power sector

Banking: Axis Bank, ICICI Bank, SBI, PFC and REC should be the key beneficiaries of India's big infra opportunity, given their domain expertise in Infra financing.

Oil & Gas: ONGC is set to emerge as the biggest beneficiary of the dramatic reduction in fuel subsidy over the next five years.

Metals & Mining: Tata Steel, JSW Steel and Ultra Tech should be key beneficiaries of India's move to materials intensive growth.

Make in India initiative aims to correct the composition of Indian GDP which is the root cause of recession. Currently India's GDP is heavily tilted in favor of service sector.

3 sectors which contribute to GDP of any country are (a) Agriculture (b) Industry / Manufacturing & (c) Services. Current contribution of these sectors in Indian Economy are as follows.

(a) Agriculture: 28%

(b) Industry / Manufacturing: 16% (Lowest)

(c) Services: 56% (Highest)

It is clearly visible that our economy is over dependent on Services sector.

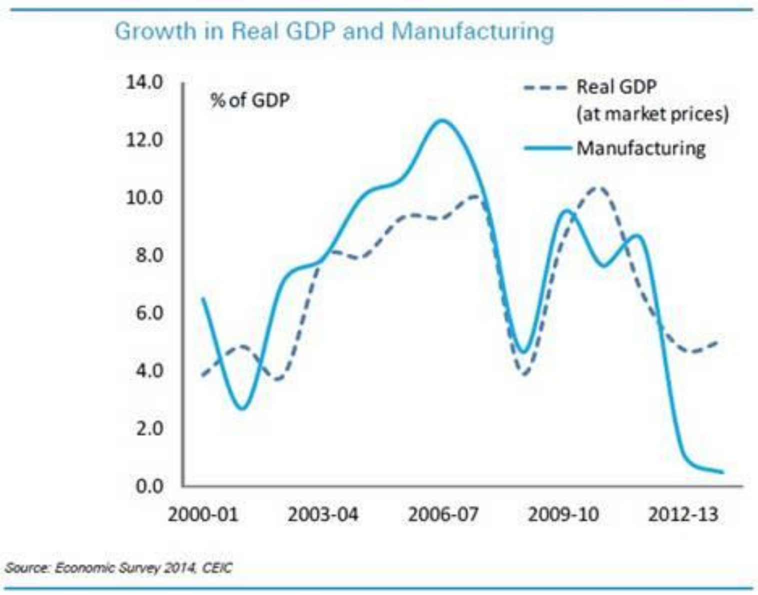
Boost to manufacturing sector:

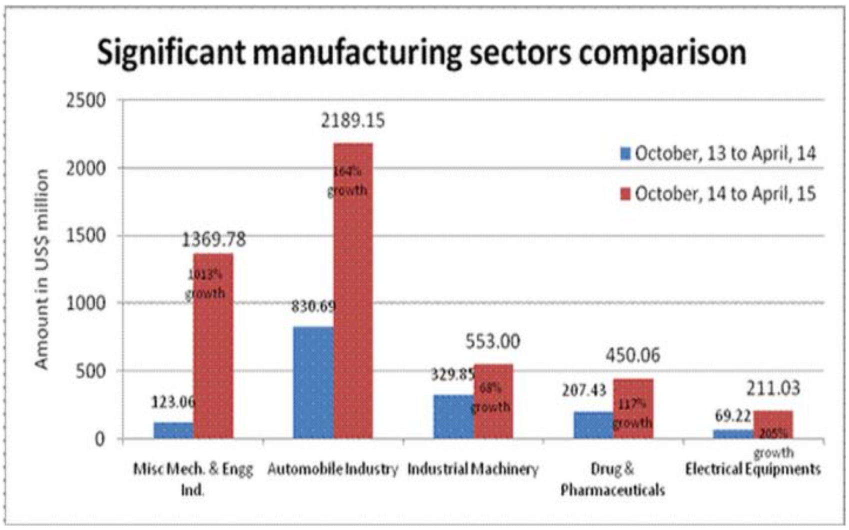
The government will select domestic companies having leadership in innovation and new technology. The idea is to turn these into global champions and promote green and advanced manufacturing and help these companies to integrate into global value chain, ET reported.

The once booming services sector has slowed, but it is the manufacturing sector that has performed especially poorly by recording an expansion of barely 1.1 per cent growth in 2012-13, followed by a contraction of 0.7 per cent in 2013-14.

India will need a dramatic improvement in transport connectivity together with addressing the skewed transport mode mix, currently biased towards roads, Deutsche Bank said in a report.

Road construction will need to rise 5-fold to 30Kms/day from the current 6 kms/day. The Indian Railways will also need to build the capacity to evacuate more than 3x the current traffic of both passengers as well as freight by building high speed dedicated freight corridors and faster trains.





Need to increase FDI:

India's next step should be to achieve higher growth and to do that foreign direct investment (FDI) is a top priority, say analysts. It seeks investment in several industries, including manufacturing, construction, telecommunications and financial services.

'Make in India' or 'Invest India' campaign will be the first reference point to guide foreign investors. It will provide help on regulatory and policy issues, and assist in obtaining regulatory clearances.

The government has identified 25 sectors where India can become world leader. These include automobiles, chemicals, IT, pharma, textiles, ports, aviation, leather Tourism and hospitality, wellness, and railways, among others.

The documents will provide growth drivers, investment opportunities, sector-specific FDI, other policies & related agencies.

To put things in perspective, from 2010 to 2012, the country's stock of FDI totalled just 12% of GDP, while the developing country average was 30%. India attracts only 2.7% of a total $1.62 trillion in global R&D spending, while China attracts 17.5%, said media reports.

India's track record in attracting FDI in an international context is not very inspiring compared to FDI into countries like Mexico and China.

"In the last 10 years, Mexico has attracted $247 billion of FDI net inflows and China $2 trillion, compared to India's $229 billion," S P Kothari said in a column in ET.

Each 1 per cent increase in FDI adds about 0.4 per cent to a country's GDP growth. So, to boost GDP growth by about 2 per cent, India will need about 5 per cent increase in FDI.

In other words, at the current level of GDP of almost $2 trillion in India, about $100 billion of FDI is required to boost the GDP growth by 2%, he added.

Make in India initiative will help in achieving following goals

1. Employment for Low skilled workers: As majority of workforce in India is low skilled therefore Make in India initiative will provide large scale employment opportunities for this particular segment. Make in India will generate millions of jobs.

2. FDI: Whether we love it or hate it but fact of the matter is that India has huge dependence on FDI to keep economy alive. As i mentioned industry / manufacturing is capital intensive industry therefore Make in India will attract huge inflows of FDI. FDI inflow will help to revive Indian economy.

3. Small and Medium Enterprises: Any manufacturing hub need supply of parts which is boon for SME's. Make in India will help to generate indirect employment through SME's.

4. Reduce Trade Deficit: Compared to Service sector, Industry / Manufacturing sector has multiplier effect on Exports which will help the government to wipe off India's trade deficit. Reduction in trade deficit will have large scale positive impact on the finances and economy of the country. It will stop devaluation of currency and increase sovereign rating which in turn will attract more FDI. FDI inflow is cyclic chain with positive ripple effects.

5. India as Consumer Market: India is one of the largest market in world which cannot be ignored by developed economies. Any company investing in India under Make in India initiative will directly get access to huge market of 125 Cr people. This advantage is not available for investment in service sector e.g. India is not a big market for IT services, it is mostly outsourced from USA.

6. Lets start with Defence: For the success of any initiative, it is crucial to set up an example to showcase. India is big market for defence equipments. Thanks to China and Pakistan :). Big manufacturing projects related to Defence will set a right tone and environment for Make in India initiative to take off.

Let's hope that Make in India initiative will be a great success. Make in India will help the Indian economy to come out of shadow of recession. Over dependence on service sector is suicidal and i hope Make in India will break this inhibition that India cannot become manufacturing power house competing China. I am confident that **Make in India will Modify India**. You can post your comments & suggestions through following comments section.

Lessons from World Economy

It is not only about Indian Economy but for that matter if you observe that any world economy with over dependence on Services sector are in deep trouble. Contribution of Services sector in GDP of major world economies are as follows

(a) USA: 76%
(b) China: 43%
(c) Japan: 74%
(d) Germany: 71%
(e) France: 80%
(f) UK: 77%

Except China, all these countries are struggling to revive their economy. Recently quite surprisingly Japanese economy falls into Recession. Chinese economy maintained fine balance between Services and Industrial / Manufacturing Sector. Contribution of Industrial sector is 47% to Chinese GDP & Services Contribute 43%. Because of meticulous fine balance, Chinese economy is stable and growing at healthy rate. It can be concluded that **common reason for world wide economic recession is over dependence on Service sector**.

CONCLUSION

Make in India is an ambitious project, with an aim for sustainable growth of the economy. With relentless policies towards this end, it is possible to make India the powerhouse of manufacturing sector in the world. At this moment, our Prime Minister‟s Make in India campaign appears to be an imaginative marketing campaign. But there is much thought and even more work that is required to convert this to reality. Make in India theme and also accept that this is an opportunity before us and we must cash it. This project will help us to stand globally with strong economy along with our Indian brand through Make in India. Creates job opportunities and looks for overall development of India, But like every coin has two sides Make in India is not in the favor of agriculture development, Indian has the capacity to push the GDP to 25% in next few years. The government of India has taken number of steps to further encourage investment and further improve business climate. "Make in India" mission is one such long term initiative which will realize the dream of transforming India into manufacturing Hub. Start-ups in the core manufacturing sectors are poised to play a crucial role in the success of „Make in India‟ "Start-ups in the fields of telecom, defense manufacturing, automobile, Internet of Things, financial technology modules and mobile internet have immense potential to succeed in the scheme of „Make in India‟," said Siddhartha Das, general partner, Venture East addressing aspiring entrepreneurs at the discussion on "Entrepreneurship - Role of Startups towards Make in India".

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